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POLICY PAPER SERIES

IZA Policy Paper No. 167

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Development Strategy**

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NOVEMBER 2020

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# Italy between a Disaster and a New Development Strategy

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## ABSTRACT

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# Italy between a Disaster and a New Development Strategy

Italy has probably been one of the first ships to cross the storm of the pandemic, soon after Wuhan in China, and one of the worst performers with a GDP fall of -10% in 2020. The reason is that the pandemic recession has drawn on old structural problems, which already before the pandemic made the country one of the worst performers in terms of growth rates in Europe in the last 20 years. The evils of Italy are well known. It is the second biggest manufacturer in Europe, but also among the most traditional ones. Made in Italy, despite moving up in terms of quality and skilled content, still remains the most exposed to the competition from emerging market economies. The crisis was already ongoing when Italy joined the euro currency, and the strong currency made things worse. The necessary industrial upgrading from traditional manufacturing to the new branches of industry would have required strong public investment in infrastructure, which were not allowed or not possible due to the Maastricht Treaty of 1993, the economic and financial crisis at the end of the 2000s, and the Fiscal compact of 2012. The pandemic has changed the mind of the European Union (EU) governance. Strangely enough, the virus yielded a common destiny to all the EU member states as never before, also in financial matters. This eventually led to the implementation of the so-called Recovery Fund (RF) or Next Generation Fund (NGF). Italy should use the 209 billion euros of the Fund to bring the country not only out of the pandemic storm, but also out of the euro currency storm. For the first time, after decades in which the EU Troika was conveying only sad messages, the EU is all over Europe seen as hope for hundreds of millions of people.

**JEL Classification:** F45, F69, J28, O52

**Keywords:** COVID-19, emergency, pandemic recession, high road to development, Next Generation Fund, Italy

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## **ITALY BETWEEN A DISASTER AND A NEW DEVELOPMENT STRATEGY**

### **Introduction**

Italy has probably been one of the first ships to cross the storm of the pandemic, soon after Wuhan in China. The linkages of life in two continents so far away has dramatically shown yet another unexpected and undesired consequence of globalization. After the globalization of trade in goods, commodities and financial capitals, we now experience the globalization of public health. However, globalization is also bringing solutions to the new challenges.

Italy is experiencing one of the deepest economic crises in its history. The GDP decline at the end of the year 2020 will be about 10 percent below the estimates presented in public debates. This is one of the deepest declines in Europe and perhaps in the world. The reason is not only that Italy experienced the pandemic earlier than other countries, but that the pandemic recession has drawn on old structural problems of the Italian economy. Due to these problems, Italy has been already before the pandemic one of the worst performers in terms of growth rates in Europe in the last 20 years.

The evils of Italy are well known. It is the second biggest manufacturer in Europe, but also among the most traditional ones. Its competitive advantages are in the industries of food, leather and footwear, although it has excellence also in the field of mechanical industry and in all other sectors. As such, made in Italy, despite moving up in terms of

quality and skilled content, still remains the most exposed to the competition from emerging market economies. The crisis in these industrial sectors was already ongoing when Italy joined the euro currency, and the strong currency made things worse, further reducing the competitiveness of Italian industries.

It has been clear since the beginning of the establishment of the Euro area that, as the Nobel prize winner Franco Modigliani (see Modigliani et al., 1998; see Bossone and Labini (2016) for a more recent assessment) put it, “we cannot have our barrel full and our wife drunk”<sup>1</sup>. Modigliani suggested not joining the euro; he namely claimed that a strong currency would have destroyed the Italian traditional manufacturing industry.

In other words, the condition for accepting the euro would have meant, in terms of the EU jargon, implementing the Lisbon strategy to face the challenges of the strong currency. The necessary industrial upgrading from traditional manufacturing to the new branches of industry would have required strong public investment in infrastructure, which were not allowed or not possible due to the Maastricht Treaty of 1993, the economic and financial crisis at the end of the 2000s, and the Fiscal compact of 2012. In a historical perspective, it is clear that the country was into a straightjacket from the financial point of view and could not implement all the changes which were necessary in terms of public investment to favor the deep restructuring, which was necessary to enter the so-called “high road to development”. With the latter, we generally mean the expansion to new industrial sectors, which nowadays would mean: green economy, nanotechnologies, digitalization, artificial intelligence, and generally everything under the term Industry 4.0.

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<sup>1</sup> This is an English translation of the Italian expression. The corresponding expression in English could be: “have your cake and eat it too”.

Fortunately, the pandemic has changed the mind of the European Union (EU) governance. Probably, it was necessary that also the more advanced countries of the EU were involved in the economic crisis to make their citizens and electors understand that the EU needs a much braver fiscal and monetary policy. This eventually led to the implementation of the so-called Recovery Fund (RF) or the Next Generation Fund (NGF). The aim of this chapter is to present the Italian experience during the COVID-19 health crisis, its governance and economic consequences that were partly due to poor state governance in the past. In the last section of this chapter, we discuss some of the investment programs that are under discussion in Italy to use the 209 billion euros of the Recovery Fund to bring the country not only out of the pandemic storm, but also out of the euro currency storm.

## **1 The economic outlook for 2020<sup>2</sup>**

The COVID-19 emergency exploded in Italy earlier than elsewhere in Europe for two main reasons: the unpreparedness of the health sector and the bad approach of important political leaders, whose responses largely contributed to the spread of the disease. There is evidence showing that the virus was already present in the Lombardy region as early as the end of 2019 and the beginning of 2020, although nobody was aware of it. Moreover, being one of the first regions to be hit, Lombardy allowed the virus to spread enough to make it a focus already at a time when it was almost unknown elsewhere. This can probably be attributed to high openness to globalization of the region, maybe one of the greatest in the world. Medical doctors did not know how to deal with

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<sup>2</sup> For a more detailed assessment of the pandemic recession, see Lab24 (2020).

the disease at first and made dramatic choices, such as allocating COVID-19 places in retirement homes for elderly people. As a result, most of them got infected and died.

In addition, several politicians from different political parties underrated the severity of the situation, suggesting that restrictions were useless. This allowed the spread curve of the virus to reach its peak very soon. This explains the particularly poor performance of Italy also in comparison to Asian countries, where the disease was spread earlier (see Table 1). Italy has experienced a much higher number of COVID-19 related deaths per day and therefore also cumulative deaths. A possible explanation is also a much lower number of hospital beds per 1,000 inhabitants and probably also the lack of experience in treating the disease.

**Table 1. A comparison between Italy, Japan and South Korea**

<b>Indicator</b>	<b>Italy</b>	<b>Japan</b>	<b>South Korea</b>
Cumulative COVID-19 deaths per million inhabitants up to October 17, 2020 (Worldometers)	604	4	13
Total COVID-19 deaths up to October 17, 2020 (Worldometers)	36,474	443	1,661
Maximum daily COVID-19 deaths (worldometers)	9,210 (May 27)	9 (May 24)	49 (May 4)
Number of hospital beds per 1,000 inhabitants (OECD)	3.1 (2018)	12.4 (2018)	13.0 (2019)
Rate of change of real GDP in 2020 (estimate IMF, October 2020)	-10.6	-1.9	-5.3
Unemployment rate (%) in 2020 (estimate IMF, October 2020)	11.0	4.1	3.3
Public debt as % of GDP in 2020 (estimate IMF, June 2020)	166.1	53.4	268.0

Source: Valli, 2020.

Due to the health emergency, especially in the Northern regions, which are the most globalized, a number of barriers to the free circulation of people had to be imposed



in the country. These measures started as early as March 2020 and lasted with different intensity till June. The country went through a very rigorous lockdown which involved the closure of many economic activities for an indefinite period of time. The ensuing pandemic recession was dramatic.

Italy will experience the worst GDP decline within the EU after Greece, of about -9.5 percent in 2020 (Eurostat, 2020). The rebound in 2021 will reach just a little bit more than 6 percent leaving on the ground over 3 percent of the pre-pandemic GDP. It is one of the worst, if not the worst declines ever.

Behind the translation of the pandemic health emergency into a dramatic pandemic recession, there are a number of causes: (1) the interruption of many production activities due to the restrictions and eventually the lockdown; (2) the broken interlinkages across the sectors of the economy; (3) the reduction in employment and incomes and, therefore, in internal consumption; and last but not least, (4) the increasing uncertainty regarding the future, which has affected all long-run decisions, including decisions about consumption of durable goods and firms' investment in new capital.

The crisis has been affecting all sectors of industry, although the service sector was even more severely affected; tourism, entertainment, and culture nowadays represent a very important share not only of GDP, but also of employment, due to their higher than average labor intensity and the competitive advantage of "*Belpaese*". Tourism represented 5.5 percent of GDP in 2017 and, indirectly, contributed about 13 percent of GDP if spending of the operators in the sector is included. This share is much bigger than the corresponding shares in France (9.5 percent) and Germany (8.6 percent) (World Travel and Tourism Council, 2017).

Another factor to consider is the dramatic slowdown of international trade, which according to the IMF has so far amounted to about 10 percent of the flow of 2009 (Zhang, 2020). Being a country heavily open and integrated in the world trade, Italy has suffered the consequences of the slowdown in trade to a large extent.

The reasons why the recession hit Italy more than other countries are numerous. First, the country started the restrictions earlier than elsewhere. Second, the restrictions were much more severe than in other countries that tried to cope with the emergency with more flexibility until some point. Third, the crisis more heavily affected some sectors which are particularly important for the Italian economy, such as tourism, hotels, and restaurants, as well as event and cultural tourism, for instance.

However, another important reason is that the crisis hit an economy which, for a number of reasons that will be analyzed in the next section, has been showing a very low growth rate already in the last two decades.

## **2 Old and new problems**

When the pandemic recession arrived, the Italian economy was already weakened by a series of negative events and, above all, the economic and financial crisis of the previous decade (2007-08), which it never fully recovered from. The unemployment rate, especially that of young people and women, was still very far from the pre-crisis period (see, among others, Pastore, 2019), while still a very large share of the population was under the poverty line, especially in the South. And this also explains the extraordinary result of the political elections in 2018, when a new, populist, Eurosceptic 5-Star Movement became the leading political party in Italy, with the national average of over 32 percent and up to 60 percent in many areas in the south of the country, where their

main policy proposal was a new program for a very generous citizenship income against poverty.

Before that the introduction of the euro had already negatively impacted industries of the North, both in the West and East sides. Many firms could survive only at the cost of outsourcing the most labor intensive phases of production abroad, mainly to Eastern Europe, China or North Africa.

The euro caught Italy when it was firmly grounded in what is sometimes called “the low road to development”, a type of production which is substantially based on traditional manufacturing (Modigliani et al., 1998).

These manufacturing sectors are based more on price competition than innovation or investment. In these sectors, the international competition is primarily for the lowest price, rather than for the most innovative products. The euro immediately eliminated the main tool of the country to re-gain the lost competition in international markets, the so-called competitive devaluation, which had been used for decades as witnessed by the lowest value of the euro compared to the strongest currencies. In the year 2000, one dollar was worth about 2,000 Italian lira and one German mark was worth about 1,000 lira, whereas after World War II, one dollar was worth one Italian lira.

Especially after the introduction of the euro, the country tried to switch onto the road of quality product differentiation. In other words, in addition to outsourcing abroad the most labor intensive phases of production, Italian companies tried to move up to the highest quality segments of production, exploiting design and innovation to differentiate from the products of international competitors, especially from the emerging economies. However, this was not enough to increase the growth rate and the country kept lagging behind the other EU member states.

In recent years, the so-called austerity imposed by the European Union (EU) has had many negative and sometimes counter-productive effects on Italy. Until 2015, when the economic and financial crisis was already ongoing, the Treaty of Maastricht, signed in February 1992, continued to operate with that extreme rigidity typical of the Washington Consensus paradigm that presupposed, mainly based on monetarist arguments (see De Grauwe and Yuemei, 2015, for an assessment), that monetary and financial stability are by themselves capable of leading to economic growth (Williamson, 2009). Moreover, according to several economists (e.g. Bohn, 2006), the monetary union should have expansionary effects simply due to the permanent reduction in interest rates in the area.

And this happened despite the accusation of “stupidity” that prominent economists had said about the effects of the Maastricht Treaty long before. By “stupidity”, several economists meant the tendency of the Treaty to impose, among others, always the same maximum level of deficit limit, the famous 3 percent, independent of the business cycle. This implied increasing the public debt in both periods of downturns, when it makes sense to spend more to support aggregate demand, and of upturns, when it is instead useful to reduce the deficit and debt as predicted in the so-called stop-and-go approach of the Keynesian expansionary fiscal policy as an anti-cyclical tool (e.g. Pasinetti, 1998; De Grauwe and Yuemei, 2015).

In 2011, the so-called “Six-pack directive” introduced even more rigid procedures of control of the EU institutions on the national budget of EU Member States. In 2012, in the middle of the financial crisis, which led to the resignation of Silvio Berlusconi from the Office of Prime Minister and Mario Monti replacing him, the Parliament approved a

constitutional reform to affirm that no public deficit is allowed and the public budget should always be in equilibrium.

Only in 2015, again under the pressure of Italy and other EU countries which were still struggling with the economic crisis and could not manage to reach the convergence path of the public debt reduction in the agreed time frame, the EU institutions allowed for more flexibility in reaching the deficit target under given conditions. However, changes were marginal.

### **3 The consequences for Italy**

In the early years of the implementation of the Maastricht Treaty, many authoritative economists welcomed the financial stability as good for Italy, because it was considered as a disciplinary device for a country that in the previous decades, at least since 1970, had incurred an uncontrolled expansion of public debt over GDP, up to 120 percent of GDP in 1994. Indeed, in the first years of its implementation, the Maastricht Treaty pushed the country to reduce its public debt down to 100 percent of GDP during the periods of both centre-right and centre-left governments of Silvio Berlusconi, Massimo D'Alema and Romano Prodi (1990-2008). This was achieved by means of a dramatic reduction of the overall deficit as a share of GDP and at the same time by means of a dramatic reduction in the cost of the debt in terms of interest rates, but, above all, a number of consecutive primary budget surpluses. The country made an enormous effort to curb public debt, but because of its extremely high level and the high cost in terms of interest rates, no matter how much disciplined the Italian governments were, the reduction

of the debt was very slow. Italy did make a serious effort to reduce the debt, but it has probably already passed the threshold of sustainable debt (Erber, 2011).

Moreover, what people understood from this period was that no matter how big the sacrifices were, it was not enough. Therefore, in those years of strong Europhilia, the basis for the ensuing Euroscepticism was laid (Lucarelli, 2015; Marelli and Signorelli, 2017).

One of the negative and unforeseen consequences of European austerity has been the tendency to reduce the component of capital expenditure that gives rise to investment. One reason is that this component is also the most easily controllable in the short term, when governments need to save money. Indeed, structural reforms are needed to reduce spending on wages, public administration (PA) purchases and social contributions (pensions and assistance). Pension reforms, for example, do not have an immediate effect, partly due to milder measures to make them easier to accept, partly because they take time to produce effects. Spending on PA purchases is also difficult to reduce and control. Spending on social assistance is important to alleviate the social effects of the crisis.

It is, therefore, easier to reduce capital expenditure and, in fact, this component has decreased significantly, even though it was already at its lowest levels. It declined from 5.3 percent in 2001 to 4.2 percent in 2015 (Alesina et al., 2019; Engler and Klein, 2017). The reduction has been stronger in the Mezzogiorno, but substantial also in the Center-North macro-area, especially since 2009 (Coco and Lepore, 2017).

The reduction of capital expenditure occurred in the South, first of all, canceling the effect of FAS Funds (for under-utilized areas) and the relatively higher share which the region got from the national budget. In 2012, Southern capital expenditure was just 19.1 percent of the total against the average in Italy which was 34 percent. Former

Mezzogiorno Minister under the government of Paolo Gentiloni, Claudio De Vincenti, did well to anchor it at 34 percent in 2016 (Coco and Lepore, 2017).

The consequences on the infrastructural gap in the South, which also has ancient roots, are evident. There is no high speed train either on the Tyrrhenian backbone, nor on the Adriatic one, nor between the two ridges. Larger airports are needed near the main cities of Southern Italy. Basic and business research and innovation should be encouraged. Infrastructure investments for tourism would have immediate effects on growth.

#### **4 The economic policy twist in Europe**

Exactly because of the old structural features of the Italian economy, Modigliani advocated against its entrance in the euro area<sup>3</sup>. His main point was that in order for the euro to work properly as a driver of economic growth for the continent, the European Central Bank should be designed not only for the objective of controlling inflation, but also for stimulating the economic growth. Money should have been made available by the Central Bank to support the necessary move to the emerging sectors. However, as already said, no major changes in the EU macroeconomic policy governance and management had taken place.

A sudden and partly unexpected change in approaches has occurred only with the COVID-19 crisis. The pandemic crisis had a systemic nature, as it affected all countries of the EU with a similar strength and producing similarly dramatic negative effects on GDP. The systemic nature of the crisis made the adoption of a common recovery strategy for the first time a common aim of all member states, both the net creditors of the Center

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<sup>3</sup> A collection of such interventions is easy to find online. See, for instance, Gionco (2018).

and Northern areas of the continent and the net debtors of the Eastern and Southern areas. Strangely enough, the virus yielded a common destiny to all the EU member states as never before, also in financial matters.

For the first time after a long period, all member states agreed on the same strategy, beyond the apparent conflicts that politicians were showing off during their international meetings for the enjoyment of their national electorate. Especially fierce was the opposition of the so-called ‘Frugal Four’ (Austria, Denmark, the Netherlands and Sweden, plus, less fiercely, Finland). However, the discussion within the EU has been ongoing for decades about the need to have own financial resources at the EU level and therefore an autonomous public expenditure to support the production of EU public goods and investment. As Baglioni (2020) notes, the rescue fund is anticipating the development of a EU level fiscal policy, which was required by several observers already before the introduction of the euro.

A next step will require to make such EU spending self-financing permanent. To achieve this, specific taxes should be introduced and raised by the EU to collect the necessary financial resources. The discussion is currently focused on taxes on plastic, pollution, transportations, digital communications, and financial transactions (European Commission, 2020a). If and when such taxes will be introduced, the Next Generation Fund will become a permanent feature of the EU.

Two main financial policy tools have been under discussion: the European Stability Mechanism (ESM) and the Recovery Fund also called the Next Generation Fund (NGF). The ESM<sup>4</sup> was in fact already established when the pandemic exploded. Its aim was to face a financial crisis of individual member states that could affect the overall

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<sup>4</sup> For a more detailed presentation of the ESM, see European Stability Mechanism (2020).



financial equilibrium of the system. It has been used not only to support Greece, but also Cyprus and Spain in different periods. Now, some parts of this fund can be used for addressing the financial needs related to the pandemic recession, which is indeed a systemic crisis.

The debate on the ESM within individual member states has mainly been regarding the accusation by sovereigntists and Eurosceptic leaders, such as Matteo Salvini in Italy, that the ESM was aimed to introduce a further conditionality principle for the EU Troika to determine the fiscal policy of individual member states from outside. Indeed, access to the loans provided at a very low cost by the ESM is conditional on implementing an approved program of macroeconomic adjustment. Nonetheless, currently, the only conditionality foreseen is that the money needs to be spent to support the health sector. Several observers and political leaders see the funds as a crucial tool to implement a full digitalization of the health sector, which should provide also important long-run cost reductions in public finances. However, the fact that such concerns were shared by the 5-Star Movement has prevented the Italian government from using this fund to finance the cost of the health crisis, at least so far.

Certainly, more enthusiasm was raised by the Recovery Fund, which is at least partly non-repayable and therefore imposing no conditionality rule on the internal fiscal policy. Nonetheless, part of the NGF is a loan at a very favorable interest rate, but still has to be refunded.

The overall budget includes 750 billion euros, of which 500 billion represent non-repayable grants and 250 are loans (European Commission, 2020b). About 210 billion euros are destined to Italy. The funds will be made available from April 2021 and will be provided over a period of 5 years. Non-repayable funds represent only part of the total.

The fund will be financed with emissions of EU bonds, the so-called Recovery Bonds. According to the Italian Ministry of Finance, they represent the first nucleus of the Eurobonds, proposed in the past by several economists and also EU leaders. This per se will guarantee that the interest rate paid on the loans will be very low for all member states and not only for the most virtuous as it happens now, with the national management of sovereign debt. In other words, loans will be guaranteed by the ECB and will be hence much cheaper for all users. Overall, this should guarantee that the fund is not going to weigh too much on the sovereign debt of individual member states, although the fund cannot be considered as a mutualisation of their sovereign debt, as some member states expected in the beginning. If any conditionality exists in the supply of funds, it is an ex ante one. In order to access the NGF, member states should present a national action plan to the European Commission to explain how they intend to spend the money that has been allocated to them.

The government guidelines<sup>5</sup> for the implementation at a national level of the RF suggest the following key areas of intervention: green revolution and ecological transition; digitalization and innovation; infrastructures for mobility; education and training; regional and gender equality; healthcare (European Commission, 2020b).

The NGS or RF has the aim to help the EU countries face the pandemic recession. The idea is not simply to look at the short term by providing subsidies to the most hit components of the population, especially the self-employed and the jobless. Funds to support the weakest segments of the population will be specifically designed, reinforcing national spending chapters.

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<sup>5</sup> At the time when we go in press, there is still no official document available regarding the details on how the NGF will be spent. However, there are several suggestions from authoritative observers and important government representatives.

Instead, clearly, the RF takes a long-run perspective. It should support and finance the infrastructural investment that is necessary to implement the process of innovation and structural change from traditional to new and emerging productions, which should have been fostered in the entire continent already immediately after the introduction of the euro.

In order to repay the increasing debt which is still associated to the use of the NGF, it is important that the money is spent on relaunching the economic growth. This will be possible if the money is used on investment with a high multiplicative effect on GDP, namely, public infrastructure that allows a better development of the economy, investment in R&D by the private sector and also the state sector.

Public investment is the key not only to spread (diffuse) innovation, but also to promote the process of innovation. The state should not only support private investment with fiscal incentives, but also provide important material (transportation means and hubs, wired networks for digitalization) and immaterial infrastructures like support to human capital creation, research and development (Mazzucato, 2018).

At the moment, there are only some governmental guidelines regarding how to spend the fund in Italy<sup>6</sup>.

Some of the proposals are the following: (a) an extension of the deadline for fiscal incentives to investment by firms; (b) an incentive for firms and households to restructure buildings to reduce the seismic risk, which is always very high in the country; (c) re-financing of the so far very successful Industry 4.0 plan, implemented in 2015 to stimulate investment by firms; (d) tax reductions for wages, especially their increase; (e) programs to reduce the use of cash in any financial transaction; and (f) a reform of tax collection

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<sup>6</sup> See, for a summary, Gagliardi (2020).

(Gagliardi, 2020). In the South of Italy, but also in other peripheral areas of the country, investment should be used for high speed trains.

Much should be done to reinforce the green sector at all levels of the economy. This should also reduce the country dependency from fossil energy, which is almost all imported from abroad. Digitalization of the health sector and re-modernization of structures and machinery are also important aims.

A key issue under discussion is one of the governance of the fund at a national level, namely whether decisions should be taken only at a national level or also at a regional or local level. Many observers note that at least part of the resources should be delocalized to administrative levels of government to address needs which are not easy to see at a national level.

The NGF does raise some concerns. According to Valli (2020), the NGF shows the shortcomings of the European construction and also its slowness. It will be implemented too late to face the COVID crisis. Second, it contains a too large share of loans, rather than non-repayable funds. This means that individual member states which are already experiencing dramatic sovereign debt crisis will further increase their debt, although at lower interest rates, but still this is a further huge burden on the next generation. Moreover, Cinquegrana et al. (2020), among others, refer to it as a stigma risk as individual countries that will access the fund might see this as a sign of insolvency and require higher interest rates on public bonds. However, financial markets will know the specific nature of the fund and therefore not consider its access as a proof of illiquidity.

## **Conclusion**

The pandemic recession has caused an explosion of not only old and new contradictions of the Italian economy, but also of the EU political and institutional construction. Italy is going through the deepest recession in its recent history with a GDP fall of about 10 percent, and new restrictions to economic activities are being implemented by the government to face the second wave of the pandemic.

The pandemic recession is a systemic one, affecting all EU member states with a similar intensity. This has shown a dramatic weakness of the euro-area construction: the lack of policy tools to address periods of the systemic crisis, which was seen already in times of the economic and financial crisis in the first decade of the 2000s. Nevertheless, the EU institutions have been very slow in implementing any change in the traditional neo-liberalist and monetarist approach to the economic policy, which is at the base of the Maastricht Treaty. Fiscal consolidation and financial stability continued to be considered key in stimulating the economic growth, despite the apparent failure in dealing with the economic and financial crisis. The consequence has been an increasing Eurosceptic movement all over Europe.

However, the sudden, systemic nature of the pandemic recession has pushed to make quick and innovative decisions, such as the reactivation of the ESM and the establishment of another important tool of economic policy at the EU level, the Recovery Fund, also called the Next Generation Fund. It represents the first establishment of a common future EU fiscal policy and a pool of Eurobonds to finance it. The NGF will be in fact financed by means of specific EU bonds covered by the ECB and will finance public and private investment in infrastructure and in the most innovative sectors, such as digitalization, Industry 4.0, green economy and so on, to foster the economic growth all over the continent. This was already foreseen in the past within the EU, but always

remained empty words. The COVID-19 emergency has had the effect of pushing EU institutions and governments to implement in a few weeks' time projects that have been under discussion for decades.

It is too early to predict how the funds destined to Italy will be spent. They will be made available in April 2021. In the meantime, the government is working on the identification of those important projects that might stimulate a stable growth process in the entire country for the years to come. For the first time now, after decades in which the EU Troika was conveying only sad messages, the EU is all over Europe seen as hope for hundreds of millions of people.

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