

# Italy

|  |   |             |             |              |
|--|---|-------------|-------------|--------------|
| <b>Prime Minister:</b> Silvio BERLUSCONI   | <b>Population</b> (2007 est.): 59,131,287     |             |             |              |
| <b>Finance Minister:</b> Giulio TREMONTI   | <b>GDP</b> (2007): €1535.5 billion            |             |             |              |
| <b>Central Bank Governor:</b> Mario DRAGHI | <b>GDP/capita:</b> €25,900                    |             |             |              |
| <b>Joined the EU:</b> 1957                 | <b>GDP by sector:</b>                         |             |             |              |
| <b>Adopted the Euro:</b> 1999              | Agriculture 1.9%                              |             |             |              |
| <b>Currency prior to Euro:</b> Lira        | Industry 28.9%                                |             |             |              |
|  | Services 69.2%                                |             |             |              |
|  | <b>Life Expectancy</b> (women / men): 83 / 77 |             |             |              |
|  | <b>2005</b>                                   | <b>2006</b> | <b>2007</b> | <b>2008*</b> |
| <b>Real GDP growth rate</b>                | 0.6%  | 1.8%        | 1.5%        | 0.0%         |
| <b>Inflation</b>                           | 2.2%  | 2.2%        | 2.0%        | 3.6%         |
| <b>Unemployment Rate</b>                   | 7.7%  | 6.8%        | 6.1%        | 6.8%         |

\* forecast

## Italy in the EU and the Euro Area

Italy was one of the first six members of the EU. In 1957, it joined what was then called the European Economic Community, one of the predecessors of the modern European Union.

Italy was one of the founding members of the Euro Area. It adopted the Euro in 1999 and Euro notes and coins were introduced in 2002, replacing the Italian Lira. However, Italy had to make significant efforts to adjust its economy to meet European standards in order to adopt the Euro and unfortunately today the Italian economy is once again struggling to remain competitive with its European neighbors.

## Economic Overview of Italy

For decades, Italy's economy has been largely rooted in family owned businesses and factories. Today, this situation has led Italy into a series of economic problems, causing it to lag far behind its EU neighbors in competitiveness. This is because many of the family owned businesses and factories are ill-suited to the demands of globalization and produce many goods that can easily be replicated elsewhere for cheaper prices.

The Italian economy is divided into a developed industrial north, dominated by private companies, and a less-developed, welfare-dependent, agricultural south, with 20% unemployment. Most raw materials that are needed by industry and more than 75% of energy requirements are imported, which makes Italy's production highly dependent on foreign trade and global commodity and energy prices. Albeit the government has taken steps aimed at improving competitiveness and long-term growth, Italy has moved slowly to reform its rigid labor market and expensive pension system. Moreover, Italy's government debt remains above 100% of GDP.

The economy grew by less than the euro-zone average in 2006 and 2007 and growth is expected to be flat in 2008 and 2009. The main driver of the negative developments is domestic demand. Under the impact of accelerating price increases, in particular of the most frequently purchased goods, as well as negative wealth effects and heightened uncertainty, households are cutting their consumption.

The Executive Board of the IMF<sup>1</sup> considered that the main challenges facing the Italian authorities are to boost productivity and increase competition in product and services market in order to sustain a good growth performance. Further, aging population and high public debt pose a significant threat to long-term sustainability. Structural reforms aimed at reducing regulation, increasing competition, and improving the business environment are necessary to raise productivity and growth.

### Some Economic Challenges Facing Italy

Labor productivity growth has been weak, contributing to a widening GDP-per-capita gap vis-à-vis best performing countries. The employment rate has risen, but remains one of the lowest in the OECD.<sup>2</sup>

#### *Regulatory Barriers in Many Sectors Weaken Competition*

Many sectors, such as public transportation, pharmaceuticals, and retail, face heavy regulations, such as high entry barriers and strict price and quantity restrictions. Such limitations hinder competition and innovation, thereby reducing Italy's overall competitiveness. In attempts to solve this, actions have been taken to liberalize many sectors and introduce privatization, though this process must be hastened if competition and growth is to be really strengthened.

#### *Low Tertiary Graduation Rates*

Tertiary graduation rates in Italy remain low, and drop out rates are high. The quality of universal level teaching is also relatively low, hampering both learning and innovation. This all serves to undermine economic growth and as yet no action has been taken to improve the tertiary education system.

#### *High Taxes on Low-Skilled and Low- Income Workers*

High income taxes discourage the employment of low-skilled workers, especially in formal activities. Many low skilled workers cannot find work because of such taxes, with the result that unemployment remains high. The 2008 Budget includes a cut in the labor tax wedge targeted at poorer areas and low-income workers, though other actions must be taken to ensure higher employment rates for among these groups.

#### *Make wage setting more flexible*

Regional disparities in employment are still high in Italy. While the richer north has a low unemployment rate, the numbers increase rapidly if you go further south. It is necessary to take these regional disparities into account, by reducing regional differences in productivity and cost of living and by promoting a more free bargaining of wages.

---

<sup>1</sup> International Monetary Fund (IMF), <http://www.imf.org/external/np/sec/pn/2007/pn0720.htm> 06/13/2008

<sup>2</sup> "Economic Reform: Going for Growth." OECD. 2008