"Solid" Italian Economy Wins Positive Fitch Rating

Judith Harris (February 25, 2019)

In the words of Premier Giuseppe Conte, the latest Fitch Ratings signal the "solidity" of the Italian economy. And to maintain that solidity requires the country's continued support of the European Union, adds Mario Draghi, president of the European Central Bank (BCE).

ROME -- Last week Fitch Ratings of London and New York, one of the world's big three of international credit agencies, gave Italy a "BBB" rating, a signal that Italian bonds are investment grade, with low risk of default. Needless to say, "A" ratings, for higher credit quality, would have been better, but even so this fairly positive triple "B" was cheering for the many Italians worried about the economy. "As regards the sustainability over the medium term for the Italian debt, we see a moderate and positive potential," said the Fitch report issued Feb. 22. At the same time, to maintain that solidity requires the continued support of the European Union, says Mario Draghi, president of the European Central Bank.

For Fitch, the diversity of the Italian economy is a plus, as are the strengths and talents of the Italian people. For the goverment, the BBB rating brought sighs of relief and, from the office of Premier Giuseppe Conte, an enthusiastic press release. "The Fitch evaluations confirm the economic solidity of our country. As was predictable, they reflect the transitory economic slowdown that is visible throughout the European continent.... [We continue] on the road traced in the budget so as to guaranteee development and social equity in Italy, while not ignoring the risks deriving from the international context."

As Conte pointed out, among the economic strong points are these: that Italy's private sector is only moderately indebted; that the government's pension system is sustainable; and that the economic bases of the country "are solid": export profits, the financial solidity of the Italian family and its capacity for saving, the solidity of employment, and the regained strength of the banking system.

To this a slightly more cautious Economics Minister Giovanni Tria commented that the forecasts for the European Union as a whole indicate a slow-down for "all the big economies" -- i.e., for Germany and France as well as Italy. In addition, EU rules, which were "approved in haste a decade ago," should now be revised to respond to today's economic situation.

On the negative side, said the Fitch report, are, first, the extremely high level of the public administration debt and, secondly, the absence of "plans for structural adjustments." The political tensions within the government create risks: "The huge ideological differences between the Five Star Movement (M5S) and the Lega will probably be a difficult test for the governing coalition. We do not rule out the possibility that the Lega may urge new elections, to return to their previous alliance with Forza Italia [Silvio Berlusconi's revived party] and Fratelli d'Italia [headed by rightist Giorgia Meloni]. Calculations show that together these three would have a majority of the members of Parliament."

One of the quarrels within the government over its economy is the 28-member European Union, with its rules on public debt. "Sovereignist" proponents, dubbed "Euroskeptics" want their country to have at the least fewer conditions imposed by the EU. Deputy Premier Matteo Salvini, head of the ever stronger Lega, is considered one of these Euroskeptics, in league with Marine Le Pen in France, the Law and Justice party in Poland and Viktor Orban in Hungary. With EU elections approaching this May, one of the questions being asked is how many of these sovereignists will win seats in the EU Parliament, and what a strong showing by the Euroskeptics would mean for the EU future.

Italy's own most prominent spokesman on the economy is Mario Draghi, who, however, has warned against Italy's backing away from the European Union. Draghi, 71, president of the European Central Bank (BCE) since 2011, spoke Feb. 21 at the prestigious University of Bologna, where he was awarded an honorary law degree. The EU is under threat, he said, but EU members should not give credence to the "sirens" of sovereignism. "It's not surprising that the outsider challenges to the European Union are ever more menacing," he said, but many confuse sovereignism with independence.

Draghi argues that these critics are reacting to the prolonged economic crisis, as well as to the "inequalities" deriving from migrations and developments in technology. Together, he says, these have opened a breach in the economic and political order of the whole postwar era. Should a country revert to its own currency as a "sovereign" gesture, and that currency weakens, devaluation follows and with it inflation and problems with exports, leaving the country ever more poor. Still, as Draghi pointed out, recent polls in Europe show that over 70% of Europeans favor the EU. Without it, he said, Germany's GDP would be 8% lower than today and Italy's, 7% lower.

A problem, he concluded: the tax dodgers who cost the nation at least 4% of its income and possibly as much as 10%.

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