

OECD ECONOMIC SURVEYS

ITALY

1997

SPECIAL FEATURES

- CONTROL OF PUBLIC SPENDING
- EMPLOYMENT CREATION

**OECD
ECONOMIC
SURVEYS
1996-1997**

ITALY

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

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Table of contents

Assessment and recommendations	1
I. Recent developments and prospects	17
A setback to the economic expansion	17
Unemployment climbs to a new record	26
Renewed disinflation	31
The external surplus widens	36
Prospects and risks	43
II. Macroeconomic policies	46
Monetary and exchange rate policies	48
Fiscal policy	55
III. The control of public spending	69
Introduction	69
Overview of expenditure trends	70
Factors sustaining the expansion of major social programmes	78
Public sector planning and administration	95
Assessment and agenda for reform	119
IV. Implementing structural reform: a review of progress	124
Progress in structural reform	125
Assessment and recommendations	131
Notes	137
<i>Annex</i>	
Calendar of main economic events	145
Statistical annex and structural indicators	149

Boxes

1. Main measures of expenditure restraint since 1992	77
2. Reforms in budget procedures	103
3. Changes in regulations relating to public works	114
4. Recommendations for further reform of public administration and spending	121
5. Implementing the OECD Jobs Strategy – an overview	133

Tables

Text

1. Demand and output	20
2. Household saving during recent recoveries: selected countries	22
3. Unemployment rate	27
4. Regional unemployment and activity rates	28
5. Sectoral employment trends	29
6. Price indicators	33
7. Productivity and unit labour costs	33
8. Economic trends following the lira's exit from the ERM	35
9. Balance of payments	37
10. Levels of labour costs	39
11. Currency movements and foreign trade prices	39
12. Net capital movements	42
13. Net foreign debt position	43
14. Short-term outlook	44
15. Money and credit aggregates	55
16. General government account	57
17. General government deficit targets	59
18. Medium-term fiscal targets (State sector)	62
19. The 1997 budget	64
20. Public debt	67
21. Structure of public debt	68
22. Financing of the state sector borrowing requirement	68
23. General government accounts	75
24. Budgetary savings in primary spending by main economic categories	76

25.	General government spending	78
26.	Government spending in major EU countries by functional and economic category	79
27.	Expenditure on health care	86
28.	Provision and financing of health care services	87
29.	Productivity and utilisation rates of health structures	89
30.	Disability pensions	94
31.	General government employment	96
32.	Wage growth in the public sector	99
33.	Labour turnover in the state sector	100
34.	Calendar of key budget events	104
35.	Structure of the public sector	105
36.	Public investment	111
37.	Budget transfers to firms and autonomous entities	115
38.	Productivity and efficiency in selected service industries	117
39.	Major privatisations	129
40.	Decisions taken by the Anti-Trust Authority	131
41.	Competition advocacy interventions	132
42.	Dispersion of earnings and labour costs	135

Statistical annex and structural indicators

A.	Selected background statistics	150
B.	Expenditure on gross domestic product, current prices	151
C.	Expenditure on gross domestic product, constant 1990 prices	152
D.	Gross domestic product, by kind of activity, constant 1990 prices	153
E.	Household appropriation account	154
F.	General government account	155
G.	Prices and wages	156
H.	Employment	157
I.	Money and credit	158
J.	Foreign trade by main commodity groups	160
K.	Geographical breakdown of foreign trade	161
L.	Balance of payments	162
M.	General government indicators	163
N.	Financial accounts	164
O.	Labour market indicators	165
P.	Structure of production, employment and productivity by growth	166

Figures

Text

1. Macroeconomic performance	18
2. Conjunctural indicators	19
3. Growth of real wages, disposable income and consumption	21
4. Rate of return on capital and investment	23
5. Output shares of trade of goods and services	25
6. Capacity use and unemployment rate	28
7. Output and employment by sector	30
8. Inflation trends	32
9. Costs and prices in industry	34
10. Current account of the balance of payments	37
11. Nominal and real exchange rates	38
12. Exchange rate and external prices	40
13. External indicators	41
14. Exchange rate and inflation convergence	47
15. Interest rates	49
16. Exchange rate and interest rate differentials	51
17. Interest rate differentials and the lira/DM exchange rate	52
18. Exchange rate variability	53
19. Fiscal indicators	58
20. Proposed fiscal adjustments	60
21. Response of the budget deficit to output and interest shocks	66
22. The dynamics of public debt	71
23. General government spending	72
24. General government expenditure by category	73
25. Composition of general government primary spending	74
26. Social expenditure in the EU	80
27. Population projections and elderly dependency ratios	81
28. Trends in pension payments and contributions	84
29. Health expenditure and health outcomes	88
30. Public expenditure on health	91
31. Relative wages in the public sector	97
32. Infrastructure endowments in EU countries	112
33. Price of civil engineering works	113
34. Transfers to enterprises	116
35. Relief from social security contributions	118
36. The declining importance of hiring and firing restrictions	134
37. Nominal wage growth and unemployment	136

BASIC STATISTICS OF ITALY

THE LAND

Area, (thousand sq. km)	301.3	Major cities, 1.1.90 (thousand inhabitants)	
Agricultural area (thousand sq. km), 1982	236.3	Rome	2 804
		Milan	1 449
		Naples	1 204
		Turin	1 003

THE PEOPLE

Population, 1.1.95, thousands	57 283	Labour force, 1995, thousands	22 733
Number of inhabitants per sq. km	190	Employment, 1995, thousands	20 009
Net natural increase (1990-94, thousands)	17	In agriculture	1 492
Net rate per 1 000 inhabitants (1990-94)	0.3	In industry	6 492
		In services	12 025

PRODUCTION

Gross domestic product in 1995 (trillions of lira)	1 771	Origin of gross domestic product in 1995 at market prices, per cent of total	
GDP per head (1995 US\$)	18 984	Agriculture	3.4
Gross fixed capital formation		Industry	27.9
Per cent of GDP in 1995	17.0	Construction	5.1
Per head in 1995 (US\$)	3 309	Other	63.6

THE PUBLIC SECTOR

Current expenditure in 1995 (percentage of GDP)	49.0	Gross financial liabilities in 1995 (percentage of GDP)	122.0
Current revenue in 1994 (percentage of GDP)	44.8	General government investment in 1995 (percentage of total investment)	13.3

FOREIGN TRADE

Exports of goods and services, as per cent of GDP, 1995	24.8	Imports of goods and services as a percentage of GDP, 1995	21.5
Main export categories, as a percentage of total exports, 1995		Main import categories, as a percentage of total imports, 1995	
Manufactured goods	35.0	Food stuffs	7.5
Fabric and textile goods	16.7	Manufactured goods	23.5
Chemical products	8.4	Metal, ores and scrap	10.4
Transport equipment	10.0	Chemical products	14.1
Mineral fuels	4.1		

THE CURRENCY

Monetary unit: Lira		Currency units per US\$, average of daily figures:	
		Year 1996	1 543
		December 1996	1 528

Note: An international comparison of certain basic statistics is given in an Annex table.

This Survey is based on the Secretariat's study prepared for the annual review of Italy by the Economic and Development Review Committee on 3rd February 1997.

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After revisions in the light of discussions during the review, final approval of the Survey for publication was given by the Committee on 5th March 1997.

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The previous Survey of Italy was issued in January 1996.

Assessment and recommendations

Overview of current policy issues

When the OECD last examined the Italian economy, in October 1995, the economic upswing seemed to have become more firmly established, and with inflation prospects improving the conditions seemed in place for real growth to stabilise in the region of 2½ per cent in 1996 and 1997. In the event, the expansion has received an important setback, slower export growth being compounded by weakness in domestic demand. While immediate prospects for growth and employment are rather weak, 1996 saw further progress towards medium-term balance, the focus of macroeconomic policies being on ensuring that Italy meets the criteria needed to join the Economic and Monetary Union when it is established in 1999. Against this background, the focus of the Survey is on the role of monetary and fiscal policies in achieving balanced, non-inflationary growth in the run-up to EMU. As a contribution to the debate on the budget consolidation process, the special chapter contains an analysis of some of the most important issues relating to public spending management and control. The problem of high unemployment also remains unresolved, the labour market being Italy's most important area of structural imbalance and potential source of inflationary pressure. The final chapter of the *Survey* thus contains a follow-up on the recommendations made for Italy under the OECD *Jobs Strategy* in last year's *Economic Survey*.

A sharp slowdown of economic activity has become evident, with immediate prospects of only a mild recovery, based on exports...

Following strong growth in 1995, a sharp cyclical downswing became evident in the first half of 1996, reducing real GDP growth to 0.6 per cent (annual rate). The slowdown, which came unexpectedly and proved to be steeper than elsewhere in Europe, was initially attributable to a collapse of exports and inventory decumulation, the former due both to lower export market growth and to a rebound of the exchange rate. It quickly spread to private consumption and fixed investment, the growing weakness of domestic demand pulling down the level of imports, attenuating the impact of softening domestic demand and thus preventing the economy from sliding into outright recession. Although employment edged up, the rate of unemployment climbed to above 12 per cent in 1996, a record high. Increased job insecurity impacted on the confidence of households, whose real disposable income remains well below levels reached before the 1993 recession. Overall, GDP rose by 0.8 per cent in 1996 as a whole and is projected to grow by only 1.3 per cent in 1997. With weak household disposable income growth restraining domestic demand in the short term, this outlook is contingent upon a stronger expansion of foreign markets. Building on the relatively weak cyclical position of the economy, Italy's current account surplus is set to reach over 4 per cent of GDP in 1997 and 1998, as a result of which Italy may become a net creditor *vis-à-vis* the rest of the world.

... but there has been a marked convergence of inflation, bringing the central bank's goal of price stability within reach

Consumer price inflation, as measured by the cost-of-living index, fell to an average of 3.9 per cent in 1996, from 5.4 per cent in 1995, the 12-month rate of consumer price increase halving to 2.6 per cent over the year to November 1996. Having since stabilised at this rate, Italian inflation has been brought to within 1.5 points of the best-performing EU countries and hence within range of meeting both the Maastricht inflation-convergence

criterion and the central bank's medium-term inflation goal of price stability (which may be interpreted as inflation not higher than 2 per cent). Inflation convergence has been fostered by lower prices of imported inputs and by stronger price discipline imposed by recent currency appreciation, building on several years of wage restraint and strong productivity growth, which have allowed unit labour costs to grow significantly slower than prices since 1993. With unemployment projected to remain above 12 per cent in 1997, weak labour demand should continue to exert downward pressure on labour costs. Following several years of exceptional wage moderation, there is, however, some uncertainty over whether the current wage round will provide too large a catch-up for the purchasing power lost during the substantial inflation "overshoot" of 1994 and 1995. Current disinflation gains being due in part to the weak state of overall demand, continued policy vigilance, both macro- and micro-economic, will be required to ensure that such gains are preserved as and when the economy picks up.

***The role of
monetary policy
has been important
in disinflation...***

Monetary policy has played an active and important role in this disinflation process since the lira left the ERM in 1992. Faced with mounting inflationary pressures from the depreciation of the lira, in May 1995 the Bank of Italy announced that monetary policy would aim at limiting consumer price inflation (net of indirect taxes) to within 4.5 per cent (annual average) for the year 1995 as a whole and to less than 4 per cent for 1996. In May 1996, it announced that inflation should fall below 3 per cent for 1997, an aim which is expected to be met. To ensure that the external price impulses stemming from the undervaluation of the lira were not transmitted to domestic markets via rising inflation expectations, the Bank of Italy left its two key lending rates, the discount rate and the rate

on fixed-term advances, unchanged at 9 and 10.5 per cent respectively from May 1995 to July 1996, the longest period of interest-rate stability in many years. As part of the process of pursuing this disinflationary strategy, the Bank of Italy in its operational management has also continued to monitor several forward-looking indicators of inflationary pressures, including survey data of inflationary expectations, the slope of the yield curve and the evolution of interest rate differentials. With inflation descending to levels consistent with official targets, the Bank of Italy reduced key official lending rates by a cumulative 2.25 points: in July 1996, when the 12-month rate of consumer-price inflation dropped below 4 per cent, in October, as inflation fell to 3 per cent; and in January 1997. Real short-term interest rates remained high in 1996, at between 5 and 6 per cent compared with 1 to 1½ per cent in Germany and France. A relatively restrictive stance of policy is also evidenced by a flattening of the yield curve and a marked strengthening of the exchange rate.

***... allowing the lira
to return to the
ERM***

Growing market confidence in stabilisation policies has been manifest in large capital inflows, pushing up the value of the currency and allowing the rebuilding of official reserves, which had been depleted prior to the lira's exit from the ERM in September 1992. The nominal effective exchange rate rose by around 9.5 per cent in 1996, after a decline of 9.2 per cent in 1995. By September the lira was trading within a very narrow range, around L 1 000 per Deutschemark, and on 24 November 1996 Italy rejoined the ERM at a marginally higher central parity of L 990 per Deutschemark. The new central parity implied a reduction of 24 per cent from the level at which Italy joined the narrow band of the ERM in January 1990. Relative to the levels prevailing in the first half

of 1992, the new parity implies a fall in the real effective exchange rate of 5 per cent in terms of relative export prices and of 17 per cent in terms of relative unit labour costs for manufacturing. Indeed, in terms of relative international wage costs the competitiveness of Italian industry is now at about the same level as that prevailing at the end of 1992, after the lira's devaluation and exit from the EMS.

Prospects of early participation in EMU are making for lower interest rates...

The lira's return to the ERM, made possible by the favourable inflation outlook, will make for a gradual convergence of policy-controlled interest rates, particularly in the face of continuing capital inflows. The return to the ERM was preceded by a steep decline in long-term interest rates, as a result of more optimistic market sentiment about the prospect of Italy participating in Stage III of the European Monetary Union on 1 January 1999. In the process, the long-term interest rate differential *vis-à-vis* Germany shrank from around 5 points at the end of 1995 to 1.4 points in January 1997. Italian bond yields have declined to the point where differentials *vis-à-vis* the best-performing member states are within the Maastricht divergence limit of 2 per cent. Italy is thus in a position where the achievement of the Maastricht exchange-rate, inflation, and long-term interest rate criteria is within reach. The announcement that the 3 per cent fiscal deficit target has been brought forward from 1998 to 1997 has been received favourably by financial markets, consolidating the downward trend in bond yields. Meeting this target should be seen not just as a means of validating market expectations, but also as an essential step towards a sustainable and non-inflationary mix of fiscal and monetary policies, given the on-going process of interest rate convergence.

***... but a severe
fiscal adjustment is
required***

The budget for 1997 implies a primary surplus of 6.5 per cent of GDP and a reduction in the public debt to 120 per cent of GDP. These aims are to be attained through a fiscal adjustment on the primary balance of around L 62 trillion relative to baseline, of which L 36.1 trillion represent an ordinary fiscal adjustment and the remainder a supplementary deficit cut aimed at hitting the 3 per cent deficit target (*Intervento per l'Europa*). Some four-fifths of the ordinary fiscal adjustment is structural and will have an effect beyond 1997. Around half of the supplementary fiscal adjustment consists of tax measures (*Europa tax*). The remainder will accrue from financial operations, which are essentially a reclassification of financial items in line with EU comparability and transparency rules on public finance accounting and which also have the effect of reducing the recorded level of public debt. The package excludes the effects of recent interest-rate reductions prompted by the prospect of Italy being among the initial members of the EMU: in January 1997, the 12-month Treasury bill rate already stood at 6.5 per cent, which is significantly lower than the assumptions used by the government in its budget baseline. This implies significant interest savings.

***The strategy
adopted is not
without risks...***

While on the official growth assumptions the measures specified above could be considered sufficient to meet the Maastricht target, the task which macroeconomic policy is undertaking is a complex and difficult one. In particular, the budget involves cutting the deficit by more than one half, bringing it down by nearly 4 per cent of GDP from an estimated 6.8 per cent in 1996. Such a reduction is not unprecedented among OECD economies, but success depends critically on three inter-related factors: the full implementation of the measures adopted; a resilience to the measures on the part of the economy, where activ-

ity is already rather weak; and continuing confidence in the convergence process on the part of financial markets. Experience elsewhere in the OECD area has shown that determined fiscal action can promote a virtuous circle of primary budget cuts, debt-interest reductions and growth. Italy, with its high debt ratio, is well placed to take advantage of such a process. Nevertheless, the task faced by macroeconomic policies is unusually demanding and, with the outcome remaining subject to considerable uncertainty, success requires a sustained policy effort, to which the government is committed.

... and according to OECD projections, there is a danger of overshooting which would require further action in 1997

With respect to budget implementation and the possibility of fiscal slippage, the recent record has been mixed. After coming in $\frac{1}{2}$ per cent of GDP below estimate in 1995, the deficit outcome for 1996 was disappointing. Despite measures of additional fiscal restraint taken by the new government in June 1996, the general government deficit was 1 point above the original target of 5.8 per cent. Fiscal slippage was due to primary spending overruns (transfers to local authorities) and incomplete implementation of corrective measures, but primarily to unexpectedly weak output growth, which may have been more than 2 points below projected levels. To prevent slippage in 1997, limits have been put on the commitments of the State sector and on the expenditure capacity of the other general government sectors, while implementation is being strictly monitored in the monthly results of the public accounts. According to OECD projections, the 1997 deficit target of 3 per cent (L 59.3 trillion) could still be exceeded, as yields from some of the measures may fall short of expectations and output is expected to grow less rapidly than officially projected in September. In the event of such slippage occurring, confidence gains would need to be preserved by further corrective measures.

As the prospect of slippage became evident in February, the government announced that it was preparing to introduce additional measures of fiscal restraint in order to meet the 3 per cent target.

Further medium-term budget consolidation is also needed if confidence effects are to be fully exploited

The tightening of fiscal policy will have a negative impact on economic activity over the short term. But, with the 3 per cent deficit target within reach, its medium-term impact should be positive to the extent that real interest rates decline significantly and this may be expected to spur business investment and interest-sensitive spending. Uncertainty attaches to the extent to which the benefits of consolidation have already been fully anticipated in higher asset prices and the speed with which these will affect investment intentions and spending in general. Insofar as businesses and households are forward-looking, confidence effects could come through quite quickly. In these circumstances fiscal restraint would play an essential stabilising role in making room for higher private sector demand. It is, however, essential that the temporary measures already taken as part of the 1997 package be underpinned by further deficit-cutting measures of a structural kind, to ensure that the consolidation process is not reversed from 1998 onwards. The fact that the Europa tax is to be temporary is welcome from the point of view that taxes are already too high, but requires that compensating primary spending cuts be found. Such cuts are all the more important because Italy's public debt is falling only slowly, from a level twice as high as that set by the Maastricht Treaty. In this context, the government rightly plans to present another restrictive budget for 1998, which is projected to imply a fiscal adjustment of 1.3 per cent of GDP relative to baseline partly to compensate for the expiration of one-off measures.

***Persistently high
non-cyclical
unemployment calls
for faster progress
with the structural
reform of the
labour market...***

Reducing Italy's high rate of unemployment without threatening the success of the disinflation and fiscal consolidation strategy remains the most acute policy challenge. ERM membership, and eventual monetary union, rule out monetary and exchange rate policies as autonomous stabilising instruments, placing added emphasis on the need for creating a wage-setting environment which helps to preserve Italy's current competitiveness and hence to create the conditions for employment growth. There are some signs of the labour markets having become less rigid in response to the important measures of structural reform undertaken since the early 1990s: this is manifest in labour being used more flexibly within firms and labour cost differentials widening, albeit from low levels. The agreement of September 1996 (*Patto per il Lavoro*) signed by the social partners and the government is an important step towards making the labour market more efficient. Building on the tradition of social consensus the agreement envisages a broadly-based set of structural reforms aimed at increasing wage- and labour cost flexibility (via a wider use of non-standard work contracts); at lowering non-wage labour costs (by replacing health contributions with general taxation); at improving tangible and intangible infrastructure in economically depressed regions; at upgrading the quality of human capital (via the lengthening of compulsory schooling, larger and better vocational training opportunities and a national system of training certification), and at improving the efficiency of public employment offices (via the decentralisation and the termination of public monopoly over job brokering). However, unemployment is projected to remain high and there is as yet little evidence that the relation between wages and unemployment has altered fundamentally. Hence, while recent reforms go in the right direction, it is essential that they be reinforced by further structural measures along the lines of the

recommendations in the *OECD Jobs Study*, notably with respect to increased wage and labour cost flexibility and the regulatory environment that impinges on this.

... while greater product market competition requires rapid progress in privatisation

In the domain of product market competition, important sales of public companies were carried out in 1996, almost meeting the target of privatisation receipts earmarked for debt redemption (L 10 trillion). In addition, decisions and investigations by the Anti-trust Authority contributed to stimulating competition in goods- and service markets. Other developments have been less encouraging. Although in the case of STET, its announced merger with Telecom Italia has improved prospects for effective privatisation by the autumn of 1997, the predictability of the privatisation programme for public utilities has been damaged by delays in establishing the regulatory authority in the telecommunications sector (which affects the privatisation of STET) and in making it operational in the energy sector (which affects the privatisation of ENEL, the electricity company). Furthermore, little progress has been made in exposing the banking system to greater competition via effective privatisation. Overstaffing and inefficiency have remained widespread in the banking sector, and this has in some cases necessitated large injections of public money (*Banco di Napoli*). Accelerating the privatisation of banks and reshaping the banking industry remains a matter of priority, and in this respect, recently-introduced draft legislation is to be welcomed as creating a legal and institutional framework more conducive to rapid privatisation.

Control of public spending remains an important priority...

More generally, there is also a strong need for reducing large inefficiencies in the public sector, with a view to lowering business input costs, improving the quality of services and speeding up fiscal consolidation. Progress in

fiscal consolidation has reduced the share of primary spending in GDP by as much as four points over the two years to 1995, taking the primary spending/GDP ratio well below the EU average. While there has been substantial reliance on temporary measures, capable of achieving rapid budgetary savings, structural reforms have also been introduced. These have concerned, most notably, restructuring the health system, aligning public employment conditions with those in the private sector, rationalising public procurement and investment procedures and reforming the pension system. The expenditure-damping effect of structural measures is bound to increase with time. But new initiatives will be needed to cope with increasing demands on public sector resources.

***... particularly to
control pension
benefits...***

Social programmes are a key area where interventions are called for. While social expenditure does not exert large resource claims by EU standards, their expansion accounted for more than three quarters of primary spending growth over the last three decades. Social spending has been disproportionately tilted towards pension payments, crowding out other social programmes. While the 1995 pension reform represents an important step towards a more uniform and financially viable system, and savings have so far been in line with official estimates, additional measures would seem to be required, especially to shorten the transition period and align benefits on contributions in response to growing demographic pressures. A comprehensive review of the impact of the 1995 pension reform is thus essential to avoiding emergency measures at a later stage which might result in greater fragmentation. Proposals in this direction should emerge from the Commission which has been set up by the government to make recommendations on welfare reform.

... and increase the efficiency of health services

In the public health domain, unsatisfactory performance indicators and consumer dissatisfaction with health services underline the need for continued and intensified efforts to improve efficiency and quality levels within the national health service. The institutional framework emerging after the 1978 health reform, in particular the separation of responsibilities for supplying services and financing expenditure in conditions of little competition, made it difficult to control spending, with consequent distortions in the allocation of resources and inefficient provision of services. Reform measures introduced in 1992 strengthened the financial responsibility of regions, precluding transfers from the central government in the event of deficit over-runs; they also sharply reduced the number of local health units, transforming them, as well as major hospitals, into enterprises with more commercial accounting arrangements. However, implementation of these reforms has been uneven at the regional level, calling for more rigorous enforcement. Further rationalisation measures were introduced in the context of the 1997 budget, aimed at reducing surplus hospital capacity, at obtaining additional cuts in pharmaceutical expenditures and at introducing clearer and stricter rules on work by public doctors in the private health-care sector. In addition, increased efforts need to be made to ensure implementation throughout the country of the new arrangements set up by law in the early 1990s to promote greater competition among both public and private providers of health care service.

Reforms should include devolution to local administrations, flexibility of employment and cuts in red tape

Inefficient deployment of manpower and high input prices also characterise Italy's public administration. Important reforms were introduced in the early 1990s, aligning public employment conditions on those prevailing in the private sector and strengthening control over the evolution of the public wage bill. Implementation, however, has lagged in important areas, including the redeployment of workers. Also the role of incentive payments has remained marginal, calling for greater differentiation of wages according to skills. Apart from this, high priority should be given to improving the transparency and quality of administrative services. Bureaucratic structures continue to be excessively rigid, calling for a devolution of competencies, enhanced financial autonomy and responsibility of local administrations, as well as for a rationalisation of the state's central and peripheral offices. Finally, there is a need for sharply reducing the plethora of administrative rules and for simplifying administrative procedures, thereby raising the efficiency of the public sector, increasing the dynamism of the economy and in the process lessening taxpayers' resistance.

Fiscal decentralisation should not compromise a steering capacity at the central level...

The government has presented draft legislation aimed at reforming the public administration through devolution of responsibilities to local authorities and simplifying administrative procedures. The draft bill calls for enhanced responsibilities of local governments and redeployment of workers, while also reorganising the state administration by strengthening internal controls and enlarging managerial responsibilities. The change in the relationships between different levels of government comes at a time of greater need to enforce budgetary discipline at all levels of government. A move to decentralisation has been common to several OECD countries in the 1980s and 1990s. There is, however, a potential

conflict between the devolution of taxing and spending powers and the need to maintain a steering capacity at the central level. To minimise risks of jeopardising budgetary targets at the national level (in terms of both deficit targets and modes of fiscal consolidation) a coherent strategy of devolution must address incentive problems at all levels of government, increasing financial responsibility while imposing limits on taxing powers and borrowing constraints at the local level. As recognised and intended by the government, decentralisation will have to be accompanied by the development of new reporting systems ensuring effective control at the local level.

... which needs to be strengthened by better budget management and control

At present, Italy's budgetary accounting procedures are complex and opaque, distorting the picture of its fiscal imbalance. Until recently, the deficit target was specified mainly in terms of the cash borrowing requirement for the state sector rather than in terms of general government net lending, with the risk, at times, that the expenditures of other government sectors were inadequately covered. In addition, the excessive disaggregation of budgetary items makes it difficult for Parliament to gauge the relative importance of spending priorities. There are no effective cash limits on individual spending programmes at the central level, the funds being fungible and carry-overs being automatic, and expenditure management is based on formal and legal compliance while *ex-post* control is inadequate. Overall, the above deficiencies have contributed to primary spending and deficit over-runs. New initiatives included in the draft bill go some way to reducing these deficiencies, in reclassifying expenditures so as to align programme areas with management responsibilities. This should enhance accountability and raise the purchasing power of public spending. Setting cash limits for individual programmes together with stricter rules for

determining budget allocations, would improve both budget preparation and implementation.

Summing up

In sum, while activity has been sluggish and household confidence low, Italy has made further progress towards its medium-term convergence goals over the past year. Inflation has fallen close to levels prevailing in the best performing EU countries. This, along with the tightening of fiscal targets for 1997 and the return to the ERM, has greatly strengthened market confidence, accelerating the process of interest rate convergence. Prospects of this process continuing are good, provided the tough 1997 budget is fully implemented and supplementary action is taken in the event of fiscal slippage occurring. Failure to keep fiscal policy on track would risk jeopardising confidence gains which have built up in anticipation of Italy's early EMU membership. Over the medium term, however, the attainment of macro-economic stability requires not only stricter control over government current expenditure but also greater flexibility in labour- and product markets. Provided this is forthcoming, the longer-term dividends flowing from sharply reduced fiscal imbalances and EMU membership should be substantial.

I. Recent developments and prospects

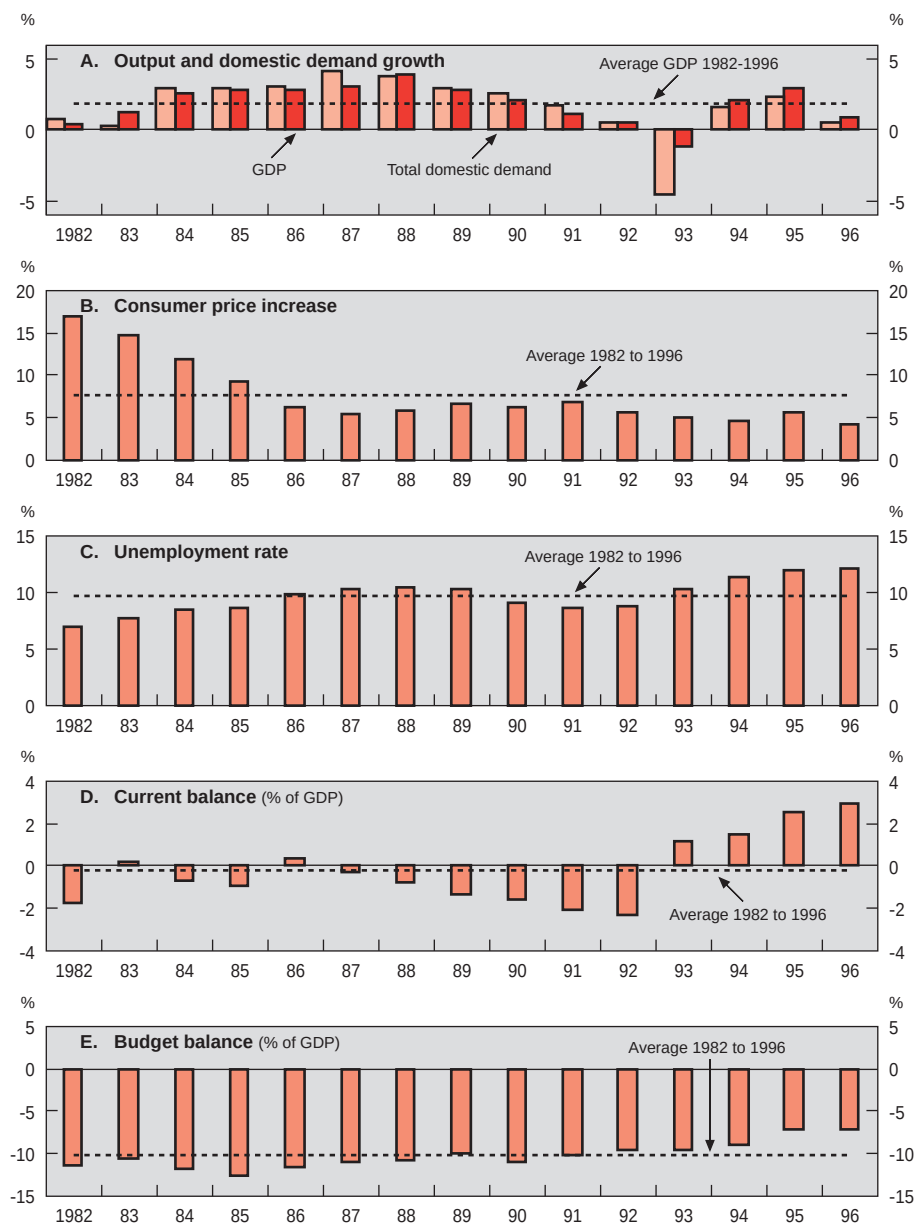
Following strong economic activity in 1995, a cyclical downswing became evident in the first half of 1996, affecting all components of demand. While there are signs that the slowdown gave way to a modest pick-up later in the year, real GDP has risen by 0.8 per cent in 1996, after a gain of 3 per cent in 1995 (Figure 1). The outlook is for a mild upturn in 1997, real GDP being projected to expand by 1.3 per cent, led by stronger growth in export markets, but damped by tighter fiscal policies and the lagged effects of recent exchange rate appreciation. As these influences recede, and the effects of lower interest rates begin to be felt, domestic demand should pick up, making the expansion less dependent on foreign markets in 1998 and raising real GDP growth to around 2¼ per cent. Inflation should continue to converge to EU average levels, but the unemployment rate is unlikely to fall below 11½ per cent over the projection period.

A setback to the economic expansion

Renewed cyclical weakness

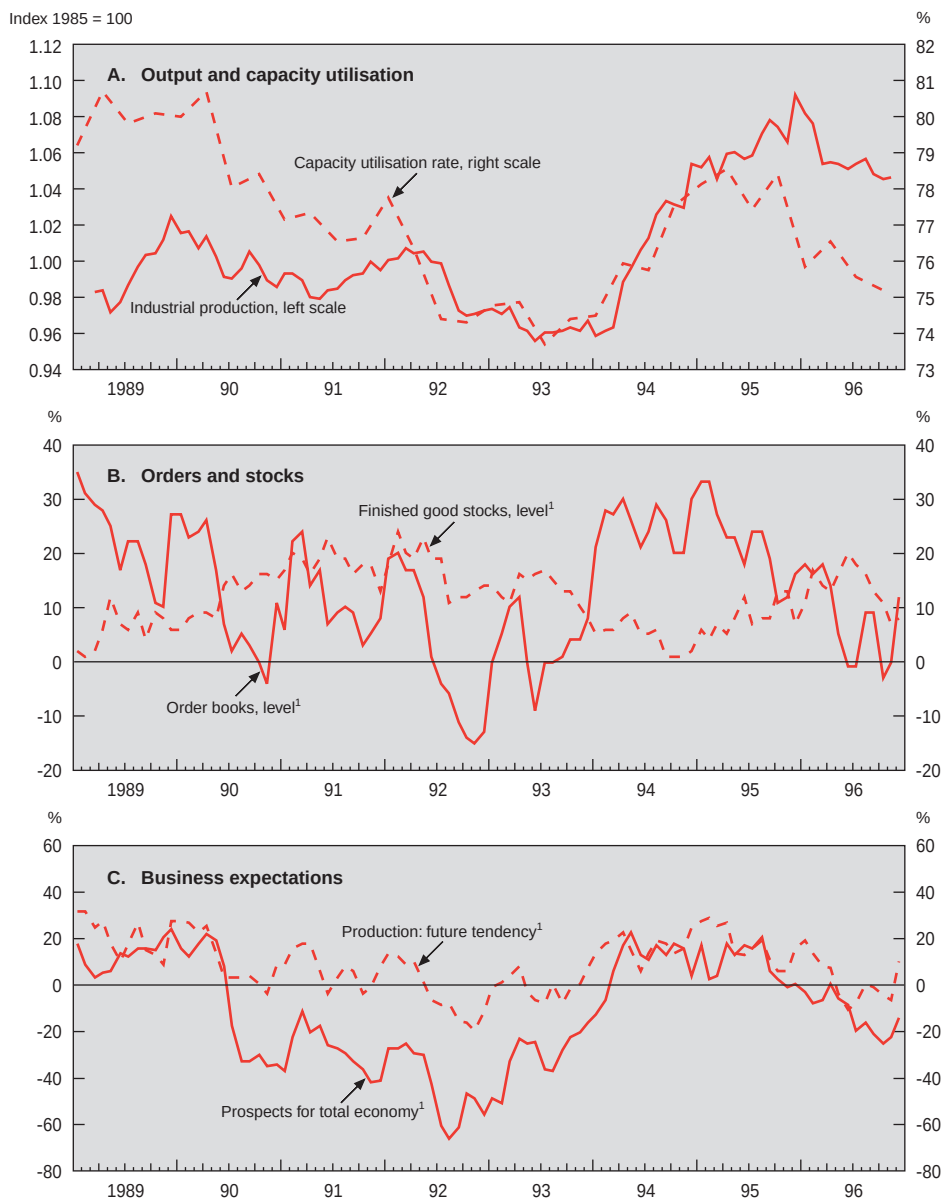
The economic expansion which began in 1994 with strengthening exports and investment was sustained mainly by stockbuilding in the latter part of 1995. It lost momentum early in 1996, pulled down by falling industrial production as firms responded to weaker order books, especially for exports (Figure 2). Exports fell in absolute terms in the first half of 1996, undercut by steep exchange rate appreciation and lower export market growth. The growing weakness of foreign demand quickly spread to the domestic side, reducing the growth of fixed investment and curbing gains in private consumption (Table 1). The annual rate of real GDP growth dropped to 0.9 per cent in the first three quarters of 1996, sharply down from the gain of 3.2 per cent a year earlier. A higher number of working

Figure 1. **MACROECONOMIC PERFORMANCE**



Source: OECD.

Figure 2. **CONJUNCTURAL INDICATORS**



1. Per cent balance of positive and negative answers.

Source: OECD, *Main Economic Indicators*.

Table 1. **Demand and output**

Percentage change s.a.a.r. volumes

	1993	1994	1995	1996 ²
Private domestic consumption	-2.4	1.5	1.7	0.6
<i>of which: Resident households</i>	-3.4	1.0	1.2	..
Government consumption	0.5	0	-0.5	-0.6
Gross fixed capital formation	-12.8	0.2	5.9	1.7
<i>of which: Construction</i>	-6.3	5.8	0.5	1.2
Machinery and equipment	-19.5	7.5	11.5	2.1
Final domestic demand	-4.0	1.0	2.0	0.6
Stockbuilding ¹	-0.6	0.6	0.3	-0.4
Exports of goods and services	9.1	10.5	11.6	0.6
Imports of goods and services	-8.1	8.9	9.6	-2.1
Net foreign balance ¹	3.4	0.5	0.7	0.5
GDP at market prices	-1.2	2.1	3.0	0.8

1. Contribution to GDP growth.

2. Estimates.

Source: ISTAT.

days as well as gains in service output made for a small rise in real GDP in the third quarter of 1996 (2 per cent at an annual rate), following a decline in the previous three months.

Conjunctural indicators point to the economic slowdown having continued in the fourth quarter of 1996, insofar as seasonally-adjusted industrial production continued to decline, albeit at a reduced pace, to a level 4 per cent lower than a year earlier (Figure 2, panel A). Many branches of industry suffered from output declines, and rates of capacity use in manufacturing are likely to have fallen further, although remaining above levels observed in 1993, the cyclical low. However, with order books improving and businesses raising their estimates of future production, there were signs that activity might be strengthening (Figure 2, panels B and C). But this appears to be from a relatively weak base in terms of business and household confidence.

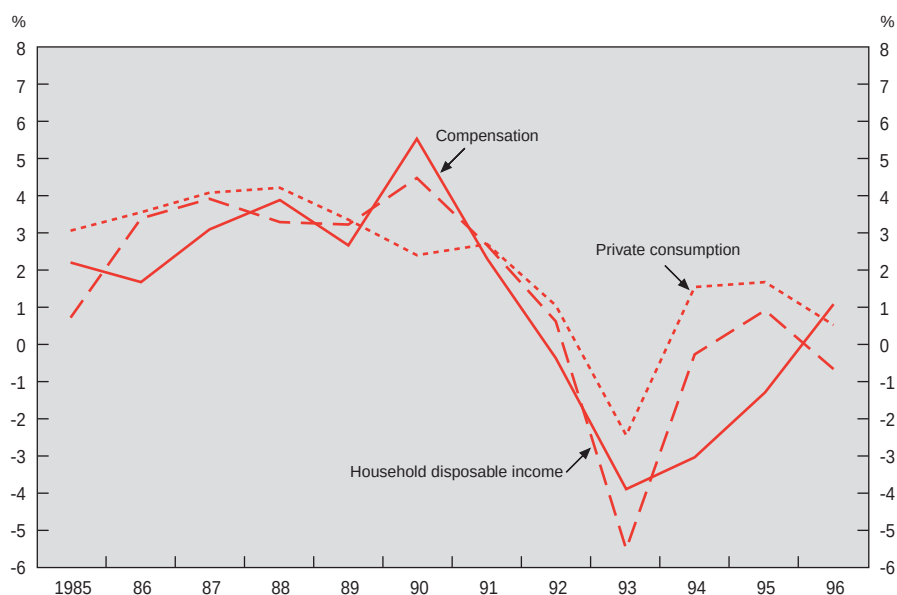
Cyclical developments in a medium-term perspective

Cyclical developments since the 1993 recession have been characterised by a marked switch from wage to capital income, and by correspondingly weak consumption. In 1995, real private consumption picked up somewhat, stronger spending being evident on both consumer durables and semi-durables. However,

outlays were buttressed by non-residents (*i.e.* tourists), by a surge in real incomes from property and self-employment partially offsetting the deflationary effects of falling real wages. In 1996 consumer confidence was adversely affected by the announcement of tighter fiscal targets for 1997 and weaker conditions in the labour market, which led to greater precautionary saving. Real private consumption growth was barely positive in the first three quarters of 1996, as continued pressure on real incomes and high unemployment reduced confidence. After a short-lived rebound in the spring, the consumer confidence indicator weakened steadily thereafter, reaching a new low in November 1996. It recovered somewhat at the turn of the year.

As can be seen from Figure 3, variations in the growth of real disposable income over the four years to 1996 have been large relative to changes in real

Figure 3. **GROWTH OF REAL WAGES, DISPOSABLE INCOME AND CONSUMPTION**
Annual percentage change in volume



Source: OECD.

wages, pointing to a stronger role of non-wage income in consumer spending.¹ As a result of this supporting influence, real disposable household income increased in 1995, but remained well below levels reached in the 1993 recession year. At the same time, the negative impact of falling real wage income on consumer spending has been cushioned by a fall in household savings rate, which was larger than that observed in other major countries (Table 2). Relative to earlier cyclical episodes the decline in the savings rate was small: a larger saving reduction took place during the cyclical upturn after the 1983 trough, associated with a sharper decline in inflation and interest rates.

As a counterpart to weak consumption, business fixed investment has been by far the most dynamic component of domestic demand, its growth quickening to nearly 11 per cent in 1995 largely as a result of higher spending on machinery and equipment. Investment strength sprang from brighter output prospects, fiscal incentives and improved profitability. Figure 4 presents some evidence on the positive correlation between the “pure profit rate”, defined as the gross rate of

Table 2. **Household saving during recent recoveries: selected countries**

Cumulative percentage change in the saving rate since recession

	Final year of recession	Years after recession		
		1	2	3
Italy	1983	-1.9	-3.9	-4.5
	1993	-1.1	-1.4	-2.4 ¹
United States	1982	-2.2	-0.4	-1.9
	1991	-0.2	-1.1	-1.7
Japan	1983	-0.2	-0.5	-0.5
	1993	-0.6	-0.4	-1.2
Germany	1982	-1.8	-1.3	-1.3
	1993	-0.5	-0.6	-0.7
France	1983	-1.4	-1.9	-3.1
	1993	-0.5	-0.2	-1.4
United Kingdom	1981	-1.3	-3.0	-1.5
	1992	-0.6	-1.8	-0.9
Canada	1982	-3.4	-3.2	-4.9
	1991	0.4	0.4	-2.3

1. Estimate.

Source: OECD.

Figure 4. RATE OF RETURN ON CAPITAL AND INVESTMENT¹



1. Share of gross fixed investment in output (business sector).

2. Deflated by GDP prices.

Source: OECD.

return on capital in the business sector minus the real short-term interest rate, and business investment expressed as a percentage of output. After declining in the early 1990s, profitability, thus defined, has returned to late-1980s levels, helping to reverse the falling trend of business investment as a share in output. The share has risen above levels observed in the early phase of the upswing after the 1983 recession, but remains significantly below that reached between 1985 and 1991.

Underlying the improvement in profitability during 1995 was a rise in the cyclically-adjusted rate of return on capital, stemming from restructuring and labour shedding in manufacturing and market services which led to a very slow rate of growth in unit labour costs.² Short-term interest rates, on the other hand, remained a negative influence well into 1996. Investment was also stimulated by exchange rate depreciation and fiscal incentives introduced in June 1994 and withdrawn in April 1996.³ With these factors exerting less of an influence on profit margins, real business fixed investment was relatively flat in the first half of 1996. This tendency seems to have carried forward into the second half of the year, especially in industry.

At the same time, investment in non-residential construction has recovered from the 1994 slump, with public investment projects which had previously been held back by corruption scandals beginning to be carried out during 1995. Residential construction investment, on the other hand, continued to contract in 1995, under the influence of high real interest rates, although data for the first half of 1996 point to a revival. Inventories have followed an erratic pattern in the course of 1995, a sharp rundown of stocks in the first semester of 1995 being followed by a rapid build up in the second half of the year. Shifting exchange rate expectations played a part in this instability. A renewed stock reduction took place in the first half of 1996, linked to the deterioration of the conjunctural climate.

The export sector has been the key influence on economic growth and investment since the lira left the exchange rate mechanism of the EMS in September 1992. Real net exports added nearly 6 per cent to GDP over the 1993-1995 period, more than exceeding the cumulative rise in real GDP of 4 per cent in this period. Real exchange rate depreciation and strong export market growth combined to lift export volumes by no less than 11.6 per cent in 1995, the biggest jump since 1976: the share of export volumes of goods and services in

Figure 5. **OUTPUT SHARES OF TRADE IN GOODS AND SERVICES**
Per cent of GDP



Shaded area indicates year of Lira's exit from the ERM.

1. At 1990 constant prices.

Source: OECD.

real GDP jumped to nearly 25 per cent in 1995 compared with 19 per cent in 1992 (Figure 5). This outcome, however, mirrored sharply divergent movements within the year, exceptional gains in the first half being followed by weak foreign sales in the following six months. Stimulated by stronger investment, stock accumulation and the export boom, import volumes also surged, increasing at a rate of 9.6 per cent in 1995. Indeed, despite currency depreciation, the import share also rose during this period, mainly reflecting a pro-cyclical rise in the elasticity of import volumes to domestic demand. In the first half of 1996, both exports and imports fell in absolute terms, a consequence of the weakening of external and internal demand.

Unemployment climbs to a new record

A gain in real GDP of 3 per cent in 1995 proved insufficient to reverse the rising trend of unemployment, which averaged 12 per cent of the labour force in 1995, 0.7 point higher than in 1994. Indeed, contrasting with earlier cyclical episodes, employment declined for five quarters into the economic expansion, a turn-around occurring only in the second half of 1995. The cyclical slowdown in the first half of 1996 thus weighed on employment which was just recovering after several years of decline. Given weakening sales on foreign markets, large industrial firms continued to shed labour through the first half of 1996, raising the number of employees receiving income support under the short-run scheme of the Wage Supplementation Fund. Labour force participation rates (the ratio of civilian labour force to total population) showed little change in 1995, but tended to increase in the first half of 1996. With discouraged workers re-entering the labour force, the rate of unemployment climbed to a new record high of 12.3 per cent in April 1996, before receding marginally to 12.2 per cent in October (Table 3).

Allowing for the effects of changes in definition in measuring Italy's unemployment,⁴ the rate of joblessness was more than 3 points higher in 1996 than in the mid-1980s, when the economy displayed an output gap of similar proportions (Figure 6). As noted in the 1996 *OECD Economic Survey of Italy*, this points to a sharp rise in non-cyclical unemployment.⁵ Regional unemployment disparities, already large by international standards, widened further in 1995-96. While surging foreign demand almost stabilised the rate of unemployment in the indus-

Table 3. **Unemployment rate**¹

	1992	1993 ¹	1994 ¹	1995 ¹	1996 ¹
January	11.3	9.3	11.1	12.2	12.2
April	10.8	10.4	11.3	12.0	12.3
July	11.0	10.1	10.8	11.7	11.7
October	13.1	11.1	11.9	12.1	12.2
	9.6 ¹				

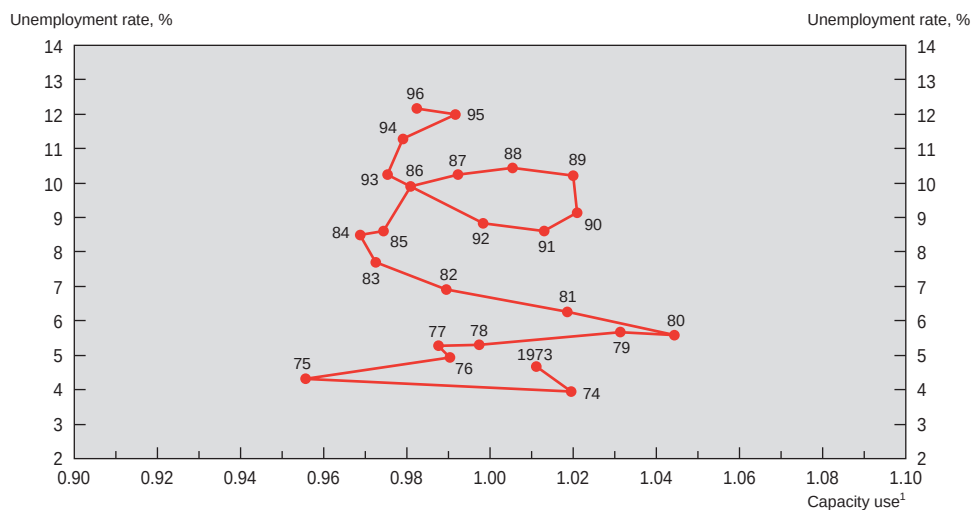
1. Based upon new definitions of the labour force. Methodological changes include an extension of the list of branches of economic activity, a more detailed questionnaire and a redefinition of "job-seekers", counting as unemployed persons only those aged more than 15 who were available for work and took at least one initiative to find a job in the 30 days preceding the quarterly labour force survey. The data are based on new population benchmarks from the 1991 population census.

Source: ISTAT (1996), *Rapporto Annuale*.

trialised north (at 6³/₄ per cent), unemployment kept on rising in the south, where export-oriented firms are scarce (Table 4). Cuts in public investment reinforced the rise in unemployment in the southern regions, which reached 21 per cent of the labour force in 1995-96, three times as high as the northern rate. Estimates put the cumulative growth in southern real GDP at 2.6 per cent in the years 1995 and 1996, as against 4.8 per cent in the centre-north.⁶

Total employment stopped falling in 1996 after four years of uninterrupted decline. But this result concealed divergent movements across sectors, firms and job categories. Blue-collar workers, young persons and women suffered disproportionate increases in unemployment. Declines in dependent employment in industry contrasted with a recovery of job creation in the tertiary sector, essentially in commerce, hotels and business services (Table 5). Hiring by small firms, as well as increased self-employment in market services, offset the fall in industrial employment. Placing employment trends in a longer time-span shows a picture typical of many European economies, an almost uninterrupted fall in employment in manufacturing and construction in the 1980s coinciding with strong job creation in private services. In the early 1990s, restructuring induced by stronger competition together with the hiring freeze in the public administration interrupted the rising employment trend in services (Figure 7), magnifying overall employment losses.

Figure 6. **CAPACITY USE AND UNEMPLOYMENT RATE**



1. Output as a percentage of potential output.

Source: OECD.

Table 4. **Regional unemployment and activity rates**

	1990	1991	1992 ¹	1993 ²	1994	1995	1996
Unemployment rate							
North	5.1	5.1	5.9	6.2	6.8	6.8	6.6
Centre	9.8	9.6	9.9	8.6	9.6	10.3	10.3
South	19.7	19.9	20.4	17.5	19.2	21.0	21.7
Italy	11.0	10.9	11.5	10.2	11.3	12.0	12.1
Activity rate³							
North	44.4	45.1	45.1	44.1	43.9	43.9	44.2
Centre	43.0	43.8	43.6	41.3	41.0	41.3	41.4
South	38.6	38.6	38.7	35.4	35.1	35.0	34.9
Italy	42.0	42.4	42.4	40.4	40.1	40.1	40.3

1. Based upon old definition of labour force.

2. Based upon new definition of labour force adopted in October 1992.

3. Ratio of civilian labour force to total population. This definition of the activity rate differs from the labour force participation rates reported in other OECD publications, which refer to persons of working age (15 to 64).

Source: Bank of Italy (1996) Statistical Annex to *Annual Report*, Table AB26.

Table 5. **Sectoral employment trends¹**

Percentage change

	Employment share ²	Total employment					Dependent employment				
		1992	1993	1994	1995	1996	1992	1993	1994	1995	1996
Agriculture	8.5	-4.7	-7.3	-4.2	-3.5	-3.7	0.4	-9.3	-5.1	-3.8	-5.0
Industry	28.5	-2.5	-4.1	-1.6	-1.3	-1.2	-3.2	-5.3	-1.3	-1.9	-0.9
Manufacturing ³	(21.3)	-3.6	-5.0	-0.6	-1.2	-0.8	-4.2	-5.7	-0.2	-1.4	-0.4
Construction	(7.2)	1.1	-1.5	-3.9	-1.3	-2.4	0.7	-3.8	-5.2	-3.2	-2.9
Market services	43.6	-0.2	-2.1	-1.3	0.7	1.6	0.7	-1.0	-1.9	0.1	1.3
Commerce, hotels	(21.8)	-0.2	-2.2	-1.5	-0.1	..	1.9	-0.1	-1.0	0.3	..
Transport and communication	(6.4)	-0.8	-1.1	-2.6	-1.5	..	-1.1	-1.0	-3.5	-2.2	..
Credit institutions and insurance	(2.0)	1.1	0.0	-0.3	-1.0	..	1.1	0.0	-0.3	-1.0	..
Other	(13.4)	0.0	-3.0	-0.4	3.3	..	0.4	-2.1	-2.3	1.6	..
Non-market services	19.3	1.1	-0.6	-0.7	-0.4	0.3	1.1	-0.6	-0.7	-0.4	0.3
Total	100.0	-1.0	-2.9	-1.5	-0.4	0.1	-0.5	-2.7	-1.5	-0.8	0.1

1. Expressed in standard labour units. Data for 1996 refer to the average of the first three quarters.

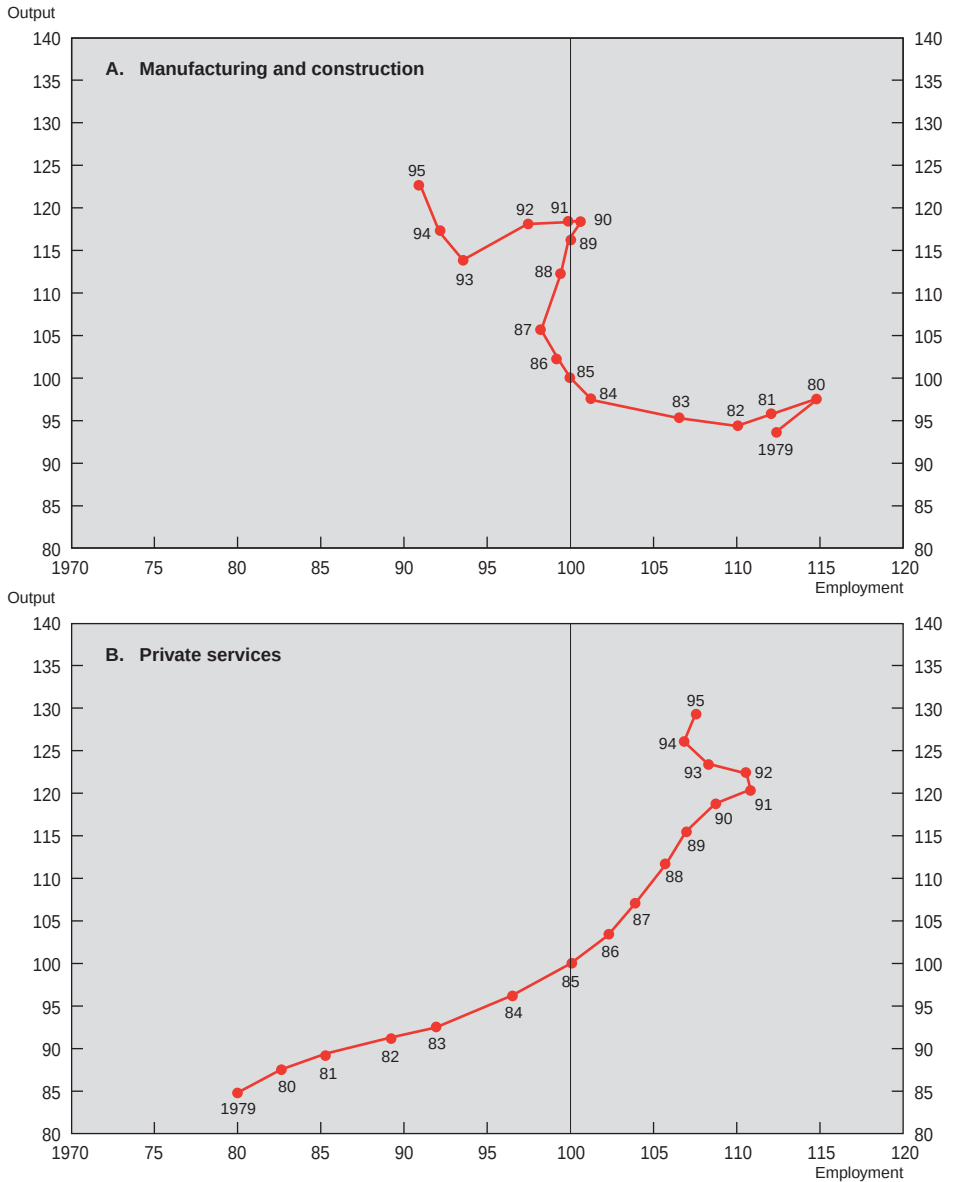
2. Percentage share of total employment in 1994.

3. Including mining and energy.

Source: ISTAT (1996), *Rapporto Annuale*.

Figure 7. **OUTPUT AND EMPLOYMENT BY SECTOR¹**

Index 1985 = 100



1. Output at constant prices.

Source: OECD.

Renewed disinflation

Consumer-price inflation has followed a roller coaster pattern since the lira's exit from the ERM in 1992, falling in 1993 and 1994, rising in 1995 and subsiding again in 1996 (Figure 8). The increase in consumer prices quickened to 5.4 per cent in 1995 from 3.9 per cent in 1994 (Table 5), which was above the official inflation target of 2.5 per cent laid out in the 1994 medium-term plan. The resurgence of inflation stemmed mainly from higher import prices – the effect of the lira's continued fall – indirect tax hikes and a pro-cyclical rise in prices of domestically-produced goods and services (Table 6). As a result, producer-price inflation more than doubled, accelerating to nearly 8 per cent in 1995, while wholesale prices jumped by more than 10 per cent. Because of a relatively high import content, output prices in manufacturing accelerated more than those of market services. Within manufacturing, export prices were raised by larger amounts than prices of goods destined for the domestic market. As in 1993, price discrimination mainly mirrored the steepness of the lira's fall, allowing exporters to enlarge their profit margins further.

Unit labour costs, which had declined in 1994, edged up by 1.7 per cent in 1995 (Table 7), productivity gains remaining strong but nominal wage growth picking up. In line with the labour agreement of July 1993,⁷ 1995 wage contracts provided for only partial compensation for the difference between actual and the target rate of inflation, which amounted to 3.3 points for 1994 and 1995 combined. Even allowing for wage drift and higher overtime pay, nominal wage growth stayed below inflation in 1995 for the third consecutive year, confirming the new phenomenon of strong real wage moderation occurring in an economic upswing. It was only in the first half of 1996 that real wages stopped falling, brought to a halt by disinflation. In December 1996, the 12-month rate of increase for contractual hourly wages (total economy) was 4.1 per cent, 1.5 points above the rate of consumer price inflation. Large industrial firms raised earnings by much larger amounts (6 per cent in the first eight months of 1996), reflecting rewards for productivity gains at the plant level in line with the labour agreement of July 1993. Overall unit labour costs accelerated markedly in 1996, a cyclical weakening of productivity growth accompanying stronger nominal wage growth.⁸

Figure 8. **INFLATION TRENDS**
Year-on-year percentage change



1. Cost of living for wage and salary earners.

2. Consumer prices, national index.

Source: OECD, *Main Economic Indicators*.

Table 6. **Price indicators**

Percentage change					
	1992	1993	1994	1995	1996
Input prices ¹					
Manufacturing	1.7	7.8	4.0	9.9	0.5
Domestic prices	2.9	4.2	3.1	7.6	5.7
External prices	-0.7	15.3	5.8	14.0	-6.7
Market services	2.4	6.1	3.8	8.7	0.4
Domestic prices	1.9	4.0	3.6	8.0	1.1
External prices	4.9	18.2	5.3	12.3	-2.9
Output prices ¹					
Manufacturing	2.5	5.8	3.4	7.8	-0.2
Domestic prices	2.7	3.6	3.6	7.3	0.4
External prices	2.0	11.5	3.1	8.9	-1.5
Market services	5.9	5.4	3.8	5.8	5.9
Producer prices in industry	1.9	3.8	3.7	7.9	1.7
Wholesale prices	2.1	5.1	3.8	10.3	3.6
Consumer prices ²	5.4	4.2	3.9	5.4	3.9
Uncontrolled prices	5.4	4.2	3.7	5.4	3.8
Controlled prices	5.2	3.9	4.4	4.6	1.5

1. Data for 1996 refer to changes in the twelve months to September.

2. Cost of living index.

Source: Bank of Italy (1996), Statistical Annex to *Annual Report*, Tables AB 33-37.

Table 7. **Productivity and unit labour costs**

Percentage change					
	1992	1993	1994	1995	1996 ¹
Productivity ²					
Agriculture	6.0	6.4	4.5	4.0	5.0
Manufacturing	4.1	1.6	5.6	7.0	-0.0
Construction	-1.5	-4.2	-0.6	2.3	4.3
Market services	1.6	3.2	3.6	2.5	0.1
Total	2.0	2.2	3.6	3.5	0.8
Unit labour costs ³					
Agriculture	3.6	-1.4	-4.3	-1.8	-5.9
Manufacturing	3.0	3.3	-3.3	-0.7	6.3
Construction	7.7	5.4	4.0	0.1	-3.3
Market services ⁴	4.4	0.8	-0.3	3.7	4.7
Total	3.7	1.5	-0.6	1.7	4.4

1. Data for 1996 refer to the average of the first three quarters.

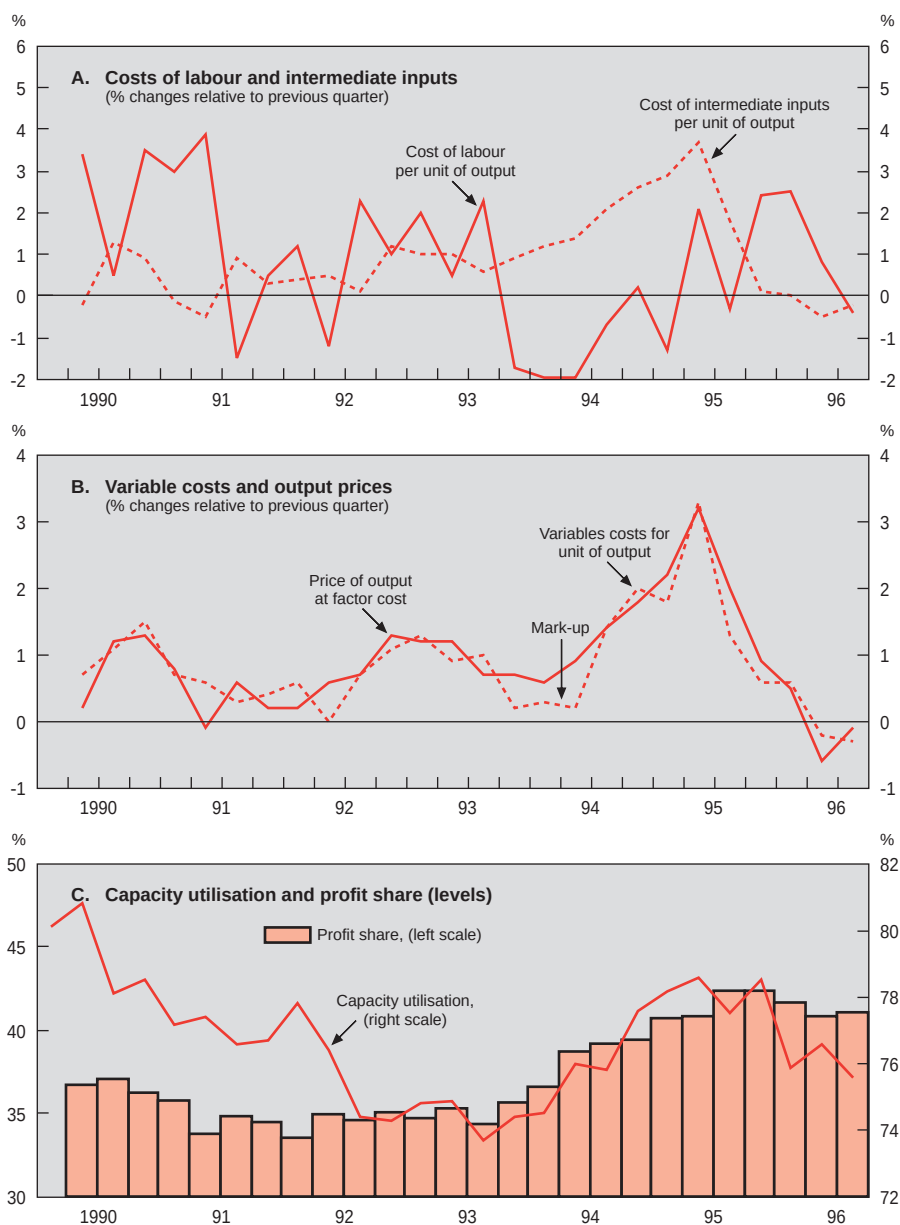
2. In terms of value added at factor costs.

3. In terms of gross output.

4. Excluding rental services.

Source: ISTAT (1996), *Rapporto Annuale*.

Figure 9. COSTS AND PRICES IN INDUSTRY



Source: ISTAT.

Table 8. **Economic trends following the lira's exit from the ERM**

Cumulative percentage change between 1992 and 1996

	Real GDP	Real compensation per employee ¹
Italy	4.8	-1.4
United States	10.6	1.7
Japan	5.2	3.2
Germany	4.9	2.8
France	5.0	2.0
United Kingdom	11.2	-0.7
Canada	10.5	1.6
	Labour productivity	Rate of return on capital ²
Italy	9.6	1.0
United States	3.4	1.0
Japan	4.2	-0.9
Germany	8.7	1.9
France	5.3	0.5
United Kingdom	10.4	3.0
Canada	3.6	2.0
	Employment	Unemployment rate ³
Italy	-4.3	3.4
United States	7.0	-2.2
Japan	0.9	1.2
Germany	-3.5	2.7
France	-0.3	2.1
United Kingdom	0.7	-2.2
Canada	7.6	-1.7

1. Based upon business-sector output deflator.
2. Business sector. Percentage point change.
3. Percentage point change.
Source: OECD.

Disinflation returned in 1996, the 12-month rise of the cost-of-living index dropping from a peak rate of 6 per cent in November 1995 to 2.6 per cent in November 1996, staying at that level through January 1997. This was the lowest rate in 27 years. While gauging the true extent of price deceleration is difficult, given the introduction of a new consumer price index introduced in January 1996,⁹ the surge in inflation which began in the autumn of 1994 has been unwound, the twelve month rate falling 1 point below the previous low reached two years earlier. From mid-1995, falling costs of intermediate inputs hastened the pace of disinflation in industry, and this tendency was initially reinforced by

lower rises in unit labour costs in early 1996 (Figure 9). As a result, the level of industrial producer prices fell during the summer of 1996, contrasting with the surge recorded a year earlier (Table 6). Profit margins narrowed as a consequence, having risen consistently since 1993.

Looking at economic trends emerging after the lira left the exchange rate mechanism of the EMS in September 1992, several features stand out. Over the four years to 1996, Italy recorded the second largest gain in labour productivity among the major OECD countries and the sharpest reduction in real compensation per employee (Table 8). Real wage moderation and higher efficiency combined to contain the price-raising effects of currency depreciation. While the nominal effective exchange rate showed a cumulative fall of nearly 20 per cent between 1993 and 1996, consumer-price inflation in 1996 (3.9 per cent) was the same as in 1994 (Table 6).

The external surplus widens

The current account surplus widened sharply in 1995 and 1996, rising to 2.9 per cent of GDP in 1996, the strongest result in more than twenty years (Table 9). This outcome was attributable to strongly growing surpluses in both trade and net foreign travel (Figure 10). On the capital side, the large deficit recorded in 1994 contracted in 1995, as non-bank capital (largely portfolio investment) returned to Italy, attracted by high interest rates. In 1996, the larger current account surplus and inflows of non-bank capital contributed to the build-up of international reserves, as markets anticipated the re-entry of the lira into the ERM of the European Monetary System which occurred in November 1996. Overall official reserves rose by L 28 trillion over the four years to 1996, nearly equal to the huge reserve loss incurred in 1992 (2 per cent of GDP).

The exchange rate and competitiveness

Measured by relative export prices in manufacturing, the real effective exchange rate, appreciated by 6.9 per cent in 1996, but remained about 6.5 per cent below the level of 1992, the pre-devaluation year (Figure 11, panel B). This was the first sustained rise in the real exchange rate since 1991. Relative unit labour costs in manufacturing also point to an appreciation, but measured in these terms, the real exchange rate in 1996 was still 20 per cent lower than in 1992, a

Table 9. **Balance of payments**

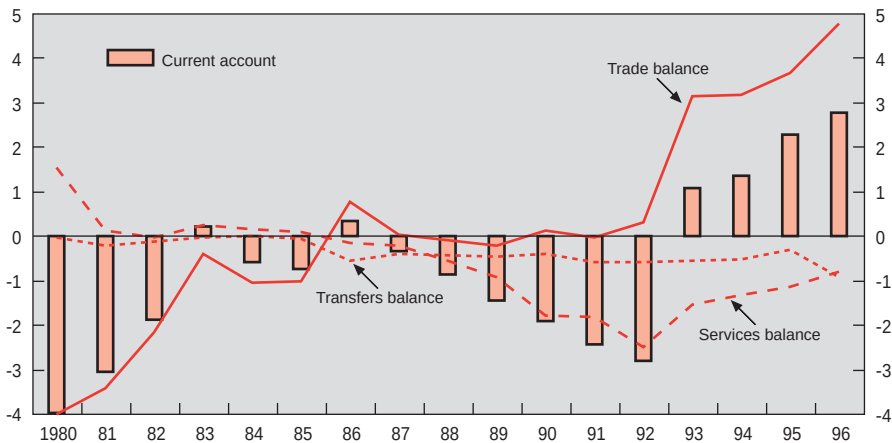
Trillions of lire

	1992	1993	1994	1995	1996 ¹
Exports (f.o.b.)	219.4	266.2	308.0	376.7	384.4
Imports (f.o.b.)	215.6	214.2	250.9	305.0	291.6
Trade balance	3.9	52.0	57.2	71.7	92.8
Investment income, credits	32.9	47.0	43.1	52.4	..
Investment income, debits	59.9	73.9	69.9	78.8	..
Investment income, net	-27.0	-26.9	-26.8	-26.4	..
Foreign travel, net	5.9	12.6	18.8	24.5	..
Other services, net	-10.0	-11.4	-15.6	-17.6	..
Services (net)	-31.1	-25.7	-23.6	-22.4	..
Private transfers, net	-0.6	0.7	0	1.1	..
Official transfers, net	-7.3	-9.2	-9.3	-5.9	..
Invisible balance	-39.0	-34.2	-32.9	-27.2	-38.5
Current balance	-35.2	17.8	24.3	44.6	54.3
Per cent of GDP	-2.3	1.2	1.5	2.5	2.9

1. Estimate.

Source: OECD National Accounts; Bank of Italy (1996), Statistical Annex to *Annual Report 1995*, Table AB39.

Figure 10. **CURRENT ACCOUNT OF THE BALANCE OF PAYMENTS**
Per cent of GDP



Source: OECD.

Figure 11. **NOMINAL AND REAL EXCHANGE RATES**



Source: OECD.

Table 10. **Levels of labour costs**

	Manufacturing hourly labour costs in 1995		
	Indices based on data in a common currency	of which: ¹	
		Germany = 100	
Italy	52	50	50
United States	55	71	29
Japan	75	59	41
Germany	100	55	45
France	61	54	46
United Kingdom	45	73	27
Canada	49	74	26

1. As a percentage of total labour costs.

Source: Institut der Deutschen Wirtschaft IW-Trends; IMF, Government Finance Statistics; Swedish Employers' Confederation and national data.

much larger net depreciation than that indicated by changes in relative export prices. In the process, Italy has achieved a strong competitive advantage in terms of the level of hourly labour costs in manufacturing, which are significantly lower than those in Germany and France (Table 10). The situation is not so clear-cut in terms of prices, a widening in exporters' profit margins accounting for much of the difference between the two gauges of exchange rate depreciation

Table 11. **Currency movements and foreign trade prices**

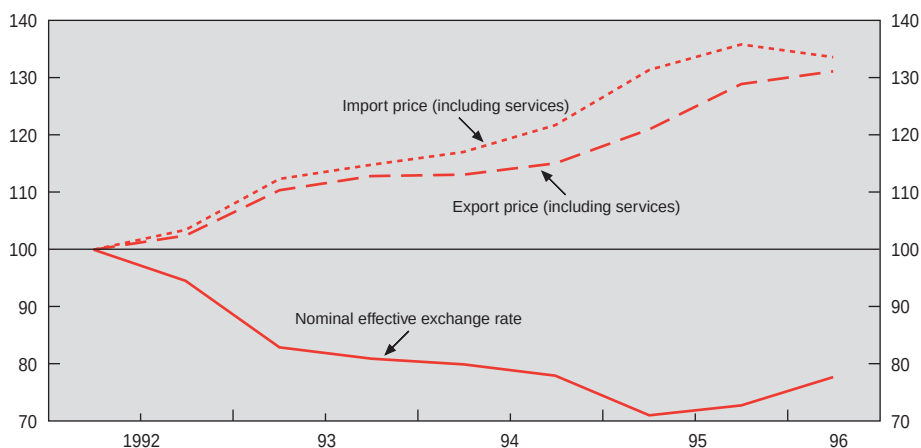
	Percentage change					
	Weight	1992	1993	1994	1995	1996 ¹
Nominal effective exchange rate	..	-2.7	-15.9	-3.7	-9.2	9.5
Import prices (total)	..	-0.7	10.5	5.0	15.6	-2.5
Food	(12.3)	2.8	-14.1	9.4	10.7	-2.9
Raw material	(7.5)	3.6	-7.4	9.3	12.6	-5.1
Energy	(11.6)	-9.4	-8.7	-0.8	12.3	-0.6
Manufactures	(68.6)	0.1	9.8	2.9	16.2	-2.9
Export prices (total)		0.8	8.7	3.9	13.3	-1.0
Manufactures	(90.1)	1.8	7.7	3.2	12.9	-1.5
Relative export prices in manufacturing	..	0.4	-11.4	-2.9	0.5	6.9
Relative unit labour costs in manufacturing	..	-5.1	-17.7	-4.0	-10.6	13.0

1. Estimate.

Source: OECD.

Figure 12. **EXCHANGE RATE AND EXTERNAL PRICES**

Index first half 1992 = 100



Source: OECD.

(Table 11). Over the three years to 1995, the nominal effective exchange rate depreciated by nearly 30 per cent, import prices surged by a total of 34 per cent, while exporters boosted export prices by no less than 28 per cent (Figure 12). However, in response to currency appreciation and the cyclical downswing in Europe, both export and import prices dropped sharply in the first half of 1996, interrupting this sharply rising trend.

Trade flows and the current account

The trade surplus widened in 1995 despite falling terms of trade, rising to 4 per cent of GDP, the strongest result in many years. Exports to Latin America and the Asian newly industrialised countries were buoyant, foreign trade with these countries accounting for the greater part of the rise in the overall trade surplus (Figure 13). Italy's current account position also strengthened on account of net travel receipts, which, stimulated by the lira's fall, surged to L 24.5 trillion in 1995, 1.4 per cent of GDP, four times as large as in 1992, the pre-devaluation year (Table 9). The deficit on capital income changed little, increases in income

Figure 13. **EXTERNAL INDICATORS**

Index 1975 = 100



1. Index of exports divided by the index of imports of goods, at constant prices.

2. Ratio of export volumes to export markets for manufactures.

3. Index of Italy's domestic demand divided by the index of OECD domestic demand (excluding Italy).

Source: OECD.

from foreign assets being sufficient to offset the higher lira value of interest payments caused by exchange rate depreciation. Overall, the traditional deficit in invisibles shrank to L 27 trillion in 1995, sharply down from the L 39 trillion in 1992, helped by a lower deficit on net transfers. This improvement, along with the larger trade surplus, pushed up the current account surplus to L 44.6 trillion in 1995 (2.5 per cent of GDP). A further rise in the trade surplus to L 93 trillion in 1996 was instrumental in pushing the current account surplus to nearly 3 per cent of GDP.

Capital transactions and net foreign debt position

The capital account recorded a small net outflow in 1995 (L 7.8 trillion), down from L 22.3 trillion in 1994 (Table 12), non-bank capital swinging back into surplus and the account of bank capital moving back into deficit. The huge net influx of non-bank capital (L 50 trillion or nearly 3 per cent of GDP) took mainly the form of reduced gross outflows, Italians purchasing smaller amounts of foreign long-term securities. At the same time, inward portfolio investment increased, reflecting expectations of falling interest rates and related capital gains. Government securities continued to attract the bulk of inward portfolio invest-

Table 12. **Net capital movements**
Trillions of lire

	1992	1993	1994	1995	1996 ¹
Total net capital movements	10.3	14.8	-22.3	-7.8	-10.5
Bank capital flows	12.2	-84.6	21.6	-58.1	-43.5
Non-bank capital flows	-1.9	99.4	-43.9	50.3	33.0
Foreign direct investment in Italy	4.0	5.9	3.6	7.8	..
Italian direct investment abroad	-7.3	-11.4	-8.2	-9.3	..
Foreign portfolio investment in Italy	28.7	103.4	43.9	61.5	..
Italian portfolio investment abroad	-27.4	10.1	-52.1	-11.9	..
Foreign loans	9.2	0.6	-14.3	-9.7	..
Italian loans	-6.3	-5.1	-13.5	-4.4	..
Commercial credits and other items	-2.7	-4.2	-3.2	-3.0	..
Errors and omissions	-8.6	-30.4	1.3	-33.9	-23.6
Current balance	-34.2	17.8	24.3	44.6	54.3
Change in official reserves²	32.5	-2.2	-3.3	-2.9	-19.7

1. Estimate. Capital flows exclude trade credits.

2. Minus sign indicates an increase in reserves.

Source: Bank of Italy (1996), *Annual Report 1995*, Table B33.

Table 13. **Net foreign debt position**

Trillions of lire, end of December

	1992	1993	1994	1995	1996
Net non-bank position	-40	-102	-56	-66	-121
Assets	359	443	525	596	667
Liabilities	399	545	581	662	789
Net bank position	-191	-127	-153	-109	-53
Assets	169	239	223	257	327
Liabilities	360	366	376	366	380
Net central bank position	67	84	91	91	107
Assets	76	87	94	95	..
Liabilities	9	3	3	4	..
Net foreign debt position	-164	-145	-118	-84	-6.7
(In per cent of GDP)	-10.9	-9.3	-7.1	-4.7	-3.6

Source: Bank of Italy (1996), Statistical Annex to *Annual Report 1995*, Table AB59.

ment, while foreign currency transactions and exchange rate coverage were instrumental in shifting the account of bank capital into deficit (L 58 trillion). The category “errors and omissions” also posted a large deficit in 1995 (L 34 trillion) a sizeable part of which were probably unrecorded capital exports.¹⁰ In 1996 official reserves increased by nearly L 20 trillion or 1 per cent of GDP, as the current account surplus widened.

Reflecting the current account surplus, Italy’s net foreign debt position improved further in 1995, falling to 4.7 per cent of GDP, down from 10.9 per cent at the end of 1992 (Table 13). Over the three years to 1995, a strong build up of gross foreign assets held by banks was instrumental in reducing Italy’s net foreign debt by L 82 trillion. On the other hand, net foreign liabilities of non-banks increased by L 26 trillion, as gross liabilities surged by larger amounts than gross assets. Low external interest rates were a key factor in this development. Italy’s net foreign debt position continued to improve in 1996 falling to 3.6 per cent of GDP. It may give way to a creditor position by the end of 1997.

Prospects and risks

The stock rundown seems to have ended in the second half of 1996. While industrial production remained almost flat since July, leading indicators including

export orders point to a recovery in early 1997. The revival is projected to depend on strengthening export demand, as the expansion of foreign markets quickens and the effects of the real exchange rate appreciation taper off. Improved output prospects, along with rising profitability and falling interest rates, should spur investment in machinery and equipment. Stronger real wage growth and tax incentives for car purchases should stimulate private consumption growth, notwithstanding direct tax increases.

The OECD Secretariat's projections (Table 14) are based on the fiscal assumptions which incorporate the tax package called 'Europa tax' and the financial operations approved by EUROSTAT in February 1997. On these assumptions, the general government deficit would fall to 3.6 per cent of GDP in 1997 from an estimated 6.8 per cent in 1996, an exceptionally large discretionary

Table 14. **Short-term outlook**

Percentage change

	1993	Per cent of GDP	1994	1995	1996	1997	1998
	Current prices trillions of lire						
Demand and output							
Private consumption	970	63	1.5	1.7	0.6	1.0	1.9
Government consumption	277	18	0.0	-0.5	-0.6	-1.5	-0.7
Gross fixed investment	263	17	0.2	5.9	1.7	2.4	4.6
Final domestic demand	1 510	97	1.0	2.0	0.6	0.7	1.9
Stockbuilding ¹	-0.5	0	0.6	0.3	-0.4	0.1	0.1
Total domestic demand	1 510	97	1.6	2.3	0.2	0.8	2.0
Exports of goods and services	321	21	10.5	11.6	0.6	4.6	6.0
Imports of goods and services	280	18	8.9	9.6	-2.1	3.3	6.1
Foreign balance¹	41	..	0.5	0.7	0.6	0.5	0.3
GDP at constant prices	1 550	100	2.1	3.0	0.8	1.3	2.3
<i>Memorandum items:</i>							
GDP price deflator	..	..	3.5	5.0	4.1	2.8	2.5
GDP at current prices	..	..	5.7	8.1	4.9	3.9	4.6
Private consumption deflator	..	..	4.6	5.7	4.2	2.5	2.2
General government net lending	..	..	-9.0	-6.9	-6.8	-3.6	-3.5
Current balance, as per cent of GDP	..	..	1.5	2.5	2.9	4.1	4.2
Unemployment rate, level	..	..	11.3	12.0	12.1	12.1	11.8

1. As a percentage of GDP in the previous period.

Source: OECD estimates and projections, February 1997.

fiscal adjustment. Given fiscal consolidation and disinflation, interest rates are projected to decline further, with the long-term differential *vis-à-vis* Germany coming down to below 1 percentage point by the end of 1998, offsetting the negative impact of fiscal consolidation to some extent.

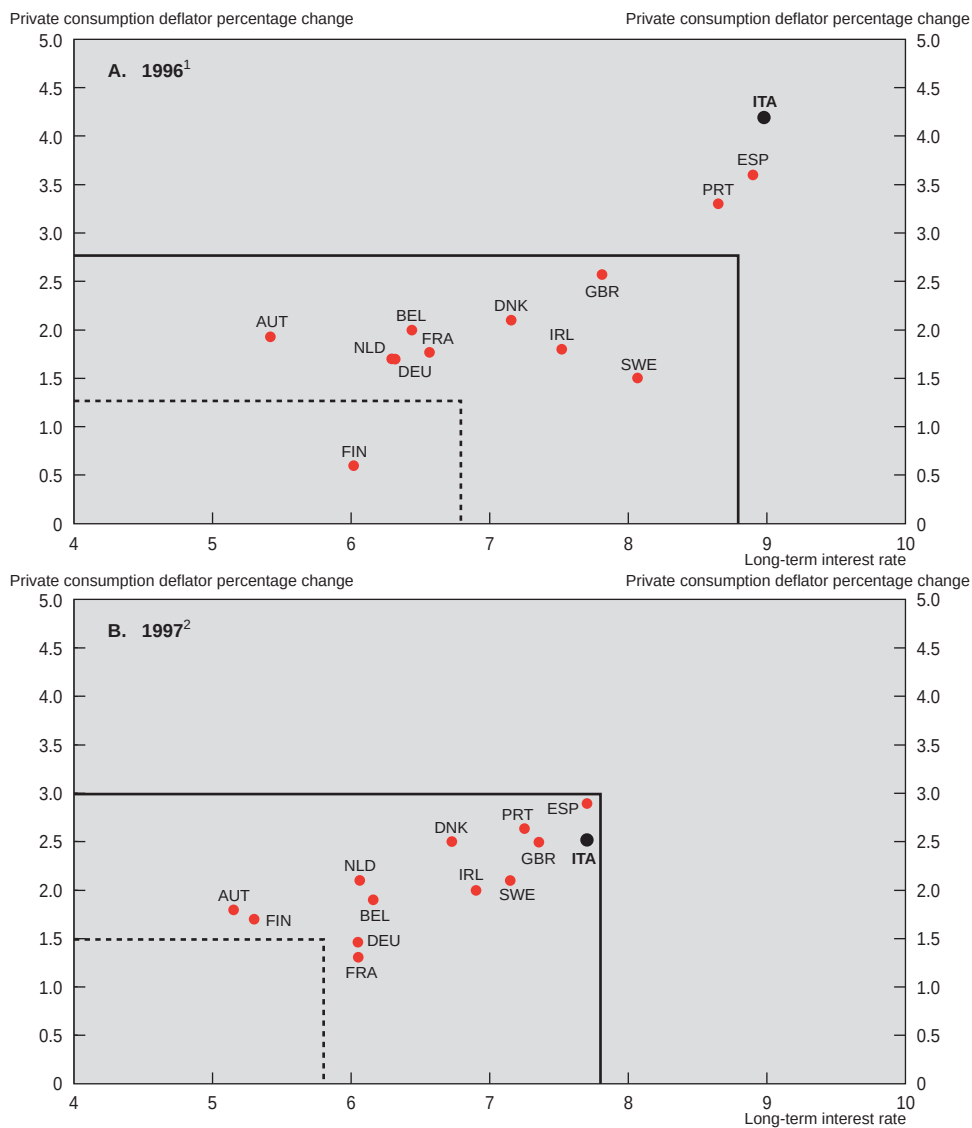
Overall, real GDP growth could rise to 1.3 per cent in 1997 and 2.3 per cent in 1998 from 0.8 per cent in 1996. The trade surplus should widen with the improvement in the terms of trade and stronger growth in export markets, and along with large net receipts from tourism, this should sustain a current account surplus of more than 4 per cent of GDP in 1997-98. The slow pace of the expansion may initially keep unemployment close to record levels. However, as demographic forces reduce labour supply, the unemployment rate could decline to below 12 per cent (seasonally adjusted) at the end of 1998. Pro-cyclical gains in labour productivity may dampen the rise in unit labour costs. This, together with the re-entry into the ERM at a central rate which is likely to maintain downward pressure on prices, will enable consumer-price inflation to ease to around the official target rate of 2 per cent in 1998.

Substantial uncertainties attach to the projections because of the interaction between interest rates, the exchange rate and the budget deficit. Full implementation of the ambitious 1997 budget proposals is needed to maintain confidence in the new parity of the lira, thereby sustaining the recent convergence of interest rates and allowing further reductions. Failure to implement the fiscal package in full would place great strain on monetary policy to prevent speculative attacks on the lira, with deflationary consequences.

II. Macroeconomic policies

In the autumn of 1995, the authorities reaffirmed the intention for Italy to rejoin the exchange rate mechanism of the EMS and to participate in Stage III of the European Monetary Union as from 1 January 1999. The first goal has now been achieved, the lira returning to the ERM on 24 November 1996, more than four years after its exit in September 1992. Significant progress has been made towards the attainment of price stability and the announcement that the 3 per cent fiscal deficit target has been brought forward from 1998 to 1997 has favourably impressed financial markets. Bond yields have declined to the point where long-term interest rate differentials *vis-à-vis* the best-performing member states are approaching the Maastricht convergence limit of 2 per cent (Figure 14). Italy is thus in a position where the achievement of the Maastricht exchange-rate, inflation, and long-term interest rate criteria is within reach. The task which macroeconomic policy is undertaking is, however, a complex and difficult one, the risks being almost commensurate with the potential gains. In particular, following substantial budgetary slippage in 1996, the proposal to cut the budget deficit by nearly 4 per cent of GDP in 1997, from an estimated 6.8 per cent in 1996, depends critically on three inter-related factors: the full implementation of the measures announced; a resilience to the measures on the part of the economy, where activity is already rather weak; and continuing confidence in the convergence process on the part of financial markets. Experience elsewhere in the OECD area has shown that determined fiscal action can set in train a virtuous circle of primary budget cuts, debt-interest reductions and growth. While Italy, with its high debt ratio, is well placed to take advantage of such a process, the demands on macroeconomic policies are unusually great and the outcome subject to considerable uncertainty.

Figure 14. **INTEREST RATE AND INFLATION CONVERGENCE**



1. The solid line represents the Maastricht limit for inflation and interest rates. The inflation limit is 1.5 points above the average of the three countries with the lowest inflation (Finland, the Netherlands and Sweden). The long-term interest rate limit is 2 points above the average of the same three countries.
2. According to OECD projections, Germany, France and Finland are the countries with the lowest inflation.

Source: OECD.

Monetary and exchange rate policies

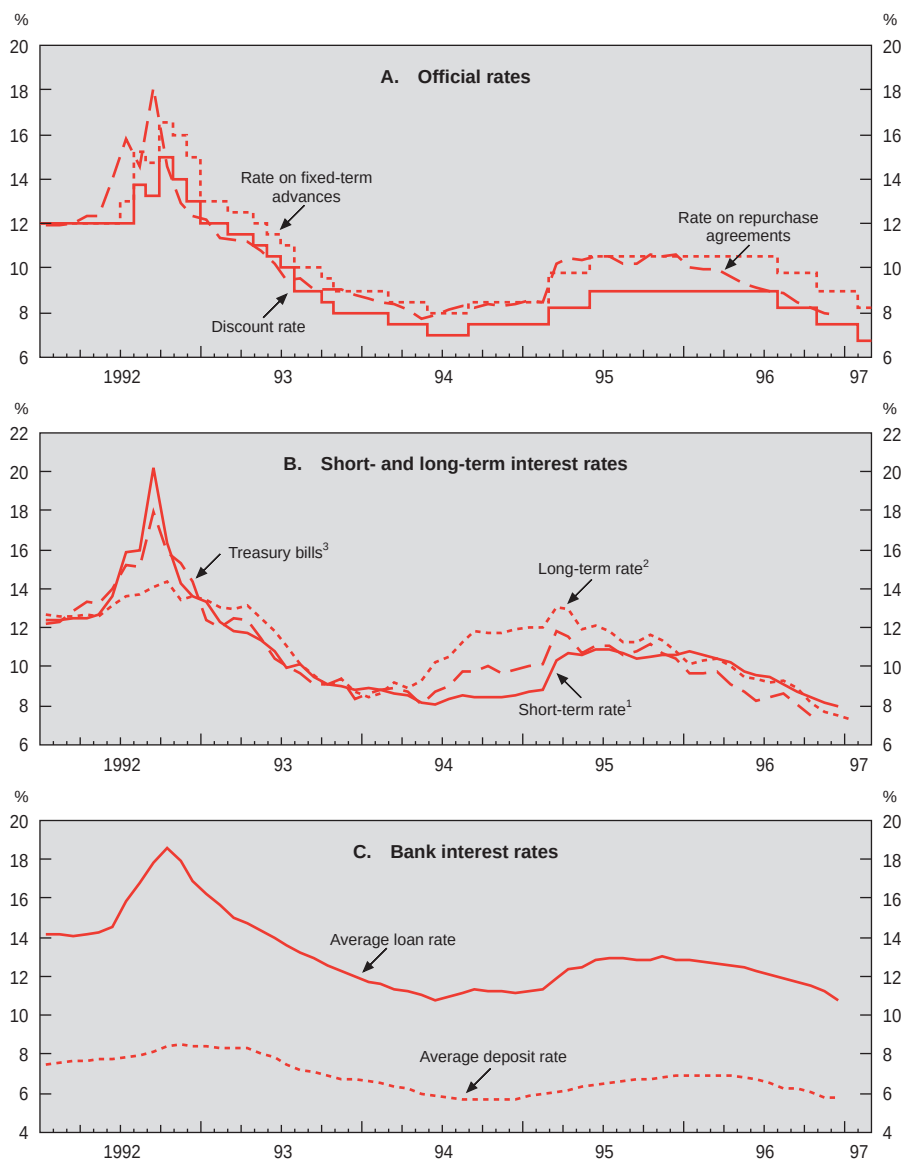
Inflation convergence and interest rates

The aim of monetary policy has remained that of achieving inflation results equal to the best-performing EU-countries, and considerable progress has been made towards this goal.¹¹ As noted in the previous *Survey*, faced with mounting inflationary pressures from the depreciation of the lira, in May 1995 the Bank of Italy announced that monetary policy would aim at limiting consumer price inflation (net of indirect taxes), to within 4.5 per cent for the year 1995 as a whole and to less than 4 per cent for 1996 (annual average). The objective was subsequently lowered to below 3 per cent for 1997. As part of the process of achieving price stability, the Bank of Italy in its operational management has continued to rely on several forward-looking indicators of inflationary pressures, including survey data of inflationary expectations, the slope of the yield curve and the evolution of interest rate differentials. It has also retained a target for the rise in M2 (at 5 per cent for 1996 and 1997).

To bring inflation under control, the Bank of Italy left its two key lending rates, the discount rate and the rate on fixed-term advances, unchanged at 9 and 10.5 per cent, respectively from May 1995 to July 1996 (Figure 15, panel A). These rates define a corridor for money market rates under normal conditions. During this period, the 12-month rate of consumer price inflation climbed to a peak of 6 per cent in November 1995 and then fell by 3.4 points over the twelve months to November 1996. With inflation descending to levels consistent with official targets, the Bank of Italy reduced key official lending rates in several stages: in July 1996, when the 12-month rate of consumer-price inflation fell below 4 per cent, both the discount rate and the rate of fixed-term advances were lowered by 0.75 point to 8.25 per cent and 9.75 per cent respectively. Another cut of 0.75 point followed in October, as inflation fell to 3 per cent. A further reduction of the same amount in January 1997 lowered the discount rate to 6.75 per cent and the rate on fixed-term advances to 8.25 per cent.

The easing of inflation was matched by falling long-term interest rates, which declined by around 3.5 points between the fourth quarter of 1995 and the fourth quarter of 1996 (Figure 15, panel B). In the autumn of 1996, expectations of Italy being among the first members of EMU hastened the decline in long-term interest rates and in early February 1997, the yield on 10-year government bonds

Figure 15. **INTEREST RATES**



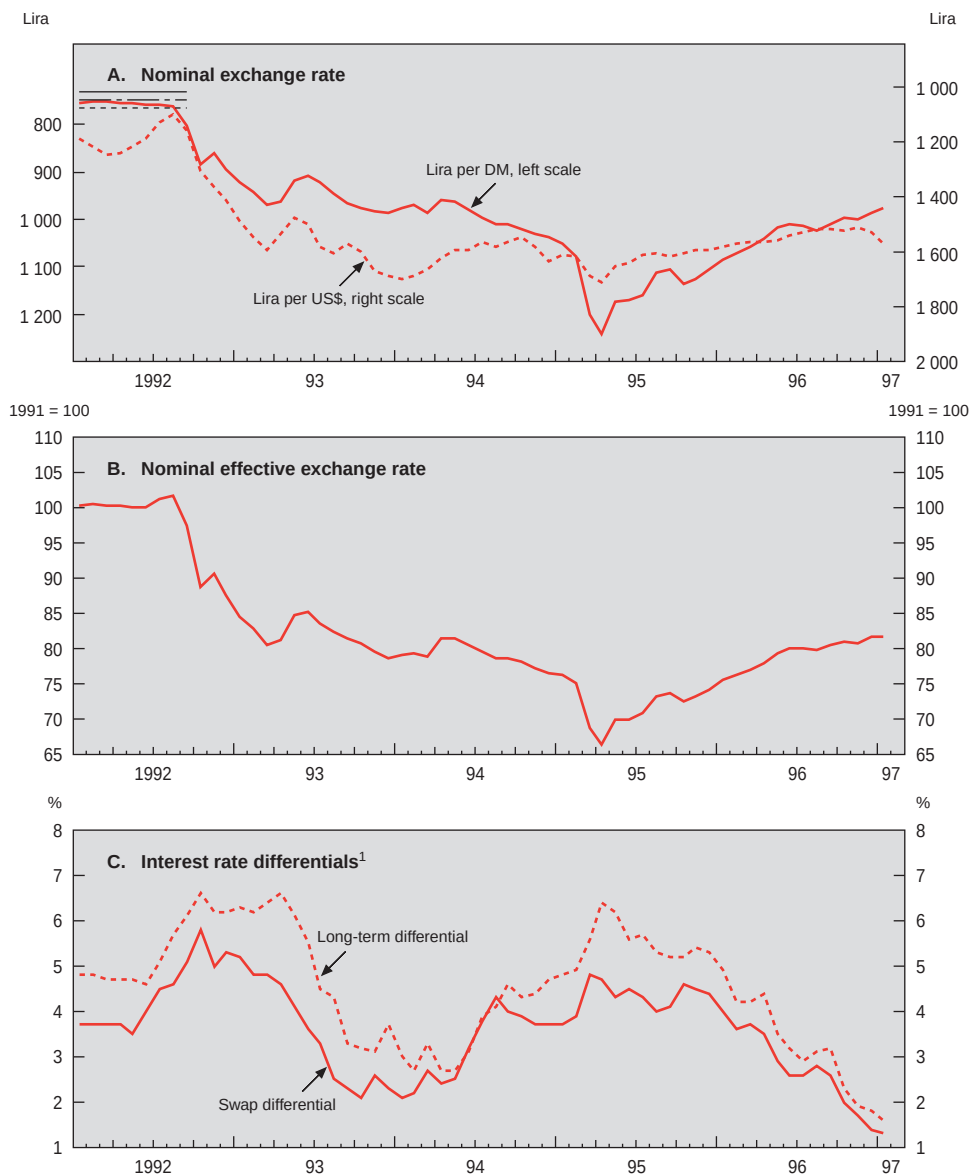
1. Inter-bank accounts.
 2. 10-year government bonds, gross.
 3. Three month Treasury bills.
- Source: Bank of Italy.

dropped to 7.2 per cent, reducing the premium relative to Germany to 1.4 points – compared with 5.1 points in December 1995. Sovereign risk premia on lira-denominated government bonds, measured by the yield differences between 10-year Italian BTP (*Buoni del Tesoro poliennali*) and bonds issued by the European Investment Bank, also eased, falling by around 70 basis points between the end of 1995 and the end of 1996. In the same period, the difference between yields on euromarket swap contracts (swap differential), which measures the exchange rate risk, narrowed by around 280 basis points (Figure 16).

Short-term interest rates for shorter maturities were initially slow in descending from high levels (Figure 15, panel B). Until spring 1996, money market rates (rate on repurchase agreement and overnight interbank rates) stayed in the upper part of the official corridor (the upper limit being the rate on fixed-rate advances), while long-term rates declined, inverting the yield curve. Subsequently, however, with confidence rising, money market rates moved towards the discount rate (the lower limit of the corridor), dipping below it in May 1996. The decline in money market rates gathered speed in the autumn of 1996, following the announcement of tighter fiscal targets for 1997. The short-term interest rate differential with Germany narrowed as a consequence, falling to nearly 4 points in January 1997 from 6.7 points at the end of 1995 (Figure 17). Yields on futures contracts on 3-month Eurolira deposits also shifted downward. In the process, the yield curve flattened.

Bank lending rates responded asymmetrically to movements in money market rates, reacting quickly and strongly to tighter monetary conditions in 1995, but retreating only slowly in 1996 in response to easier monetary conditions (Figure 15, panel C). In September 1996, the average bank lending rate stood at 10.8 per cent, only 2 points lower than in December 1995. Underlying this asymmetry have been the lack of competition in the banking sector and bond market losses incurred in 1994.¹² Inadequate monitoring of indebted firms by banks added to loan losses, which totalled L 46 trillion or 2.7 per cent of GDP in the 1993-95 period, wiping out almost half of the net income earned during this period.¹³ While deposit rates eased less than bank lending rates in 1996, the spread between the two, at 5 points in December 1996, remained large by European standards.

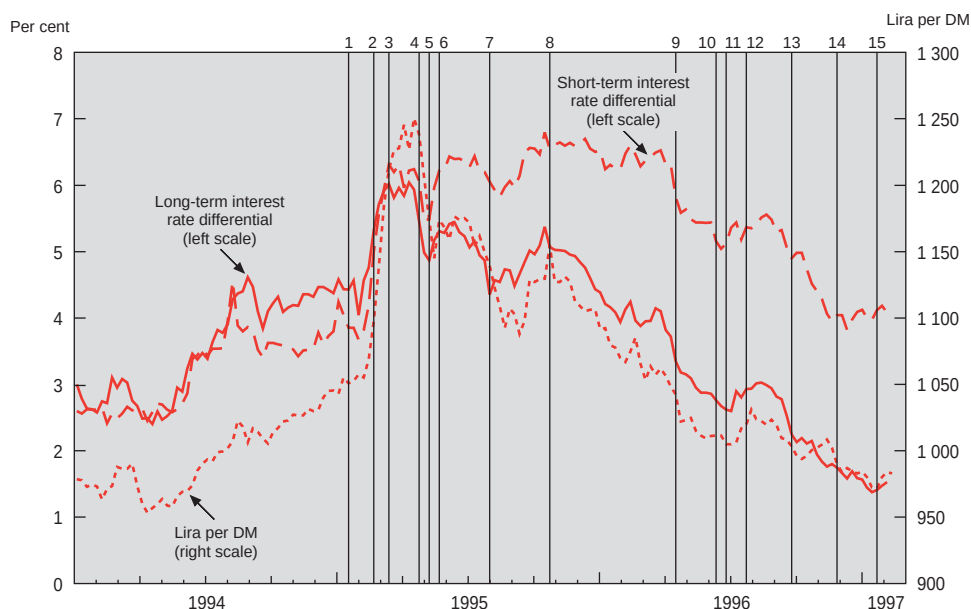
Figure 16. EXCHANGE RATE AND INTEREST RATE DIFFERENTIALS



1. Differentials vis-à-vis Germany. 10-year government bonds and interest swap contracts on the Euro Market for assets denominated in Lira and Deutschmarks.

Source: OECD.

Figure 17. **INTEREST RATE DIFFERENTIALS AND THE LIRA/DM EXCHANGE RATE**



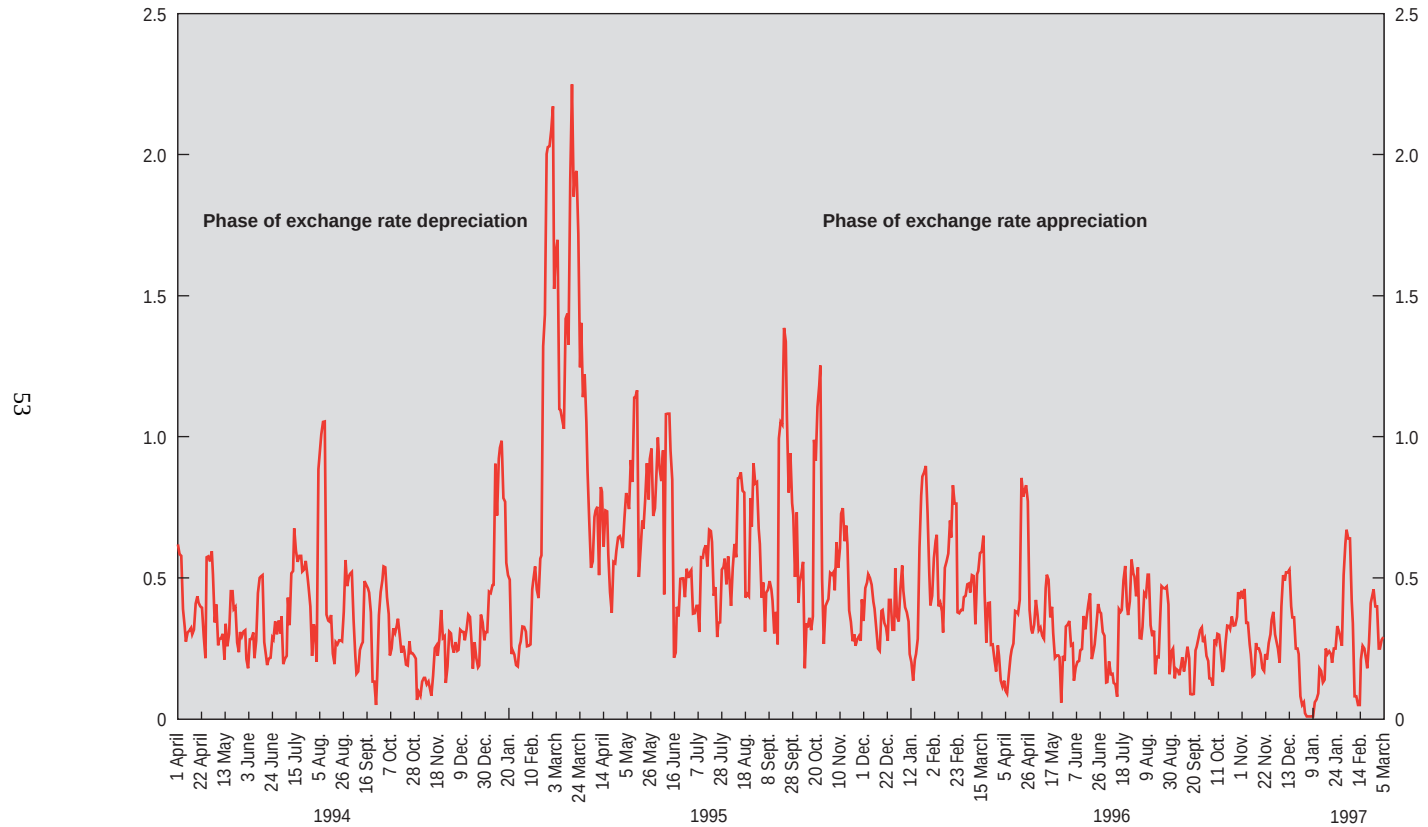
1. 17th January 1995, Dini government appointed.
2. 22nd February 1995, Increase in official interest rate.
3. 20th March 1995, Parliament approves mini-budget.
4. 30th April 1995, Local elections.
5. 8th May 1995, Agreement on pension reform.
6. 26th May 1995, Official interest rate increases.
7. 4th August 1995, Parliament approves pension reform.
8. 26th October 1995, Parliament rejects a vote against the Dini government.
9. 21st April 1996, General elections.
10. 14th June 1996, Mini-budget 1996.
11. 27th June 1996, Presentation of medium-term economic plan.
12. 24th July 1996, Cut in official interest rates.
13. 27th September 1996, Presentation of 1997 budget proposals.
14. 24th November 1996, Return to ERM.
15. 21st January 1997, Cut in official interest rates.

Source: OECD, Weekly data.

Exchange rate appreciation and re-entry to the ERM

At between 5 and 6 per cent, real interest rates have remained high in 1996. Judging by the steepness of the cyclical downswing and the strengthening of the exchange rate, this has implied a more restrictive stance of monetary policy than

Figure 18. EXCHANGE RATE VARIABILITY¹



1. Weekly average of the standard deviation of the (DM/ITL) daily quotes of the five preceding days.

Source: Datastream.

in other European countries. Such relative stringency has been dictated by the need to contain the inflation momentum generated by the undervaluation of the lira following its exit from the EMS in 1992:¹⁴ despite the continuing steep currency depreciation in 1995, expectations of rising inflation did not take root, so that the external price impulse was not transmitted to domestic markets.¹⁵ Indeed, the tight stance of monetary policy in 1996 was associated with steep currency appreciation, the lira/DM exchange rate rising by 8.5 per cent between December 1995 and November 1996, hovering around L 1 000 during the autumn. This was the highest level since September 1994 and compares to an historical low of L 1 275 in March 1995 (Figure 17).

The improving inflation record, reduced political uncertainty and tighter fiscal targets all contributed to the above development. Overall, the variability of daily exchange rate changes decreased during the phase of exchange-rate appreciation, following abnormally high volatility in the first three months of 1995, when the exchange rate depreciation gathered speed (Figure 18). In November 1996, the lira returned to the ERM at a central parity of L 990 per Deutschmark,¹⁶ which is marginally above the average exchange rate observed since the announcement of tighter fiscal targets at the end of September. Thereafter, the lira appreciated further, moving into the upper part of the fluctuation band in December 1996.

Money and credit aggregates

Notwithstanding stronger nominal income growth, the increase in monetary and credit aggregates remained subdued in 1995, M2 rising by 1.9 per cent in the year to December 1995 (Table 15). This was unchanged from 1994 and 3 points lower than the target rate of 5 per cent set in October 1994. The rise in the velocity of circulation was mainly attributable to the most liquid M2 components (currency in circulation and sight deposits), which decelerated under the impact of monetary stringency. While yields on alternative instruments increased in 1995, deposit rates remained broadly flat in the face of a hesitant revival of bank lending. The modest rise in private consumption, in restraining the demand for transaction instruments, also damped the rise in liquid M2 components. By contrast, demand for certificates of deposit with a maturity of at least eighteen months was buoyant, spurred by the removal of reserve requirements in July 1994.¹⁷ A significant contribution to base reduction (L 33 trillion) in

Table 15. **Money and credit aggregates**

Percentage change, end-of-period

	1992	1993	1994	1995	1996
Adjusted monetary base ¹	7.1	7.2	2.8	1.2	2.5
Money supply (M2)	5.9	8.2	1.9	1.9	2.8
Total domestic credit	9.9	6.5	5.8	4.4	5.1
Domestic credit to the non-state sector	7.1	1.8	0.9	2.1	2.4

1. Adjusted to changes in banks' compulsory reserve requirements.

Source: Bank of Italy (1996), *Annual Report 1995*, Tables D1 and D2; *Bolletino Economico*, October, p. 55.

1995 came from Treasury operations taking the form of redemption of government securities held by the Bank of Italy and net deposits on the Treasury account with the central bank. The external sector provided a small positive contribution to growth of the monetary base (L 3 trillion), reflected in a rise of official reserves. Overall, the monetary base contracted in real terms for the second year in a row.¹⁸

Monetary aggregates strengthened somewhat in the course of 1996. Despite weaker output trends, the monetary base, adjusted for changes in reserve requirements, picked up, rising by 2.5 per cent in the twelve months to the end of 1996. Stronger demand for sight deposits, stimulated by the fall in interest rates on Treasury bills as well as by the accumulation of international reserves, was instrumental in raising the 12-month rate of M2 growth from 1.9 per cent in December 1995 to 2.8 per cent in December 1996, still below the target rate of 5 per cent. Within the M2 aggregate, the component of longer-term certificates of deposits decreased under the impact of the new tax regime, which raised the withholding tax for certificates of deposits (eighteen months and over) from 12.5 per cent to 27 per cent (June 1996).¹⁹ Growth in domestic bank credit to the non-state sector also firmed somewhat, while bad loans kept on rising in the course of 1996, albeit at a lower rate.

Fiscal policy

Progress in fiscal consolidation since the early 1990s has been substantial, the general government deficit falling from 10.9 per cent of GDP in 1990 to an

estimated 6.8 per cent in 1996. The net primary balance (that is, excluding interest payments) has been in surplus for five consecutive years, and at nearly 3 per cent of GDP was sufficient to reverse the rising trend of public debt in terms of GDP in 1995. Nevertheless, Italy still recorded one of the largest general government deficits in the EU in 1996, so that the 1997 budget aim of bringing the deficit down to the level of the Maastricht requirement implies an unprecedented degree of fiscal consolidation. The task is the more difficult since fiscal adjustment is already being hampered by the unexpected cyclical downswing which contributed to a large deficit overshoot in 1996.

Budgetary policy and outturn for 1995

Fiscal outcomes were favourable in 1995, the general government deficit narrowing to L 125.5 trillion, L 22.5 trillion lower than in 1994. In terms of GDP, the deficit shrank from 9 per cent to 7.1 per cent of GDP, the largest decline since the process of fiscal consolidation began in 1991. Including expenditure reclassification endorsed by EUROSTAT in February 1997, the deficit amounted to 6.9 per cent of GDP (Table 16). Interrupting a string of consecutive deficit overruns evident since the mid-1980s, the 1995 budget closed with a deficit 0.5 per cent of GDP smaller than budgeted. The driving force behind this favourable outcome was unexpectedly strong income growth, consumer prices rising 3 points more than had been expected at the time of the state-budget formulation and output growth exceeding initial projections by 0.3 points.

Fiscal consolidation was dominated by a reduction in primary expenditure to 41.5 per cent of GDP, a level not seen since 1981. These spending declines far outweighed the effects from higher interest payments and lower current government revenues, all major categories of primary spending being affected. As a consequence, the net primary surplus widened to nearly 3 per cent of GDP from 0.5 per cent in 1994 (Table 16). In cyclically-adjusted terms, the primary surplus rose above 3 per cent of GDP (Figure 19, panel A). Together with privatisation receipts earmarked for debt redemption (L 5.8 trillion), the improvement of the primary balance was strong enough to reverse the rising trend of public debt. Allowing for the reclassification of expenditure, the ratio retreated from the 1994 peak of 125.1 per cent to 124.4 per cent of GDP, the first decline since 1980 (panel B).

Table 16. **General government account**

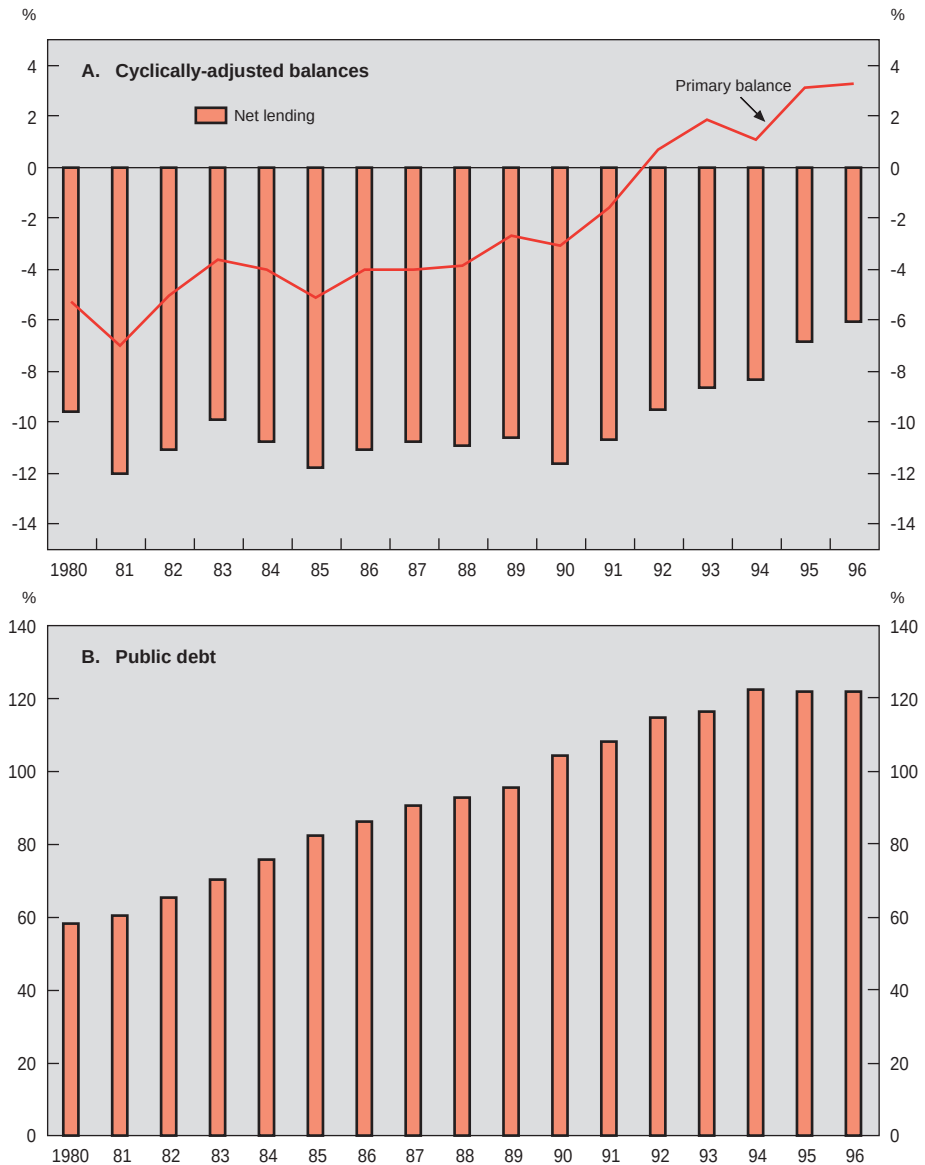
Per cent of GDP

	1992	1993	1994	1995 ¹	1996 ¹
Current expenditure	51.7	52.9	50.8	49.0	49.7
Wages and salaries	12.7	12.5	12.0	11.4	11.6
Intermediate consumption	5.0	5.2	5.1	4.8	4.9
Social transfers	19.3	19.5	19.5	18.9	19.6
Subsidies	2.1	2.3	2.2	1.8	1.8
Interest paid	11.4	12.1	10.7	11.1	10.4
Other	1.1	1.4	1.2	1.1	1.4
Capital expenditure	4.4	4.9	3.8	3.5	3.9
Investment	3.0	2.7	2.3	2.3	2.4
Capital transfers	1.3	1.7	1.2	1.1	1.1
Other	0.1	0.6	0.3	0.2	0.4
Total expenditure	56.1	57.9	54.6	52.5	53.6
Current revenues	44.3	47.4	45.2	44.8	46.2
Direct taxes	14.7	16.2	14.9	14.7	15.4
Indirect taxes	11.2	12.0	11.7	11.8	11.9
Social security contributions	15.1	15.5	14.9	14.7	15.4
Other transfers received	2.1	2.4	2.4	2.3	2.3
Property income received	1.3	1.3	1.2	1.2	1.2
Capital revenues	2.2	0.9	0.4	0.9	0.5
Total revenues	46.5	48.3	45.6	45.6	46.7
Net lending	-9.5	-9.6	-9.0	-6.9	-6.8
Net primary balance	0.7	1.2	0.5	2.9	2.4

1. Estimate. Including expenditure reclassifications endorsed by EUROSTAT in February 1997. Earlier data are unadjusted.
Source: OECD.

General government current receipts declined marginally as a share of GDP in 1995, falling to 44.8 per cent from 45.2 per cent of GDP in 1994, notwithstanding revenue measures incorporated in the supplementary budget of March 1995. Direct tax receipts and social security contributions declined both relative to GDP and in real terms, curbed by the effects of nominal wage moderation. Lower revenues from personal income taxation more than offset revenue gains from the corporate income tax, which were boosted by stronger economic activity and accelerating output prices. In contrast, indirect tax revenue rose relative to GDP by a small amount, mainly reflecting higher tax rates

Figure 19. **FISCAL INDICATORS**¹
Per cent of GDP



1. Figures for 1996 are projections.
Source: OECD.

enacted in March 1995. A rise in capital receipts stabilised overall tax pressure at 45.6 per cent of GDP.

Fiscal outcomes improved at the levels of both the state and local sectors. Cash borrowing requirement in the state sector (*settore statale*) shrank from L 156 trillion in 1994 to L 130.2 trillion in 1995, undershooting the original deficit target by L 8.4 trillion or 0.5 per cent of GDP. At the level of local authorities, the rise in current spending was also curtailed. Along with higher tax receipts this reduced their deficit from L 5.4 to L 4.5 trillion.

Budgetary policy and estimated outturn for 1996

The 1996 budget was designed to maintain the momentum of fiscal consolidation, the target being to reduce the state sector requirement to L 109.4 trillion and the general government borrowing requirement to L 111 trillion, or 5.8 per cent of GDP (Table 17). Relative to “trend” (or baseline), the budget implied a fiscal adjustment of L 32.5 trillion (Figure 20), of which the greater part was to stem from extra revenues, enlarging the targeted primary surplus to 4.3 per cent of GDP. The greater part of revenue yields were scheduled to flow from reduced tax evasion, the extension of the tax conciliation scheme to 1994 incomes,²⁰ increased social security contributions, higher indirect taxes (stamp duty, excise duties and lotteries) as well as from the extension of the extraordinary tax on firms’ assets. On the spending side, the growth in current outlays was to be kept below the rate of projected inflation (3.5 per cent), via lower outlays on health

Table 17. **General government deficit targets**

Trillions of lire

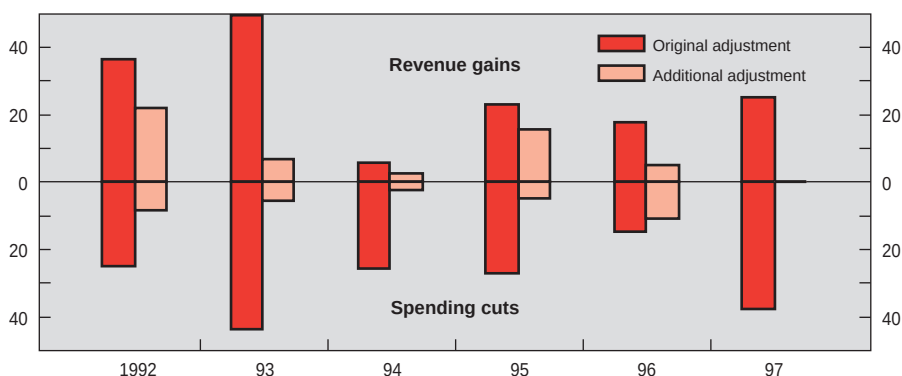
	1996	1997
Original target ¹	111	106 ²
Revised target ³	124	59 ⁴
Estimated outcome	126	70 ⁵
(<i>In per cent of GDP</i>)	(6.8)	(3.6)

1. As formulated in the medium-term plan of the previous year.
2. Including reimbursement of tax credits with bonds (L 14.1 trillion) and pension back payment (L 4.2 trillion).
3. As formulated in the medium-term plan of the same year.
4. As formulated in September 1996.
5. OECD projection (February 1997).

Source: Data supplied by the Italian authorities.

Figure 20. **PROPOSED FISCAL ADJUSTMENTS¹**

Trillions of Lire



1. Revenue gains and spending cuts relative to trend level based upon unchanged tax-and spending provisions in the state sector.

Source: OECD.

services and pensions, a consequence of the 1995 pension reform; rationalisation and reduction of inefficiencies in the provision of public services; cuts in transfers to enterprises; continued strict limits on the growth of the wage bill, and cuts in purchases of goods and services. Against this, capital spending was to be stepped up through the removal of procedural obstacles and the involvement of the private sector in the development of infrastructural projects (“project financing”). Outlays on labour market measures, education and transfers to large households were also to be raised.

Given the unexpected cyclical downswing, the fiscal targets moved quickly out of reach, demanding additional corrective action under the 1996 financial law. Correspondingly, the new government, which took office in mid-May, announced an additional L 16 trillion of measures in June, aimed at limiting the state sector deficit to L 113 trillion. The greater part of this supplementary fiscal adjustment relied on spending cuts in transportation, education, defence and health care (L 11 trillion). Revenue measures mainly consisted of higher excise duties and levies on lotteries and unleaded gasoline as well as higher taxes on some bank deposits and issues of insurance contracts. Being partly structural in

nature, the additional deficit-reducing measures also reduced the “trend” deficit for 1997.

Growing revenue shortfalls, combined with primary spending overruns, prompted the government to relax the deficit target further, to L 123 trillion.²¹ But even this target has been overrun, leaving the state sector deficit at an estimated L 138 trillion or 7.4 per cent of GDP, marginally above the 1995 outcome. At the general government level, the deficit amounted to an estimated 6.8 per cent of GDP, 1 point above the original target. This corresponds to a net primary surplus of 2.4 per cent of GDP, as against 2.9 per cent in the previous year.

Underlying the original 1996 budget were assumptions that real GDP would grow by 3 per cent in 1996, inflation decrease to 3.5 per cent and the 12-month Treasury bill rate fall from 11.5 per cent in June 1995 to 7.7 per cent at the end of 1996. Recent estimates put real GDP growth at 0.8 per cent in 1996 (more than 2 points less than originally projected) and the rise in the private consumption deflator at 4.2 per cent. In mid-December 1996, the 12-month Treasury bill rate stood at 6.6 per cent, 1.1 points lower than expected in the budget assumptions. Fiscal slippage in 1996 was therefore mainly a consequence of unexpected cyclical weakness.²² On the tax side, VAT revenues fell short of expectations, held back by the weakness in household spending on consumer durables, which are subject to high VAT rates.²³ Other factors pushing the state sector deficit above target included spending overruns for transfers to local authorities, as a result of excessive health expenditure, low yields from measures designed to curb tax evasion, higher net cash contributions to the EU and special intervention in favour of the ailing Bank of Naples (L 2 trillion). Overall, primary expenditure of the state sector is likely to have expanded by 6 per cent in 1996 (or more than 2 per cent in real terms) compared with a planned rise of 3.4 per cent.

The 1997 budget and the medium-term plan

Initial budget proposals for 1997 were based upon the three-year medium-term plan of June 1996 (*Documento di Programmazione Economico-Finanziaria*), which envisaged a cut in the 1997 state sector deficit to L 88 trillion, or 4.5 per cent of GDP, reaffirming the objectives set in 1995 (Table 18). Given prospects of a deficit overrun in 1996, this implied a more stringent fiscal correction than had originally been planned, the state sector primary surplus being scheduled to widen to 5.4 per cent in 1997. Overall tax pressure was set to remain unchanged,

Table 18. **Medium-term fiscal targets (State sector)**

	1995	1996 ¹	1997	1998	1999
Fiscal targets (in trillion lire, ratios to GDP in brackets)					
Borrowing requirements					
1994 plan	138.6 (8.0)	120.9 (6.6)	107.0 (5.6)	.. (. .)	.. (. .)
1995 plan	130.0 (7.4)	109.4 (5.8)	87.6 (4.4)	63.1 (3.0)	.. (. .)
1996 plan	130.2 (7.4)	113.0 (6.1)	88.0 (4.5)	61.0 (3.0)	60.0 (2.8)
Revised 1996 plan (September)	130.2 (7.4)	123.0 (6.6)	61.4 (3.1)	61.0 (3.0)	60.0 (2.8)
Primary surplus					
1994 plan	34.2 (2.0)	54.4 (3.0)	77.6 (4.1)	.. (. .)	.. (. .)
1995 plan	60.0 (3.4)	80.0 (4.3)	104.0 (5.3)	125.1 (6.0)	.. (. .)
1996 plan	60.0 (3.6)	80.0 (4.5)	104.0 (5.4)	125.1 (6.0)	129.5 (6.0)
Revised 1996 plan (September)	60.0 (3.6)	72.6 (3.9)	131.0 (6.7)	122.3 (6.0)	129.5 (6.0)
State government debt (in per cent of GDP)					
1996 plan	124.9	124.3	123.9	121.0	117.8
Macroeconomic assumptions (percentage change)					
Real GDP					
1994 plan	2.7	2.8	3.1	..	..
1995 plan	3.0	3.0	3.1	3.1	..
1996 plan	3.0	1.2	2.0	2.8	2.9
Consumer price inflation					
1994 plan	2.5	2.0	2.0	..	..
1995 plan	4.7	3.5	3.0	2.5	..
1996 plan	5.7	3.9	2.5	2.0	2.0

1. Excluding reclassification of expenditure endorsed by EUROSTAT in February 1997.

Source: Data provided by the Italian authorities.

revenue increases offsetting losses caused by the expiration of one-off measures. The general government borrowing requirement was to be reduced to 5.4 per cent of GDP in 1997, the higher deficit mainly reflecting back-payments for pensions under the Constitutional Court ruling (L 4.2 trillion) and repayment of tax credits through issues of government bonds (L 14.1 trillion), which, at the level of general government, are treated as capital outlays. Meeting the Maastricht deficit criterion of 3 per cent of GDP was foreseen only for 1998.

Subsequent budget proposals announced at the end of September 1996 and approved by Parliament brought the 3 per cent deficit target forward by one year for both the state sector and the general government. This almost doubled the size of the 1997 fiscal adjustment. The overall fiscal package for 1997 aims at cutting the borrowing requirement for the state sector to L 61.4 trillion and for the general government to L 59.3 trillion. Relative to “trend”, the overall primary adjustment totals L 61.6 trillion for the state sector (Figure 20), of which L 36.1 trillion represents an “ordinary” fiscal adjustment and the remainder (L 25.5 trillion) a “supplementary” deficit cut (*Intervento per l’Europa*) (Table 19). About three-fifths of the ordinary fiscal adjustment is scheduled to come from spending cuts. Expected revenue gains are largely based upon measures designed to curb tax avoidance, the removal of tax deductions for employees’ fringe benefits and higher excise duties on lotteries. Through a Delegation Law, the government obtained powers to simplify the structure of the personal income tax, restructure the taxation of financial assets and introduce a regional tax (based upon value added) which would replace the local tax on business incomes, health contributions and various levies paid by employers. Thus, at the level of general government the incidence of primary spending restraint would be weaker than for the state sector, the difference being nearly L 4 trillion or 0.2 per cent of GDP (Table 19).

The cuts in state sector primary spending (L 22 trillion relative to trend) are spread out over an unusually wide range of current expenditure items, transfer cuts affecting the railway and highway companies, the health and pension systems (largely taking the form of reduced pension fraud and lower social security payments for state employees) and local authorities. Expenditure savings include:

- *Reductions in budgetary transfers to regions and other local administrations*, offset by devolution of tax authority.
- *Lower health outlays*. Savings in hospital spending include a further reduction in the number of beds per person and the establishment of the incompatibility for doctors to work in both public and private structures. Cuts in pharmaceutical expenditure are achieved through reduced margins of pharmacists, the establishment of standards for diagnostic and specialist ambulatory care, which general practitioners are encouraged to follow.

Table 19. **The 1997 budget**
Fiscal adjustment relative to trend, trillions of lire

	State sector	General government
A. "Ordinary" fiscal adjustment	36.1	32.3
Spending cuts	22.0	18.2
Health system	0.6	0.6
Civil servants	2.8	2.8
Transfers to local authorities	5.0	2.0
Social security	5.2	5.2
Public consumption	1.3	1.3
Transfers to public utilities and enterprise financing	8.3	7.3
Other primary spending cuts	0.9	1.1
Measures for employment	-2.1	-2.1
Revenue gains	14.1	14.1
Corporate taxation (including anti-erosion measures, reduced fringe benefits and other tax deductions)	4.4	4.4
Lottery	1.0	1.0
Faster payments on excise and consumption taxes	2.5	2.5
Fiscal drag	1.2	1.2
Health expenditure deduction	0.7	0.7
VAT increase on drugs	0.6	0.6
Tobacco product taxation	0.5	0.5
Other	3.2	3.2
B. Supplementary fiscal adjustment	25.5	29.7
Europa tax	11.5	11.5
Income tax surcharge	5.5	5.5
Tax on fund for redundancy payment	3.5	3.5
Faster tax collection	2.5	2.5
Reclassifications and other measures	14.0	18.2
Railway company	6.1	6.1
Reclassification of interest payment on postal savings from an accrual to a cash basis	5.9	5.9
Attribution of pension arrears to earlier years	..	4.2
Reclassification of amortisation payment	2.0	2.0
C. Total fiscal adjustment (net of interest savings)	61.6	62.0

Source: Data submitted by Italian authorities.

- *Savings in pensions and welfare outlays* follow from a crackdown on pension fraud, more stringent controls on beneficiaries of invalidity pensions and harmonisation of contributions for civil servants.
- *Lower compensation costs.* Measures include a hiring freeze for central administrations and a 10 per cent limit on turnover; incentives to part-

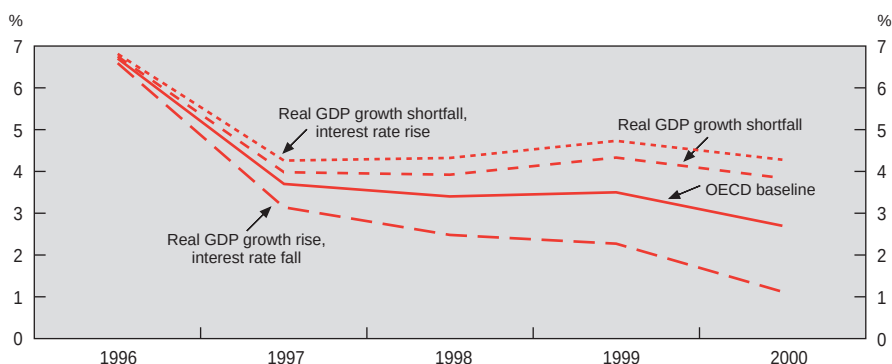
time work and tighter controls on second jobs; reduction in the number of schools and classes and hiring limits for temporary teachers; reduction in the number of conscripts and officers in the armed forces.

- *Cuts in budgetary transfers to entities producing public services.* These include savings on service-contracts with the railway company, and measures to restructure the national post office and the railways.
- *Measures to enhance spending efficiency,* including the establishment of expenditure centres, the merging of some ministerial structures, changes in the system of cash advances for public contracts, and savings in purchases of goods and services of public administration.

The measures underlying the supplementary fiscal adjustment for 1997 consist of taxes and financial operations, the latter category being projected to yield more than one half of the supplementary deficit cut (Table 19). The tax measures called “Europa tax” (L 11.5 trillion) include a one-year, progressive income tax (L 5.5 trillion), the rate ranging from 1.5 per cent for employees with a minimum annual salary of L 23.4 million (\$15 000) to 3.5 per cent on incomes over L 100 million (\$65 000). For self-employed persons, the minimum annual income has been set at L 17.2 million. The other tax measures include tighter tax provisions for funds set aside for the contingency of severance pay (L 3.5 trillion) and faster tax collection (L 2.5 trillion). The financial operations, *i.e.* reclassification of expenditure approved by EUROSTAT in February 1997, are expected to reduce the deficit by L 18.2 trillion at the general government level or nearly 1 per cent of GDP. They include a cut in transfer payments to the railway company, which is outside the general government, in return for railway debt being incorporated into public debt,²⁴ the reclassification of interest payment on postal savings from an accrual to a cash basis (L 5.9 trillion); the attribution of payments for pension arrears to the years when the liability was incurred (L 4.2 trillion); and the reclassification of amortisation payment (L 2 trillion, Table 19).

The new budget targets were laid out in the modified medium-term plan of September 1996 (*Nota di Aggiornamento del Documento di Programmazione Economico-Finanziaria*), which is based upon unchanged macroeconomic projections of real GDP growing by 2 per cent in 1997, inflation easing to 2.5 per cent and the interest rate on 12-month Treasury bills falling from 7.7 per cent at the end of 1996 to 7 per cent a year later.²⁵ In February 1997, the government

Figure 21. **RESPONSE OF THE BUDGET DEFICIT TO OUTPUT AND INTEREST SHOCKS¹**
Per cent of GDP



1. The simulations assume a $\frac{1}{2}$ percentage point cut in real GDP growth (annual rate) and in the level of short and long-term interest rates, relative to baseline, starting in the second half of 1996, and extending throughout the period. For output shocks, nominal interest rates remain unchanged.

Source: OECD.

announced that new measures of fiscal restraint would be taken to meet the deficit target of 3 per cent of GDP. For 1998 and 1999, the modified medium-term plan called for further sizeable fiscal corrections relative to trend (L 27 trillion for 1998 net of interest payment) so as to keep the general government borrowing requirement below 3 per cent of GDP.

Figure 21 illustrates the extent to which these objectives are contingent upon the growth and interest rate assumptions adopted. If growth were to be lower by $\frac{1}{2}$ per cent per annum from the second half of 1996 onwards, the deficit would be $\frac{1}{4}$ per cent of GDP higher in 1997 and $\frac{1}{2}$ per cent in 1998. The combined impact of $\frac{1}{2}$ -point higher interest rates and $\frac{1}{2}$ -point lower growth would be $\frac{1}{2}$ per cent in 1997, with the implication that lower interest rates and higher growth would ease the task of budget consolidation by the same amount.

Public debt and debt management

The debt ratio is also sensitive to interest-rate and growth assumptions. A 1 point decrease in nominal interest rates maintained over the 1995-2000 period

could be expected to reduce the debt-GDP ratio directly by almost 5 points by the year 2000. The joint effect of lower nominal interest rates and of a higher real GDP growth of $\frac{1}{2}$ a point per year would be a reduction in the debt-GDP ratio of almost 20 points by the year 2000, relative to baseline, implying a strong falling trend in the debt ratio. This would continue a shift which emerged in 1995, when the net primary surplus of 2.9 per cent of GDP was sufficient to reduce the debt/GDP ratio

Public debt continued falling relative to GDP in 1996, the ratio descending to 123.3 per cent of GDP (including the reclassification of expenditure, Table 20). The decline was assisted by buy-back operations under which the Treasury absorbed government bonds worth L 9.7 trillion.²⁶ In 1995, the last year for which data are available, the maturity structure of public debt continued to change, the medium- and long-term components increasing further to nearly 68 per cent of public debt compared with 56 per cent at the beginning of the 1990s (Table 21). A new zero coupon instrument introduced in 1995 contributed to the reduction in the share of Treasury bills below 20 per cent of public debt. Overall, though, the average life of public debt after rising between 1989 and 1994, stabilised at around 4.5 years in 1995.

The structure of the state sector borrowing changed significantly in 1995 when net issues of Treasury bills and medium- and long-term securities on

Table 20. **Public debt**¹
Per cent of GDP

	1993	1994	1995	1996
State sector ²	114.1	118.3	117.6	..
General government ³				
Bank of Italy definition	117.2	121.5	120.5	121.9
EU definition	119.3	125.5	124.9	124.3
Including reclassification of expenditure	119.1	125.2	124.5	123.3
Public sector ⁴	120.4	124.7	..	..

1. Excluding incorporation into public debt of railway liabilities.

2. The State sector includes central government and autonomous agencies providing non-market services.

3. Excluding liabilities for tax refunds.

4. The public sector includes autonomous agencies providing market services.

Source: Data supplied by the Italian authorities.

Table 21. **Structure of public debt**

Percentage shares

	1991	1992	1993	1994	1995
Medium-and long-term securities	56.3	56.4	60.3	67.1	67.7
<i>of which: Market</i>	52.4	51.2	54.9	57.5	58.2
Bank of Italy portfolio	4.0	5.2	5.4	9.6	9.5
Total ECU and lira Treasury bills	24.6	24.8	22.7	20.3	19.6
<i>of which: Market</i>	24.0	24.8	22.7	20.6	19.6
Bank of Italy portfolio	0.7	0.0	0.0	0.7	0.2
Post Office funds	9.5	9.2	9.0	9.5	9.8
Lending by banks and other domestic debt	0.9	1.1	1.0	1.0	1.0
Foreign debt	3.2	3.2	4.1	4.3	5.1
Liabilities with Bank of Italy	5.4	5.2	2.8	-3.2	-3.4
Total state sector debt	100	100	100	100	100

Source: Bank of Italy (1996), Statistical Annex to Annual Report 1995, Table AC7.

the domestic market were reduced. Low interest rates abroad strengthened recourse to foreign loans (Table 22). In 1996, the inversion of the yield curve stimulated government borrowing at the medium- and longer-term end of the capital market

Table 22. **Financing of the state sector borrowing requirement**

Percentage shares

	1992	1993	1994	1995	1996
ECU and Lira Treasury bills (BOT + BTE)	29.7	3.8	7.7	-1.2	-21.1
Zero-coupon bonds (CTZ)	..	..	..	30.8	39.4
Floating rate notes (CCT)	34.3	7.0	22.2	-23.9	22.1
Marketable fixed-rate bonds (BTP + CTO)	23.8	74.6	69.1	77.4	15.8
ECU bonds (CTE)	2.2	-0.8	-7.2	-6.5	-3.6
Postal savings	5.8	6.0	14.0	10.8	10.6
Foreign bonds	-1.2	17.1	11.1	23.5	12.8
Net balance of cash accounts with the Bank of Italy	4.9	-3.1	-18.4	-3.7	6.4
Other	0.5	-6.2	1.5	-7.2	17.6
State sector borrowing requirement	100	100	100	100	100

Source: Data submitted by Italian authorities.

III. The control of public spending

Introduction

Progress towards fiscal consolidation has been pronounced during the 1990s, the general government primary balance moving from a deficit of nearly 2 per cent of GDP in 1990 to an estimated surplus of 2.4 per cent in 1996. Until 1993 rising tax pressure was the main source of fiscal consolidation, statutory tax rates moving above EU average levels and direct taxes providing a relatively high proportion of revenues.²⁷ Starting in 1993, greater reliance has been placed on public spending restraint, pushing primary outlays in relation to GDP significantly below the EU average. Although emphasis was put on measures capable of maximising savings over the short run, important structural reforms affecting expenditure flows were also introduced, including pension reforms designed to deal with the potential increase in entitlement spending over the longer run. However, overall public spending remains under pressure from high debt and interest payments while, despite reform measures, entitlement and health programmes remain exposed to severe strains. In addition, the inefficiency of public services is widely seen as a major burden for Italy's productive sector and the institutional framework in which spending decisions are taken and implemented remains unusually complex.

This chapter reviews the major issues involved in improving public expenditure control in Italy. It begins with an overview of primary spending trends over the past 30 years, identifying the main sources of expenditure increases. It then analyses some of the most important factors sustaining the expansion of major entitlement programmes, and describes the institutional arrangements which may have fostered poor public sector planning and administration. Finally it presents an assessment of the scope for further action.

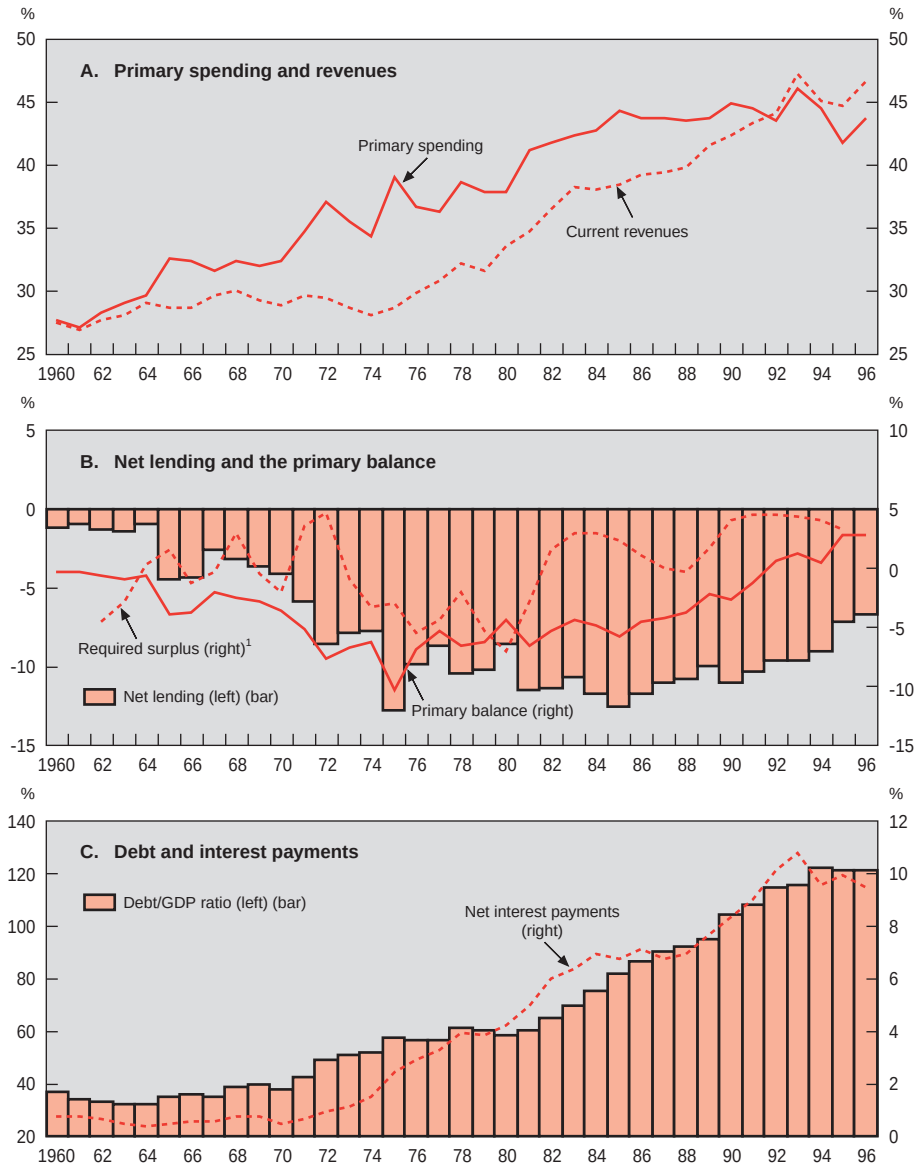
Overview of expenditure trends

Primary spending and the growth of public debt

General government primary expenditure increased by 15 points of GDP from 1960 to the early 1990s, pushing the primary balance into deficit from 1965 onwards (Figure 22). As elsewhere, this partly reflected the rise in the government wage bill, higher output of public services relying on manpower increases rather than productivity gains. As a result, the rise in the deflator of public consumption exceeded by 70 per cent that of the GDP deflator in the 1960-90 period. The growth of primary spending proceeded at a pace similar to that of other European countries, but in Italy the tax increases needed to finance this expenditure were delayed. Up to the early 1980s the effects of primary deficits on the growth of the public debt were muted by negative real interest rates, which acted as an “inflation tax” on holders of government debt, but thereafter the disappearance of money illusion, combined with lower real GDP growth, caused the rise in the debt to GDP ratio to accelerate. By the early 1990s, overall public spending was higher than the EU average reflecting high interest payments on the national debt, which in Italy were 9 per cent of GDP. At the same time, although primary spending continued rising as a proportion of GDP (Figure 23, panel B), it stayed in line with the rest of Europe, albeit higher than in the OECD average. The root of the Italy’s budgetary problem can be thus traced back to faster debt accumulation and rapidly rising debt service costs stemming from the early 1970s when important reforms expanding social transfers were not matched by a rise in tax pressure.

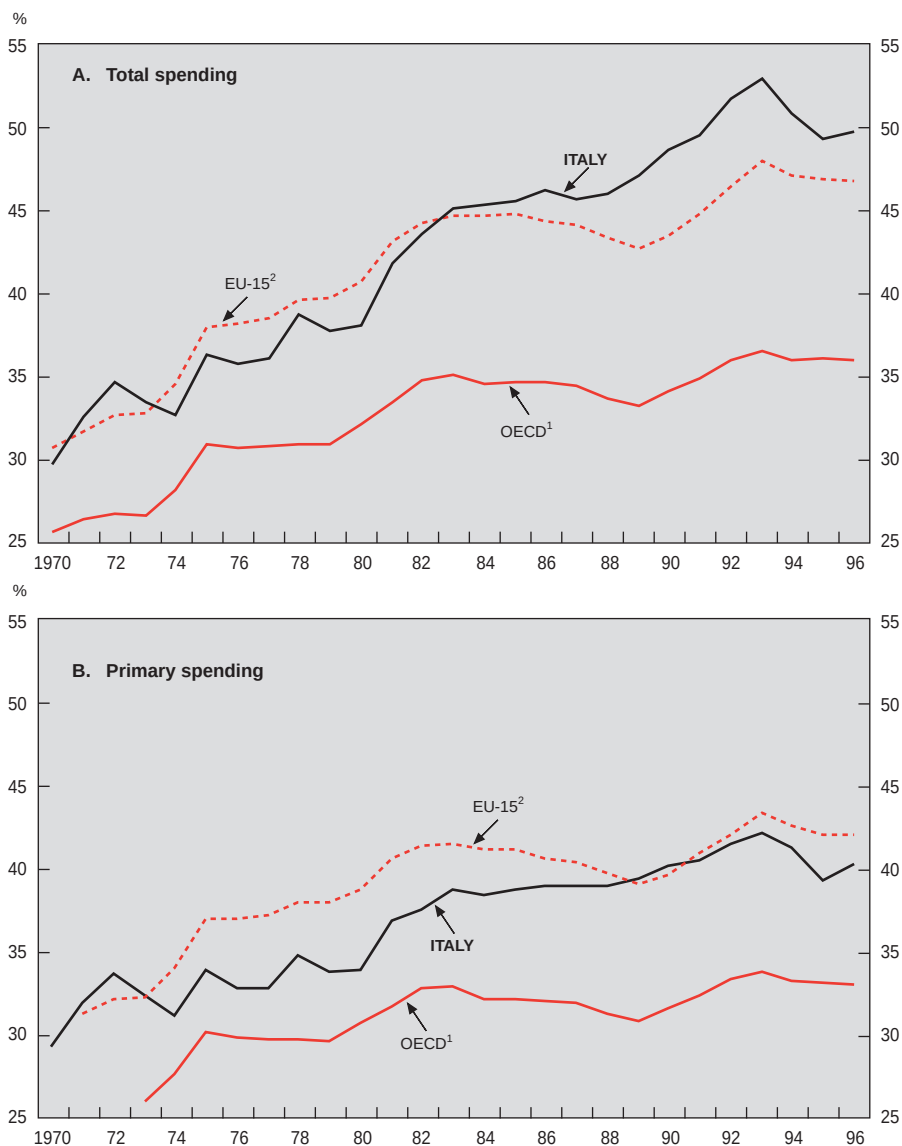
The growth of public expenditure over the last 30 years affected most spending categories. Outlays of social security institutions (9 points of GDP) and higher compensation costs for government employees (4 points) accounted for the major part of the total increase, while purchases of goods and services and subsidies also recorded a relatively high rate of expansion (Figure 24). Among functional categories, the increase was largest for pensions and welfare payments (7 points of GDP) as well as health (3 points), followed by general services, and education, with only defence declining as a share of GDP. The growth of public expenditure was associated with a transfer of spending authority to local governments, which in 1994 were responsible for around 30 per cent of total primary outlays (Figure 25) and for 70 per cent of investments. The devolution of

Figure 22. **THE DYNAMICS OF PUBLIC DEBT**
Per cent of GDP



1. The primary surplus needed to stabilize the debt ratio.
Source: OECD.

Figure 23. **GENERAL GOVERNMENT SPENDING**
Per cent of GDP

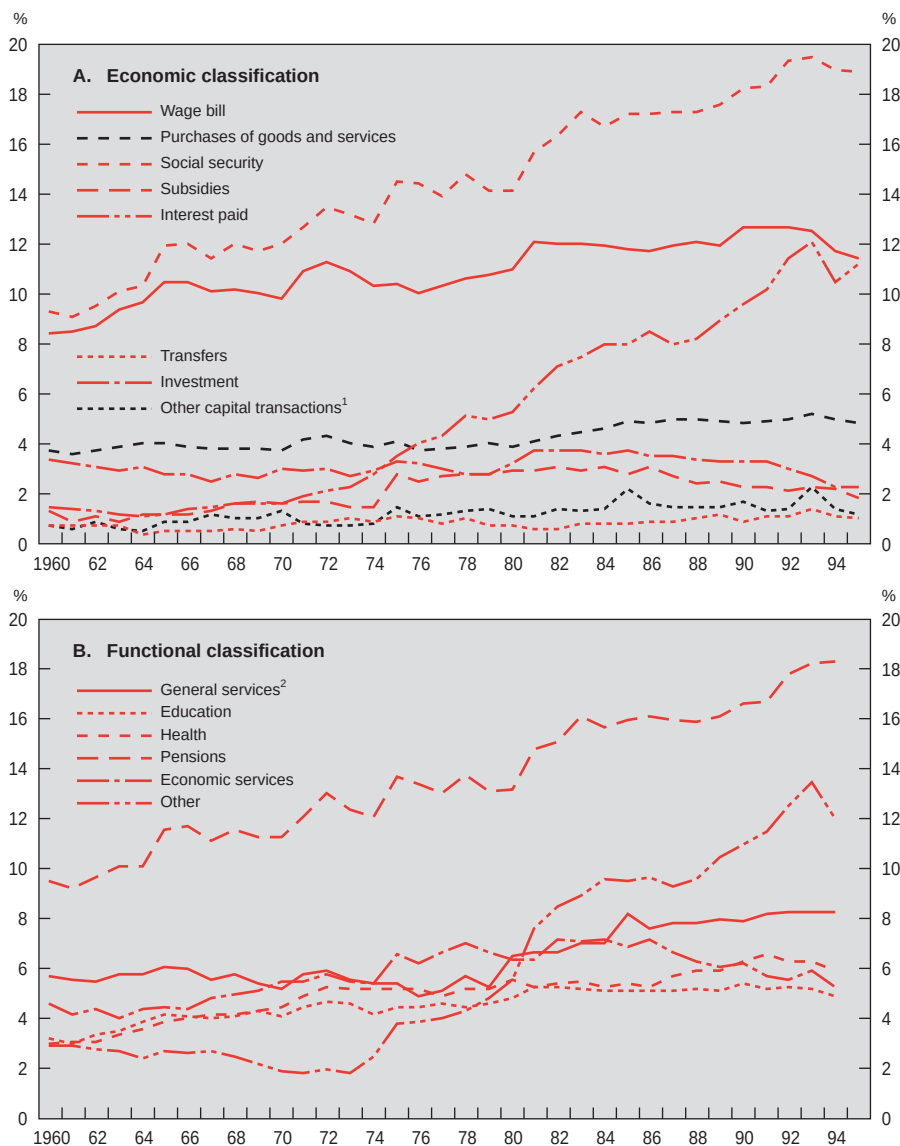


1. Excluding Ireland, Iceland, New Zealand, Norway and Switzerland.

2. Excluding Ireland.

Source: OECD.

Figure 24. **GENERAL GOVERNMENT EXPENDITURE BY CATEGORY**
Per cent of GDP

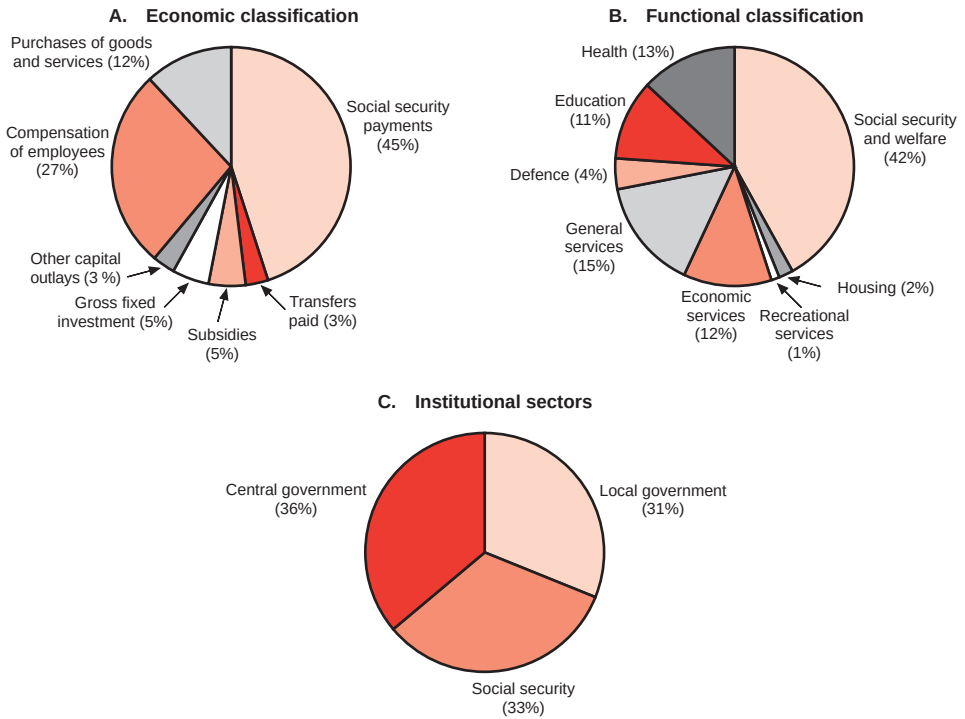


1. Includes miscellaneous transfers.

2. Includes housing, cultural and unallocated expenditure.

Source: OECD.

Figure 25. **COMPOSITION OF GENERAL GOVERNMENT PRIMARY SPENDING**
1994



Source: OECD.

spending authority, which took place in the 1970s, was not matched by a similar transfer of autonomous tax powers.

Spending restraint and correction of fiscal disequilibria

General government accounts improved in the first half of the 1990s. While from 1990 to 1993 deficit reduction entirely reflected higher revenues, expenditure restraint contributed to fiscal consolidation in 1994-95. The cumulative fall in primary spending exceeded 4 points of GDP in 1994-95 (Table 23), more than offsetting a decline in tax pressure and helping to lower the deficit by 2.5 points of GDP. Both current and capital spending cuts were responsible for deficit

Table 23. **General government accounts**¹

Per cent of GDP

	1990	1991	1992	1993	1994	1995	Point changes	
							From 1990 to 1993	From 1993 to 1995
Primary spending	44.0	43.9	44.6	45.8	43.9	41.5	1.8	-4.3
Current primary spending	39.0	39.3	40.2	40.9	40.1	38.0	1.9	-2.8
Capital spending	5.0	4.5	4.4	4.9	3.8	3.5	-0.0	-1.5
Interest payments	9.6	10.2	11.4	12.1	10.7	11.2	2.4	-0.9
Total receipts	42.7	43.8	46.5	48.3	45.6	45.6	5.6	-2.7
Current receipts	42.4	43.5	44.3	47.4	45.2	44.8	5.0	-2.6
Capital receipts	0.3	0.4	2.2	0.9	0.4	0.9	0.7	-0.0
Overall balance	-11.0	-10.2	-9.5	-9.6	-9.0	-7.1	1.4	2.5
<i>Memorandum items:</i>								
Cyclically-adjusted balance	-11.7	-10.7	-9.5	-8.5	-8.2	-6.7	3.2	1.8

1. Excluding reclassification of expenditure endorsed by EUROSTAT in February 1997.

Source: Banca d'Italia, *Annual Report; Relazione Generale sulla situazione economica del paese*.

reduction, with large contributions from public sector compensation, social security and subsidies. Among functional categories, the decline was largest for pensions and welfare, health and education and economic services.²⁸ While deficit reductions from 1993 to 1995 partly reflected the impact of the economic recovery, a discretionary fiscal tightening played the dominant role.

Until recently, budget targets in Italy were mainly formulated in terms of the (cash) State Sector borrowing requirement, with the impact of corrective policies being measured relative to “trend” projections based on current legislation. On this basis, the notional value of budgetary measures introduced between 1992 and 1996 reached L 331 trillion (Table 24), almost evenly split between lower spending and higher revenues. In contrast to the 1980s, when a tendency to overestimate the trend deficit may have inflated the size of the budgetary correction, this factor has not played a significant role in the first half of the 1990s, with the trend deficit being brought progressively closer to deficit outcomes of the previous year.²⁹ On the other hand, a comparison of deficit targets and outcomes in 1992-96 points to a cumulative overshooting of L 36 trillion, suggesting that the actual correction was 10 per cent lower than expected.³⁰ The need to correct

Table 24. **Budgetary savings in primary spending by main economic categories¹**

Billions of lire						
	1992	1993	1994	1995	1996	Total
Compensation of employees	-9 530	-10 180	-3 635	-2 480	-780	-26 605
Purchase of intermediate goods	-2 200	-220	-1 190	-3 270	-1 785	-8 665
Subsidies	-1 050	-320	-15	..	-10 335	-11 720
Social security outlays	-4 120	-13 825	-6 665	-11 855	-2 765	-39 230
Capital outlays	-7 080	-1 675	-6 330	-815	-6 820	-22 720
Transfers to local government	-1 350	-510	-1 928	-2 170	..	-5 958
Other	-1 770	-17 920	-5 170	-9 685	-8 820	-43 365
Total spending	-27 100	-44 650	-24 933	-30 275	-31 305	-158 263
<i>Memorandum items:</i>						
Revenue increases	40 000	51 250	7 047	40 905	33 682	172 884
Total budgetary correction	-67 100	-95 900	-31 980	-71 180	-64 987	-331 147

1. Effect on cash flows of the state sector.

Source: ISCO, *Rapporto semestrale*, various issues.

an unsustainable fiscal position called for measures capable of achieving savings over a short time period. As a result, a significant proportion of the expenditure savings initially took the form of “one off” interventions, requiring further measures to be taken at a later stage. Among these were the suspension of pension indexation, freezes to seniority pensions, a freeze on wage contracts, temporary deferral of transfers to public utilities and curbs to investment spending (see Box 1). Nevertheless, important structural reforms were also introduced over this period, including: pension reform; a restructuring of the health system; reforms aimed at aligning public employment conditions with those in the private sector; a rationalisation of procurement and public investment processes, and a cut-back in transfers to industry. Their impact became more important with time, reversing the upward trend of primary spending as a share of GDP.

Starting in 1990 from a level broadly in line with that of other European countries, primary spending decreased by 1994 to a level almost 3 points below the EU average as a percentage of GDP (Table 25). Capital outlays, which were comparatively high in 1990, have since converged, while current primary spending has fallen further relative to the EU average. Comparisons for economic categories highlight higher social security outlays and subsidies in Italy, as well as a larger weight of compensation costs (except in comparison with France)

Box 1. Main measures of expenditure restraint since 1992

1992. More stringent limits on new hiring (L 685 billion) and limits to wage growth in the state sector within target inflation (L 5 500 billion). Increase in the share of pharmaceutical and medical expenditure charged on individuals (L 3 500 billion). Indexation of pension benefits in 1992 to target inflation (L 620 billion).

1993. Freeze of new contracts in the public sector and of all other earnings' increases linked to tenure (L 386 billion), offset by a flat-rate increase of L 20 000 per month. Freeze of seniority pensions (L 2 100 billion), and reduced indexation of pension benefits (L 8 650 billion). Caps to pharmaceutical expenditure totally reimbursed by the state (L 1 750 billion), increase in the share of pharmaceutical, diagnostic and specialist medical expenditure borne by non-exempt individuals (L 1 195 billion). Cuts in transfers for construction of universities, for environmental plans, overseas development, railway and urban transport (L 18 240 billion).

1994. Deferral to 1995 of the adjustment to past pension benefits which began to be disbursed in 1983 (*pensioni di annata*, L 3 685 billion). Introduction of a new classification of pharmaceutical products in three classes, with differentiated state contribution for expenditure in each group, and more stringent rules for the total exemption from pharmaceutical charges (L 6 685 billion). Cuts in loans for residential construction (L 1 715 billion); savings in the construction and operation of infrastructure projects, to be achieved with the introduction of "standard costs" for similar projects (L 865 billion); lower transfers for the development of the south (L 1 215 billion) and for the reconstruction of regions affected by earthquakes (L 920 billion).

1995. Freeze on seniority pensions (L 5 100 billion), deferral of the indexation of pension benefits (L 1 345 billion) and of the adjustment of pension benefits which began to be disbursed in 1983 (*pensioni di annata*, L 2 000 billion). Hiring freeze for the first half of 1995 in the public administration (L 1 200 billion) and in the National Health Service (L 1 100 billion). Curbs in purchases of goods and services of the National Health Service (L 3 100 billion). Reduction in pharmaceutical prices paid to producers and retailers (L 1 200 billion). More stringent criteria for eligibility to exemption from pharmaceutical expenses (L 810 billion). Cuts in current and capital transfers to firms and in purchases of goods and services in public administration (L 7 000 billion).

1996. Curbs in current and capital transfers to the railway company (L 5 270 billion), in subsidies to the road-maintenance agency (ANAS, L 2 000 billion) and in current transfers to firms (L 1 100 billion). Reduction in budgetary allocation for current outlays of the National Health Service (L 900 billion), reclassification of pharmaceutical products (L 720 billion), higher contributions from autonomous regions to health spending (L 850 billion). Cuts in purchases of goods and services (L 1 385 billion) and more stringent screening of spending authorisations by the Prime Minister's office (*Presidenza*

(continued on next page)

(continued)

del Consiglio dei Ministri, L 1 200 billion). Reductions in current transfers to international agencies (L 1 000 billion), to public agencies outside the state sector (L 300 billion) and of other transfers (L 2 080 billion).

Table 25. **General government spending**
Per cent of GDP

	Italy					EU-15				
	1970	1980	1985	1990	1994	1970	1980	1985	1990	1994
Primary current spending	29.2	32.5	37.3	38.8	39.9	..	38.8	41.1	39.5	42.7
Capital spending	2.8	4.1	5.6	4.8	3.4	..	4.2	3.9	3.9	3.5
Interest payments	1.7	5.4	8.0	9.6	10.7	1.8	3.1	4.9	4.8	5.3
Total spending	33.7	42.0	50.9	53.2	54.0	36.5	46.2	49.9	48.2	51.5
Total primary spending	32.0	36.6	42.9	43.6	43.3	34.7	43.1	45.0	43.4	46.2

Source: EU.

(Table 26). Among functional categories, relatively high outlays are evident in Italy for economic services, mainly in the transport sector, general services (except western Germany) and social security and welfare (except France). To some extent, however, these features may reflect differences in public service provision across countries (*i.e.* transfers versus direct provision of services). Overall, the need to maintain spending restraint does not result from excessive primary outlays *per se*, but rather from the high stock of public debt, the legacy of past fiscal inaction.³¹

Factors sustaining the expansion of major social programmes

Social spending (including health, education, pensions and welfare benefits) accounted for more than three-quarters of the growth of primary spending over the last three decades, specific features of the Italian welfare system amplifying a general trend among OECD economies. In the 1960 to 1975 period, the increase was mainly driven by the extension of eligibility to large groups of the

Table 26. **Government spending in major EU countries by functional and economic category**

Per cent of GDP

	Italy				Germany ¹				France				United Kingdom			
	1985	1990	1992	1994	1985	1990	1992	1994	1985	1990	1992	1994	1985	1990	1992	1994
Functional classification																
General public services ²	6.0	6.0	6.4	6.5	5.6	7.3	..	..	4.9	4.9	5.3	..	3.4	3.9	4.3	4.2
Defence	2.1	1.9	1.9	1.8	2.8	2.2	..	..	3.4	3.2	3.0	..	5.1	4.2	4.1	3.6
Education	5.1	5.4	5.3	4.9	4.6	4.1	..	..	5.6	5.3	5.8	..	4.9	4.9	5.3	5.3
Health	5.4	6.3	6.3	5.8	6.4	5.9	..	..	9.9	7.3	7.5	..	5.0	5.1	5.9	5.8
Social security and welfare	15.9	16.6	17.8	18.3	19.1	17.8	..	..	18.1	19.5	21.1	..	14.7	13.0	16.0	16.6
Housing, community and cultural services	2.3	2.0	1.9	1.7	1.9	1.9	..	..	4.6	4.3	4.7	..	2.7	2.7	2.6	2.3
Economic services	6.9	6.2	5.6	5.3	4.6	4.2	..	..	3.7	3.3	3.2	..	4.2	4.2	3.3	3.3
<i>of which:</i> Transport	3.9	3.7	3.1	3.0	2.1	1.7	..	..	2.2	1.9	1.4	..	1.5	1.5	1.6	1.6
Other non classified ³	7.2	9.0	10.6	10.1	3.0	2.6	..	..	3.0	3.2	3.7	..	7.5	3.9	3.3	3.6
Total	50.9	53.4	55.8	54.4	47.9	46.0	..	..	53.2	51.0	54.2	..	47.6	41.8	44.8	44.6
Economic classification																
Final consumption expenditure	16.4	17.4	17.6	17.2	20.1	18.3	18.0	17.7	19.4	18.0	18.8	19.6	21.1	20.6	22.2	21.6
<i>of which:</i> Compensation of employees	11.8	12.7	12.6	12.0	10.6	9.7	9.6	9.5	14.6	13.2	13.8	14.4	12.9	12.5	13.0	10.4
Purchase of goods and services	4.6	4.7	5.0	5.2	9.4	8.6	8.3	8.2	4.7	4.8	5.1	5.1	8.2	8.1	9.2	11.2
Subsidies	2.8	2.3	2.1	2.2	2.1	2.0	1.6	1.6	2.3	1.6	1.6	1.6	2.1	1.2	1.2	1.1
Social security benefits	15.0	18.2	19.3	19.5	16.2	15.2	14.8	16.1	22.1	21.2	22.4	23.3	13.5	11.6	14.4	15.4
Property income	7.5	9.6	11.4	10.7	3.0	2.6	3.0	3.4	2.9	2.9	3.4	3.8	4.9	3.4	2.9	3.3
Other current outlays	0.8	0.9	1.1	1.1	2.5	4.3	7.0	6.6	2.2	2.1	2.5	2.7	1.7	1.3	1.5	0.8
Gross fixed capital formation	3.7	3.3	3.0	2.3	2.2	2.2	2.2	2.0	3.1	3.3	3.5	3.4	1.9	2.3	2.1	1.9
Other capital outlays	4.4	1.7	1.3	1.2	1.8	1.4	1.9	1.3	1.3	2.0	1.8	1.9	1.1	2.2	1.3	1.1
Total	50.8	53.4	55.9	54.2	47.9	46.0	48.4	48.9	53.2	51.1	53.9	56.3	46.3	42.5	45.5	45.3
<i>of which:</i> Primary spending	43.3	43.8	44.5	43.5	45.0	41.7	45.5	45.5	50.3	48.1	50.6	52.5	41.3	39.1	42.6	42.0
Current primary spending	35.1	38.8	40.1	40.0	40.9	38.1	41.4	42.2	46.0	42.9	45.3	47.2	38.3	34.6	39.2	38.9

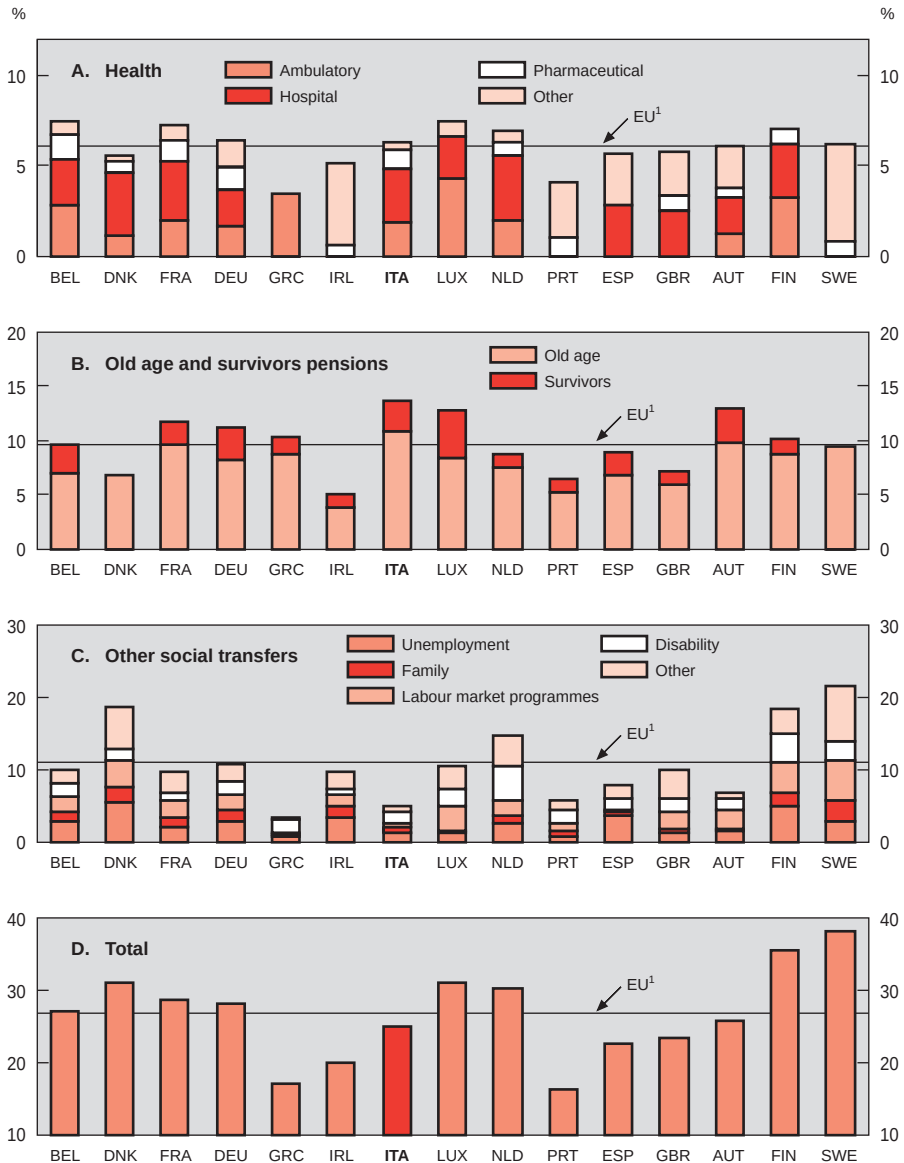
1. West Germany only.

2. Includes public order and safety.

3. Includes interest payments.

Source: OECD Annual National Accounts; and national sources.

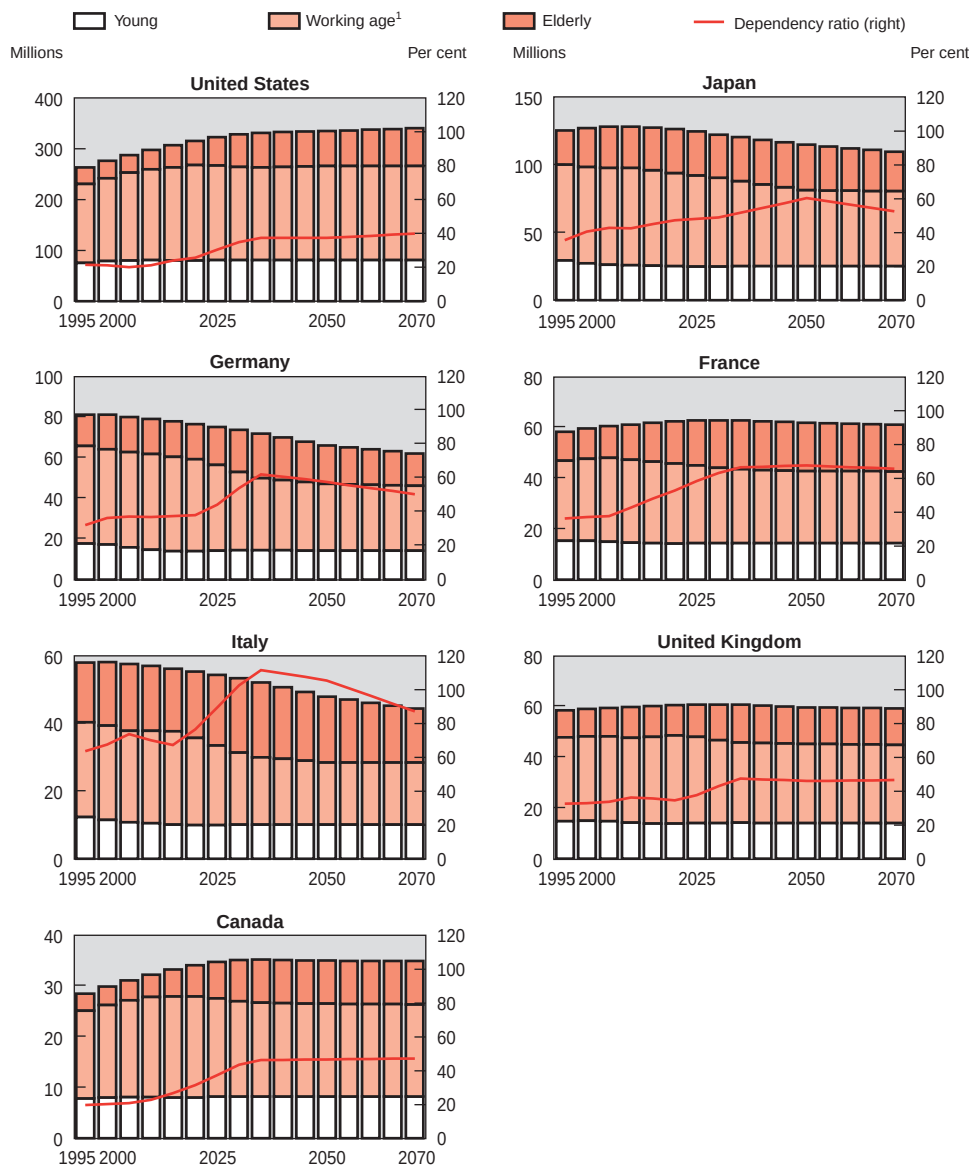
Figure 26. **SOCIAL EXPENDITURE IN THE EU**
1993, per cent of GDP



1. The European Union average covers the fifteen EU countries.

Source: OECD (1996), *Social Expenditure Statistics of OECD Members*.

Figure 27. **POPULATION PROJECTIONS
AND ELDERLY DEPENDENCY RATIOS**



1. Defined as from age 20 until the scheduled retirement age for public pensions in each country.
Source: OECD.

population. A fragmented benefit structure, which had developed along occupational lines, led to the progressive extension of the most generous provisions across categories, with insufficient consideration for their aggregate financial costs. In the 1980s higher social spending mainly reflected a rise in the real value of benefits, especially in the area of pensions and education.³² In the area of pensions, pressures from interest groups for extended and more generous benefits were channelled through spending ministers and Parliament, while party fragmentation and the typically short electoral cycle weakened incentives to internalise the full financial implications of individual decisions. The health sector, notwithstanding the 1978 reform which introduced a unified system of health provision with universal coverage, has remained characterised by large differences in health standards across regions. Overall, social spending has been disproportionately tilted towards old-age spending while, at the same time, comparatively few resources have been allocated to other social programmes, contributing to an under-developed social safety net (Figure 26). A projected sharp increase in Italy's elderly dependency ratio could further reinforce this bias (Figure 27). Recognising these shortcomings, a government commission was established in early 1997 to formulate proposals for a comprehensive review of existing welfare programmes by the end of February.

Old-age pensions

Pensions have been the most dynamic component of public spending in the post-war period, rising to levels well above those in other EU countries. Originally sustained by the extension of eligibility,³³ the increase in pension spending since the mid-1970s has been driven by higher real benefits, which increased sharply following the shift to an "earnings formula", the increase in the accrual factor for each year of contribution, and the introduction of the indexation first to prices in 1969 and then to wages in 1986. Pension benefits far exceeded levels provided by a fully funded system.³⁴ Although average pensions relative to per capita income were broadly in line with other EU countries in 1993, there was a disproportionate number of pensions relative to population. This, in turn, reflected the higher proportion of persons over 60 years of age; the use of pensions as a substitute for passive income support to unemployed and other workers facing risks of dismissal; and favourable access to early retirement through *seniority pensions*.³⁵ The institutional fragmentation of the Italian pen-

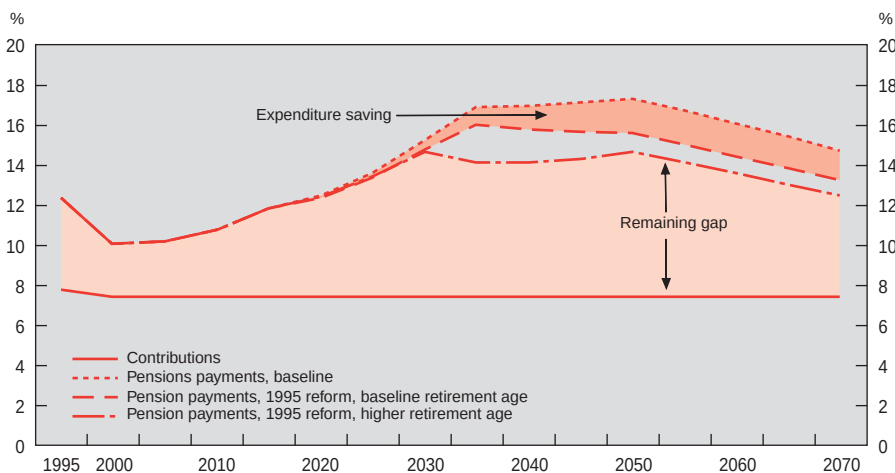
sion system, administered by funds differentiated for professional categories, translated into large inequalities across groups, with more favourable treatment for public workers (due to sharply lower retirement age) and the self-employed (on account of lower contribution rates). As a result of these features, pension outlays exceeded the level of contributions by around 4 per cent of GDP in 1995, the gap being set to widen with the maturing of the pension system. Indeed, the generosity of the pension formula implies a rapid increase in benefits to new retirees as their average contribution period and earnings increase.

A first effort to reform the structure of the pension system was undertaken in 1992, when the authorities introduced measures suspending the link between nominal wage growth and pension benefits and changing the parameters for the calculation of old-age pensions. They also introduced some limited elements of harmonisation (*Amato reform*). By lowering future benefits, this reform also increased the propensity of eligible workers to opt for early retirement. Over the following three years measures to limit pension outlays relied on short-term devices, such as temporary freezes on access to new seniority pensions (1993 and 1995) and the deferral of indexation (1995). Then in August 1995, a major reform of the system was passed by Parliament (*Dini reform*). It provided:

- a shift from an earnings-based system to one where benefits are linked to contributions paid over a life-time period, capitalised on the basis of nominal GDP growth;
- a link between benefits and residual life expectancy at retirement age, allowing flexible retirement between 57 and 65 years;
- a long transition to the new system for the calculation of benefits, the old pension formula applying to workers with more than 18 years of contributions at the end of 1995 and a weighted average of the two formulae being applicable to those with less than 18 years;
- a phased increase from 35 to 40 years of contributions required for a seniority pension (granted to persons aged less than 57), with a premium implicit in the use of a life expectancy of a 57-years old person in pension computation;
- a ceiling on the income for which pension rights can be accrued as well as fiscal incentives for stimulating the growth of private pension funds. The ceiling applies to all new hiring as well as to employees opting for the new pension scheme.

As stressed in the 1996 *OECD Economic Survey of Italy*, the 1995 pension reform represents an important step towards a more uniform and financially viable system. It eliminates privileges previously granted to public employees and reduced those granted to the self-employed, allows flexibility in retirement age, widens the contribution base and reduces the scope for evasion. However, by retaining a higher notional rate for the calculation of benefits (*aliquota di calcolo*) than the actual contribution rate paid (*aliquota contributiva*), benefits require significant residual financing from general taxation.³⁶ More importantly, the transition period envisaged by the reform is extremely long, limiting the financial savings over the next decade (estimated at around 0.6 per cent of GDP per year). The favourable treatment granted to workers with more than 18 years of contributions implies a large and arbitrary redistribution among generations. Over a longer horizon, the properties of the reforms are designed to eliminate the gap between outlays and contributions, but adverse demographics imply a slow convergence towards financial equilibrium and the stabilisation of pension outlays at a very high level. As illustrated in Figure 28, OECD projections point to

Figure 28. **TRENDS IN PENSION PAYMENTS AND CONTRIBUTIONS**
Per cent of GDP



Source: OECD.

pension spending increasing by around 4 percentage points of GDP until 2035 before beginning a slow descent.

Under the 1995 reform a first review of its financial impact will be made in 1998. Also, coefficients linking benefits to contributions can be modified every ten years allowing for changes in life expectancy. While the financial savings prompted by the reform seem, so far, broadly in line with official estimates, the review should allow a reassessment of projected fiscal imbalances, thus avoiding “emergency” measures at a later stage. Additional measures are required to strengthen the principles underpinning the 1995 reform, curbing those benefits which are excessively generous relative to contributions and lowering incentives to early retirement for new cohorts. The authorities have already begun to review the new system by introducing, in September 1996, limits to the cumulation of seniority pensions and additional labour income for early-retired persons. Given the dynamics of rising pension payments, further measures may need to be adopted:

- The *transition period* should be shortened, privileges granted to persons with more than 18 years of contributions being phased out through a generalisation of the “pro rata” formula for the determination of old-age pensions. The year envisaged for the elimination of seniority pensions should also be brought forward;
- Once fully implemented, *stronger incentives should be given to postpone retirement*. In addition, contribution rates for the self-employed need to be aligned on the parameters used for calculating benefits. Cumulation limits need to be tightened;
- For *private pension funds*, enabling legislation should be extended to public workers. Also, the range of choices of employees over the different types of funds could be enlarged, requirements for the transfer of pensions rights across funds relaxed, and their fiscal treatment harmonised. Private pensions could also play an important role in sustaining the ongoing privatisation process.

Health spending

Italy’s total health spending, estimated at 7.7 per cent of GDP in 1995, is broadly in line with other OECD countries (Table 27). Public expenditure on health accounted for 5.4 per of GDP and around 14 per cent of general govern-

Table 27. **Expenditure on health care**¹

Per cent of GDP

	Total expenditure on health					Public expenditure on health				
	1975	1980	1985	1990	1995	1975	1980	1985	1990	1995
Italy	6.2	6.9	7.0	8.1	7.7	5.2	5.6	5.4	6.3	5.4
Canada	7.3	7.3	8.5	9.2	9.5	5.5	5.5	6.4	6.9	7.0 ²
France	7.0	7.6	8.5	8.9	9.9	5.4	6.0	6.5	6.6	7.8
Germany	8.1	8.4	8.7	8.3	9.6	6.3	6.3	6.4	5.9	7.0
Japan	5.5	6.4	6.7	6.0	7.2	4.0	4.5	4.7	4.6	5.5 ²
United Kingdom	5.5	5.6	5.9	6.0	6.9	5.0	5.0	5.0	5.1	5.8 ²
United States	8.2	9.1	10.7	12.7	14.5	3.5	3.9	4.3	5.2	7.0
Average of above countries	6.8	7.3	8.0	8.5	9.3	5.0	5.3	5.5	5.8	6.8
OECD Europe	6.4	6.9	7.1	7.4	8.2	5.1	5.5	5.5	5.7	6.7
Total OECD ²	6.5	7.0	7.3	7.7	8.6	5.0	5.4	5.5	5.8	6.7

1. Unweighted arithmetic average – excluding Czech Republic, Hungary, Luxembourg, Mexico, Turkey.

2. 1994.

Source: OECD Health Data.

ment primary outlays, with health contributions and budgetary transfers providing the main source of financing.³⁷ The health sector is organised along the lines of a *national health system*, characterised by universal coverage, a direct role of the state in organising services, and a mix of public and private providers (Table 28). Summary indicators suggests that health status (in terms of potential life years lost, *PLYL*, which represents the shortening of life expectancy due to “avoidable” diseases) and resources absorbed by the Italian health system are comparable to most other OECD countries (Figure 29). On the other hand, investment accounts for a comparatively low share of public spending, while turnover and occupancy rates suggest relatively insufficient utilisation of hospital structures (Table 29). Moreover, consumer surveys for the early 1990s indicated comparatively low satisfaction with the quality of health care in Italy,³⁸ long waiting lists for specialist consultations, lack of proper equipment, the dilapidated state of many hospitals and bureaucratic management being the most frequently cited sources of discontent. While several reform measures have been introduced in the 1990s, regional disparities in consumer satisfaction remain large; in 1995 around 45 per cent of northern respondents were very satisfied with hospital medical assistance, as against 22 per cent in the south.³⁹

Table 28. **Provision and financing of health care services**

Per cent of expenditure in 1994

	Provider		Purchaser	
	Public	Private	Public	Private
General practitioners	0	100	93 ¹	7
Paediatricians	0	100	96 ¹	4
Specialist consultants	40	60 ²	43	57
Diagnostic tests	67	33 ²	73	27
Hospital care	87	13 ²	97	3
Pharmaceutical care	0	100 ³	40	60

1. Private doctors under contract with the USLs.

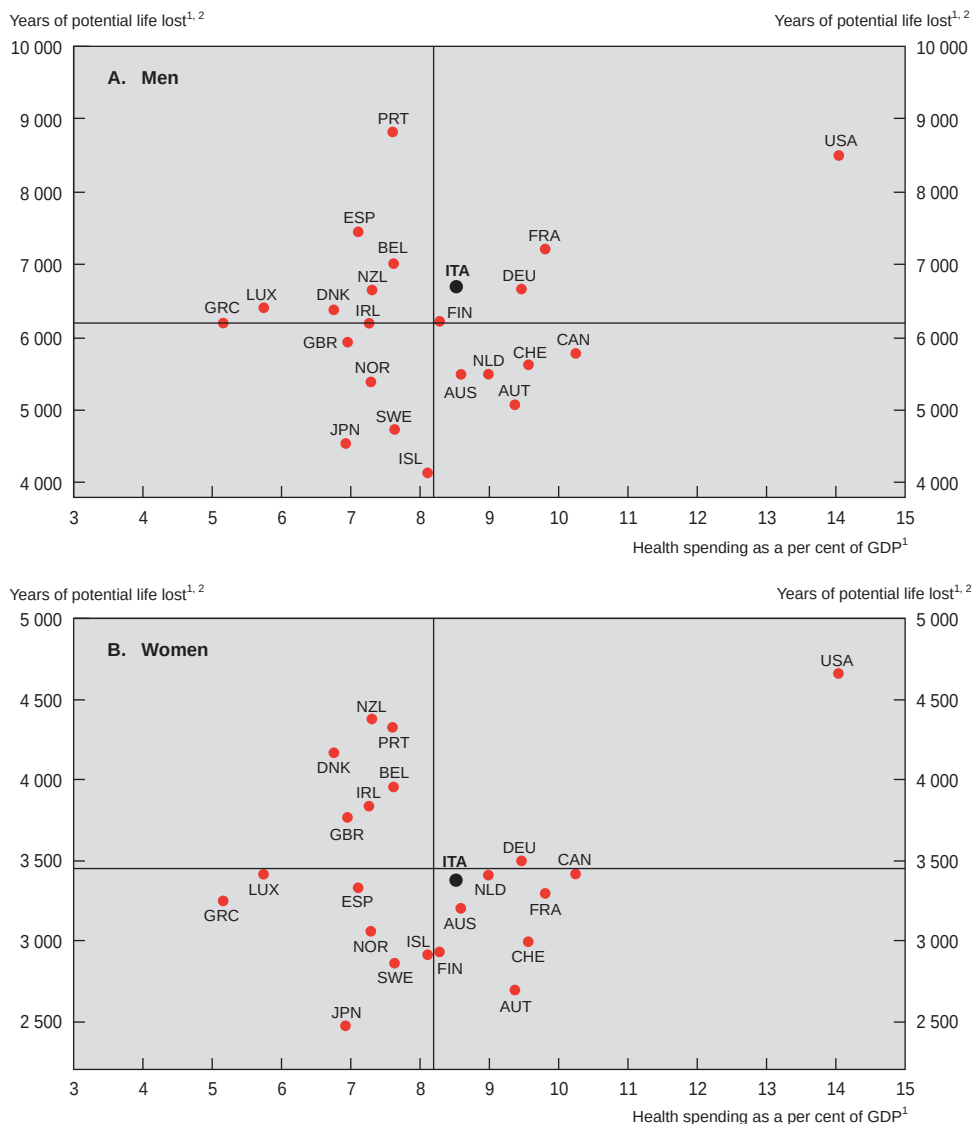
2. Part of which are under contract with the USLs.

3. All pharmacies are under contract with the USLs, but not all the drugs are reimbursed by the SSN.

Source: ISTAT (1995), *Rapporto Annuale. La situazione del paese, 1994*.

After a period of broad stability in the first half of the 1980s, public health expenditure increased by 1 per cent of GDP between 1987 and 1991. Rising health-care prices were the main determinant of spending growth, while a minor role was played by increases in the quantity of services supplied and by demand-side factors associated with population ageing, rising per-capita incomes and expanded insurance coverage.⁴⁰ The rise in the average price of health services, in turn, reflected higher costs of new medical technologies as well as organisational inefficiencies, wastes, frauds and lack of controls. These inefficiencies were partly a result of the institutional settings emerging from the 1978 health reform, which guaranteed universal access to health care while establishing a wider government intervention in the management of health services. Responsibilities for the delivery of services were decentralised to regions and local health units (USLs),⁴¹ while the financing of public expenditure was attributed to the central government through the Inter-regional Health Fund. In a context of limited accountability and lack of competition among suppliers, this separation compromised spending control and resulted in misallocation of resources and inefficient production of services.⁴² Given systematic underprovision of budgetary transfers, local health units were authorised to incur debt with the banking system which was later incorporated into state sector debt, totalling around L 73 trillion in the 1980-92 period.⁴³

Figure 29. **HEALTH EXPENDITURES AND HEALTH OUTCOMES**



1. Latest year available in the 90'.

2. Rate per 100 000 male/female population, ages 0 to 64.

These data, based on the "avoidable mortality" concept, provide a crude measure of premature mortality embracing both somatic and mental causes of death which could have been prevented if medical knowledge had been applied, if known public health principles had been in force, and if risky behavioural stances had not been so prevalent.

Source: *OECD Health Data 96*.

Table 29. **Productivity and utilisation rates of health structure**

1994

	Canada	France	Germany	Italy	Japan	United Kingdom	United States
Health standard indicators							
Life expectancy at birth							
Female	81.2 ²	81.8	79.3 ¹	81.2	83.0	79.5	79.0
Male	74.9 ²	73.7	73.8 ¹	74.7	76.6	74.2	72.3
Infant mortality	0.68 ¹	0.58	0.56	0.66	0.42	0.62	0.79
Input indicators							
Public investment in medical facilities (per cent of public expenditure on health)	3.0	3.9	6.1 ¹	1.8	5.9 ¹	4.9	1.0 ¹
Public expenditure on health administration (per cent of public expenditure on health)	0.9	0.2	5.5	6.3	0.3 ³	3.6	2.7
Employment in health care (density per 1 000 population)	25.2	28.9 ²	28.2	18.0 ²	12.8 ³	20.1	31.4 ¹
Practising physicians per 1 000 population	2.2	2.8	3.3	1.7 ²	1.8	1.5 ¹	2.5 ¹
Practising pharmacists per 1 000 population	0.6 ²	0.9 ¹	0.5	1.0 ²	0.2	0.6 ¹	0.7 ²
In-patient care beds per 1 000 population	6.0 ²	9.0	9.7 ¹	6.7 ¹	15.5	5.1 ¹	4.4 ²
Hospital staff ratio (average number per bed)	2.8 ³	1.2	n.a.	1.5 ¹	0.9	3.4 ²	3.6 ²
Nurses staff ratio (average number per bed)	0.8	0.4	0.5 ²	0.6 ¹	0.5	1.6 ²	1.6 ²
Utilisation rates							
Occupancy rates in all in-patient care institutions (used beds, per cent)	83.6 ²	83.0	83.9 ²	72.5 ¹	83.1	n.a.	68.7 ²
Hospital turnover rate (number of cases per bed)	n.a.	25.0 ¹	21.8 ²	23.8 ¹	8.6	49.5	34.0 ³
Average length of stay in in-patient care institutions (days)	12.6 ²	11.7	13.9 ²	11.1 ¹	45.4	10.2 ¹	8.8 ²
Admission rate in all in-patient care institutions (per cent of population)	12.5 ¹	22.8	19.9	16.0	8.9	21.6	13.0

1. 1993.

2. 1992.

3. 1990.

Source: OECD Health Data.

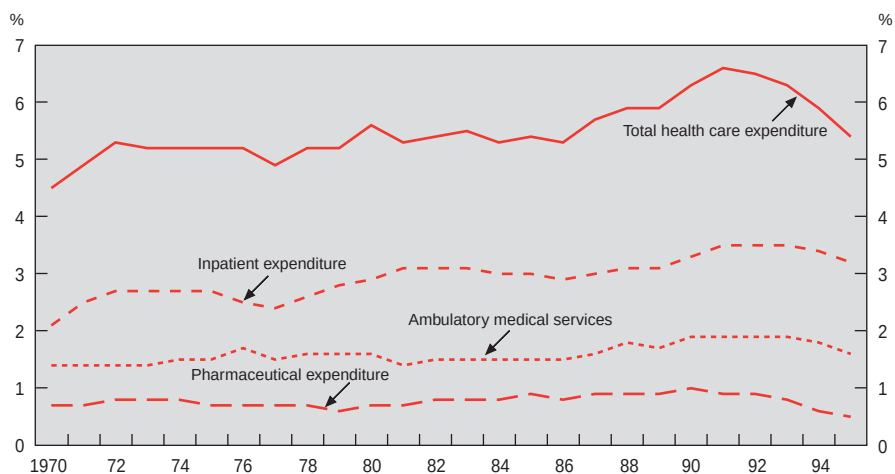
The restructuring of the health system which started in the early 1990s contributed to a rapid deceleration of prices. The reform of October 1992 reallocated financial responsibilities within the National Health Service (*Servizio Sanitario Nazionale*, SSN) and established a clearer demarcation between financing and delivery institutions.⁴⁴ Spending control improved in 1992, with the passing of legislation which strengthened the financial responsibility of regions, ruling out any recourse to transfers from the central government in the event of deficit over-runs. To this end, health contributions accrue directly to regions, which may raise local tax or contribution rates to match expenditure. Criteria for the regional allocation of central government transfers were also revised to ensure a uniform level of health assistance over the country, while regions are allowed to finance services above the national standard with own resources.⁴⁵

To reduce costs and improve efficiency of health provision, the number of local health units was sharply reduced (from 659, one for every 86 000 inhabitants, to 228, one for every 250 000 persons) and their autonomy increased by their transformation into enterprises headed by managers, with new accounting practices based on separate cost centres. The reform also involved the reorganisation of the hospital sector in terms of structural endowments and resources. Hospitals with national relevance or highly specialised were granted autonomy and transformed into enterprises (*Aziende Ospedaliere*). An essential element of the reform concerned hospital funding, with the introduction of the Diagnosis Related Groups system in 1995, where payments are set according to diagnosed medical conditions and standardised treatment costs. This method has facilitated a more effective control of public spending for hospital care, while providing incentives to hospitals for increasing turnover (*i.e.* reducing lengths of stay). However, it may also increase risks for the selection of patients and create moral hazard effects on the quality of services.

The implementation of the reform has been uneven across regions and health structures. In the short run, reductions in public health spending mainly reflected tighter controls on prices, reductions in wastes and abuses as well as increases in cost-sharing.⁴⁶ Legislative and regulatory provisions, lowering the prices of pharmaceutical products, imposed a reduction of profit margins for producers and distributors. New pharmaceutical pricing methods were prescribed and more stringent procedures for the list of reimbursable items established. As a result, pharmaceutical expenditures declined from 0.9 per cent of GDP in 1992 to

0.5 per cent in 1995 (Figure 30). In the hospital sector, the application of national standards for the number of hospital beds per 1 000 inhabitants contributed to a fall in capacity and a rise in utilisation rates. The decision to close hospitals wards (*reparti ospedalieri*) with a capacity utilisation rate below a certain limit will further consolidate this trend. Overall, estimates of the financial impact of the reform point to significant savings. In 1995, the first year of implementation of the restructuring of public health-delivery institutions, the USL deficit shrank to L 1 160 billion, from L 7 442 billion in 1994. Public health-care expenditures declined from 6.6 per cent of GDP in 1991 to 5.4 per cent in 1995, a comparatively low level. This was, however, partly offset by an increase in private spending of 0.5 per cent of GDP, reflecting higher co-payments on pharmaceuticals, diagnostic and specialist care and, to some extent, the continued inadequacy of public services. Additional measures rationalising public health spending were introduced with the 1997 budget, including savings in hospital spending and cuts in pharmaceutical expenditure (see Chapter II).

Figure 30. **PUBLIC EXPENDITURE ON HEALTH**
Per cent of GDP



Source: OECD.

The challenges confronting policy makers in regulating and controlling the health sector are well documented by several comparative studies.⁴⁷ Consumers lack the information about medical matters necessary for a proper choice. They are compelled to delegate treatment decisions to medical professionals – who also supply the services demanded – creating a potential conflict of interest. The demand of health services may increase because patients do not face the full marginal cost. Moreover, the incentive to over-supply may be heightened when a third-party pays the bulk of any services that doctors choose to provide. Such problems of moral hazard and asymmetric information limit the effectiveness of market mechanisms and may lead to an excess provision of services. This suggests that, in considering health reforms, governments will need to look beyond short-term financial aspects to the broader issue of efficiency and implications for the quality of the service provided. While in financing the system the public authorities have in the past acted as passive intermediaries between health consumers and providers, a requirement for improving efficiency is to strengthen their capacity to assess the quality of health care, rewarding efficient providers, and to increase cost controls. Efficiency gains could stem from arrangements which would allow public-sector providers to compete with each other and with private-sector suppliers. At the same time, competitive contracting for health services would require that providers improve their management capacity and face appropriate accountability arrangements. An increasing number of countries have promoted the use of incentives and other market mechanisms in the production, financing and regulation of health services. Additional measures of reform would need to involve agents at all levels of the health sector:

- strengthening the planning, management and control capacities of public institutions responsible for health policies at national, regional and local level;
- enhancing the financial responsibility of general practitioners in their gate-keeper's functions, *e.g.* with the imposition of budget constraints on pharmaceutical and specialist expenditures;
- aligning employment conditions of public hospitals staff to those prevailing in the private sector;
- relaxing regulations governing market entry and pricing in the pharmaceutical market and increasing competition. Expenditure savings could

also follow from lessening regulatory restriction on the use of generic drugs.⁴⁸

Other social transfers

Transfers to households, excluding old-age and survivors pensions, accounted for around 4 per cent of Italy's GDP in 1993, less than half the average of other EU countries. Disability pensions, unemployment compensation and outlays for occupational injuries and diseases were the largest components (Figure 25). Disability pensions increased strongly in the 1970s reflecting weak eligibility requirements. Access to benefits was possible with a small number of years of contributions, and the certified degree of invalidity was adjusted for regional economic conditions.⁴⁹ The use of disability pensions as an instrument of income support in high-unemployment regions is highlighted by an unequal geographical distribution, their weight in the total number of pensions in 1994 ranging from 46 per cent in the southern regions to 25 per cent in the north. The decline in the number of disability pensions, already evident in the aftermath of the 1984 reform which restructured eligibility, intensified in the early 1990s due to tighter enforcement of existing regulations (Table 30).⁵⁰ However, fraud and abuses call for a further tightening of provisions and better controls.

Income support for the unemployed and other workers at risk has been provided through the unemployment insurance, the Wage Supplementation Fund⁵¹ and early retirement programmes. While remaining below levels in other OECD countries, these outlays have risen over time, to around 1.2 per cent of GDP in 1993, reflecting higher structural unemployment. Early retirement programmes and special benefits paid by the Wage Supplementation Fund have been used to support the restructuring of large industrial groups. A fragmented benefit system has favoured industrial workers in large enterprises and those affected by collective dismissals, relative to workers in small firms and first-time entrants into the labour markets. Benefits have been dependent upon discretionary measures, with weak links to the beneficiary's availability for work. While workers supported by the Wage Supplementation Fund receive generous financial support, often open-ended, ordinary unemployment benefits are low, despite some increase since 1992. Net replacement rates for a single-earner household, with earnings at the level of an average production worker, ranged in 1994 between 37 per cent (in the case of a couple with no children) to 47 per cent (in the case of

Table 30. **Disability pensions**

	1974	1980	1990	1994
	Number of pensions, thousands			
Total	6 809	7 814	7 797	7 187
Social security ¹	4 602	5 441	4 463	3 830
Welfare ²	322	403	1 270	1 410
Indemnities ³	1 885	1 970	2 064	1 947
	Public spending, per cent of GDP			
Total	3.0	4.2	3.8	3.5
Social security ¹	2.2	3.3	2.6	2.2
Welfare ²	0.1	0.2	0.6	0.7
Indemnities ³	0.7	0.7	0.6	0.6

1. Paid by INPS.

2. Paid by INAIL, Ministry of the Treasury and others.

3. Paid by the Ministry of Internal Affairs

Source: ISTAT (1996), *Rapporto annuale 1995*.

a couple with two children and housing benefits), as compared to average values of 60 to 73 per cent for the OECD average. Mobility benefits, while extending the time period over which income support is provided (limited to workers eligible to benefits from the Wage Supplementation Fund), are decreasing with time.⁵² After some timid steps in the direction of a more uniform system in 1992, recent emergency measures, in a context of large labour shedding, have made for further fragmentation.

At the same time, existing social programmes are ill equipped to respond to the growing marginalisation of important groups of the population. Active labour market programmes are limited, as are arrangements which enable parents to combine family responsibilities and career development. The need to develop an articulate social safety net is justified by current trends pointing to a diffusion of poverty among certain groups of the population. According to the Poverty Commission, around 2 million households (one-ninth of the total) and 7 million persons (one-eighth of the total) were below the “poverty line” in 1995, with a significant increase relative to 1980 in terms of both number affected and the degree of deprivation. The incidence of poverty is higher in the southern regions,

in households with the most dependants, in those with a head of household above 65 years of age and with low educational attainment.

Large differences in the generosity of benefits available to certain groups of the population and distorted labour market incentives make a comprehensive reform imperative, especially for disability pensions and income support programmes for the unemployed. Reform measures in this area should harmonise the various schemes, increase transparency and reduce scope for administrative discretion. Changes in the labour market and in family structures, marginalisation and diffusion of poverty demand a revamping of income support programmes targeted to those most in need.

Public sector planning and administration

Other factors sustaining primary spending include high input prices, a consequence of low labour productivity and inflated procurement prices; inefficient deployment of workers across regions and administrations; high budgetary transfers to public companies, partly reflecting low user charges; and insufficient diffusion of information technology. Inadequate accountability and the lack of hard budget constraints have aggravated inefficiencies in the provision of public services. Finally, the lack of transparency in current budget procedures and insufficient *ex post* controls on expenditure outcomes may have contributed to deficit overruns.

Public employment and the wage bill

Public wages and salaries steadily increased from 8 per cent of GDP in 1960 to more than 12 per cent in 1995, a lower level than in the OECD average. Growth of the public wage bill in the 1960s and 1970s was driven by higher employment (Table 31). The expansion of public employment was especially strong for hospitals and schools, where the ratio of teachers to students is well above levels observed in other OECD countries. Public workers were often hired with fixed term contracts outside normal recruitment channels (*precari*), with subsequent regularisation of their employment status.⁵³ The expansion of public employment also stemmed from the need to lower high unemployment in the *Mezzogiorno*. While public workers initially accepted work outside their regions, they often succeeded in being transferred towards their place of origin at a later

Table 31. **General government employment**

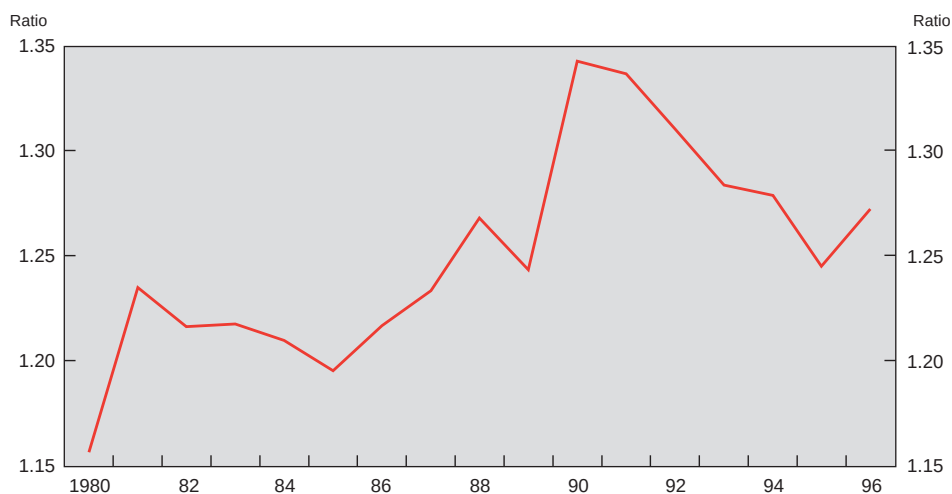
	Per cent of total employment				Per cent of population			
	1970	1980	1990	1995	1970	1980	1990	1995
Italy	11.9	14.5	15.6	16.2	6.8	8.7	9.3	9.4
United States	16.0	16.4	15.4	15.4	9.9	10.8	11.1	11.2
Japan	7.7	8.8	8.1	8.5	5.5	6.2	5.9	6.3
Canada	19.2	19.5	20.5	20.7	11.8	13.2	14.6	14.2
France	18.0	20.2	22.6	24.6	11.8	13.0	13.7	14.6
Germany	11.2	14.6	15.1	15.9	7.7	9.6	9.8	9.9
United Kingdom	18.1	21.2	19.4	14.4	12.8	14.8	14.0	9.8
OECD average	12.8	16.5	17.6	17.9	8.5	11.1	11.9	11.6
EU-15 average	12.8	17.2	18.9	19.3	8.5	11.4	12.4	11.9

Source: OECD.

stage, leading to imbalances in the distribution of civil servants across regions and administrations. Mobility provisions served to satisfy staff expectations of better working conditions, higher earnings, and of a job closer to home. Overall, employment conditions in the public sector compared favourably with those in the private sector in terms of employment security, seniority advances, working hours and earlier retirement age.⁵⁴ However, rigid employment rules led to inefficient deployment of workers across regions and administrations, with adverse effects on staff morale, work intensity and quality of services.

In contrast to other countries, the expansion in the government wage bill continued in the 1980s, compromising efforts of fiscal consolidation. Recurrent hiring freezes introduced since 1983 had only a limited impact, due to the exemptions granted to individual administrations and lack of enforcement. In addition growth in public wages increased sharply, affecting other sectors of the economy (Figure 31). Wage demands from militant unions met weak resistance from the government, more interested in minimising conflicts than in avoiding distortions in wage differentials, budgetary overruns and risks of wage spirals.⁵⁵ Increases in the public wage bill were also influenced by automatic adjustments and changes in the composition of employment towards better paid jobs. Career progression in the public sector was mainly linked to tenure, with little relation to workers' performance and responsibilities. New provisions in 1980 allowed a generalised shift of public workers to higher grades (*passaggi a livelli funzionali*

Figure 31. **RELATIVE WAGES IN THE PUBLIC SECTOR¹**



1. Compensation per employee in general government relative to those in the private sector.
Source: OECD.

superiori).⁵⁶ Little control could be exercised over earnings supplements which contributed to unjustified differentials across categories as well as to a narrowing of the wage spectrum within administrations.⁵⁷ Earnings differentials within the public sector tended to be much smaller than in the rest of the economy, with low-skilled employees enjoying higher wages than those of their private sector counterparts. The absence of synchronised wage contracts and the automatic extension of benefits across categories sustained wage links within the public sector. In addition, an incoherent information system prevented an effective assessment, both *ex-ante* and *ex post*, of the budgetary costs of wage increases.⁵⁸ The wage round of 1988-90 highlighted the shortcomings of this situation. Growth of public wages in this period exceeded that of private wages by more than 10 points, widening public-pay premia and leading to pressure on labour costs in other sectors. The budgetary costs of these wage renewals exceeded the authorities' estimates by around one-third.

Expenditure overruns in 1988-90 led to a freeze of wage contracts expiring at end 1990 and of other provisions leading to salary increases for civil servants. Together with the abolition of wage indexation in 1992, this contributed to a cumulative 9 per cent decline in real public wages over the four years to 1995. Reforms were introduced in the early 1990s, aimed at aligning employment conditions for public workers with those in the private sector and at strengthening control over the evolution of the wage bill. To this end, new legislation in 1993 introduced a new system of collective bargaining, with the establishment of ARAN (*Agenzia per la Rappresentanza Negoziale delle Amministrazioni Pubbliche*) responsible, within guidelines set by the government, for wage and normative negotiations with unions.⁵⁹ The new system established two-tier wage negotiations, with a basic component set in line with the government inflation targets and supplementary components (*componenti accessorie* and *compensi di produttività*) linked to individual performance. Within a global budgetary allocation, ARAN negotiates with unions the distribution of resources among sectors and categories, and issues directives for the distribution of earnings supplements in decentralised bargaining. The reform also introduced new controls on collective agreements, improved the information system for the assessment of their costs, and introduced instruments to enforce adherence to the government macro-economic targets (through the extension of the validity of old contracts).⁶⁰ The new setting for collective bargaining in the public sector, together with the incomes policy framework established under the July 1993 agreement, proved successful in keeping wage growth in the last round (1994-97) within budgetary allocations. The acceleration of public wages in 1996 and 1997 reflects delays in the renewals of wage agreements for some categories of workers and compensation for the inflation overshoot recorded in the previous two-year period (Table 32).

Public employment declined by 2.6 per cent in the three years to 1995. This reflected both changes in the legal status of several public bodies and the impact of policy measures. Actions aimed at reducing both the number of schools and the ratio of teachers to students lowered employment in public schools by 2 per cent in 1994, although the number of students per teacher has remained lower than in most other OECD countries. In 1993, in addition to a more restrictive freeze on new hiring and turnover, the authorities introduced measures to assist the redeployment of public workers. Administrations were required to establish

Table 32. **Wage growth in the public sector**¹

	Percentage increase				Cumulative increase 1994-97
	1994	1995	1996	1997	
Contractual wages ²	0.9	2.6	5.6	3.7	..
Supplementary components	..	..	0.1	0.8	..
Total	1.8	3.7	5.8	4.5	16.8
<i>Memorandum items:</i>					
Target inflation rate ³	3.5	2.5	3.5	3.0	13.1
Actual inflation rate ⁴	3.9	5.4	3.9	2.7	16.9
Industrial earnings	3.7	3.9	5.1	5.0	19.0

1. General government employees whose earnings are determined by collective bargaining.

2. Estimates for 1996 and 1997.

3. Cost of living index. Targets set in the medium-term plans of 1993 and 1995.

4. Cost of living index. OECD projections for 1997.

Source: Data provided by the Italian authorities.

staff needs (*piante organiche*) and work-loads (*carichi di lavoro*), excess workers being transferred to other administration and regions and laid-off in case of non acceptance. In 1994, new norms on working time (five days, including afternoons) contributed to significant reductions in outlays for overtime. The 1995 financial law lowered to 10 per cent the limits in central administrations to replace job quits, from 25 per cent set in 1988. Control of public employment, however, has remained limited in some areas; hiring by ministries exceeded quits by 30 per cent in 1994⁶¹ (Table 33).

While more binding limits on labour turnover in central government offer considerable potential for savings in the short run, in a longer perspective, enhancing public sector efficiency will require a move towards more differentiated wages and greater reliance on performance-related pay, allowing management to attract high-skilled labour and to adapt public wages to local labour market conditions. This should be accompanied by the decentralisation of competencies concerning the organisation of work, with managers responsible for task fulfilment.

Table 33. **Labour turnover in the state sector**

1994

	Employment at end-1993	Departures in 1994 as a per cent of 1993 stock	Hirings in 1994 as a per cent of 1993 stock	Employment at end-1994
Ministries	285 479	4.8	6.1	288 104
Autonomous bodies	53 119	7.5	10.2	54 302
School	1 123 479	4.3	2.3	1 102 105
University	107 918	5.2	6.9	111 059
Police	316 244	5.9	2.7	320 521
Armed Forces	141 585	13.0	11.2	142 171
Judiciary	9 566	1.7	3.4	9 738
Diplomatics	897	1.4	1.9	901
Prefectures	1 735	4.2	9.3	1 823
Total	2 040 022	5.3	4.0	2 030 724

Source: Ministero del Tesoro-Ragioneria Generale dello Stato, *Conto Annuale 1994*.

Administrative complexity

The organisation of the Italian public administration has traditionally emphasised formal compliance rather than ex-post assessment of results. The influence of political parties and the rigidity of bureaucratic structures have contributed to widespread inefficiencies, to the proliferation of external technical bodies and to the fragmentation of public administration.⁶² This setting has resulted in high costs without guaranteeing the quality of public services. The tasks of public administration have been exacerbated by a plethoric legal system, the number of laws in the early 1990s being estimated at between 100 000 and 150 000, compared to 7 000 in France and 6 000 in Germany.⁶³ The excessive number of laws, often unco-ordinated, has compounded the rigidity of regulations and the difficulties in their interpretation, adding to the costs of compliance for firms and citizens due to long practices and delays. The “hidden tax” paid by citizens for complying with administrative acts, in terms of days lost for contacts with the public administration, has been estimated at around L 18 to L 20 trillion per year.⁶⁴ This institutional set up may have also favoured corrupt practices among public officials.⁶⁵ With the growing integration of the Italian economy in

the EU the shortcomings of the public sector have become more visible, and the costs imposed by its inefficiencies more difficult to support.

In addition to the above features, the Italian public administration has also been marked by its strong centralisation. Although the role of local government was explicitly recognised by the 1948 Constitutional law, devolution was long delayed. The government transferred competencies to ordinary regions only in 1977, in the areas of social services, economic development, territorial planning and administrative management and to lower levels of local government (provinces and municipalities) in 1990. However, decentralisation has remained partial and ineffective. Reforms have not been followed by the rationalisation of the state's central and peripheral offices, compounding the fragmentation of administrative competencies.⁶⁶ Despite greater devolution of tax authority, local administrations have continued to rely primarily on transfers from central government for their financing, while limited fungibility of funds has limited effective autonomy at the local level.

In addition to the privatisation process started in 1992 and aimed at reducing the pervasive presence of the public sector in the economy⁶⁷ (see Chapter IV), an ambitious programme of reform of public administration was initiated under the Ciampi government in 1993. The principal ingredients of this reform were:

- the *restructuring of administration*, with devolution of greater competencies to regions and local governments. To this end, measures have increased the tax autonomy of regions, established their financial responsibility for the provision of public services beyond a national standard, while foreseeing the transfer of additional functions from the state. Plans for reform of the central administration included measures to reduce the number of ministries, to merge departments performing similar functions, and to rationalise peripheral offices of the state.⁶⁸ To increase efficiency and reduce labour costs, legislation in 1993 (decree law 29) defined individual responsibilities for civil servants and introduced organisational changes to allow the assessment of costs and benefits of administrative actions. It also established a clearer demarcation between political authorities, which define targets and assess results, and managers, who are responsible for the internal organisation and performance;
- the creation of a more *simplified regulatory framework*, through measures transferring discipline on specific subjects from laws to regulations,

- streamlining complex administrative processes and extending the range of private activities requiring *ex-post* notification rather than *ex-ante* authorisation from the public administration;
- initiatives to *improve the quality of administrative services*. In 1992, measures aimed at increasing the transparency of administrative processes had established the principle of individual responsibility for each act (Law 241/1992). In 1994 authorities specified general principles on the provision of services, leading to the introduction of “service charters” defining standards of quality. The government also issued directives for establishing public relation offices in the administration. A high priority was given to measures favouring computerisation and the integration of the various information systems.⁶⁹

Following two years in which the priority attributed to public sector reform appeared to have decreased, the new government presented two draft bills envisaging further steps in public sector reform at the end of 1996. The draft bills call for enhanced responsibilities to be given to local government, while specifying residual competencies under the authority of the state and redeploy resources to local entities. They also reorganise state administrations (restructuring of the prime minister’s office, ministries and public entities, and phased elimination of other public bodies⁷⁰), strengthen internal controls, enlarge managerial responsibilities, and transfer judicial authority on public employment to ordinary courts. Finally the bills seek to accelerate the simplification of administrative procedures, by enlarging the range of activities requiring notification rather than authorisation. However, in the past, new legislation has not always been followed by adequate follow-up on implementation and evaluation of impact. Several elements of the 1993 reform are still awaiting full implementation, hampered by delays in issuing ministerial directives on programmes and agreeing the objectives of administrative actions. The introduction of new administrative provisions has not been coupled with changes in the structure of incentives for civil servants, and the stimulus of the central government has had little success in overcoming their resistance to change. Enhancing the efficiency of the public sector rests on the enforcement of a hard budget constraint on expenditure centres and, more generally, on a fundamental reform of budget procedures.

Budget management and control

With the exception of 1995, deficit outcomes have systematically exceeded targets, leading to concerns that the procedures through which budgets are designed and implemented may have an inherent bias toward deficit overruns. The need for fiscal consolidation has therefore stimulated a debate on reforms of the budget process *per se* to increase transparency and enhance fiscal discipline.

At the *budget formulation* stage, three ministries – the Treasury Ministry, the Ministry of Budget and the Finance Ministry – share responsibility for the annual budget-setting. Budget preparation has been described as an unusually complex process, reflecting a strong legalistic approach where economic constraints come into play only at a late stage.⁷¹ Various budget documents with different accounting bases and government aggregates are used (Table 34):

Box 2. Reforms in budget procedures

Public accounts are based on legislation dating back to 1923. In addition, Article 81 of the Constitution stipulates that additional spending established by ordinary laws must be covered by revenues or offsetting expenditure cuts. It also sets the principles of annual budgeting, regulates the use of provisional budgeting (*gestione provvisoria*), and defines government and Parliamentary responsibilities. Major reforms in budget procedures can be summarised as follows:

1978: The finance law (*Legge Finanziaria*) was introduced as a bill which was to be approved with the annual budget. It allows the regulation of fiscal effects of existing legislation, and can modify legislative norms and entitlement programmes of expenditure. It must establish the budget deficit limit as well as reserve funds for new legislation to be approved.

1983: Parliament introduced procedural rules to ensure timely approval of the budget and finance law bills.

1988: The finance law lost part of its functions, which were distributed over different instruments or other bills “connected” (*provvedimenti collegati*) with the budget decision.

1989-1992: Parliamentary rules were modified in 1989, then progressively interpreted and applied in a more restrictive way. All parliamentary amendments to the bill within the budget decision must respect the deficit limit..

1996: The government presents draft legislation aimed at reforming the budget documents and procedures.

Table 34. Calendar of key budget events

	February	March	April	May	June	July	September
I. Preparation of next year's budget		Budget guidelines prepared by RGS	Current and capital account of each Ministry submitted to RGS	Document of Economic and Financial Planning	Parliament resolution on DPEF	Annual and three-year budget on current legislation submitted to Parliament by 31 July	Forecasting and planning report. Draft budget documents submitted to Parliament by 30 September (and to be approved by 31 December)
II. Activity during the year				Quarterly treasury report estimating borrowing requirements for the public sector and the statement of cash accounts ¹			
III. Conclusions of previous year's budget	Treasury report on cash outcomes for previous year (state sector and other levels of government) submitted to Parliament by 28 February	General report on the economic situation of the country ²			Budget adjustment bill for the current year and financial statement for the previous year submitted to Parliament by 30 June		

1. In May, August, November.

2. *Relazione Generale sulla Situazione Economica del Paese.*

Source: Da Empoli, D., De Ionna P., Vegas G. (1995), "Il bilancio dello Stato", *Il sole 24 Ore libri*, Milano; and Chiorazzo V., Di Majo A., Gabriele S., Palanza A. (1994), "Fiscal developments in Italy and possibilities for reducing public deficits", *European Economy* No. 3, pp. 252-57.

- budget guidelines set by the *Ragioneria Generale dello Stato*. On the basis of these norms, each spending Minister defines expenditure projections on a commitments basis under current legislation;
- the *Economic and Financial Planning Document* (DPEF, May/June), which contains two sets of fiscal projections for the next three years: trend projections (*tendenziale*) based on existing legislation (cash basis) and a programme projection (*programmatico*). The DPEF quantifies deficit targets but does not specify measures needed to meet them. Trend and programme projections are defined for different aggregates [state sector, general government and public sector (Table 35)].⁷² In addition, the DPEF sets a target for the state (commitment basis) which, under new parliamentary procedures, is binding for the forthcoming budgetary session;
- budgetary projections under current legislation (*bilancio a legislazione vigente*, commitment basis) in July. These projections refer to the state only, covering a three-year period;

Table 35. **Structure of the public sector**

			– State railroad company – State monopolies – Telephone company – Post Office
General government	Central government	Former autonomous agencies providing market services ¹	
		State Sector ² (new definition of the Treasury)	– Budget and Treasury (<i>stato</i>) – Deposit and loans funds (Cassa DD.PP.) – South Agency³
	Local government		– Former autonomous agencies of the central administration (State Road Department and Forest Department)⁴ – Other central administrative bodies
		Social security funds	
			– Regions – Provinces – Municipalities – Other local authorities⁵
Local agencies providing market services			

1. Before 1993 these entities were included in the state sector.

2. The new definition came into force in 1994.

3. Abolished in 1993.

4. Included in the old definition of State sector.

5. Local health units, chambers of commerce, universities and housing administration.

Source: Bank of Italy.

- the *Forecasting and Planning Report* (September) which, providing macroeconomic forecasts for the following year, updates budget projections and outlines measures foreseen by the government;
- the draft budget documents, (September), which specify the measures needed to achieve target for the state budget (commitment basis). The target for the cash borrowing requirement of the state sector is embodied in the budget law only indirectly through the definition of a ceiling on the amount of public bonds to be issued in the year.⁷³ The budget legislation is fragmented, being spread out over several documents.⁷⁴

The diversity of budget documents – differing in timing, accounting basis, and size of the planned fiscal correction – may have complicated the task of Parliament to evaluate government proposals. The Parliamentary debate centres on the size of policy measures (*manovra*) needed to bridge the gap between the trend deficit and target. While parliamentary amendments must leave the State deficit unchanged, any additional spending being covered by offsetting expenditure cuts or additional revenues (*copertura*), this safeguard can be circumvented by way of Parliament proposing higher spending to be implemented by local government and other external agencies (e.g. social security funds). Thus, extra general government spending can arise even when the *copertura* requirement is formally met. Moreover, overestimation of offsetting measures has at time weakened fiscal discipline. More importantly, the State budget approved by Parliament has only a tenuous relationship with the deficit variables more representative of underlying fiscal developments.⁷⁵

There are no effective cash limits for spending programmes at the state level. The budget law approved by Parliament includes limits for individual budget items on a commitments basis (*autorizzazioni di competenza*). Unspent appropriations are “‘carried over” to future exercises (up to two years for current expenditure, three years for public works and five years for capital spending). As a result, annual cash resources (*autorizzazioni di cassa*) for each programme are determined as the sum of budget appropriations plus carry-overs (*residui*). These cash resources are then converted into effective cash estimates (*stime di cassa*) by using standard “realisation coefficients” for each category. While Parliament approves a cash budget for the state, this is based on preliminary evaluations of carry-overs which tend to be underestimated.⁷⁶ Reliable estimates of carry-overs are not available before March when they are presented to Parliament in the

context of the quarterly Treasury report (*Relazione di cassa*). In this institutional set-up, budget chapters do not correspond to spending responsibilities: for example, the budgetary allocation for the Treasury Ministry includes resources which are effectively managed by other ministries.⁷⁷ Overall, these features create uncertainties about the actual availability of cash resources, making management of expenditure programmes difficult.

At the *budget implementation* stage, the Treasury has responsibility for the management of the state cash resources. Within the Ministry of the Treasury, the *Ragioneria Generale dello Stato* (RGS) exercises controls. Payments are authorised by the General Directorate of the Treasury through three main channels: provincial Treasuries, managed by the Bank of Italy, the central Treasury and the Post Office (unified Treasury account). Local authorities and other public agencies are required to deposit budgetary transfers and own resources (local taxes, charges or borrowing) in accounts held with provincial Treasuries and the central Treasury.⁷⁸ The unified Treasury account gives considerable flexibility in the use of general government cash resources. At times, cash resources of one state agency (*giacenze*) have been used to meet needs of other institutions, leading to deferral of payments or additional general government borrowing. For example, systematic underprovision of budget transfers to the social security agency (INPS) has been handled through Treasury account advances, in line with the Financial Law (an estimated L 22 trillion lire in 1995).

More generally, setting targets for the cash borrowing requirement for the state sector (*fabbisogno*) may have hindered transparency, providing opportunities for transferring expenditures off the budget.⁷⁹ The deficit target for the state sector excludes local government expenditures financed with own resources and borrowing, which are part of the general government.⁸⁰ Regions and local health units have in the past accumulated payment arrears *vis-à-vis* suppliers. They have also been authorised to borrow from banks (*hidden debt*), such operations being outside the targeted state sector borrowing aggregate.⁸¹ While not affecting the deficit in the current year, debt service assured by the Treasury added to future liabilities and blurred the distinction between current and capital spending.⁸² The diversion of borrowing towards commercial banks and suppliers has also inflated costs, adding to interest payments. Finally, under accounting practices at the state sector level, some operations are recorded ‘below the line’, *e.g.* tax refunds

through bond issues and certain categories of interest payments, leading to major differences between the deficit and the increase of the public debt.

The *Ragioneria Generale dello Stato* monitors budget implementation, recording and processing expenditures for the central government and the transactions of other public agencies. Data on appropriations, carry-overs and forecasts of cash spending are available for each state programme by economic and functional category. The monitoring system is thus advanced for the central government, but it is less satisfactory for the wider public sector. The data on cash inflows and outflows of the Treasury account are difficult to monitor. In addition, the government lacks up-to-date information on decentralised spending centres, due to weaknesses in local authorities fiscal reporting.⁸³ Budget accountability focuses on formal and legal compliance, without adequate efficiency controls or assessment of economic results, while management accounting is underdeveloped.

Overall, Italy's budget process is in need of a comprehensive reform.⁸⁴ The emphasis on the cash borrowing requirement of the state sector increases the scope for creative accounting, potentially distorting the picture of the country's fiscal imbalance. Extending the budget targets to include general government would increase transparency. Since 1995 deficit targets for the general government have been included in the 3-year plan (DPEF) and should be incorporated into the budget law. At the budget formulation stage, greater powers should be allocated to the Treasury *vis-à-vis* other ministries in reconciling competing resource claims, while the *copertura* requirement should be tightened.⁸⁵

Excessive disaggregation of budgetary items calls for a reclassification of expenditures. The number of budget chapters (more than 6 000) should be drastically reduced and restructured by programmes and projects. Re-organising the budget document so that programme areas match with management responsibilities would increase transparency and allow the setting of effective expenditure ceilings for state current primary spending.⁸⁶ The fungibility of funds between spending programmes and automatic carry-overs should be limited, except for capital programmes, with a contingency fund as the only source of finance for exceptional overruns. Greater weight could be attached to improving value-for-money and accountability, moving from a system of expenditure management based on legal and procedural compliance to one relying on specification of objectives, setting of targets and assessment of performance.⁸⁷ Reforms under-

taken by several OECD countries have included the establishment of cost centres, the enhancement of managerial responsibility and increased emphasis on efficiency and effectiveness in the provision of public services. Aware of these priorities, the government in November 1996 presented draft legislation aimed at increasing the transparency of the budget process, improving Parliament's capacity to evaluate specific expenditure programmes and centralising budget responsibility through the merger of the Budget and Treasury Ministries. To this end, the draft legislation introduces new basic budget accounting units (*Unità previsionali di base*) with well defined managerial responsibilities. It also extends the requirement of financial neutrality to new spending initiatives beyond one year, tightening procedures for budget preparation and streamlining the presentation of budget documents.

The need to enforce budgetary discipline for the public sector comes at a time of significant changes in the relationships between different levels of governments. A move to decentralisation, whether based upon fiscal federalism or the creation of new regional tiers within unitary states, has been common to several OECD countries in the 1980s and 1990s. There is, however, a potential conflict between the devolution of taxing and spending powers and the need to maintain a steering capacity at the central level. To minimise risks of jeopardising budgetary targets at the national level (in terms of both deficits targets and modes of fiscal consolidation) a coherent strategy of devolution must address incentive problems at all levels of government, increasing financial responsibility while imposing limits on taxing powers and borrowing capacities at the local level. As recognised by the authorities, decentralisation will have to be accompanied by the development of new reporting systems ensuring effective control at the local level.

Waste in current spending

Purchases of goods and services by the government have been marked by inadequate controls, poor co-ordination among procurement agencies and collusion between suppliers and administration. The result has been inflated purchase prices. Preliminary data highlight significant differences in price levels according to quantities, payment delays, and procedures for the selection of suppliers. Contracts allocated through competitive bidding, which account for only 1 per cent of all purchases, display lower prices. Public procurement contracts were

restricted to domestic suppliers and governed by procedures which depart from EU directives.

Legislation governing public procurement, once rather restrictive, has recently been adjusted to EU directives for contracts above a threshold, but is still awaiting full implementation. To increase transparency, the 1994 financial law established that public purchases would be concluded on the basis of “reference” prices, set by the Ministry of the Budget. However, difficulties in defining these ceilings for heterogeneous goods and delays in introducing implementing regulations led to the relaxation of this provision, “reference” prices being replaced by “indicative” prices, which are of an informative kind. A first experimental survey of purchase prices in the public sector is currently being conducted by ISTAT. Its findings will allow the Ministry of Budget to lay down more definitive rules. Measures to increase competition, rationalise spending and undertake greater outsourcing offer the scope for significant expenditure savings.

Programming of capital projects

The decline in public investment accelerated sharply in the early 1990s, investment falling in real terms by more than 20 per cent from 1991 to 1994. The share of public investment in GDP eased to 2.3 per cent in 1995, from a peak of 3.7 per cent in the mid 1980s (Table 36). This contraction was largely concentrated in infrastructure projects. From 1992 it also reflected efforts of public companies striving to improve their debt position. Being steeper than in other EU countries, the fall of public investment further enlarged Italy’s gap in infrastructure endowments in energy and communications relative to other European countries (Figure 32), a gap which is especially large in the south. A modest rebound of investment occurred in 1995, following the adoption of new norms simplifying administrative procedures.⁸⁸ Major infrastructural projects were unlocked in 1996.

Several factors contributed to the sharp fall in public investment. Reductions in allocations for investment projects, in the context of restrictive budgets, have been significant, although their short-term effect on disbursements has been muted by the use of carry-overs.⁸⁹ Investment outlays were also affected by the corruption scandal (*tangentopoli*), institutional changes concerning the flow of State funds to the Southern regions and new administrative procedures aimed at assuring greater transparency. Bid-prices of public works may have fallen by

Table 36. **Public investment**

Billions of lire

	1990	1991	1992	1993	1994	1995
General government						
Central government	10 887	12 857	12 413	11 653	10 294	9 646
State	4 983	5 705	5 261	5 206	5 291	6 095
Autonomous agencies	5 904	7 152	7 152	6 447	5 003	3 551
Local government	29 532	30 352	29 487	27 495	26 238	27 989
Social security institutions	2 722	3 378	3 554	2 202	1 765	2 321
Total	43 141	46 587	45 454	41 350	38 297	39 956
As a per cent of GDP	3.3	3.3	3.0	2.7	2.3	2.3
Other public bodies						
Other autonomous agencies	2 902	2 828	3 041	..	..	..
Railways	4 207	3 513	7 710	3 000	5 940	..
Municipality companies	1 748	1 207	1 139	1 550	..	..
Electricity (ENEL)	7 979	9 088	10 176	8 749	7 876	7 459
Public companies ¹	21 827	23 984	24 630	25 176	16 146	15 681
Total	38 663	40 620	46 696	..	..	..
As a per cent of GDP	2.9	2.8	3.1	..	..	..

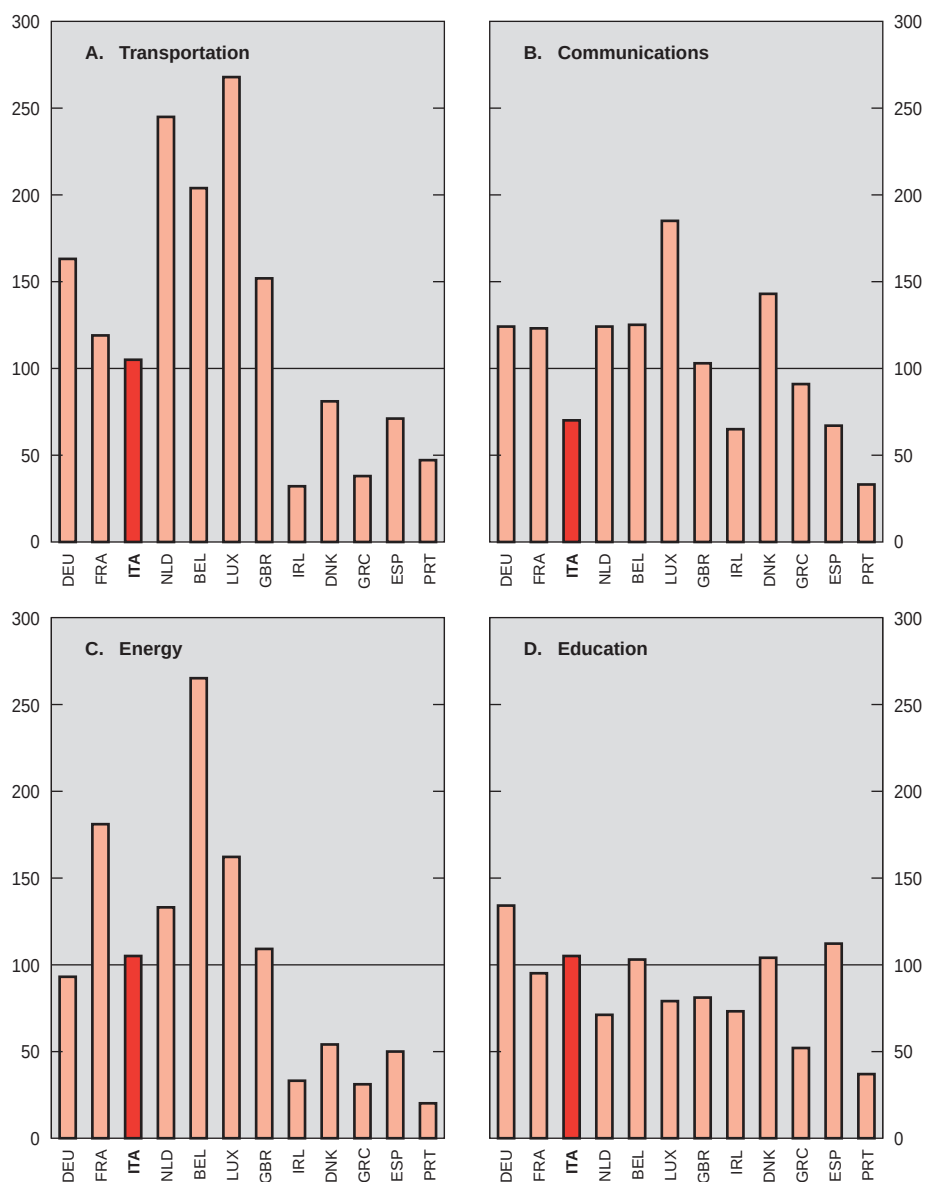
1. State participation.

Source: *Relazione generale sulla situazione economica del paese* (1995).

almost a fourth following *tangentopoli*, while investment prices for civil works (PPP adjusted) declined well below EU levels in 1993 (Figure 33). The complexity of new regulations for public works and the absence of transitory provisions compounded the decline in public investments. These norms were first suspended and later modified (Box 3).

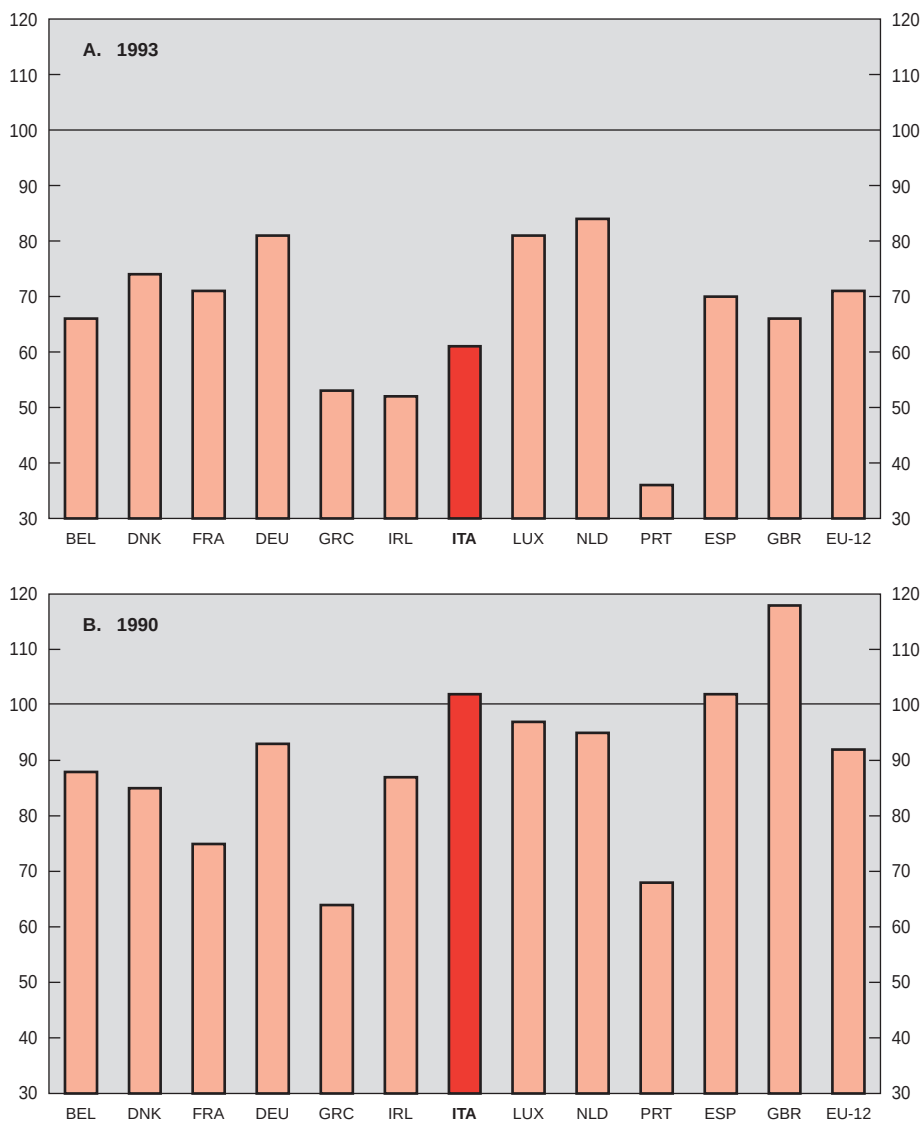
The programming capacity for public works has suffered from inefficiencies and wastes, highlighted by large numbers of incomplete projects and cost overruns. Projects have often been selected on the basis of political pressures rather than social and economic criteria.⁹⁰ To speed up execution, some large projects have been embodied in special programmes (*World Cup* in 1990 and *Colombiadi* in 1992), but this carried costs in terms of propriety and transparency of administrative actions. Lack of valid projects and delays in the execution have also prevented EU funds from being fully used. At end-1993, only 70 per cent of structural funds under the 1989-93 Community Support Framework had been

Figure 32. **INFRASTRUCTURE ENDOWMENTS IN EU COUNTRIES**
1985, index EU = 100



Source: Confindustria (1995), *Le Infrastrutture a Rete*.

Figure 33. **PRICE OF CIVIL ENGINEERING WORKS**¹
Index OECD = 100



1. The bar for each country presents the price of a unit of public investment in a given OECD country in PPP-adjusted dollar terms relative to the OECD average price.

Source: OECD (1995), *Purchasing Power Parities and Real Expenditure*.

Box 3. Changes in regulations relating to public works

New norms for public works were introduced with framework law 109/1994 (*legge Merloni*), replacing a plethora of norms which had been built up since 1865. The new framework law aimed at increasing transparency and improving project execution via:

- limits on the use of non-competitive bidding for the allocation of projects;
- increases in financial guarantees and responsibilities of constructors and designers for inaccuracy of projects leading to later modifications and cost increases;
- assurance of the existence of an executive project as a condition for starting an auction;
- the creation of a supervisory authority for public works.

The lack of any arrangements for the transition to the new regime, as well as excessive rigidity of some of the new norms, led to the suspension of the framework law in May 1994

In April 1995, the government modified the 1994 law by assuring a gradual phasing-in of new norms. The new law (*Merloni bis*) also reduced guarantees from firms assuring the execution of the project, enlarged the possibility of non-competitive bids, delayed the institution of the authority on public works, and modified norms on projects' modifications and on arbitration procedures. The executive regulation of the law, expected by September 1995, has not yet been completed.

Draft legislation currently before parliament (*Merloni ter*) envisages further changes, mainly in the area of re-defining criteria for participation in auctions for public works; streamlining of programming activities and guarantees; introduction of norms on projects which avoid blocking the activities of the public administration; defining norms applicable to sectors excluded by the framework law.

disbursed, prompting an extension of the deadline for their use. Under the 1994-99 Community Support Framework around 20 per cent of the funds had been committed and more than 10 per cent disbursed by September 1996. The programming capacity thus needs to be expanded at all levels of government. Better design and execution of public works requires greater involvement of the private sector (through forms of co-financing and risk sharing). Leasing the operation of infrastructure to private operators, in the context of co-financing, would help to reduce operational inefficiencies. There should also be greater reliance on international competitive bidding. EU directives imposing the use of auctions open to European suppliers for public works were implemented in 1993.

Subsidies and transfers to firms

As stressed in previous *Surveys*, generous tax expenditures and transfer payments to a large number of firms have been extensively used in the past to support industrial restructuring and, more generally, to maintain the financial viability of ailing firms. Italy's state aid to the manufacturing sector in the 1990-92 period, as a per cent of value added, was 2.4 times as large as in the EU average.⁹¹ While there have been measures of rationalisation and reform, subsi-

Table 37. **Budget transfers to firms and autonomous entities**

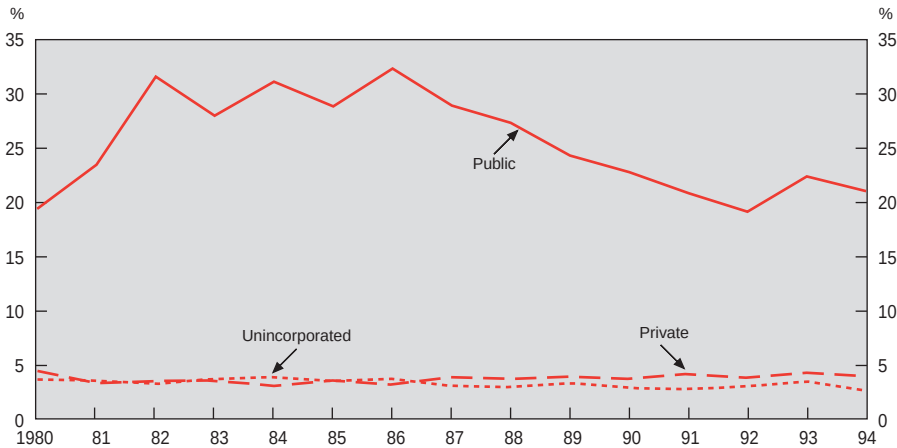
Billions of lire					
	1991	1992	1993	1994	1995
Current transfers	23 230	20 107	24 982	32 363	35 499
Firms	12 962	9 643	13 516	18 435	20 691
Aima	1 468	840	1 542	1 031	1 758
Railways	7 272	3 179	7 071	10 064	7 355
Telephone	61	45	..	35	..
Monopolies	103	30	30	30	3 779
Post Office	449	1 308	206	255	89
Exchange rate guarantee	482	474	659	3 440	2 211
Financial firms	874	1 512	1 769	1 505	3 152
Other	2 253	2 255	2 239	2 075	2 347
Public entities	10 268	10 464	11 466	13 928	14 808
Capital transfers	31 583	34 886	44 268	37 735	34 937
Firms	13 515	15 767	18 897	20 165	17 991
Railways	5 873	8 475	10 228	9 001	6 740
Telephone	..	..	41	44	42
Monopolies	..	..	20	20	..
Post Office	..	..	..	1 246	450
Other	7 642	7 292	8 608	9 854	10 759
Public entities	18 068	19 119	25 371	17 570	16 946
Total	54 813	54 993	69 250	70 098	70 436
<i>As a per cent of GDP</i>	3.8	3.7	4.5	4.3	4.0
<i>Memorandum items:</i>					
Acquisition of ownership rights	2 218	3 755	1 836	3 932	5 478
Loans for productive activities	2 054	186	3 296	3 769	7 539
Loans for non productive activities	4 685	3 459	2 946	550	393
<i>Total</i>	8 957	7 400	8 078	8 251	13 410
<i>As a per cent of GDP</i>	0.6	0.5	0.5	0.5	0.8

Source: Relazione generale sulla situazione economica del paese (1995).

dies and transfers to firms are still covered by a wide range of programmes, with different beneficiaries and purposes, administered by six different ministries. These include cash transfers and tax expenditures to private firms, used to reduce regional imbalances or to sustain competitiveness, and transfers to public enterprises. In addition, significant flows to enterprises and financial institutions have taken the form of loans and acquisition of ownership rights (Table 37). Public enterprises have been the main beneficiaries of budgetary transfers (Figure 34). This has partly reflected high operating expenses and public tariffs insufficient to cover long-run average costs. The financial imbalances of public enterprises have also resulted in higher indebtedness, often with state guarantees, which could later add to the stock of state sector debt.⁹²

Despite improvements in the first half of the 1990s, the efficiency of public services produced in monopoly conditions (postal services, electricity, telecommunications and transport) remains well below that of other OECD countries (Table 38). More generally, cash grants, preferential social security contributions

Figure 34. **TRANSFERS TO ENTERPRISES¹**
Per cent of value added



1. Subsidies and capital transfers.
Source: ISTAT.

Table 38. **Productivity and efficiency in selected service industries**

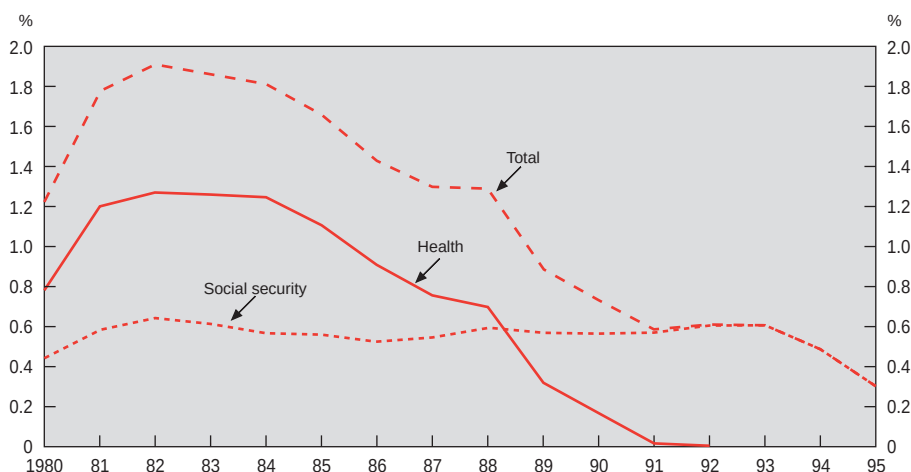
	Electricity	Distribution		Construction	Airlines	Telecommunications		Postal services	Railways
	Gigawatt-hour per person engaged, 1993	Distribution GDP per person engaged, 1990 (US = 100)	Retail sales per employee, 1990 (US = 100)	Construction GDP per person engaged, 1990 (US = 100)	Operating expense per available tonne kilometre, 1993 (US\$)	Revenue per employee, 1992 (US = 100)	Mainlines per 100 inhabitants, 1992	Average technical efficiency, 1975-88 ¹	Average technical efficiency, 1986-88 ²
Italy	1.6	95.3	72.3	84.2	0.72	89.3	41	0.722	0.638
United States	8.2	100.0	100.0	100.0	0.45	100.0	56	..	..
Japan	6.3	60.3	70.7	79.7	0.84	80.6	46	0.797	..
Germany	2.2	78.5	100.7	75.5	0.71	63.1	44	0.457	0.620
France	3.8	96.6	94.8	83.3	0.88	68.3	52	0.720	0.731
United Kingdom	2.2	59.5	77.6	62.0	0.43	68.9	45	0.850	0.746
Canada	5.5	58.4	..	148.2	0.54	73.9	59	..	..
Australia	2.9	59.4	60.1	103.0	0.35	70.6	49	0.893	..
Austria	1.8	86.8	73.4	99.4	1.08	77.9	44	..	0.594
Belgium	3.2	105.0	94.1	90.1	1.04	58.6	43	0.600	0.630
Denmark	3.3	86.6	68.6	65.8	1.00	53.4	58	0.732	0.523
Finland	3.1	56.4	85.9	94.4	0.44	48.0	54	0.198	0.653
Greece	2.5	37.1	62.2	..	0.47	36.9	44	0.387	0.564
Iceland	..	38.3	75.1	69.1	..	39.6	54	..	..
Ireland	..	68.7	60.3	..	1.46	52.7	31	0.355	0.731
Luxembourg	..	101.3	130.1	61.6	..	132.7	61	0.787	0.562
Netherlands	3.1	95.2	54.8	69.9	0.48	88.0	49	0.924	0.797
New Zealand	3.4	77.8	85.8	..	0.44	65.2	44	..	..
Norway	8.0	42.3	92.9	68.5	1.10	52.2	53	0.630	0.516
Portugal	1.2	45.4	52.8	38.5	0.83	58.9	31	..	0.692
Spain	3.3	77.6	45.7	86.8	0.66	74.2	40	..	0.647
Sweden	5.6	66.4	86.9	75.2	1.01	50.4	68	0.755	0.662
Switzerland	..	115.8	78.8	..	0.75	100.1	61	0.574	0.736
Turkey	..	..	..	49.1	..	27.4	16	..	0.769

1. Defined as output relative to inputs, where output is the sum of the number of letters delivered and the financial operations performed, and inputs include employees, number of motor vehicles and number of postal offices used (see Perelman and Pestieau (1994) for details).

2. See note 1. Output is the combination of gross hauled tonne-kilometres by freight trains and gross hauled tonne-kilometres by passenger trains. The inputs are: engines and railcars, employment, and electrified and non-electrified lines (see Pestieau (1993)).

Source: Electricity based on OECD/IEA (1995) and national sources for employment; distribution GDP per person based on OECD *National Accounts* and national sources, converted with 1990 PPP for expenditure on goods from OECD (1993); retail sales per employee based on EC (1993) and national sources, converted with same PPP; construction based on OECD *National Accounts* and national sources, converted with 1990 PPP for construction expenditure from OECD (1993); airlines based on data provided by the Institute of Air Transport, Paris, for major airline companies; telecommunications from OECD, *Communications Outlook 1995*, Paris Postal services from Perelman and Pestieau (1994); railways from Pestieau (1993).

Figure 35. **RELIEF FROM SOCIAL SECURITY CONTRIBUTIONS**
Per cent of GDP



Source: OECD.

and soft loans have engendered expectations of future accommodation, negatively affecting efficiency. However, current and capital transfers from the general government have declined by 1 point since 1993. Tax expenditures in the form of relief from social security contributions displayed an even sharper decline, from 0.8 per cent of GDP in 1990 to 0.2 per cent in 1995 and are scheduled to be completely eliminated by 1999 (Figure 35). Faced with prospects of privatisation, public utilities have stepped up efforts to restore their balance sheets. Employment in the five largest public utilities contracted by 18 per cent since 1992, and by 8 per cent in 1995, restoring profitability. Nevertheless there are still margins for improvement, as the deficits of the railroads and of air transport companies remain significant and general government outlays for the transport sector exceed those in most other OECD countries by a large margin. In some cases, such as the railway company, a reduction in budgetary transfers should be pursued within a context of structural measures which cut operational costs and stimulate competition.

Assessment and agenda for reform

Overall, Italy's primary spending in terms of GDP is lower than in the EU at large. But the above analysis has identified several weaknesses concerning the structure and balance of public spending:

- *Social spending* has been disproportionately tilted towards *old-age spending*, crowding out other social programmes.
- *Public health spending* is comparatively low but the quality of services remains unsatisfactory, especially in the southern regions.
- Other *transfers to households* are below levels in other OECD countries, but the benefit system is fragmented, the generosity of benefits differing across groups, while the social safety net is under-developed.
- Generous *tax expenditures and subsidies* to firms, extensively used in the past to support industrial restructuring, reduce regional imbalances and sustain competitiveness, have raised expectations of permanent accommodation, negatively affecting resource allocation.

Italy's public sector has also been characterised by employment rigidity, complex bureaucratic structures and problems in budget control:

- The expansion of *public employment* has been especially strong for hospitals and schools, while rigid employment rules have led to inefficient deployment of workers across regions and administrations, with adverse effects on staff morale, work intensity and quality of services.
- Inadequate distribution of resources among administrations, delays in execution and cost over-runs have led to *high costs and waste in public investment*, associated with a gap in infrastructure endowments, especially for the south.
- Rigid bureaucratic structures have led to the *fragmentation of public administration*, while a *plethora of laws*, often uncoordinated, has compounded the costs of compliance for firms and citizens.
- The public administration itself has suffered from an *excessive centralisation*, the local authorities relying heavily on earmarked transfers from central government.
- *Government procurement* has been marked by inadequate controls, poor co-ordination among procurement agencies and collusion between suppliers and administration, leading to inflated purchase prices.

- The *budgetary process* reflects a strong legalistic approach where economic constraints come to bear only at a late stage. There are no effective cash limits for spending programmes at the state level while Treasury operations have at times been used to meet deficit targets.
- The *monitoring system*, while relatively developed for the state, is less satisfactory for decentralised spending centres. Management accountability is underdeveloped, hampering the assessment of economic results.

Significant progress towards better planning and control has been achieved in the 1990s. Nevertheless, pressures on spending remain and the inefficiency of public services is still widely seen as a major burden for Italy's productive sector.

Policy issues

Notwithstanding past and ongoing reform efforts, the scope for further action remains rather wide (Box 4). Entitlement spending is set to rise rapidly over the medium term, especially on pensions, and curbing expenditure pressure at an early stage will avoid later recourse to emergency measures. Among the measures that need to be considered for pensions are a shortening of the transitional period and, more generally, bringing benefits more in line with contributions. In the health sector, a strengthening of competition among suppliers is needed to increase the purchasing power of public spending. In the context of unemployment-related payments, the current strong segmentation of passive support programmes needs to be eliminated. A comprehensive reform of entitlement programmes would draw a clear line between social assistance benefits *per se*, the financing of which should be assured by general taxation, and benefits which would be set in relation to contributions.

Given current and prospective imbalances, public spending control will remain a matter of high and rising priority. While important measures to reform public administration and to raise the efficiency of public services have been announced over the past few years, implementation has lagged in the area of increasing financial accountability at all levels, increasing the importance of incentive payments. Beyond the announced policies, the approach towards reformed public administration should be broadened by greater contracting-out

Box 4. Recommendations for further reform of public administration and spending

The chapter identifies the scope for further action in the following areas:

Old-age pensions

Additional measures are needed to strengthen the principles underpinning the 1995 reform, curbing benefits which are excessively generous relative to contributions and reducing incentives to early retirement:

- *The transition period envisaged by the reform should be shortened:* the favourable treatment granted to workers with more than eighteen years of contributions should give way to a generalisation of the *pro rata* formula for the determination of old-age pensions. Seniority pensions – *i.e.* pensions paid according to years of service irrespective of age – should be phased out more rapidly.
- *Changes in the pension formula are required,* especially for the self-employed, to align the rate for the calculation of benefits (*aliquota di calcolo*) closer to the contribution rate (*aliquota contributiva*). Stronger incentives are needed to postpone retirements.
- *Enabling regulations for private pension funds* should be extended to public workers. The range of choices over different types of funds could be enlarged, requirements for the transfer of pension rights across funds relaxed, and their fiscal treatment harmonised.

Health spending

In considering health reforms, the government will need to look beyond short-term financial aspects to the broader issue of efficiency and implications for the quality of the service provided:

- *Planning, management and control capacities of public institutions responsible for health policies need to be strengthened.* Efficiency gains could stem from arrangements establishing a level playing field for competition between public and private suppliers.
- *The financial responsibility of general practitioners in their gatekeeper function could be enhanced,* with the imposition of tight budget constraints. Employment conditions in public hospitals should be aligned to those prevailing in the private sector.
- *Regulations governing market entry and pricing in the pharmaceuticals market should be relaxed and competition increased.* Expenditure savings could also follow from lessening regulatory restrictions on the use of generic drugs.

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Other social transfers

Large differences in the generosity of benefits available to certain groups of the population and distorted labour market incentives make imperative a comprehensive reform, including:

- *Tighter eligibility controls on disability pensions.*
- *A more homogeneous system for income support programmes.* Active labour market programmes should be improved, while an articulate social safety net needs to be developed to respond to the marginalisation of certain groups of the population.

Efficiency of public administration

Enhancement of managerial responsibility and increased emphasis on efficiency and effectiveness in the provision of public services remain a main priority:

- *Rapid implementation is needed of measures aimed at increasing the flexibility of public employment (e.g. definition of staff needs by administrations and the use of mobility provisions).* Enhancing efficiency also requires more differentiated wages to ease labour mismatches and devolution to managers of competencies on work organisation.
- *There should be a greater devolution of competencies to local administrations, accompanied by increased tax autonomy and financial responsibility.* A rationalisation of the state's central and peripheral structures is needed.
- *Measures are needed to increase the flexibility of bureaucratic structures and simplify administrative procedures.* High priority should be given to initiatives improving the transparency and quality of administrative services, such as service charters defining standards of quality, and greater use of information technology.

Budget management and control

It is necessary to move from a system of expenditure management based on legal and procedural compliance to one relying on specification of objectives and assessment of performance:

- *Deficit targets for the general government should become binding in the formulation of the budget law.*
- *Reorganising the budget document* so that programme areas match with management responsibilities would increase transparency and allow the setting of effective expenditure ceilings for the state current primary spending. *The fungibility of funds between spending programmes and automatic carry-overs for current*

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spending should be more closely controlled, with a contingency fund assuring the only source of finance for exceptional overruns.

- *To minimise risks of jeopardising budgetary targets at the national level a coherent strategy of devolution must increase financial responsibility at the local level, while imposing limits on taxing powers and borrowing capacity. Improvements in the monitoring and reporting of local authorities expenditure are also urgently needed.*

Public procurement and investment

- *A rapid implementation of the new legislation governing public procurement is needed. Greater reliance on international competitive bidding offers the scope for significant expenditure savings.*
- *Better design and execution of public works would require greater involvement of the private sector, through forms of co-financing and risk sharing.*

and market testing in the provision of public services, by increasing user-charges to limit excess demand, and by the removal of red tape. Steps towards greater devolution of responsibilities should be accompanied by the setting of well defined budget constraints.

IV. Implementing structural reform: A review of progress

Within the framework set out by the *OECD Jobs Study*, the 1996 *OECD Economic Survey of Italy* provided a set of detailed policy recommendations for reducing Italy's high rate of structural unemployment.⁹³ Empirical studies show this disequilibrium to be among the most severe of the major countries, the rate of unemployment consistent with stable inflation (NAIRU) being estimated at between 8 and 11 per cent of the labour force.⁹⁴ The regional dimension of the unemployment problem is particularly acute in Italy, the unemployment rate being 21 per cent in the south and 7 per cent in the north. However, the labour market in general is characterised by structural imbalances in the low outflow rates from unemployment and low employment rates for youth and women. While the lack of economic development in the south may be due to special factors such as a lack of infrastructure, the large and still widening differentials between regional unemployment rates may also be traced to more systemic causes.⁹⁵

Recognising the complexity of Italy's unemployment problem, the 1996 *Survey* proposed a broad set of measures for implementing the *OECD Jobs Study*, including reforms directly affecting labour market outcomes and initiatives in such areas as education and product-market competition. In particular, the programme, while noting significant improvements in labour market flexibility during the 1990s, called for action along the following lines:

- *To increase wage and labour cost flexibility*: tax rates and contribution rates should be restructured; remaining barriers impeding the extension of atypical work contracts (part-time work; job-sharing; fixed-term contracts and temporary work) should be reduced further; employment protection legislation should be eased further; and profitability and labour productivity of individual firms should play a stronger role in determining nominal

wages. At the same time, manpower should be redeployed more flexibly in the public sector (see previous chapter).

- *To improve the efficiency of active labour-market policies*, the functioning of the public employment service should be further enhanced and active labour-market programmes should be monitored more closely so as to provide better training for targeted groups.
- *To reduce the distortion arising from the unemployment and related benefit systems*, replacement ratios and benefit periods across different categories of workers should be harmonised, to strengthen incentives to search for and accept available work.
- *To improve labour-force skills and competencies*, the compulsory schooling age should be raised and opportunities for vocational training enlarged, notably at the post-secondary level, so as to upgrade human capital.
- *To increase product-market competition*, regulations hindering access by new entrants to some segments of the private service sector should be dismantled and policies of public procurement be made more liberal.

Also included in this programme were recommendations for accelerating privatisation, ameliorating the infrastructure, strengthening law enforcement, notably in the south, where organised crime is a major deterrent to private investment. Since last year's *Economic Survey of Italy* was finalised in November 1995 policy initiatives have been taken in some of these areas. They are reviewed in this chapter.

Progress in structural reform

Increasing wage and labour cost flexibility

The most important policy initiative aimed at ameliorating labour market outcomes has been the labour agreement of September 1996, signed by the government and the social partners, the third accord in four years.⁹⁶ Its main provisions, which have been incorporated into draft legislation in December 1996, include:

- *The wider use of non-standard or atypical work contracts.* To this end, a new model of *apprenticeship* has been designed, redefined as a relationship combining vocational training and working, lasting from eighteen months to four years depending on the provisions stipulated in the collective bargaining contract. The length of apprenticeship contracts, subject to low entry wages and low social security contributions, has been lengthened to four years and their applicability widened to include large firms. The maximum qualifying age for apprenticeship contracts has been raised from 20 to 24 years, with a preferential clause for the south (26 years). In line with EU directives, opportunities for *part-time work* (up to 24 hours worked in a week) have been enlarged through an adjustment of social security contributions for new entrants and re-entrants into the labour force. Pension provisions for part-time work will also be modified. *Fixed-term work contracts* will no longer be automatically transformed into indefinite contracts, while sanctions for violating contract regulations will be reduced. Private employment agencies can be set up for interim or *temporary work* for which a new standard work contract will be drawn up. The government has also committed itself to transcribe into national law the EU-directive (93/104), reducing standard working hours to 40 per week.
- *The introduction of contracts* between local authorities and social partners (*patti territoriali* and *contratti d'area*) in economically depressed regions. Under these agreements, regions and municipalities are required to co-ordinate job-creating efforts in specific sectors (industry, agro-industry, tourism and other services), collaborating with the social partners and financial institutions and simplifying administrative procedures. This would reduce bureaucratic obstacles hindering job creation. Regions eligible for EU-funds benefit from special tax relief.
- *The wider use of adjustment contracts (contratti di realleamenti)* introduced in 1996. These contracts regularise black-market activities by treating underground employment as new visible employment which gives rise to preferential tax treatment.

The agreement also proposes *a new system of tax incentives*. Under enabling legislation on the reform of regional and local finances labour costs will be reduced in 1997 by way of abolishing social security contributions for health

services made by employers. Health expenditure will be financed out of local authorities' general tax revenues, strengthened by yields from a new regional tax based on value added. In addition, social security contributions in 1997 are to be suspended for all hirings with open-ended contracts. Extending this incentive to 1998 and 1999 requires EU approval. Tax breaks would also be given to the non-profit sector, to business start-ups by young persons (less than 32 years in age) and recipients of unemployment compensation, and to enterprises stepping up hirings, training and research and development. Ailing firms of very small size would benefit from tax concessions over a 5-year period. Overall revenue losses caused by these tax incentives are estimated at L 15 trillion over the three years to 1999.

In the public sector, further steps were undertaken to increase labour mobility, reduce overstaffing and extend part-time employment contracts. Income support provided by the Wage Supplementation Fund (*Cassa Integrazione Guadagni*) is going to be extended to include banks, trade and public utilities.

Improving the efficiency of active labour market policies

With a view to making active labour market policies more effective, the labour agreement proposes to decentralise the public employment services, transforming their current passive role of registering job seekers into an active role of consultation and job search assistance.

Improvements in labour force skills and competencies

The Labour agreement also provides for *a rise in both quantity and quality of education* and lifelong training, taking into account the links between education, vocational training and work. To this end, the government plans to lengthen compulsory schooling to ten years and to guarantee young persons' rights to training (off or on-the-job) between the age of 16 and 18. Raising the percentage of university graduates to EU levels will be facilitated by the establishment of a national fund, which, potentially co-financed with private funds, would give financial support to eligible persons. In addition, the government has committed itself to ease the shortage of training opportunities for young persons and adults, giving "training credits", training scholarships (co-financed with EU funds) and enlisting the collaboration of local authorities in its efforts to reduce large regional "training gaps", notably in the south. The social partners and the

government also agreed to establish a system of advanced training alongside the universities, endowed with certificate-issuing power, as well as a national system of certification. University fees will be based upon the ability to pay, measured by family income.

Improving infrastructure

Other provisions of the Labour agreement concern the execution of public investment projects which were frozen in the wake of the corruption scandal. For the purpose of speeding up the execution of old projects and improving the design of new ones, administrative procedures will be simplified and procurement policies be made more efficient (for details, see Chapter III). In the past, planning shortcomings have kept EU-funds from being fully used in depressed regions. Public investment will focus on transportation, the energy sector, notably in the south where there is a “power deficit”, and the environment.

Increasing product market competition

The labour agreement of September 1996 also calls for further privatisations, which continued to be impeded by political uncertainty, problems of restructuring loss-making public enterprises and delays in establishing and implementing a new regulatory framework for public utilities. Major privatisations in 1996 included the sale of remaining government stakes in IMI (*Istituto Mobiliare Italiano*), a financial-services group, and the third tranche of INA (*Istituto Nazionale delle Assicurazioni*), a major insurance company (Table 39). In the case of IMI, a syndicate of public banks purchased a controlling share. In November 1996, the placement of a second tranche of shares in ENI, the national oil company, helped to almost meet the privatisation target for 1996. This sell-off reduced the State’s stake in ENI to 71 per cent.

The government has also sold off the loss-making *Banco di Napoli* to two publicly-controlled institutions (*Banca Nazionale del Lavoro* and *INA*). In the course of 1996 the *Banco di Napoli* received large amounts of capital grants, which contributed to the deficit overrun at state sector level (see Chapter II). In November 1996, the government presented draft legislation offering tax incentives to accelerate the privatisation of banks in general and to reshape the banking industry, without which effective privatisation of firms cannot proceed. So far, the pace of privatisation in the banking sector has been slow: almost 60 per cent

Table 39. **Major privatisations**

Enterprise	Date	Method	Total gross revenue (billion lire)	Revenues accruing to
Nuovo Pignone	1993	Private sale	699	ENI
Italgel		Private sale	431	IRI
Cirio-Bertolli-De Rica		Private sale	311	IRI
Credito Italiano		Secondary public offer	1 801	IRI
IMI 1	1994	Initial public offer	1 794	Treasury
Banca Commerciale Italiana		Secondary public offer	2 891	IRI
INA 1		Initial public offer	4 530	Treasury
Ilva Acciai Speciali Terni		Private sale	600	IRI
SME		Private sale	723	IRI
Italtel	1995	Private sale	1 000	STET
Ilva Laminati Piani		Private sale	2 513	IRI
IMI 2		Secondary public offer	913	Treasury
INA 2		Secondary public offer	1 687	Treasury
ENI 1		Initial public offer	6 299	Treasury
IMI 3	1996 ¹	Private sale	501	Treasury
ENI 2		Secondary public offer	8 872	Treasury

1. Data for 1996 exclude proceeds from issues of convertible bonds for INA (about L 3.2 trillion).

Source: Data provided by the Italian authorities.

of Italy's banking system is still publicly controlled. Some of the largest banks are controlled by foundations (*fondazioni*), established by the Amato law of 1990. Of the 73 savings banks brought under the control of the foundations in 1990 only a few have been privatised. Recent draft legislation clarifies the legal status of foundations and facilitates the sale of their stakes in public banks through special incentives. A 1994 directive by then Treasury Minister Dini requires the *fondazioni* to cede control of public banks before 1999.

Despite some restructuring, Italian banks continue to suffer from overstaffing, inefficiencies and low profitability. Overstaffing is estimated at 30 000 persons or 9.3 per cent of the work force, which, shielded by stringent firing restrictions, is overpaid relative to their foreign counterpart.⁹⁷ Inefficiencies are manifest in the low level of productivity, transactions per bank employee in payments and cash withdrawals covering only one fourth of the United States equivalent in 1992.⁹⁸ Inefficiencies are also manifest in the huge stock of bad loans, which are mostly concentrated in the south. Short-term credit (up to

eighteen months), though declining in importance, are still the dominant source of bank credit.⁹⁹ Overall, the weakness of the banking system shows up in low profitability, net profits as a percentage of capital and reserves being 0.7 per cent in 1994 as against 14.9 per cent for the United States, 5.7 per cent for Germany, and 2 per cent for France.¹⁰⁰ Moreover, while Italy is the fifth largest OECD economy, none of its banks (currently more than 900) ranked among the top 30 in terms of asset size in the early 1990s.¹⁰¹

Under the privatisation law of 1994, regulatory authorities for telecommunications and energy need to be established prior to privatisation. Delays in establishing such a regulatory authority have prevented privatisations of STET, the telecommunication company, in which IRI, Italy's largest State-holding company, had a 64 per cent stake until the end of 1996. As a result, IRI's debt (an estimated L 23.5 trillion in 1996) remained far above the ceiling of L 5 trillion set for the end of 1996 by the EU debt-reduction agreement of 1993. To put IRI's debt on a downward course and to facilitate the privatisation of STET, the government at the end of 1996 announced the take-over of STET by the Treasury. It also announced the merger of STET with Telecom Italia (TI), which runs Italy's fixed-link line network. Privatisation has been postponed until autumn 1997, a few months before all telecommunications services are due to be liberalised in the EU in January 1998. The government also directed IRI to proceed with the sale of its 33 per cent stake in Banca di Roma, Finmare, the shipping company, and the state-run motorway network. A regulatory authority for the electricity sector, set up in June 1996, has not yet become operational. In the meantime, the future structure of the electricity sector depends upon Parliament approving a new framework law, which would incorporate the EU guidelines for the electricity market, and upon a final decision being taken about the shape of ENEL. Both decisions will have a strong impact on the timing and the nature of ENEL's privatisation.

Measures aimed at strengthening competition in goods and service markets have also included activities of the Anti-trust Authority (*Autorità Garante della Concorrenza e del Mercato*) which, through its powers of investigation and decision-making, continued to take steps to assure the enforcement of the anti-trust law of October 1990 (Table 40). The year 1996 saw evidence of horizontal agreements being found in agriculture (producers consortia), transportation, publishing and other service sectors as well as in manufacturing (steel pipes produc-

Table 40. **Decisions taken by the Anti-Trust Authority**

	Number of decisions				
	1992	1993	1994	1995	January to March 1996
Concentrations	422	501	342	282	96
Agreements	34	26	25	31	16
Abuse of a dominant position	21	20	14	31	12
Misleading advertising	26	166	213	244	114
Decisions taken in 1995 by outcome					
	Non-violation of law	Violation of law		Non-applicability of law	
Concentrations	249	0		33	
Agreements	20	3		8	
Abuse of a dominant position	22	8		1	
Misleading advertising	63	169		12	

Source: Autorità Garante della Concorrenza e del Mercato, *Relazione annuale sull'attività svolta*.

ers). The abuse of a dominant position was particularly strong in air transportation, telecommunications, highway catering and rescue services. Applying its competition advocacy powers, the Authority also issued reports about laws and regulations which contradict competition principles. Looking back at the past few years, interventions of the Authority have been concentrated on telecommunications, maritime transport, electricity and professional services (Table 41), have been instrumental in winning the approval by the Italian government of EU telecommunications directives and of new regulations for harbours.

Assessment and recommendations

Recent structural reform measures and initiatives have covered a wide range of activities and, if implementation is effective, will go some way to meeting the *OECD Job Strategy* recommendations (see Box 5). The supply of atypical work contracts has increased further, notably in the retail sector, where employment by large retailers has increased with the derestriction of opening hours and the right to extend part-time employment contracts. In addition, more flexible modes of production (shift- and Sunday-work) have spread, raising the frequency of non-

Table 41. **Competition advocacy interventions**

Sectors	Number of interventions	Competition issue addressed				
		Exclusive rights	Price/ quantity fixing	Discriminatory provisions		Other barriers to entry
				Essential facilities	Others	
Telecommunications	19	22	8	28	16	26
Professional services	11	..	17	..	33	50
Maritime transport	10	..	8	..	46	46
Electricity	5	30	5	13	17	35
Insurance and financial services	5	..	70	..	20	10
Fuel	5	..	25	..	..	75
Privatisation	3	29	5	23	5	38
Air freight transport	3	50	17	..	..	33
Entertainment	3	..	40	..	40	20
Pharmacies	3	20	..	..	..	80
Gas	3	..	..	..	100	..
Agriculture, food	3	..	100	..	..	..
Newspaper distribution	2	..	50	..	..	50
Railway supplies	2	..	..	..	..	..
Retail distribution	1	..	33	..	..	67
Road freight transport	1	..	..	..	100	..
Taxis	1	..	67	..	..	33
Local buses	1	..	100	..	..	..
Product standards	1	100	..	..	..	..
Building materials	1	..	..	..	..	100
Education	1	..	..	..	100	..
Tendering procedures	1	..	..	..	..	..

Source: Data submitted by the Italian authorities.

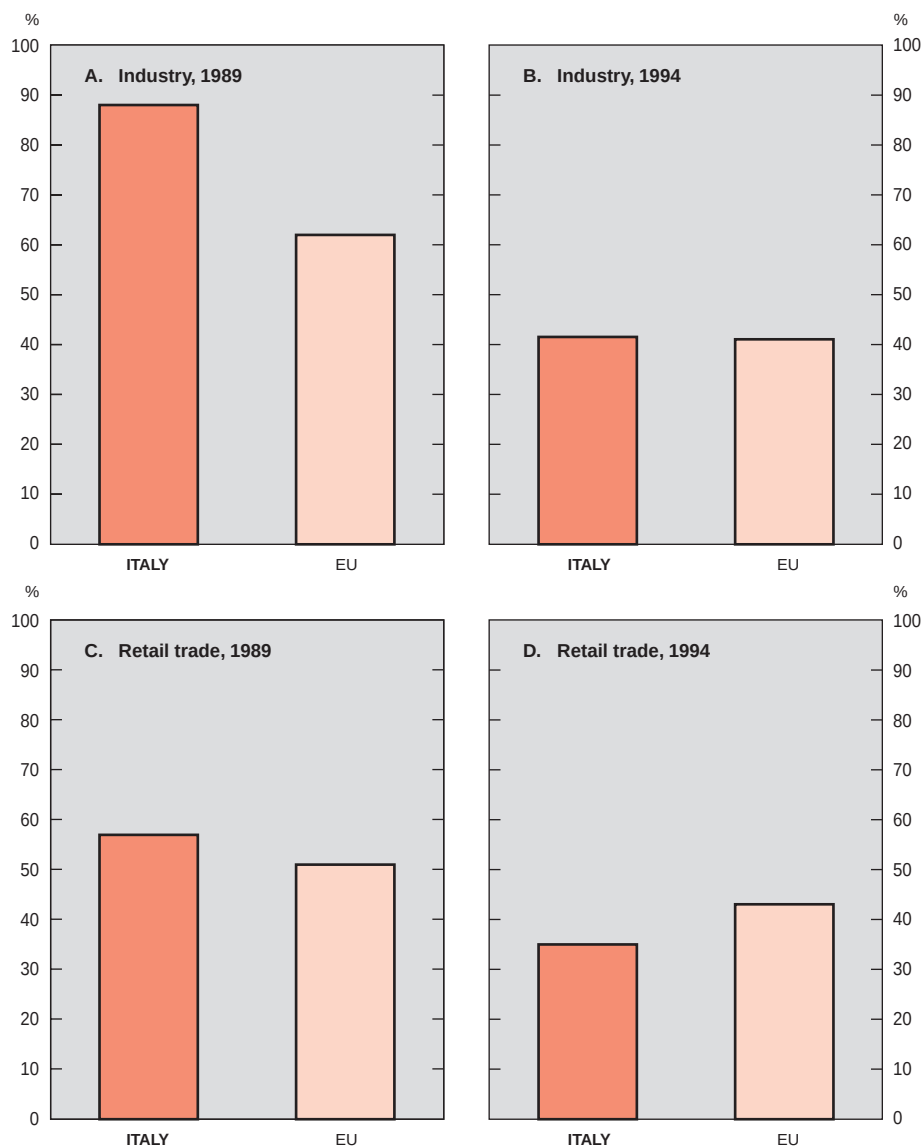
standard work from already relatively high levels.¹⁰² In particular, the Labour agreement of September 1996 has further extended the scope for atypical work contracts, which should result in the expansion of part-time and fixed-term work. The impact on structural unemployment should be reinforced by steps to improve the efficiency of the public employment services, while the plans to raise the school leaving age should help to upgrade the quality of human capital in the longer run. With respect to the product market, the operations of the Anti-trust authority are helping to create a more competitive environment. Such actions should, with time, contribute to a better functioning of labour, goods and service markets, building on progress which has already been made.

Box 5. Implementing the OECD Jobs Strategy – an overview

Proposal	Action	Assessment and recommendations
I. Increase wage and labour cost flexibility		
• Lower tax and contribution rates	Tax reform 1997	Should continue beyond 1997
• Reduce obstacles to atypical work contracts	New apprenticeship contracts; easier access to part-time work	Enlarge scope for atypical work contracts
• Ease employment protection legislation	No longer automatic transformation of fixed-term contracts into indefinite contracts	Make further progress in reducing employment protection legislation, notably in the banking system
• Link pay to firm profitability	Implementation of the 1993 labour agreement	Decentralise wage bargaining further
• Redeploy labour in the public sector	Identification of workload and staff requirements	Speed up the implementation of the redeployment programme
II. Improve the efficiency of labour market policies		
• Use modern job-brokering techniques	Creation of private employment agencies; decentralisation of public employment agencies	Implement 1996 labour agreement
• Intensify monitoring of labour-market programmes	No action	Provide better training through targeting special groups
III. Reduce distortions arising from unemployment insurance and related benefits		
• Harmonise replacement ratios and benefit periods	Extension of income support by wage supplementation fund to include banks, trade and public utilities	Implement announced policy measures
• Strengthen incentives to job search	No action	Reduce benefit periods
IV. Improve labour-force skills and competencies		
• Raise compulsory schooling age	Increase in compulsory schooling to ten years	Implement 1996 labour agreement
• Increase opportunities for vocational training	Enlarge off- and on-the-job training	Implement 1996 labour agreement
V. Increase product market competition		
• Ease policies of public procurement	Liberalisation of procurement policies	Speed up execution of investment projects and step up fight against organised crime
• Accelerate privatisation	Continued privatisation	Step up pace of privatisation, especially in the banking sector, and make its process more transparent

Figure 36. **THE DECLINING IMPORTANCE OF HIRING AND FIRING RESTRICTIONS¹**

Per cent of total



1. Proportion of firms indicating restrictions in hiring and firing as important obstacles to employing more people.

Source: EU (1995), *Performance of the European Union Labour Market*.

Table 42. **Dispersion of earnings and labour costs**

	1989	1994
Earnings inequality¹		
Italy	1.44	1.60⁵
United States ²	1.97	2.01
Canada ³	1.86	1.64
Japan	1.86	1.85
Spain	..	..
Germany	1.64	1.61 ⁵
United Kingdom	1.83	1.86
France	1.99	1.99
Portugal	2.24	2.47 ⁵
Labour cost dispersion by industry⁴		
Italy	0.142	0.147
United States	0.276	0.302
Canada	..	0.285
Japan	0.268	0.275
Spain	0.216	0.247
Germany	0.181	0.209
United Kingdom	0.170	0.184
France	0.156	0.162
Portugal	..	..

1. Ratio of high to medium wages. High wages refer to the upper limit of the distribution (90 per cent of workers earn less than this limit).

2. Males.

3. 1988.

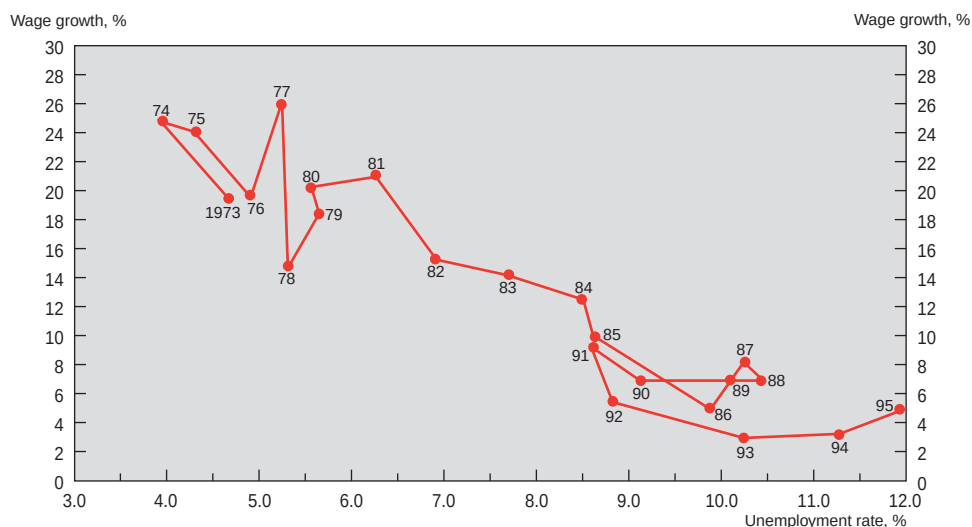
4. Coefficient of variation of labour cost levels per working hour of production workers in thirteen sectors.

5. 1993.

Source: OECD (1996), *Employment Outlook*, Table 3.5., and Swedish Employers' Confederation (1996).

In terms of the visible effects of reform, empirical findings suggest that the responses of employment and the labour supply to shocks have become more flexible, in terms of the lower persistence of key variables, as a result of the labour-market reform undertaken in the 1990s.¹⁰³ Employer surveys show hiring and firing restrictions to have become less important as a hurdle to job creation (Figure 36). Moreover, labour cost dispersion and earning differentials have increased in the 1990s (Table 42). On the other hand, there is no clear evidence of nominal wage growth having become more sensitive to the rate of unemployment (Figure 37). And while the *in situ* flexibility of labour has risen further with the wider use of atypical employment contracts and larger shift work, inter-sectoral wage differentials are still small by international standards. In addition,

Figure 37. **NOMINAL WAGE GROWTH AND UNEMPLOYMENT**



Source: OECD.

the banking system, beset by inefficiencies and low profitability, needs greater exposure to competitive forces. Privatisation of public banks will play a key part in this process.

Overall, the pace of structural reform needs to be stepped up, notably in the domain of privatisation, the restructuring of public enterprises and public administration (see Chapter III). The need for greater flexibility of product and labour markets is reinforced by prospective EMU membership, which implies losses of autonomy in the domain of exchange-rate, monetary and fiscal policy and puts added emphasis on labour-market flexibility for achieving the goal of price stability and employment growth.

Notes

1. The growth rate for income from property and others more than doubled between 1994 and 1995, accelerating to 7.8 per cent from 3.1 per cent (current prices). In contrast, compensation of employees only rose by 4.4 per cent in 1995.
2. OECD (1995), *Economic Survey of Italy*.
3. Temporary investment incentives introduced in June 1994 (Tremonti law) were extended to the end of April 1996 for contracts signed before the end of September 1995. Small firms with no more than 20 employees and an annual turnover of less than L 5 billion and enterprises located in economically-depressed regions were eligible for an extension to the end of 1996.
4. In October 1992, the definition of unemployment was brought in line with international standards. The result of these definition and procedural changes was to reduce recorded unemployment by a substantial amount.
5. OECD (1996), *Economic Survey of Italy*.
6. SVIMEZ (1996), *Rapporto 1996 sull' economia del Mezzogiorno*, Il Mulino.
7. The July 1993 labour cost agreement, while not providing for an automatic compensation in case of an inflation overshoot, established that adjustments would take into consideration the observed evolution of the terms of trade and of earnings, as well as of general macroeconomic and sector-specific conditions.
8. The metal workers' wage settlement signed in February 1997 provides for a monthly wage increase of L 200 000 (\$124) staggered in three phases over 30 months to the end of 1998. There is also a one-off payment of L 512 000 to be paid in two steps.
9. The new consumer price index gives a larger weight to large retail outlets and a lower one to food, housing and transportation. This subtracts an estimated 0.3 point from the year-on-year inflation rate measured by the old index.
10. Banca d'Italia (1996), *Relazione del governatore sull'esercizio 1995*.
11. Bringing the rise in prices eventually to a halt is the primary aim of Italy's monetary policy. Fazio A. (1996), "Fact-finding preliminary to the examination of the Economic and Financial Planning Document", Joint session of the committees of the Italian Senate and Chamber of Deputies. In numerical terms, this has been interpreted as stabilising inflation permanently at a level not higher than 2 per cent a year. *Corriere della Sera* (1996), Interview with Governor A. Fazio, 7 September.

12. Confindustria (1996), "La rigidità dei tassi bancari: un confronto internazionale", *Nota dal C.S.C.*, 18 July.
13. Fazio A. (1996), "Risk management and the profitability of Italian banks", address by the Governor of the Bank of Italy to the Italian Bankers' Association, Rome, 26 June.
14. Bank of Italy (1996), *Abridged Report for the year 1995*.
15. Bank of Italy (1996), *Abridged Report for the year 1995*.
16. Three days before its exit from the ERM on 16 September 1992, the lira was devalued by 7 per cent, the central rate changing from L 750 to L 801 per Deutschmark.
17. The transitional period of the reform of the minimum reserve requirement system ended in January 1996. The release of reserves in respect of medium and long-term certificates of deposit amounted to nearly L 15 trillion in 1995 and to L 3 trillion in January 1996. With effect from September 1995, changes in banks' own funds are no longer deductible from the aggregate subject to the reserve requirement.
18. Bank of Italy (1996), *Abridged report for the year 1995*.
19. From June 1996, all bank deposits (sight and savings deposits as well as certificates of deposits) became subject to the same withholding tax rate (27 per cent), replacing a highly differentiated regime. Prior to June 1996, certificates of deposits with a duration between 12 and 18 months and, especially, those with a longer maturity, benefited from preferential tax treatment.
20. For details, see OECD (1996), *Economic Survey of Italy*.
21. At the same time, the target for the general government deficit was raised from L 110.7 trillion to L 123.5 trillion.
22. Bank of Italy (1996), *Bolletino Economico*, October.
23. An additional factor keeping VAT revenues below expected levels was the fall in the level of import prices.
24. This measure has two effects: it increases by some L 46.5 trillion (2.5 per cent of GDP) the stock of general government debt; and it reduces State transfers to railways for the reimbursement of the debt by L 3.6 trillion in 1997 and L 7.1 trillion in 1998. It also reduces operating subsidies paid by the State to the railways by L 4 trillion a year, since these will now be written into the budget accounts as a below-the-line item (an increase in State participation in the capital of the railways).
25. By mid-December, this latter rate had already fallen to 6.7 per cent helped by confidence gains flowing from the announcement of tighter fiscal targets, the return of the lira to the ERM and the EMU stability pact.
26. In 1993 a debt amortisation fund (*Fondo di ammortamento per i titoli di Stato*), was established, the revenues of which include receipts from privatisation of State-owned enterprises. Asset sales earmarked for public debt redemption totalled L 23.2 trillion in the 1993-96 period.
27. The need for reforms to increase tax efficiency and reduce the tax wedge on labour was discussed in the special chapter of the previous *OECD Economic Survey of Italy*.
28. Data on public spending by functions are limited to 1994.

29. Several authors have underlined the potential for strategic manipulation associated with the use of trend estimate as a benchmark for measuring the size of the fiscal correction. See Alesina A. and Perotti R (1996), *Fiscal Adjustment in OECD Countries: Composition and Macroeconomic Effects*, International Monetary Fund Working Paper No. 70, July.
30. This estimate is based on a comparison of deficit targets as formulated in medium-term plan of the preceding year, and outcomes as shown in the medium-term plan of the following year.
31. Commissione Tecnica per la Spesa Pubblica (1994), *Il controllo della spesa pubblica*.
32. Franco D. (1993), *L'espansione della spesa pubblica in Italia*, il Mulino.
33. Pension liabilities were extended to all employees in 1952; to agricultural workers in 1957; to craftsmen in 1959; to workers in commerce in 1966; and to persons above 65 years of age with insufficient income through the institution of "social pensions" at the end of the 1980s.
34. According to the Commissione Tecnica per la Spesa Pubblica (1994), *Il controllo della spesa pubblica*, the (direct) pension benefit paid by INPS to a new retiree in 1994 was more than double the amount that would have been paid under a fully funded system.
35. *Seniority pensions*, granted to workers with at least 35 years of contributions, accounted for around 2 million pensions in 1996, with outlays at 2.5 per cent of GDP. Within this group, *baby pensions*, granted to public workers with at least 20 years of contributions, totalled 250 000, with outlays of 0.3 per cent of GDP.
36. The difference between the two rates is large for self-employed (5 points) but more limited for employees (0.3 points).
37. In 1995, 53 per cent of public health spending was financed by health contributions, 40 per cent by budgetary transfers, 4 per cent by local revenues and the remainder by other sources.
38. In the early 1990s, only 12 per cent of respondents were satisfied for the quality of health services in Italy, as compared with 27 per cent in the United Kingdom, and around 40 per cent in France and Germany. OECD (1993), *OECD Health Systems*.
39. The proportion indicating high satisfaction for nurse assistance and for hygienic services in hospital ranged respectively from 49 and 43 per cent in the north-east to 18 and 14 per cent in the south. ISTAT (1996), *Rapporto Annuale*.
40. See Ministero del Tesoro, Ragioneria Generale dello Stato (1996), "Tendenze demografiche e spesa sanitaria: alcuni possibili scenari", *Quaderno Monografico n. 7 di Conti Pubblici e Congiuntura Economica*; Garattini L. (1988), "La dinamica della spesa sanitaria di parte corrente (1981-86)", *Economia pubblica* n.6; Lucioni C. (1992), "Il costo dell'assistenza farmaceutica pubblica: problemi e prospettive", *Economia pubblica* n.1; and Franco (1993), *L'espansione della spesa pubblica in Italia*.
41. Delivery of primary health care and preventive medicine is carried out by general practitioners responsible for referring patients to specialists and hospitals. They are paid on a capitation basis and are under contract with the USLs. Hospitals are usually in the public sector and controlled by the USLs. The public delivery of specialised health care is carried out by both public providers and private professionals under contract with the USLs. Overall a significant proportion of public health care is provided by private operators, although with significant differences across regions.

42. OECD (1992), *Economic Survey of Italy*, Chapter IV, “The Italian Health Care System”.
43. Cazzola, G. (1994), *Lo stato sociale tra crisi e riforme: il caso Italia*, Il Mulino.
44. For an analysis of the reform see Balassone, F. and Franco, D. (1995), “La difficile riforma del welfare: il settore della sanità”, *Stato e Mercato*, n.43; and Mapelli, V. (1993), “La spesa sanitaria”, in Bernardi L. (a cura di), *La finanza pubblica italiana. Rapporto 1993*, Franco Angeli, Milano.
45. The regional allocation of the Inter-regional Health Fund is established mainly on a capitation basis set in accordance to overall available resources and to “uniform levels of health assistance”, as determined by the National Health Plan. The distribution of the Fund is also corrected to take account of inter-regional mobility of patients.
46. Patients partly contribute to pharmaceutical expenditure and to laboratory, radiology and specialist ambulatory care. Exemptions to co-payments are granted to persons suffering from certain diseases; to the disabled; to persons entitled to social pensions and minimal pensions under a certain income level; to children below six; to persons aged over 65 years and the unemployed under an income-threshold. Regulations concerning co-payments and exemptions have undergone several changes since 1992.
47. See Oxley, H. and MacFarlane, M. (1995), “Health care reform: controlling spending and increasing efficiency”, *OECD Economic Studies*, No. 24.
48. Generic drugs are manufactured following the expiration of the original patent. The spread of generic drugs in Italy has been hampered by long period of patent protection, inadequate information on their expiry date, delays in registration of new drugs, and lack of statutory guarantees for physicians prescribing generic drugs. See *Autorità Garante della Concorrenza e del Mercato* (1996), Annual Report 1995.
49. Ferrera, M. (1984), *Il welfare state in Italia*.
50. In the OECD classification, disability pensions refer to persons below the statutory age for old-age pensions. National data shown in Table 29, include beneficiaries 60 years and older. Disability benefits include pensions paid by INPS for a permanent reduction of work capacity (*pensioni di invalidità*); pensions paid by the Ministry of Internal Affairs to blind, deaf and civil disabled people with insufficient income (*pensioni assistenziali*); and pensions paid by INAIL for permanent occupational injuries and by the Ministry of the Treasury for war-disabled (*pensioni indennitarie*). Pensions in the latter two categories are paid irrespectively of contributions.
51. The Wage Supplementation fund pays ordinary benefits (80 per cent of earnings for hours not worked with a ceiling of L 1.25 million per month) due to temporary reductions of activity and special benefits (equal to the ordinary ones) for non-temporary suspensions due to sector- or area-specific restructuring of firms. OECD (1996), *Economic Survey of Italy*.
52. See OECD (1995), *Economic Survey of Italy*, for a description of the various schemes of income support for the unemployed in Italy.
53. Between 1973 and 1989, these measures allowed the regularisation of employment relations (*passaggio in ruolo*) of 400 000 *precari*, mainly in schools and ministries.
54. Average contractual hours in the public administration in 1992 were 36 per week, one of the lowest across OECD countries, well below those prevailing in industry and services

(between 39 and 40 hours). Analyses of earning differentials between the private and public sector, controlling for certain characteristics of workers and job, highlight a premium for the latter.

55. Biagioli M., Salvati M. and Santi P. (1992), “Occupazione, retribuzioni e spesa per il personale nella pubblica amministrazione”, in Ente Einaudi, *Il disavanzo pubblico in Italia: natura strutturale e politiche di rientro*.
56. The incidence of State employees with the lowest qualification fell from 5.2 per cent in 1982 to 0.4 per cent in 1992; over the same period the weight of employees in the four highest qualifications increased from 12 to 23 per cent. The large majority of public workers experienced at least one promotion during their career, and around one-third had more than one.
57. The ratio between the wages of the highest and lowest ranked civil servants (*direttore generale and commessi*) narrowed from 5.5 in 1971 to 2.8 in 1981. Biagioli M, Salvati M. and Santi P. (1992). Some widening of this differential is evident in the 1990s.
58. Giarda P., Pisauo G. and Salvemini M.T. (1992), “Il controllo della spesa per il personale statale, in *Commissione Tecnica per la Spesa Pubblica* (1996), *Razionalizzazione e contenimento della spesa pubblica: le raccomandazioni della CTSP*, Istituto Poligrafico della Zecca dello Stato..
59. Around 500 000 public workers are excluded from the new provisions, mainly managers, police and armed forces.
60. The transfer of authority for employment litigation to civil courts has not yet been implemented due to resistance from both administrative (TAR) and ordinary courts. These norms would imply the transfer of around 150 000 cases per year to ordinary courts which are already overburdened. In early 1996, the judicial supervisory body authorised a deferral of this transfer by five years.
61. Ministero del Tesoro, Ragioneria Generale dello Stato (1996), *Conto Annuale 1994*, Istituto Poligrafico e Zecca dello Stato. The fall of employment in the state sector in 1994 entirely reflected declines in education.
62. Cassese S and Franchini C.(1994), *L'amministrazione pubblica italiana*.
63. Scatassa G. (1996), *I costi della pubblica amministrazione ed i possibili risparmi*, Presidenze del Consiglio dei Ministri, Dipartimento della funzione Pubblica.
64. Roccella A. (1996) Senza avvenire con questa amministrazione, in Bernardi L., *La finanza pubblica italiana*. Rapporto 1996.
65. In the five years to 1994, around 4 000 public employees have been subject to judicial investigations, mainly for corruption, extortion and abuse of power; in 40 per cent of these cases, the judicial investigation has led to the suspension from work. To limit corruption of public officials, authorities are considering stricter administrative sanctions and the creation of an independent authority for monitoring public employees' assets.
66. Each minister is endowed with peripheral offices, most often at the provincial level. Some, as the Minister of Finances and of Internal Affairs, have three networks of local offices. Voci P. (1994), “Il decentramento amministrativo e le autonomie locali”, in Cassese S. and Franchini C., *L'amministrazione pubblica italiana*, Il Mulino.

67. Outside the general government, public enterprises (public utilities and state-controlled companies) accounted for around 9 per cent of Italy's GDP and 5 per cent of total employment in 1994. Public ownership is still large in the banking sector. Padoa Schioppa Kostoris F. (1994), "Excesses and limits of public sector reform in the Italian economy. The ongoing reform", *CEPR Discussion Paper*.
68. In addition, several measures introduced in the early 1990s affected specific sectors of the public administration (the abolition of the Ministry of Tourism; the merge of the Ministry of Transport with that of Maritime Transport; the restructuring of environmental protection agencies; changes in the legal statute of the post office; reform of the Audit Court and Chambers of Commerce; the suppression of agencies responsible for extraordinary intervention in the south). In execution of Law 421/1992, various decrees affected the financing of local authorities, the health sector and public employment.
69. Public expenditure for information technology in the public administration, at around 2 per cent of GDP, was lower than in other major OECD countries (around 3 per cent in Germany and France; above 4 per cent in Japan and the United Kingdom, and closer to 8 per cent in the United States).
70. According to the Audit Court, there were 457 public entities formally suppressed by law but still in existence. Among the factors delaying the liquidation of these entities are issues with the personnel, the recovery of credits to these entities, the valuation and disposal of their real assets.
71. Tanzi, V. (1994), "International Systems of Public Expenditure: Lessons from Italy", in Banca d'Italia, *Nuovi Sistemi di Controlli sulla Spesa Pubblica*, Conference Proceedings, Perugia, 9-10 June 1994. Alesina, A., Marè M. and Perotti, R. (1996), "Le procedure di bilancio in Italia: analisi e proposte", in Galimberti F. and others (eds.), *Nuove frontiere della politica economica*, Sole 24 Ore.
72. A deficit target for the general government was set in 1995 for the first time.
73. CER (1996), "I limiti dell'informazione sui conti pubblici", *Rapporto* No 3
74. These include: the Budget Law (*Legge di Bilancio*), based on existing legislation; the Finance Law (*Legge Finanziaria*), which introduces part of the budgetary measures but cannot contain structural changes to the tax or expenditure system; accompanying legislation (*Provvedimenti Collegati*), introducing changes in existing laws; and amendments to the budget law (*Nota di Variazione*) which introduce these changes into the budget law.
75. CER (1996) *op. cit.* underlines the significant differences between the targets for the state sector borrowing requirement formulated in the DPEF and for the state budget on a commitment basis approved by Parliament.
76. CER (1996), *op. cit.*
77. Onofri R., Pisauo G. and Siniscalco D. (1994), "Il governo della finanza pubblica tra costituzione, norme contabili e procedure", in Commissione Tecnica per la spesa pubblica, *Il controllo della spesa pubblica*.
78. The main institutions having accounts with the Treasury include local administrations; Chambers of Commerce; local health units; the Deposit and Loan Funds (*Cassa Depositi e*

- Prestiti*, a public bank which collects savings through the post offices and provides loans to local government at below market interest rates); and the Post Office.
79. Commissione Tecnica per la Spesa Pubblica (1996), *Razionalizzazione e Contenimento della Spesa Pubblica*, Istituto Poligrafico e Zecca dello Stato, identifies several examples of “creative accounting” procedures.
 80. The coverage of the state sector has undergone significant changes following the exclusion of several agencies providing market services. In 1993, the State Railroad company, the Telephone company, and State Monopolies were transformed into joint-stock companies and taken out of the coverage of the state sector. The South Agency (*Agenzia per il Mezzogiorno*) terminated its activities in 1993. The State Forest Department, the Post Office and the State Road Department were excluded from the definition following their transformation in public agencies and the modification of their accounting procedures.
 81. As a result, these authorities borrowed more than their actual spending capacities. In 1993, regions borrowed from banks around L 19 trillion, but only L 8 trillion were transferred to local health units.
 82. Amortisation payments for debt incurred to finance current spending is classified as a capital outlays in the state budget.
 83. The data on commitments at local government level are insufficient, contributing to an inadequate knowledge of emerging problems.
 84. Von Hagen J. and Harden I. (1994), “National Budget Processes and Fiscal Performance”, *European Economy*, Reports and Studies No. 3 identifies Italy as one of the EU countries with the least transparent budget and most flexible implementation procedures. These features, together with low centralisation of the budget process, contribute to explaining differences in fiscal performance among EU countries.
 85. Some authors have suggested to limit the scope of amendments that can be presented in Parliament by disallowing amendments that increase expenditures or the overall deficit. See Masera R. (1995), *Bilancio e Costituzione: Ipotesi di Revisione alla Luce del Trattato di Maastricht*, Ministero del Bilancio; Alesina A., Marè M., Perotti R. (1996), and the Commissione Spesa Pubblica (1994).
 86. With the exclusion of open-ended entitlement programmes.
 87. See Tanzi, V. (1994), “International Systems of Public Expenditure: Lessons from Italy”, in Banca d’Italia, *Nuovi Sistemi di Controlli sulla Spesa Pubblica*, Conference Proceedings, Perugia, June 9-10 1994.
 88. In 1995 authorities identified around 200 large infrastructural projects, worth a cumulative L 60 trillion, for which financial coverage had already been granted and which could have been activated on short delays (twelve months), mainly located in the south.
 89. New provisions introduced in 1995 limited the use of residuals to the year following the budgetary allocation.
 90. Presidenza del Consiglio dei Ministri (1995), *Libro Bianco sul rilancio delle grandi opere infrastrutturali per lo sviluppo e l’occupazione*, Roma.
 91. Commission of the European Communities (1995), *Fourth Survey of State aids in the European community in the Manufacturing and Certain Other Sectors*.

92. The liquidation of EFIM in 1993 and 1994 led to an increase of the state sector debt of L 4.3 trillion. Transfer of IRI financial liabilities further increased state sector debt by L 5 trillion. Debt of the railway company is estimated around 5 per cent of GDP in 1994.
93. OECD (1996), *Economic Survey of Italy*.
94. OECD Working Party No. 1 of the Economic Policy Committee (1996), "Methods of estimating the NAIRU" Annex 2.
95. OECD (1996), *Economic Survey of Italy*; OECD Working Party No. 1 of the Economic Policy Committee (1996), "The NAIRU", contribution from the Italian Delegation, September.
96. The labour agreement of July 1992 abolished the wage indexation scheme (*scala mobile*), 46 years after its introduction. The labour agreement of July 1993 established a new framework for industrial relations and wage bargaining, essentially a two-tier wage bargaining system.
97. *The Wall Street Journal*, 25 November 1996; Fazio A. (1996), "72nd World Savings Day", Address before the Association of Italian Savings Banks.
98. Pilat D. (1996), 'Labour productivity levels in OECD countries: estimates for manufacturing and selected service sectors', *Economic Department Working Papers*, No. 69.
99. Until 1993, Italian banks only performed short-term operations, with special credit institutions conducting medium- and longer-term business. Firms typically take up short-term credit from several suppliers in succession (revolving credit), lessening the need for monitoring.
100. Fazio A. (1996), "Risk management and the profitability of Italian banks", Address before the Italian Bankers' Association, June.
101. OECD (1991), *Economic Survey of Italy*.
102. Among EU countries Italy had the largest amount of shift work in industry in 1994. European Commission (1995), "Performance of the European Union labour market", *European Economy*, No. 3.
103. Christofides C.A. (1996), "Italian unemployment 1975-95: an analysis of macroeconomic shocks and policies using evidence from structural vector autoregression", IMF Working Paper, April.

Annex I

Calendar of main economic events

1995

September

The government presents budget proposals for 1996, envisaging a correction of L32.5 trillion in the primary deficit, L18 trillion through additional revenues and L14.5 trillion through spending cuts. The target for the state sector borrowing requirement is set at L109.4 trillion for 1996.

The Treasury sells the second tranche of INA, the national insurance company, to a core group of reference share-holders. The ministerial committee on privatisation announces a new timetable, implying the completion of the privatisation of INA and the sale of the first tranche of ENI, the national oil company, before the end of the year. Privatisation of the electricity company (ENEL) and the telecommunication group (STET) is shifted to 1996.

December

Parliament approves the 1996 budget law, calling for spending cuts of L16.8 trillion and tax increases of L15.8 trillion.

The Treasury sells the first tranche of ENI (L6 trillion) through a public placement.

1996

May

A new government headed by Mr. Prodi is appointed, following the general elections held in April.

June

The government announces additional measures of fiscal restraint worth L16 trillion, aimed at limiting the state sector borrowing requirement for 1996 to L113 trillion, the new deficit target.

The government presents the 1997-99 medium-term economic plan, which envisages a cut in the 1997 state sector deficit to L88 trillion, or 4.4 per cent of GDP. The target for the general government borrowing requirement exceeds the state sector objective by 1 per cent of GDP. Meeting the Maastricht deficit criterion of 3 per cent of GDP is foreseen for 1998.

The Treasury sells its shareholdings in INA (L3.4 trillion). The regulatory authority for the energy sector is established.

Bank deposits (sight and savings deposits as well as certificates of deposits) become subject to a uniform withholding tax rate of 27 per cent.

July

The Bank of Italy reduces the discount rate from 9 to 8.25 per cent and the rate on fixed-term advances from 10.5 to 9.75 per cent. This is the first reduction since May 1995.

The Treasury sells the third tranche of IMI (L0.5 trillion), a financial-services group, through a private placement.

September

The government further relaxes the deficit target for 1996, raising it to L123 trillion. At the same time, the target for the general government deficit is raised from L110.7 trillion to L123.5 trillion.

With a view to meeting Maastricht criteria in 1997, the government announces tighter fiscal targets for both the state sector (L61.4 trillion) and the general government (L59.3 trillion). Relative to trend, the overall fiscal adjustment totals L61.6 trillion for the state sector, of which L36.1 trillion represent an ordinary fiscal adjustment and the remainder a supplementary deficit cut (tax for Europe). About two thirds of the ordinary fiscal adjustment (L22 trillion) represent cuts in the primary spending.

The government presents draft legislation aimed at reforming the public administration and at increasing the transparency of the budgetary process. The delegation law for a new regional tax is submitted to Parliament. The government also presents draft legislation aimed at reforming personal income taxation.

The government and social partners sign a new labour agreement (*Patto per il Lavoro*). Its main provisions include the wider use of non-standard work contracts and the introduction of area contracts in economically depressed regions. The agreement also

proposes to lengthen the school leaving age and to introduce a new system of tax incentives.

October

The Bank of Italy reduces the discount rate by 0.75 point to 7.5 per cent and the rate on fixed-term advances by the same amount to 9 per cent.

November

The lira re-enters the ERM at a central parity of L990 per Deutchmark.

The Treasury sells the second tranche of ENI (7.7 trillion) through a public placement.

The government announces the merger of STET with Telecom Italia, while privatisation of STET is postponed until autumn 1997. The government also directs IRI, Italy's largest State-holding company, to proceed with the sales of its 33 per cent stake in Banca di Roma, Finmare, the shipping company and the state-run motorway network.

The government presents draft legislation, offering tax incentives to accelerate the privatisation of banks and to reshape the banking industry.

December

Parliament approves the budget bill.

The government announces special tax incentives for car purchases and house repairs.

1997

January

The Bank of Italy reduces the discount rate by 0.75 point to 6.75 per cent and the rate on fixed-term advances by the same amount to 8.25 per cent.

February

EUROSTAT approves reclassification of expenditure for interest payment on postal savings and transfer payments to the railway company.

STATISTICAL ANNEX AND STRUCTURAL INDICATORS

Table A. Selected background statistics

	Average 1986-95	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995
A. Percentage change from previous year at constant 1990 prices											
Private domestic consumption	2.2	3.5	4.1	4.2	3.3	2.4	2.7	1.0	-2.4	1.5	1.7
Gross fixed capital formation	1.2	2.0	4.4	6.9	4.4	3.6	0.8	-1.8	-12.8	0.2	5.9
Housing	0.1	-2.0	-2.3	1.1	2.5	2.8	3.0	-0.1	-0.7	-1.9	-1.4
Business	2.9	4.9	8.5	12.4	5.9	5.3	-0.1	-1.2	-18.6	4.4	11.0
GDP	2.0	2.8	3.1	3.9	2.9	2.2	1.1	0.6	-1.2	2.1	3.0
GDP price deflator	6.0	7.8	6.1	6.8	6.3	7.6	7.7	4.7	4.4	3.5	5.0
Industrial production	2.4	4.1	2.6	6.9	3.9	-0.6	-0.9	-1.3	-2.1	6.8	5.5
Employment	-0.3	0.4	-0.3	0.5	-0.1	1.2	0.7	-0.9	-2.5	-1.7	-0.6
Compensation of employees (current prices)	6.9	8.0	8.6	10.0	9.5	12.1	9.4	5.2	1.0	1.4	4.4
Productivity (GDP/employment)	2.2	2.1	2.7	2.9	2.7	1.3	0.3	1.6	1.8	3.7	3.4
Unit labour costs (compensation/GDP)	4.8	5.0	5.3	5.9	6.4	9.8	8.1	4.6	2.2	-0.7	1.4
B. Percentage ratios											
Gross fixed capital formation as % of GDP											
at constant prices	19.0	18.9	19.2	19.7	20.0	20.3	20.2	19.8	17.4	17.1	17.6
Change in stockbuilding as % of GDP at constant prices	0.7	1.3	1.5	0.9	0.7	0.8	0.5	0.5	0.0	0.6	0.8
Foreign balance as % of GDP at constant prices	0.6	0.8	-0.2	-0.1	-0.2	-0.5	-1.2	-1.2	2.2	2.7	3.4
Compensation of employees as % of GDP at current prices	44.2	45.0	44.7	44.3	44.3	45.2	45.4	45.4	44.4	42.6	41.1
Unemployment as % of total labour force	10.0	9.9	10.2	10.5	10.2	9.1	8.6	8.8	10.2	11.3	12.0
C. Other indicators											
Current balance (billions of Lira)	-2 239	3 021	-2 870	-8 260	-16 205	-20 379	-29 339	-35 219	17 828	24 329	44 583

Source: OECD.

Table B. **Expenditure on gross domestic product, current prices¹**

Billions of lire

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Private domestic consumption	610 727	673 629	742 388	807 922	886 912	946 408	970 111	1 030 333	1 107 539
Government consumption	167 988	188 693	203 160	233 331	254 888	269 142	277 196	285 822	292 622
Gross fixed investment	193 640	219 159	241 111	266 056	282 591	288 230	262 796	271 782	300 980
Final domestic demand	972 355	1 081 481	1 186 659	1 307 310	1 424 390	1 503 779	1 510 103	1 587 938	1 701 142
	9.9	11.2	9.7	10.2	9.0	5.6	0.4	5.2	7.1
Change in stockbuilding	14 979	15 399	14 241	10 442	11 059	4 970	-417	8 789	19 426
	0.4	0	-0.1	-0.3	0	-0.4	-0.4	0.6	0.6
Total domestic demand	987 334	1 096 881	1 200 901	1 317 751	1 435 450	1 508 749	1 509 686	1 596 727	1 720 568
	10.2	11.1	9.5	9.7	8.9	5.1	0.1	5.8	7.8
Exports of goods and services	174 934	190 926	221 942	243 160	248 362	267 126	320 771	362 541	443 552
Imports of goods and services	179 654	197 907	231 019	250 285	256 372	273 336	280 176	320 856	393 271
Foreign balance	-4 799	-7 022	-9 059	-7 102	-8 010	-6 123	40 680	41 573	50 198
	-0.8	-0.2	-0.2	0.2	-0.1	0.1	3.1	0.1	0.5
GDP (market prices)	982 615	1 089 900	1 191 823	1 310 626	1 427 440	1 502 539	1 550 282	1 638 412	1 770 849
	9.4	10.9	9.4	10.0	8.9	5.3	3.2	5.7	8.1

1. Figures in italics are annual growth rates; for stockbuilding and the foreign balance they are contributions to GDP growth.

Source: OECD.

Table C. **Expenditure on gross domestic product, constant 1990 prices¹**

Billions of lire

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Private domestic consumption	732 745	763 563	789 061	807 986	829 642	838 323	817 889	830 391	844 160
Government consumption	222 357	228 318	230 462	233 370	237 299	240 020	241 106	241 078	239 807
Gross fixed investment	230 058	245 873	256 719	266 044	268 271	263 362	229 629	230 127	243 646
Final domestic demand	1 185 160	1 237 754	1 276 242	1 307 400	1 335 212	1 341 705	1 288 624	1 301 596	1 327 613
	<i>4.0</i>	<i>4.4</i>	<i>3.1</i>	<i>2.4</i>	<i>2.1</i>	<i>0.5</i>	<i>-4.0</i>	<i>1.0</i>	<i>2.0</i>
Change in stockbuilding	17 418	10 881	8 866	10 360	6 146	7 003	-514	7 463	11 515
	<i>0.2</i>	<i>-0.5</i>	<i>-0.2</i>	<i>0.1</i>	<i>-0.3</i>	<i>0.1</i>	<i>-0.6</i>	<i>0.6</i>	<i>0.3</i>
Total domestic demand	1 202 578	1 248 635	1 285 108	1 317 760	1 341 358	1 348 708	1 288 110	1 309 059	1 339 128
	<i>4.1</i>	<i>3.8</i>	<i>2.9</i>	<i>2.5</i>	<i>1.8</i>	<i>0.5</i>	<i>-4.5</i>	<i>1.6</i>	<i>2.3</i>
Exports of goods and services	197 776	209 039	227 721	243 198	241 340	255 472	278 652	307 852	343 671
Imports of goods and services	199 832	210 708	229 922	250 301	257 118	271 107	249 091	271 238	297 180
Foreign balance	-2 056	-1 669	-2 201	-7 103	-15 778	-15 635	29 561	36 614	46 491
	<i>-1.0</i>	<i>0.0</i>	<i>0.0</i>	<i>-0.4</i>	<i>-0.7</i>	<i>0.0</i>	<i>3.4</i>	<i>0.5</i>	<i>0.7</i>
GDP (market prices)	1 200 522	1 246 966	1 282 907	1 310 657	1 325 580	1 333 073	1 317 671	1 345 673	1 385 619
	<i>3.1</i>	<i>3.9</i>	<i>2.9</i>	<i>2.2</i>	<i>1.1</i>	<i>0.6</i>	<i>-1.2</i>	<i>2.1</i>	<i>3.0</i>

1. Figures in italics are annual growth rates; for stockbuilding and the foreign balance they are contributions to GDP growth.

Source: OECD.

Table D. **Gross domestic product, by kind of activity, constant 1990 prices**

Billions of lire and percentage change

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Billions of lire									
Agriculture	45 278	43 460	43 768	42 133	45 541	46 699	45 987	46 196	46 320
Manufacturing	259 719	277 749	288 519	293 622	291 594	291 651	282 497	296 468	313 383
Electricity, gas and water	61 801	62 649	64 151	67 380	67 922	69 709	70 940	72 176	72 571
Construction	70 338	72 315	74 661	76 627	77 619	77 284	72 926	69 678	70 393
Wholesale and retail trade	221 633	230 926	235 703	240 691	243 691	245 231	241 491	248 219	256 076
Communication	63 882	68 097	71 591	73 761	76 019	78 737	81 881	85 965	90 853
Finance and business services	282 617	293 978	304 799	315 645	319 487	324 676	331 161	334 227	339 801
GDP (market prices)	1 200 523	1 246 966	1 282 905	1 310 659	1 325 582	1 333 072	1 317 668	1 345 674	1 385 618
Percentage change									
Agriculture	2.7	-4.0	0.7	-3.7	8.1	2.5	-1.5	0.5	0.3
Manufacturing	4.0	6.9	3.9	1.8	-0.7	0	-3.1	4.9	5.7
Electricity, gas and water	1.2	1.4	2.4	5.0	0.8	2.6	1.8	1.7	0.5
Construction	1.3	2.8	3.2	2.6	1.3	-0.4	-5.6	-4.5	1.0
Wholesale and retail trade	4.3	4.2	2.1	2.1	1.2	0.6	-1.5	2.8	3.2
Communication	4.0	6.6	5.1	3.0	3.1	3.6	4.0	5.0	5.7
Finance and business services	3.1	4.0	3.7	3.6	1.2	1.6	2.0	0.9	1.7
GDP (market prices)	3.1	3.9	2.9	2.2	1.1	0.6	-1.2	2.1	3.0

Data for 1995 are OECD estimates.

Source: OECD.

Table E. **Household appropriation account¹**

Billions of lire

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Compensation of employees	438 836	482 554	528 341	592 392	647 790	681 572	688 223	697 995	728 444
Property and entrepreneurial income	365 571	401 760	442 191	484 361	542 665	587 983	602 027	622 640	685 568
Transfers received	214 872	239 179	266 225	300 760	330 637	361 118	376 181	394 135	414 743
Gross total income	1 019 279	1 123 493	1 236 757	1 377 513	1 521 092	1 630 673	1 666 431	1 714 770	1 828 755
Direct taxes	101 411	117 758	135 645	152 590	167 820	183 999	204 256	192 535	203 260
Social security contributions	181 922	200 644	226 567	255 506	287 266	309 968	328 378	332 794	354 734
Gross disposable income	735 946	805 091	874 545	969 417	1 066 006	1 136 706	1 133 797	1 189 441	1 270 761
Household national consumption	601 048	665 527	735 321	800 412	878 437	940 367	957 650	1 011 594	1 083 287
Savings ratio ²	18.3	17.3	15.9	17.4	17.6	17.3	15.5	15.0	14.8

1. Consumer households and self-employed.

2. As a percentage of disposable income.

Source: OECD.

Table F. **General government account**

Billions of lire

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Current receipts	387 807	434 193	495 877	556 085	620 218	665 110	734 877	739 903	792 676
Direct taxes	130 611	145 720	170 697	189 124	207 054	221 506	250 835	244 943	260 604
Social security contributions	135 761	149 381	167 472	189 309	209 954	226 188	240 615	244 310	260 833
Indirect taxes	93 240	109 076	123 867	139 465	159 022	167 660	186 611	192 258	209 196
Other current receipts	28 195	30 016	33 841	38 187	44 188	49 756	56 816	58 392	62 043
Current expenditure	448 862	500 978	561 196	637 097	706 781	776 268	820 662	832 800	871 667
Expenditure on goods and services	167 988	188 693	203 160	233 331	254 888	269 142	277 196	285 822	292 622
Subsidies	26 093	26 577	29 837	29 577	32 554	31 524	35 289	36 819	32 579
Interest paid	78 199	88 924	106 624	126 344	145 898	172 022	187 248	176 015	198 132
Social benefits	170 500	189 065	209 963	238 585	261 320	290 578	302 873	319 442	334 102
Other current transfers	8 505	10 378	14 469	12 428	15 749	16 726	21 873	18 721	18 399
Saving	-61 055	-66 785	-65 319	-81 012	-86 563	-111 158	-85 785	-92 897	-78 991
Fixed investment	34 507	36 763	39 784	43 141	46 587	45 454	41 350	38 297	39 956
Capital transfers, net ¹	-16 912	-18 251	-18 728	-25 660	-20 097	5 694	-29 443	-25 761	-16 198
Consumption of fixed capital	4 420	4 966	5 585	6 269	6 945	7 573	8 307	8 975	9 640
Net lending	-108 054	-116 833	-118 246	-143 544	-146 302	-143 345	-148 271	-147 980	-125 505
(as a percentage of GDP)	-11.0	-10.7	-9.9	-11.0	-10.3	-9.5	-9.6	-9.0	-7.1

1. Net of capital receipts.

Source: OECD.

Table G. **Price and wages**

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Indices (1990 = 100)									
Consumer prices									
Total	84.1	88.4	93.9	100.0	106.2	111.7	116.7	121.4	127.7
Food products	85.8	88.8	94.3	100.0	106.4	111.7	113.9	118.0	125.3
Non-food products	85.2	89.5	94.2	100.0	109.1	109.4	114.1	118.5	124.2
Services (excluding rent)	81.0	86.3	93.1	100.0	107.3	115.4	121.9	126.9	133.3
Per capita compensation									
Total economy									
Nominal	75.3	82.4	90.3	100.0	108.6	115.2	119.3	123.1	129.2
Real	90.4	93.4	96.0	100.0	101.6	102.1	100.6	99.2	98.5
Manufacturing									
Nominal	78.1	84.0	92.1	100.0	109.7	117.7	123.5	126.1	134.0
Real	93.7	95.2	97.9	100.0	102.6	104.2	104.2	101.6	102.1
Percentage changes									
Consumer prices									
Total	4.7	5.1	6.3	6.5	6.2	5.2	4.5	4.0	5.2
Food products	3.6	3.5	6.3	6.0	6.4	5.0	2.0	3.6	6.2
Non-food products	4.9	5.0	5.2	6.1	9.1	0.3	4.3	3.8	4.8
Services (excluding rent)	5.5	6.6	7.9	7.4	7.3	7.5	5.6	4.1	5.0
Per capita compensation									
Total economy									
Nominal	8.9	9.4	9.6	10.8	8.6	6.1	3.6	3.2	4.9
Real	3.4	3.3	2.7	4.2	1.6	0.5	-1.4	-1.4	-0.8
Manufacturing									
Nominal	7.6	7.5	9.7	8.6	9.7	7.2	5.0	2.1	6.3
Real	2.1	1.6	2.8	2.2	2.6	1.5	-0.1	-2.4	0.5

Source: OECD.

Table H. **Employment**

Labour units, thousands

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Total employment	22 877.5	23 087.6	23 122.6	23 327.3	23 515.6	23 271.7	22 603.3	22 262.3	22 164.9
Dependent employment	15 528.1	15 714.2	15 830.0	16 026.8	16 125.7	16 038.7	15 612.7	15 376.7	15 250.0
Agriculture	748.8	734.0	747.1	741.2	712.4	715.4	649.1	616.0	592.6
Total industry	5 500.2	5 569.8	5 592.8	5 647.0	5 570.7	5 392.7	5 109.5	5 041.0	4 947.2
<i>of which:</i>									
Manufacturing	4 211.8	4 278.4	4 316.2	4 339.5	4 244.7	4 062.3	3 830.1	3 824.3	3 772.2
Construction	1 089.1	1 092.2	1 080.3	1 110.2	1 130.5	1 138.5	1 095.4	1 038.6	1 005.3
Market services	5 149.7	5 213.0	5 268.6	5 387.0	5 543.9	5 582.6	5 530.3	5 425.8	5 431.4
General government	4 129.4	4 197.4	4 221.5	4 251.6	4 298.7	4 348.0	4 323.8	4 293.9	4 278.8
Self-employment	7 349.4	7 373.4	7 292.6	7 300.5	7 389.9	7 233.0	6 990.6	6 885.6	6 914.9
<i>of which:</i>									
Agriculture	1 759.0	1 662.1	1 529.7	1 493.8	1 524.5	1 416.3	1 326.4	1 276.0	1 234.0
Total industry	1 307.8	1 315.4	1 322.4	1 324.6	1 346.6	1 352.7	1 361.4	1 329.3	1 341.2
Market services	4 282.6	4 395.9	4 440.5	4 482.1	4 518.8	4 464.0	4 302.8	4 280.3	4 339.7

Source: OECD, *National Accounts*.

Table I. **Money and credit**¹

a) The monetary base
Billions of lire

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Sources									
Foreign sector	74 306	82 823	92 875	103 335	94 171	67 089	84 085	91 572	91 617
Public sector	131 677	135 663	137 282	135 998	135 653	157 457	134 422	128 972	121 448
Banks	3 699	3 780	4 970	6 231	8 910	9 016	2 581	2 819	7 676
Other sectors	-57 591	-57 129	-49 504	-46 177	-28 276	-14 682	-21 686	-33 873	-43 179
Total	152 091	165 137	185 623	199 387	210 458	218 880	199 402	189 490	177 562
Uses									
Currency in circulation	52 718	57 167	67 644	69 449	76 354	85 617	89 769	96 221	98 281
Compulsory bank reserves	93 309	102 798	111 112	123 230	128 915	129 927	105 796	92 464	73 736
Other bank reserves	6 064	5 172	6 867	6 708	5 189	3 336	3 837	805	5 545
Total	152 091	165 137	185 623	199 387	210 458	218 880	199 402	189 490	177 562

1. Data refer to end of period.

Source: Banca d'Italia.

Table I. **Money and credit**¹ (cont.)

b) Selected indicators

Billions of lire

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Money									
Currency in circulation	52 718	57 167	67 644	69 449	76 354	85 617	89 769	96 221	98 281
Sight deposits	307 899	331 767	365 763	396 234	442 167	444 160	474 552	485 383	490 240
Other	11 609	12 200	18 681	17 068	19 429	16 011	14 760	15 728	15 971
Total M1	372 226	401 134	452 088	482 751	537 950	545 788	579 081	597 332	604 492
Certificates of deposit	57 521	94 731	134 366	180 093	220 621	272 718	313 360	308 534	342 632
Saving deposits	201 359	192 167	182 090	178 384	161 798	146 967	144 091	138 297	121 047
Postal deposits	13 434	16 372	19 733	23 589	26 924	29 057	30 861	39 152	43 997
Total M2	644 540	704 404	788 277	864 817	947 293	994 530	1 067 393	1 083 315	1 112 168
Credit									
Private sector	560 487	623 985	744 996	872 170	992 489	1 103 778	1 185 017	1 189 152	1 222 775
State sector	883 941	1 011 738	1 146 277	1 294 860	1 451 563	1 636 283	1 768 114	1 937 996	2 082 626
Total credit	1 444 428	1 635 723	1 891 273	2 167 030	2 444 052	2 740 061	2 953 131	3 127 148	3 305 401
of which:									
Total domestic credit	1 364 982	1 556 101	1 788 265	2 024 728	2 281 647	2 546 728	2 740 334	2 911 023	3 060 973

1. Data refer to end of period.

Source: Banca d'Italia.

Table J. **Foreign trade by main commodity groups**

Billions of Lire

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Imports, total	162 353	180 014	209 910	217 703	225 746	232 111	232 991	272 382	332 409
Agricultural products	13 271	14 045	15 164	14 314	15 955	14 828	15 172	17 297	19 784
Energy	22 698	19 095	24 234	27 460	26 894	24 807	28 179	28 369	32 198
Iron, steel and non-ferrous metals	13 959	17 561	22 709	20 569	19 446	19 625	19 828	25 589	34 560
Minerals, and non-metallic mineral products	2 829	3 427	3 913	4 205	4 391	4 498	4 657	5 251	6 125
Chemical products	19 655	23 108	26 191	27 004	27 487	29 085	31 467	37 982	46 770
Manufactured goods	24 918	41 635	46 150	49 375	51 623	52 704	51 529	61 181	78 055
Transport equipment	16 481	18 539	22 839	25 823	28 803	32 551	25 573	28 352	34 887
Food, beverages and tobacco	14 169	15 228	16 971	16 766	18 002	18 799	20 363	22 922	25 251
Textile products	10 788	12 081	13 670	13 855	14 550	15 747	16 453	21 347	24 078
Other imports	13 585	15 295	17 969	18 332	18 575	19 767	19 770	24 090	30 701
Exports, total	150 879	166 380	192 813	203 515	209 728	219 436	266 214	308 046	376 786
Agricultural products	4 187	4 532	5 026	5 359	6 005	5 791	6 777	8 294	9 944
Energy	3 759	3 240	3 725	4 609	4 718	4 708	5 715	5 058	5 168
Iron, steel and non-ferrous metals	6 517	7 900	9 786	9 348	8 960	9 086	11 997	13 682	17 252
Minerals and non-metallic mineral products	6 065	7 123	8 183	8 491	8 665	9 144	11 035	13 052	15 293
Chemical products	12 397	14 823	15 646	15 445	15 620	17 346	20 932	24 528	31 539
Manufactured goods	49 569	55 112	65 490	69 026	71 990	75 181	93 080	106 703	131 913
Transport equipment	14 153	15 967	19 008	21 611	22 141	21 903	24 013	29 062	37 661
Food, beverages and tobacco	6 267	6 981	7 780	8 133	9 056	10 414	12 373	13 429	15 891
Textile products	30 272	30 872	34 565	37 202	36 952	38 582	46 020	54 547	62 836
Other exports	17 693	20 370	23 604	24 291	25 621	27 281	34 272	39 691	49 288

Source: Istituto nazionale per il Commercio Estero, Rapporto sul Commercio Estero.

Table K. **Geographical breakdown of foreign trade**

Million US dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Imports, total	125 032	138 554	153 011	181 970	188 360	188 450	147 600	169 130	204 014
OECD countries	95 894	108 835	118 330	141 292	146 954	148 582	113 532	130 549	157 079
EU	76 140	85 963	93 659	112 485	116 463	118 502	87 646	102 668	123 409
<i>of which:</i>									
Germany	26 570	30 386	32 647	38 747	39 378	40 655	28 528	32 682	38 947
Belgium-Luxembourg	6 217	6 789	7 572	9 267	9 199	9 110	6 865	8 131	9 753
France	18 266	20 609	22 494	25 847	26 704	27 199	20 101	23 051	28 308
Netherlands	6 992	7 937	8 408	10 433	10 820	11 140	8 398	9 748	11 225
United Kingdom	6 587	7 051	7 418	9 531	10 705	10 757	8 573	10 391	12 397
United States	6 659	7 743	8 332	9 254	10 532	9 892	7 873	7 779	9 881
Canada	830	968	1 149	1 453	1 441	1 469	1 216	1 455	1 803
Japan	2 677	3 498	3 525	4 238	4 609	4 401	3 820	3 952	4 483
Non-OECD countries	28 962	29 472	34 444	40 364	41 033	39 347	33 734	38 164	46 573
CEEC	4 971	5 395	6 098	6 691	7 343	7 784	3 312	3 729	6 333
OPEC	10 254	8 088	9 774	12 944	13 461	11 608	9 662	8 924	11 098
Other	13 737	15 989	18 572	20 729	20 229	19 955	20 760	25 511	29 142
Exports, total	116 358	127 904	140 568	170 325	174 869	178 156	168 261	191 395	231 285
OECD countries	94 655	104 521	114 174	139 783	142 422	141 911	129 907	148 602	178 922
EU	70 738	79 166	86 070	106 889	110 615	109 867	95 934	110 189	131 542
<i>of which:</i>									
Germany	21 842	23 377	24 187	32 637	36 730	36 265	32 773	36 612	43 217
Belgium-Luxembourg	3 923	4 323	4 597	5 798	5 954	5 919	5 016	5 747	6 632
France	19 000	21 246	22 897	27 840	26 595	26 038	22 119	25 198	30 007
Netherlands	3 585	3 942	4 354	5 315	5 516	5 589	4 731	5 543	6 823
United Kingdom	8 656	10 264	11 077	12 047	11 637	11 741	10 759	12 524	14 292
United States	11 176	11 353	12 126	12 985	12 025	12 410	13 015	14 727	16 906
Canada	1 351	1 428	1 556	1 510	1 428	1 298	1 389	1 742	2 141
Japan	1 855	2 405	3 210	3 988	3 835	3 444	3 199	4 053	5 351
Non-OECD countries	21 184	22 847	25 847	29 910	31 685	35 625	37 524	41 980	51 298
CEEC	3 444	3 462	4 128	4 955	5 179	6 677	5 204	5 240	8 586
OPEC	5 881	6 005	6 729	6 970	8 290	9 152	8 214	7 262	7 779
Other	11 859	13 380	14 990	17 985	18 217	19 795	24 105	29 478	34 933

Source: OECD, Foreign Trade Statistics, Series A.

Table L. **Balance of payments**

Million US dollars

	1987	1988	1989	1990	1991	1992	1993	1994	1995
Merchandise exports	116 333	127 816	140 555	169 826	169 050	178 109	169 384	191 017	231 261
Merchandise imports	116 181	128 537	142 237	168 653	169 242	174 982	136 304	155 552	187 220
Trade balance	152	-721	-1 683	1 173	-192	3 127	33 079	35 465	44 041
Services, net	-1 474	-4 129	-7 535	-15 851	-17 516	-25 314	-16 326	-14 617	-13 780
Transfers, net	-891	-1 495	-2 597	-2 328	-5 940	-6 399	-5 409	-5 762	-2 893
Private	1 774	1 619	1 092	1 169	-277	-451	461	-15	731
Official ¹	-2 665	-3 114	-3 689	-3 497	-5 663	-5 948	-5 870	-5 747	-3 624
Current balance	-2 213	-6 346	-11 814	-17 006	-23 648	-28 586	11 343	15 086	27 368
Long-term capital, net	2 471	7 886	22 502	37 510	2 789	-3 834	63 039	-32 471	30 516
Short-term capital, net	6 169	8 735	2 347	6 019	20 626	12 208	-53 622	18 659	-34 545
Miscellaneous official accounts	-115	-847	93	-1 207	-6 111	10 597	-3 436	117	-316
Change in position <i>vis-à-vis</i>									
EMCF ²	-536	739	-1 327	-239	-580	7 432	-2 011	162	-1 193
Errors and omissions	-1 204	-1 898	-1 818	-13 876	-6 676	-6 206	-19 356	777	-21 553
Change in reserves (+ = increase)	4 573	8 270	9 983	11 201	-13 599	-8 389	-4 043	2 332	278

1. Excludes special transactions.

2. European Monetary Cooperation Fund (entity of the European Monetary System).

Source: OECD.

Table M. **General government indicators**

Per cent of GDP

	1970	1980	1985	1990	1995
A. Budget indicators					
Current receipts	29.0	33.6	38.6	42.4	44.8
Non-interest expenditure ¹	32.5	38.0	44.4	45.0	41.9
Net primary balance	-3.5	-4.4	-5.8	-2.5	2.9
Total expenditure ¹	33.0	42.1	51.2	53.4	51.8
General government balance	-4.0	-8.6	-12.6	-11.0	-7.1
<i>of which:</i>					
Central government	..	-7.2	-12.6	-9.9	-6.7
Local government	..	-1.1	-0.1	-1.3	-0.2
Social security	..	-0.2	0.1	0.3	-0.2
General government gross debt	38.1	58.1	82.3	104.5	122.0
B. Expenditure and taxation					
Total expenditure ¹	33.0	42.1	51.2	53.4	51.8
<i>of which:</i>					
Current consumption	13.5	15.2	16.9	17.8	16.5
Transfers to households	12.8	14.9	18.0	19.2	19.9
Subsidies	2.0	2.9	2.8	2.3	1.8
Fixed investment	3.2	3.2	3.7	3.3	2.3
Current revenues	29.0	33.6	38.6	42.4	44.8
<i>of which:</i>					
Income tax	5.1	9.7	13.0	14.4	14.7
<i>of which:</i>					
Personal income tax	3.9	8.4	10.8	11.3	10.9
Corporate income tax	1.1	1.3	2.2	3.2	3.8
Social security contributions	11.3	12.8	13.6	14.4	14.7
Tax on goods and services	10.3	8.7	9.0	10.6	11.8

1. Net of capital receipts.

Source: OECD.

Table N. **Financial accounts**
Outstanding financial assets and liabilities
Billions of Lire

	1989	1990	1991	1992	1993	1994	1995
Financial assets							
Financial institutions	1 807 858	1 967 801	2 231 237	2 555 369	2 789 253	2 874 488	2 963 650
General government	286 920	308 805	327 130	343 348	395 111	433 669	483 244
Non-financial enterprises	384 660	446 531	503 645	534 102	603 506	646 617	691 734
Households	2 064 571	2 247 913	2 570 642	2 742 101	3 019 480	3 125 956	3 285 565
Unallocated	23 723	21 834	18 303	34 584	64 898	53 741	68 113
Rest of world	426 714	495 930	582 097	732 270	865 702	938 748	981 112
Total	4 994 446	5 488 814	6 233 054	6 941 774	7 737 950	8 073 219	8 473 418
Financial liabilities							
Financial institutions	1 880 422	1 978 812	2 282 691	2 589 216	2 853 509	2 830 250	2 861 753
General government	286 920	308 805	327 130	343 348	395 111	433 669	483 244
Non-financial enterprises	1 185 460	1 342 225	1 507 292	1 583 574	1 700 631	1 791 084	1 898 253
Households	250 926	287 087	324 601	352 239	368 301	389 141	416 922
Unallocated	46 763	46 895	49 664	63 793	72 297	72 601	69 106
Rest of world	370 313	411 422	467 673	565 257	730 878	768 659	840 334
Total	4 994 446	5 488 814	6 233 054	6 941 774	7 737 950	8 073 219	8 473 418

Source: OECD (1996), *Financial Accounts*.

Table O. **Labour market indicators**

	1970	1980	1985	1990	1995
A. Evolution					
Standardised unemployment rate	5.3	7.5	9.6	10.3	12.2
Unemployment rates					
Total	3.2	7.6	10.3	11.4	11.9
Male	2.9	4.8	6.9	7.8	9.3
Female	4.0	13.2	16.7	17.6	16.2
Youth ¹	10.2	25.2	33.9	31.5	32.0
Regional unemployment rates					
North-Centre	n.a.	n.a.	8.4	6.7	7.8
South	n.a.	n.a.	14.3	20.7	21.0
Share of long-term unemployment ²	n.a.	n.a.	n.a.	69.8	62.9
B. Structural or institutional characteristics					
Participation rates ³					
Global	54.6	59.5	58.6	60.2	58.1
Male	81.5	80.6	77.2	76.0	73.9
Female	29.1	39.2	40.6	44.5	42.9
Employment/population between 15 and 64 years	52.9	54.9	52.5	53.3	51.2
Part-time work ⁴	n.a.	n.a.	5.3	5.8	6.4
Non-wage labour costs ⁵	n.a.	26.6	26.8	28.7	29.9
	1970-80	1980-85	1985-90	1990-95	
C. Employment (yearly rates of change)					
Total	0.7	0.2	1.5	–0.1	
Agriculture	–2.3	–2.9	–2.8	–4.0	
Manufacturing	1.0	–3.2	0.3	–2.5	
Services	2.6	3.3	1.5	–0.1	
of which: Government	3.0	1.5	1.1	–0.3	

1. People between 16 and 24 years as a percentage of the labour force of the same age group.

2. People looking for a job for one year or more as a percentage of total unemployment.

3. Labour force as a percentage of the population aged between 16 and 64 years.

4. As a percentage of dependent employment.

5. As a percentage of wages and salaries.

Source: OECD, *National Accounts*.

Table P. Structure of production, employment and productivity by growth

	GDP share (% of total) ¹					Employment share (% of total)				
	1970	1980	1985	1990	1995	1970	1980	1985	1990	1995
Structure of production and employment										
Tradeable goods and services										
Agriculture	6.4	4.9	4.6	3.8	3.9	22.0	16.3	13.9	11.7	10.2
Manufacturing	22.1	26.4	25.8	26.5	26.3	31.5	32.4	27.3	26.9	25.3
of which:										
Food, beverages and tobacco	2.8	2.9	2.8	2.7	2.7	2.4	2.4	2.1	2.0	2.0
Textiles, wearing apparel and leather industries	4.2	4.7	4.4	4.2	4.5	7.8	7.4	6.4	6.2	6.0
Non-metallic mineral products except petroleum and coal	1.6	2.0	1.7	2.0	1.8	2.3	2.1	1.7	1.9	1.8
Basic metal industries	2.1	1.3	1.3	1.1	1.2	1.3	1.2	1.0	0.8	0.7
Fabricated metal products, machinery and equipment	7.3	9.6	9.3	9.6	9.4	10.2	11.7	9.7	9.5	8.7
Non-tradeable goods and services										
Electricity, gas and water	9.3	7.3	6.1	6.1	6.1	1.0	1.0	1.0	1.0	1.0
Construction	12.4	8.4	7.3	6.9	5.9	11.8	9.6	8.9	8.6	8.9
Wholesale and retail trade	21.2	22.2	22.2	21.7	21.5	19.9	22.6	25.8	26.0	27.1
Transport, storage and communications	5.2	5.9	6.2	6.6	7.6	6.0	6.8	7.3	7.8	7.8
Finance and financial services	23.4	24.8	27.8	28.4	28.6	7.8	11.3	15.8	17.9	19.7
Average annual percentage growth										
1971-1980					1981-1985	1986-1990			1991-1995	
Productivity growth of the industrial sector										
Manufacturing	4.7			4.4		3.6			3.9	
of which:										
Food, beverages and tobacco	3.5			3.1		3.4			3.0	
Textiles, wearing apparel and leather industries	4.9			3.0		2.5			4.6	
Non-metallic mineral products except petroleum and coal	7.1			2.2		3.0			2.4	
Basic metal industries	-0.4			5.4		3.8			8.7	
Fabricated metal products, machinery and equipment	4.6			4.4		4.0			4.1	

1. Constant prices.

Source: OECD, *National Accounts*.

BASIC STATISTICS:
INTERNATIONAL COMPARISONS

BASIC STATISTICS: INTERNATIONAL COMPARISONS

	Units	Reference period ¹	Australia	Austria	Belgium	Canada	Denmark	Finland	France	Germany	Greece
Population											
Total	Thousands	1994	17 840	8 031	10 124	29 251	5 206	5 088	57 960	81 407	10 430
Inhabitants per sq. km	Number	1994	2	96	332	3	121	15	106	228	79
Net average annual increase over previous 10 years	%	1994	1.4	0.6	0.3	1.6	0.2	0.4	0.5	2.9	0.5
Employment											
Total civilian employment (TCE) ²	Thousands	1994	7 680 (93)	3 737	3 724 (92)	13 292	2 508	2 015	21 781 (93)	35 894	3 790
of which: Agriculture	% of TCE	1994	5.3 (93)	7.2	2.6 (92)	4.1	5.1	8.3	5.1 (93)	3.3	20.8
Industry	% of TCE	1994	23.7 (93)	33.2	27.7 (92)	22.6	26.8	26.8	27.7 (93)	37.6	23.6
Services	% of TCE	1994	71 (93)	59.6	69.7 (92)	73.3	68.1	64.9	67.2 (93)	59.1	55.5
Gross domestic product (GDP)											
At current prices and current exchange rates	Bill. US\$	1994	331.6	198.1	227.9	544	146.7	97.2	1 328.5	1 832.3	73.1 (93)
Per capita	US\$	1994	18 588	24 670	22 515	18 598	28 181	19 106	22 944	27 826	7 051 (93)
At current prices using current PPP's ³	Bill. US\$	1994	327.9	162.3	204.2	596.7	107	82.5	1 111.8	1 601.7	118
Per capita	US\$	1994	18 382	20 210	20 166	20 401	20 546	16 208	19 201	24 325	1 450
Average annual volume growth over previous 5 years	%	1994	2.2	2.5	1.6	1.1	1.9	-1.6	1.1	2.6	1.4 (93)
Gross fixed capital formation (GFCF)											
of which: Machinery and equipment	% of GDP	1994	21.4	24.8	17.4	18.7	14.8	14.3	18.1	18.5	17.4 (93)
Residential construction	% of GDP	1993	9.8	8.7	7.8	6.2	7.2	5.90	8.10	7.5	7.8
Average annual volume growth over previous 5 years	%	1993	5.2	6.3	4.6	6.1	2.9	3.7	4.9	6.5	3.6
	%	1994	0.8	3.7	0.4	-0.1	-2.8	-12.9	-1	0.8	2.7 (93)
Gross saving ratio⁴											
	% of GDP	1994	16.8	25.3	22	16	17	16.6	19	21	15.5 (93)
General government											
Current expenditure on goods and services	% of GDP	1994	17.5	18.8	15	20.2	25.3	22.4	19.6	17.7	19.1 (93)
Current disbursements ⁵	% of GDP	1993	36.9	48.4	55.3	49	61.1	58.9	51.5	45.6	51.2
Current receipts	% of GDP	1993	33.5	48.6	50.1	43	58.3	52.5	46.8	45.7	40.2
Net official development assistance											
	% of GNP	1993	0.34	0.31	0.41	0.46	1.03	0.76	0.66	0.44	..
Indicators of living standards											
Private consumption per capita using current PPP's ³	US\$	1993	10 803	10 546	12 090	11 863	10 042	8 814	11 395	10 733	6 367
Passenger cars, per 1 000 inhabitants	Number	1990	430	382	387	469	311	386	413	480 ⁸	169
Telephones, per 1 000 inhabitants	Number	1991	464	432	410	586	577	544	511	420 ⁸	413
Television sets, per 1 000 inhabitants	Number	1991	480	478	451	639	536	501	407	556 ⁸	197
Doctors, per 1 000 inhabitants	Number	1993	2.2 (91)	2.3	3.7	2.2	2.8 (92)	2.6 (92)	2.8	3.2 (92)	3.8 (92)
Infant mortality per 1 000 live births	Number		6.1	6.5	8	6.8	5.4	4.4	6.5	5.8	8.5
Wages and prices (average annual increase over previous 5 years)											
Wages (earnings or rates according to availability)	%	1994	3	5.5	3.7	3.3	3.5	4.8	3.5	5.2	14.6
Consumer prices	%	1994	3	3.4	2.8	2.8	2.1	3.3	2.5	3.3	16.2
Foreign trade											
Exports of goods, fob*	Mill. US\$	1994	47 363	44 881	137 259 ⁷	165 358	41 850	29 514	235 337	422 243	8 958
As % of GDP	%	1994	14.3	22.7	60.2	30.4	28.5	30.4	17.7	23	11.5 (93)
Average annual increase over previous 5 years	%	1994	5	6.7	6.5	7.1	8.3	4.9	5.6	4.4	3.4
Imports of goods, cif*	Mill. US\$	1994	49 731	55 071	126 006 ⁷	148 297	35 932	23 091	220 508	376 566	21 111
As % of GDP	%	1994	15	27.8	55.3	27.3	24.5	23.8	16.6	20.6	30.1 (93)
Average annual increase over previous 5 years	%	1994	4	7.2	5	5.4	6.1	-1.3	3.5	6.9	5.4
Total official reserves⁶											
As ratio of average monthly imports of goods	Ratio	1994	7 730	11 523	9 505 ⁷	8 416	6 203	7 304	17 986	52 994	9 924
		1994	1.9	2.5	0.9	0.7	2.1	3.8	1	1.7	5.6

* At current prices and exchange rates.

1. Unless otherwise stated.

2. According to the definitions used in OECD *Labour Force Statistics*.

3. PPPs = Purchasing Power Parities.

4. Gross saving = Gross national disposable income minus private and government consumption.

5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.

6. Gold included in reserves is valued at 35 SDRs per ounce. End of year.

7. Data refer to the Belgo-Luxembourg Economic Union.

8. Data refer to western Germany.

9. Refers to the public sector including public enterprises.

10. Including non-residential construction.

Sources: Population and Employment: OECD, *Labour Force Statistics*. GDP, GFCF, and General Government: OECD, *National Accounts*, Vol. I and OECD *Economic Outlook*, Historical Statistics. Indicators of living standards: Miscellaneous national publications, Wages and Prices: OECD, *Main Economic Indicators*. Foreign trade: OECD, *Monthly Foreign Trade Statistics*, series A. Total official reserves: IMF, *International Financial Statistics*.

BASIC STATISTICS: INTERNATIONAL COMPARISONS (cont'd)

	Units	Reference period ¹	Iceland	Ireland	Italy	Japan	Luxembourg	Mexico	Netherlands	New Zealand
Population										
Total	Thousands	1994	267	3 571	57 190	124 960	398	93 010	15 382	3 526
Inhabitants per sq. km	Number	1994	3	51	190	331	153	47	377	13
Net average annual increase over previous 10 years	%	1994	1.1	0.1	0	0.4	0.8	2	0.6	0.8
Employment										
Total civilian employment (TCE) ²	Thousands	1994	138	1 168 (93)	20 152 (93)	64 530	162 (91)	32 439	6 631	1 560
of which: Agriculture	% of TCE	1994	9.4	12.7 (93)	7.5 (93)	5.8	3.7 (91)	25.8	4	10.4
Industry	% of TCE	1994	26.1	27.7 (93)	33 (93)	34	31.5 (91)	22.2	23	25
Services	% of TCE	1994	65.2	59.7 (93)	59.6 (93)	60.2	64.8 (91)	52.1	73	64.6
Gross domestic product (GDP)										
At current prices and current exchange rates	Bill. US\$	1994	6.2	52	1 017.8	4 590	10.6 (92)	371.2	334.3	51.2
Per capita	US\$	1994	23 199	14 550	17 796	36 732	27 073 (92)	3 991	21 733	14 513
At current prices using current PPP's ³	Bill. US\$	1994	5.1	54.3	1 068.4	2 593.7	11.7	673.3	285.9	57.3
Per capita	US\$	1994	19 271	15 212	18 681	20 756	29 454	7 239	18 589	16 248
Average annual volume growth over previous 5 years	%	1994	0.6	4.7	1	2.1	4.1 (92)	3	2.3	2.5
Gross fixed capital formation (GFCF)										
of which: Machinery and equipment	% of GDP	1994	15.2	15.1	16.4	28.6	20.4 (93)	20.7	19.3	20
Residential construction	% of GDP	1993	3.9	6.3	7.4	11.5	..	9.4	8.6	9.3
Average annual volume growth over previous 5 years	%	1993	4.4	4.1	5.3	5.4	..	4.9	5.1	4.9
	%	1994	—4	1	—2.3	1.4	6.5 (92)	7.7	0.4	5.8
Gross saving ratio⁴										
	% of GDP	1994	16.9	19.5	18.8	31.2	60.2 (92)	15.1	24.4	20.7
General government										
Current expenditure on goods and services	% of GDP	1994	20.6	16	17.1	9.8	17.1 (92)	11.8 ⁹	14.2	14.7
Current disbursements ⁵	% of GDP	1993	34.9	..	53.2	26.9	..	..	55.4	..
Current receipts	% of GDP	1993	35.9	..	47.1	32.9	..	..	54.5	..
Net official development assistance										
	% of GNP	1993	..	0.15	0.42	0.27	0.34 (92)	..	0.88	0.22
Indicators of living standards										
Private consumption per capita using current PPP's ³	US\$	1993	11 546	7 750	11 029	11 791	15 545	4 853	10 726	9 266
Passenger cars, per 1 000 inhabitants	Number	1990	464	228	478	282	470	85	356	440
Telephones, per 1 000 inhabitants	Number	1991	527	300	400	454	511	70	477	436
Television sets, per 1 000 inhabitants	Number	1991	319	276	421	613	267	148	485	443
Doctors, per 1 000 inhabitants	Number	1993	3	1.7 (92)	1.7 (91)	1.7 (92)	2.1 (92)	1	2.5 (90)	2
Infant mortality per 1 000 live births	Number		4.8	5.9	7.3	4.5 (92)	8.5 (92)	18	6.3	7.3
Wages and prices (average annual increase over previous 5 years)										
Wages (earnings or rates according to availability)	%	1994	..	4.6	5.9	2.4	..	5.3	3.2	2.1
Consumer prices	%	1994	6.3	2.7	5.2	2	3.1	16.1	2.8	2.5
Foreign trade										
Exports of goods, fob*	Mill. US\$	1994	1 628	34 125	189 802	396 149	..	60 882	155 084	12 169
As % of GDP	%	1994	26.3	65.7	18.6	8.6	..	16.4	46.4	23.8
Average annual increase over previous 5 years	%	1994	2.7	10.5	6.2	7.6	..	21.7	7.6	6.5
Imports of goods, cif*	Mill. US\$	1994	1 464	25 812	167 690	274 916	..	79 346	139 800	11 859
As % of GDP	%	1994	23.6	49.7	16.5	6	..	21.4	41.8	23.2
Average annual increase over previous 5 years	%	1994	0.7	8.1	1.9	5.5	..	25.5	6.1	6.1
Total official reserves⁶										
As ratio of average monthly imports of goods	Ratio	1994	201	4 189	22 102	86 214	..	4 301	23 655	2 540
		1994	1.6	1.9	1.6	3.8	..	0.7	2	2.6

* At current prices and exchange rates.

1. Unless otherwise stated.

2. According to the definitions used in OECD *Labour Force Statistics*.

3. PPPs = Purchasing Power Parities.

4. Gross saving = Gross national disposable income minus private and government consumption.

5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.

6. Gold included in reserves is valued at 35 SDRs per ounce. End of year.

7. Data refer to the Belgo-Luxembourg Economic Union.

8. Data refer to western Germany.

9. Refers to the public sector including public enterprises.

10. Including non-residential construction.

Sources: Population and Employment: OECD, *Labour Force Statistics*. GDP, GFCF, and General Government: OECD, *National Accounts*, Vol. I and OECD *Economic Outlook*, Historical Statistics. Indicators of living standards: Miscellaneous national publications, Wages and Prices: OECD, *Main Economic Indicators*. Foreign trade: OECD, *Monthly Foreign Trade Statistics*, series A. Total official reserves: IMF, *International Financial Statistics*.

BASIC STATISTICS: INTERNATIONAL COMPARISONS (cont'd)

	Units	Reference period ¹	Norway	Portugal	Spain	Sweden	Switzerland	Turkey	United Kingdom	United States
Population										
Total	Thousands	1994	4 337	9 900	39 150	8 781	6 994	60 573	58 375	260 651
Inhabitants per sq. km	Number	1994	13	107	78	20	169	78	238	28
Net average annual increase over previous 10 years	%	1994	0.5	-0.1	0.2	0.5	0.7	2.1	0.3	1
Employment										
Total civilian employment (TCE) ²	Thousands	1994	1970 (93)	4 372	11 760	3 926	3 772	19 664	25 044 (93)	123 060
of which: Agriculture	% of TCE	1994	5.6 (93)	11.5	9.8	3.4	4	44.8	2.2 (93)	2.9
Industry	% of TCE	1994	23.1 (93)	32.8	30.1	25	28.8	22.2	26.2 (93)	24
Services	% of TCE	1994	71.3 (93)	55.7	60.2	71.6	67.2	33	71.6 (93)	73.1
Gross domestic product (GDP)										
At current prices and current exchange rates	Bill. US\$	1994	103.4 (93)	87	482.4	196.6	257.3	130.7	1 019.5	6 649.8
Per capita	US\$	1994	23 984 (93)	8 792	12 321	22 389	36 790	2 157	17 468	25 512
At current prices using current PPP's ³	Bill. US\$	1994	95.3	122	531.7	153	167.4	319.3	1 030.2	6 649.8
Per capita	US\$	1994	21 968	12 335	13 581	17 422	23 942	5 271	17 650	25 512
Average annual volume growth over previous 5 years	%	1994	2.1 (93)	1.4	1.5	-0.3	0.5	3.6	0.8	2.1
Gross fixed capital formation (GFCF)										
of which: Machinery and equipment	% of GDP	1994	22 (93)	25.7	19.8	13.7	22.8	24.5	15	17.2
Residential construction	% of GDP	1993	..	..	5.7	5.7	7.5	10.3	7.3	7.7
Average annual volume growth over previous 5 years	%	1993	..	..	4.1	4	14.9 ¹⁰	9.1	3.1	4
	%	1994	-3.93	2.7	-1.2	-7.6	-0.4	5.1	-2.1	4.6
Gross saving ratio⁴										
	% of GDP	1994	21.9 (93)	24.2	18.8	13.7	29.3	22.5	13.5	16.2
General government										
Current expenditure on goods and services	% of GDP	1994	22.1 (93)	17.2	16.9	27.3	14.1	11.7	21.6	16.4
Current disbursements ⁵	% of GDP	1993	..	..	43.7	67.3	36.7	..	42.7	35.8
Current disbursements ⁵	% of GDP	1993	..	..	40.1	59	36	..	36.8	31.7
Current receipts	% of GDP	1993	1.23	0.36	0.32	1.33	0.49	..	0.34	0.19
Net official development assistance										
	% of GNP	1993	9 826	7 780	8 412	9 240	13 730	3 617	10 942	16 444
Indicators of living standards										
Private consumption per capita using current PPP's ³	US\$	1993	378	260	307	418	441	29	361	568
Passenger cars, per 1 000 inhabitants	Number	1990	515	273	340	687	603	143	445	553
Telephones, per 1 000 inhabitants	Number	1991	423	187	400	468	406	175	434	814
Television sets, per 1 000 inhabitants	Number	1991	3.2 (92)	2.9	4.1	3	3	0.9	1.5 (92)	2.3 (92)
Doctors, per 1 000 inhabitants	Number	1993	5	8.7	7.6	4.8	5.6	52.6	6.6	8.5 (92)
Infant mortality per 1 000 live births	Number		4	..	7.2	5.4	..	..	6.7	2.8
Wages and prices (average annual increase over previous 5 years)										
Wages (earnings or rates according to availability)	%	1994	2.7	9	5.6	5.7	3.9	73	4.6	3.6
Consumer prices	%	1994	34 645	17 072	73 129	61 122	70 467	18 456	205 170	512 627
Foreign trade										
Exports of goods, fob*	Mill. US\$	1994	30.9 (93)	19.6	15.2	31.1	27.4	14.1	20.1	7.7
As % of GDP	%	1994	5	6.1	10.5	3.4	6.4	9.5	6.1	7.1
Average annual increase over previous 5 years	%	1994	27 345	25 967	92 182	51 730	68 126	22 976	227 026	663 256
Imports of goods, cif*	Mill. US\$	1994	23.3 (93)	29.9	19.1	26.3	26.5	17.6	22.3	10
As % of GDP	%	1994	2.9	6.6	5.2	1	3.2	37.9	2.8	7
Average annual increase over previous 5 years	%	1994	13 033	10 627	28 475	15 929	23 790	4 911	28 094	43 350
Total official reserves⁶										
	Mill. SDRs	1994	5.7	4.9	3.7	3.7	4.2	2.6	1.5	0.8

* At current prices and exchange rates.

1. Unless otherwise stated.

2. According to the definitions used in OECD *Labour Force Statistics*.

3. PPPs = Purchasing Power Parities.

4. Gross saving = Gross national disposable income minus private and government consumption.

5. Current disbursements = Current expenditure on goods and services plus current transfers and payments of property income.

6. Gold included in reserves is valued at 35 SDRs per ounce. End of year.

7. Data refer to the Belgo-Luxembourg Economic Union.

8. Data refer to western Germany.

9. Refers to the public sector including public enterprises.

10. Including non-residential construction.

Sources: Population and Employment: OECD, *Labour Force Statistics*. GDP, GFCF, and General Government: OECD, *National Accounts*, Vol. I and OECD *Economic Outlook*, Historical Statistics. Indicators of living standards: Miscellaneous national publications, Wages and Prices: OECD, *Main Economic Indicators*. Foreign trade: OECD, *Monthly Foreign Trade Statistics*, series A. Total official reserves: IMF, *International Financial Statistics*.

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