

## Italy: Economic Overview

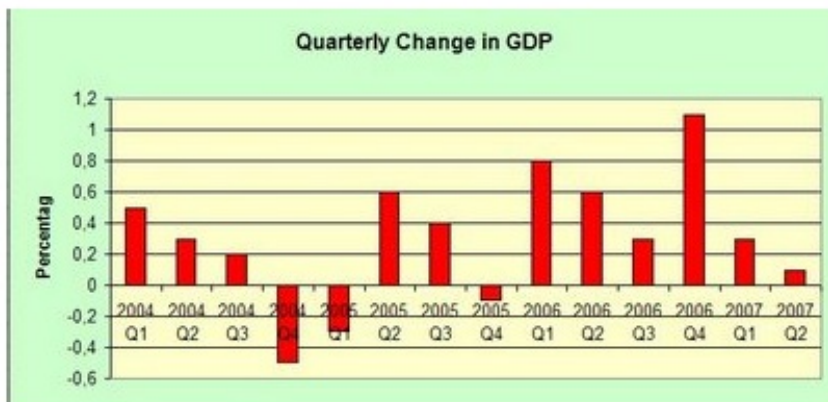


### *Role in the European Union:*

Italy was a charter member of the European Economic Community, the predecessor of the European Union, and adopted the Euro on January 1, 1999. Italy's economy has developed significantly post-World War Two, developing from a primarily agricultural economy to an industrial economy. Industry is concentrated in the North of the country, while the South remains focused on agriculture. Italy is a member of the G-8 and is currently ranked as the 7<sup>th</sup> largest economy in terms of purchasing power parity.<sup>1</sup> Italy is facing difficulties with its 4.3% budget deficit and high public debt.

### *Economic Indicators:*

- Italy has a diversified capitalistic industrial economy, competitive with the UK and France, in terms of GDP per capita.
- The economy is divided regionally, where the north of the country is highly industrialized and dominated by private companies, while the south of the country is more agricultural, less developed, and more welfare-dependent.<sup>2</sup>
- Italy imports a significant amount of materials needed for industry as well as about 75% of its energy requirements.<sup>3</sup>
- Recently Italy experienced growth rates of 1.9% (2006 est.)  
Italy's economic growth averaged only 0.66% for the five years ending in 2005; 2006 GDP growth



<sup>1</sup> World Bank: World Development Indicators database, World Bank, 1 July 2007

<http://siteresources.worldbank.org/DATASTATISTICS/Resources/GDP.pdf>

<sup>2</sup> United States Department of State, Background Notes "Italy" <http://www.state.gov/r/pa/ei/bgn/4033.htm>

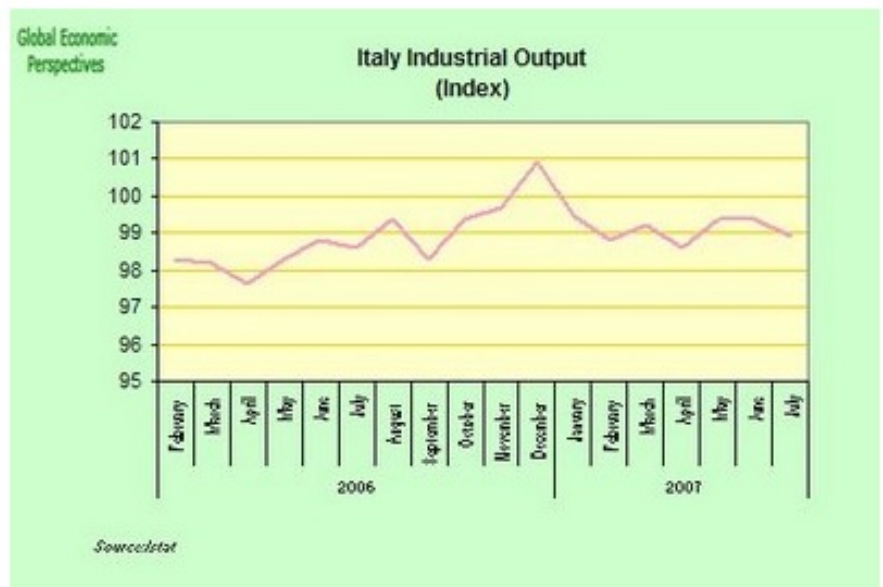
<sup>3</sup> Ibid; Graphic of Quarterly Change in GDP from Italian Economic Watch, available <http://italyeconomicinfo.blogspot.com/>

reached 1.9%, largely due to export growth to the Euro zone area.<sup>4</sup>

- Italy's estimated GDP was \$1.756 trillion (2006 est.)<sup>5</sup>
- Italy has been working on its fiscal policy in order to meet the requirements of the Economic and Monetary Unions. Over the past decade, Italy has pursued a tight fiscal policy in order to meet the requirements of the Economic and Monetary Unions and has benefited from lower interest and inflation rates<sup>6</sup>.
- Unemployment is estimated at about 7% (2006 est.)<sup>7</sup>
- Italy is facing a significant budget deficit at about 4.3%, which is over the limits set by the European Economic and Monetary Union.<sup>8</sup>
- Imports for 2006 totaled \$445.6 billion.<sup>9</sup>
- Exports for 2006 totaled \$450.1 billion.<sup>10</sup>

### *Economic Structure:*

- The prime sectors of Italy's economy are
- Italy does a significant portion of its trade with the European Union, specifically with Germany (13.2% of exports, 16.7% imports), France (11.7% exports and 9.2% imports), Spain (7.3% exports, and 4.1% of imports), the United Kingdom (6.1% of exports), Netherlands (5.6% of imports), and Belgium (4.2% of imports). Italy's principal trading partners also include the United States (with 7.6% of exports) and China (5.2% of imports).
- Small and medium-sized family-owned firms are significant contributors to Italy's economic strength, while Italy's major industries are precision machinery, motor vehicles, and chemicals.<sup>11</sup>
- Primary imports include engineering products,



<sup>4</sup> Ibid

<sup>5</sup> CIA World Factbook "Italy" <https://www.cia.gov/library/publications/the-world-factbook/geos/it.html>

<sup>6</sup> Ibid

<sup>7</sup> Ibid

<sup>8</sup> Ibid

<sup>9</sup> Ibid

<sup>10</sup> Ibid Graphic of Quarterly Change in GDP from Italian Economic Watch, available <http://italyeconomicinfo.blogspot.com/>

<sup>11</sup> United States Department of State, Background Notes "Italy" <http://www.state.gov/r/pa/ei/bgn/4033.htm>

chemicals, transport equipment, energy products, minerals and nonferrous metals, textiles and clothing, food, beverages, and tobacco.

- Primary exports include engineering products, textiles and clothing, production machinery, motor vehicles, transport equipment, chemicals, food, beverages, tobacco, minerals, and nonferrous metals.
- There has been a significant amount of reform by the current government with the goals of increasing competitiveness and long-term growth. However, the country still needs to implement crucial structural reforms, including lightening the tax burden and reforming Italy's labor market and pension system.<sup>12</sup>

### *Political Considerations:*

- Italy is a democratic republic with a bicameral parliament, a separate judiciary, and an executive branch headed by the Prime Minister and including the Council of Ministers. The President of Italy is elected for seven-year terms by Parliament jointly with a limited number of regional representatives. Both houses of Parliament are elected directly and popularly in a proportional representation system, and they are elected for five years, but they may be dissolved before the term expires.
- There is only partial judicial review of legislation, as a court that passes on the constitutionality of laws is only a post World War Two development; hence the scope and power of this court are not as extensive as those of the United States Supreme Court.
- Until recently, there were significant changes in the political climate. Between 1996 and 2001, the government was dominated by center left coalitions, reverting to center-right coalitions between 2001 and 2006. The center-left Union coalition led by Romano Prodi is currently in power, while President Giorgio Napolitano of the Democratic Party of the Left currently serves as President, with his term set to end in May 2013.

### *Attractions:*

- **Strategic Location:** Italy's strategic location on the Mediterranean is a key attraction. Proximity to land, sea, and air routes linking Europe, North Africa, and the Middle East makes it easy to reach markets of up to 396 million consumers of the member states of the European Union, and another 240 million consumers of North Africa and the Middle East.<sup>13</sup>
- **Wide Market:** The Italian market itself, with almost 60 million consumers and its high GDP offers significant opportunities for expanding

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<sup>12</sup> Ibid

<sup>13</sup> Embassy of Italy in Washington "Doing Business in Italy"

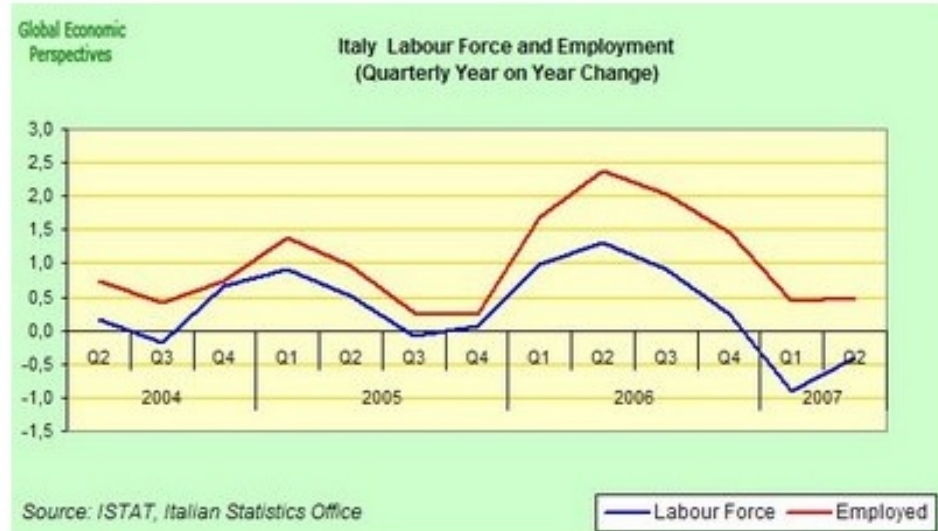
[http://www.ambwashingtondc.esteri.it/Ambasciata\\_Washington/Menu/Informazioni\\_e\\_servizi/Fare\\_affari\\_in\\_Italia/](http://www.ambwashingtondc.esteri.it/Ambasciata_Washington/Menu/Informazioni_e_servizi/Fare_affari_in_Italia/)

businesses. With an annual turnover of approximately 65 billion Euro, Italy is a leader on the European and World markets.<sup>14</sup>

- **Low Startup Costs in Particular Sectors:** Italy's startup costs for the biotechnology sector are the lowest from all European countries. It is ranked second for product testing in research and development, chemicals, and electronics.<sup>15</sup>

### *Trouble Spots:*

- **Slow economic growth:** Italy's recent growth has been low for European standards, as the economy is troubled with the persistent problems of illegal immigration, organized crime, corruption, high unemployment, and the low incomes and technical standards of southern Italy compared with the prosperous north.<sup>16</sup>



- **Budget Deficit:** Italy continues to grapple with excessive budget deficits and high public debt--4.3% and 108% of GDP for 2006, respectively. Italy is a member of the European Monetary Union, and thus is required to maintain a budget deficit below 3%. After the European Commission had warned Italy to bring down its budget deficit by 2007, a budget was passed that would reach that goal, but it was criticized for having no stimulus for growth.<sup>17</sup>
- **Underground Economy:** Italy's underground economy is worth about 27% of its current GDP, and this constitutes a significant loss of taxation revenue to the local and central governments.<sup>18</sup>

<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> CIA World Factbook "Italy" <https://www.cia.gov/library/publications/the-world-factbook/geos/it.html> Graphic of Quarterly Change in GDP from Italian Economic Watch, available <http://italyeconomicinfo.blogspot.com/>

<sup>17</sup> United States Department of State, Background Notes "Italy" <http://www.state.gov/r/pa/ei/bgn/4033.htm>

<sup>18</sup> Ibid

**Acknowledgements:**

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