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Italy's reform priorities: the National Reform Programme

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European semester and the Euro Plus Pact

- **European semester:** integration of surveillance on national policies into a comprehensive and effective economic policy framework.
- **Annual Growth Survey:** guidelines for actions to be implemented at national level.
- **Euro Plus Pact:** Political commitment to enhance coordination of economic policies and strengthen competitiveness and economic convergence.



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European semester and the Euro Plus Pact

- **National Reform Programme and Stability Programme:** documents by which each Member State presents its policy objectives within a common framework.
- Indicators of **competitiveness, employment, fiscal sustainability, financial stability**, etc. used to monitor progress towards achieving these objectives.
- **Fiscal framework:** strengthening national rules and institutions to enhance budget discipline.

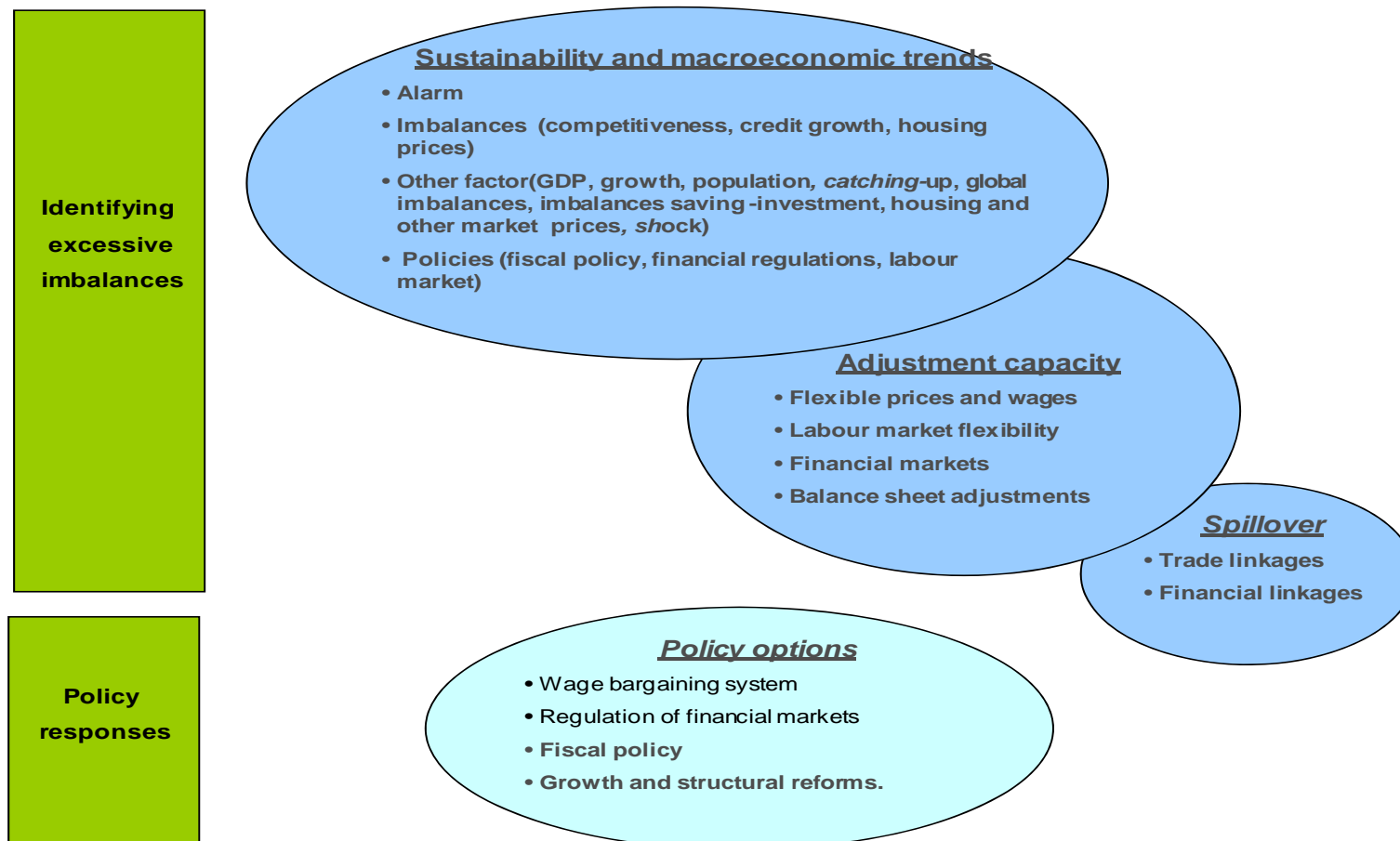


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Summary of EIP procedure



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Indicators of macroeconomic imbalance (EIP)

	Current account	International net investment position	REER	Export share	ULC	Real housing prices	Private sector debt	Private sector credit (flows)	Financial sector total loans	Unemployment rate	Public debt
2000	-	-	-	-	-	0.3	79.0	8.3	10.5	-	109.0
2001	-	-9.9	-5.6	-18.2	5.4	2.7	81.0	6.0	-2.1	10.0	109.0
2002	-0.5	-13.8	-2.1	-14.1	7.3	8.9	92.0	6.1	4.4	9.3	106.0
2003	-0.7	-15.1	8.8	-13.5	11.5	3.1	87.0	6.1	11.1	8.7	104.0
2004	-1.0	-16.3	9.8	-7.6	10.4	3.4	95.0	7.6	7.4	8.3	104.0
2005	-1.3	-15.7	7.0	-5.5	9.4	5.0	101.0	9.2	12.0	8.0	106.0
2006	-1.7	-20.6	1.1	-12.7	7.1	3.1	107.0	9.5	9.7	7.5	107.0
2007	-2.2	-21.5	0.7	-9.3	6.9	3.1	115.0	12.0	2.4	6.9	104.0
2008	-2.7	-21.5	3.3	-16.0	8.9	-0.6	120.0	7.6	-0.4	6.5	106.0
2009	-2.5	-19.3	3.9	-17.5	11.2	-1.0	125.0	1.4	5.3	6.9	116.0
2010	-2.8	-	-1.0	-	9.1	-1.3	127.0	3.5	-	7.6	119.0
Thresholds	-4%	-35%	+/-5% euro- area; +/- 11% non euro area	-6%	+/-9% Euro Area; +/-12% not Euro Area	6%	160%	15%	19%	10%	60%

ULC, public debt and export share represent critical areas. The current account and the Net Investment Position are showing first worsening signals.



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LIME at work

- Used newly available 2001-2009 information developed by the **Lisbon Methodology WG** (LIME).
- Analysed Italy's performance against EU15 countries in a **simple framework** (although, of course, there are caveats).
- Linked GDP growth components to **structural indicators** on policy areas of reform through a mapping exercise.
- Compared results with **policy objectives and recommendations**.



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Lisbon Assessment Framework (LAF) (1)

Policy areas -- Aggregate scores for IT	Evaluation Based on Indicators (LAF) vis-à-vis EU-15	
	Level	Changes
Labour market		
Active labour market policies	-3	7
Making work-pay: interplay of tax and benefit system	4	3
Labour taxation to stimulate labour demand	-6	-8
Job protection and labour market segmentation/dualisation	-1	5
Policies increasing working time	2	-8
Specific labour supply measures for women	-2	0
Specific labour supply measures for older-workers	-4	3
Wage bargaining and wage-setting policies	-10	6
Immigration and integration policies	6	-12
Labour market mismatch and labour mobility	11	11
Competition policy framework		
Enhancing competition	1	-2
Sector specific regulation (telecom, energy)	1	3
Business environment – Regulatory barriers to entrepreneurship	-11	-1
Business Dynamics - Start-up conditions	-4	-5
Financial markets and access to finance	-	-
Market integration - openness to trade and investment	-4	2
Innovation and knowledge		
R&D and Innovation	-7	7
ICT	-7	-6
Education and life-long learning	-2	0



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Lisbon Assessment Framework (LAF) (2)

- Italy's **position in level** is below that of the European average, but there is improvement in terms of changes.
- **Labour market: positive signs of improvement** in wage bargaining, protection and labour market segmentation/dualisation, making work-pay, ALMPs, older workers' labour supply, and labour market mismatch.
- **Labour market: negative performance** for policies aiming at increasing working time, immigration and integration, policies for taxation aimed at encouraging labour demand.



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Lisbon Assessment Framework (LAF) (3)

- **Product markets:** broadly in line with the European average, with some weaknesses in policies to promote competition and a favourable business environment (barriers to entrepreneurship, start-ups). Some progress in sector specific regulation and in market integration.
- **R&D, innovation and human capital:** improvement in R&D, worsening in ICT with a persistent gap with respect to EU15. Education and life-long learning still in line with the benchmark.



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Growth accounting (1)

Relative performance of GDP components vis-à-vis the EU-15 – 2009

	GDP decomposition scores		Absolute contribution to annual growth
	Level	Growth	
Demographic component	-6	-2	0.3
Birth rate / native population	-10	-6	0.0
Percentage of foreign population / net migration	-4	6	0.7
Percentage of working-age population	-5	-11	-0.3
Labour-market component	4	7	0.0
Participation of young people in the labour market	-15	-21	-0.5
Participation of 25-/54-year old men in the labour market	-17	3	-0.1
Participation of 25-/54-year old women in the labour market	-21	7	0.4
Participation of 55-/64-age bracket in the labour market	-14	5	0.5
Unemployment rate	4	14	0.3
Average hours worked	11	-6	-0.5
Labour-productivity component	-8	-19	-0.2
Capital deepening	-4	-8	0.5
Total factor productivity (TFP)	-4	-17	-1.0
Initial level of education of workers (quality of labour)	-18	0	0.3
Per capita GDP (level) / GDP (growth)	-8	-13	0.2

Source: European Commission, LAF Database.



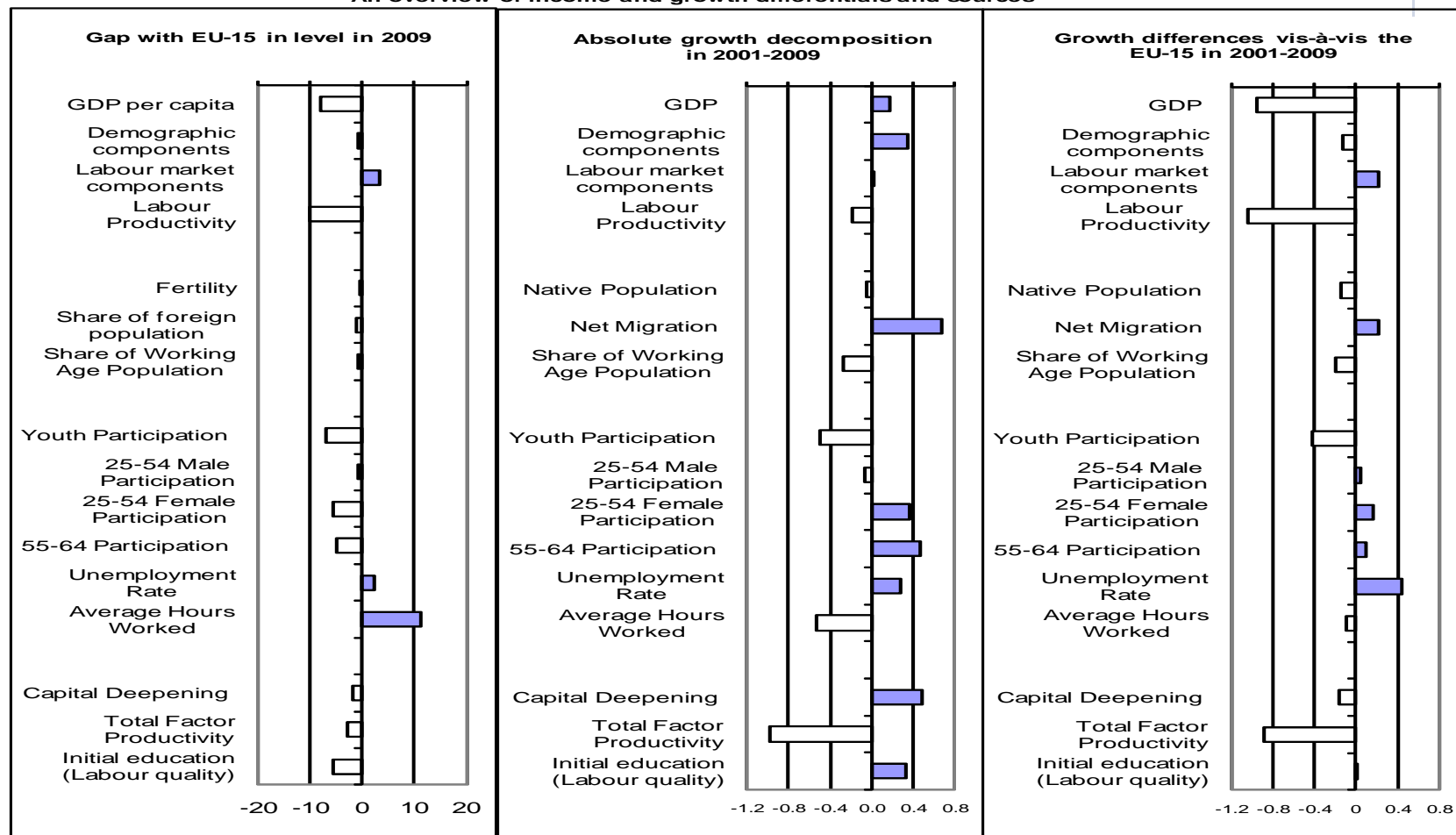
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Growth accounting (2)

An overview of income and growth differentials and sources



Source: European Commission, LAF Database



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Growth accounting (3)

- In 2001-09, Italy's GDP growth was on average **almost 1pp below EU15** (the same on a per capita basis).
- **Low productivity**: largely due to low **TFP growth** and, to a lesser extent, to a small contribution by **capital deepening**.
- **TFP**: it might incorporate certain structural aspects of the labour market due to specialisation in MLT products.
- Young people's **participation rate** and average hours worked.
- '**Labour quality**' (measured by the initial level of education of the workforce).

Growth accounting (4)

- Sizeable contraction in the **working-age population** and the **native population** (although offset by the net flow of immigrants, mostly with low education attainments).
- Improvement in the **participation rate** of 'age 25 and over'.
- Italy's **unemployment rate** is below that of the EU15.
- Below-average performance in terms of **average hours worked per capita** and the **rate of participation of young people** in the labour market.

Growth accounting (5)

- The **contribution of capital** to growth increased, although at a slower pace when compared with EU15 countries, while remaining below the EU15 average in 2009.
- The **regional divide** partly explains Italy's below-average performance (Centre-Nord with above EU15 per capita GDP, South with about 60% of the EU15 level).
- Even **demographic components** show sizeable regional differences.

Spotting policy areas in need of intervention

	Fertility / Native Population	Share of foreign population / Net Migration	Share of Working age Population	Youth Participation	25-54 Male Participation	25-54 Female Participation	55-64 Participation	Unemployment Rate	Average Hours Worked	Capital Deepening	Total Factor Productivity	Initial education of labour (Labour quality)
Active labour market policies												
Making work-pay: interplay of tax and benefit system												
Labour taxation to stimulate labour demand												
Job protection and labour market segmentation/dualisation												
Policies increasing working time												
Specific labour supply measures for women												
Specific labour supply measures for older-workers												
Wage bargaining and wage-setting policies												
Immigration and integration policies												
Labour market mismatch and labour mobility												
Competition policy framework												
Sector specific regulation (telecom, energy)												
Business environment - Regulatory barriers to entrepreneurship												
Business Dynamics - Start-up conditions												
Financial markets and access to finance												
Market integration - Openness to trade and investment												
R&D and Innovation												
ICT												
Education and life long learning												
Orientation and sustainability of public finances												



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Policy areas: labour market

Policy area	Level		Growth	
	(*)	GDP components involved	(*)	GDP components involved
Labour market				
Active labour market policies	S	Youth Participation 25-54 Female Participation 25-54 Male Participation 55-64 Participation		Youth Participation
Making work-pay: interplay of tax and benefit system	S	Youth Participation 25-54 Female Participation 25-54 Male Participation 55-64 Participation Total Factor Productivity	B	Youth Participation Total Factor Productivity
Labour taxation to stimulate labour demand	S			
Job protection and labour market segmentation/dualisation	B	Youth Participation 25-54 Female Participation 25-54 Male Participation 55-64 Participation Total Factor Productivity	S	Youth Participation Total Factor Productivity
Policies increasing working time		Total Factor Productivity		Total Factor Productivity
Specific labour supply measures for women	S	Youth Participation 25-54 Female Participation 55-64 Participation	S	Youth Participation
Specific labour supply measures for older workers	B	55-64 Participation		
Wage bargaining and wage-setting policies	S			
Immigration and integration policies	S	Net migration	B	
Labour market mismatch and labour mobility	B	Youth Participation 25-54 Female Participation 25-54 Male Participation		Youth Participation



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Policy areas: product market and innovation

Policy area	Level		Growth	
	(*)	GDP components involved	(*)	GDP components involved
Product and capital market regulations				
Competition policy framework	S	Total Factor Productivity Capital Deepening	S	Total Factor Productivity Capital Deepening
Sector specific regulation (telecoms, energy)	S	Total Factor Productivity Capital Deepening		Total Factor Productivity Capital Deepening
Market integration – Openness to trade and investment	S	Total Factor Productivity Capital Deepening Labour Quality		Total Factor Productivity Capital Deepening
Business environment – Regulatory barriers to entrepreneurship	B	Total Factor Productivity Capital Deepening		Total Factor Productivity Capital Deepening
Business Dynamics – Start-up conditions	B	Total Factor Productivity Capital Deepening	B	Total Factor Productivity Capital Deepening
Financial markets and access to finance	S	Total Factor Productivity Capital Deepening		Total Factor Productivity Capital Deepening
Innovation and Knowledge				
R&D and Innovation	B	Labour Quality		Total Factor Productivity Capital Deepening
ICT	S	Total Factor Productivity Capital Deepening		Total Factor Productivity Capital Deepening
Education and life-long learning	B	Youth Participation 25-54 Female Participation 25-54 Male Participation 55-64 Participation Labour Quality (Education) Total Factor Productivity	S	Youth Participation Total Factor Productivity



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Are results in line with policy targets and recommendations?

Policy areas	Level	Change	CSR	Bottlenecks	IMF recommendations	OECD recommendations
Labour market						
Active labour market policies	-3	7				
Making work-pay: interplay of tax and benefit system	4	3		X	X	X
Labour taxation to stimulate labour demand	-6	-8	X	X	X	
Job protection and labour market segmentation/dualisation	-1	5		X		X
Policies increasing working time	2	-8		X	X	
Specific labour supply measures for women	-2	0		X	X	
Specific labour supply measures for older workers	-4	3		X	X	
Wage bargaining and wage-setting policies	-10	6		X	X	X
Immigration and integration policies	6	-12				
Labour market mismatch and labour mobility	11	11		X		
Product and capital market regulations						
Competition policy framework	1	-2	X	X	X	X
Sector specific regulation (telecoms, energy)	1	3	X	X		X
Market integration - Openness to trade and investment	-11	-1		X	X	
Business environment - Regulatory barriers to entrepreneurship	-4	-5		X	X	X
Business Dynamics - Start-up conditions	-	-				
Financial markets and access to finance	-4	2				
Innovation and knowledge						
R&D and Innovation	-7	7		X	X	X
ICT	-7	-6		X	X	X
Education and life long learning	-2	0	X	X		X
Macroeconomy						
Orientation and sustainability of public finances	-	-	X	X	X	
Environment and sustainable development						X
Infrastructure				X		X



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2011 National Reform Programme

- Large number of actions to address the key policy issues identified by the European Commission in the **Annual Growth Survey**.
- Actions aiming at achieving the national targets of the **Europe 2020 strategy**.
- Actions to overcome **bottlenecks** that are an impediment to GDP growth.
- Measures consistent with the coordination of economic policies resulting from **Euro Plus Pact**.

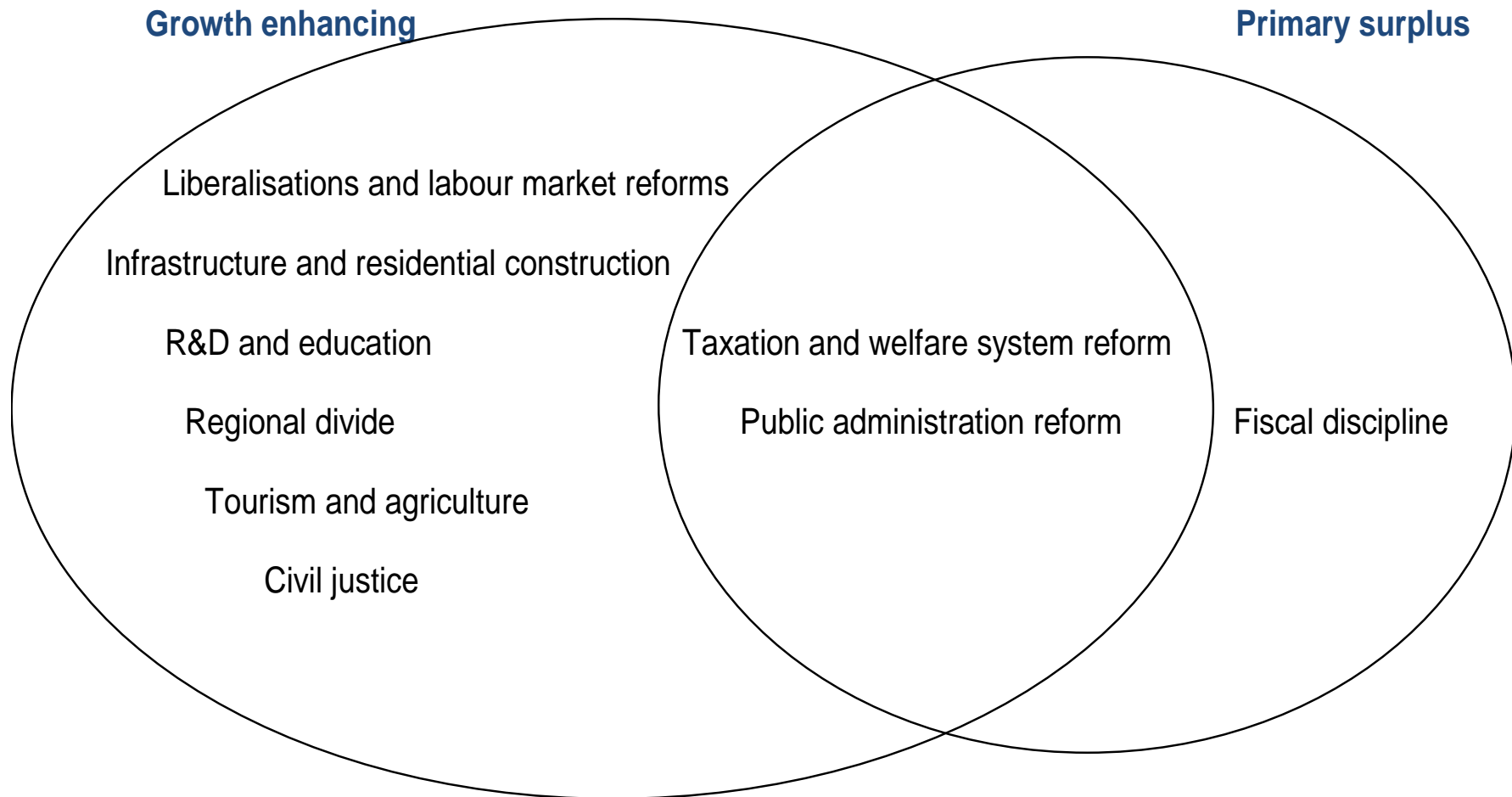


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A strategy for growth and fiscal consolidation: NRP priorities



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European targets and recommendations

AGSs

Bottlenecks



Recommendations

Targets



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Key:
you need to create
order



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First step: the Grid

- For each measure the NRP provides information concerning: (1) relevant legislation, (2) some descriptive features, (3) stage of implementation, (4) progress report, (5) impact on public finance, (6) classification based upon objectives and priorities defined at the European level.

La Griglia

M	N	Riferimenti normativi	Descrizione della misura	Stato di implementazione	Stato di avanzamento	Data di inizio	Data di fine	Impatto sul bilancio pubblico	Classificazione delle misure	Bottleneck	Europe 2020 target	Annual Growth Survey actions
1	1	Decreto legge n. 105/2018	...	...	...	...	...	...	...	...	...	...
2	2	Decreto legge n. 105/2018	...	...	...	...	...	...	...	...	...	...
3	3	Decreto legge n. 105/2018	...	...	...	...	...	...	...	...	...	...
4	4	Decreto legge n. 105/2018	...	...	...	...	...	...	...	...	...	...
5	5	Decreto legge n. 105/2018	...	...	...	...	...	...	...	...	...	...

M	Descrizione delle misure							Impatto sul bilancio pubblico	Classificazione delle misure		
	1	2	3	4	5	6	7		9	10	11
	Misura	Riferimenti normativi	Descrizione della misura	Stato di implementazione	Stato di avanzamento	Data di inizio	Data fine		Bottleneck	Europe 2020 target	Annual Growth Survey actions



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Ordering: Bottlenecks

Bottlenecks

- Fiscal consolidation and public debt
- Wage competitiveness and productivity
- Product market – competition and administrative efficiency
- Innovation- R&D
- Reducing regional disparities
- Upgrading of network infrastructure

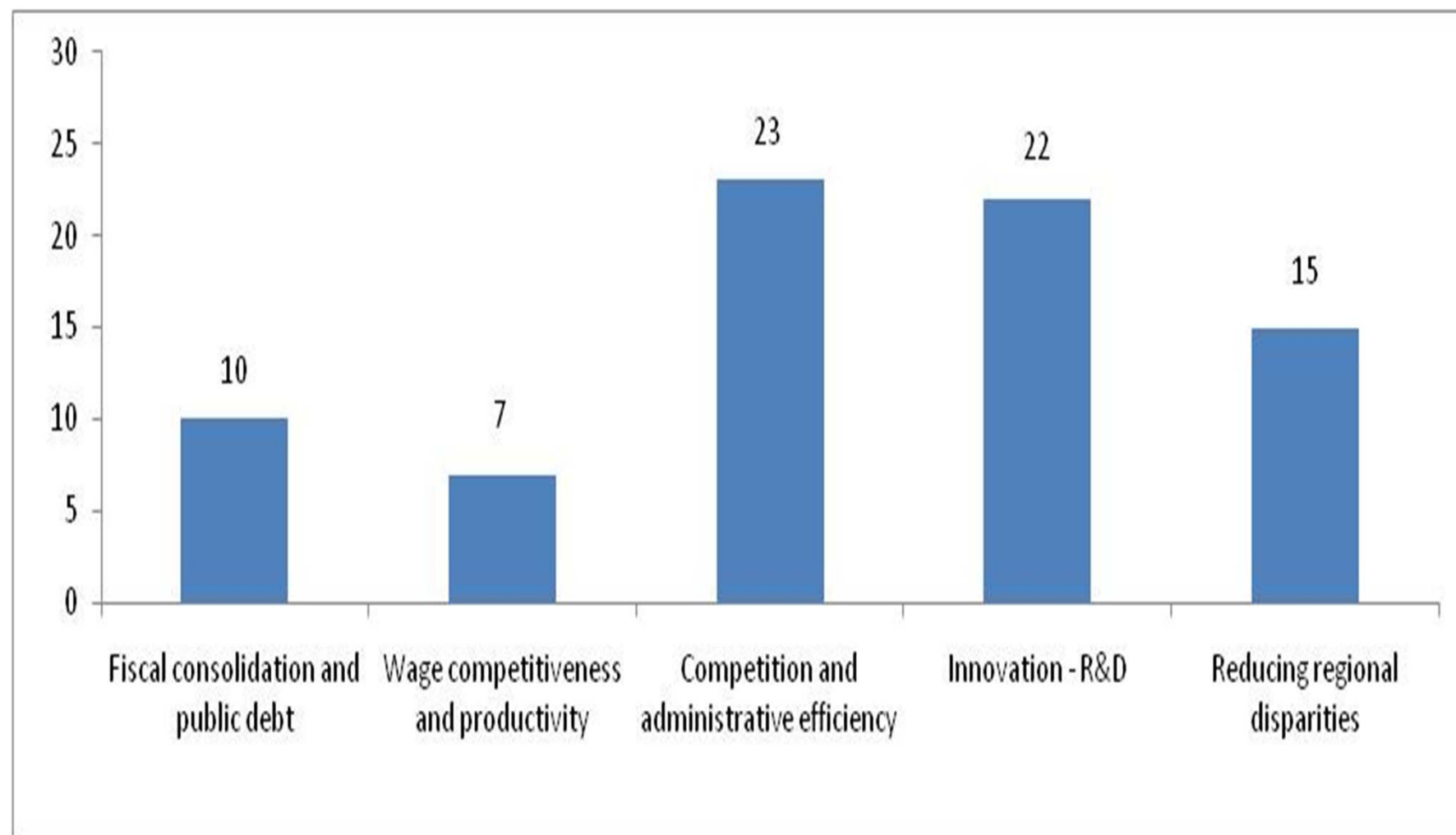


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Actions counting: Bottlenecks



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Ordering: Europe 2020 targets

Europe 2020 targets

- Renewable sources
- Employment rate
- Energy efficiency
- School drop out
- Tertiary education
- R&D
- Risk of poverty

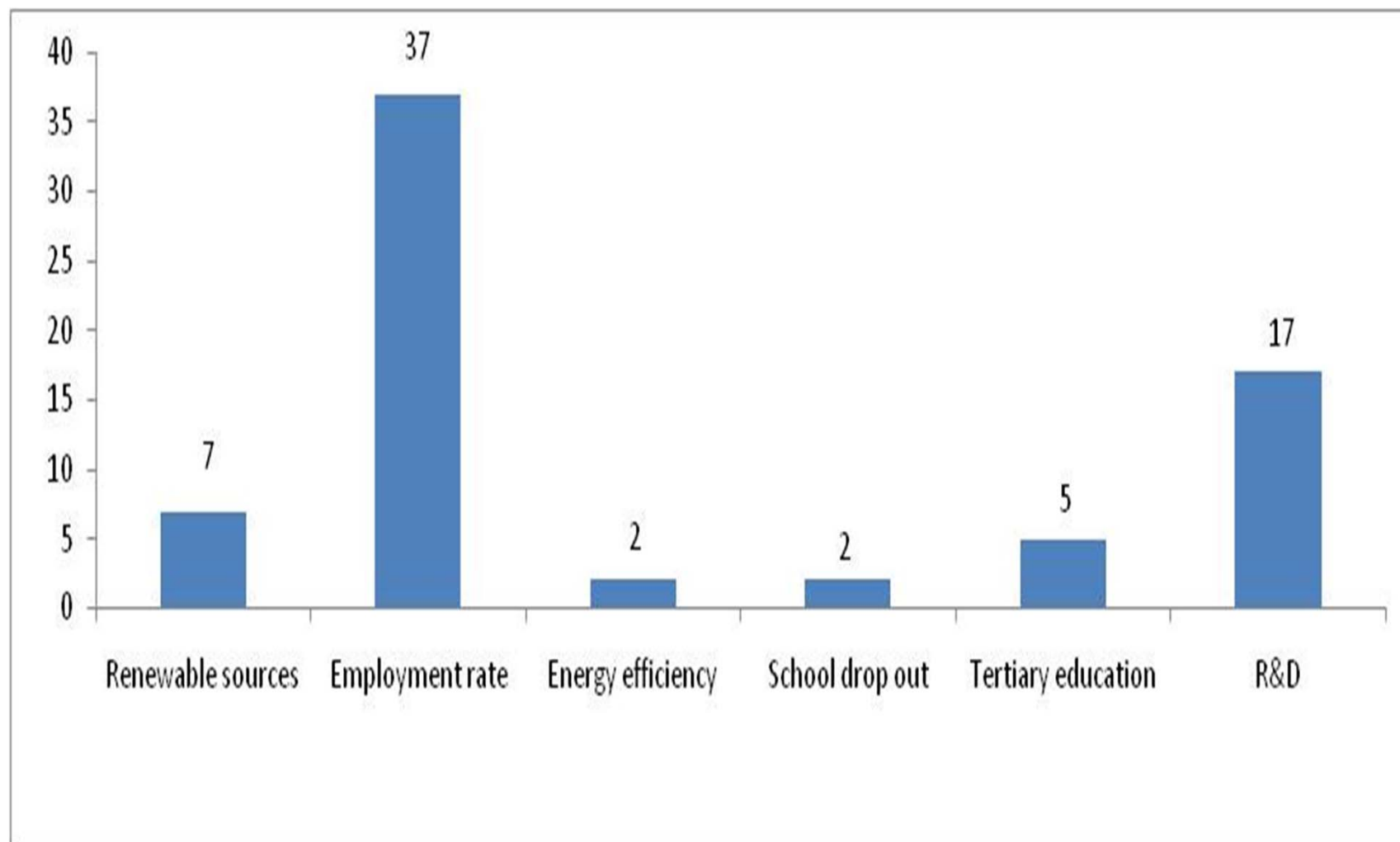


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Actions counting: Europe 2020 targets



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Ordering: AGS priorities

AGS priorities

- Fiscal consolidation
- Correcting macroeconomic imbalances
- Ensuring stability of the financial sector
- Pension reform
- Work more attractive
- Unemployed back to work
- Flexicurity
- Private capital for growth
- Potential of Single Market
- Efficient access to energy

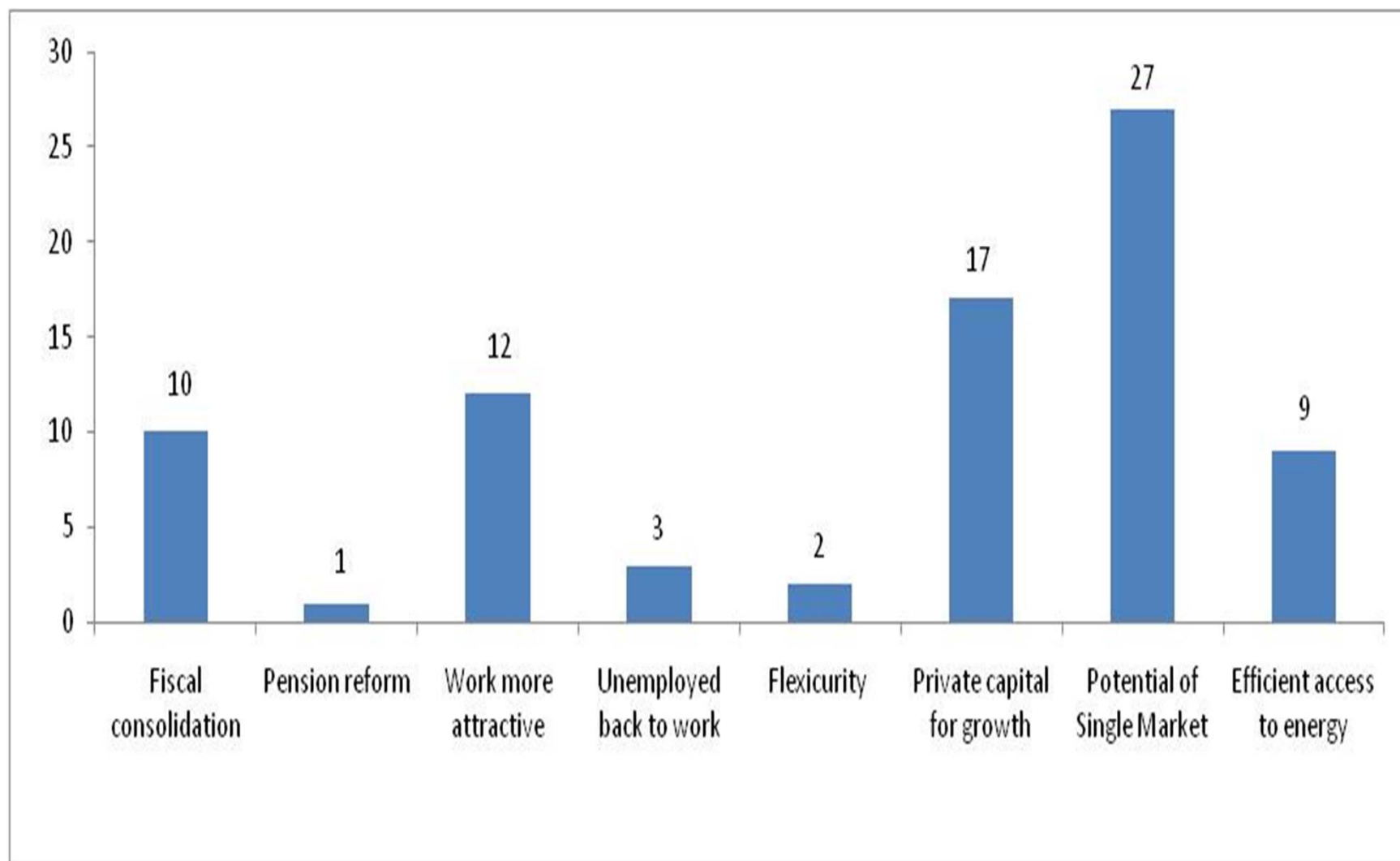


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Actions counting: AGS priorities



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Second step: evaluating Government priorities

Government priorities

- Tax reform
- Regional divide
- Labour market
- Public works, housing
- R&D, education and meritocracy
- Tourism and agriculture
- Civil justice and Public Administration reform



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Second step: Translating into main areas of policy intervention

Areas of Interventions

- Employment and pensions
- Containing Government expenditure
- Product markets, competition and administrative efficiency
- Innovation and human capital
- Business support
- Federalism
- Energy and environment
- Infrastructure and development



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Third step: Evaluation of macroeconomic impact of reforms

- Quantitative assessment of the **macroeconomic impact** of reforms for a number of areas of interventions.
- Evaluating (gross and net) gains from reforms in terms of **output, employment, consumption and investment growth**.
- Simulation using both the *QUEST III* model with endogenous growth calibrated for Italy and the Italian Treasury Econometric Model *ITEM*.



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Macroeconomic impact of reforms

- Individual NRP measures **aggregated** into policy areas.
- For each policy area, **specific shocks** to gauge the effects on macro aggregates.
- **Size of the shocks and their macroeconomic impacts** are generally in line with similar simulation exercises performed by the European Commission.



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Financial impact

Euro Milion	2009	2010	2011	2012	2013	2014
LABOR MARKET AND PENSIONS						
Higher expenditure	60	60	1,676	350	383	383
Higher expenditure not distributed		5,350		1,140		
Lower Expenditure	3,000	4,000	6,300	10,300	11,800	13,000
Lower revenues	1,728	1,298	2,119	1,547	1,284	1,284
REDUCTION OF PUBLIC EXPENDITURE						
Higher expenditure		10	11	5	5	5
Lower expenditure			1,018	1,732	1,732	1,732
PRODUCT MARKET						
Higher expenditure	2	8	10	8	8	8
ENERGY AND ENVIRONMENT						
Higher expenditure	200		21	21	21	
Lower revenues	477	33	17	32	293	168
Higher revenues			125			
INNOVATION AND HUMAN CAPITAL						
Higher expenditure	1,039	1,254	1,953	822	902	902
Higher expenditure not distributed				370		
Lower revenues	9	1,833	2,390	224		
Lower Expenditure	1,293	2,809	3,911	4,561	4,561	4,561
Higher revenues			2,400			
SUPPORT TO FIRMS						
Higher expenditure	60	507	642	50	50	50
Higher expenditure not distributed			785			

Note: Resources from the QSN 2007-2013 are excluded



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ITEM and QUEST shared multipliers

Multiplier of GDP: simulations performed with the ITEM model

	2015	2020	2030	Size	Weight
Reduction of unit labor cost	0,3	0,6	0,6	1%	0,5
Reform in the Pension system	0,1	0,5	0,5	1% GDP	1
Increase of transfers to production	0,7	0,5	0,7	1% GDP	0,1
Increase of tax base of social security contributions	0,1	0,5	0,4	1% Employees	1
Reduction of wage mark-up	0,4	0,4	0,5	1%	0,5
Increase of productivity of public administration	0,1	0,1	0,1	1%	1
Increase of investment subsidies	0,3	0,1	0,3	1% GDP	0,1

Multiplier of GDP: simulations performed with the QUEST model

	2015	2020	2030	Size	Weight
Reduction of wage mark-up	0,3	0,3	0,4	1%	0,5
Increase of labor productivity	0,4	0,7	0,8	1%	0,5
Removal of barriers to entry	0,2	0,2	0,2	1%	1
Reduction of administrative burden	0,4	0,5	0,5	10%	1
Tax credit for researchers	0,1	0,2	0,3	0,1% GDP	2
Reduction cost for intangible assets	1	0,2	0,5	50 pb	1



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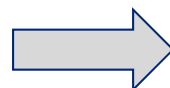


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Labour market and pension system (1/2)

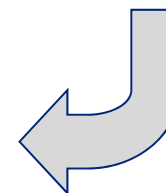
Measures

- Reduction of pension expenditure
- Measures in the area of wage bargaining
- Measures for fostering productivity growth
- Policies for employment



Shock

- Modification of the requisites for accessing pension benefits
- Reduction of the mark-up on wages
- Increase of workers productivity
- Increase of transfers to the business sector
- Tax base of social contributions
- Reductions of unit labour costs



Macroeconomic Impact

	2014	2017	2020
GDP	0.6	1.2	1.6
Consumption	0.4	0.7	1.4
Investments	0.3	0.3	2.1
Employment	1.1	1.5	1.8

Percentage deviation from the baseline scenario



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Labour market and pension system (2/2)

- Increasing the **participation rate** (especially of the young and women).
- Establishing a closer link between the increase of labour compensation and **productivity developments**.
- Creating a new system (called Cliclavoro) to facilitate the **matching** of labour demand and supply.
- Intervening to **foster inclusion** in the labour markets of young people ('Employment Plan Italy 2020') and the tax deductibility on the basis of labour productivity increasing.



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IMPACT OF THE MEASURES OF NRP BY AREAS OF INTERVENTION (percentage deviations from the baseline scenario)

ID(*)	Area	Measure	Description		2014	2017	2020
1, 2, 3, 4, 5, 6, 7, 8, 9, 10	Employment and pensions	Savings in pension expenditure, measures on wage bargaining, development of productivity, policies to increase employment	Change in requirements for access to pensions, reduction of wage mark-up, increase of labour productivity, increase of transfers to firms, extension of social security contribution tax base, reduction of ULC	GDP	0.6	1.2	1.6
				Consumption expenditure	0.4	0.7	1.4
				Gross capital formation	0.3	0.3	2.1
				Employment	1.1	1.5	1.8
18, 19, 21, 31, 32, 34, 39, 41	Product market, competition and administrative efficiency	Competition and the opening of markets, improvement in the entrepreneurial environment, reduction of social security contributions, administrative efficiency and simplification	Removal of barriers to entry, reduction of goods mark-up, increase of productivity of public administration, reduction of ULC, reduction of administrative burden	GDP	0.8	1.0	1.0
				Consumption expenditure	0.5	0.6	0.7
				Gross capital formation	0.4	1.1	1.1
				Employment	0.0	0.2	0.3
45, 46, 47, 48, 49, 50, 51, 52, 53, 54, 67, 68, 71	Innovation and human capital	Improvement of human capital, tax incentives to research, stimulation of investments in R&D	Tax credit for researchers and reduction of cost for intangible assets	GDP	0.1	0.2	0.4
				Consumption expenditure	0.3	0.4	0.4
				Gross capital formation	-0.1	0.0	0.1
				Employment	0.1	0.1	0.1
63, 64, 65, 66, 76, 78, 79, 80, 81, 82	Business support	Strategic projects and interventions to promote production and research activities	Reduction of cost for intangible assets, reduction of administrative burden, increase of investment subsidies	GDP	0.1	0.2	0.2
				Consumption expenditure	0.0	0.0	0.1
				Gross capital formation	0.6	0.7	0.7
				Employment	0.0	0.0	0.0

(*) The numbers reported in column ID match the numbers of the measures in the grid included in the Appendix.



DIPARTIMENTO DEL
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