

Italy: weak labour productivity challenges medium-term growth perspectives

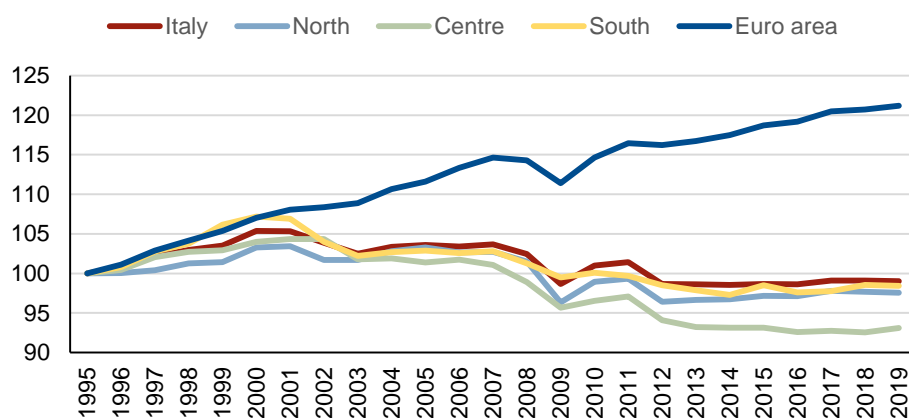


Scope
Ratings

Italian labour productivity has deteriorated over the past 20 years, running persistently below the euro area average during periods of economic expansion and contraction. Productivity growth declined since the second half of the 1990s, when it was close to 1%, to stagnate around 0% on average since 2010. This record casts doubt on the government's ability to achieve its implicit target of average productivity growth of 1.4% for the period 2025-2050 which also underpins targets for medium-term growth.

Looking at Italy's past labour productivity dynamics from 1995 to 2019, we highlight the differences in productivity and productivity growth between northern, central and southern Italian regions. We also look at the effective increase in productivity growth that the three regions should achieve over the next 30 years to reach the long-term average productivity growth rate assumed by the government in its baseline macro-economic scenario underpinning medium- to long-term pension and health-care projections.

Figure 1: Italy's annual labour productivity vs euro area, values indexed to 1995 GDP-per person-employed



Source: Istat, DG ECFIN AMECO, Scope Ratings

The main takeaways from our analysis are:

- The north-south and north-centre productivity gaps have continued to widen since 1995. Conversely, productivity levels of central and southern regions have converged, mostly due to the centre becoming relatively less productive rather than the south catching up.
- Growth rates have not exceeded 1.0% over five years since the 1990s. They remained, on average, around 0% for the 10 years pre-Covid in all three regions. Italy's productivity growth averaged 0.84pp less than that of the euro area over the past 20 years.
- Achieving the government's assumed long-term productivity growth of around 1.4% would require a persistent productivity increase between 1.2pp and 1.4pp, on average, over the next 30 years for all regions; a level not observed since the 1990s.
- While Next Generation EU funds of EUR 192bn over 2021-26 could provide an important boost, together with the European structural and cohesion funds, the scale of the challenge and the need to sustain the reform momentum after next year's election, cast doubt over the realisation of the ambitious productivity assumptions.

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Productivity divergence between north and rest of country

“Three Italy’s”: High productivity levels, but slow growth in the north, while levels and growth are low in the centre and south

National and regional levels of GDP-per-person employed were higher in 1995 compared to 2019 (Figure 2). However, the regional developments varied greatly, and disparities persist, even increased, over time¹. In the north, labour productivity has remained the highest, with the gap to the rest of Italy higher today compared to 20 years ago. In fact, the north-south gap in GDP per person employed widened from EUR 17.500 in 1995 to EUR 20.100 in 2019, while the north-centre gap also widened from EUR 5.100 to EUR 8.200. Critically, this widening gap is not because the north improved its productivity levels, but rather due to productivity declining in the rest of Italy (Figure 2).

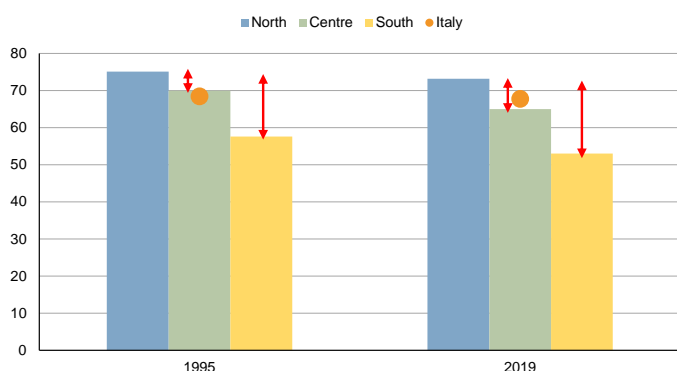
Similarly, productivity levels of central and southern regions converged somewhat, due to the centre becoming relatively less productive, rather than the south increasing its levels of productivity. This reflects weaknesses related to infrastructural gaps, the inefficiency of the public administration, labour market rigidities and low investments in human capital that weigh more heavily on the centre and south, despite reforms attempted over past decades.

National productivity growth has averaged around 0% since 2010

Looking at productivity growth rates, they were at or above 1% on very few occasions over a five-year period only, specifically, in the late 1990s when southern productivity growth was boosted by significant regional policy interventions conducted in the previous years by the state-owned agency *Cassa del Mezzogiorno*². Since 2010, however, with institutional, social and economic challenges still not addressed, productivity rates in all three Italian geographical areas have stagnated at around 0%, including in the north (Figure 3).

Figure 2: Italy’s labour productivity levels by geographical area, 1995 vs. 2019

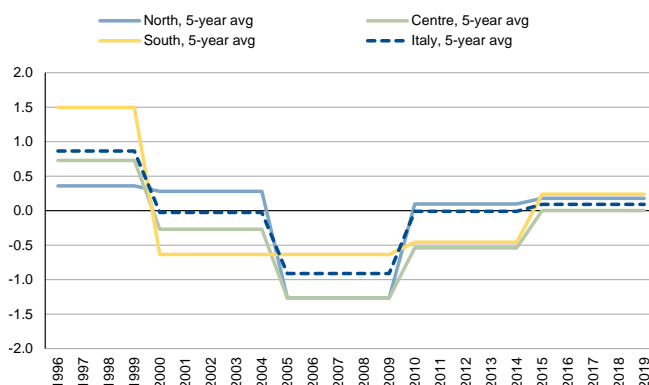
GDP-per-person employed, EUR ‘000



Source: Istat, Scope Ratings

Figure 3: Italy’s five-year labour productivity growth rates by geographical areas

GDP-per-person employed, %



Source: Istat, Scope Ratings

Estimated long-term productivity rates challenging to achieve

According to the latest long-term growth projections of the Italian Ministry of Finance, higher productivity in the next years will result in a moderate economic growth rate. Long-term spending forecasts for pensions and healthcare³, in fact, are based on an estimated average productivity rate of 1.4% over 2025-2050, gradually stabilising around 1.5% from 2050 onwards. This implied productivity growth is needed to reach an average 1.3% GDP growth over the same horizon given Italy’s declining working age population (Figure 4).

¹ EU Commission, “2022 Country Report – Italy”, Staff Working document, 23 May 2022

² Foundation for European Progressive Studies (FEPS), “Unequal Italy: Regional socio-economic disparities in Italy” (2017)

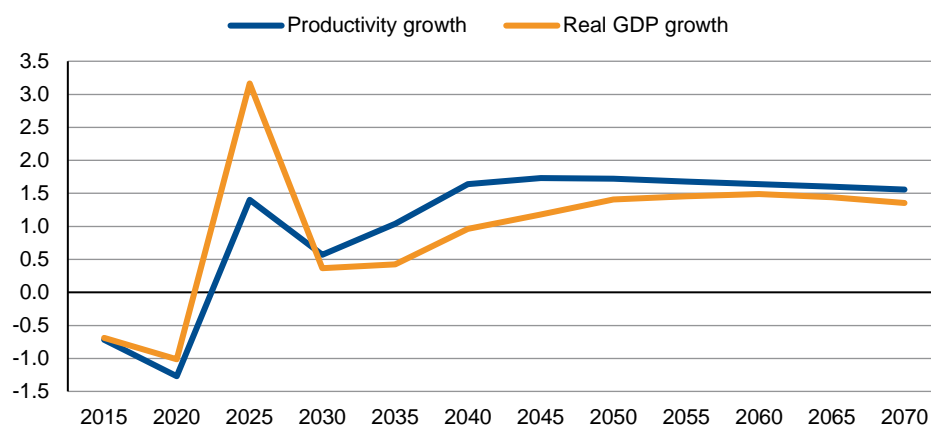
³ MEF–Ragioneria dello Stato, “Le tendenze di medio-lungo periodo del sistema pensionistico e socio sanitario”, Rapporto n.22 – Nota di aggiornamento dicembre 2021

Regional productivity trends raise doubts on growth forecast

Such an ambitious implicit productivity target seems at odds with the historical trends observed for the Italian labour productivity over the past 20 years: northern, central and southern regions, in fact, did not show signals of improvement during the last five years, when they continued recording labour productivity growth of around 0% or slightly higher.

Reaching an average 1.4% long-term productivity growth remains challenging for Italy: Specifically, this would imply an average annual increase in productivity growth by 1.2pp for the north, 1.4pp for the centre and 1.2pp for the south over the next 30 years. As stated, these growth rates were last observed in the 1990s.

Figure 4: Italy's real GDP and productivity growth rates' long-term forecasts, %



Nb. Refers to 5-year growth projections. Source: MEF, Scope Ratings

The Recovery Plan could boost Italy's productivity and GDP...

RRF: a historical opportunity facing political constraints

The implementation of the National Recovery Plan endorsed by the EU will provide Italy with EUR 191.5bn of resources to facilitate a more stable and long-lasting recovery. Italy thus has the opportunity and incentive to implement several reforms and investments to address its challenges, including the green and digital transitions, but also to strengthen its economic and social resilience while addressing long-standing structural problems.

More cohesive and homogeneous economic growth, reversing a history of poor productivity and overcoming regional divergences are fundamental for Italy to meet long-term challenges, including adverse demographic trends and sustaining high public debt. About 40% of the Recovery Plan's funds are earmarked for the economic and social development of southern regions. However, the government cannot rely only on the Recovery Plan to boost southern economic growth and productivity. Continued central government intervention and investment are vital as is deploying European structural and cohesion funds estimated at around EUR 43bn over a multi-year period.

...but political and geopolitical dynamics pose key risks

The EU Commission expects Italy's real GDP to be around 1.5%-2.5% higher by 2026 and about 1% higher in 2040 in its baseline scenario, and still 0.5% in its weak productivity scenario, under the stimulus of NGEU funds⁴. Even if the funds contribute to growth, particularly in tandem with planned reforms, Italy faces the near-term adverse consequences of Russia's war in Ukraine, set to offset some of the growth momentum. Finally, the recovery plan's success is subject to Italy meeting milestones and targets to receive the agreed resources. Here, a continued political commitment and ability to implement reforms after next year's elections are key.

⁴ EU Commission, "Analysis of the recovery and resilience plan of Italy", Staff Working document, 22 June 2021

Annex

Annual labour productivity levels per region, EUR '000

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Italy	68.43	68.88	69.91	70.46	70.83	72.10	72.09	71.08	70.15	70.71	70.89	70.77	70.94	70.10	67.51	69.11	69.41	67.53	67.49	67.44	67.52	67.48	67.81	67.81	67.74
Piemonte	73.76	73.50	74.97	75.49	75.50	75.91	76.66	75.54	74.82	75.09	74.86	74.85	74.68	72.80	67.43	70.41	70.67	67.17	68.39	68.09	68.65	69.13	70.36	70.39	69.99
Valle d'Aosta	84.57	82.99	80.01	82.70	81.71	80.04	80.90	79.76	83.58	84.62	86.03	85.05	83.89	84.94	79.92	81.51	81.67	79.78	77.62	76.47	76.98	75.71	76.76	76.92	77.35
Liguria	75.69	75.85	76.70	76.93	78.35	80.86	82.04	79.80	81.75	82.51	81.64	79.27	79.63	79.59	74.92	75.15	74.28	71.62	71.06	71.44	71.41	71.04	71.30	71.32	70.94
Lombardia	77.14	77.83	78.74	79.02	78.50	80.05	79.52	79.51	78.45	78.63	79.37	79.10	79.75	80.33	76.64	80.96	81.43	78.81	78.55	78.83	78.72	79.00	79.58	79.31	79.04
Trentino Alto Adige / Südtirol	77.65	77.82	77.25	78.53	78.50	80.24	80.30	78.03	77.93	78.07	78.09	78.27	78.45	77.49	75.25	76.36	77.01	77.50	77.86	78.33	78.14	77.97	77.97	77.90	78.14
Veneto	71.99	72.62	73.53	73.82	73.69	75.23	74.24	72.71	72.11	73.67	74.18	73.62	73.74	71.58	68.87	69.79	70.27	68.05	68.90	68.76	69.16	69.34	69.59	68.87	68.86
Friuli-Venezia Giulia	69.47	68.71	69.42	68.62	69.51	71.83	71.92	71.12	68.82	69.51	71.02	70.57	71.00	68.98	65.80	67.99	68.09	65.40	66.79	66.66	67.65	67.56	68.13	68.33	68.93
Emilia Romagna	70.30	71.31	71.71	72.76	72.89	75.06	74.72	73.46	73.12	74.96	74.86	75.32	75.23	73.82	69.59	71.88	72.94	70.65	70.80	71.76	72.13	72.70	72.84	72.77	72.01
Toscana	67.69	68.43	69.14	70.06	70.60	71.72	71.80	71.38	69.61	70.70	70.15	69.95	69.93	68.90	66.99	68.53	69.42	68.08	67.54	67.92	67.45	66.80	66.99	67.13	68.80
Umbria	70.55	70.42	71.17	71.26	70.99	70.56	70.06	70.19	69.54	68.50	67.62	67.30	66.06	64.57	61.63	62.93	62.14	59.65	59.09	58.39	59.48	58.79	59.10	59.60	59.34
Marche	63.38	64.09	65.15	64.77	65.34	66.60	66.93	67.49	65.24	65.40	65.38	66.34	66.71	64.41	62.12	62.19	62.74	60.96	60.60	61.52	61.73	61.40	61.42	60.74	60.96
Lazio	78.16	77.99	79.97	81.47	81.08	81.93	83.14	82.75	80.37	80.37	80.42	80.91	79.84	78.72	76.79	76.29	77.17	74.23	73.23	72.20	71.25	71.49	71.38	70.95	70.75
Abruzzo	63.04	62.99	64.27	63.93	65.70	67.00	66.01	64.58	63.84	63.88	63.52	63.49	64.13	62.87	60.95	62.20	62.64	62.00	61.55	61.41	61.07	61.18	61.23	61.18	61.38
Molise	65.47	65.42	66.95	67.97	68.13	67.28	67.81	66.82	65.91	65.40	65.98	65.79	64.64	61.99	61.53	61.68	61.05	59.87	56.76	56.28	57.23	56.95	56.98	57.53	58.36
Campania	54.39	54.43	55.82	55.97	57.21	58.51	58.37	57.00	56.07	56.20	56.85	57.45	59.14	58.58	57.88	57.89	57.73	57.02	56.70	56.31	56.73	55.94	56.08	56.45	56.33
Puglia	53.72	54.37	55.57	56.71	58.39	58.82	58.43	56.83	56.10	56.78	57.20	56.79	55.59	54.28	53.80	54.29	53.73	53.06	52.86	52.79	52.67	52.26	51.99	52.47	52.20
Basilicata	55.80	57.40	58.10	58.54	60.99	60.86	60.72	59.47	56.47	56.95	57.33	57.74	58.37	57.70	56.38	56.04	57.02	56.66	58.30	58.05	61.13	61.22	61.34	62.53	61.33
Calabria	50.50	51.85	53.16	54.33	57.04	56.89	56.49	53.67	52.46	52.98	52.91	52.71	53.41	53.18	52.27	52.84	51.34	50.37	50.13	50.06	50.56	49.93	50.34	51.12	51.40
Sicilia	58.80	59.18	59.91	60.24	60.42	62.15	63.15	61.78	61.13	60.74	60.34	59.44	59.67	59.12	57.45	58.20	57.84	57.44	57.35	56.30	56.37	56.00	56.56	56.55	56.37
Sardegna	58.75	58.23	59.07	59.52	59.91	61.02	60.49	58.24	58.28	59.34	58.88	58.15	57.47	57.33	56.65	56.61	56.74	56.26	55.58	55.28	56.36	54.48	54.16	54.29	54.43

Istat, Scope Ratings GmbH

Average annual labour productivity levels for north, centre and south Italy, '000

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Italy	68.43	68.88	69.91	70.46	70.83	72.10	72.09	71.08	70.15	70.71	70.89	70.77	70.94	70.10	67.51	69.11	69.41	67.53	67.49	67.44	67.52	67.48	67.81	67.81	67.74
North	75.07	75.08	75.29	75.98	76.08	77.40	77.54	76.24	76.32	77.13	77.51	77.01	77.05	76.19	72.30	74.26	74.55	72.37	72.50	72.54	72.86	72.81	73.32	73.22	73.16
Centre	69.95	70.23	71.36	71.89	72.00	72.70	72.98	72.95	71.19	71.24	70.89	71.12	70.63	69.15	66.88	67.48	67.87	65.73	65.11	65.01	64.98	64.62	64.72	64.60	64.96
South	57.56	57.98	59.11	59.65	60.98	61.57	61.43	59.77	58.78	59.04	59.13	58.95	59.05	58.13	57.11	57.47	57.26	56.58	56.15	55.81	56.51	56.00	56.08	56.52	56.48

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5-year average labour productivity growth rates for north, centre and south Italy, %

	1996 -1999	2000 - 2004	2005 - 2009	2010 - 2014	2015 - 2019
Italy, 5-year avg	0.87	-0.03	-0.91	-0.01	0.09
North, 5-year avg	0.36	0.28	-1.26	0.10	0.18
Centre, 5-year avg	0.73	-0.27	-1.26	-0.54	0.00
South, 5-year avg	1.50	-0.63	-0.63	-0.46	0.24

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Annual labour productivity growth rates per region, %

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
Italy	0.65	1.50	0.78	0.53	1.79	-0.01	-1.40	-1.31	0.81	0.25	-0.18	0.25	-1.18	-3.69	2.37	0.44	-2.72	-0.05	-0.08	0.13	-0.06	0.50	0.00	-0.10
Piemonte	-0.36	2.00	0.70	0.02	0.54	0.99	-1.46	-0.95	0.35	-0.30	-0.01	-0.23	-2.52	-7.38	4.43	0.36	-4.95	1.82	-0.45	0.82	0.70	1.79	0.04	-0.58
Valle d'Aosta	-1.86	-3.60	3.37	-1.20	-2.05	1.09	-1.41	4.78	1.25	1.66	-1.13	-1.37	1.26	-5.92	1.99	0.20	-2.31	-2.71	-1.49	0.67	-1.65	1.39	0.20	0.56
Liguria	0.21	1.11	0.30	1.85	3.21	1.45	-2.73	2.44	0.93	-1.06	-2.90	0.46	-0.06	-5.86	0.30	-1.16	-3.58	-0.79	0.55	-0.05	-0.51	0.36	0.03	-0.54
Lombardia	0.90	1.17	0.36	-0.66	1.98	-0.66	-0.02	-1.32	0.23	0.94	-0.33	0.82	0.73	-4.60	5.63	0.59	-3.22	-0.33	0.35	-0.13	0.35	0.74	-0.34	-0.33
Trentino Alto Adige / Südtirol	0.23	0.73	1.65	-0.04	2.22	0.08	-2.83	-0.13	0.18	0.03	0.23	0.23	-1.23	-2.89	1.48	0.85	0.63	0.47	0.60	-0.24	-0.21	-0.01	-0.09	0.31
Veneto	0.87	1.25	0.40	-0.17	2.08	-1.32	-2.05	-0.83	2.17	0.69	-0.75	0.16	-2.93	-3.79	1.34	0.69	-3.16	1.26	-0.21	0.58	0.26	0.36	-1.04	-0.01
Friuli-Venezia Giulia	-1.09	1.03	-1.15	1.31	3.33	0.13	-1.12	-3.24	1.01	2.17	-0.64	0.60	-2.84	-4.61	3.32	0.16	-3.96	2.13	-0.20	1.49	-0.13	0.84	0.28	0.89
Emilia Romagna	1.43	0.56	1.47	0.18	2.97	-0.45	-1.69	-0.46	2.52	-0.14	0.62	-0.12	-1.88	-5.73	3.28	1.48	-3.14	0.21	1.36	0.52	0.79	0.19	-0.08	-1.05
Toscana	1.09	1.04	1.33	0.78	1.58	0.11	-0.59	-2.48	1.57	-0.78	-0.29	-0.03	-1.47	-2.77	2.30	1.30	-1.92	-0.80	0.57	-0.69	-0.96	0.28	0.20	2.49
Umbria	-0.19	1.07	0.12	-0.38	-0.60	-0.72	0.19	-0.93	-1.49	-1.28	-0.47	-1.84	-2.25	-4.55	2.10	-1.26	-4.00	-0.94	-1.19	1.88	-1.16	0.52	0.85	-0.44
Marche	1.12	1.66	-0.58	0.88	1.93	0.50	0.82	-3.33	0.25	-0.02	1.45	0.56	-3.45	-3.55	0.11	0.89	-2.85	-0.59	1.52	0.34	-0.54	0.03	-1.11	0.36
Lazio	-0.23	2.55	1.88	-0.49	1.05	1.48	-0.46	-2.88	0.01	0.05	0.62	-1.33	-1.41	-2.45	-0.66	1.16	-3.81	-1.35	-1.40	-1.32	0.33	-0.15	-0.60	-0.28
Abruzzo	-0.09	2.04	-0.53	2.77	1.97	-1.47	-2.17	-1.14	0.07	-0.57	-0.05	1.01	-1.96	-3.06	2.05	0.70	-1.03	-0.72	-0.22	-0.56	0.19	0.08	-0.08	0.33
Molise	-0.08	2.33	1.52	0.24	-1.25	0.80	-1.47	-1.36	-0.77	0.88	-0.28	-1.75	-4.11	-0.74	0.25	-1.03	-1.94	-5.18	-0.85	1.69	-0.49	0.05	0.96	1.44
Campania	0.07	2.56	0.28	2.21	2.26	-0.24	-2.34	-1.62	0.23	1.16	1.05	2.94	-0.95	-1.20	0.01	-0.27	-1.23	-0.56	-0.68	0.74	-1.39	0.25	0.66	-0.20
Puglia	1.22	2.20	2.04	2.98	0.73	-0.67	-3.08	-0.93	1.22	0.73	-0.72	-2.11	-2.36	-0.87	0.90	-1.02	-1.25	-0.37	-0.14	-0.23	-0.77	-0.51	0.92	-0.51
Basilicata	2.86	1.23	0.76	4.18	-0.22	-0.23	-2.05	-5.05	0.86	0.67	0.71	1.08	-1.15	-2.29	-0.59	1.73	-0.63	2.89	-0.42	5.29	0.16	0.19	1.95	-1.92
Calabria	2.66	2.53	2.20	4.99	-0.26	-0.71	-4.99	-2.26	1.00	-0.13	-0.38	1.32	-0.44	-1.71	1.09	-2.83	-1.89	-0.48	-0.14	1.00	-1.24	0.82	1.56	0.54
Sicilia	0.65	1.24	0.55	0.30	2.87	1.60	-2.17	-1.05	-0.64	-0.65	-1.49	0.39	-0.92	-2.84	1.31	-0.61	-0.70	-0.15	-1.82	0.12	-0.65	0.99	-0.01	-0.32
Sardegna	-0.88	1.45	0.76	0.66	1.84	-0.86	-3.72	0.07	1.82	-0.78	-1.24	-1.18	-0.25	-1.18	-0.08	0.24	-0.85	-1.21	-0.54	1.94	-3.33	-0.59	0.24	0.26

Istat, Scope Ratings GmbH



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