

**XXXVII International Seminar  
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*Contribution of the Italian Ministry of Finance*

**The impact of the Public Finances measures taken to face  
the international crisis in Italy: Overcoming strategies,  
expected results and achievements**

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# A sizeable GDP contraction in 2009

- Italy's GDP suffered from the collapse in world trade (-12,3%) and the huge fall in investment activity (-12%).
- GDP contraction in 2009 is about 5% .
- Official projections point to a GDP mild upswing in 2010 (+1%) and a more robust rebound from 2011 onwards (+1,5 and 2%)

# Italy s strengths and weaknesses

- Low household debt (about 60% of disposable income in 2009 vs 90% in the Euro Area in 2009).
- Housing market less overvalued and more resilient
- Profitability of banks decreasing in 2010 but still decent (ROE of major banks at 4% in 2009).
- High exposure to international trade and especially capital goods trade.
- Total debt (households debt , non-financial enterprises' debt and government debt) lower than the EU16 average.

# THE ITALIAN ECONOMY AND THE CRISIS

**Table 1 . Economic account of general government in ITALY (main aggregates) % of GDP**

	2006(a)	2007 (a)	2008 (b)	2009 (c)
Deficit	-3,3	-1,5	-2,7	-5,3
Primary balance	1,3	3,5	2,5	-0,6
Fiscal pressure	42,0	43,1	42,9	43,2
Current revenues	45,6	46,6	46,5	46,2
Total revenues	45,8	46,9	46,7	47,2
Current expenditures	44,2	44,3	45,7	48,2
Total expenditures excl interests	44,6	43,4	44,2	47,8
Total expenditures	49,2	48,4	49,4	52,5

# Italy s strengths and weaknesses

- The OECD Economic Outlook latest edition, June 2010 points to signs of improvement in Italy , after the end of recession in mid-2009.
- Some recovery in business confidence since May, 0,4% GDP growth in first quarter, sharp increase in industrial production in April.
- Unemployment rate 8,7% in May.
- Bank of Italy surveys project no further tightening in credit standard.

## Limited need for support to the financial sector

Financial Sector support as a percentage of GDP					
	capital injections(*)	Purchase of Assets and Lending by Treasury(*)	guarantees(*)	Total measures	
Belgium	3,6	2,1	18,6	24,3	
France	0,2	0,2	5,2	5,6	
Germany	1,6	2,2	6,6	10,4	
Italy	0,3	0,0	0,0	0,3	
Netherlands	5,6	4,2	14,0	23,8	
United Kingdom	3,3	1,8	38,6	43,7	
Spain	0,0	1,8	4,7	6,5	
(*) Outstanding amounts 2009					
Source: April 2010, Eurostat EDP News Release and supplementary tables on Financial Turmoil					

### A number of different initiatives

- **Decree-Laws nn.185/2008 and 5/2009:** actions to support businesses and households, to optimise the performance of the labour market and to sustain investment activity;
- **State-Regions Agreement:** further financing of social safety nets;
- **NRP:** stimulus to investment activity with focus on energy efficiency and R&D;
- **Decree-Law n. 78/2009:** additional measures to facilitate a sooner exit from recession;
- **€35.5bn:** fiscal stimulus measures spread over 2008-2011.

### Focus on €35.5bn policy response

- Designed to be fiscally neutral, with spending increases or tax cuts in some areas being offset by spending cuts or revenue increases in other areas.
- Aimed to bolster aggregate demand, support employment, expand the labour market's safety net, stimulate investment, address competitiveness problems and protect low-income groups.
- Timely, Temporary, Targeted
- In line with the European Economy Recovery Plan



# Detail of the measures

- Acting on the European Commission's request to promote concerted action by the Member States in addressing the economic crisis, the Government adopted in a first time measures consistent with the European Economic Recovery Plan (EERP, 2008) framework.
- As a second step new measures were decided by the end of 2009.
- The measures were aimed at supporting the economy and reformulating economic-policy goals at national level without impacting fiscal balances.

## ANTI-CRISIS MEASURES

### A combination of several policy measures

Policies supporting:	Budgetary impact (Bn €)			
	2008	2009	2010	2011
Business activity	1.4	5.3	5.7	7.4
Labour market	0.8	2.6	3.8	0.7
Investment activity	0.5	3.3	0.2	0.2
Household purchasing power	0.0	2.9	0.4	0.4
<b>Total uses of funds</b>	<b>2.7</b>	<b>14.1</b>	<b>10.1</b>	<b>8.7</b>

# Support to business activity

- Tax relief and other tools to facilitate access to financing: tax exemption of 50 per cent of value of investment in equipment and machinery, faster depreciation of capital goods, integrated export-bank system, Tax credits for investments in research;
- Changes in the due for time payment for VAT by the enterprise (from the moment of issuance of invoice to the “cash”: time of receiving payments) ;
- Acceleration of tax refund claims to enterprises by the public administration
- Acceleration of trade debts repayments by the ministries.
- Incentives for purchases of motor vehicles, furniture, and industry’s tax relieves reserved to some branches of activity

# Support to labour market

- Reinforcement of wage supplementary schemes : extension of the unemployment compensation to more categories, refinancing of 24-month extension; public contribution in the event of job loss, allowances to protect the income of self employees, etc.
- Incentives for reintegration of laid-off workers, that are employed in training programs and reinforcement of labor market flexibility (training, intermediation in job searching) payment of employment bonuses to companies and self-employed;
- Establishment of the special Fund for Support to Employment

# Support to investments

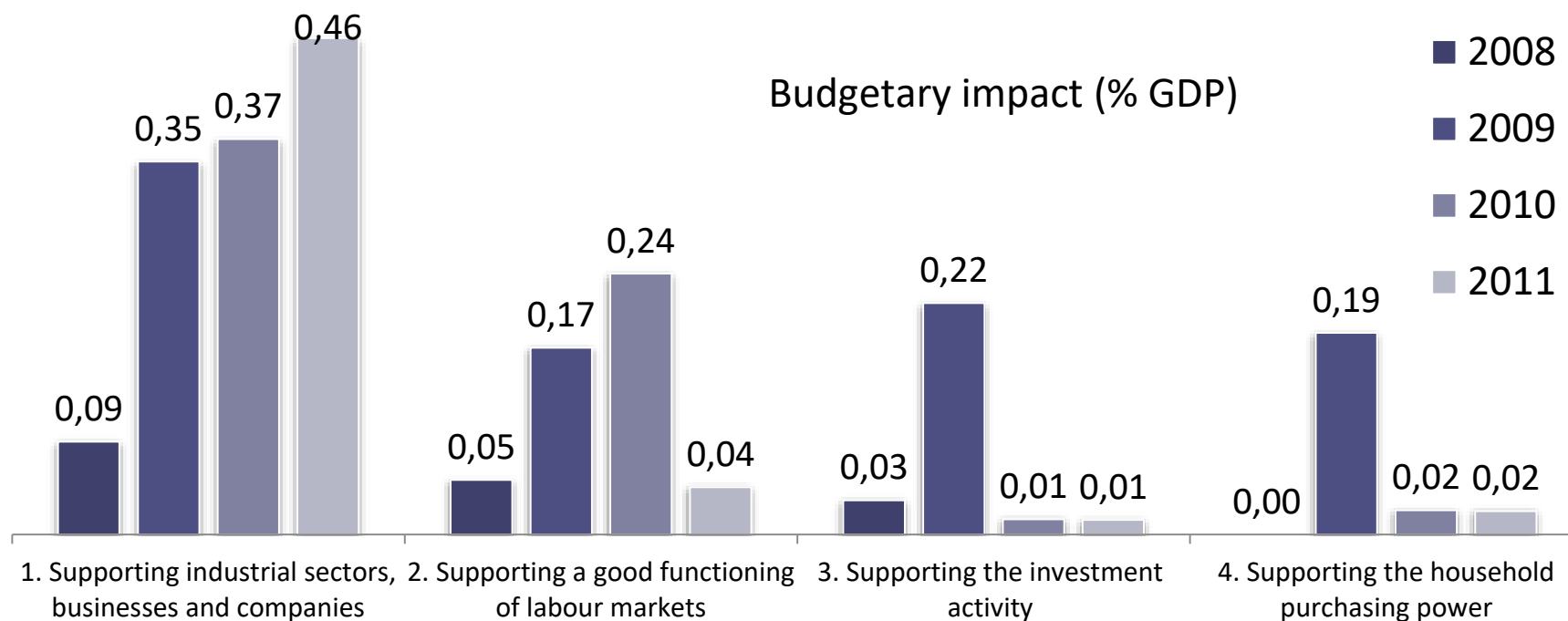
- Acceleration of procedures for projects that are included in the National Strategic Investment Plan;
- Re-allocation of funds for strategic, high-priority projects: i.e. security of schools, building of schools and prisons, environmental projects , etc.
- Special infrastructure fund to finance large and small infrastructure projects , i.e. railway investments.

# Support to households' purchasing power

- [lump-sum family bonuses](#), one-off social benefits in cash in 2009 for pensioners, low-incomes workers and persons who require assistance (the benefit is computed on the basis of family size);
- [“Purchases” Card](#), free card granting an expenditure of 40 euros per month to low-income pensioners over 65 years old and low-income households with young children;
- [Relief from credit and interest payments](#) (tax credits for newborns, house -mortgages reliefs for indebted households via interest subsidies).

## ANTI-CRISIS MEASURES

### Timely. Temporary. Targeted



Total resources: €35.5bn in 2008-2011. i.e. cumulative 2.3% of GDP (0.17% in 2008. 0.93% in 2009. 0.65% in 2010 and 0.54% in 2011).