



EUROPE: ECONOMY

Europe's recovery depends on Renzi's Italy

Dan Steinbock

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CNBC.com



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In spring, ambitious reforms began in Italy. Under Matteo Renzi, the ailing economy will either begin a real recovery, or slide further. The outcome is vital to Italy, Europe and the global economy.

Soon the name of Matteo Renzi, the new prime minister of Italy, will be known better internationally, after his meetings with German Chancellor Angela Merkel and President Obama.

Along with French President François Hollande, the two know only too well what's at stake in Italy's recovery. If it succeeds, the recovery of the euro zone will slowly continue. If not, the implications will be global.



Getty Images

Italian Prime Minister Matteo Renzi greets leaders arriving for a meeting of G7 leaders on March 24, 2014 in The Hague, Netherlands.

The reform drive of il Rottamatore

One year after being sworn in as Mayor of Florence in 2009, Matteo Renzi declared that a complete change was necessary in his Democratic Party and Italian politics. So he was nicknamed *il Rottamatore* ("The Scrapper"). Last February, the 39-year-old Renzi became the youngest person in history to be Italy's Prime Minister — even younger than Mussolini.

*(Read more: **France to ply China with wine**)*

But can the Great Scrapper reverse Italy's economic decline?

First, the good news: In the end of 2013, only two months before Renzi arrived in Rome, the longest recession in Italy's postwar history ended.

The bad news is that, after nine consecutive quarters of negative growth, the economy is almost 10 percent smaller than before the crisis. Meanwhile, business continues to complain about the tax burden, and the unemployment rate has doubled to over 12 percent since 2007. Despite pledges of austerity in Brussels and Rome, Italy's fiscal deficit is 3 percent of the GDP and its sovereign debt has climbed to more than 132 percent of the gross domestic product (GDP). Among the EU members, only Greece has more.

The only bright spot is the current account surplus, which is almost 1 percent of the GDP. The positive turn stems from a higher contribution from net exports, coupled with a decline in imports. Nonetheless, it will be hard for Italian exporters to sustain their performance in the near future.

The economy suffers from a de facto process of de-industrialization. Industrial production has not increased ever since August 2011 and is now down 25 percent from its peak. Credit contraction weighs heavily on business confidence and consumer sentiment.

Ambitious programs — on a monthly basis

Today, Renzi's Democratic Party, Partito Democratico (PD), has its strongest constituencies in Northern-Central Italy and the big cities. PD runs 12 Italian regions out of a total of 20. It is social-democratic, progressive by outlook, reformist by inclination.

Renzi himself is perceived as a liberal modernizer. When he became prime minister, it was a sign of much-needed generational change in the aging Italy, in which potential growth amounts to barely 0.8 to 1 percent in the coming years.

*(Read more: **Russia's next step: Capitol controls?**)*

Italy needs huge structural and institutional reforms. Renzi hopes to reverse the country's longstanding decline by launching one large project every month, starting with a new electoral law to consolidate political decision-making, reforms in the public administration, and the tax system.

Even before Italy's European Council presidency will begin on July 1, 2014, Renzi hopes to achieve on a monthly basis what Rome's political class has failed to achieve in decades. After Berlusconi's rule, he sees Italy's political landscape as devastated. Even before his premiership, he suggested that Italy's parliamentarians should vote for their own removal. To become prime minister, Renzi politically maneuvered his predecessor Enrico Letta to resign.

Nonetheless, Renzi's program will initiate the long-needed transformation of Italy. If this program will fall apart, the failure could push the economy deeper into the abyss.

Slow recovery — or devastating depression

In the past, the euro zone avoided a major crisis as long as friction points were restricted to small economies (e.g., Greece, Portugal, Ireland), which each accounted for less than 3 percent of the euro zone GDP.

Everything changed in fall 2011 when the contagion effect reached Spain and Italy, which together account for almost 30 percent of the regional GDP. If, under these circumstances, Greece would have defaulted, it could have caused a contagion effect, particularly in Italy. That is why Greece has now received two bailouts (73 billion euros and 164 billion euros), is in talks about a third one (up to 20 billion euros) and more generous repayment terms.

As long as Greece remains solvent, Italy and Spain will have time to restore sustained growth.

*(Read more: **ECB's Weidmann says QE not out of the question**)*

The Italian economy remains vulnerable, however. Standard & Poor's still has a negative outlook on the country's "BBB" rating. Even by 2016, Italian economic output is likely to remain nearly 7 percent below 2007 levels. It is suffering from a "lost decade."

The stakes are massive. Italy continues to account for 5 percent of gross commercial long-term debt globally, although its population is less than 1 percent of the world total.

While Brussels has demanded tough austerity programs, an exclusive focus on the latter would only make things worse in Italy. Instead, Renzi's government is likely to reduce its huge debt only slowly, but focus on a lower deficit.

A failure to achieve progress would polarize Italy, destabilize Southern Europe and reduce global growth prospects.

How Italy goes, so will the world go.

— *By Dan Steinbock*

*Dan Steinbock is research director of International Business at **India China and America Institute (USA)**, visiting fellow at **Shanghai Institutes for International Studies (China)** and in the **EU-Center (Singapore)**. See also www.differencegroup.net.*

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Europe's recovery depends on Renzi's Italy

Wednesday, 26 March 2014 1:29 AM ET

The outcome of ambitious reform in Italy isn't just key to its future, it's key to Europe and the global economy, says Dan Steinbock.

Source: CNBC.com | **By:** Dan Steinbock

Brazil needs investors to reclaim BRIC growth

Saturday, 8 February 2014 12:37 AM ET

Investors are weary of Brazil's short-term growth prospects but they shouldn't ignore its medium-term potential, says Dan Steinbock.

Source: CNBC.com | **By:** Dan Steinbock

Here's what's holding up the US recovery

Monday, 9 December 2013 9:54 PM ET

The U.S. economy is ready to recover but there's a roadblock, says research director Dan Steinbock.

Source: CNBC.com | **By:** Dan Steinbock

China's new plan for growth-less governance?

Wednesday, 6 November 2013 7:39 AM ET

A long-awaited series of reforms is about to kick off in China that represent a paradigm shift -

notably, less government involvement in the economy, says research director Dan Steinbock.
Source: CNBC.com | **By:** Dan Steinbock

Shanghai free trade will spur reforms: Steinbock

Tuesday, 1 October 2013 1:35 AM ET

Sunday's takeoff of Shanghai's free trade zone, if it proves to be a success, could accelerate reforms across China.

Source: CNBC.com | **By:** Dan Steinbock

Behind Nokia's failure in US, emerging markets

Wednesday, 18 September 2013 12:16 AM ET

The lesson from the communications giant is that in the nascent multipolar world, global leaders must excel in both advanced and emerging nations.

Source: CNBC.com | **By:** Dan Steinbock

Fed's dual mandate to begin to erode: Steinbock

Tuesday, 10 September 2013 9:37 PM ET

The Fed will begin tapering, despite the ailing labor market. In the process, its postwar dual mandate-full employment and low inflation-will crumble.

Source: CNBC.com | **By:** Dan Steinbock

A new NYC mayor may spur change for global cities

Tuesday, 27 August 2013 11:18 PM ET

The next New York City mayor may signal a structural shift from the past laissez-faire business leadership to more progressive business cooperation. The upcoming election heralds new winds in all advanced metropolises.

Source: CNBC.com | **By:** Dan Steinbock

Here's How the Party Will End If the Fed Pulls Back

Wednesday, 29 May 2013 9:50 PM ET

Despite market volatility and a debt timeout, liquidity-driven growth will end when the Fed reverses its monetary policy-and that end is now in the horizon.

Source: CNBC.com | **By:** Dan Steinbock

Euro Zone Is Adrift, Worst of Crisis Ahead: Expert

Tuesday, 7 May 2013 10:00 PM ET

After three years of failed austerity policies, the euro zone crisis is set to escalate in 2013-2014. Even a benign and incremental scenario suggests that Europe's share of world economy will plunge to less than 20 percent by 2017.

Source: CNBC.com | **By:** Dan Steinbock

If Germany Sneezes, Does Euro Zone Catch a Cold?

Thursday, 13 December 2012 12:02 AM ET

Until recently, the euro zone crisis was cushioned by the strong performance of the German

economy. But those days are fading.

Source: CNBC.com | **By:** Dan Steinbock | Research Dir., International Business, India China and America Institute

Steinbock: Is Finland Pricing Itself Out of Global Competition?

Monday, 19 November 2012 10:51 PM ET

During the past two years, the Eurozone focus has been on the ailing Southern European economies and their austerity fatigue. In the next two years, it will be on the last triple-A economies in Northern Europe and their bailout fatigue, including Finland.

Source: CNBC.com | **By:** Dan Steinbock | Research Dir., International Business, India China and America Institute

China's New Leaders - Growth During Transition

Wednesday, 7 November 2012 11:35 PM ET

As the Party Congress begins, the momentum increases for structural reforms in China.

Source: CNBC.com

Steinbock: America's Fiscal Hurricane

Tuesday, 6 November 2012 4:34 AM ET

After U.S. 2012 elections, Washington must cope with its "fiscal cliff." The outcome of that struggle could determine the state of global growth in 2013.

Source: CNBC.com

Steinbock: China's On the Way to Recovery

Thursday, 18 October 2012 10:22 PM ET

In the past few months, China skeptics have predicted the economic and political collapse of the Middle Kingdom. The simple reality is that, after a soft landing, China is transitioning toward recovery.

Source: CNBC.com

Steinbock: America's Unemployment Cliff

Thursday, 18 October 2012 1:31 AM ET

In the next few months, America will not only have to cope with a fiscal drag but an unemployment cliff.

Source: CNBC.com

Paper published by China's Huawei decries U.S. treatment

Thursday, 13 September 2012 12:39 PM ET

WASHINGTON (Reuters) - A paper published by China's biggest telecommunications equipment maker said the company's path into the United States had been blocked by unsubstantiated "allegations based on allegations" that threatened to harm ties between the world's two biggest economies.

Source: Reuters

UPDATE 1-Paper published by China's Huawei decries U.S. treatment

Thursday, 13 September 2012 12:37 PM ET

UPDATE 1-Paper published by China's Huawei decries U.S. treatment

Source: AFX

China's Huawei decries its treatment by U.S. government

Thursday, 13 September 2012 10:52 AM ET

WASHINGTON (Reuters) - China's biggest telecommunications equipment maker said its path into the United States had been blocked by unsubstantiated "allegations based on allegations" that threatened to harm ties between the world's two biggest economies.

Source: Reuters

China's Huawei decries its treatment by US government

Thursday, 13 September 2012 10:47 AM ET

China's Huawei decries its treatment by US government

Source: AFX

Steinbock: Watch for China 'Neocons'

Friday, 24 August 2012 8:56 PM ET

As the national conventions loom ahead, economic issues dominate the U.S. 2012 presidential elections. But it is the return of the neoconservatives that will overshadow the discourse on foreign policy - and China.

Source: CNBC.com

China's Economy: 'Stimulus Lite' Seems to Be Working

Wednesday, 11 July 2012 9:47 PM ET

Despite the gloomy predictions in the West, China's economy has been recovering since the government's monetary loosening in fall 2011. But there is no room for complacency.

Source: CNBC.com

Steinbock: China's Rate Cuts Signals Accelerated Financial Reforms

Thursday, 7 June 2012 10:29 PM ET

China's interest rate cut is big news. But it is only the beginning. China is moving from economic reforms to financial deregulation - faster than expected.

Source: CNBC.com | **By:** Dan Steinbock

Steinbock: The Euro Zone Endgame Begins

Friday, 25 May 2012 10:15 PM ET

With great debate, the Eurozone will slowly but surely move to the next stage - the Greek exit - in the coming months. The question is not whether it will happen. The question is whether it will be orderly or disorderly.

Source: CNBC.com

Steinbock: The Worst Days Are Still Ahead for Europe

Monday, 7 May 2012 9:35 PM ET

In the next few months, the masquerade will end. Ultimately several Eurozone members must restructure their private and public debts, while a few may have to exit the monetary union. Greece is only the first in the line.

Source: CNBC.com

Steinbock: China Prepares for a New Growth Push

Saturday, 3 March 2012 12:23 AM ET

A year of change is about to begin in China. As People's Congress convenes in Beijing, the vast nation is preparing a shift from taming inflation to stabilizing growth.

Source: CNBC.com | **By:** Dan Steinbock |Research Dir., International Business, India China and America Institute

Steinbock: Exporting an Inflation Tsunami

Friday, 3 February 2012 11:55 PM ET

"We do not want higher inflation and we're not tolerating higher inflation," Fed chairman Ben Bernanke told Congress yesterday. In a way, that's true. Washington is exporting higher inflation, which it does not want, to the emerging world, which must tolerate it. And Brussels has joined in.

Source: CNBC.com

Steinbock: Looking Ahead to D-Day in Greece

Saturday, 14 January 2012 12:35 AM ET

In May 2010, the Eurozone crisis began with turmoil in Greece. In spring 2012, new turmoil in Greece will frame the end-game of the Eurozone itself.

Source: CNBC.com

Steinbock: After Euro Summit, Prepare For a Ride

Tuesday, 13 December 2011 10:36 PM ET

Taken into consideration the multitude of crises in the Eurozone, what did the Summit actually achieve?

Source: CNBC.com

Blog: Iran Threatens Oil Prices - What Would \$250 a Barrel Really Mean?

Monday, 5 December 2011 11:44 PM ET

As tensions are escalating between Iran and the West, one thing is for sure: If there is anything worse than the global crisis, it may be the eventual recovery.

Source: CNBC.com

Blog: The Big Bazooka 2 Is Too Late and Too Small

Tuesday, 29 November 2011 11:57 PM ET

The Eurozone's policymakers are running behind warnings, and warnings are running behind the crisis. Big Bazooka 2, bailouts, printing money, and Eurobonds are only partial solutions to

systemic problems and too little too late.

Source: CNBC.com

Blog: How Will China Support the Eurozone?

Friday, 28 October 2011 9:52 PM ET

Even if China would like to support the Eurozone, it cannot bail out risky crisis economies. There is a win-win solution, but that requires concessions on both sides.

Source: CNBC.com

Blog: Why Euro Crisis will Continue to Unnerve the Markets

Wednesday, 26 October 2011 11:28 PM ET

As markets have been rebounding on euro hopes, the eurozone leaders have been debating a plan that should satisfy the financial markets. The hope is futile. A comprehensive plan does not exist. The eurozone crisis will get worse before it will get better.

Source: CNBC.com

What Currency Investors Should be Reading Now

Wednesday, 5 October 2011 4:27 AM ET

The guest blogs are carrying some smart currency-related commentaries today. Here's a guide.

Source: CNBC.com | **By:** Kelley Holland

Steinbock: Chinese Renminbi, Scapegoat for Free Trade Agreements

Tuesday, 4 October 2011 10:36 PM ET

During the debt-ceiling debacle, Washington pushed the U.S. economy close to an abyss. Now it is risking US-Chinese relations.

Source: CNBC.com | **By:** Dr Dan Steinbock

Steinbock: Globalization at Risk

Wednesday, 28 September 2011 2:18 AM ET

In the aftermath of the MENA turmoil, Japan's triple crisis, the U.S. debt-ceiling debacle and the latest round of the Eurozone turmoil, the world economy remains closer to "serious damage" than ever since fall 2008. Globalization is at risk.

Source: CNBC.com | **By:** Dr Dan Steinbock

Steinbock: How Europe's 'Catastrophic Risk' Can Be Overcome (And Why It's So Difficult)

Monday, 19 September 2011 9:36 PM ET

The euro crisis is now at a dangerous turn. While it is difficult to forecast the future of the zone, it is possible to list the conditions that are required for the sustained solvency of Greece and the euro zone overall.

Source: CNBC.com

Steinbock: Europeans are Turning into Finns

Monday, 12 September 2011 11:03 PM ET

As the euro zone enters the most dangerous phase of its debt crisis, bailout patience is eroding in the fiscally responsible tier of the zone. While Brussels wonders whether the Finns have become Euro-skeptic, the reality is the reverse. Europeans are turning into Finns.

Source: CNBC.com | **By:** Dr Dan Steinbock