

## ITALY

After stalling in late 2005, the economy now appears to be back on a recovery track. Average annual growth over the next two years is expected to be around potential (1¼ per cent), helped by buoyant world demand and the lagged impact of easy monetary conditions. The negative output gap will contribute to a moderating inflation rate. With employment rising by only about ½ per cent per year, there should be some recovery of productivity, in turn accentuating disinflation and facilitating export growth.

Without bold structural reforms by the new government to raise the economy's low supply potential and reverse its huge cost disadvantage -- notably via more services competition and wage flexibility -- sub-par growth is likely to persist. Reforms that reduce public spending on a permanent basis at all levels of government would increase the credibility of fiscal policy.

## Italy: Demand and output

	2002	2003	2004	2005	2006	2007
	Current prices billion	Percentage changes, volume (2000 prices)				
Private consumption <sup>1</sup>	760.7	1.0	0.5	0.1	1.1	1.1
Government consumption	248.8	2.0	0.5	1.2	-0.3	0.6
Gross fixed investment	270.9	-1.5	1.9	-0.4	2.9	3.1
Machinery and equipment	151.5	-3.9	2.9	-1.4	3.2	4.2
Construction	119.4	1.5	0.6	0.8	2.6	1.9
Residential	49.4	2.3	2.5	6.5	2.7	1.2
Non-residential	70.0	0.9	-0.7	-3.4	2.5	2.4
Final domestic demand	1 280.4	0.6	0.8	0.2	1.2	1.4
Stockbuilding <sup>2</sup>	2.4	0.3	-0.1	0.2	0.3	0.0
Total domestic demand	1 282.8	0.9	0.7	0.4	1.5	1.4
Exports of goods and services	333.3	-2.2	2.5	0.7	4.9	5.3
Imports of goods and services	320.9	1.0	1.9	1.8	5.2	5.5
Net exports <sup>2</sup>	12.4	-0.8	0.2	-0.3	-0.1	-0.1
GDP at market prices	1 295.3	0.1	0.9	0.1	1.4	1.3

*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 79 database.