

ITALY

The long-awaited recovery was confirmed in 2006 as GDP grew by nearly 2%. Buoyant export markets and quality improvements by Italian exporters gave rise to solid export gains, which then stimulated domestic demand and jobs growth. Growth should remain strong in both 2007 and 2008 so long as foreign demand stays robust and restructuring continues. The output gap will narrow rapidly given that potential output growth is estimated to be less than 1½ per cent, and inflation could rise somewhat.

An impressive fiscal adjustment is being achieved in 2006 and 2007, albeit at the cost of a 2 percentage point jump in the tax-to-GDP ratio which, if sustained, could have harmful consequences for growth in the medium term. The primary current spending-to-GDP ratio was stabilised in 2006 through policy actions from the record high reached in 2005; however, reforms to control its growth are essential in order to raise the primary surplus to 5% by 2011 as planned. Once debt dynamics improve, room should be made for tax cuts. Competition reforms should at the same time be deepened in order to boost productivity and growth potential.

Italy: Demand and output

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|----------------------------------|----------------------------|--|------|------|------|------|
| | Current prices €billion | Percentage changes, volume (2000 prices) | | | | |
| Private consumption ¹ | 789.1 | 0.7 | 0.6 | 1.5 | 1.5 | 1.8 |
| Government consumption | 262.9 | 1.6 | 1.5 | -0.3 | 0.8 | 0.8 |
| Gross fixed investment | 272.1 | 1.3 | -0.2 | 2.4 | 3.2 | 2.8 |
| Machinery and equipment | 147.0 | 1.4 | -0.9 | 2.7 | 2.6 | 3.7 |
| Construction | 125.2 | 1.1 | 0.6 | 2.2 | 3.8 | 1.9 |
| Residential | 52.0 | 2.0 | 5.5 | 4.1 | 4.1 | 1.5 |
| Non-residential | 73.1 | 0.5 | -3.0 | 0.6 | 3.6 | 2.1 |
| Final domestic demand | 1 324.2 | 1.0 | 0.6 | 1.3 | 1.7 | 1.8 |
| Stockbuilding ² | 4.7 | -0.2 | -0.1 | 0.4 | 0.5 | 0.0 |
| Total domestic demand | 1 328.9 | 0.8 | 0.5 | 1.7 | 2.2 | 1.8 |
| Exports of goods and services | 328.6 | 2.7 | 0.0 | 5.5 | 4.0 | 5.1 |
| Imports of goods and services | 321.3 | 2.0 | 1.0 | 4.5 | 4.7 | 5.5 |
| Net exports ² | 7.4 | 0.2 | -0.3 | 0.3 | -0.2 | -0.2 |
| GDP at market prices | 1 336.2 | 1.0 | 0.2 | 1.9 | 2.0 | 1.7 |

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 81 database.