Italy Falls Back Into Recession As The World Fears Global Economic Slowdown

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Italy has officially fallen back into economic recession for the third time in a decade. The data published by the Italian National Institute of Statistics (ISTAT) showed that the third largest economy in the eurozone slid into recession in the last half of 2018, shrinking by 0.2% of its GDP in the final three months of the year. The third quarter of 2018 already displayed a decline of 0.1% and, according to a common definition, two quarters in a row of a declining economy are synonyms to recession.

The Italian national flag flies near a monument to the unknown soldier in Rome, Italy. Photographer: Alessia Pierdomenico/Bloomberg© 2018 Bloomberg Finance LP

Italy shrunk into recession for the first time since 2013, bringing bad news for the ruling coalition, formed by the rightwing League and the anti-establishment Five Star Movement (M5S) since the economy has been in decline from the moment the populist government took office. Moreover, the worrying performances of the Italian economy are likely to tense even more the confrontation between Rome and Brussels, and ultimately bring turbulence within the eurozone.

The data is particularly concerning also because it marks Italy's exception in an environment where the general trend is quite different. Even if the 2018's growth rate has been the slowest recorded since 2014, the economies of the other eurozone members are, despite all, expanding. Eurostat, the EU statistics agency, reported that last year the eurozone grew on average by 1.8%, a significantly lower result than 2017's 2.3%, but still an outcome that highlights the gap between a developing context and the Italian case.

Last year witnessed a general slowdown across the continent. Germany, Europe's largest economy, suffered an unpredictable drop in car sales and exports that led to economic contraction. The difficulties within the car industry came from changes in emissions standards and are likely to be overcome soon, given the strength of the sector and the stability of the German economy. On the other hand, the Italian economic struggle comes from structural problems that are much more deep-seated.

A Eurosystem monetary authority sign stands outside the European Central Bank (ECB) headquarters ahead of a rates decision news conference in Frankfurt, Germany. Photographer: Jasper Juinen/Bloomberg© 2019 Bloomberg Finance LP

Even more in contrast to the Italian situation, some eurozone economies grew even more than expected. It is the case of France and Spain, which rose 0.3% and 0.7% quarter-on-quarter respectively. France did so while it was hit with waves of mass protests over the country's economy, while Spain experienced a surprisingly strong economic development, higher than most EU countries.
The renewed recession in Italy might trigger uncertainty and vulnerability within the eurozone. The weakness of the Italian economy puts back at center stage the huge public debt of the country, which is persistently a cause of economic and financial trouble for both

Rome and Brussels. Even if the size of the Italian economy should prevent a debt crisis as deep as the one Greece experienced, the accumulated debt and the inability of governments to reduce it makes it impossible for the euro zone to conclusively put to rest the risk of a crisis which it might not survive.

The confrontation between the EU institutions and the Italian populist government and the debate over Rome's finances are going to be aroused once more. If recession, as expected, will continue in 2019, it will be extremely unlikely for the country to reach the growth goals set by the League and the M5S, and the consistent spending planned by the government will be unsustainable. The 2019 Budget Law almost brought about sanctions over Italy, when the coalition was accused by Brussels of not respecting the common agreements of the monetary union, through excessive spending which was in contrast with the promises of balancing the budget.

Giovanni Tria, Italy's finance minister, left, speaks with Bruno Le Maire, France's finance minister, ahead of a round-table discussion during a Eurogroup meeting in Brussels. Photographer: Dario Pignatelli/Bloomberg© 2018 Bloomberg Finance LP

Now, with data showing recession, the economic measures that the government wanted to implement seem even more irresponsible. The statistics have shown that there is not enough money to realize some of the projects both parties endorsed while campaigning, like the citizens wage or the pension reform. This situation either creates a problem with voters or deepens the conflict with Brussels. The parties at the government might not have the money to carry on with some projects they promised to be elected, which could put at risk their approval ratings. If they spend it anyways not to lose votes, they will have to respond to the EU and face repercussions.

According to Oxford Economics, the recession "leaves a black mark on its populist government's early track record", even though deputy prime minister Luigi Di Maio, head of M5F, said quite the opposite. Even though the data shows differently, Di Maio blamed the previous center-left governments for the recession, stating that they lied about bringing the country out of the crisis. Carlo Cottarelli, an Italian economist and former director of the International Monetary Fund (IMF) strongly disagreed, explaining that the coalition in power since June, the moment the country started sliding into recession, was to be found responsible.

Luigi Di Maio, Italy's deputy prime minister, speaks to members of the media following a cabinet meeting at Chigi palace in Rome. Photographer: Alessia Pierdomenico/Bloomberg© 2018 Bloomberg Finance LP

The fact that the government reacted to the economic recession by simply putting the blame external factor, like a general global economic slowdown or the EU's prohibitions on spending money to stimulate the economy, is not much for a reassuring element. Prime minister Giuseppe Conte condemned the trade war between China and the United States for the decline, fueling the narrative that finds adversary elements abroad instead of looking at a realistic picture of the country's state of economy, industry, services and institutions.

The second half of 2018 has been a time of political unpredictability, economic instability and social anxiety. This scene is part of a receding economy, a red flag for the whole eurozone and ultimately for Italians. Economic difficulties might easily put populist parties in a different light, shaking voters' faith in their demagogic solutions, but they could just as well fuel the radical nature of these movements, legitimizing their every move.

IA Coursework Planner

Name	Jorid Nienhaus	
Article	Title:	Italy Falls Back Into Recession As The World Fears Global Economic Slowdown
	Source:	Forbes
	Date of publication:	Friday February 1st 2019
	Date of access to article:	Sunday 3rd February 2019
	Links to the syllabus:	Italy (third largest economy of the eurozone) is in a recession (2 quarters in a row of a declining economy)
		Weakness of Italian economy puts emphasis on the large public debt of the country (causing further financial and economic trouble) ok
		Accumulated debt and inability of governments is what raises the concern for the eurozone quote?
		The recession for Italy's economy is expected to grow further in 2019 meaning it is unlikely that the country will reach its growth goals
		The populist government and its campaigning projects are unrealistic as there is not enough money to realise these projects development projects? Merit goods / transfer payments?
	Summary of the article: Find relevant but short quotes	Italy (in comparison to the other countries in the eurozone) is falling into recession, which is worrying considering that the government is not able to finance the projects which they had campaigned for
		Italy is not likely to reach its growth goals and now has to deal with accumulated debt and its governments inability to finance the debt
		The Italian government is blaming other sources for the source of recession instead of focusing on a solution for the recession (fiscal/monetary policy)
	Analysis: Article is good and has some nice	Italy's economy is in a recession, hence a recessionary gap has appeared. Expansionary policy (fiscal policy) is therefore used to either decrease taxes or increase government spending. Since the Italian government have limited funds, increasing government spending is

	quotable parts...maybe consider a focus on some of the structural problems in the italian economy- see quote highlihghted in red Eu has restrictions on deficit fiscal policy spending? Is it worth putting more focus on evaluation..ie. why standard fiscal policy is not able to bring solutions to italy	not a realistic option. Decreasing taxes on households would allow more a higher disposable income, which increases consumption, which increases GDP. A decrease in taxes allows the businesses to understand that the government is interested in reviving the economy, thereby increasing their confidence which in turn increases the private investment component of GDP. The ultimate goal for the Italian government should be to increase their country's GDP again and also keep their campaign promises. They will need to organise a fiscal plan (for a business year) to allow them to show what their aim is. By decreasing taxes and not increasing government spending, this may mean that campaign promises need to be planned for the future instead of the near present.
	Quotes Alot of quotes here...using alot of words...select your best and use accordingly	- "Italy has officially fallen back into economic recession for the third time in a decade." - "third largest economy in the eurozone" - "shrinking by 0.2% of its GDP in the final three months of the year" - "two quarters in a row of a declining economy are synonyms to recession" - "Italy shrunk into recession for the first time since 2013, bringing bad news for the ruling coalition" - "the economy has been in decline from the moment the populist government took office" - "bring turbulence within the eurozone" - "the economies of the other eurozone members are, despite all, expanding" - "last year the eurozone grew on average by 1.8%" - "the Italian economic struggle comes from structural problems that are much more deep-seated" (needing long term macromanagement) - "in contrast to the Italian situation, some eurozone economies grew even more than expected" - "The renewed recession in Italy might trigger

		uncertainty and vulnerability within the eurozone” - “weakness of the Italian economy” - “huge public debt of the country” - “the size of the Italian economy should prevent a debt crisis as deep as the one Greece experienced” - “accumulated debt and the inability of governments to reduce it makes it” - “second half of 2018 has been a time of political unpredictability, economic instability and social anxiety”
	Definitions	- “Eurozone” - “Recession” - “Recessionary gap” - “Consumer/business confidence” - “Expansionary fiscal policy” - “Debt” -
	Diagrams	1: Business cycle to show that the Italian government are experiencing a recession (quantify the 0.1% and 0.2% shrink in GDP) ok
		2. Macroeconomic diagram (AS/AD) to show the recession and the recessionary gap ok
		3: Using expansionary fiscal policy (AS/AD diagram) to fix the recessionary gap (same diagram as in 2)

Ok Jorid. Looks in order. Let’s review together on Friday. You can start writing in the meantime if you wish. Be careful to give enough attention to evaluation. Italy’s problems are complex and orthodox economic theory is not able to play an appropriate role unless there there is political agreement. This is absent and therefore solutions for Italy are both economic and political. Consider this approach.

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