Italy

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ITALIAN ECONOMY: SPADOLINI'S FINANCIAL PACKAGE

1. After several days of febrile discussions and consultations the Government reached agreement on 31 July, the deadline set by Spadolini, on the contents of the Finance Bill for 1983 and on a series of immediately effective economic measures designed to curb the expansion of the public deficit. The aim is to limit the PSBR in both 1982 and 1983 to around 60,000 billion lire (£25,000 million) compared with recent estimates of 74,000 billion lire for 1982 (as against the planned 50,000 billion ceiling) and 100,000 billion for 1983. This requires finding additional revenue during the next 17 months of about 20,000 billion lire and cutting planned expenditure by some 37,000 billion lire. Part of the additional revenue will come from recent fiscal amnesty legislation (about 7,000 billion lire, of which 4,000 billion lire in 1982), from changes in collection procedures for petroleum taxes and from increases already scheduled to come into force from 1 August in tariffs for electricity, rail travel and telephones. The package of measures which have now come into force is expected to bring in additional revenue for 1982 of about 8,500 billion lire whilst a further 4-5,000 billion will result from accounting adjustments. No decisions have been made about the details of spending cuts, which will not come into force until 1983 in any case.

2. The following provisions came into force by Decree-law at midnight on 31 July but must be ratified by Parliament within 60 days:

i) Increases in manufacturing taxes on petroleum products, methane gas for motor vehicles and beer. The price of super grade petrol went up by 100 lire per litre, including VAT increases, and is now 1,120 lire. This manoeuvre is expected to bring in about 2,600 billion lire on an annual basis;

/ ii) Minor

ii) Minor contraventions of town planning regulations can be regularised by payment of a donation to the local authority. This should bring in about 2,500 billion lire;

iii) Tax on banana consumption increased by 50%. (Additional revenue about 50 billion lire.)

iv) Employers' social security contributions are increased by 2.15% of payroll. However, the fiscalisation measures whereby the State takes over part of social contributions are extended to the end of this year.

3. Two further Decree-laws increasing VAT and company tax were also approved and will come into force as soon as they are published in the Official Gazette. Company tax is to be increased from 23% to 25.5% with an additional 0.36% for this year.

4. Changes in VAT have been carefully selected to avoid triggering off a large increase in the scala mobile wage indexation scheme. The zero rate and 2% rate remain unchanged. The 8% rate for preserved milk, eggs, rice, wine, wool, dried beans, coffee, gas, electrical energy for lighting and washing soap also remains unchanged, whilst it is increased to 10% for other products in the group. The standard 15% rate (which includes cars below 2000 cc and petrol) is increased to 20% and the 35% rate for luxury goods to 38%.

5. The Finance Bill outlines other measures whose details will be decided later, concerning in particular the National Health Service, other social security benefits, local authority finance and limits to State transfers for public utility services. A Bill for the reform of the pensions system aims to put the finances of INPS (the National Social Security Insitute) on a sounder footing. Pension increases, for example, should be subject to a 13% limit in 1983 and a 10% limit for 1984. Additional fiscal measures designed to bring in a further 7,000 billion lire, including anti-evasion measures, are expected in the autumn. But all these provisions are yet to be debated in Parliament with the consquent risk of weakening amendments.

/ 6. Press

6. Press reactions gave a cautious welcome to the measures adopted by Spadolini's government. There was praise for the government's courage in imposing tax and price increases but concern that the government might not be able to decide on expenditure cuts. La Repubblica (leftwing) criticised the measures for coming too late and for hitting firms rather than the rich. Il Sole (Confindustria-owned financial daily) concentrated on the requirement for public expenditure cuts and the need to make public expenditure more productive. The three trade union federations, in a joint statement, attacked the measures for raising the cost of mass consumption items. Confindustria, the main employers' federation, is worried because the package will raise production costs and may be recessionary. The political parties making up the governing majority welcomed the measures but recognise that further provisions still need to be adopted. The PSI cautions that its attitude will depend on these future measures. The PCI through Unita has announced its resolute opposition to the government's measures, and criticised them for doing nothing to encourage production.

7. Comment to follow.

Ends.

[THIS TELEGRAM WAS NOT ADVANCED]

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