
Economic Survey of Italy 2009: Executive summary

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The following is the **Executive summary** of the OECD assessment and recommendations, taken from the **Economic Survey of Italy**, published on 17 June 2009.

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Italy is facing a difficult period. The economy is in a sharp recession, mainly because of external developments linked to the global financial crisis, and there is great uncertainty about the strength and timing of the recovery. Despite a relatively healthy banking system Italy seems particularly sensitive to both the credit tightening which has occurred in line with that in other countries and the weakness in external demand. This sensitivity has probably been accentuated both by the poor productivity and aggregate profitability performance of the economy over the past decade or more, and by the weak underlying fiscal situation. An array of budget neutral measures have been taken in the short term, but economic performance can be enhanced over the longer term by both macroeconomic and structural policy reforms.

Fiscal policy needs to focus on two areas: improving the efficiency with which current spending achieves its aims, and ensuring that long run trends in spending commitments are contained. For the time being, there is no space to increase the public sector deficit beyond what is implied by the operation of automatic stabilisers. But measures such as recent efforts to redirect spending towards the unemployed and poorer families can both help to increase somewhat the effect of automatic stabilisers and do something to relieve the impact of the recession on those likely to be hardest hit. In the longer term, fiscal trends are less problematic than in many other countries thanks to several pension reforms introduced in the past; nonetheless, the fact that full implementation of the pension reform will need considerable determination and Italy's high debt starting point mean that continuing efforts are needed.

In the financial sector, Italy's relatively conservative banks and cautious regulation seem to have helped avoid serious domestic problems for the banking sector in the crisis so far. But credit has tightened nevertheless and risks remain, as in all countries. Efforts to find ways to recapitalise the banks should continue, preferably through private finance, domestic or foreign, but not excluding provision of public capital, although there is understandable reluctance to envisage even partial public ownership.

Structural policies should not be forgotten, even in a crisis period. Italy can build on previous progress in areas such as liberalisation in services. This liberalisation should be completed and extended to other areas, for example in transport and other local services, to increase the extent to which competition is used to improve services to customers and to raise overall efficiency. Different parts of the public administration provide key services to the economy, whether in drafting and implementing regulations, collecting taxes or enforcing contracts in the courts. Plans to improve efficiency in public administration should be pursued and the use of various audit mechanisms, such as regulatory impact analysis and public spending reviews, should be an integral part of this.

The education system in Italy is facing major change as the government has announced its intention to rationalise expenditure in the sector and to reinforce the evaluation system; it also intends to introduce new recruiting, initial training and incentive schemes for teachers, but definitive measures in this area have yet to be adopted. Lack of clear information for evaluating pupil and school performance is indeed a weakness of the current system, as is the fact that few actors in the system, from teachers to the central administration, are held to account for poor performance. Accountability needs to be introduced at several levels, notably for school principals and budget managers, but also for teachers, so that those responsible for key decisions such as teacher recruitment, class formation and teaching methods have both appropriate information on which to judge outcomes and incentives to improve. But if principals are to be held to account, they must have appropriate autonomy and powers of management, contrasting with the current almost complete lack of autonomy at the school level. Given the interrelated nature of these reforms, it would be best to introduce them as a self contained package, rather than in a piecemeal fashion.

How to obtain this publication

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The *Policy Brief* (pdf format) can be downloaded in English. It contains the OECD assessment and recommendations.

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For further information please contact the Italy Desk at the OECD Economics Department at eco.survey@oecd.org.

The OECD Secretariat's report was prepared by Paul O'Brien, Romina Boarini and Enrico Sette under the supervision of Patrick Lenain. Research assistance was provided by Annette Panzera.

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