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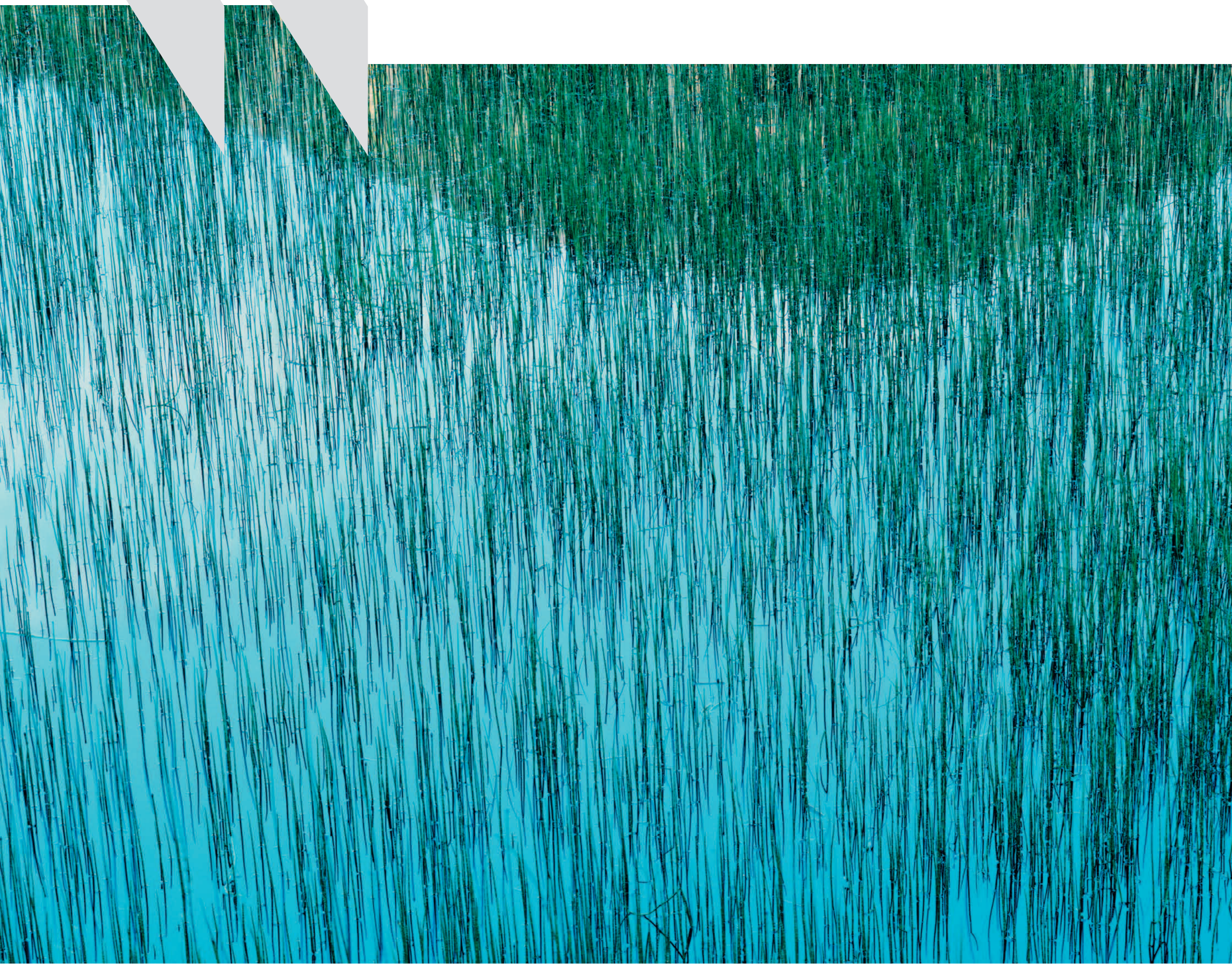
ITALY



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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries.

The economic situation and policies of Italy were reviewed by the Committee on 22 April 2009. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 5 May 2009.

The Secretariat's draft report was prepared for the Committee by Paul O'Brien, Romina Boarini and Enrico Sette with statistical assistance from Annette Panzera, Margherita Comola, Serena Fumagalli and Jens Arnold under the supervision of Patrick Lenain.

The previous Survey of Italy was issued in June 2007.

BASIC STATISTICS OF ITALY

THE LAND

Area (thousand sq. km)	301.3
Agricultural area (thousand sq. km, 1995)	165.2
Population of major cities (thousands, 20.10.2001):	
Rome	2 547
Milan	1 256
Naples	1 005
Turin	865

THE PEOPLE

Population, 2007 (in thousands)	59 336
Number of inhabitants per sq. km	197
Population growth rate (annual growth rate, %) in 2007	0.69
Fertility rate in 2006	1.35
Life expectancy in 2006	69.8
Labour force, 2008, thousands	24 854
Employment, 2007, thousands	24 492
In agriculture	895
In industry	6 954
In services	15 809

THE PRODUCTION

Gross domestic product in 2008, billions €	1 572.2
GDP per head (2008, USD)	30 315.6
Gross fixed capital formation (% of GDP in 2008)	17.0
Origin of gross domestic product in 2008 at market prices, % of total:	
Agriculture	1.6
Industry	31.8
Construction	6.7
Other	60

THE PUBLIC SECTOR

Current expenditure in 2008 (% of GDP)	48.7
Current revenue in 2008 (% of GDP)	45.8
Gross financial liabilities in 2007 (% of GDP)	112
General government investment in 2003 (% of total investment)	10.7

THE FOREIGN TRADE

Export of goods and services in 2006 (% of GDP)	27.9
Main export categories in 2006, as a % of total exports:	
Manufactured goods	34.6
Fabric and textile goods	12.5
Chemical products	9.7
Transport equipment	4.7
Mineral fuels	0.3
Imports of goods and services in 2006 (% of GDP)	28.7
Main import categories in 2006, as a % of total imports:	
Foodstuffs	6.3
Manufactured goods	22.5
Metal, ores and scraps	15.0
Chemical products	12.7

THE CURENCY

Monetary unit: Euro (€)	
Currency units per USD ($), average of daily figures	
2008	0.68
2009 (March)	0.77

Executive summary

Italy is facing a difficult period. The economy is in a sharp recession, mainly because of external developments linked to the global financial crisis, and there is great uncertainty about the strength and timing of the recovery. Despite a relatively healthy banking system Italy seems particularly sensitive to both the credit tightening which has occurred in line with that in other countries and the weakness in external demand. This sensitivity has probably been accentuated both by the poor productivity and aggregate profitability performance of the economy over the past decade or more, and by the weak underlying fiscal situation. An array of budget neutral measures have been taken in the short term, but economic performance can be enhanced over the longer term by both macroeconomic and structural policy reforms.

Fiscal policy *needs to focus on two areas: improving the efficiency with which current spending achieves its aims, and ensuring that long run trends in spending commitments are contained. For the time being, there is no space to increase the public sector deficit beyond what is implied by the operation of automatic stabilisers. But measures such as recent efforts to redirect spending towards the unemployed and poorer families can both help to increase somewhat the effect of automatic stabilisers and do something to relieve the impact of the recession on those likely to be hardest hit. In the longer term, fiscal trends are less problematic than in many other countries thanks to several pension reforms introduced in the past; nonetheless, the fact that full implementation of the pension reform will need considerable determination and Italy's high-debt starting point mean that continuing efforts are needed.*

In the financial sector, *Italy's relatively conservative banks and cautious regulation seem to have helped avoid serious domestic problems for the banking sector in the crisis so far. But credit has tightened nevertheless and risks remain, as in all countries. Efforts to find ways to recapitalise the banks should continue, preferably through private finance, domestic or foreign, but not excluding provision of public capital, although there is understandable reluctance to envisage even partial public ownership.*

Structural policies *should not be forgotten, even in a crisis period. Italy can build on previous progress in areas such as liberalisation in services. This liberalisation should be completed and extended to other areas, for example in transport and other local services, to increase the extent to which competition is used to improve services to customers and to raise overall efficiency. Different parts of the public administration provide key services to the economy, whether in drafting and implementing regulations, collecting taxes or enforcing contracts in the courts. Plans to improve efficiency in public administration should be pursued and the use of various audit mechanisms, such as regulatory impact analysis and public spending reviews, should be an integral part of this.*

The education system *in Italy is facing major change as the government has announced its intention to rationalise expenditure in the sector and to reinforce the evaluation system; it also intends to introduce new recruiting, initial training and incentive schemes for teachers, but definitive measures in this area have yet to be adopted. Lack of clear information for evaluating pupil and school performance is indeed a weakness of the current system, as is the fact that few actors in the*

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system, from teachers to the central administration, are held to account for poor performance. Accountability needs to be introduced at several levels, notably for school principals and budget managers, but also for teachers, so that those responsible for key decisions such as teacher recruitment, class formation and teaching methods have both appropriate information on which to judge outcomes and incentives to improve. But if principals are to be held to account, they must have appropriate autonomy and powers of management, contrasting with the current almost complete lack of autonomy at the school level. Given the interrelated nature of these reforms, it would be best to introduce them as a self-contained package, rather than in a piecemeal fashion.

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