

## ITALY

The recession in Italy, which began early this year, is likely to extend through much of 2009, as in many other OECD countries. Global financial turmoil hit an economy already weakened by several years of low productivity growth, deteriorating competitiveness and high public debt, though solid job creation and falling unemployment had been bright spots. Recovering confidence towards the end of 2009 should allow output to accelerate significantly during 2010.

After a substantial reduction in the budget deficit in 2007, the fiscal stance turned somewhat expansionary in 2008. The government's three-year budget plan for 2009-11 recognises that high public debt and rising risk spreads leave little choice but to resume fiscal consolidation and the cyclically adjusted deficit indeed shrinks in these projections. But under current circumstances, the automatic stabilisers should be allowed to operate as the economy weakens. Cuts in public employment foreseen in budget plans should be carefully implemented so as to contribute to improved efficiency as well as fiscal savings.

## Italy: Demand and output

	2005	2006	2007	2008	2009	2010
	Current prices € billion	Percentage changes, volume (2000 prices)				
Private consumption <sup>1</sup>	842.1	1.1	1.5	-0.5	-0.3	0.8
Government consumption	290.8	0.8	1.2	1.2	0.2	0.1
Gross fixed investment	296.2	2.7	0.8	-1.4	-4.6	2.1
Machinery and equipment	141.9	3.9	-0.5	-1.2	-4.4	2.1
Construction	154.3	1.7	2.0	-1.5	-4.7	2.1
Residential	69.9	5.4	3.0	-1.6	-4.8	2.1
Non-residential	84.4	-1.4	1.2	-1.5	-4.7	2.1
Final domestic demand	1 429.2	1.4	1.3	-0.4	-1.1	0.9
Stockbuilding <sup>2</sup>	0.5	0.4	0.0	-0.5	0.0	0.0
Total domestic demand	1 429.7	1.8	1.3	-0.8	-1.1	0.9
Exports of goods and services	371.2	6.5	4.5	0.4	-0.6	2.0
Imports of goods and services	372.1	6.1	4.0	-1.3	-0.7	2.5
Net exports <sup>2</sup>	- 1.0	0.1	0.1	0.5	0.0	-0.1
GDP at market prices	1 428.7	1.9	1.4	-0.4	-1.0	0.8

Note: National accounts are based on official chain-linked data. This introduces a discrepancy in the identity between real demand components and GDP. For further details see *OECD Economic Outlook Sources and Methods* (<http://www.oecd.org/eco/sources-and-methods>).

1. Final consumption in the domestic market by households.

2. Contributions to changes in real GDP (percentage of real GDP in previous year), actual amount in the first column.

Source: OECD Economic Outlook 84 database.