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The Chairman's Summing Up at the Conclusion of the
1991 Article IV Consultation with Italy
Executive Board Meeting 92/11 - January 31, 1992

Executive Directors endorsed the thrust of the appraisal in the staff report for the 1991 Article IV consultation with Italy. They noted the deterioration in the performance of the Italian economy in 1991 relative to the more favorable trend of recent years. Output growth had slowed markedly, investment had contracted, and exports had stagnated, reflecting a loss of competitiveness. Despite the deceleration of aggregate demand, the external current account had remained in deficit for the fifth consecutive year and inflation was stubbornly high, impeding progress on convergence to the lowest-inflation EC countries. On the fiscal front, outturns had once again fallen short of target; the narrowing of the primary deficit in 1991 was to a large degree attributable to measures with only a temporary effect; progress in reducing the underlying imbalance had remained unsatisfactory.

Directors observed that the staff had placed its analysis in the perspective of EMU convergence criteria. They welcomed the commitment of the Italian Government fully to participate in the process of European economic and monetary integration as specified in the Maastricht Treaty. They warned that the degree of divergence at present and the timetable set in Maastricht called for determined and sustained action over a number of years that would require the development of a fundamental political and social consensus. Directors noted that the targets included in Italy's medium-term convergence program were a minimum requirement that would need to be pursued whatever the underlying macroeconomic developments.

Directors were concerned that the measures envisaged in the 1992 budget--the first under the convergence program--appeared insufficient to achieve the budgeted targets and relied once more too heavily on temporary remedies and on intervention affecting the borrowing requirement rather than the underlying public deficit.

Directors welcomed the adoption of structural measures aimed at improving tax administration and broadening the tax base, but urged the Italian authorities rapidly to implement fundamental structural reforms in the areas of health services, pensions, and public employment. They welcomed the progress being made toward privatization but reaffirmed that the sale of public assets was no substitute for fiscal adjustment in the long run.

Directors expressed concern about the stubbornness of Italian inflation and the consequent failure to reduce the inflation differential vis-à-vis the lowest-inflation EC countries. The maintenance of the peg vis-à-vis those countries' currencies had been instrumental in reducing inflation but had not been sufficient in recent years to induce further nominal

convergence, and monetary policy was limited in its scope by the commitment to exchange rate stability. Directors, therefore, underlined the conflict that would eventually arise between that commitment and inflation convergence if early progress in reducing inflation significantly was not made. They therefore emphasized the need for a broad-based anti-inflation policy.

In particular, they stressed the importance of wage moderation and, in this regard, most Directors welcomed the linking of public sector wage increases to the inflation targets and the agreement on incomes policies for 1992, recently reached between the Government and the social partners. While some Directors called for efforts to consolidate the gains in incomes policy, others reiterated their skepticism in that area. All speakers emphasized that besides tight financial policies, structural measures spurring competition and productivity growth should help reduce cost pressures and at the same time lower unemployment in the medium term. Most Directors were pleased to note that the Bank of Italy had been granted full autonomy in the setting of the discount rate, and they expressed the hope that additional steps would follow to strengthen its independence further.

Finally, Italy was urged to play an active role in seeking to promote an early agreement in the Uruguay Round and to reverse the recent decrease in Italy's official development assistance.

It is expected that the next Article IV consultation with Italy will be held on the standard 12-month cycle.