Antonio Fazio: The international economy and Italy

Address by Mr Antonio Fazio, Governor of the Bank of Italy, at the AIAF - ASSIOM - ATIC Forex, Genoa, 14 February 2004.

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1. Recent economic developments

At last year's General Meeting of Shareholders on 31 May I brought my Concluding Remarks to a close with the prospect of a recovery in the world economy during the course of 2003, and more certainly in 2004.

Expectations were that domestic demand and output in the United States would accelerate as early as the second half of 2003, driven by the monetary expansion, tax relief measures and weakening of the dollar.

On this basis we suggested that Europe, and especially Italy, stood in need of an economic policy capable of putting the economy back onto a path of faster growth.

The US economy grew at an annualized rate of 8 per cent in the third quarter of 2003 and 4 per cent in the last.

The GDP of the European Union, calculated at the average exchange rates of 2003, is of the same magnitude as that of the United States; it grew by 1.1 per cent in 2002 and by 0.8 per cent in 2003. Output increased in absolute value in the United States in one quarter by as much as it did in the European Union in two years.

Labour productivity in the United States rose by 9 per cent in the third quarter of 2003 and by 3 per cent in the fourth. The decline in unit labour costs and strong competition kept the rate of inflation low; excluding food and energy products, it amounted to 1.5 per cent, which was lower than in the European countries.

Fearing the possibility of deflation, the Federal Reserve accentuated the expansionary stance of monetary policy. Fiscal policy pushed the federal deficit up to 3.5 per cent of GDP in 2003, and it is expected to rise to 4.5 per cent this year. The growth in output averaged 3.1 per cent in 2003, well above the forecasts made last spring.

In Japan exports expanded strongly in the last part of 2002 and recorded a further substantial increase in 2003; last year GDP grew by 2.2 per cent.

The reorganization of production in large manufacturing companies has improved profitability and reduced employment. Since the mid-nineties, some 2,700,000 jobs have been lost in manufacturing industry against a gain of 1,100,000 in the other sectors.

The improvement in profitability in industry had beneficial effects on the banking system, which is currently engaged in securitizing large volumes of doubtful loans.

Symptoms of deflation are still present. Monetary policy has been even more expansionary.

With the lessening of global political tensions, economic activity has picked up and progressively gained strength in the emerging economies as well. After two years of sharp deceleration, in 2003 the rate of growth rebounded to almost 6 per cent.

In the emerging Asian countries GDP growth was 7.5 per cent. In Latin America, the modest results achieved by Brazil and Mexico contrasted with the sharp recovery in Argentina.

The rate of growth in the euro area was no more than 0.5 per cent.

In 2003 the world economy is estimated to have grown by 3.7 per cent.

For 2004 the International Monetary Fund forecasts GDP growth of 4.6 per cent in the United States, 2.2 per cent in Japan, 6 per cent in the emerging economies and 3.6 per cent in the main Latin American countries.

In the twelve euro-area countries output is expected to grow by 2 per cent.

The world economy is forecast to grow in 2004 by around 4.5 per cent.

2. Liquidity and the international financial markets

In a context of low inflation and globally insufficient aggregate demand, markedly expansionary monetary conditions in the three major areas have driven interest rates down to historically low levels, fostered a faster expansion of credit and supported the recovery of the financial markets.

During the nineties the money stock in the seven leading industrial countries was somewhere between 65 and 70 per cent of GDP. In the last five years it has risen steadily to reach nearly 80 per cent, an increase larger than that recorded in the previous twenty years.

In the three major areas it was monetary base and the more liquid components of bank money that increased most. From the mid-nineties onwards the deposits of non-residents more than doubled, rising from around 3 per cent of GDP to nearly 8 per cent.

Conversely, short-term interest rates in the United States, the euro area and Japan have fallen to their lowest levels since the end of the Second World War; net of inflation they are close to zero.

Real long-term interest rates on government bonds, which had touched 5 per cent in 1995, gradually came down to fluctuate around 2 per cent at the end of last year.

After nearly doubling between 1996 and 1999, the capitalization of equity markets then fell and in 2002 was close to the value recorded six years earlier. The decline in share prices continued until March 2003, they have since risen by 40 per cent in the United States and France, by more than 70 per cent in Germany and by 30 per cent in Italy.

In Italy and France price-earnings ratios are broadly in line with their long-term values.

In the United States stock prices are high in relation to profits and dividends, reflecting low interest rates and expectations of higher growth.

After a pause in 2002, the notional value of derivative products recorded another very large increase in 2003. For the seven leading industrial countries the value of listed derivatives rose from 110 per cent of GDP to 180 per cent, almost three times as high as in the nineties.

The restructuring and capital strengthening carried out in recent years by the banking systems of the leading industrial countries, prompted by the supervisory authorities, enabled them to take the fall in stock prices between 2000 and 2002 and the sharp slowdown of the world economy in their stride. Banks were able to cope with the difficult conditions in some countries and absorb the consequent losses. They provided support for the restructuring of important sectors of industry and thus prevented production crises and job losses from spreading.

After slowing sharply between 2000 and 2002, bank credit began to expand more rapidly again. Last year outstanding loans in the leading industrial countries grew by 4.3 per cent.

There has been an increase in loan securitizations in domestic and international markets that have lessened the concentration of risk by spreading it across the financial system.

In the last ten years companies active in the main markets have increasingly raised funds through bond issues, to finance investments and expand their operations. In Europe a major factor in the growth of this market was the introduction of the single currency.

The outstanding value of medium and long-term bonds issued by non-financial corporations in the seven leading industrial countries roughly doubled between 1995 and 2002, rising from $2,800 billion, or 14 per cent of GDP, to $5,000 billion, or 24 per cent of GDP. At the end of 2002 the corporate bonds outstanding in the United States amounted to more than $3,000 billion, in the United Kingdom to more than $500 billion and in France to more than $300 billion; in Italy they amounted to about $100 billion.

The flow of net issues remained high in the first half of 2003 in the United States, France and Germany.

The spreads on emerging countries' dollar-denominated securities over US securities have nearly halved, falling from 8 to 4.2 percentage points between the middle of 2002 and the end of 2003, in concomitance with the resumption of the flow of funds towards these countries.

3. Investment and demand

The ample supply of credit and the low cost of capital have fostered an acceleration in investment in the United States and the emerging economies. Wage moderation in all the developed countries, as well as in the emerging economies, has permitted a constant increase in the flow of self-financing.

The production of goods and services continues to be reallocated from the developed countries to the emerging countries in order to take advantage of lower labour costs.

In the fifteen countries of the European Union, between 1980 and 2001 the manufacturing sector's contribution to total value added declined from 24 to 20 per cent. The contribution of private services to income formation rose from 41 to 48 per cent.

In the United States, over the same period the contribution of manufacturing fell from 21 to 14 per cent; that of private services rose from 52 to 61 per cent.

The large flows of direct investment by US firms in Mexico and other countries of Latin America and in China and other Asian countries relate in good part to relatively low-tech production; in the emerging economies mid-tech production is also gaining ground.

Investment in services and high-tech production continues to be concentrated in the developed countries.

In the United States the easy monetary conditions, coupled with rapid population growth resulting from natural demographic increase and substantial immigration, led to investment in housing recovering strongly in 2002; the growth accelerated in 2003.

By contrast, business investment in plant continued to shrink, but there was a pronounced increase in firms' spending on machinery and equipment, especially information technology.

The composition of business investment is reflected in the trend in payroll employment, which in the manufacturing sector was 3.6 per cent lower in January than a year earlier while in services it was 0.4 per cent higher. On the other hand, hourly labour productivity has risen sharply. In two years, between the fourth quarter of 2001 and the fourth quarter of 2003, labour productivity in the US non-farm business sector increased by a total of nearly 10 per cent.

Population growth, the high proportion of young people, tax relief and low interest rates have pushed up consumption demand, particularly for durable goods, which grew by 6.5 per cent in 2002 and 7.4 per cent in 2003.

Business investment has been sustained by the substantial rise in firms' profits and the improvement in their overall financial position. The financial situation of households has also turned better.

In Japan, against the background of a recovery in global demand, continuing abundance of liquidity and, above all, productivity gains by firms, private investment began growing again in the second half of 2002; in the first three quarters of 2003 the average increase was 8 per cent on an annual basis.

There was a strong upturn in exports.

In France, Germany and Italy, notwithstanding plentiful liquidity and the historically low cost of money, business investment diminished. In Italy total investment, including private and public-sector construction, fell in the first half of last year by nearly 10 per cent on an annual basis.

The capacity utilization rate is low in all the euro-area countries. Consumer confidence, which was also weak, showed a slight improvement in Europe in 2003.

In the euro area, after declining by 2.9 per cent in 2002, investment fell further by 2.6 per cent on an annual basis in the first half of 2003.

Exports, weighed down by the appreciation of the euro, fell by 3.9 per cent in the first half of the year. The decrease was 2.7 per cent in Germany, 5.8 per cent in France and more than 13 per cent in Italy.

Euro-area resident households' expenditure, which was stationary in 2002, showed signs of increasing in the early part of 2003 but then slowed down again in the course of the year.

In the third quarter euro-area and Italian exports staged a recovery, in concomitance with the pick-up in activity in the United States, Japan and the major Asian economies.

Merchandise exports of the leading industrial countries, which had stopped growing in the latter part of 2002 and the early months of 2003, began expanding again in the second half of the year in both the industrial countries and the emerging economies.

The large external deficit of the United States has fueled the growth in the supply of dollar-denominated assets on the international markets. Private capital flows to Latin America have resumed, while those to the emerging countries of Asia and the countries of central and eastern Europe have remained strong; the flow of direct investment from the industrial countries continues; investment and growth in the developing areas are gaining pace.

4. Sustainability of the recovery

The business cycle and growth in the United States are decisive for the prospects of the world economy.

In 2003 world GDP amounted to $35,600 billion, of which US economic output accounted for 30 per cent or just under $11,000 billion.

Japan's GDP was $4,200 billion; that of the euro area was $8,100 billion, or more than one fifth of world economic output. Italy, with annual output of $1,400 billion at last year's average exchange rates, accounted for 4.1 per cent of the world economy, mainland China for 3.9 per cent. The other developing countries together accounted for 13 per cent of world output.

The latest forecasts for the United States are for GDP growth of around 4.5 per cent in 2004 and 4 per cent in 2005. Inflation will remain low. The consequence is a positive forecast for the world economy in the next two years.

The acceleration in economic activity, under way since the middle of 2003, and the continuation of rapid growth in 2004 and 2005 are based on the recouping off of an initial situation of production below capacity. The estimates of potential GDP growth in the United States for the next five years range between 3.2 and 3.5 per cent annually, depending on the source.

All in all these are prudent forecasts, taking into account the productivity gains that have been achieved in the last three years, the growth of the population, the country's endowment of human capital and the heavy investment in technology and information systems.

Productivity performance is in a sense the key to an economy's strength. However, the macroeconomic context in which the efficiency of the US productive system is set contains factors of risk for the sustainability of growth.

The financial balance of the public sector, the linchpin of the policy of support for domestic demand, went from a surplus of around 1.3 per cent of GDP in 2000 to a deficit of 4.8 per cent in 2003.

The improvement in the balance between saving and investment of households and firms, amounting to around 5 percentage points in the three years from 2001 to 2003, offset only part of the deterioration in public-sector saving.

Over the same period the balance-of-payments deficit increased by about one percentage point of GDP.

The sustainability of the public debt appears to hinge crucially on economic growth. On 2 February the Administration announced it was committed to reducing the federal deficit from the $521 billion projection for 2004 to $364 billion in 2005 and $237 billion in 2009. The intention is to lower the ratio of the deficit to GDP to 2 per cent.

At the end of 2003 the amount of federal government debt held by the public was equal to 36 per cent of GDP. It should be recalled that the household saving rate is extremely low and household debt high in the United States by comparison with Europe and with Italy especially.

The external deficit is equal to approximately 5 per cent of GDP. The net external investment position is now negative by one quarter of GDP.

At the global level a significant statistical discrepancy is to be found between the US balance-of-payments deficit on current account and the rest of the world's surplus; it is equal to one third of the US deficit. The growth in US foreign debt greatly exceeds the increase in assets held by the rest of the world.

The sustainability of the foreign debt and, consequently, of the exchange rate depends on the demand for financial claims denominated in dollars and on the share of 12 American real assets held by non-residents. There is probably a substantial volume of dollar-denominated financial assets owned by firms and individuals that are formally not resident in the United States but which are within the orbit of that country's economic and political system.

In a globalized financial system, the productivity of the US economy, the country's political and military strength, the stability and prestige of its institutions, the efficiency and liquidity of its markets offer real and financial investments a promise of safe long-term yields.

Large exports of capital from the United States and high direct investment in all the emerging economies led to a stock of foreign assets worth $6,474 billion at the end of 2002, 31 per cent of this consisted of direct investment and 21 per cent of shares.

At the end of 2002 America's gross foreign liabilities stood at $9,079 billion, of which 22 per cent consisted of direct investment, 13 per cent of shares and 34 per cent of private and public-sector bonds; interest payments averaged around 3 per cent.

Given its share of world output and finance, the US economic and financial system extends beyond the nation's borders. A pattern seen during the last century for other economically and financially hegemonic systems is being repeated. A similar tendency can be seen for Japan in relation to the emerging economies of Asia.

In response to the concern lest a large external deficit influence the level of the exchange rate, on the occasion of the recent meeting of the Group of Seven in Boca Raton, Florida, the US Treasury Secretary reaffirmed the Administration's commitment to policies conducive to a strong dollar whose value would nonetheless continue to be determined by market forces.

The direct investment of the more advanced countries promotes economic activity and introduces new technologies in those where the cost of labour is very low.

A valid economic and institutional framework and the provision of infrastructure can create the conditions in newly industrialized and emerging economies that will enable them to attract foreign investment and boost growth.

The free movement of capital is a powerful force in the expansion of the world economy.

Even though China, India and other newly industrialized countries in Asia still account for only a limited portion of world output, their economies are growing more than twice as fast as those of the more advanced countries and contribute significantly to the expansion of the global economy.

Economic activity in Latin America has begun to expand again after the major crises of recent years.

In Argentina maintaining the present favourable macroeconomic trend will depend on the efforts to honour the undertakings entered into with the International Monetary Fund, achieve a satisfactory restructuring of the country's foreign debt and rehabilitate the banking system.

Parts of Africa, still crushed by a heavy debt burden and a series of institutional and other local problems, remain excluded from the advance of the world economy. It is necessary to revive the debt-relief procedures of the Highly Indebted Poor Countries Initiative.

Europe is not contributing to the growth of the world economy. A stronger performance on its part is also necessary to adjust the payments imbalances between the principal regions of the world.

The continent's demographic structure and the aging of the population appear to offer little incentive for investment. The potential growth rate of the European economies is estimated at around 2 per cent. In recent years the expansion of output has been less than 2 per cent. This year it is expected to come near it.

Despite slow growth, the area still shows a small surplus on external current account of less than 0.5 per cent of GDP.

Europe's share of the volume of world exports has declined in the last few years. Since the start of 2002 it has suffered from the appreciation of the euro. Taking a longer-term view, it is the insufficient increase in productivity that is holding back competitiveness and growth.

Price stability within the euro area is assured by the single monetary policy. Financial stability is guaranteed by controls and supervision at national level.

To increase Europe's growth potential, reforms along the lines of the commitments undertaken at the Lisbon European Council in 2000 are essential.

Action to reduce the ratio of current public expenditure to GDP on a permanent basis is especially urgent. Measures to alter labour market arrangements are necessary.

Immigration will tend to increase in the years to come as the European population ages. It must be strictly regulated, at European Union level as well. Effective policies of integration are needed to attenuate the sometimes severe repercussions on the existing social balance; they can offer an opportunity for human development to people whose homelands are beset by severe economic and social problems and contribute to the growth of our own economies.

5. Italy

From 1989 to 1999 the Italian economy grew at an average annual rate of 1.5 per cent, compared with an average of 2.1 per cent in the fifteen countries of the European Union.

For Italy, these were the years in which the external accounts were adjusted and the public sector deficit was sharply reduced.

The country's net external debt had risen gradually during the eighties, touching 11 per cent of GDP in 1992. After the devaluation of the lira in September of that year, accompanied by the containment of inflation through incomes policy and the tightening of credit, exports picked up strongly, fostering economic activity and helping to reduce the foreign debt. In October the yield on three-month Treasury bills reached 18 per cent. Trading of government securities on the secondary market continued without a break; a generalized crisis of Italy's financial system was avoided.

The Mexican crisis, which erupted in December 1994, spread to the main world markets in the early months of 1995. The flight into strong currencies led to a strengthening of the Deutschemark and large appreciation of the yen; the dollar depreciated sharply. The crisis overtook the lira along with other weak currencies; in March, in a matter of days the lira's effective exchange rate fell by 10 per cent. Despite a surge in yields, the primary and secondary markets for government securities again continued to operate without interruption.

Inflationary pressures built up again.

The monetary restriction made it possible, within a year, to restore the lira's exchange rate to its end-1994 level. Inflation was reduced to a level close to the rates in the other European countries.

The abatement of inflation and the prospect of participation in the single currency led to lower interest rates on the public debt.

Italy's re-entry into the European Monetary System at the end of 1996 definitively stabilized the exchange rate and permitted a gradual relaxation of monetary conditions.

The public finances benefited from the lower cost of debt. The ratio of tax and social security receipts to GDP was raised by about 5 percentage points between the second half of the eighties and the second half of the nineties. Public sector net borrowing was reduced below the 3 per cent limit in 1997.

The restored stability of the exchange rate was not associated with acompatible trend in production costs.

Partly owing to the limited growth of the economy, labour productivity in both industry and services did not rise in line with that of the other industrial countries. The export competitiveness of Italian products, which had improved in 1993-1996 as a result of the lira's depreciation, began to deteriorate again.

Between 1995 and 2001 labour productivity in Italy rose on average by 1 per cent a year; in manufacturing the average annual increase was 1.2 per cent.

In Europe in the same period labour productivity rose by 1.4 per cent a year in the economy as a whole and 3.1 per cent in manufacturing.

In the United States labour productivity in manufacturing grew by 3.7 per cent a year between 1995 and 2001.

Italy's share of world exports, which stood at 4.5 per cent in 1995 and 4.2 per cent in 1996, has contracted steadily over the past seven years, falling from 3.7 in 2000 to around 3.3 per cent in 2003.

French exports represented 5.3 per cent of world trade in 1996 and were still at the same level in 2003. Germany's share of world exports has risen from 10.3 per cent in 1996 to 12 per cent.

Italy's loss of market shares is due to the relative increase in production costs and the scant importance of exports of high-tech goods.

The loss of competitiveness has had repercussions on industrial activity and economic growth.

Between 1996 and 2003 industrial production expanded by 5 per cent in Italy, by 17 per cent in the euro area. The growth the Italian economy lost because of the decline in international trade competitiveness is estimated to have amounted to more than half a percentage point each year.

Italian industry consists of a few large corporations and a myriad of small and medium-sized firms. The 1996 census found that three quarters of manufacturing employment was in firms with fewer than 250 employees: some 550,000 firms, or 99.7 per cent of all manufacturing companies in Italy.

A significant part of this vast network of small and medium-sized enterprises is located in industrial districts, which taken together account for 41 per cent of industrial employment and 45 per cent of employment in manufacturing. For the most part, district firms are export-oriented. The organizational model of the districts, which combine cooperation with competition, overcomes some of the limits of small size and permits high levels of innovation and efficiency.

This is the Italian economic engine that in decades past created wealth and jobs.

However, the steady loss of competitiveness and the weakness of domestic demand are threatening the growth prospects of an increasing number of firms. Productivity and employment are slowing.

Smallness is not conducive to research and development, which is indispensable for technological innovation and international opening, both crucial factors in competition between national economies.

In the last decade Italian industry has also been impoverished by the loss of important branches of manufacturing.

The Italian car industry has encountered serious problems. The market share of the largest group, after peaking at 60 per cent in the eighties, fell to 27 per cent in 2003; since the end of the 1980s its European market share has declined from 15 to 8 per cent. The main source of difficulty was a strategy of diversification that ultimately diverted resources away from R&D in the auto segment. Thanks to the support of the banking system the group is now on the road to recovery and disposing of assets not strategic to the core business. It has reduced its debt. The latest data indicate that its market share has risen to over 30 per cent.

The recent performance of the Italian economy has also been affected by the problems at two major food-processing groups.

The difficulties of Italian manufacturing industry go well beyond those of the automobile and food-processing sectors.

Industrial activity in Europe, after reaching a low point in the second quarter of 2003, expanded sharply in the third quarter and again in the fourth. In Italy the decline between the middle of 2002 and the middle of 2003 was followed by a significant upturn in the third quarter and a small contraction in the fourth, in which GDP stagnated. In the euro area GDP grew by 0.3 per cent with respect to the third quarter.

In January the confidence of households plunged in Italy. Provisional data show that industrial activity remains slack.

6. Economic policy

Economic policy must restore expectations of growth, halt the slide in competitiveness and prevent new problems from affecting production.

Partly owing to the difficult economic situation, the adjustment of the public accounts has relied largely on temporary measures. The public debt remains high by international standards. There is still a considerable discrepancy between the general government borrowing requirement on a cash basis and net borrowing on an accruals basis.

For the years to come, the European Commission has signaled the risk that the deficit may go above 3 per cent of GDP and the need, in the absence of structural measures to cut current spending, to raise taxes.

The possibility of reducing taxes depends on achieving faster economic growth. In the short term, support for domestic demand through public works programmes is necessary.

The banking system, which has been greatly strengthened in the last decade by privatizations and extensive restructuring, is committed to sustaining firms that are sound and profitable but too small to confront today's increasingly fierce international competition.

The banks must help firms to grow to a size that permits them to improve product quality and increase efficiency.

This year a very substantial effort will be required to finance major groups that need the resources to continue and expand their activity. The banks' commitment to providing support for troubled industries, notwithstanding serious difficulties, is commendable.

It is essential that the system should earn and enjoy the confidence of the public, the authorities, and political and institutional bodies.

For half a century the savings entrusted to banks and channeled by them to firms have benefited de facto from an absolute guarantee. The cost to the public finances of banking instability and the inevitable difficulties of intermediaries has been far smaller in Italy than in the other industrial economies and in the developing countries.

As in the other advanced financial systems, the direct financing of firms in the market has spread in recent years.

The banks have performed the service of placing the securities issued by firms with other institutions and with private investors; the latter sometimes may not have been fully aware of the real risk of the investment.

It is intermediaries' duty to inform savers correctly and advise them wisely. We have called on them to examine the features of these instruments more carefully and to verify the full awareness on the part of households of the risks assumed, according to ethical and professional standards.

Partly at our urging, banks are moving to satisfy those who have committed even modest savings to such investments without sufficient awareness.

Cases of this kind must not recur. Trust must be restored in a component of the financial market that is crucial to the growth of firms. It must be reiterated that high yields are necessarily accompanied by high risks.

At the end of 2002 the savings entrusted by households to the banks in the form of deposits and other funding instruments amounted to €760 billion. At the end of 2003 total funds raised stood at approximately €1,100 billion.

The Bank of Italy protects savings and savers through the stability of intermediaries. It promotes the efficiency and competitiveness of the credit system and thereby favours the allocation of the funds raised for the growth of production and the formation of new savings.

At the end of 2002 households' portfolios contained a total of €290 billion of corporate shares and bonds.

Corporate failures have direct repercussions on the savings of households, as well as on the banks. The Bank of Italy intervenes promptly with intermediaries so that loan losses are kept within the limits of banks' capital and reserves and do not affect the savings entrusted to them.

In an economy in which firms increasingly finance themselves in the market, the value of this component of savings depends in the first place on the stability of the firms themselves. The truthfulness and quality of firms' financial reports and the other information they disclose to the public are fundamental.

The system of internal and external corporate controls must be strengthened.

We look upon the work of Parliament to improve and supplement the system of controls in the light of recent events with confidence and respect. The unitary oversight of the credit function must not be impaired. The independence of the institutions responsible for controls is of fundamental importance.

Drawing on the experience of the most advanced financial systems, the instruments of intervention must be strengthened and more resources made available so that the supervisory authority for companies and the stock exchange can take timely action to limit the frequency, magnitude and effects of corporate failures.

A large share of national savings is entrusted by citizens to the State.

The security of the savings entrusted to the public sector is fully guaranteed by the State's power to levy taxes.

However, too high a level of public debt adversely affects the financing available for firms and for investment. By limiting growth, it prevents the formation of new savings.

In the current situation of the Italian economy, it is essential to reduce the public debt in relation to GDP.

The prospect of closer economic policy coordination within the Government will increase the efficacy of measures; it can favour more effective action on the public finances.

The recovery of the world economy also offers Italy an opportunity to overcome the present phase of uncertainty.

Capitalizing on the resources of enterprise, labour and technology that it commands or can command, the Italian economy must make a concrete start on structural action, the reforms needed for faster growth.

An organic vision of the objectives and instruments, the start of the action plans can restore confidence among all economic agents: the financial system, firms, consumers and savers.

Looking at the experience of the most advanced economies, it is necessary for Europe to relaunch programmes for infrastructure, innovation and research. The progress made in economic and institutional integration and the Union's enlargement provide a solid foundation.

In Italy as well we must move resolutely in the direction of faster growth, higher employment, security for the elderly and valid prospects for the young.

It can be done. We must do it.