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2011 ECONOMIC AND FINANCIAL DOCUMENT

MINISTERO DELL'ECONOMIA E DELLE FINANZE

2011 Economic and Financial Document

Section III:
National Reform Programme

Economic and Financial Document 2011

Section III:

National Reform Programme

Submitted by Prime Minister

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and

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Adopted by the Cabinet on 13 April 2011, endorsed by Parliament on 5 May

INTRODUCTION

1.1. On March 24-25, just 19 days ago, the European Council of Heads of State and Government approved the '**Pact for the Euro'** – A closer coordination of economic policies for competitiveness and convergence' (attached to this Introduction).

With the formalization of the '**Pact**', Europe takes a step forward. A step beyond the common market, beyond the common currency, beyond the initial but essential economic dimension: a first step toward its federal political integration. Over and above the conventional form of the '**Pact**', a common act formalized as an internal variant of the European Treaty, the '**Pact**' is in fact much more than it seems. It is essentially a 'Treaty of the Treaty', destined to radically change the European constitutional structure. Often in Europe there is an inverse relationship between the formal significance and the effective implementation of common acts.

The effects of the '**Pact**' are not, nor will they be, limited to the economic dimension (new directions in economic policy, new parameters, new ratios, etc.), but will extend to the **political dimension**. Effects destined to take the shape of a systematic and ever more intense **devolution of power**, from the Nation-States to a common, new and increasingly political **European entity**.

This is in fact and above all the political sense of the '**European semester**', a common place to begin to organize, within a single political process, common and coordinated directions and commitments. We have a common market, we have a common currency, we cannot continue with **27** autonomous, diverse, and little-coordinated economic policies. Europe as it is today is by nature already an area among the most civil and rich in the world. By taking on and developing the process that we are setting in motion, it will progressively become a federal State, based on a dual national and regional component.

1.2. To this end, even in the brief period of time between March 24-25 and today (the deadline for the presentation of the present document in Europe is in any case 'by the end of April'), we are making parallel and synchronized commitments with the other Countries of the Union:

a) to **confirm** and develop, on the basis of the '**Pact**', our economic and budgetary policy;

b) to **conform** and articulate, on the basis of the '**Pact**', both our national policy documentation and our political process – in Parliament and with social partners – starting with this '**Economic and Financial Document 2011**'.

A document that contains **three** sections: (i) the first, containing the **Stability Programme**; (ii) the second, containing: **Analysis and trends in public finance**; (iii) the third, containing the **National Reform Programme**.

In the following terms, briefly stated.

STABILITY PROGRAMME

2.1. Stability and solidity of public finance are essential, both right now and in the times to come.

Economic development and democratic political equilibrium are not possible without stability and solidity of public finance, and the historical record of the 20th century is proof of this connection.

Moreover, the recent crisis has determined and continues to determine a new economic policy design.

The discussion on this matter has been developed in all the principal international forums: G7, G20, IMF, OECD, European Union.

The consensus reached is that the principal objective of economic policies – a fair and sustainable growth – is not attainable, except with the essential requirement, and within the context, of financial stability and solidity.

Stability and solidity that, contrary to the pre-crisis vision, can be based solely on a complex equilibrium, realized as much in terms of **public finance**, as – in an equally relevant manner – in terms of **private finance** (behavior of families, the banking and financial sector, current account trends in the balance of payments, etc).

For these reasons the '**Pact**' lays the ground for a more extensive and reinforced coordination of economic policies. Its objective is to consolidate the EMU by adopting at the national level coordinated actions aimed at increasing the degree of competitiveness and convergence, but with the essential requirement of financial stability and solidity.

To this end, the '**Pact**' restricts even Italy, which must strengthen the national rules and actions necessary for budget discipline, in particular to guarantee adherence to restrictions on net borrowing and the debt/GDP ratio.

There is no room for ambiguity or uncertainties: the policy of fiscal rigor is not temporary as it is neither a consequence imposed by a negative economic situation, nor an action 'imposed by Europe', but instead the necessary policy, with no alternatives for the years to come.

Even in the absence of a European rule, the financial markets, in which we must place our public debt securities, would in fact demand nothing substantially different.

It must therefore be a common logic and commitment, by the Government and Parliament as well as by social partners, to avoid, and/or create illusions of, a presumed alternative between rigor and growth.

The only responsible message, in the interest of the Country, is that there do not exist presumptions of fair and sustainable growth without budget stability.

Growth will no longer be created with public deficits. Actually, the only development driven by the public deficit is the development of the public deficit.

This is the strategy behind the Italian policy of public finance, begun in 2008 with the 'Three-year Financial Law' and followed ever since: and in the context of this policy logic is the '**Stability Programme**' situated.

2.2. In **summary**, as regards specifically, public finance Italy, like many other States in Europe:

a) will commit to introducing into its **Constitution** a binding **budget discipline**.
It is true that Art. 81 of the Constitution, currently in effect, states that: 'Any other law that bears new or greater expenses must indicate the means for meeting said expenses'.
However, this statement has not kept Italy from amassing the third, now perhaps the fourth, public debt in the world. Without having the third or the fourth economy in the world.
It is true that Art. 11 of the Constitution 'imports' international treaties into Italy, and with them European treaties, thereby indirectly constitutionalizing them.
But it is fundamental today, in the interest of both Italy and Europe, that a binding budget discipline now be more precisely and directly constitutionalized, in conformity with the new European budget rules.
For this reason an appropriate text on **constitutional reform** will be presented and discussed in Parliament;

b) will commit to reaching (i) within 2014 a level close to a **balanced budget**, thereby making the dynamic of our public budget conform to medium-term European objectives (for **2011**, deficit/GDP at **3.9%**; for **2012**, deficit/GDP at **2.7%**; for **2013**, deficit/GDP at **1.5%**; for **2014** deficit/GDP at **0.2%**) and (ii) then, by way of systematic increments in the primary **surplus**, to following on the path of **public debt reduction**.
Reduction to be put in place, however, by taking into account not only the level of public debt, but also the '**other relevant factors**' related to private finance and the economy, factors agreed upon in European headquarters.

Certainly it is well known that the objectives of economic policy for **development** cannot be limited to budget discipline: they are vast, numerous, each necessary for financial stability and solidity.
But to achieve them it is necessary to activate **motors for development** outside the area of public deficit spending, as will be outlined below in the '**National Reform Programme**'.

NATIONAL REFORM PROGRAMME

3.1. Much has **already** been done in our Country on this issue and in line with what was agreed in the '**Pact**'.
Just to name a few, let me recall the **pension reform** (aligning the 'pensionable age to the effective life expectancy'); the 'linking of **earnings and productivity**'; the reform of **schools** and **universities;** the setting in motion of the process of technical upgrades in public administrations; **fiscal federalism** (the reasons and functions of which are not limited to public finance, but are aimed at increasing the efficiency of public administration); **social withholdings** and checks on **private finance**, tested with success during the financial crisis.

And much more.

3.2. But of course **much still** remains to be done.

As to what is outlined analytically in the **Reform Programme**, the Government will commit specifically to the following **priorities**:

A) Fiscal Reform.

In the '**Pact**' the recommendation is formulated *inter alia* for: 'Fiscal reforms, such as the reduction of taxation on labour, so as to make working more advantageous, while maintaining the overall tax revenue'.

With regard to the restrictions for budget discipline and on the basis of the extensive and profound preparatory studies under way, the Government will ask Parliament for permission to reform the **fiscal** and **assistance** system, on the basis of the following four guiding principles and criteria:

- **progressiveness**, as a function of the specific capacity of persons, families, and firms to pay contributions;
- **neutrality** and/or non distortion, with regard to the choices of persons, families, and firms;
- **solidarity**, in favor of the actual need of persons and families;
- **simplicity**, based on a code of common general principles.

In particular, the design of the reform will develop as follows:

a) a drastic reduction in the immense number of regimes currently in place (about **400**) for fiscal favor, tax extensions, and the erosion of taxable income. Regimes that have accumulated chaotically in the last four decades.
It is especially in this way that the personal and bureaucratic cost of fiscal complexities can be reduced. In addition, citizens, families, and firms must go back to being **free** and **responsible** for their choices about where and how they spend their income, for their consumption, for their savings, for their investments, and no longer be conditioned and/or misled by favorable laws and/or fiscal areas, or pressured and/or misled by the State, by corporations, or by lobbies.
Space will be left only for focused interventions to support research, the birthrate, and work;

b) a gradual shifting of the axis of fiscal withdrawals, from direct taxes to indirect taxes;

c) in this way (a+b), and also with further reduction of public expenditure and with the recovery of evaded taxes, the financial resources necessary to finance (not in deficit) the reduction of tax rates can be acquired.
Rates whose levels are today the principal cause for evasion and fiscal distortion in the first place;

d) making more **competitive**, in the world at large, our system of productivity.
Our fiscal system was in fact designed in the 1960s, to allow to us to enter the European Common Market, then called the ECM.
Now, the European market is not the only market. The market is global.

Not only has the world changed with globalization. In half a century the Italian social, economic, and institutional structure has also changed.
Our ambition is for Italy to be the first in Europe to create a fiscal system shaped by **modernity**;

e) **fiscal obligation** and **national assistance** are and must go back to being **different** things.
General taxation must **finance** national assistance and not **substitute for it**, by chaotic, irrational and often regressive forms of overlap and duplication.
National assistance must in turn **guarantee** a real base of support to persons and families in need due to health and/or age.

B) The South.

In the '**Pact**' there is a commitment to give attention to '**evolution at the regional level**'.
Italy is the **only** European Country with a greatly '**dual**' structure. Our Country must not and cannot however become a divided one.
The growing economic differential between the north-center and the south can and must be overcome:

a) by concentrating and guiding, and by truly and fully utilizing, European funds in favor of the southern Regions, but on the basis of a **national direction**. Because the issue of the south is a national issue and not simply the sum of regional logic and interests, separately considered;
b) by defining the absolute priority of **infrastructure** to link the country, and of **advantageous taxation**;
c) by providing for, in each southern Region, at least **10 zones**, which will be specifically checked on matters of public order, but with '**zero bureaucracy zones**'.

C) Labour.

The **Labour Statute** will represent the completion of the re-regulation of labour relations through a Consolidated Act containing the reorganization and simplification of the issue, confirmation of the universal and inescapable nature of fundamental rights in the workplace, the capacity of social partners to adapt to different sectors and territories, to different firms—through collective negotiation—and the other regulatory contents related to greater competitiveness and employment.
The **apprenticeship contract** will then represent the typical and advantageous entry-level contract for young people in the labour market thanks to the regulatory simplification and the efficacy of training in the workplace.

D) Public Works.

Experience indicates that the **time** and the **cost** involved in public works in Italy have on average more than **doubled** (i) due to the absence of limits to so-called '**reserves**', which are to an increasing extent being added to bids and (ii) due to the so-called '**compensatory works**', requested by local governments in competition with each other and on whose territory the public work is planned.

Pre-determined fixed percentages will be introduced, along with other rules requested by operators, both for the 'reserves' and for the 'compensatory works'.

E) Private Construction.

The introduction of a basic state discipline has been proposed, to be followed by a regional discipline, which authorizes works of demolition and reconstruction at a greater volumetric area, even in the case of outsourcing of the buildings disinvested or in the process of being disinvested, and allowing as well for a change in the type of usage of the structure, as long as the original and new usages are compatible or complementary.

In the absence of timely regulation by the region, the state discipline would apply, with a so-called 'submission' clause.

To favor access by citizens and firms to construction permits, and to reduce the time and costs for public administrations to manage the relative procedures, the introduction of a silent assent has been proposed for procedures leading to the grant of a permit to build, and to extend this measure to the 'certified notification of construction works in progress' (*segnalazione certificata di inizio attività*, or SCIA), with particular regard for small construction jobs that do not involve volumetric increases.

F) Research & Development.

A public financing will be introduced, first on a trial basis and then officially, realized via a tax credit of **90%**, in support of **research** that **firms** commission, pay for, or conduct **at Universities** and **Research Institutes** (with of course the deduction, off the top, of the relative costs from the taxable amount).

Application in Italy of the best European legal and fiscal standard for **venture capital** and **spin-off**.

G) Education & Merit.

Human capital, like fiscal capital, is an essential pillar of sustainable growth.

We will commit to favoring excellence and merit, both among students and among teachers, for the full application of Art. 3 of our Constitution. In this context the following will be developed:

- a programme for school infrastructure to provide, especially in the south, structures in conformity with the most modern didactic standards and to reduce for local administrations the expense associated with the passive leasing of buildings not suitable for scholastic use;
- a system of incentives to support excellence among professors, both at the secondary and university education levels;
- a structural programme for the application of the 'Merit Fund' provided for in the recent University Reform. With this programme the most

meritorious students will have at their disposal a system of long-term loans at favorable terms, to pay for their studies completely, including room and board expenses. In this way, students will be able to choose to attend the best University.

H) Tourism.
The institution along our coastlines of '**Tourist-seaside districts**' (and/or networks), by redefining **state maritime real estate** and the systematic introduction along the coastlines of **zero burocracy zones,** offset by an increase in employment and a greater effective fiscal loyalty.

I) Agriculture.
The realization of irrigation works, especially in the south, to the benefit of the territory and the economy.

L) Civil Justice.
The introduction of mechanisms, in addition to those already in place, for the **deflation** and **acceleration** of civil trials aimed at:

- drastically reducing the **stock** of pending litigants (currently equal to 5,600,000), beginning with sectors where, for the public administration (starting with INPS), the acquiescence-cost ratio is **unacceptable**;
- so as to free up resources for reorganizing and making functional a public service essential for both the society and the economy, such as justice is.

M) Reform of the Public Administration and simplification.
The sustainability of public accounts, competitiveness, and, thus, growth of the country are also obtained through the modernization of the public administration—oriented toward transparency, merit, and the satisfaction of citizens and firms—together with administrative and regulatory simplification, with intensification in the use of ICT in the public and private sectors.
Further substantial reductions in the bureaucratic, administrative and fiscal burdens for persons and firms.

As stated in the Introduction, these are just some of the **priorities** in the economic policy of a **Plan** that, in conformity with European thinking, extends organically and more broadly over a number of years (as seen in the **third section**).

Euro Plus Pact:
a closer coordination of economic policies for competitiveness and convergence

EURO PLUS PACT: A CLOSER COORDINATION OF ECONOMIC POLICIES FOR COMPETITIVENESS AND CONVERGENCE[1]

The heads of State and Government of the Euro Area approved the present Pact, to which Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania have adhered, in order to consolidate the economic pillar of the monetary union, improve the quality of coordination among economic policies, improve competitiveness and, therefore, increase the level of convergence. The Pact concerns principally sectors that belong to the realm of national authority and are essential for improving competitiveness and averting dangerous imbalances. Competitiveness is fundamental in order to achieve a more rapid and more sustainable growth of the EU in the medium term, to increase income levels for citizens and safeguard our social models. The other Member States are invited to participate on a voluntary basis.

The renewed effort toward a closer coordination of economic policies for competitiveness and convergence takes its inspiration from the following **four guidelines**.

a. It will be incorporated **in the current line of economic governance** of the EU **and will make it stronger**, bringing to it a value added. It will aim to be coherent with instruments already in effect (Europe 2020, European semester, integrated guidelines, Stability and Growth Pact, new framework for macroeconomic surveillance), from which it will move forward. It will have a particular strength, more intense than what currently exists, and it will be articulated in a series of concrete commitments and actions, more ambitious than those agreed upon in the past and equipped with a calendar for their completion. The new commitments will subsequently be integrated into national reform programmes and into stability programmes, and inserted in the framework of periodic surveillance: the Commission will have a strong central function in checking adherence to commitments and the involvement of all the areas of expertise of the Council and Eurogroup is foreseen. The European Parliament will integrally assume the role that its realm of authority dictates. The full involvement of the social partners at the EU level will be assured by the trilateral social summit.

b. It will concentrate on the objective, it will be action-based and it will concern the **essential and priority sectors of intervention for stimulating competitiveness and convergence**. It will focus on interventions that fall

[1] Attachment 1 to the Conclusions of the European Council of 24-25 March 2011 (http://www.consilium.europa.eu/App/NewsRoom/related.aspx?bid=76&grp=18589&lang=EN&cmsId=339).

within the realm of authority of the Member States. In the chosen sectors of intervention **the Heads of State and Government will set common objectives, which the participating Member States will pursue by putting in place respective policy combinations in light of the specific challenges with which they are faced.**

c. **Each year every Head of State or Government will make concrete national commitments.** In this context the Member States will bear in mind the best practices and the models represented by the best performances, both within Europe and with respect to other strategic partners.

   The **political check** on adherence to commitments and on progress toward the completion of common political objectives **will fall to the Heads of State and Government** of the Euro Area and the participating countries, who will carry out this process annually on the basis of a report from the Commission. The Member States will commit furthermore to consulting partners before adopting any major economic reform that might have spillover effects.

d. The participating Member States are fully committed in favor of completion of the single market, which is a determining element for the improvement of competitiveness in the EU and in the Euro Area as well. The process described here will be perfectly in line with the Treaty. **The Pact will fully respect the single market in its entirety.**

OUR OBJECTIVES

The participating member States will commit to adopting all the measures necessary for realizing the following objectives:

- stimulating competitiveness;
- stimulating employment;
- concurring further on sustainability of public finances;
- reinforcing financial stability.

Every participating Member State will present the specific measures to be adopted in order to achieve these objectives. The sector, or sectors, for which the Member State is able to prove that no intervention is necessary will be excluded. **Each country will reserve the right** to choose the specific policy interventions proved necessary for achieving the common objectives, **but will pay special attention to the possible measures outlined below**.

CONCRETE COMMITMENTS AND POLITICAL CHECKS

The Heads of State and of Government will carry out political checks on progress toward the realization of the common objectives on the basis of a series of indicators inherent to competitiveness, employment, budget sustainability and financial stability. Countries facing significant challenges in these sectors will be identified, and will have to commit to confronting the challenges within a specific timeframe.

Stimulating competitiveness

Progress will be measured in terms <u>of the evolution of wages and productivity, as well as in terms of how adjustment needs for competitiveness are met</u>. To establish whether the evolution of wages is in line with productivity, unit labour costs will be monitored in a given period of time and then compared to the evolution in other countries of the Euro Area and in principal commercial partners with similar economies. With respect to each country, unit labour costs will be evaluated based on the economy overall and for each major sector (products and services, as well as tradable and non-tradable sectors). Huge increases, maintained over time, can erode competitiveness, especially if associated with an increasing current account deficit and a decreasing market share of exports. Interventions to improve competitiveness are necessary in all the countries, but focus will be in particular on those facing great challenges in this area. To ensure the spread of balanced growth in the whole of the Euro Area, specific instruments and common initiatives will be established in order to promote productivity in the slow-growth regions.

Each country will be responsible for the specific interventions to promote competitiveness, but special attention will be paid to the following reforms:

i. with due respect for national traditions of social dialogue and industrial relations, measures designed to ensure the evolution of costs in line with productivity, for example:
   - reexamining salary agreements and, if necessary, the degree to which the negotiating process is centralized and the indexing mechanisms, with due respect for the autonomy of the social partners in the negotiation of collective contracts;
   - ensuring that salary agreements in the public sector correspond to the force of competitiveness in the private sector (keeping in mind the importance of the signal given by public sector wages).

ii. Measures meant to increase productivity, for example:
   - further opening up of protected sectors through measures adopted at the national level to eliminate unjustified restrictions on professional services and the retail sector, in order to stimulate competition and efficiency, with due respect for the Community *acquis*;
   - specific efforts to improve educational systems and to promote research and development, innovation and infrastructure;

– measures designed to improve the entrepreneurial environment, in particular for SMEs, notably by eliminating administrative burdens and improving the regulatory framework (for example, bankruptcy laws and the commercial code).

Stimulating employment

A functioning labour market is essential for competitiveness in the Euro Area. Progress will be measured on the basis of the following indicators: rates of youth unemployment and long-term unemployment, as well as participation rates.

Every country will be responsible for the specific interventions adopted in order to stimulate employment, but particular attention will be paid to the following reforms:

– labour market reforms to promote "flexicurity", reduce undeclared labour and increase participation in the labour market;
– continuing education;
– fiscal reforms, such as the reduction of taxation on labour, so as to make working more advantageous, while maintaining the overall tax revenue, and the adoption of measures designed to simplify participation in the labour market for workers who represent the second source of family income.

Reinforcing sustainability of public finances

With the aim of full realization of the Stability and Growth Pact, utmost attention will be paid to the following points:

Sustainability of pensions, public health services, and social benefits

An evaluation will be undertaken, above all on the basis of indicators of the sustainability gap[2]. These indicators evaluate whether levels of debt are sustainable based on current policies, in particular pension, public health, and social assistance regimes, bearing in mind demographic factors.

The reforms necessary to ensure the sustainability and the adequacy of pensions and social benefits could include:

– aligning the pension system to the national demographic situation, for example, by aligning the effective pensionable age to life expectancy or by increasing participation rates;
– limiting early-retirement regimes and establishing special incentives for the hiring of elderly workers (the 55-and-up age group).

National budget rules

Participating Member States will commit to assimilating in their national legislation the EU budget rules stipulated in the Stability and Growth Pact. The Member States will reserve the right to choose the specific national judicial instrument they make use of, but

[2] The sustainability gap comprises indicators approved by the Commission and by the Member States to evaluate budget sustainability.

will make certain it has a binding and sustainable nature sufficiently strong (for example, constitution or regulatory framework). The exact form of the rule will also be decided by each country (for example, it could take the form of "a brake on borrowing", a rule linked to the primary balance or a rule on expenditure), but it must guarantee budget discipline at both the national and sub-national levels. With due respect for the prerogatives of the national parliaments, the Commission may choose to be consulted concerning the precise budget rule, before its adoption in order to ensure its compatibility and its synergy with the rules of the EU.

Reinforcing financial stability

For the overall stability of the Euro Area, a strong financial sector is fundamental. A general reform of the EU framework on surveillance and the regulation of the financial sector is under way.

In this context the Member States will commit to introducing a national legislation for the managing of the banking sector, with due respect for the Community *acquis*. Rigorous stress tests on banks will be carried out regularly, coordinated at the EU level. Furthermore the president of the CERS and the president of the Eurogroup will be invited to periodically inform Heads of State and Government on issues related to macrofinancial stability and macroeconomic developments in the Euro Area that require specific interventions. For each Member State, the private debt level of banks, families and non-financial firms will be monitored with particular attention.

In addition to the aforementioned issues, attention will be given to the coordination of fiscal policies.

Direct taxation will remain under national authority. The pragmatic coordination of fiscal policies is a necessary element for a closer coordination of economic policies in the Euro Area, which in turn supports readjustment of the budget and economic growth. In this context Member States will commit to initiating structured discussion on the issues of fiscal policy, notably to ensure the exchange of best practices, avoid dangerous practices and present proposals on combating fraud and tax evasion.

The development of a common tax base for companies could be a way to go – neutral as far as income profile – to ensure the coherence of national fiscal regimes, with due respect for national fiscal strategies, and to contribute to budget sustainability and competitiveness of European firms.

The Commission has presented a legislative proposal on the common consolidated tax base for companies.

Concrete annual commitments

To prove a real commitment in favor of change and to ensure the political impetus necessary to reach the common objectives, each year the participating Member States will at the highest level agree on a series of concrete actions to be completed in twelve months. The choice of the specific measures to be taken will remain under the authority of each country but will be guided in particular by examining the aforementioned issues. These commitments will also be reflected in the national reform programmes and in the stability programmes presented every year, which the Commission, the Council, and the Eurogroup will evaluate within the context of the European Semester.

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TABLES

GRAPHS

I. OVERVIEW AND OBJECTIVES OF ECONOMIC POLICY

The National Reform Programme (NRP) summarises the structural reforms already under way, as well as those planned for achieving the objectives set forth in the agenda of Europe 2020. It takes into account the ten priorities identified in the Annual Growth Survey (AGS) and the policy commitments made with the Euro Plus Pact.

The situation that has come to light in Europe on the heels of the worst economic crisis since the second world war and after a decade of modest growth, imposes even more stringent objectives on the management of public finance. Only financial stability (both public and private) can guarantee a fair and sustainable growth. In prospect, the European Union will have to count on a comprehensive reform of the financial sector and on an increasingly strict surveillance in the fiscal and macroeconomic field.

I.1 THE LOGIC BEHIND THE NATIONAL REFORM PROGRAMME

The NRP contains focused actions, in the knowledge that the country requires direct reforms to increase its degree of competitiveness and labour productivity, complete and reinforce the competitive stance of some markets, and modernise the Public Administration.

The Government proposes to intervene in the critical aspects of the Italian economy with incisive and integrated reforms that are mutually reinforcing. The principal pillars will be fiscal federalism, the reorganization of the fiscal system, the completion of interventions of a regulatory nature in order to increase the efficiency of the economic system, and the promotion of initiatives to steer private savings toward economic policy objectives. These measures, by affecting the rate of growth of the economy, will contribute to the reaching of the objectives associated with a reduction in the debt-to-GDP ratio.

Clearly the Government can no longer conduct economic policy exclusively with public expenditure. Now in Italy the time has come for measures with low or no impact on public accounts, but with significant effects on the economy. In adopting this approach, the policies subsequently designed must contribute to reducing territorial gaps – an important issue for Italy – and make Italian businesses more competitive.

I.2 THE PRINICPAL MEASURES

The consolidation of the budget must take place by means of structural interventions on the two main cost components of pensions and health.

Pension reform

Pension reform, already launched with Law Decree n. 78/2010, will permit a substantial stabilisation in the weight of social security costs on the GDP until 2045 and the subsequent reduction. The reform touches upon the requirements for both retirement and old age, especially for public employees, with a lengthening of effective seniority, in terms of contributions, at the moment of retirement. So as to guarantee the sustainability of the system in the long term, minimum benefits and requirements for retirement will be adjusted periodically on the basis of increased life expectancy, without the need for subsequent regulatory interventions but, rather, done automatically.

Health and fiscal federalism

In recent years governance of the health sector has progressively improved. In particular, virtuous cycles have been introduced that lead structurally to a containment and a rationalization of expense, by means of financing on the basis of standard costs for services (currently being elaborated), as opposed to the historical expenditure criterion, and by holding regions fiscally responsible in the event of budget imbalances, with the predisposition of binding repayment plans.

The innovations in the health sector fall under the broader component of fiscal reform in the federal sense. Over the course of 2010, decrees were approved as to the valuing of State real estate holdings, which consign to local entities and make more flexible the management of these sources of income (through the possibility, as well, of disinvestments aimed at reducing debt). For Local Authorities a share is foreseen in the income derived from the combating of tax evasion, which should in the long run bring about a drastic and structural reduction of this phenomenon. While safeguarding the principle of solidarity among the different areas of the country, by means of an equalizing fund, a simplification in local taxes and a greater share of general taxes are also planned,. In particular, the new fiscal system foresees the possibility for Local Authorities to make small changes in the current rates and to introduce purpose taxes, so as to increase the level of responsibility of local administrators towards citizens. This mechanism, too, will produce a rationalisation and, probably, also a reduction in public expense.

Competition, firms and the Public Administration (P.A.)

The annual Law on Competition will make it possible to address the numerous rigidities present in the Italian market, by means of a drastic simplification of formalities and bureaucratic costs for firms. At the same time, these provisions reinforce protection of the consumer, thanks to a reduced fragmentation of the responsibilities in this field. In particular, the measures plan a reduction in the administrative burdens on SMEs, through extensive use of 'single contact points', auto-certification, recourse to certifying bodies, and with the possibility to institute 'zero bureaucracy areas' in the South. For EU firms that invest in Italy, it will also be possible to take advantage, for three years, of the fiscal regime of the country of origin. To support SMEs, the Central Guarantee Fund, which is intended to facilitate access to credit for small firms, has been strengthened, so as to stimulate investments and innovation, and the Italian Investment Fund has been created, the largest institutional fund of private equity existing in Europe, destined exclusively for small firms to help them strengthen their capital.

Energy

Through full implementation of the 'Third Energy Package', legislation on the regulation of the energy market, which is already advanced in Italy, will be further improved. The distribution network will also be improved, with particular attention to intra-European trade and market transparency.

Compliance with the Kyoto Agreement on greenhouse gas emissions has already required a refinancing of the Funds for completing the protocol and for renewable energy sources and sustainable mobility, and it is likely to require the use of further resources still. In the meantime, numerous measures have been launched to structurally reduce emissions, through traffic bans and incentives for the renovation of the most polluting means of transport as well as specific measures in favour of the use of biomass boilers and for stimulating the adoption of energy saving technologies in agriculture. The Public Administration will be directly committed as well (through a special Action Plan) to reducing its own energy consumption. Looking ahead, a significant increase in energy efficiency is expected through the full implementation of the EC Directives that establish more severe standards in the area of appliances, lamps, automobiles, electric motors and construction.

Human capital and innovation

The reform of the school and university system pursues some specific objectives, related to the evaluation of technical training integration with the labour market, with the objective of reducing mismatch between labour supply and demand and establishing a closer relationship with the territory (through the involvement of the private sector as well). In addition, for Universities, the fragmentation of courses of studies has been reduced, with consistent gains in efficiency even in the short term. More in general, in step with the Public Administration, the culture of evaluation and innovation has been promoted in the educational system.

The reforms have entailed huge investments in technology and in evaluation mechanisms at the central and regional level, with a view to extending the educational process to span the duration of one's working life. A comprehensive re-designing of the research system has been initiated, to adapt it to the unique Italian productive structure, characterized by SMEs operating in traditional sectors and with a specific vocation for design and creativity. Priority has therefore been given to actions addressed to enterprise networks, at evaluating pilot programmes, at promoting public-private synergies, and at translating innovation into productive realities.

In particular, the National Research Programme will be characterized by a number of flagship initiatives, and calls for implementation will be made concerning available financing for specific projects and groups, especially within the context of the National Operational Programme for research and competitiveness. The Fund for the financing of research entities will be increased, after the reorganization of the sector, and the Fund for innovation and scientific and technological research will be refinanced. Priority will be given to automatic incentives, such as tax credit and interest subsidies to finance research within companies. In addition, for this sector as well, initiatives for simplification will be put in place, such as the establishment of a public research office. Specific resources are earmarked for the development of a high-speed network with broad territorial coverage, co-financed by central, local and private administrations. More in general, value will be placed on the role of Local Authorities in creating technical centres, scientific parks, and other initiatives to promote research and its application.

Labour market, industrial relations and social cohesion

Italy has limited the impact from the drop in overall labour demand by guaranteeing the continuity of labour relations through an increased number of beneficiaries of the wage-guarentee fund and through the greater advantages offered by solidarity contracts. This choice was agreed to by social partners because it permitted the survival of the employment and productivity base of the country, and because firms are in a position to take advantage of the opportunities afforded by the recovery, having been able to hold on to the wealth of expertise of their human resources.

The rate of unemployed has, as a result, been consistently lower than that of the Euro Area by about 1.5 percentage points.

Italy today continues to use regular and extraordinary measures to protect income, in combination with European resources as well, reinforcing, however, the services accompanying new employment and the development of training, which should be conducted as much as possible in the workplace itself. Social partners are involved, through diffuse networks of bilateral entities whose adherence was encouraged by regulation.

The low rate of youth employment is at the centre of the policies that the Government is implementing in the context of the 'Action plan for employability of young people through the integration of training and labour - Italy 2020', with particular attention on the South. Young people, in fact, need abilities and professional skills better corresponding to those required by the labour market. The consistent reforms in the educational and training system are aimed at young people, as a sign of a greater integration of learning and labour and of a sufficient emphasis on practical knowledge. The reform of apprenticeship contracts is characterized on the one hand by a greater regulatory advantage for firms, and on the other by a greater efficacy in the training experience thanks to a substantial certification of the actual professional skills acquired. In this case as well, the Regions and social partners contribute, on the basis of understandings reached with the Government.

The apprenticeship contract represents the basic entry-level contract in the labour market, due, too, to a reduced tax burden and to flexibility in leaving at the end of the training experience.

Industrial relations are characterized today by the strong promotion of territorial or business proximity agreements, linking an increasingly significant part of salary increases to greater efficiency and productivity, thanks in part to preferential taxation on this part of labour income. This has laid the premises for an overall reform of labour law in the context of a Consolidated Act – the 'Labour Statute' now under review by the social partners – aimed at recognizing a greater subsidiary role of the social partners, who will be authorized to adapt provisions, which are currently stagnant in the law, to different business, sector and territorial situations.

In this context the Government has confirmed its high-priority commitment to recognize the principle of legal labour, through the reinforcement of health and safety provisions and of protocols to integrate surveillance activities among the Ministry of Labour, social organization, fiscal agencies and law-enforcement agencies, especially in the South. At the same time, regularisation of underground labour is facilitated by simple rules for work experiences, in particular work vouchers and temporary-labour contracts.

Social policy has grown increasingly close to poverty issues thanks to the valuing of the role of Local Authorities, and subsidiary volunteer and third sector organizations. The identification and response to poverty require a certain proximity so as to identify the absence or weakness of the family and community context and to intervene in a manner characterized above all by a significant human rapport.

The same evolution of the social card for persons in conditions of extreme poverty is moving toward the possible subsidiary management by Local Authorities and non-profit social organizations on the basis of experience in large urban centres, where human relations are at a greater risk.

Territorial disparities

All the policies foresee an involvement and a greater acceptance of responsibility on the part of the territory, developing synergies where possible between public and private parties. In addition, priority will be given to a few large strategic projects able to foster territorial development, so as not to waste available resources. In particular, for the development of Southern Italy the following measures are planned: the fulfilment of a large railroad network, a programme for the improvement of the educational system, the reinforcement of safety and legality, the redevelopment of the Public Administration and of local public services (particularly the treatment of wastes), and the establishment of a Bank specialized in medium- and long-term credit for firms that operate in the Southern regions. The measures to reduce territorial disparities are also aimed at reinforcing job-placement policies.

The measures listed in the National Reform Programme reflect the country's commitment to complete all the reforms necessary for reaching the ambitious growth and employment objectives that the European Union has given itself in the Europe 2020 Strategy. At the same time, Italy is aware that these objectives will have to be accompanied by a growth in competitiveness and a progressive elimination of internal and external imbalances. To this end, the present Report follows in the path of the recent Euro Plus Pact and reflects its guiding principles.

MODIFICATIONS TO ARTICLES 41, 97 AND 118 OF THE CONSTITUTION

The bill recently presented by the Government to Parliament proposes the modification of Articles 41, 97 and 118 of the Constitution in the context of the cultural and legislative direction already outlined by the legislation of the European Union. The establishing Treaty of the European Community, with Articles 81 and 82, already seemed in fact to have displaced the narrow concept of private economic liberty as inferred from the current wording of Article 41 of the Italian Constitution.

The globalization of markets makes it necessary, furthermore, to increase the competitiveness of our Country-system, by making way for changes, first and foremost in the legal domain. The rules that weigh on the economy, which came into force as a result of the growing number of Authorities - central, regional, provincial, municipal – should be streamlined.

In the current wording of Article 41, the first paragraph seems to outline a full and absolute guarantee of freedom of private economic initiative ("private economic initiative is free"); the third paragraph, on the contrary, outlines an economy model in which public and private economic activities are put on the same level and indicates that the action of public powers must pursue the objective of guiding and coordinating these activities to social ends.

In the current Art. 41 of the Constitution there are fundamental elements that absolutely must be preserved and strengthened. There appears to be no easy solution for reconciling the absolute freedom of initiative with the restrictions of the third paragraph. Thus, it is proposed that the latter be eliminated so as to restore the necessary clarity to the text of the provision. In addition, in keeping with the aim of affirming the freedom of private economic initiative, in the proposed constitutional revision it is sanctioned that any intervention to limit this right must be granted by law.

Closely connected with the modification to Article 41 is that of Article 97 of the Constitution. The proper functioning of Public Administration is a factor of competitiveness for private individuals. Efficiency, effectiveness, transparency, and simpler procedures are among the values required of a public service increasingly aimed at meeting the needs of citizens and firms. To this end, the scheme of the bill in question proposes to add to the text of the Constitution the principle that 'public functions are at the service of the common good', thus rendering explicit a different concept of administration, established since the Nineties, one that concerns itself not only with actions but above all with their results, and whose effectiveness can be measured.

The final intervention regards the fourth paragraph of Article 118 of the Constitution, to which it is added that the State, Regions, Metropolitan Areas, Provinces, and Cities are not only called on to promote citizens' autonomous initiative, but they must also guarantee it. This modification is intended to reinforce the principle of horizontal subsidiaries, according to which the action of public powers is configured as subsidiary to that of private individuals, in the sense that institutional entities may legitimately intervene in the social context in cases where administrative functions are carried out in a manner more efficient and with more effective results than if left to free private initiative, albeit regulated.

In conclusion, the vision that the reform promotes is a positivist one, or one based on trust in the citizen, on the individual capacity to produce economic and social richness, and on the capacity to concur for the common good. The citizen remains the central part of the system, but should also be considered, more so than as one controlled by the State, as a resource for the collective. Furthermore, the common good is no longer to be considered as an exclusive monopoly of public power, but as a hoped-for perspective of the responsibility that marks private action.

II. ITALY'S NRP IN THE CONTEXT OF THE EUROPEAN SEMESTER AND THE EURO PLUS PACT

The first European Semester, begun in recent months, will allow for the integration of national surveillance procedures into a complete and effective economic policy framework. The first step toward this new cycle is the Annual Growth Survey, presented by the European Commission at the beginning of the year, which constitutes a point of reference as far as the actions to be taken at the national level to reinforce the exit from the crisis and to reach the objectives established in the Europe 2020 Strategy.

The Euro Plus Pact is situated in this framework. It includes a strengthened coordination of economic policies in the Euro Area, with the objective of consolidating EMU as an economic pillar by adopting actions at the national level aimed at increasing competitiveness and convergence. The adoption of the Pact will induce Italy, too, to strengthen the national rules and institutions necessary to discipline fiscal policy conduct, in order to ensure compliance with the restrictions on net borrowing and the debt/GDP ratio.

THE EURO PLUS PACT

The Euro Plus Pact, approved by Heads of State and Government at the Council of Europe in March 2011, includes a strengthened coordination of economic policies to improve competitiveness and increase the level of convergence. The Pact, approved by Member States of the Euro Area, was also adhered to by Bulgaria, Denmark, Latvia, Lithuania, Poland and Romania.
The renewed coordination of economic policies should be completed on the basis of the following four guidelines: (a) strengthening of European economic governance and full integration with instruments already in effect (Europe 2020, European Semester, Stability and Growth Pact, macroeconomic surveillance, etc.) through the expectation of integrated and concrete commitments in the respective National Reform Programmes and Stability and Growth Programmes; (b) concentrated interventions in sectors that are essential for promoting competitiveness and convergence, through the definition of common objectives; (c) concrete yearly commitments from government leaders, on the basis of global and European best practices, with subsequent political checks by Heads of State and Government on the progress made, on the basis of a Report of the European Commission; (d) alignment of the Euro Plus Pact with the process to complete the single market. It is important to note that the authority for the interventions ultimately lies with the Member State in question. Checks on the extent to which the objectives are met will be carried out on the basis of a group of indicators related to competitiveness, employment, budget sustainability and financial stability.
Specifically, the Euro Plus Pact includes binding and precise commitments on the part of Member States to achieve four priority objectives: stimulating competitiveness, stimulating employment, improving the sustainability of public finances and reinforcing financial stability.

Competitiveness and employment. Every country is responsible for its specific policies, but will pay particular attention to modifying the negotiating process, the indexing mechanisms, the sector agreements, the aligning of wages and productivity between the public and private sectors, and, *lastly, the dynamic of costs in line with productivity. The following reforms should also be kept in mind: promotion of 'flexicurity'; increased participation in the workforce; reduction of undeclared labour; continuing education; fiscal reforms (reduction of taxation on labour).*

Productivity. The following are hoped for: a further opening up of protected sectors, improvement in educational and research systems, innovation in and endowment of infrastructure through specific interventions, improvements in the business environment, and a reduction in administrative burdens, with particular reference to the Small and Medium Enterprises.

Stability and Growth Pact. Clearly progress in the sustainability of pension systems, public health services and social benefits is key. Evaluation will be carried out on the basis of sustainability indicators of the policies currently in effect.

Pensions systems. Among the possible reforms necessary to ensure the future sustainability of pensions and social benefits are the possible alignment of pension systems and the evolution of national demographic situations, the limiting of early retirement programmes, and the adoption of incentives for the hiring of workers over fifty-five years of age.

National budget rules. The Member States of the Euro Zone will commit to assimilating in their national legislation the EU budget rules stipulated in the Stability and Growth Pact, to guarantee budget discipline at both the national and local level.

Financial imbalances. The Member States will integrate in their national legislation the new European regulation of the financial sector and rigorous stress tests will be conducted on banks. The Presidency of the CERS and of the Eurogroup will periodically produce a report on the issues connected with macrofinancial stability and macroeconomic developments in the Euro Area requiring specific interventions, with particular regard for the private debt level of banks, families and non-financial firms.

Political coordination on taxation. Although direct taxation remains under national authority, the Member States will hold serious discussions on the main problems of fiscal policy, in an effort to improve coordination and the combating of fraud and tax evasion, and to identify the relevant best practices.

In response to the objectives that the new European framework indicates for Member States, Italy has taken a substantial number of actions in order to translate at national level the priority measures indicated by the European Commission in the Annual Growth Survey and to effectively proceed to the achievement of national targets resulting from the Europe 2020 Strategy. The ultimate objective is that of overcoming bottlenecks, which still represent an impediment to growth for the country. Lastly, the reforms adopted appear to respond perfectly to the objectives of the renewed coordination of economic policies resulting from the Euro Plus Pact.

The measures that the Government has recently approved can be divided into nine main areas of action, based on the Europe 2020 Strategy and responding to the challenges considered as indispensable for the growth of the country:

- Employment;
- Federalism;

- Consolidation of public finance;
- Labour and pensions;
- Product market competition and administrative efficiency;
- Energy and environment;
- Innovation and human capital;
- Infrastructure and development;
- Business support.

Below, the national measures will be further divided according to the ten priorities established in the Annual Growth Survey, and according to the specific policy actions required by the Euro Plus Pact. In addition, the measures instrumental for reaching the national targets and for overcoming bottlenecks will be identified. For a more detailed description of the single measures, see the relative thematic sections and the grid attached, which contains all the reforms described in this Programme and their respective legislative references.

II.1 PRIORITY ACTIONS RESULTING FROM THE ANNUAL GROWTH SURVEY (AGS) AND FROM THE SPECIFIC POLICY COMMITMENTS OF THE EURO PLUS PACT

Macroeconomic conditions for growth

In the context of the measures designed to set the macroeconomic requirements for growth, Italy has continued the process of consolidating public finances with the objective of progressively reducing the level of public debt (AGS priority n. 1); there are ten measures that fall within this area. First, there are efforts to contain the growth of an important channel of public expense, namely health. For this reason the Government is entering into agreements with the regions in deficit. The Health Pact, which is among the rules that will apply to regions, is designed to achieve a correct planning of public health expenditure. The Health Pact will determine the amount of resources to earmark for the National Health Service and its goal is to improve the quality of services and benefits while ensuring uniformity of the system.

Important steps in the direction of financial re-balancing were also made with the decrees established by the delegated law n. 42/2009 on matters of fiscal federalism. The law, which enacts Article 119 of the Constitution, ensures the autonomy of income and expenditures for Municipalities, Provinces, Metropolitan areas and Regions, by guaranteeing the principles of solidarity and social cohesion, so as to gradually replace, at all levels of government, funding based on historical spending and to ensure their full responsibility. The enacting decrees, just approved, address (i) real estate federalism, by virtue of which Regions and Local Bodies will also have greater autonomy in managing State real estate and assets; (ii) the setting of the standard requirements for the fundamental operations of Local Bodies; (iii) the transitional regulation of the Rome Capital; (iv) the municipal fiscal federalism[1].

The reform law for accounting and public finance (L. n. 196/2009) was modified by aligning the timelines and contents of internal public finance documents to the

[1] Legislative Decree. n. 23/2011.

Community requirements established with the introduction of the European Semester. The reform provides for a greater involvement by both the national Parliament and the decentralized government levels in the budget planning process, which is now fully integrated with the European process. In the context of the same law, measures designed to foster fiscal discipline, in terms of both income and expense, are further strengthened. In fact, unexpected revenue cannot be used to cover current expenses determined by the stability law, nor higher income to cover ordinary laws.

In addition, the delegation to impose spending limits has been extended, from 'adjustable' resources to the entire aggregate of State expenses. The planned analysis and evaluation of expenses has been confirmed, in a context in which budget planning becomes, more than before, oriented to the medium term. This reform will, among others, make it possible to have greater control over capital account expense and, thus, to more effectively track the carrying out of public investments.

The availability of a unified database for all the public administrations will make the monitoring of public accounts more effective and timely and will increase the quality of public finance information available to policy makers and citizens, the ultimate beneficiaries of public policies.

The Government is also committed to the reconnaissance of assets belonging to the Public Administrations by means of the 'Balance sheet of State Assets at market prices' project, which will make it possible to introduce a more efficient management of State assets.

With a view to better distributing the burden of taxation and to reducing the distortionary effects of taxation on growth, a taxation reform is currently being elaborated, with the aim of rationalizing the overall system, stabilizing finances, and adjusting the tax system according to new economic, competitive, social, environmental and institutional models. In this area, Italy considers of fundamental importance a coordination at the European level, as expressed in the Pact for the Euro, while maintaining due respect for national sovereignties. Lastly, the introduction of employment vouchers has allowed for the recovery of an important part of tax contributions that would otherwise be evaded.

For the effects of these measures on growth, see the paragraph on macroeconomic effects.

Concerning the actions designed to 'Correct macroeconomic imbalances' (AGS priority n. 2) and 'Ensure the stability of the financial sector' (AGS priority n. 3), see the detailed analysis presented in Chapter III. As might be expected, the correction of macroeconomic imbalances is an objective common to many of the measures described in the document, and it represents an element of extreme attention in the national reform strategy, which is particularly focused on stimulating national competitiveness and promoting an efficient labour market. Specifically: measures for the liberalization of markets and the promotion of competition foster an increase in the country's productivity level; measures concerning wage bargaining and 'flexicurity' help to increase firms' competitiveness, thanks to both the reduction in the unit labour cost and also in terms of organizational flexibility; lastly, infrastructural interventions, those meant to promote innovation, as well as those promoting administrative and regulatory simplification, constitute the basis for an improvement in the entrepreneurial environment.

Italy does not have particular problems in the area of financial sector stability, nonetheless the country is actively committed to the establishment of a European supervisory and regulatory framework for the financial sector, as undersigned in the Pact for the Euro.

The measures for consolidating public finances that were outlined briefly above were accompanied by the continuation of interventions to make the labour market more dynamic and to create job opportunities. Both areas of action are perfectly consistent with the concrete policy objectives of the Euro Plus Pact, designed to increase competitiveness and employment through wage bargaining reform, the promotion of 'flexicurity', the reduction of undeclared labour, an increase in the participation rate, life-long learning, and the reduction of labour taxes.

Mobilising labour market, creating job opportunities

For a specific and exhaustive explanation of the interventions, see the chapter dedicated to the reforms in Italy; however, a summary follows of the principal measures put in place in the labour market. Among the actions designed to make work more attractive (AGS priority n. 4), a number of different measures can be pointed out. The Social Partners and the Government have devised new rules for wage bargaining, characterized by a decentralized negotiation process, that promote a tighter link between wages and productivity, and that is also facilitated by the de-taxation for second-level wages. Italy already acted on this front at the time of collective contract renewals in 2009 and 2010 foreseeing an adjustment on the basis of a price index that excludes the dynamic of imported energy goods. This will also make it possible to meet and reduce inflationary pressures from shocks in global energy markets. In addition, there has been a broadening in the importance of decentralized contracts, which will allow for an increase in productivity premia in line with corporate and territorial productivity. Accordingly, the Government has extended until 2011 the tax break (introduced for 2009 and 2010) for the transferral of salary shares to decentralized contracts. This form of de-taxation, currently on a trial basis, has been extended and broadened.

The priorities of the Three-Year Employment Programme, adopted by the Government in July 2010, are the combating of undeclared labour and the development of decentralized collective negotiation (territorial, corporate) linking the wage dynamic to productivity. In combating undeclared labour, there have been some innovations, thanks to which the penalty system has been modified and surveillance intensified, through the exchange of information among authorized agencies.

The Italy Programme 2020 was then adopted, to include women in the labour market, with measures designed to reconcile work and family and to promote equal job opportunities. Finally there is now the possibility of overlap between pensions and income (both from wages or self-employment).

Fiscal consolidation objectives were finally supported by the completion of the pension reform (AGS priority n. 5) started at the beginning of the nineties and further perfected with the recent Law 122/2010 that changes the requirements for ordinary and early retirement and adjusts pension benefits to increased life expectancy. Medium-long-term trends in the ratio of pension expenditure to GDP show how the Italian pension reform process has succeeded to a large degree in compensating for the potential effects of the demographic transition on public expenditure in the upcoming decades. Italy is witnessing a growth in the ratio of pension expenditure/GDP below the average for European countries, despite the less favourable demographic dynamic.

Further interventions concerned incentives to get unemployed back to work (AGS priority n. 6) and for balancing security and flexibility in the rules governing the labour market itself (AGS priority n. 7). To this end, income support interventions (ordinary, special, and on derogation) were planned. They have played a key role, to the extent that they ensure an income for workers, keep firms from losing human capital, and avoid depressive effects on consumption. As far as the re-employment, the State and Regions have gathered resources for economic protection and active policies, in combination with Community resources as well, to face the job shortage triggered by the economic crisis. The operation of the network of job services has been improved in order to facilitate the matching of supply and demand with the launch of the web portal '*Cliclavoro*'. The Three-Year Employment Programme and the Youth Plan, count among their priorities the development of skills in order to foster employment and re-employment, reinforcing the use of the apprenticeship contract. Law n. 183/2010 has made an adjustment to the regulatory framework by introducing the possibility of a business apprenticeship in lieu of the final year of obligatory schooling (that is, from 15 to 16 years of age), and with rules governing the settlement, arbitration and finally the obligation, for public and private universities, to provide the '*Cliclavoro*' system with the curricula of graduated students.

Lastly, the Government has submitted the Labour Statute to the Social Partners for their common opinion. The Statute completes the regulatory aspect, with the objective of simplifying and rationalizing the regulatory system currently in place.

In addition to the measures considered, the absorption of unemployment could also be enhanced by deducibility of IRAP from the cost of labour for the purposes of IRES and company taxes.

In March the Social Partners and the Minister of Labour finally signed their Common Opinion on the measures designed to support the policies to reconcile family and work, with the primary objective of supporting growth in female employment. The agreement recalls the importance of a move toward flexibility in work shifts and working hours, in the interest of the workers and the firm alike, and underscores the role of second-level negotiation.

Frontloading growth-enhancing measures

Special effort was devoted to AGS priority n. 8 'Releasing the potential of the Single Market', for which 27 measures were predisposed. This priority is more directly connected with the recovery need following the economic crisis and the subsequent structural reforms serving as the basis for the growth expectations of the Europe 2020 Strategy. In this context as well the reform path on which Italy has undertaken is perfectly coherent with the Euro Plus Pact, which, among the measures designed to increase productivity, considers especially relevant the opening of still-protected sectors and the removal of unjustifiable restrictions to competition, along with the improvement of the business environment, mainly with a view to reducing administrative burdens and improving the regulatory framework.

Italy considers especially crucial the reforms of the product and services market and, accordingly, believes the implementation of the Services Directive to be one of the fundamental reinforcements for economic and employment growth and for the development of the European Union's competitiveness. Italy has carried out all the necessary measures for the full implementation in the Italian judicial system of the Directive, which was applied with the Lgs. D. n. 59/2010. For this reason, a review of the entire existing regulation on service activities at the central, regional, and local levels was undertaken, with special attention on the rules governing the provision of services across borders.

Alongside the measures specifically aimed at carrying out the Services Directive, others have been put forward in the direction of strengthening the potential of the single market, such as the promotion of international agreements designed to, among others, avoid double taxation on income and to prevent tax evasion. Other measures include initiatives aimed at improving the business environment and administrative efficiency, as well as the actions to protect competition that are included in the annual Law for the market and competition, whose objective is to improve the functioning of some markets for the benefit of the country's competitiveness. The opening up of the internal market could also be favoured by the implementation of Directive 2009/81, regarding public procurement in the defense and security sectors.

Energy constitutes one of the fundamental sectors in terms of competitiveness of our economy. To this end, the Government is in the process of implementing the directives of the 'Third Energy Package', regarding cooperation between national regulators and access to network and transportation infrastructure. The Ministry for Economic Development, furthermore, will identify a transparent and non-discriminatory procedure to develop new means of electricity production, in order to increase security of supply and the balance between supply and demand. The regulation enacting the 'Third Energy Package', having been approved by the Council of Ministers, is now before Parliament.

Special attention has been paid to efficiency gains and cost containment in the Public Administration, especially in the regions of the South, where reduced administrative burdens constitute an important lever for the development and recovery of territorial disparities. At the national level, certified notification of construction works in progress, which makes it possible to begin work immediately, was introduced.

Regarding the operation of the Public Administration in the strict sense, the implementation of the Industrial Plan of the Public Administration is under way, which includes the reform of wage bargaining and its linking to performance and transparency of public action, as well as the innovation in the organization of work, also through a greater and better use of information and communication technology (ICT).

International agreements on the matters of customs and fiscal cooperation, realization of cross-border rail infrastructure, and the promotion of Italian firms' internationalisation could help increase the level of integration among the countries of the European Union and, in this sphere, improve the competitiveness of Italian firms.

AGS priority n. 9, 'Attracting private capital to finance growth', is implemented in Italy through seventeen measures that concern strategic infrastructure and the Private Housing Plan. In both cases, through the use of private resources (personal capital, bank loans or savings) it will be possible to complete those infrastructures, which could increase country's potential growth.

As to AGS priority n. 10 'Creating efficient access to energy' nine measures have been put in place. Italy has always maintained, since the beginning of the 'Energy and Climate Change Package', the need to re-think energy policies, both in terms of safety in the supplying of energy and in terms of combating climate change. Accordingly, Italy considers it essential to implement measures designed to create efficient access to energy utilization, in terms of cost, through both the acceleration of the complete and effective creation of an internal energy market, and the support for European policies on energy efficiency. On this point, the country's commitment is geared toward the definition of a correct policy set for efficiency, albeit avoiding the indication of binding numeric objectives, without distracting attention from medium-term policies and creating a lock-in of technologies only relatively efficient in the short term.

In view of the progressive completion at the national level of the objectives included in the 'Energy and Climate Change Package', the Government has approved numerous legislative initiatives to reinforce the diffusion of renewable energy sources, encourage energy savings in automobiles, and green public procurement.

TABLE II.1: CLASSIFICATION OF IMPLEMENTED MEASURES ON THE BASIS OF INTERVENTION AREAS AND PRIORITIES OF ANNUAL GROWTH SURVEY (AGS)

		AGS priorities								
Intervention areas	Total	Fiscal consolidation	Pension reform	Making work more attractive	Getting the unemployed back to work	Balancing job security and flexibility	Attracting private capital to finance growth	Releasing the potential of Single Market	Efficient access to energy	Total
Containing Government expenditure	4	4	-	-	-	-	-	-	-	4
Energy and environment	11	-	-	-	-	-	-	-	9	9
Federalism	5	5	-	-	-	-	-	-	-	5
Infrastructure and development	6	-	-	-	-	-	4	2	-	6
Innovation and human capital	20	-	-	8	-	-	1	9	-	18
Employment and pensions	11	1	1	4	3	2	-	-	-	11
Market product, competition and administrative efficiency	16	-	-	-	-	-	1	15	-	16
Business support	12	-	-	-	-	-	11	1	-	12
Total	85	10	1	12	3	2	17	27	9	81

Note: the measures, classified in the grid in the annex, are aggregated by intervention areas and AGS priorities.

II.2 MEASURES TO OVERCOME BOTTLENECKS

The country's commitment to carry out measures in response to the crisis, among other means through the full and progressive realization of the priority actions indicated in the Annual Growth Survey (AGS), completes and reinforces the initiatives already under way to overcome bottlenecks, which act as obstacles to the country's growth in the medium-long term. In fact, it is not a coincidence that some of the priority actions overlap with bottlenecks.

The table below shows the bottlenecks of the Italian economy[2] that in the opinion of the European Commission slow the growth of the country in five key areas.

TABLE II.2: ITALY'S BOTTLENECKS

	Public finance	Competitiveness	Labour market	Product market	Innovation and R&D
ITALY'S BOTTLENEXKS		Aligning wages to productivity	Increasing employment rate for women, young and older workers	Further opening the market of services and network industries	Improving human capital through a deeper connection between school and labour market
	Achieving a durable fiscal consolidation and reducing public debt	Increasing productivity		Improving the business environment through increasing administrative efficiency	
		Reducing regional disparities	Reducing regional disparities		Increasing private spending in R&D

Numerous interventions have been approved by the Government that over the course of the upcoming months will help bring the country back on track for a growth more attentive to competitiveness, employment, and the development of human capital. So as to improve the quality and the sustainability of public finances in Italy, improvements in the rules and budget procedures have already been made with the new Accounting and Public Finance Law.

The introduction of the principle of budget planning with a medium-long-term horizon and of a three-year planning process for policies, objectives and resources constitutes the regulatory basis for pursuing a more rigorous fiscal discipline. The Law for reforming accounting and public finance allows the numeric fiscal rules already in place to function more effectively. Alongside the Internal Stability Pact (ISP), which constitutes the cornerstone of the fiscal governance system in Italy, there are further fiscal rules to guarantee budget discipline, which strive to achieve a correct planning of public health expenditure and to keep growing pharmaceutical costs in check (Health Pact).

Among the macroeconomic imbalances most affecting growth, there is the negative trend in the competitiveness of the country. The most urgent reforms in this

[2] Bottlenecks were identified, at the request of the ECOFIN Council, by the Economic Policy Committee (EPC) and by the Economic and Financial Committee (EFC), and were listed in the *Report on EU macro-structural bottlenecks to growth at the national level*' presented to the ECOFIN Council and the European Council of June 2010.

regard must create conditions to favour systems of wage bargaining and developments in labour cost coherent with price stability, while not provoking inflationary trends and while establishing a virtuous link between wages and productivity. These interventions guarantee not only the removal of one of the main obstacles to the country's competitiveness, but they can also stimulate growth in the short term and reduce regional disparities. Accordingly, this coincides perfectly with the wage bargaining reforms required by the Annual Growth Survey and the Euro Plus Pact.

Progress toward an 'inclusive' growth is based on the greater participation of citizens in the workforce. Policies aimed to stimulate employment are an essential instrument to guarantee European citizens access and opportunity, and to reduce poverty and social exclusion. The key challenges to which Italy is responding in this area have to do in particular with eliminating obstacles to participation in the workforce for the weakest segments of the population (women, young people and elderly workers) and reducing regional disparities. These actions coincide perfectly with the priorities indicated in the Annual Growth Survey and the Euro Plus Pact.

The reform programme for Italy aspires, then, to intervene in the product market by opening markets and improving the regulatory framework, especially for firms. The obstacles that impede the pro-competitive development of the product market in Italy are the need to further liberalize the services and network-industry sectors and to increase administrative efficiency in favour of the entrepreneurial environment.

A speedy response to these challenges through immediate action will help to encourage growth in the short term. Italy has begun a series of important actions that will be concluded in the upcoming months, in particular as regards measures designed to implement the Services Directive.

An intense effort has been made toward improving the business environment. In particular, Italy is committed, in collaboration with the World Bank[3], to evaluate the constraints on the creation and development of firms, and the related territorial differentials, in order to promote the necessary actions at every appropriate government level.

Furthermore, the Law Decree n. 78/2010 included some initiatives of particular interest aimed at reducing the administrative burdens for SMEs, simplifying fiscal obligations for foreign firms, strengthening collaboration between industrial districts, and instituting a 'zero bureaucracy areas' in the South of Italy.

These actions will be accompanied by others designed to create a knowledge-and-innovation society, through the development of human capital and a higher quality of education, as well as by empowering research and making it more international in nature, and by taking full advantage of information and communication technologies.

These objectives are especially relevant in the Italian context, where the weak link between education and the labour market is a factor that slows down the growth of the country. To this end conditions to encourage private investment in R&D will have to be created.

In this framework the Government is committed to a general reform effort. First, the university system is being reformed, as is that of research institutes, in order to improve their efficiency and their academic and scientific achievements. Second, three

[3] The project concerns the implementation of the *Doing Business* survey of the World Bank, with special emphasis on the regions of the South.

competitive tenders were made public for an available total of 500 million to promote: firms' utilization of the results of research projects in the manufacturing, electric energy and corporate services sectors; innovation for environmental protection, electric equipment and the production of biotechnology enterprises; and the development of renewable energy sources and energy savings.

TABLE II.3: IMPLEMENTED MEASURES CLASSIFIED BY INTERVENTION AREAS AND BOTTLENECKS

		Bottlenecks					
Intervention areas	Total	Bottleneck No. 1 - Fiscal consolidation and public debt	Bottleneck No. 2 - Wage competitiveness and productivity	Bottleneck No. 3 -Product market-competition and administrative efficiency	Bottleneck No. 4 - innovation- R&D	Bottleneck No. 5 - Reducing regional disparities	Total
Containing Government expenditure	4	3	1	-	-	-	4
Energy and environment	11	-	-	-	2	1	3
Federalism	5	5	-	-	-	-	5
Infrastructure and development	6	-	-	2	-	4	6
Innovation and human capital	20	-	-	-	19	1	20
Employment and pensions	11	2	6	-	-	3	11
Product market, competition and administrative efficiency	16	-	-	14	-	2	16
Business support	12	-	-	7	1	4	12
Total	85	10	7	23	22	15	77

Note: Measures, classified in the grid in the annex, are aggregated by intervention areas and bottlenecks.

II.3 NATIONAL TARGETS IN THE CONTEXT OF THE EUROPE 2020 STRATEGY

The path that the Member States and the EU will have to follow until 2020 is indicated clearly in the five targets defined in the Europe 2020 Strategy, the achievement of which will make it possible to realize the ambitious objective of an inclusive, innovative and sustainable Europe. Italy, aware of the fact that the success of the European objectives is founded on equal commitment at the national level, has outlined a path for improvement by 2020 in all the indicators identified at the European level in the education, research, employment, poverty reduction, and sustainable growth sectors. The following table shows the national commitments in each of the five targets together with the European objectives.

TABLE II.4: TARGET EUROPE 2020

POLICIES	NATIONAL TARGET	EUROPEAN TARGET
School drop out	15-16%	10%
Risk of Poverty	2.2 millions less poor people	20 millions less poor people
R&D/GDP	1.53%	3%
Tertiary education	26-27%	40%
20-64 Employment rate	67-69%	75%

TABLE II.5 IMPLEMENTED MEASURES CLASSIFIED BY INTERVENTION AREAS AND EUROPE 2020 STRATEGY TARGETS

		Target Europe 2020						
Intervention areas	Total	Renewable sources	Employment rate	Energy efficiency	School drop out	Tertiary education	R&D	Total
Containing Government expenditure	4	-	1	-	-	-	-	1
Energy and environment	11	7	-	2	-	-	-	9
Federalism	5	-	-	-	-	-	-	-
Infrastructure and development	6	-	6	-	-	-	-	6
Innovation and human capital	20	-	-	-	2	5	12	19
Employment and pensions	11	-	11	-	-	-	-	11
Product market, competition and administrative efficiency	16	-	9	-	-	-	3	12
Business support	12	-	10	-	-	-	2	12
Total	85	7	37	2	2	5	17	70

Note: Measures, classified in the grid in the annex, are aggregated by intervention areas and bottlenecks.

In the chapter devoted to the quantitative evaluation of the reforms and in the thematic part of the document, the macroeconomic impact of the actions put in place by the Government will be treated exhaustively. In particular, special effort was made in the strategy for reaching the objectives related to employment and education. More than half of the gap related to the objectives established by the Strategy should be closed, thanks to the actions taken with this first National Reform Programme. Italy is committed to attentively monitoring the progress made on national objectives and will take care in strengthening the actions undertaken, with a view to accelerating the process of European convergence.

III. THE ITALIAN ECONOMIC SYSTEM AND THE ANALYSIS OF MACROECONOMIC IMBALANCES

III.1 MACROECONOMIC FRAMEWORK

In 2010 the global economy began to grow again at a sustained pace, though more recently there have been signs of a slowing down. It is estimated that GDP went up by 4.8 percent and international trade by 12.0 percent. Even so, economic growth has been non-homogeneous and differentiated, stronger in with the emerging economies and in the newly industrialising countries. These countries witnessed, in addition, strong inflationary pressures.

In 2011, forecasts were revised upwardly for global economic growth, now at 4.0 percent, and for the expansion of global trade, now at 7.1 percent.

Despite all this, risk persist. In advanced economies, there is the risk of a weakening of cyclical conditions, as a result of the gradual decrease in the stimulus provided by ultra-expansive monetary and fiscal policies. In addition, advanced economies could also feel the effects of the lower growth in emerging economies, attributable in part to economic policies that are starting to become restrictive.

In more recent months, prices of raw materials have also begun to go up significantly, representing a specific risk factor that affects importing countries above all. The uncertainties that characterize the geopolitical context also weigh on global economic prospects.

Last year the Italian economy grew by 1.3 percent, in keeping with the pace in other European countries, such as the United Kingdom, and just a little below the rate in France, where in any case the fiscal stimulus in deficit was significant. The result was slightly better than the estimate in the Public Finance Decision presented in September of last year (1.2 percent). The Italian GDP is currently expected to increase by 1.1 percent in 2011, that is 0.2 percentage points less than what was estimated in the Public Finance Decision. After the modest result of the fourth quarter of 2010 (0.1 percent with respect to the preceding quarter), a pursuit of expansion is plausible, with a slight acceleration that will probably become more perceptible in the middle part of the year. In the three-year period 2012-2014, GDP growth should be on the average of 1.5 percent. In 2010 gross fixed investments increased by 2.5 percent, owing in part to the dynamicity of the machinery component as a result of tax breaks introduced by the Government in the second half of 2009. Private consumption increased by 1.0 percent and should continue to grow moderately in the upcoming years. In reference to the recovery in global trade, in 2010 Italian exports increased by 9.1 percent. Exports are expected to continue to expand, even while feeling the influence in the short term of the slowdown in foreign demand and of the appreciation of the single currency. The current account deficit in the balance of payments should reach 3.0 percent with respect to GDP in 2014, a reduction with respect to previous years.

In 2010 the crisis continued to influence the labour market, although with signs of improvement in the fourth quarter of the year. On average for the year, employment contracted by 0.7 percent, specifically in the industrial sector. The unemployment rate came in at about 8.4 percent. For the current year, the labour market should see a modest recovery.

Overall, Italian data on the labour market are better than the European average. In 2010, the unit labour costs measured in terms of GDP was unchanged compared to in 2009, as a result of the recovery in labour productivity and the moderation of wages. Growth rates of unit labour costs remain moderate for the entire period considered.

TABLE III.1: MACROECONOMIC FRAMEWORK (percentage changes unless otherwise indicated)

	2009	2010	2011	2012	2013	2014
INTERNATIONAL EXOGENOUS VARIABLES						
International trade	-10.7	12.0	7.1	6.8	7.0	7.0
Oil price (Brent FOB dollars/drum)	61.7	80.2	110.7	109.7	109.7	109.7
Exchange rate dollar/euro	1.39	1.33	1.39	1.39	1.39	1.39
ITALIAN MACRO VARIABLES (VOLUMES)						
GDP	-5.2	1.3	1.1	1.3	1.5	1.6
Imports	-13.7	10.5	4.5	3.9	4.2	4.6
National consumption	-1.1	0.6	0.8	0.9	1.1	1.3
- Expenditure of resident households	-1.8	1.0	1.1	1.2	1.3	1.5
- Expenditure of General Government and NPISH	1.0	-0.6	0.0	-0.2	0.5	0.7
Gross fixed investment	-11.9	2.5	1.8	2.5	2.7	3.0
- Machinery and equipment	-15.3	9.6	2.8	3.7	3.7	4.0
- Construction	-8.7	-3.7	0.0	1.2	1.6	1.7
Exports	-18.4	9.1	4.8	4.3	4.5	4.8
Current account balance in % of GDP	-2.1	-3.5	-3.6	-3.4	-3.1	-3.0
CONTRIBUTION TO GDP GROWTH (*)						
Net exports	-1.3	-0.4	0.0	0.0	0.0	0.0
Changes in stocks	-0.6	0.7	0.2	0.0	0.0	0.0
National demand net of changes in stocks	-3.3	0.9	1.0	1.2	1.4	1.7
PRICES						
Imports deflator	-7.4	8.6	4.5	2.1	1.7	1.7
Exports deflator	-1.4	4.9	3.8	2.4	2.1	1.9
GDP deflator	2.3	0.6	1.8	1.8	1.8	1.8
Nominal GDP	-3.1	1.9	2.9	3.1	3.3	3.4
Consumption deflator	0.0	1.5	2.3	2.0	1.8	1.8
Inflation (programmed)	0.7	1.5	1.5	1.5	1.5	1.5
HICP index net of imported energy (**)	1.5	1.3	2.0	1.8	1.7	nd
LABOUR						
Labour costs	1.7	2.0	1.2	1.5	1.5	1.8
Productivity (in terms of GDP)	-2.4	2.0	0.6	0.7	0.9	0.9
ULC (in terms of GDP)	4.2	0.0	0.7	0.8	0.7	0.9
Employment (FTE)	-2.9	-0.7	0.5	0.6	0.6	0.7
Unemployment rate	7.8	8.4	8.4	8.3	8.2	8.1
15-64 Employment rate	57.5	56.9	57.1	57.5	57.9	58.4
memo item: Nominal GDP (absolute value. million €)	1,519,702	1,548,.816	1,593,314	1,642,432	1,696,995	1,755,013

*) Possible inaccuracies come from roundings.
**) Source:ISAE.
Note: The macroeconomic framework has been developed on the basis of information available at March 31, 2011. Exogenous variables are in line with those defined by the European Commission.
GDP and its components in volume (chained prices, base year 2000), data not working day adjusted.

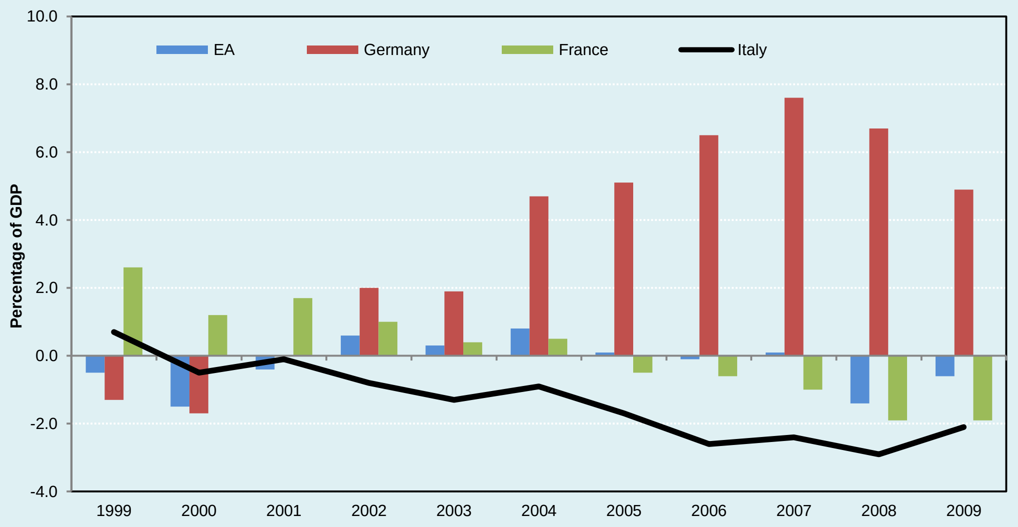
The GDP deflator grew by 0.6 percent while that of households consumption grew by 1.5 percent, reflecting an increase in the price of imported goods and services and the different composition of the type of goods consumed. There was an analogous increase in the harmonized index of consumer prices, or the HICP (1.6 percent). After the rise in prices witnessed for the current year, in 2012 the consumer price deflator is estimated to drop to 2.0 percent and to 1.8 percent over the following two years 2013-2014, with a trend linkable above all to the progressive depletion of exogenous forces on raw materials.

III.2 ANALYSIS OF MACROECONOMIC IMBALANCES

In the Europe Strategy 2020 and in the new procedure for excessive imbalances, there is great emphasis on the risks associated with the presence of competitiveness gaps and macroeconomic imbalances. Such emphasis constitutes a lesson learned from the recent financial and economic crisis. Systematic action at the European level to prevent and correct macroeconomic imbalances requires a diffuse and articulated surveillance activity aimed at identifying the different dimensions of imbalances in each member country.

Although there is a close dependent relationship between the various manifestations of macroeconomic imbalances and the problems connected to a country's competitiveness, it is opportune to distinguish between external and internal imbalances. Typically the presence of external macroeconomic imbalances has to do with the single country's position with regard to international transactions and in particular to the current account balance in the balance of payments, and to the make-up of the country's net international financial assets. Since the end of the '90s, current account imbalances have broadened on a global level. The financial crisis attenuated commercial imbalances in part, though without removing the underlying factors. Italy has shown a deterioration in the current account balance since the beginning of the third EMU phase (1999), in large part because of energy imports (see Graph . III.1).

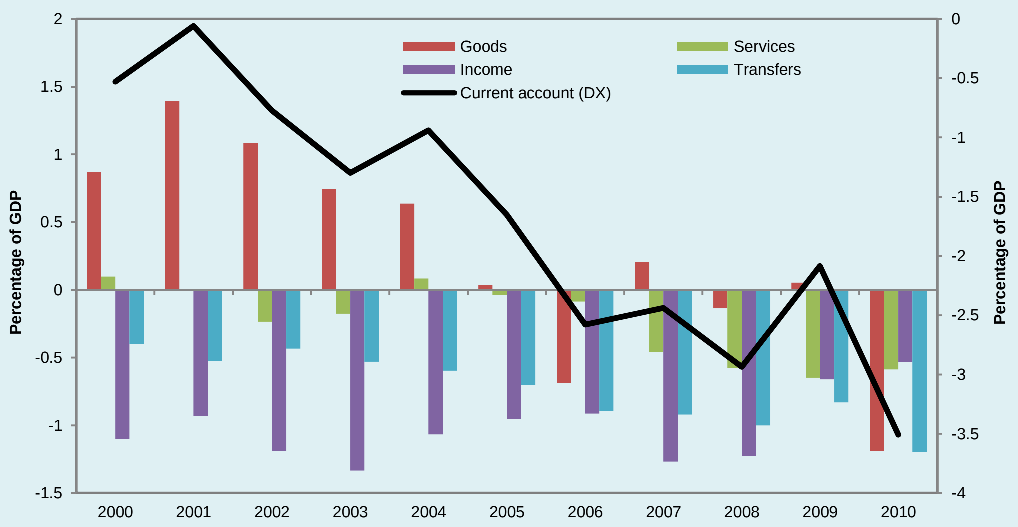
GRAPH III.1: CURRENT ACCOUNT OF MAJOR EUROPEAN COUNTRIES (as a percentage of GDP)



Source: Eurostat.

Examining in detail the articulation of Italy's current account, it is clear that the merchandise component began to worsen in the mid 2000s; vice versa, services were mostly stationary in the years 2002-2006 and then worsened in the three years after that. In the last two years there has been an improvement in the income component (see Graph. III.2).

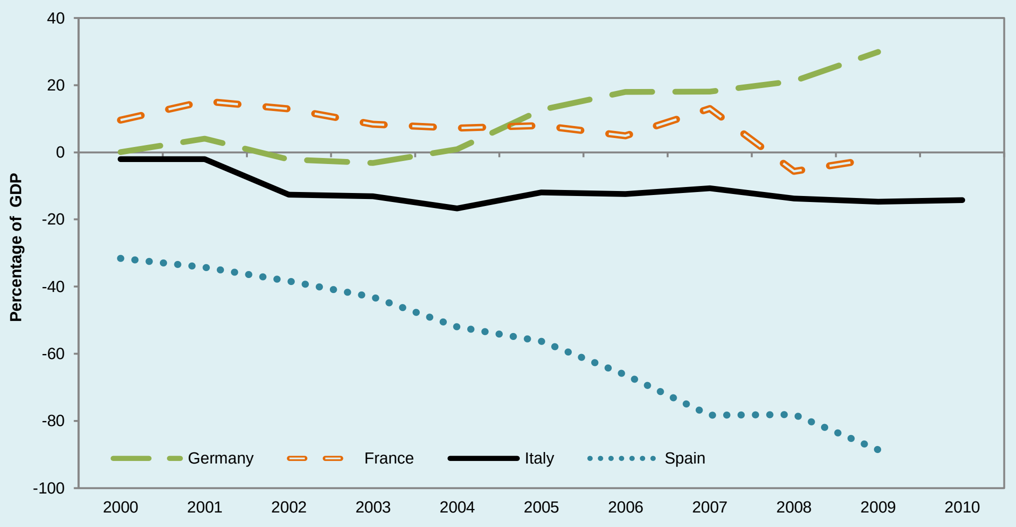
GRAPH III.2: DECOMPOSITION OF CURRENT ACCOUNT FOR ITALY (as a percentage of GDP)



Source: Bank of Italy.

These dynamics have led to a moderate and gradual deterioration of the current account balance, which went from -0.5 percent of GDP in 2000 to -3.5 percent of GDP in 2010. At the European level, there is a progressive divergence between the evolution of the current account in Germany and that in the other large economies of the area. The countries more similar to Germany in this regard are Netherlands, Finland, and Sweden.

GRAPH III.3: NET FINANCIAL ASSETS – TOTAL ECONOMY (as a percentage of GDP)



Source: Eurostat.
Note: Data are available until 2009 and not for the Euro Area. The 2010 data for Italy come from Bank of Italy and are available till the third quarter of 2010.

Although the current account balance in Italy shows a deficit trend, the figure for Italy's net international investment position does not seem to indicate much cause for concern. At the end of the third quarter of 2010 Italy's investment position (NIP) was negative, at -19.6 percent of GDP, a stable value compared to that registered at the end of 2009 and a lower one (in absolute value) than that registered in the two previous years. These values are far from the threshold that European institutions consider to be indicative of a possible structural imbalance of a country (-35 percent). Graph III.3 shows the trend in net financial assets as a percentage of GDP for Italy and some other European countries. Net financial assets (NFA) have been substantially stable in Italy since 2005. In particular, in 2009, they were equal to -14.7 percent[1] and at the end of the third quarter of 2010, equal to -14.2 percent.

A parallel aspect to consider in the analysis of a country's external imbalances has to do with its level of international competitiveness. The trend of the real effective exchange rate makes it possible to evaluate whether a country experiences gains or losses in price competitiveness for its products, compared to its principal trade partners. This

[1] In calculating the country's net international investment position, balance of payments statistics are used, while to determine the country's position in terms of net international financial assets, financial account data are used.

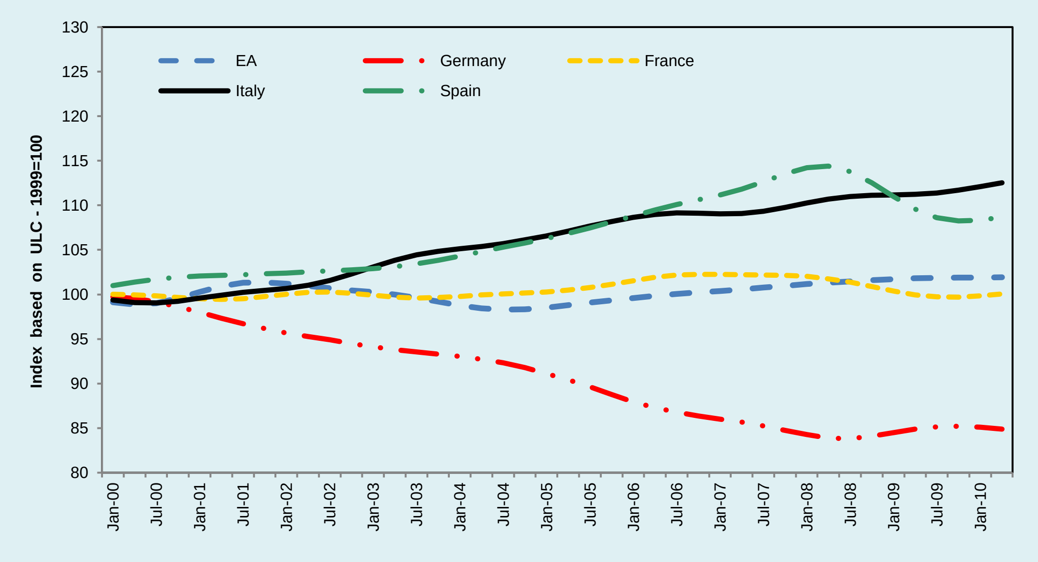
dynamic may be associated with a corresponding evolution in the relative quality of exported products.

In the last decade there has been a strong divergence in price competitiveness, both among the countries of the Euro Area and among the countries of the EU-27. In the Euro Area, Germany and Austria have increased their level of competitiveness, while in the others, Italy included, there has generally been a reduction. Among the countries that do not belong to the Euro Area, Sweden and the United Kingdom have become more competitive. Increases in international competitiveness were also registered in Poland.

It should be emphasized that gains or losses in competitiveness vary according to the indicator used for the real effective exchange rate. In Italy, the real effective exchange rate reveals a loss in competitiveness since the beginning of the decade.

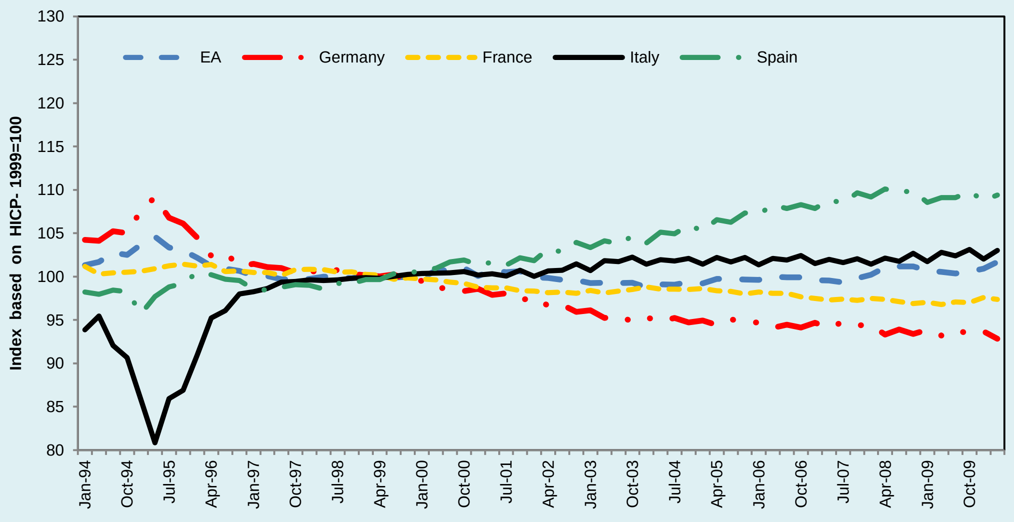
However, the loss appears more contained if, in computing the real effective exchange rate, the GDP deflator or the consumer price index is considered. The loss in competitiveness appears to be more significant if the real exchange rate is based on unit labour costs or on the index of export prices (see Chart III.4) [2].

GRAPH III.4a: REAL EFFECTIVE EXCHANGE RATE (indices 1999=100) - ULC



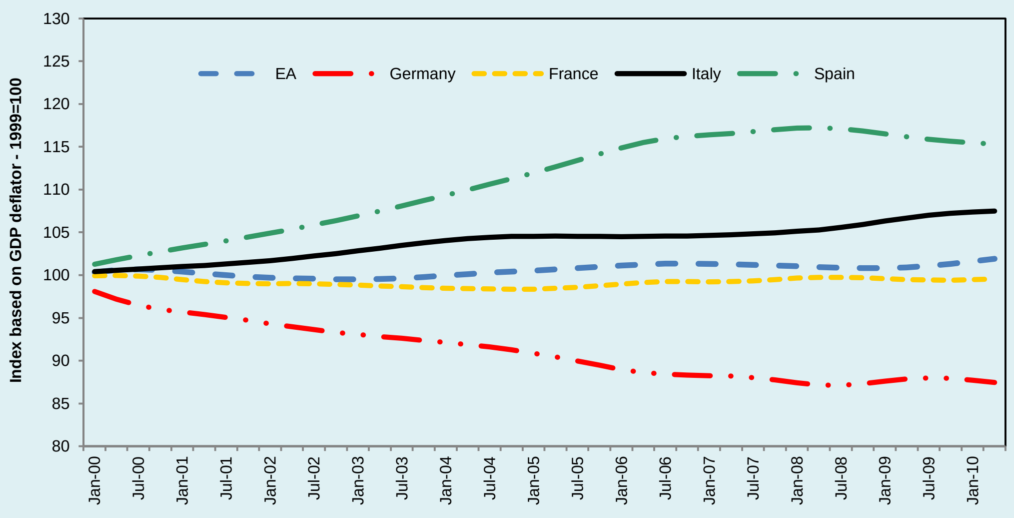
[2] The source of the data on the real effective exchange rate is the European Commission.

GRAPH III.4b: REAL EFFECTIVE EXCHANGE RATE (indices 1999=100) - HICP



Source: European Commission.
Note: An increase in the index means a loss of competitiveness.

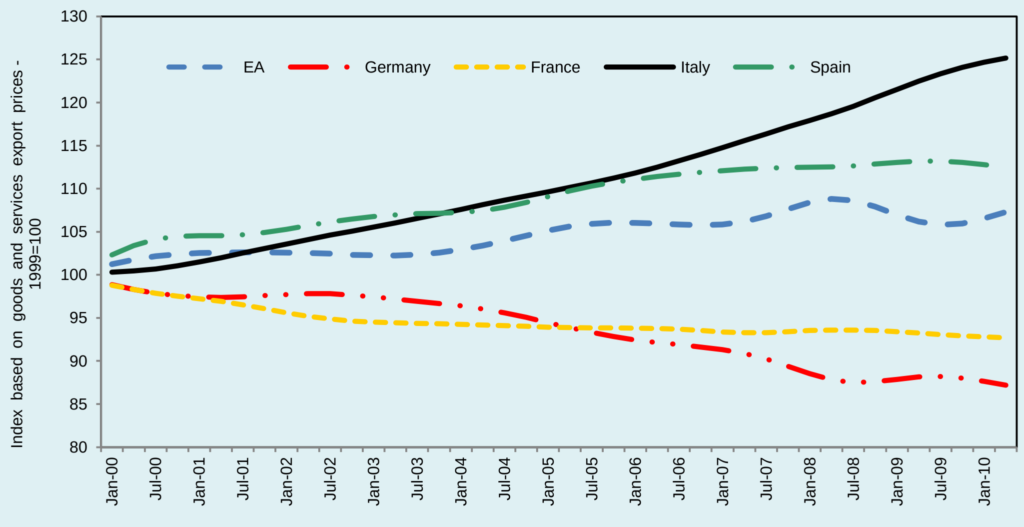
GRAPH III.4c: REAL EFFECTIVE EXCHANGE RATE (indices 1999=100) – GDP DEFLATOR



Source: European Commission.
Note: An increase in the index means a loss of competitiveness.

In the first two quarters of 2010, the real effective exchange rate based on unit labour costs registered, with respect to the same period in 2009, a growth of 1.0 percent for Italy, higher than that in other European countries (from -1.62 percent in Spain to +0.35 percent in Germany).

GRAPH III.4d: REAL EFFECTIVE EXCHANGE RATE (indices 1999=100) – EXPORT PRICES



Source: European Commission.
Note: An increase in the index means a loss of competitiveness.

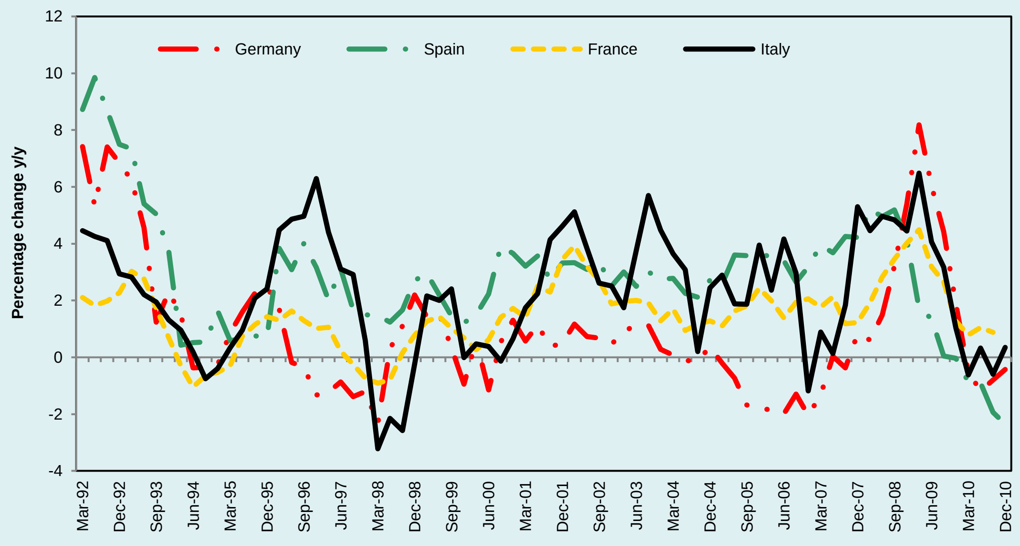
The factor negatively affecting the international competitiveness of Italy is the trend in unit labour costs (ULC), resulting mainly from unfavorable developments in labour productivity. Undoubtedly an improvement in the competitiveness of a country is linked to a favorable productivity trend, which translates into a more contained dynamic with regard to unit labour costs and prices (see Chart III.5). An excessive growth in ULC indicates a broadening of the gap between the variation in average remuneration of labour input in unit terms and the variation in labour productivity, with detrimental effects on the ability to compete with foreign competitors on the cost front. In Italy in 2010 there was an increase in ULC compared to the value of three years earlier equal to 9.1 percent, a growth only slightly above that considered at the European level to be indicative of a fundamental imbalance (9 percent in the Euro Area).

The Government is actively involved to reduce such imbalances, which negatively affect labour productivity, in particular by expanding productivity-related wage bargaining at the business and territorial level in order to more greatly link the wage dynamic to productivity.

Special attention will be paid to increasing productivity in the regions of the South.

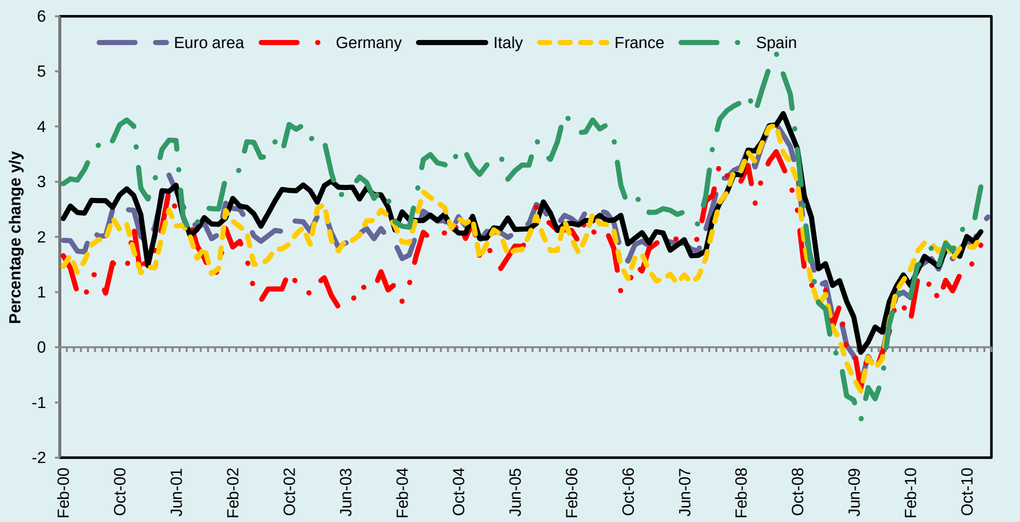
Regarding consumer inflation (HICP), since 2005 Italy has shown a trend in line with that of the Euro Area and in 2010 the price increase was equal to 1.6 percent (see Chart III.6).

GRAPH III.5: UNIT LABOUR COSTS FOR MAJOR EUROPEAN COUNTRIES (percentage changes)



Source: ECB.

GRAPH III.6: HARMONIZED CONSUMER PRICE INDEX (percentage changes)



Source: Eurostat.

While the dynamic of the real exchange rate and the ULC paint a picture of a country's international competitiveness related to factors of price and cost-competitiveness, in reality there are non-price and non-cost competitiveness factors that have an effect on the competitive capacity of the production system with respect to that of foreign competitors. Typically the non-price factors that influence the level of international competitiveness of a country concern the quality of products, as well as the production of a wide range of goods within the same product sector, in order to satisfy the consumer tendency to prefer a variety of choices. Non-price competitiveness factors also have to do with the availability of broad and efficient business services, adequate transport infrastructure, and, more generally, favorable conditions for firms to carry out production activity.

The measurement of these non-price competitiveness factors is certainly more complex than that of traditional price-competitiveness factors. It is often held that the trend in a country's market share of exports is a suitable piece of information for revealing whether a country is experiencing a gain or a loss in competitiveness more generally speaking, that is, competitiveness linked both to price and cost factors and to non-price factors. In other words, it is held that a country's performance on the export front, measured by reporting single country exports as a share of total global exports, offers useful indications establishing whether a country is losing status, relatively speaking, in the global competitive context.

Regarding the Italian economy, a weakening of the export dynamic since the mid-nineties, resulting from the downward trend in the share of Italian exports in the global market, is for many observers evidence of external competitiveness problems in Italian firms. In the first ten months of 2010 the variation in Italy's share of the global market (at current prices) underwent a reduction of about 17 percent compared to the level of five years before, going from 3.6 percent in 2005 to 3.0 percent. The biggest European countries registered similar reductions. Germany showed a reduction in terms of percentage that was more contained than that of Italy (from 9.4 percent to 8.2 percent, with a reduction of 13 percent) and, in lesser measure, so did Spain (from 1.9 percent to 1.6 percent, or -16 percent)[3]. France's market share showed a greater contraction, going from 4.5 percent in 2005 to 3.5 percent in the first ten months of 2010 (-22 percent). It is necessary to bear in mind that in the period from 1994 to 2007 global exports of goods and services increased by more than 80 percent for a number of reasons, among which the growing role of emerging economies, such as China, India and Brazil, in international markets, which automatically reduces the shares of advanced economies; the adoption of liberalization policies with regard to international trade; and the increase in the international trade of services.

It should be kept in mind that the fall in the share of Italian exports in the global market compared to that of the mid-nineties is more pronounced, if export volume rather than export value is considered. Export volume is obtained by applying to export value the export deflators, which derive from the indices of unit values of export (UVX). The latter encompass the dynamic of export prices but can present distortions, the size of which is directly related to the intensity of the re-composition of the basket of products exported[4]. Recent revisions by ISTAT, the National Statistics Institute, of the foreign trade indices have led to a reduction in the growth path of average unit values of exports and, thus, to an increase in the volume of exports. Nevertheless, there exist other indications, obtained from other types of price information, according to which the dynamic of average unit values of exports could still overestimate the growth of the

[3] Data of the Ministry of Economic Development and the National Institute for Foreign Trade (*Istituto nazionale per il Commercio Estero*, or ICE).

[4] See Bank of Italy (2009; Various Authors), '*Rapporto sulle tendenze del sistema produttivo' (Report on the tendencies of the production system)*, Economic and Financial Issues, n. 45.

deflator of exports more than in the case of other European countries[5]. This implies that the statistics on the volume of Italian exports could underestimate to some degree the actual export trend. A convincing explanation for the discrepancy between the dynamic of average unit values of exports and that of other price information makes reference to an improvement in the average quality of products exported by Italian firms in international markets. According to some analyses, evidence that shares of export value contract less than shares of export volume would indicate a greater diffusion of product innovation strategies, of increased quality and of diversification in trade destinations, which in turn would reflect a selection process among Italian exporters concurrent with the increase in international competition[6].

This process related to non-price competitive factors has allowed firms to intercept some of the demand of emerging markets, albeit with less intensity than in more dynamic European economies (Germany, for example), because of the difficulty to penetrate these markets (due to initial costs of exporting and of distribution), exacerbated by some peculiarities in the Italian entrepreneurial system, such as the small size of firms.

The picture painted thus far concerns the external position of Italy. The other means for identifying macroeconomic imbalances has to do with the presence of internal imbalances. In particular, in light of the recent crisis, it is considered crucial to pay attention to the dynamics of the housing market, as well as the trend of debt, in its various dimensions within the country. There is broad consensus among observers to consider as a trigger of the financial crisis, albeit together with other factors, the dynamics of the housing market, which in some countries have led to the creation of a 'bubble'. For this reason the evolution of housing prices can offer useful elements for evaluating a possible sign of internal imbalance. Moreover, housing prices tend to exhibit a high degree of adherence to residential construction investment and therefore serve as a rather broad source of information.

In Italy, the growth in the price of homes since 2000, although sustained, was less than that in other European countries, such as France, for example[7]. Even the adjustment subsequent to the crisis was more contained (see Chart III.7). A further element of stability is the comparatively low marginal propensity to consume out of housing wealth resulting from econometric estimates, which is reassuring with regard to the limited impact on households consumption of potential future reductions in the prices of homes[8]. It should also be noted that the weight of the construction sector on the overall value added has been substantially constant over the last fifteen years (between 5.0 and 5.5 percent) and does not differ from the averages in the Euro Area (see Chart III.8).

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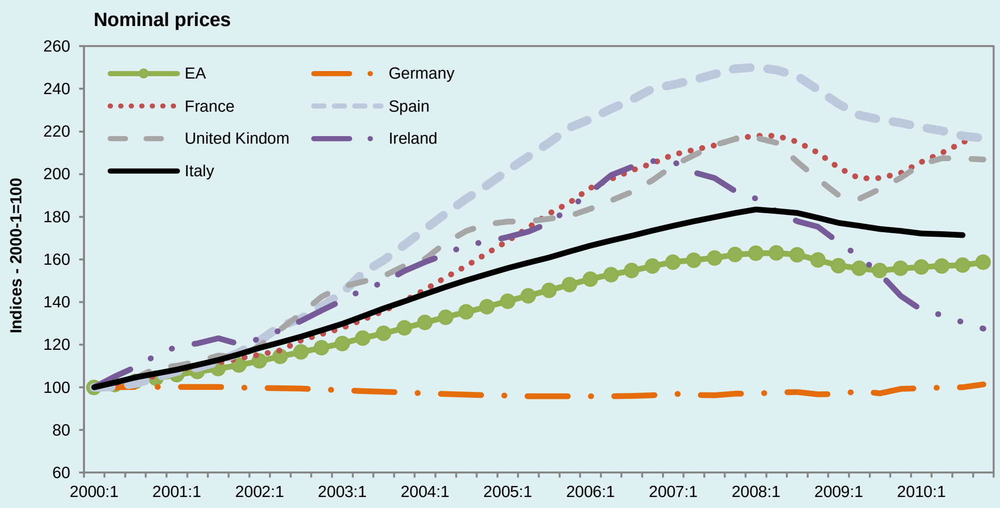
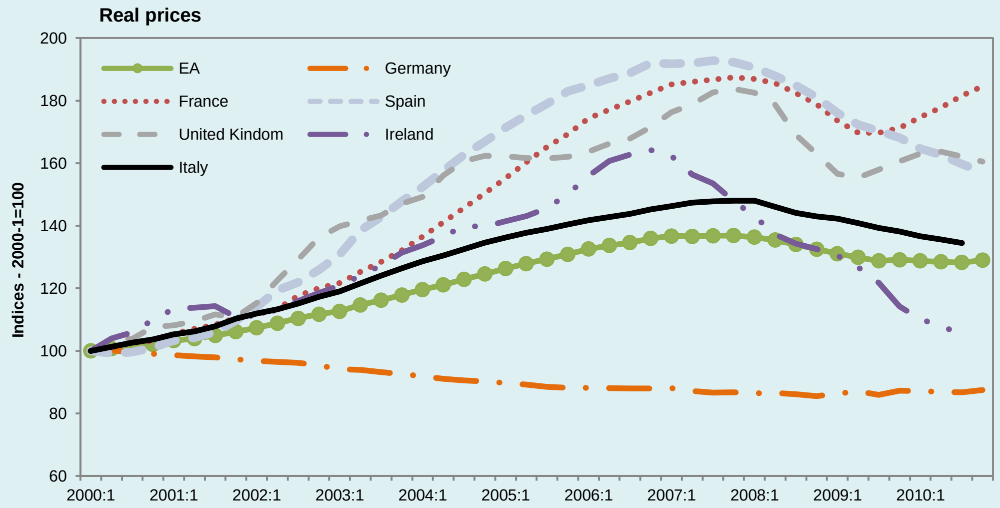
[5] See Bank of Italy, 2009.
[6] See for example, Lanza A. and B. Quintieri, eds. (2007), '*Eppur si muove. Come cambia l'export italiano' (And Yet It Moves. How The Italian Export Changes),* Rubbettino Editore.
[7] The data on housing prices are from the OECD (both for nominal and real prices).
[8] See Zollino, F. and A. Bassanetti (2008), '*The Effects of Housing and Financial Wealth on Personal Consumption: Aggregate Evidence for Italian Households'*, in Bank of Italy (Various Authors), '*Household Wealth in Italy'*.

GRAPH III.7a: HOUSE PRICES FOR MAJOR EUROPEAN COUNTRIES (indices, 2000-1=100)



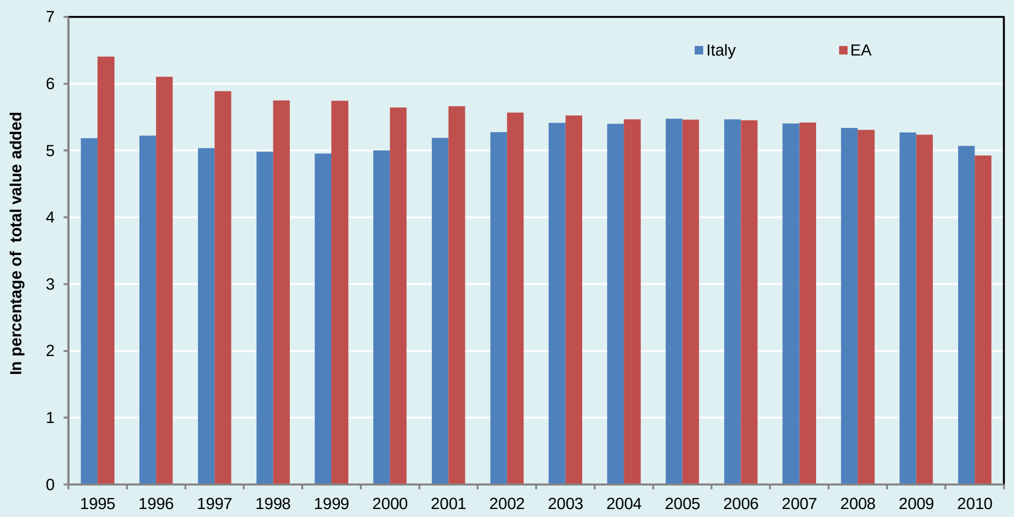
Source: OCSE.
Note: Data for Italy and Ireland are available until the third quarter of 2010.

GRAPH III.7b: HOUSE PRICES FOR MAJOR EUROPEAN COUNTRIES (indices, 2000-1=100)



Source: OCSE.
Note: Data for Italy and Ireland are available until the third quarter of 2010.

GRAPH III.8: VALUE ADDED FOR CONSTRUCTION SECTOR (as a percentage of total VA)



Source: Eurostat.

Regarding the debt exposure of the private sector, empirical analysis at the international level has verified that in countries where both the recourse to debt and the growth of credit are greater, the impact of the crisis was more pronounced[9]. In general a high stock of debt in the private sector and great increases in credit can undermine financial stability and introduce elements of vulnerability.

The limited inclination to borrow on the part of the private sector (families and non-financial firms) has made it possible for Italy to register also in 2009 private-sector debt more contained than the average for European countries (see Chart III.9)[10].

The debt of Italian families was equal to 44.4 percent (compared to a European average of 82.3 percent) and that of non-financial firms was equal to 83.8 percent (compared to a European average of 120.8 percent). In general, Italy is among the countries least exposed despite the high debt of the Public Administration, which was equal to 119 percent of GDP in 2010. There are however some aspects that make it possible to better qualify the Italian position concerning the critical issue of public debt. These have to do with the average life of debt, sensitivity to interest rates, and the level of exposure to foreign exchange risk. According to the most recent data, the average life of public debt in Italy is seven years and the share of debt held by residents, in June 2010, was equal to 55.7 percent, while in France and Germany residents hold a much lower share of public debt (equal to 31.1 percent and 47.1 percent, respectively). Furthermore, the exposure of Italian public debt to foreign exchange risk is practically non-existent. According to Commission estimates of this past November (*Autumn Forecast*, November 2010), in 2012 Italy should be one of few European countries, along with Germany and Sweden, in which the ratio of public debt to GDP should be reduced. Among other

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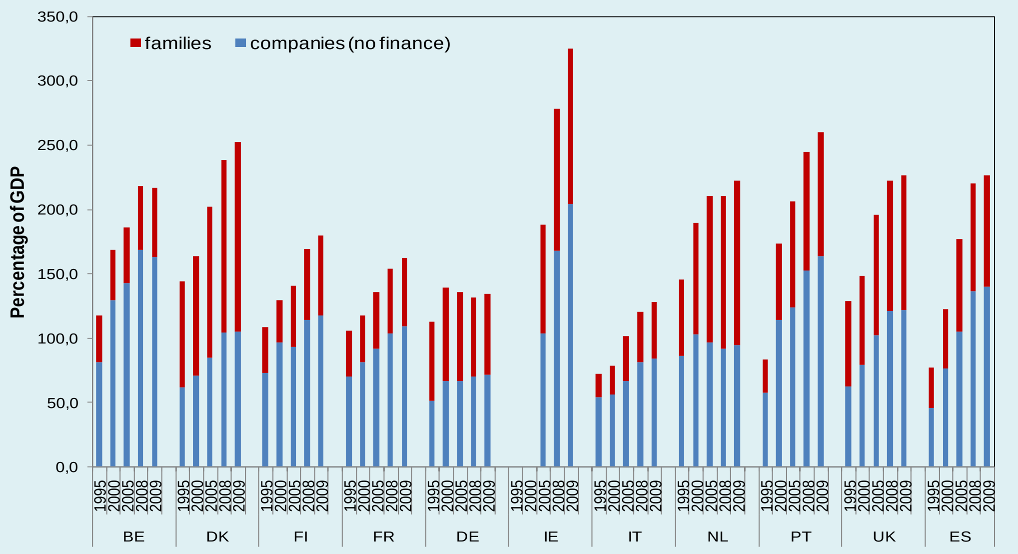
[9] See for example Berkmen, P. et al. (2009) '*The Global Financial Crisis: Explaining Cross-Country Differences in the Output Impact*', IMF Working Paper 09/280.
[10] With reference to the Countries of the EU-15, excluding Luxemburg.

factors relevant in the overall evaluation of Italian public debt, it should also be taken into account that, in terms of public interventions to sustain the banking system, in 2009 Italy was, according to Eurostat data, among the EU countries whose interventions to sustain financial institutions had the least effect on public debt (interventions equal to about €4 billion, or 0.3 percent of GDP)[11].

GRAPH III.9: COMPONENTS OF PRIVAT DEBT (as a percentage of GDP)



Source: MEF calculation on Eurostat data.

Overall, the relatively greater solidity of the Italian banking system compared to that of other countries and the limited stock of debt of the private sector (families, especially) have made it possible for Italy in recent years to register overall debt levels more contained than the average in the countries examined. The Italian private sector's prudent approach to debt has also been accompanied by the cautious behavior of public finance, which at the height of the economic crisis strived to contain the deterioration of balances and to restore the path of fiscal recovery, as witnessed since the beginning of 2010.

The Italian banking system is characterized by a specialization in traditional activities and a limited diffusion of the originate-to-distribute business model, by a broad territorial base, and by a close bank-customer relationship. Furthermore, prudential surveillance appears to be more strict than in other countries and the regulatory framework well-articulated.

[11] Interventions carried out in the United Kingdom (equal to €125 billion), in Germany (€96 billion) and Netherlands (€57 billion) were much more substantial. The largest implications for public debt (as a ratio of GDP) were observed above all in the Netherlands (about 10.0 percent of GDP), the United Kingdom (about 8.0 percent), Luxemburg (about 7.0 percent), Belgium (about 6.0 percent), Latvia (about 5.0 percent) and Denmark (about 5.0 percent). A strong impact was also documented in Germany (about 4.0 percent), Ireland (3.3 percent) and Austria (2.1 percent).

In the World Economic Outlooks published in 2008, the International Monetary Fund, on the basis of econometric estimates, maintained that the procyclicality of banking leverage tends to be higher for systems that show an elevated degree of financial innovation, and that the recessions that follow financial shocks tend to be more profound and to last longer in economies with a higher degree of banking leverage. In their estimate, Italy has a relatively low level of financial innovation and of leverage procyclicality; thus from this point of view it is more immune than other economies to financial crises of banking origin.

Financial data for the Bank of Italy shows on the whole, in 2010, a pick-up in the concession of credit by banks to firms (in particular for long-term loans) and to families (in particular for the buying of homes). A comparison (in terms of percentage points) of financial liability flows (in relation to GDP) of the private sector for the first three quarters of 2009 with those of 2010, shows an increase of 2.0 percentage points[12].

For Italy, the signals are in line with the Euro Area, if not even more positive, as seen from qualitative surveys of credit. From the Bank Lending Survey in 2010 a substantial stability in credit conditions to Italian firms was revealed, analogous with that of the Euro Area (both for large and for small and medium enterprises)[13]. The credit demand by Italian firms in the same year was slightly higher, especially that of small and medium enterprises and for long-term loans. In contrast, in the Euro Area in the first six months of the year, credit demand fell, then stabilized in the remaining six months. For families, both in Italy and in the Euro Area, the survey of credit conditions in 2010 showed substantially stable values for mortgages. On the other hand, consumer credit conditions for Italian families (stable in the Euro Area) dropped marginally. Consumer credit represents a relatively contained share of credit to families.

A further side to imbalances in the Italian economy concerns the territorial gap and the structural delay of Southern regions. In 2009 the per capita GDP in the regions of the South was equal to 59 percent of that of the Central-north regions. Although in recent years there has been a reduction in the distance separating the per capita GDP of Southern regions and that of the Center-North, the presence of a number of structural problems that characterize the economy of the country are decidedly centered in the South[14]. In particular, the South is hindered by a modest use of human resources, with an employment rate (43.9 percent in the third quarter of 2010) structurally lower than that of the Center-North by about 20 percentage points, and with an elevated rate of youth unemployment (35.2 percent for the 15-24 age group).

The productivity gap in the territory is also significant: in 2009 the valued added per unit of labour in the South was equal to about 83 percent of that in the Center-North. This trend is primarily attributable to the modest presence of industrial sectors and the smaller structural size of firms in the South. In the period 2010-2014 economic growth in the South, sustained by the reinforcement of policies in favor of disadvantaged areas, in

[12] See Bank of Italy, *Conti finanziari (Financial Accounts)*, n. 6, 2011.
[13] Quarterly survey by Eurosystem of banking credit in the Euro Area.
[14] See Bank of Italy (2009a), "*Mezzogiorno e politiche regionali*" ("The South and regional policies"), Seminars and Conferences, n. 2.

particular through a greater flow of investments, could by the end of the period register a pace greater than that in the rest of the country and reduce the gap, if only marginally.

In addition to the above, there are the efforts by the Government to reform the Public Administration and to foster administrative and regulatory simplification, especially with regard to the South.

COMPETITIVENESS IN ITALY AND AN ANALYSIS OF THE EXPORTS TREND

The main factors underlying the loss in the global market share of Italian exports are interdependent and they go back to: 1) the low productivity of firms, 2) a traditional model of sector specialization, 3) a limited flexibility of geographic destinations of exports, 4) the smaller size of Italian firms, 5) the still-contained level of competition in the distribution of energy inputs and services pre- and post-sale, 6) the limited inclination toward innovation and R&D.

Regarding the productivity of Italian firms, a recent analysis[15] *examines the negative contribution to growth of total factor productivity (TFP) in the period following 1995. The specialization of Italian exports remains in sectors where the overall demand is diminishing and the competition from low-wage countries is increasing. In 2009, there was only one sector – that of metallurgy – that increased both in terms of exports and of overall demand. Certainly within the macro-sectors there are products and sub-sectors that are growing, but if we compare Italy with a largely exporting country like China, we can see how the latter has changed its specialization from traditional sectors with stagnant demand (textiles, clothing, toys) to sectors such as those of electronic products in high demand, office machinery and scientific instruments (surpassing Italy in the machinery sector where our country boasted a strong specialization and a long tradition of international success)*[16]*. The overview of sector specialization in Italy does not seem to have changed after the crisis. In Italy the rebound of 2010 affected practically all the sectors, yet none registers growth rates that would point to an increase in its share of global trade.*

*Various analyses on intra-industrial trade indices characterize Italy – with the exception of the "*Made in Italy*" consumer sectors – as a country with a 'negative vertical specialization' (export of products with an average unit value distinctively lower than that of analogous products imported in the same sector), more similar to Spain, Portugal, and Greece than to more advanced European countries. Other studies on the specialization of Italy, based on indices of human capital where the latter is defined as the intensity of the manufacturing workforce with respect to that of managers-clerical workers, find Italy to be relatively specialized in sectors with a low intensity of human capital.*

The main difference between German exporting firms and Italian ones is their size. Both the number of exporting firms and the percentage of their exports as a share of sales increase with the size of the firm. Furthermore, the bigger the enterprise, the more complex strategies it can afford to branch out globally. Penetration of extra-European markets is more difficult and costly: while 90 percent of European exporters sell within Europe, only a fraction of these reach the emerging markets. In Italy about 30 percent of the exports to China and India are from firms that have direct foreign investments in these two countries.

[15] H. Morsy and S. Sgherri, (2010), "*After the Crisis: Assessing the Damage in Italy*", IMF Working Paper WP/10/244.

[16] ICE Report 2009-2010, L'Italia nell'economia internazionale (Italy in the international economy).

Italian exporting firms, characterized by their small size, in the process of going global tend to prefer outsourcing to direct foreign investment that requires greater financial and organizational capacities. International outsourcing[17] *consists of importing intermediate products from an autonomous enterprise located outside the country, to be utilized in the production of the final good. Direct foreign investment does not serve only to diminish productions costs, such as outsourcing, but it also guarantees a presence in the foreign market, which leads to an increase in exports from the country of origin, as happened in the case of Germany*[18]*.*

It is the more efficient and innovative firms that export: the average size of the major exporting firms is 298 and 240 employees, respectively, in France and Germany, and 130 and 120 in Spain and Italy. The smaller size of Italian exporting firms negatively influences the capacity to diversify export destinations and the capacity for innovation in products and therefore in sectors of specialization. The small and medium enterprises pay lower salaries on average, attracting personnel less qualified in marketing and in finance, crucial areas for starting the process of branching out globally.

A recent European Community study[19] *on non-price competitiveness explains the competitiveness loss of exports from EU countries by the increase in unit labour costs in some service sectors, which have repercussions on the increase in the costs of exports.*

The agility with which an economy adopts available, more advanced technologies contributes to its competitiveness, by increasing the return of investments and therefore the growth in the medium and long term. The adoption of these technologies is slower in Europe than in the USA, and in Italy slower than in Europe; this delay is in part due to the small size of firms. The same considerations hold true for R&D: the quantity of scientific publications in Italy is higher than in other European countries, but the patents, the application of scientific discoveries, and innovations in industry are fewer.

Italy has planned and described in the present NRP the macro and micro policies that will allow exporting firms to grow. These policies are directed at the export sector as well as at the non-tradable services sector, which influences the prices of exports. Included among the policies are, again, incentives for applied research that can rapidly be translated into new products and production processes, reduction in the rigidity of the product and capital markets, reform of the labour market, a streamlining of bureaucratic procedures, and also the reform of civil justice to make the process less slow and to protect property rights.

Other instruments to support exports exist in Italy and must be reinforced, such as credit linked to the various forms of export insurance (SACE) or the Italian Investment Fund, which is an initiative promoted by the Ministry of Economy and Finance together with the principal banks in the country and with the "Cassa Depositi e Prestiti". This private equity fund acts a market operator by acquiring minority shares of medium Italian enterprises with a view to increasing their supply of capital.

[17] See V. Saieva, La delocalizzazione produttiva (Productive delocalization), Mimeo, Ministry of Economy and Finance.
[18] G. Barba Navaretti, M. Bugamelli, F. Schivardi, C. Altomonte, D. Horgos and D. Maggioni, (2010), *The Global Operations of European Firms*, Efige Policy Report.
[19] ECFIN/EPC/2011/ARES/200538.

IV. AN EVALUATION OF THE MACROECONOMIC IMPACT OF THE REFORMS OF THE NRP

In the National Reform Programme eight policy areas were identified along with accompanying measures of intervention. For each of these measures, indications are provided regarding existing national financial funding under current legislation and/or the financial effects in terms of lower revenues or higher costs. A breakdown of the main measures by area of intervention, along with relative financial information, is given below (Table IV.1):

TABLE IV.1: FINANCIAL IMPACT OF THE REFORMS OF THE NRP (million of euros)[1]

	2009	2010	2011	2012	2013	2014
LABOUR 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 revenue	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 revenue	477	33	17	32	293	168
Higher revenue			125			
INNOVATION AND HUMAN CAPITAL						
Higher expenditure	1,039	1,254	1,953	822	902	902
Higher expenditure not distributed			370			
Lower revenue	9	1,833	2,390	224		
Lower Expenditure	1,293	2,809	3,911	4,561	4,561	4,561
Higher revenue			2,400			
SUPPORT FOR FIRMS						
Higher expenditure	60	507	642	50	50	50
Higher expenditure not distributed			785			

Note: Resources from the QSN 2007-2013 are excluded. The overall effects on pension expenditure and the relative burden with respect to GDP, including the control measures, are examined in a separate evaluation.

Employment and pensions

The first area of intervention groups together measures of differing nature. These actions are mainly aimed at increasing the labour force participation rate (especially for young people and women) and aligning wage development with productivity trends through the redefinition of new rules for collective bargaining between social partners.

Among the measures approved there is, for example, the possibility to deduct an amount equal to 10 percent of IRAP from income taxes (effective from tax year 2008 on) with reference to the taxable amount of interest expenditure and assimilated costs or to labour costs for dependent and assimilated employees. This measure will result in an

[1] For the details of the measures and the relative amounts, see the grid included in the Appendix.

estimated reduction in revenue of 1.078 billion for 2009, 648 million for 2010, and 634 on a yearly basis from 2011 on. Further inclusion in the labour market of particular categories of workers will also be encouraged (1.1 billion for the Youth Employment Plan, denominated 'Italy 2020'), and there are plans to reform the contract model and to broaden decentralized wage bargaining without impacting on the budget.

Tax relief for second-level wages for the years 2009-2010 will be introduced on a trial basis, for which the amount of 650 million will be provided, with the scheme to become fully operative from 2011 on[2].

Among the measures included in the NRP there is the financing for social buffers, including expenditures for non-cash contributions. In particular for the two-year period 2009-2010[3] (with partial use in 2011 as well) public resources were allocated for the amount of about 5.35 billion[4] for social safety nets and targeted interventions.[5] For 2011, again over and above expenditures for imputed contributions, the Stability Law[6] has allowed for further public resources of up to 1.0 billion for exceptional safety nets and other targeted interventions. Moreover, 304 million euro allocated by the Law n. 2/2009 are added for the purpose of widening requirements for access to unemployment benefits and for the measure to protect atypical workers.

The introduction of employment vouchers has also been particularly successful for temporary and occasional work activities. From August 2008 to mid-October 2010, more than 10 million vouchers were sold for a total value of 100 million.[7]

For the social sector, the European Social Fund (ESF) in the context of the National Strategic Framework 2007-2013 (*Quadro Strategico Nazionale 2007-2013*, or QSN) allows for 15,321 million, of which about 55 percent in national co-financing.

A separate analysis concerns the recent pension reform. The strengthening of the reform process begun in 1992-1995 – enacted with modifications by Law Decree n. 78/2010 (converted into Law n. 122/2010) – will make it possible to reduce the cost burden with respect to GDP by an average of one percentage point per year over the period 2015-2035 (about twenty-six cumulative points by 2050), thanks to the change in requirements for access to regular and early old-age pensions. The reform process will also review the system determining when pension payments start and adjustment the age requirement for access to payments to reflect increased life expectancy. In nominal terms,

[2] Art. 1, paragraphs 67 and 68 of the Law No. 247/2007. Detailed implementation for the years 2008-2010 is undertaken annually by way of Ministerial Decree, and for the year 2011 the extension by way of Ministerial Decree is also foreseen (Stability Law 2011) within the limits of the aforementioned pre-determined amount of resources. For subsequent years resources are provided in the amount of 650 million for the annual extension of the measure.

[3] In the two-year period 2007-2009 the expenditure for social safety nets doubled in Italy, going from 63 percent to 79 percent of overall expenditures for policies to support the labour market (Eurostat-LMP, cat. 8-9).

[4] Of the 5.35 billion, 1.3 are to be used for targeted interventions, 4.05 for social buffers on derogation. About 94 percent of the latter are earmarked for the State-Regions Agreement for the two-year period 2009-2010, with partial use in 2011 as well. The State-Regions Agreement for the two-year period 2009-2010 also includes regional interventions, in large part for training and active policies, and in part to finance a residual share of unemployment benefits for social buffers.

[5] Among which the widening of requirements for access to unemployment benefits and the measure to protect employer-coordinated workers provided for by Law No. 2/2009.

[6] Law No. 220/2011.

[7] This amount is not included in Table IV.1 in so far as the value expressed refers to income alone.

the savings in pension expenditure can be estimated on the whole at about 7.0 billion for the two-year period 2009-2010, at about 6.3 billion for 2011, 10.3 billion for 2012, 11.8 billion for 2013 and at about 13.0 billion for 2014.

The simulated effect of these institutional reforms will translate concretely into a reduction of costs and an increase in employment, with favourable effects on growth.

Product market, competition and administrative efficiency

The second area of intervention includes a series of measures targeted to promote market liberalization and to facilitate the conducting of business.

The Government has made provisions in order to enact the Community legislation on the opening of the markets of services, gas, and electricity[8], as well as for reducing administrative burdens to firms and households without impacting on public finances. In addition, further interventions were foreseen to improve efficiency (for example, the Commission for the evaluation, transparency and integrity of the Public Administrations was instituted and made operative[9]) and the digitalisation of Public Administration.

Lastly, reforms of the fiscal and tax system are planned so as to achieve a sharing between direct and indirect taxation and a reduction in the tax burden for firms and workers. For these reforms still to come, the impact on the budget cannot at the moment be quantified precisely.

For the policies considered in this area, there are three types of scenarios: one foresees the reduction in barriers to firms' entry in the sector of intermediate goods, with a resulting increase in competition; another consists in efficiency gains resulting from the reduction in administrative burdens connected with production activity; the third scenario incorporates the numerous measures connected to innovation and reorganization in the P.A. with a resulting increase in productivity.

Innovation and human capital

The third area of intervention regards measures aimed at promoting and reinforcing innovation and at improving and re-qualifying the education system.

A notable contribution in attaining the Europe 2020 Strategy objectives on research and innovation and on education will come from the QSN 2007-2013, which provides for national and Community resources in the amount of 25.0 billion (more than 62 percent of the resources earmarked for the Europe 2020 priorities).

Cost savings are expected from the reorganization of the school: from the technical report to the law[10], from 2009 to 2011 savings for personnel are expected to equal more than 1,293 million in 2009, 2,809 million in 2010, 3,911 in 2011 and 4,561 million starting from 2012. For the university, aside from the costs foreseen by the delegated law n. 240/2010 (27.5 million for 2011, 96.5 for 2012 and 176.5 starting from 2013), potential savings will be evaluated in the context of the reform enacting decrees.

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[8] Directive 2006/123/EC; Regulation No. 713/2009; Directive No. 2009/72/EC e No. 2009/73/EC; Regulations No. 714/2009 and No. 715/2009.

[9] Lgs. D. No. 150/2009 and 198/2009 (Industrial Plan of the Public Administration).

[10] Law No. 244/2007 art. 2, paragraph 411 and 412, and Law No.133/2008, art. 64, paragraph 6.

Among other operative measures, the 'Ordinary Fund for the University' of 800 million for 2011 and 500 million annually from 2012 on should be underlined, as well as envisaged incentives for researchers to return to Italy[11].

The Ministry of Defense projects '*Fregate FREMM*' and 'Medium Armored Vehicles' are particularly significant for the country's expenditure on R&D, as the budget allocates for these projects 1.435 billion for the period 2009-2011 and 405 million for the three-year period 2012-2014 (financial laws for 2006 and 2008)[12].

The effect of the anti-crisis incentives (Decree Law No. 78/2009) for investments in machinery should also be taken into account, with an estimated reduction in revenue of 1.8 billion for 2010, 2.4 billion 2011 and 224 million for 2012.

Lastly, the measures for development of information and communication technology (ICT) should be pointed out, such as the completion of the 'Broadband Plan', for which available resources under current legislation equal 370 million for the period 2011-2015. With regard to the 'National Plan for new-generation networks' public-private partnerships have been settled with the involvement of the public financial institution *Cassa Depositi e Prestiti S.p.A.*, without exerting an impact on public finance.

Business support

The fourth area concerns measures to reduce the usage cost of technology and to eliminate barriers to market entry.

The measures included in the NRP are aimed at supporting research and innovation (for example, the Rotating Fund to support firms and investments, instituted by the *Cassa Depositi e Prestiti S.p.A.*, provides for 785 million earmarked for technological innovation contracts as per the CIPE decision of 18 November 2010), and propping up SMEs, alongside special interventions of a fiscal nature (in the form of tax credits) designed to facilitate the purchase of instrumental goods by firms operating in disadvantaged areas[13].

Federalism

The fifth area of intervention concerns fiscal federalism. The legislative decrees enacting the delegated Law n. 42 of 5 May 2009, which have been approved or are in the process of being approved[14], have a twofold objective: to make it possible to move beyond the criterion of historical expenditure in favour of a system based on costs and standard requirements and oriented toward efficiency and effectiveness of local

[11] The perceived emoluments do not add to the formation of the IRAP tax base. On the basis of IRAP declarations submitted in 2009, there was a loss of revenue of 9.2 million.

[12] These are budget allocations granted by the Financial Law for 2006 (Law No. 266/2005) and completed with the contributions granted by the Financial Law for 2008 (Law No. 244/2007).

[13] From the unified F24 deposit forms compensation amounts equal about 50 million in 2009 and 207 million in 2010.

[14] In the course of 2010 and the first months of 2011 the following five Legislative Decrees were approved: Lgs. D. No. 85/2010 on federalism with regard to State property; Lgs. D. No. 216/2010 on the determining of the standard requirements for the fundamental functions of Local Entities; Lgs. D. No. 156/2010 on the Rome Capital; Lgs. D. No. 23/2011 on the municipal fiscal system; Lgs. D. on the fiscal system of regions, provinces and standard costs in the health sector approved definitively by the Cabinet meeting of 31 March 2011. Three other legislative decrees are in the process of being approved, directed at implementing the delegated legislation on the harmonisation of accounting systems and budget schemes, on special interventions, and lastly on rewards and sanctions.

expenditure, and to move from a non-autonomous financing system to one of autonomous finance based no longer on state transfers but on the possibility of imposing local taxes and co-ownership and on the devolution of assets to the Local Bodies. The budgetary effects are basically nil, though future savings connected with the full implementation of the reform are expected.

Energy and environment

Among the measures already approved with an impact on the budget, the following must be underlined: tax concessions for car scrapping (introduced as of 2007 and valid until 2011[15] with a forecast reduction in revenue for 2010 and 2011 equal to 33 and 17 million, respectively), and for the energy-refurbishment of public and private buildings (which translates into a positive impact on the budget in the amount equal to 124.8 million for 2011 and into an estimated reduction in revenue of 325.2 million for the two-year period 2012-2013 and of 168.2 million annually for the period 2014-2016).

There are, in addition, the measures already approved under the QSN 2007-2013 for the purpose of reaching the Europe 2020 priorities, which entail planned resources for the 'energy and climate' sector equal to 7.7 billion; as well as those directed to the monitoring and the reduction of greenhouse-gas emissions and the promotion of solar energy, entailing increased costs of only 20 million annually for the three-year period 2011-2013 (activation of the Law n. 244/2007, Article 2, paragraph 322).

Infrastructure and development

The overall value of the Strategic Infrastructure Plan (SIP) – according to the Infrastructure Attachment to the Public Finance Decision 2011-2013[16] - is equal to 233.0 billion, of which 113.0 billion for priority interventions until 2013. Of this amount, the public resources assigned, starting from 2008, to the projects of the so-called *Legge obiettivo* for infrastructure investments (Law n. 443/2001) are equal to more than 8.3 billion and are derived mainly from the funds allocated by the Law n. 2/2009 (Table IV.2.)

The cost of infrastructure financed by the CIPE since 2001 currently amounts to about 132.4 billion, of which 71.3 covered by public[17]and private resources. In addition, the Private Housing Plan[18] designed to ameliorate and increase public residential constructions, is financed with 844 million in the budget.

The 'National Logistics Plan' (NLP) for infrastructural aspects is part of the Infrastructure Attachment, and for the portion relative to administrative procedures ('Logistics Pact 2') it does not bear any costs.

As for the transport and logistics sector, the lines of intervention reported in the NRP foresee financial availability in the amount of 1,456 million for the period 2011-2014, of which 84 percent to be concentrated in 2011. Among the strategic lines, the resources for the ports system (362 million), for rolling stock (346 million) and for trucking (400 million) represent the most considerable financing for 2011. For the financing of infrastructure and transport 6.8 billion are also earmarked as part of the planning of the QSN 2007-2013.

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[15] This refers particularly to the Laws No. 31/2008 and No. 33/2009.
[16] The CIPE expressed a favorable opinion of the Attachment at the session on 18 November 2010.
[17] Including Community funds.
[18] Art. 11 of the Decree-Law No. 112/2008 converted into Law No. 133/2008.

Moreover, additional funds have been allocated for EXPO 2015 (as per Decree Law No. 112/2008, Art. 14) equal to about 1.3 billion for the period 2011-2014.

TABLE IV.2: FUNDS FOR INFRASTRUCTURE AND TRANSPORTS (million of euros)

	2001 - 2013	2008 – 2013	2009	2010	2011	2012	2013	2014
INFRASTRUCTURE Strategic Infrastructure Plan (works granted by CIPE) (*)	71,300							
Funds Law n. 2/2009		8,300						
Private Housing Plan cross-border infrastructure					844			
TRANSPORT AND LOGISTICS			146	146	1,228	90	85	53
EXPO 2015			30	45	59	223	564	445

(*) The financial coverage originates from private and public resources.
Note: The QSN 2007-2013 resources are excluded.

Containment of Government expenditure

The only financial cost deriving from the new law on accounting and public finance (Law No. 196/2009) and from the provision just approved by the Chambers of Parliament that revisited its contents[19], can be ascribed to the setting up of the Unified Database (21 million in the two-year period 2010-2011, 5 million from 2012 on), necessary to dispose of adequate cognitive instruments for the control and monitoring of trends in public finance and to support the process of fiscal federalism.

The measures approved in the health sector with the State-Regions Understanding of 3 December 2009 and with Decree-Law No. 78/2010 (Art. 9, paragraph 16 and Art. 11, paragraph 5) are also meant for the containment of public expense. In particular, the governance of the health sector was reinforced and control measures were approved reducing expense for personnel and pharmaceutical expenses, with expected savings of 1,018 million in 2011 and 1,732 million from 2012 onward.

Macroeconomic impact of reforms

In order to provide a first quantitative evaluation of the structural measures planned in the National Reform Programme, a simulation exercise was conducted to assess the gains in growth, employment, consumption and investments deriving from measures related to the following macro-areas: a) employment and pensions, b) product market, c) competition and administrative efficiency, d) innovation and human capital, e) business support, f) infrastructure and development[20].

[19] Provision bearing 'Modifications to the Law 31 December 2009, No. 196 in light of the new rules adopted by the European Union on matters of economic policy coordination among Member States'.
[20] This exercise made joint use of the QUEST III model with R&D calibrated for Italy and the ITEM econometric model. For details on QUEST, see Werner Roeger, Janos Varga, Jan in 't Veld (2008), '*Structural Reforms in the EU: A simulation-based analysis using the QUEST model with endogenous growth*', European Commission, European Economy. Economic Papers, 351; and for ITEM, see Cicinelli, C., Cossio, A., Nucci, F., Ricchi, O., & Tegami, C. (2008), '*The Italian Treasury Econometric Model (ITEM)*', *Ministry of Economy and Finance, Department of the Treasury, Working Paper no.* 1, 2008.

Based on the group of measures considered for the evaluation exercise[21], for the four-year period 2011-2014 there is a positive impact on the rate of change of GDP with respect to the baseline scenario, equal on average to 0.4 percentage points per year; in the same period the effect on the growth rate of consumption, investments and employment is equal to a yearly average of 0.3 percentage points. These positive results are confirmed in the subsequent three-year period (2015-2017) with an average annual impact on the rate of change of GDP of 0.3 percentage points and a slight reshaping of the positive effects on the employment growth rate (0.2 percentage points). In the subsequent three-year period (2018-2020) investments register a strong increase in their percentage change (0.7 points on a yearly average) with respect to the baseline scenario, while the effect on the rate of variation of GDP is on average 0.2 percentage points per year (Table IV.3).

The measures of the National Reform Programme also contribute to improve public accounts. In fact, as observed in the preceding Table IV.1, the group of measures considered has a positive effect on general government net borrowing in so far as cost savings exceed the greater costs sustained for interventions. Therefore the values of the impact on macroeconomic variables should be considered net of the effects deriving from financial coverage of the measures in question. More precisely, since the latter lead to an aggregate cost savings, for the simulations no need for financial coverage is posited. It should be noted that the results of the simulations must in any case be interpreted cautiously, since in this type of exercise the cyclical conditions of the economy at the moment the reforms are adopted are not fully taken into account. In other words, the macroeconomic effects of the reforms, and therefore their degree of effectiveness could be significantly affected by their timing, depending on whether the latter coincides with an expansionary phase or a weak cyclical phase. This note of caution could apply to the current cyclical phase, characterized by a rather weak recovery after the economic and financial crisis. For all these reasons, it was decided that the scenario illustrated above and reported in Table IV.3 should be accompanied by a 'prudential' scenario, where the value of the shocks simulated by using the models was reduced by 50 percent (see Table IV.4). The value of the intervention related to pension reform, which was maintained at one-hundred percent even in the 'prudential' scenario, is an exception, given that this reform can now be considered fully-implemented.

In drawing the macroeconomic scenario 2011-2014 of the Stability Programme, these 'prudential' effects were considered by limiting the evaluation to only those measures adopted in 2010 and in the current year, since the effects deriving from the reforms begun in previous years are nevertheless already incorporated in the definition of the baseline macroeconomic scenario.

[21] The simulations considered in the exercise do not look at all the interventions planned in the NRP. For example, they do not include policies for development and sustainable growth (energy and environment area of intervention) and the reform related to the introduction of fiscal federalism. Furthermore, the measures included in the infrastructure and development area are analyzed in a separate Box.

TABLE IV.3: MACROECONOMIC IMPACT OF THE REFORMS OF NRP (average difference of the percentage changes)

	2011-2014	2015-2017	2018-2020
GDP	0.4	0.3	0.2
Consumption expenditure	0.3	0.2	0.3
Gross capital formation	0.3	0.3	0.7
Employment	0.3	0.2	0.1

TABLE IV.4: PRUDENTIAL SCENARIO: MACROECONOMIC IMPACT OF THE REFORMS OF NRP (average difference of the percentage changes)

	2011-2014	2015-2017	2018-2020
GDP	0.2	0.2	0.2
Consumption expenditure	0.1	0.1	0.2
Gross capital formation	0.2	0.2	0.5
Employment	0.2	0.1	0.1

The results presented in Table IV.3 were obtained by jointly using the QUEST III model with R&D calibrated for Italy and the ITEM econometric model. The following Table IV.5 illustrates the details of the simulations of effects of the structural reforms. The various measures of the National Reform Programme were aggregated in areas of intervention and then the shocks corresponding to these measures were simulated. Table IV.5 reports the percentage deviations of the principal macroeconomic variables for the years 2014, 2017 and 2020 with respect to the stationary state in the case of the QUEST model and to the baseline simulation in the case of the ITEM model[22].

The values of shocks and of their effects are in line with similar comparison exercises carried out by the European Commission[23].

[22] It should be kept in mind that the percentage deviation with respect to the baseline scenario of a macroeconomic variable in a specific year is approximately equal to the cumulative sum, up to the year considered, of the differences in the variable rates of the same macroeconomic variable (as shown in Table IV.3).

[23] The scenarios simulated with the QUEST and ITEM models are similar to simulations usually carried out to illustrate the properties and characteristics of the models. The results obtained, in terms of percentage deviation of the GDP with respect to the stationary state (QUEST) or with respect to the baseline simulation (ITEM), are reported in Table IV.6. The shocks were imparted to some exogenous variables using standard amounts, measured in some cases as 1% of GDP or 1% of the variable affected (see the 'Amount' column in Table IV.6). To link these standard simulations to the actual measures undertaken in the NRP, the results obtained were re-modulated using the size reported in the 'Size' column of Table IV.6. The values of the impacts reported in Table IV.6, if multiplied by the relative sizes and aggregated by areas of intervention, are coherent with the percentage differences projected in Table IV.5. Furthermore, it should be taken into account that the impacts of some shocks, like the reduction of the ULC, the reduction of the cost of intangible goods and the reduction of barriers to market entry, must be halved because they overlap in more than one area of intervention.

As regards the labour market reforms, the measures for wage bargaining and to promote labour productivity were implemented in QUEST imparting a shock of reduction in wage mark-ups and, at the same time, a positive shock to labour productivity. In the context of a non-competitive labour market, such as the one hypothesized in QUEST, a lower wage mark-up represents a reduction in workers' bargaining power to obtain wages greater than productivity. In the first few years of the simulation exercise output is growing less than employment, creating a reduction in labour productivity that diminishes somewhat the overall effect of the reform. To neutralize this trade-off between employment and productivity, at the same time as the shock on wages, a positive impulse in labour productivity in the production function was also hypothesized, thus inducing a permanent effect on product, consumption and investments. Following these interventions in the area of the labour market, the GDP shows a positive shift of 0.1% in 2015 and of 0.2% in 2030 in the scenario with only the reduction of wage mark-ups; the value of the positive effects on GDP is doubled in the scenario in which a shock to labour productivity is also hypothesized: the positive differential goes from 0.2% in 2015 to 0.4% in 2030.

Employment-related measures (the youth plan, 'job connection' and the three-year employment plan) were evaluated with the ITEM model, which is better suited to simulate the effects of this kind of scenario. In particular, the scenario considered contains measures to support firms as well as measures of regularization of underground labour. The support policies were designed in the model through greater transfers to firms and they contribute to an increase in GDP of 0.7% with respect to the baseline scenario in 2015, of 0.5% in 2020 and of 0.7% in 2030. The policies for the regularization of underground labour were designed through a shock that increases the tax base of social security contributions and the result is a positive shift in GDP equal to 0.1% in 2015, to 0.5% in 2020 and to 0.4% in 2030. In the first case the increase in transfers to firms stimulates greater investments in the private sector that, through standard multiplication mechanisms, positively affect both output and employment. In the second case, the regularization of underground labour raises the employment rate; because this increase exceeds the one in output, labour productivity is reduced, thus lowering wages and prices. Through these channels a growth in competitiveness is triggered, thereby sustaining exports and GDP growth.

A further measure considered is related to the reduction of labour cost and in particular to interventions to cut taxes for employers in combination with recourse to decentralized negotiation. The shock related to these actions was implemented in the ITEM model in the form of lesser social security contributions for firms. The reduction of the unit labour cost stimulates an increase in employment on the one hand, while at the same time causing a downturn in domestic prices, thereby increasing the competitiveness of Italian products and fostering an increase in exports. These positive effects have repercussions on the GDP and on domestic consumption. With reference to the simulations conducted with ITEM, in this scenario the positive differential compared to the baseline simulation is 0.3% in 2015 and 0.6% in 2020 and in 2030.

Within the same area of intervention, a scenario was simulated that encompasses the recent pension-reform interventions. These measures forecast a gradual increase in the pensionable age, starting from 2011 both for old-age pensions and early retirement; in addition the recent regulatory modifications have established an adjustment in age requirements to match the increase in life expectancy, starting from 2015. The effect of these measures, besides reducing the weight of pension expenditure in relation to GDP by about one percentage point from 2015 onward, fosters an increase in employment and a reduction in per capita wages, which in turn stimulates investment and, through the well known multiplication effects, output as well. The positive effects of the pension reform, which should at full performance translate into a savings in pension spending of one percentage point with respect to GDP, lead to an increase in the latter equal to 0.1% in 2015 and to 0.5% in 2020 and in 2030. In the area of labour and pensions, the impact on gross fixed investments is considerable, especially in 2020, due principally to the measures that raised the pensionable age, the effects of which should be fully perceived after 2015. The simulation of the pension reform results in employment growth and at the same time in a reduction in per capita wages, thereby stimulating a strong expansion in investments.

Regarding the area of markets and competition, the QUEST model has been preferred given that, for many of the specific measures planned (in particular those concerning competition and the opening of markets, improvement in the entrepreneurial environment, and administrative efficiency and simplification), the DSGE models represent the most suitable instrument. Furthermore, similar exercises conducted by the European Commission with models of general equilibrium (among which the European QUEST model) provide a consolidated base by means of which it is possible to evaluate this type of structural reform. In QUEST, the channels of transmission of these shocks are those considered to be standard and the results are immediate. In fact, the removal of the barriers to market entry for firms acts in the model like a reduction in entrance costs for new potential firms, thereby stimulating competition and reducing prices. The reduction of administrative burden translates into a reduction of average production costs by 'freeing' resources for production. The reduction of the barriers to market entry and the stimulus of competition bring a positive contribution in the medium-long term with a positive shift in GDP of 0.2% in 2020 and in 2030, while the shock corresponding to the reduction of administrative burden generates an increase in GDP of 0.4% in 2015 and of 0.5% in 2030. Using ITEM, the preceding interventions were accompanied by a shock of reduction in the mark-up of final goods so as to reinforce the effects derived from a greater degree of competition in the system. This reduction increases the competitiveness of the Italian economy, fostering export growth, which in turn stimulates investments and employment. Consequently, consumption and GDP increase.

These results are accompanied by the effects connected to the shock on the productivity of the PA: in fact, the reorganization of public services will reduce the output losses connected to inefficiencies and waste.

STRATEGIC INFRASTRUCTURE PLAN

The assigned funds for the works foreseen in the Strategic Infrastructure Plan were granted by CIPE in the period 2008-2011 for projects pertaining to the so-called Legge Obiettivo. *The current distribution of funds has been partially implemented and is now in the process of being completed. Therefore, considering how dependent these effects are on the actual distribution of funds over time, the measures included in the Strategic Infrastructure Plan have been the object of an ad hoc evaluation.*

The study examines the direct effects of greater investments in infrastructure of the so-called 'Matteoli Fund' equal to 8.3 billion,[24] *deriving mainly from funds allocated by the Law n. 2/2009, to which other 8.4 billion were added in second-round effects*[25]*. The joint impact of the greater investments contributes to a positive effect on GDP equal to 0.4% in the medium term. If, on the other hand, the effects resulting from the necessity to reduce expenditure to cover the 'Matteoli Fund' are considered, there is an average increase in GDP equal to 0.3%. The long-term effects are not immediately quantifiable, but considering the strategic importance of investments in transportation infrastructure, they should help to improve the productivity of the entire economy.*

This exercise, which hypothesizes an increase of 1% in the productivity of the PA (within the ITEM model), involves a constant increase in GDP with respect to the baseline scenario equal to 0.1% of GDP.

In general, it is noted that output responds positively and sensitively above all to measures that directly or indirectly stimulate employment. These include not only those interventions that directly concern the labour market, both in terms of demand and supply of labour, but also policies directed to reducing market power, fostering competition between firms and thus reducing unit labour costs. In fact, while on the one hand the moderation of wages makes it possible to align salaries to productivity, on the other, the reforms that aim to increase competitiveness make it possible to reduce the distortions deriving from labour market rigidities (adjustment costs), thereby making the adjustment of employment to changed market conditions less costly and, therefore, faster.

For the policies that intervene in the area of innovation and human capital, it was preferable to use the QUEST model, since it is characterized by certain specificities (such as endogenous growth) that make it especially appropriate for evaluating the effects of policy interventions in this area. In particular, there are two shocks considered: on the one hand, the effects were simulated of an increase in tax credit for researchers, one of the provisions adopted for the improvement and re-training of human capital; on the other, the provisions to stimulate capital invested in research and development were implemented in the model through a reduction in firms' intangibles costs. For both types of shocks the mechanism that guides the system and produces the beneficial effects on the economy is indirect and passes through the greater demand for highly-skilled labour. In fact, the increase in tax credit makes the cost of intangible goods more contained, which acts as an incentive for firms to purchase more of them. The greater demand for patents involves a greater use of labour input, which in this sector is constituted solely by highly-skilled workers. This generates a resulting increase in average productivity with positive effects on product and employment. Actually, in the short and medium term these measures generate modest effects on growth. The reason is that the benefits deriving from interventions to promote innovation, such as higher expenditure for education and R&D, fully manifest themselves only in the long term. In fact, in both the scenarios considered, in reference to the contained effect on growth in the short term, only in the long term do the beneficial effects of sector stimulus begin to show themselves.

It should be clarified that the models are not able to fully seize the possible existing synergies between the reforms within each area and the interactions that the specific effects of each area can have on those generated through the other areas of intervention.

[24] See the budget implications for the area of infrastructures and development, Table IV.2 of the paragraph.

[25] The additional amount of 8.4 billion was estimated by ANCE in conjunction with the Ministry of Infrastructures and Transportation as greater investments in related industries after the infrastructural works were started.

TABLE IV.5: 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.

TABLE IV.6: PERCENTAGE DEVIATION OF GDP FROM THE STEADY STATE (QUEST) OR THE BASELINE SCENARIO (ITEM)

Shock	Model	2015	2020	2030	Amount	Size
Reduction of wage mark-up	QUEST	0.3	0.3	0.4	1%	0.5
Increase of labour productivity	QUEST	0.4	0.7	0.8	1%	0.5
Reduction of unit labour cost	ITEM	0.3	0.6	0.6.	1%	0.5
Reform in the Pension system	ITEM	0.1	0.5	0.5	1% GDP	1
Increase of transfers to firms	ITEM	0.7	0.5	0.7.	1% GDP	0.1
Increase of tax base of social security contributions	ITEM	0.1	0.5	0.4	1% employees	1
Removal of barriers to entry	QUEST	0.2	0.2	0.2	1%	1
Reduction of administrative burden	QUEST	0.4	0.5	0.5	10%	1
Reduction of goods mark-up	ITEM	0.4	0.4	0.5	1%	0.5
Increase of productivity of public administration	ITEM	0.1	0.1	0.1	1%	1
Tax credit for researchers	QUEST	0.1	0.2	0.3	0.1% GDP	2
Reduction cost for intangible assets	QUEST	0.1	0.2	0.5	50 pb	1
Increase of investment subsidies	ITEM	0.3	0.1	0.3	1% GDP	0.1

Source: Elaborations with QUEST(European Commission) and with ITEM (MEF).

V. ITALY'S REFORMS

The objectives and reforms implemented by the Government and described in the National Reform Programme are aimed at strengthening the country's competitiveness, stimulating competition in the product market, and improving labour-market conditions, within the framework of greater sustainability of public finance. The reforms should furthermore contribute to curbing or reabsorbing certain trends that, if continued, could lead to macroeconomic imbalances. The measures described in this chapter are based on the EU's effort to create a competitive, inclusive and sustainable Europe, and in this regard, they respond to the priorities outlined in the European Commission's Annual Growth Survey (AGS), the actions contemplated by the Euro Plus Pact for increasing competitiveness and convergence, and the specific objectives of the Europe 2020 Strategy, which are further delineated as national objectives. The reforms have been preceded by a rigorous quantitative analysis for the identification of the economic-policy priorities and the critical policy areas[1]. Given this robust and transparent analytical base, Italy's reforms can also be considered not only fully respondent to EU objectives but also to the country's priorities.

ANALYSIS OF THE LISBON ASSESSMENT FRAMEWORK (LAF) AND ITALY'S BOTTLENECKS

The methodology developed as part of the Lisbon Assessment Framework (LAF) has played a significant role in identifying the Member States' economic-policy priorities and the critical policy areas, contributing to the definition of the 'bottlenecks' that need to be addressed for improving each country's position with respect to the EU15. In Italy's case, the European Commission analysed the GDP components that have negatively impacted growth both in absolute terms and in relation to the EU15 average. This analysis demonstrates how the significant slowdown of the Italian economy in recent years has been essentially due to the persistence of critical aspects in the structural components of growth, such as certain elements of rigidity in the labour market and the still low degree of competition in the product market. Such critical aspects have been manifested despite initiatives in recent years (particularly in the areas of education and the labour market) that have definitely contributed to increasing participation in the labour market and reducing the unemployment rate, albeit to a lesser extent than that seen in other European countries.

During the 2001-2009 period, Italy's GDP average annual growth rate gradually moved away from the European average, falling to almost one percentage point below that average and thus widening the gap with the EU15. On a per capita basis, the level of GDP and the GDP growth rate are also below the EU15 average.

Italy's situation is mainly due to low productivity and to territorial growth differentials. The issue of productivity is largely attributable to reduced growth of the total factor productivity (TFP) and, to a lesser extent, to the low contribution of the capital deepening. The low level of the 'quality of

[1] On the basis of the Lisbon Assessment Framework (LAF) methodology, which was developed by the Lisbon Methodology Working Group that is part of the European Commission's Economic Policy Committee.

labour' (measured in this analysis by the initial level of education of the work force) is certainly another factor that has contributed to such weak performance.
During the 2001-2009 period, TFP contributed positively to growth in the EU15, whereas in Italy, it contracted by 1.0 per cent per year, and was thus the most conspicuous critical element. The reduction of TFP might incorporate certain structural aspects of the labour market in terms of the rate of participation of young people, average hours worked and the 'quality of labour', as a result of Italy's specialisation in the medium-low-technology products.
Demographics represent another factor impeding Italy's growth, with a sizeable contraction taking place in the working-age population and the native population, although the decrease in the latter has been offset by the net flow of immigrants (most of whom have a low level of education).
With reference to the components of the labour market, Italy has experienced rates of change better than the EU15 with reference to (i) the rates of participation of persons of age 25 and over, although there is still a disadvantage when compared with the Europe, and (ii) Italy's unemployment rate that has, however, reinforced the nation's position vis-à-vis the EU15. Such advantages have been partly offset by a below-average performance in terms of average hours worked per capita and the rate of participation of young people in the labour market, with these factors serving to weaken Italy's position.
Instead, the contribution of capital to growth increased during the 2001-2009 period, but by a slower pace when compared with the EU15 countries and at a level below the European average in 2009. The 'quality of labour,' slightly improved during the same period, but it is still below the European average.
The sharp divide between regions of Italy represents another critical factor accounting for the nation's below-average performance; indeed, in the central-northern regions, the per capita level of GDP is higher than the EU15 average, whereas in the southern regions, it is around 60 per cent of that average. On the other hand, even demographic components (that have a negative effect overall on growth) show pronounced differences at a territorial level.

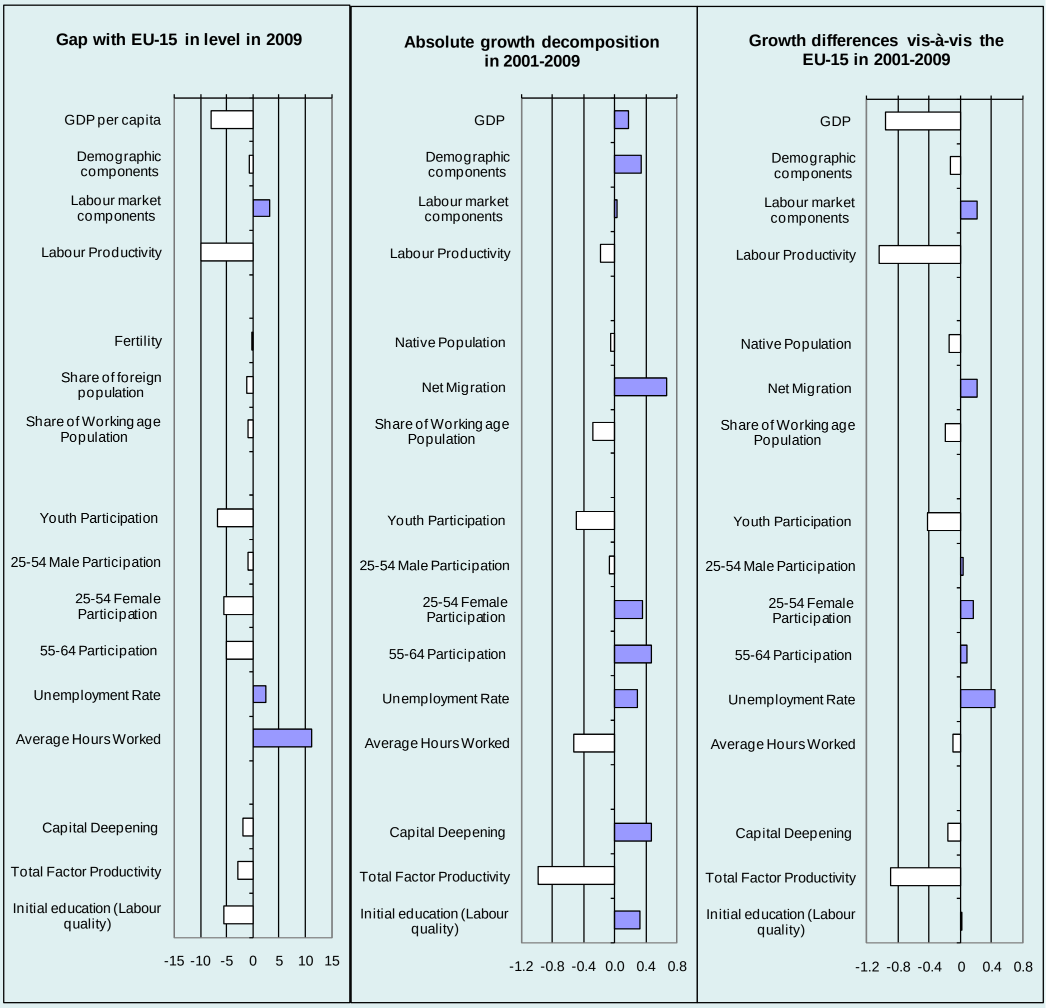
Relative performance of GDP components vis-à-vis the EU-15 – 2009

	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*.

Comparing the LAF results with the indications and objectives decided at a national and international level (EU and OECD) is not straightforward, and thus, any judgments and conclusions about such comparison need to be made with extreme caution.

An overview of income and growth differentials and sources



Source: European Commission, LAF *Database*.

Based on the LAF results, Italy's is positioned generally below the EU15 average in terms of levels, although some appreciable improvements can be seen with regard to: labour demand, with wage bargaining policies having improved; labour supply, with a significant improvement in the active labour policies, measures related to the labour supply with respect to older workers and the labour market mismatch, with Italy's overall score either in line with or above the European average. A slight improvement is also seen with respect to job protection and labour market segmentation/dualisation and making work-pay through the interplay of tax and benefit system, for which Italy is in line with the EU-15 average. The country's performance is instead negative with respect to policies aimed at increasing working time and those for immigration and integration; still, the levels do not raise concerns since they are either in line with or higher than the average. Furthermore, taxation policies aimed at encouraging labour demand show a strong worsening with a lower level when compared with the European partners.

With reference to the product market, Italy is generally positioned in line with the European average, with setbacks in terms of performance in relation to policies for promoting competition and *a favourable business environment, both in terms of barriers to entrepreneurship, and in terms of start-ups, whose levels are slightly lower than the European average. At the same time, there have been some progresses reported in the specific regulation of sectors and in market integration, measured as the openness to trade and investments.*

With respect to policies aimed at innovation, improvements have been logged in R&D area against a worsening in ICT. In both cases a gap still exists when compared with the EU15 levels. Instead, education and life-long learning are still in line with the benchmark.

Finally, with reference to macroeconomic conditions, some improvement has been made in the orientation and sustainability of public finance, with the related score in line with the European average.

An overview of performance in each policy area at aggregate level - 2009

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

Note: The overall quality of coverage by narrow list indicators is indicated for each policy area: *** stands for broad coverage, **medium coverage and * narrow coverage. This table presents the aggregate continuous score for each policy area, which is a weighted average of the values of the indicators in the narrow list. The scores for individual indicators are computed as follows: score = 10 * (indicator-EU15average)/standard deviation EU15. The results indicate the levels for the latest available year and progress made (change). Consequently, a score of 10 means that the value of the indicators is 1 standard deviation above EU-15 average. The policy area is considered as underperforming if the aggregate score is below -4. The table also shows the number of underperforming indicators (their scores are less than -4) in the narrow list (both in terms of level and growth) as well the total number of indicators in the narrow list.

V.1 EMPLOYMENT-RELATED COMMITMENTS

Labour market

Italy has identified national objectives for 2020 as regard employment and reduction of the poverty rate. The national objective for the rate of employment (20-64 age bracket) has been fixed between 67 per cent and 69 per cent, a level consistent with the EU's planned target of 75 per cent by 2020. The national target is ambitious and significantly higher than Italy's average rate of employment in 2010 (61.1 per cent). It was set by taking into account both the indicator's starting point and the need to achieve concrete improvements, also on the productivity front. The setting of this objective obviously also depends on the intensity of economic growth. In terms of jobs, the objective means a total increase of approximately 1.7 million during the 2010-2020 period.

In cautiously setting sub-objectives, the Government aims to achieve the following targets during the 2010-2020 period: growth of the female employment rate that is double that of the male employment rate; a significant increase in the rate of employment of young people; and a substantial reduction in the unemployment rate. These objectives are subject to continuous monitoring and are to be assessed and possibly revised in 2015, the mid-point of the period.

The close collaboration between the Government, regions and unions is important for achieving the employment objective, with each of the parties addressing its respective responsibility, in accordance with shared strategies. Three types of actions within this framework will be particularly important, at least for the next three years: (i) actions to raise the rate of employment of women and young people, with a specific focus on southern Italy; (ii) actions to increase the quality of human capital; and (iii) actions to raise productivity.

This means that the Government and the regions, as already outlined in the 2010 Training Accord, will make training and skills improvement the strategic objective of any legislative or active-policy action. Training plays an important role with regard to both the new generations entering the labour market and the work force affected by restructuring and reorganisation processes. The training mismatch between the needs of businesses and the market, on the one hand, and the skills of individuals, on the other hand, is today a decisive obstacle in the access to employment. In order to tackle this problem, the Government, regions and unions intend to strengthen integration between the education system and productive system, thereby making the labour market more transparent, making hiring easier, and job mobility more flexible.

This policy is supplemented by: a comprehensive effort to revise and simplify regulations and laws, consistent with flexicurity principles ('Labour Statute'); more efficient use of the system of social safety nets (which is today essentially available to all companies and almost all workers); and the plan for individual firms to opt out of wage bargaining. With an effective orientation/requalification system linked to an effective disciplinary system, the relationship between social safety nets and active policies is to be made even stronger, including at a territorial level.

The Government is totally aware that employment growth at a national level can only occur with a recovery of employment in the regions of southern Italy. Indeed, while four central-northern regions have already reached the European objective of 67 per cent, and the objective is within reach for the other three, the gap remains very big in the case of southern Italy as a whole, though there are evident differences from region to region.

In southern Italy, whose size in terms of geographic reach and population is not comparable to any other European region, significant increases in employment can only be achieved by a blend of economic growth and a mix of coordinated policies and specific initiatives with particular regard to women and young people. The initiatives will thus need to provide for simplification of regulations and laws, reductions in taxes and social-welfare contributions (tax credit for new hires) that are consistent with European regulations and laws, and types of contracts most suited for hiring young people and women, especially those that integrate training and work (and can contribute to reducing the rate of school dropouts). The apprenticeship contract is the strongest tool for achieving this objective. At the same time, the Government intends to reduce the rate of illegal and undeclared labour in these regions, through a combination of more intense oversight, disciplinary measures, and promotional policies to get workers registered (such as the use of occasional labour).

Considering the fiscal consolidation objectives, such policies will need to be implemented against a backdrop of limited public resources. The Government and the regions are committed to more efficient use of the financial resources available, through allocation based on the achievement of measurable results. At the same time, there is a common objective of more efficient use of the EU resources coming from the European Social Fund, which will need to be coordinated with national resources, whose accessibility has certainly improved in the past two years but is still subject to excessive administrative authorisation systems not always focused on the final result. In this regard, Italy will further streamline the formalities for the use of these resources.

The Government, regions and unions have tried to contain the social impact of the economic crisis with two different agreements dedicated to managing social safety nets and stepping up training.

The wage guarantee fund (ordinary, extraordinary, and 'on derogation') have played a key role to the extent that they have ensured income to workers, prevented businesses from losing professional capital, and avoided depressive effects on consumption. The adoption of innovative and experimental income-protection measures and the policies for implementing and enhancing the value of bilateral bodies (non-profit entities set up by agreement between trade confederations and unions) have been effective innovations in the short run so as to pave the way for a different and an even more effective social safety-net framework that could be created within a scenario of more public budget availability.

During the 2007-2009 period, the expenditure for social safety nets doubled in Italy, going from 63 per cent to 79 per cent of total expenditure for the policies in support of the labour market[2]. With the February 2009 State-Regions accord on exceptional social safety nets, an increase was made in the resources for earnings protection and active policies so as to be able to tackle the emergency. With the contribution of the European Social Fund, a total of €8 billion was allocated for the 2009-2010 two-year period. The agreement is now to be extended to 2011, with a greater focus on active policies and the active management of the requalification and productive-reconversion processes. A key

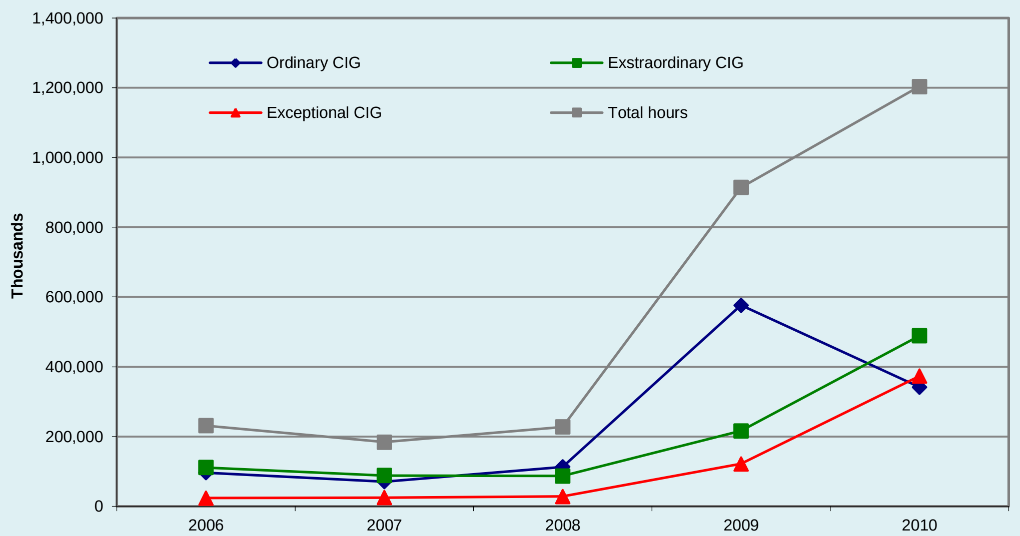
[2] Eurostat-LMP categories 8-9; http://epp.eurostat.ec.europa.eu/portal/page/portal/labour_market/labour_market_policy.

element during this economic phase is represented by the various conditions to which the worker is subject when getting income support (acceptance of a suitable job offer, participation in active policies).

The Government will assess the outcome of the experimental measures introduced during the crisis before exercising the delegation Authority provided in the *'Collegato Lavoro'*[3] containing many measures aiming at promoting employment, as compatible with public finance conditions.

With reference to the wage guarantee fund (*Cassa Integrazione Guadagni (CIG)*, the hours authorised grew by 32 per cent from 2009 to 2010 for the effect of a 41 per cent reduction in the ordinary CIG hours and a 155 per cent increase in the extraordinary CIG hours, inclusive of 'on derogation' initiatives (see Chart V.1). The most recent data (first quarter of 2011) show the continuation of a difficult situation, even though a relative decline in the rates of use can be seen.

GRAPH V.1: WAGE GUARENTEE FUND - HOURS AUTHORISED FROM 2006 TO 2010



Source: INPS.

During the summer of 2010, a 'Three-year Employment Programme' identifying the following three priorities was approved by the Government:

– The fight against irregular labour and increased security and safety of the workplace. The Government intends to pursue these objectives with a dual strategy: (i) selective oversight actions and changes to the disciplinary systems so as to increase the effectiveness thereof, and (ii) promotion of occasional employment.

  The intensification of oversight activity and the exchange of information between the oversight entities are yielding appreciable results. The oversight administrations have improved their capacity to identify in advance the companies with irregularities (two-thirds of the companies inspected). In 2010,

[3] Law No. 183/2010.

the number of undeclared workers discovered through oversight activity increased by 27 per cent, 57,000 compared with 45,000 of 2009.

The actions promoting worker registration have also produced positive results, with more broad-based use of occasional and temporary employment (between August 2008 and October 2010, the State sold some €100 million of employment vouchers used for paying these employees).

The decentralisation of regulation and the implementation of the principle of subsidiarity. Key actions include the presentation of the Labour Statute, the development of the collective bargaining (following the January 2009 accord that promotes decentralised contracting), and the measures designed to link the trend of wages more closely to productivity.

In November 2010, the Minister of Labour presented the unions with a draft of an enabling act about the Labour Statute, with the aspiration of developing a shared view in order to allow for producing a document to be submitted to the Cabinet and to Parliament. This is the first step toward a total reform of labour law, with the aim of streamlining and simplifying the legislation currently in effect. Using Italy's Constitution and the EU's Charter of Fundamental Rights as a basis, the objective is to identify a body of universal and inalienable rights for all employees, including project-workers and short-term workers (with a single employer). The protection not included among the universal rights could be left up to and/or remodelled by collective bargaining, and could be defined at a corporate or territorial level, including through agreements making exceptions to the provisions of law and enhancements to the role of the bilateral entities (non-profit entities set up by agreement between trade confederations and unions). The legislative bill provides for social safety nets in combination with active-policy initiatives, with a particular focus on enhancing the value of skills training and training in the productive environment.

Article 53 of the Stability Law 2011[4] also ensures economic benefits for workers and businesses in 2011 by the exemption from taxes and social-welfare contributions of earnings linked to labour productivity gains achieved within the sphere of decentralised collective bargaining. The number of workers benefiting from reduced social-welfare contributions and tax concessions has increased. The 10 per cent tax exemption will be applied in 2011 for pre-tax earnings of up to €6,000 for workers with income from full-time employment of no more than €40,000 per year. In 2010 the limit for disbursements admitted to the benefit was equal to 2.5 per cent of contractual compensation; moreover the social-welfare contribution relief for 2010 was set at 25 per cent of the contributions due by the employer and 100 per cent for the worker. The expenditure limit established for 2011 is €650 million. The exemption from taxes and social-welfare contributions in the case of performance bonuses should increase the number of businesses in which second-level contracts are signed.

– The development of skills for employment and re-employment. The key actions are: a rethinking of the means and content of training, with a focus on results

[4] Law No. 220/2010.

rather than on procedures; the company as a training site; the provision of independent evaluators; the search for a greater link between the training system and the needs of the productive system; the re-launch of apprenticeships and training assignments. An important agreement in this regard was reached between the Government, regions and unions on 18 February 2010 with respect to the guidelines for professional training. The Minister of Labour and Social Policies believes that the bilateral entities (non-profit entities set up by agreement between trade confederations and unions) can carry out this role effectively and with the needed flexibility. These changes require stepping up monitoring activity, and analysis of labour demand and skills requirements (in the short and medium term). In this regard, greater synergies are being sought between ISTAT's survey on job vacancies, the Excelsior Project of the Italian Union of Chambers of Commerce (with data broken down at a territorial level on a quarterly basis), the use of administrative data from the Ministry of Labour, the National Social Security Institute (INPS) and the regions, and the consolidation of databanks about labour demand and supply at a national and regional level. Such efforts will all be made transparent through the ongoing implementation of the web site known as '*Cliclavoro*', the new portal for Italy's labour market.

The regions will implement the initiatives of their recovery plans geared to system-based actions and coordinated territorial governance of training and employment measures and policies. The objectives are to preserve employment, to support workers expelled from the labour market and to sustain the competitiveness of businesses. The active policies are related to income-support activities and provide for personalised initiatives, for hiring eligible individuals and making each person responsible for his own actions through service pacts. The active labour-policy initiatives are co-financed by the European Social Fund, in the field dedicated to employment and adaptability policies.

Within the general strategy for employment, the increase of the female employment rate is a key factor[5]. The Government believes that action is needed in terms of compensation, including by providing incentives to facilitate hiring in southern Italy (entry-level contracts) without neglecting the initiatives to allow for the simultaneous pursuit of both a career and a commitment to a private life. The 'Italy 2020' programme for the inclusion of women in the labour market presented jointly in 2009 by the Minister of Labour and the Minister of Equal Opportunity is aimed at making it possible for women to work while also taking care of their families and at promoting equal opportunity in access to jobs. European Social Fund co-financing has been a major support to the measures. The recent change in the retirement rules for women working in the public administration is also moving in this direction since it lengthens the potential careers of women in the segment, thereby favouring female participation in the labour market.

[5] The analysis of recent labour-market flows shows that the women performance (in terms of dynamics) tends to be better than that of men, including during the present crisis.

In complementing the aforementioned programme, in April 2010, the Ministry for Equal Opportunity adopted a Compatibility Plan based on a broad agreement between the Government, the regions, autonomous provinces and local entities. The plan aims to: (i) create a series of initiatives at a national and local level so as to ensure compatibility between a woman's career and private life, and (ii) strengthen the mechanisms and tools that make it possible for women to remain at work or to move back into the labour market.

On 7 March 2011, the unions and the Ministry of Labour signed at the Ministry of Labour, a joint statement about measures in support of policies for ensuring compatibility between a career and home life for women and primarily supporting the growth of female employment. The statement references the importance of flexibility in working hours, in the interest of both the employees and the employer, emphasising the role of second-level contracting. The statement also calls for the implementation of a technical committee that will verify the possibility of adopting the good practices for reconciling careers with home life to be sustained and used in bargaining; this committee has to complete its work in 90 days.

The matching of labour demand and supply has been seriously impeded by an improperly functioning job services network. In this regard, the Ministry for Labour and Social Policies has promoted a new system known as "*Cliclavoro*" in order to facilitate the matching of labour demand and supply. The new system is based on the capacity of the Internet to support active labour policies. The new portal was completed in October 2010, and will guarantee to all players in the labour market the simple and immediate access to a complete and detailed catalogue of job information and services.

One specific activity will be dedicated to the design and development of recurring reporting of professional needs and skills on a territorial and sector basis (synergies with *New Skills for New Jobs*) supported by a national coordinating commission, starting from the Excelsior Project, local observatories on the labour market based on the combination of scientific skills and social partnership, and the development of placement services in universities and upper secondary schools. Synergies and agreements in this regard have been developed between the regions, provinces, associations and the Ministry of Education, Universities and Research.

The difficult transition from the academic/training world to the business world continues to be one of the most critical aspects in combating higher unemployment rates and drop-out rates and low youth employment rate. On the basis of the two programmes 'New Skills for New Jobs' and 'Youth on the Move' the following initiatives have been established: (i) the adoption of learning methods based on skills developed in workplace, rather than the method based on distinct disciplines developed in schools; (ii) enhancements of technical/professional education and training; (iii) the involvement of firms, both individually and through partnerships, in education and training activities; (iv) unemployed workers' access to training assignments; (v) the re-launch of higher technical education and training courses (IFTS) and the Biagi Law apprenticeships, favouring the on-the-job training; (vi) the rethinking of apprenticeship programmes and the accreditation of independent 'evaluators' capable of certifying the actual skills of workers regardless of how acquired.

Active labour policies, inclusive of the promotion of apprentices for the fulfilment of the right/obligation to education and training and for the acquisition of a diploma or advanced training programme, must focus on making the workers with low skills more employable through life-long learning better responding to the needs of businesses. From this standpoint, and with specific reference to the employment of young people, a special accent goes to policies for promoting, recognising and validating skills acquired through both formal and informal training programmes. This objective can be achieved by also strengthening mobility policies for young people, students and workers, as a tool for developing abilities and experience reinforcing the younger generations' autonomy and entrepreneurial spirit.

The regions and the autonomous provinces are implementing a wide range of measures for employment. The 2007-2013 European Social Fund planning confirms that the qualification of job services and the development of professional skills responding to the needs of the productive system are a priority for the regions. Action areas regard: (i) the definition of service-quality standards, (ii) the construction of regional systems based on public-/private-sector integration through the accreditation and authorisation systems, (iii) the implementation of the national and territorial job-information systems and (iv) the validation of procedures for services evaluation. A pivotal issue of the 2007-2013 planning is also the construction of a national system of minimum professional standards and skills certification standards as part of the implementation of the 'European Qualification Framework' (EQF).

Regional programmes provide initiatives for young people employed with atypical contracts, with regard to strengthening skills and flexicurity support during periods of unemployment/transition. Regions will be involved through 2012 in the implementation of the 'National Programme for Project Workers' Professional Requalification and Occupational Placement'. Regions are also focusing on skills conversion programmes so as to promote the employment of older workers laid off during the crisis. Regions also are supporting entrepreneurial initiatives of young people and persons receiving unemployment benefits. Another aspect of regional programmes is the action to fight irregular employment. By taking into account the growing relevance of immigration flows, the regions will be augmenting services for immigrants, including for the purpose of favouring their mobility in the nation. Therefore, procedures for the recognition of professional experience gained in the countries of origin, in accord to provisions of Lgs. D. No. 206/2007, will be strengthened. The measures for favouring compatibility between a career and home life for women are the subject of a special action plan within the Regional Operating Programmes. Playschools (so called '*classi primavera*') for 2- and 3-year olds are supplementing pre-school and kindergarten, and are aimed at allowing women to continue working or to re-enter the labour market. Established on experimental basis in 2007, and thanks to their overall success, they are now offered as part of the school system nationwide.

As shown by recent statistics, the reform strategy together with changes in regulations that allow retired individuals to collect pensions and earn income from employment[6] have started to produce effects, thereby also impact the rate of employment of older workers.

[6] Law No. 133 of 2008.

THE USE OF EU FUNDS FOR EMPLOYMENT AND SOCIAL INCLUSION

The objective of the EU programmes in this field is to support employment growth and improvement, thereby promoting an inclusive and 'secure' society for achieving the structural conditions needed for favouring long-term growth. The resources earmarked for this purpose within the 2007-2013 National Strategic Framework amount to approximately €7.4 billion: €3.5 billion dedicated to job and employment objectives, and €3.8 billion for social inclusion. With reference to the latter, around €2.3 billion is aimed at favouring the inclusion in the labour market of (i) women, with the design and/or development of services and tools to accommodate the compatibility of a career and home life, and with the development of equality policies and policies for entrepreneurial initiatives by women, and (ii) underprivileged workers (migrants and ethnic minorities), with specific measures for assistance in hiring, rehiring and job maintenance. The remaining €1.5 billion is addressed to improving the supply of socio-healthcare services to the community and ensuring better security for the public and businesses in areas where organised crime is more pervasive and relevant (in particular, in the four Target Convergence regions).

The initiatives activated to date in terms of jobs and employment mostly entail the implementation of active and preventive measures with respect to the labour market and to a lesser extent, actions to make labour market institutions stronger and more up-to-date.

The initiatives activated with respect to social inclusion are focused on the design and development of socio-assistance infrastructure envisioned for reaching the service objectives[7]*, e-inclusion actions to facilitate access to services for persons at risk of exclusion, and actions to support the economy and firms engaged in social work. The regions of Apulia, Basilicata and Calabria have also promoted initiatives to enhance the supply of healthcare services.*

The regions have also invested resources in the planning and development of online health services (e-health, remote medical treatments and assistance) and in the installation of new domotics technologies for the elderly and disabled, whereas other resources have been set aside for activities involved in training individuals in social work and services, including through specific initiatives to promote innovative models for organising and managing social services (home assistance to the elderly and disabled, operation of day-care centres, meal services, transport of the disabled, etc.)

With the social-inclusion initiatives in their Regional Operating Programmes, the competitiveness target regions aim to consolidate training and job opportunities and the opportunities of inclusion for persons at risk.

[7] Investments in infrastructure to provide services to small children and the elderly support the bonus mechanisms associated with service objectives which, as widely known, are: i) to raise from 21 per cent in 2004 to 35 per cent in 2013 the number of municipalities with services for small children, and to raise from 4 per cent in 2004 to 12 per cent in 2013 the number of children making use of such services; and ii) to raise from 1.6 per cent in 2005 to 3.5 per cent in 2013 the number of elderly persons benefiting from integrated home care.

The poverty context

With regard to the indicators that contribute to determining the level of poverty, data show that Italy's situation is not much different than the EU average . The percentage of persons at risk of poverty after social transfers is two percentage points higher than the European Union average. The percentage of severely materially deprived persons and that of persons who live in households with low labour intensity is close to the European average.

The Government is convinced that the best way to reduce poverty is to promote employment and to reconfigure spending to the benefit of the population having the highest rates of poverty[8]. Italy reaffirms the objective of reducing poverty contained in the preliminary NRP published in November 2010. This objective will be pursued by relying on economic transfers or equivalent measures, with greater involvement of social intermediaries in managing the tools to fight poverty and with active policies that will promote an increase in the rates of employment of young people and women, who in many cases are second earners.

In tackling extreme poverty, Law No. 10/2011 has established experimentally new means for assigning the 'Social Card' first introduced in 2008[9]. The current national programme is addressed to needy families that include individuals over 65 years old or children under the age of 3. With the experimentation now planned (limited to 12 municipalities with more than 250,000 inhabitants, equal to 15 per cent of the national population), the age distinction will be eliminated, and the governance of the programme will significantly change by cooperation with non-profit associations working to fight poverty and social exclusion and local entities. The 12-month experimentation according to the EU's recommended active-inclusion principles provides for (i) the disbursement of money through a debit card that can be used in food stores (an instrument that is also a financial-inclusion vehicle), and (ii) the commitment of an association to take responsibility for the individual, with the aim of helping the individual to move beyond poverty and social exclusion. The resources available for the experimentation amount to €50 million, and will allow for reaching a sizeable portion of the persons living in extreme poverty in the cities involved in the experimentation.

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[8] It is the difficulty of finding employment that explains the high levels of poverty in many cases. When young people and women living in poor households find employment, they not only change their own personal condition but also that of their household.

[9] Article 81, Paragraph 32 of the Decree-Law 112 of 25 June 2008 converted with amendments into Law No. 133 of 6 August 2008.

TABLE V.1: WELFARE RECOMMENDATIONS OF THE ANNUAL GROWTH SURVEY AND KEY MEASURES

Welfare Recommendations in the Annual Growth Survey	Key Provisions and Measures
Making labour pay	1) Exemption from taxes and social-welfare contributions available to businesses and workers (productivity-related compensation increases, benefits for firms, promotion of registered labour) 2) Changes in regulations to allow older people to collect pensions and earn income (in order to promote registered work by older workers) 3) Bargaining solutions and measures for allowing compatibility between work and personal commitments (effects on female employment).
Pension reform	1) Pension reforms (new transformation coefficients, dates on which pensions actually become effective, automatic adjustment of retirement age to life expectancy) 2) Change in regulations to allow retired individuals to collect pensions and earn income from employment
Getting the unemployed back to work	1) CIG and solidarity contracts 2) Labour market transparency ('*Cliclavoro*', regional systems for matching labour demand and supply), monitoring of job and skills demand (*Excelsior*, Istat, etc.), services for public, private and online job placement 3) State and regional economic incentives for firms that hire persons belonging to specific target groups (young people, older people, women, handicapped, etc.); 4) Special contract types (entry-level contract, apprenticeships, project workers, occasional work); 5) Training and active policies, conditions placed on persons receiving unemployment compensation 6) Mechanisms to support the start-up of businesses by young people
Balanced mix of flexibility and security	1) Labour Statute (delegated legislation) 2) Temporary extension of social buffers (field of application, intensity, term, exceptions) and integrated training initiatives, 3) Reordering of social buffers, incentives, apprenticeships, employment services, incentives (delegated legislation); 4) Actions to fight poverty (social allowances, Social Cards) 5) Measures to favour compatibility between work and private life.

Source: Ministry of Labour and Social Policies.

V.2 R&D AND INNOVATION

In the areas of research, development and innovation, the Government is committed to a general reform effort, although taking into account the need to contain public expenditure.

Though not overlooking the presence of firms operating in high-technology sectors[10], Italy's productive structure is based on a prevalence of small- and medium-sized enterprise (SMEs). These firms are exposed to the challenges of both global price competition for the nation's traditional products (textiles, apparel, footwear, furniture, light mechanics, and agro-industrial products), and unfair competition (mainly through counterfeiting) for 'Made-in-Italy' products. Innovation and R&D policies must take into account these factors, and thus contribute to support the productive system's effort to raise product/process quality, thereby protecting it from unfair competition.

Policies aim to encourage the dissemination of information and the construction of a network that efficiently engages businesses, universities and research institutes. At the same time, it is advisable to take into account sector specifications and the actual demand for innovation, as well as factors cutting across sectors that give rise to new needs to be

[10] Aerospace, aeronautics, pharmaceuticals, biotechnology, nanotechnology, energy, transportation, ICT.

met with innovative solutions (e.g. sustainable development and the challenges posed by population ageing and climate change).

The nation's scientific and technological knowledge is sizeable and broad-based. In recent years, the innovation system has developed alongside national productive system, with diversification in approach and intensification of the presence in sectors of excellence. The results have been significant from the standpoint of both the technological development of the SMEs (whose export share is mostly due to innovation in production), and Italy's presence in important fields of basic research and enabling technologies. However, it is necessary to intensify the efforts in order to increase the productivity of the research and its impact on strategic planning in the medium/long term, in order to link the national system increasingly to the international growth trend and to strengthen the impact of Italy's medium-/large-sized companies within the global competitive scenario.

For these reasons the sector's policy needs to be reformed with a special focus on two fundamental components:

– public research, which includes the activities of universities and public research entities, as well as the initiatives in support of basic and industrial research;
– the development of an adequate volume of private investments, indispensable for achieving the standards of excellence characteristic of the leader countries.

Public spending is not that far from the European average, being equal to 0.56 per cent of GDP. It is thus the private spending that has kept Italy apart from the standards of the leading countries in the field of innovation. As a result, without prejudice to the need to qualify national and regional expenditure, it is essential to motivate, promote and support private investments in research, starting from the premise that strengthening intangible assets is a necessary condition for the production of value during an era of change.

Better spending of public funds (including by diversifying instruments, means of intervention, and sources of coverage) will contribute to the pursuit of the minimum total public- and private-spending objective of 1.53 per cent of GDP as of 2020 - an objective set for Italy as part of Europe 2020. This objective is subject to subsequent reassessment, on the basis of an intermediate verification of the results achieved and the trend of demand through 2014.

The Government's main efforts for this purpose are outlined below:

– Implementation of the 2011-2013 National Research Programme (already approved by Interdepartmental Committee for Economic Planning (CIPE)) with the objective of aligning Italy's research spending with the European average; the chosen instrument is the planning and execution of programmed actions and of the 14 flagship initiatives identified with the contribution of the business and scientific communities, headed by a public research entity identified from time to time.
– Utilisation and maximisation of national and EU resources provided by the National Operational Programme (NOP) Research and Competitiveness Objective, through tenders and notices for financing of industrial research,

technological districts and public/private lab facilities, and the upgrade of scientific facilities and equipment[11].

- Performance-based financing of specific programmes and projects proposed by public research entities, as foreseen by reform[12] of these entities; such financing, starting from 2011, will include no less than 7 per cent of the ordinary fund for the research entities financed by the Ministry of Education, Universities and Research, with that percentage due to grow in subsequent years.
- In support of basic research, the launch of special tenders for the financing of projects of excellence promoted by young researchers.
- Access to the funding available under the law covering infrastructure financing for the co-financing of infrastructure and technological platforms, for the purpose of disseminating knowledge and supplying high-content innovative services.
- Greater use of automatic-support tools, especially for small- and medium-sized businesses; including the tax credit for research and development.
- Further recourse to interest subsidies, including through the use of the *Cassa Depositi e Prestiti S.p.A.* revolving fund; a process for simplification of access procedure currently under review would allow timely access to credit by businesses also through public participation in a guarantee fund.
- Reinforcement of the Guarantee Fund for Small- and Medium-Sized Businesses (set up pursuant to Law 662/1996), for better certifying the creditworthiness of the beneficiary businesses.
- Activation of the research service centre, as well as incentives for the transfer of technology and the enhancement of the value of intellectual property, including through risk capital funds. The activation of the National Fund for Innovation will make it easier for innovative SMEs that patent their products/processes to access bank financing and risk capital, without having to supply additional guarantees and at interest rates that are more advantageous than those that could be found in the market.
- Annual tenders for supporting the dissemination of scientific culture and for contributing to the running of private research entities.
- Continuation of the initiatives to support industrial research and innovation programmes (industrial innovation projects and technological innovation fund) aimed at the design and development of innovative products and services regarding technological areas strategic for national competitiveness (energy efficiency, sustainable mobility, Made in Italy, life technologies, cultural goods and activities, environment, aerospace, and ICT).

[11] In establishing the National Operating Programme's implementation procedures, the Ministry of Education, Universities and Research worked with the Ministry of Economic Development to set up a special technical committee with the regions, also using a Master Programme Accord with the Target Convergence regions; this process has made it possible to target resource allocation, and has thus established the premises for adding and integrating the National Operating Programme and the Regional Operating Programmes on the basis of reciprocity and the sharing of merit.

[12] Inaugurated with the decree implementing the Enabling Act No. 165/2007 (Legislative Decree No. 213/2009).

– Improvement and expansion of opportunities by business-network contracts, a tool that makes it possible for small- and medium-sized firms to create working partnerships, including technology-based partnerships, whereby they are able to get beyond their size limitations and invest greater amounts in R&D for the purpose of strengthening their competitiveness in national and international markets.
– Technological innovation contracts over the next three years that can favour development of research and innovation in business and create new job opportunities for researchers, through a renewed strategic alliance between firms, the banking system and the State. Public subsidised financing for the initiative will come from the revolving Fund for Supporting Businesses and Investments in Research set up by *Cassa Depositi e Prestiti S.p.A.*
– Strategic research contracts for large-/medium-sized firms aimed at concentrating and systematically disseminating R&D results. The start-up, evaluation and monitoring of the contracts will be handled by the Ministry of Education, Universities and Research, with the collaboration of the public research entities and the Italian Technology Institute.

Three tenders were also published recently in order to promote use of results of research projects carried out in different sectors, from manufacturing to energy and the environment[13], including services to businesses. Finally, as also requested by the European Commission with regard to its recently adopted communication "Union for Innovation", a special emphasis will go to instruments having an effect on demand, such as public procurement for innovation.

With reference to the personnel involved in research, the imbalance between men and women in this field represents a significant obstacle in achieving the better European competitiveness. At present, only a small portion of high-ranking positions in the world of research is occupied by women. Bringing the number of women in high-level positions to 25 per cent of the total (as indicated by the EU) would mean important progress in getting women involved in all types of decision-making processes. With this goal in mind, in September 2010, the Ministry for Equal Opportunity and the Ministry for Education, Universities and Research signed a protocol of intent aimed at promoting and ensuring equal-opportunity policies at all levels within the fields of science, technology and scientific research. A special focus has gone to the issue of career advancement for women in scientific fields, and the promotion of the culture of equal opportunity within the academic world[14].

In 2011, the Ministry of Education, Universities and Research will continue to provide a significant contribution to all of the European initiatives for supporting international expansion of R&D activity, with particular regard to the seventh Common Strategic Framework for R&D and the one to follow, the Joint Technology Initiatives

[13] With a particular accent on innovation with respect to environmental protection, biotechnologies, development of renewable energy sources and energy savings.
[14] A planning committee has been set up for this purpose and is charged with analysing, planning, coordinating and organising concrete actions on the subject of rights and equal opportunity within the fields of science and research.

(JTI), the projects provided by Article 185 of the European Union Treaty, the Joint Programming Initiatives (JPI) and the ERANET projects.

In addition to participating actively in all of the activities carried out by the EU's joint initiatives[15], Italy also supplies financial support (in particular for ARTEMIS and ENIAC and, in 2011, for the Eurostar initiative dedicated to SMEs and AAL[16]).

The Ministry of Education, Universities and Research will continue to take part in the EU's Joint Planning Group (JPG), and an inter-ministerial consultation committee has been set up for the purpose of identifying joint-planning issues of interest for Italy. At a European level, there are 10 initiatives defined that contemplate Italy's participation at various levels of responsibility. In the decree allocating the Fund to Support Applied Research (FAR) for 2010 and 2011, a total of €30 million (capital account subsidies) has been provided in order to allow Italy's participation in the various international initiatives.

On the subject of R&D, it should finally be noted that the Ordinary Fund for the Research Entities supports the development of pre-existing research infrastructure with an international orientation, as well as the setting-up of new infrastructure of priority interest for such entities (ministerial decree of 24 December 2010).

Fast and super fast broadband infrastructure

International competition has made it necessary for countries to equip themselves with a leading-edge network infrastructure, capable of supporting the most sophisticated digital services, in line with the objectives of the EU 2020 Digital Agenda. Italy's Digital Programme thus figures as one of the priorities for the nation's economic growth, and consists of two plans: the National Broadband Plan which is aimed at further reducing the digital divide and the Next Generation Networks Plan, so as to provide ultra-broadband (with speeds of more than 100 mb/s) to 50 per cent of the Italian population.

Thanks to the National Broadband Plan, it is expected that the population still suffering the digital divide will be down to 3.0 million by the end of 2011 (in 2008, the figure was 8 million).

Through the Next Generation Networks Plan[17], the Government will invest in the Next Generation Network (NGN). The investment represents an anti-cyclical instrument for Italy's economy in that it will be able to create jobs and stimulate growth. Unlike the National Broadband Plan, the NGN Plan is focused on the country's more densely populated areas, and aims to have super fast fixed and mobile networks available to at least 50 per cent of the population by 2020.

The project is based on a co-investment model, which brings together all stakeholders' efforts: the government, regions, institutional investors, national regulators and telecommunications service providers will build a common infrastructure through which each operator can have its network pass. The plan has been defined with a view toward total recovery of capital invested over the medium/long term.

Furthermore, at the legislative level, the Government has committed to creating a favourable regulatory framework for the investments in fixed broadband[18] with the

[15] ARTEMIS, ENIAC, CLEAN SKY, IMI and FCH.
[16] Ambient Assisting Living.
[17] Defined by the Minister of Economic Development and by the top 20 national service providers in a Memorandum of Understanding signed in November 2010.
[18] Laws No. 133/2008, 69/2009 and 40/2010.

objective of facilitating the design and development of the new networks from a procedural and administrative perspective.

The National Broadband Plan and the Next Generation Networks Plan will serve as a direct support to employment, with it currently estimated that approximately 20,000 people per year will be used for project development (including engineers, planners and manual labourers).

In addition, the Government has decided to anticipate to 2011 the date for the tender to assign the licences in the 800MHz frequencies, thereby accelerating the switch-off of analogue television. This important and strategic decision has two objectives: it will guarantee better service quality to the public, and it will free up 800MHz frequency resources[19], now being used in the changeover to digital. As of 1 January 2013, such frequencies will be in use for mobile telephony, thereby putting Italy at the leading edge in Europe.

THE CONTRIBUTION OF THE REGIONAL POLICY IN PROVIDING INCENTIVES FOR RESEARCH AND INNOVATION

Some €20.8 billion of funding has been earmarked for research, technological development and innovation as part of the 2007-2013 National Strategic Framework (NSF). The bulk of the amount (€12.8 billion) is assigned to research and development activities within research centres, the design and construction of research infrastructure, and projects for technological transfer and support of industrial research. A total of €3.4 billion has been appropriated for developing the information society within firms and the public administration, whereas another roughly €2.2 billion goes to supporting innovative entrepreneurial ventures. The remaining €2.4 billion regards initiatives for improving human capital.

The initiatives inaugurated as part the regional programmes include: 13 innovation hubs in Piedmont concentrated on specific sector areas; 10 technology parks for the high-technologic network in Emilia Romagna to house lab facilities and centres for innovation with reference to various special-theme technological platforms; a strategic regional integrated programme for creating a regional network of innovation centres and a system for integrating and managing innovation services and technological transfer in Calabria.

With reference to the information society, the programmes are particularly concentrated on area of the convergence, with priorities defined as broadband network development; digitalisation of information systems and enhancements to technological equipment in both scholastic institutions and the public administration; and national security.

In support of national policies, regions contribute significantly to the incentives for ICT development within businesses. Almost all of the regions have co-financed the Government's National Broadband Plan to zero out the digital divide, thus contributing decisively to the plan's completion.

In addition, many regions have already pledged to finance the Government's Next Generation Networks Plan, which will be developed by macro areas, including on the basis of the availability of local funding.

[19] The frequencies are very valuable and pursuant to the decision of the European Commission, they must be used for strategically significant purposes and in particular, for mobile broadband electronic communications services.

V.3 EDUCATION AND HUMAN CAPITAL

In enhancing the value of human capital, Italy has implemented reforms with reference to the school system and is implementing university reform, both as part of an overall programme of long-term structural initiatives in line with EU objectives.

The reforms in education are consistent with the needs to hold down public spending and to streamline resources, with the redefinition of the education process at all levels, from pre-school to higher education.

The overall reform of the education system has followed several guidelines set out in the OECD's most recent reports about schools in Italy: i) the streamlining and reorganisation of the system[20] ii) the renewal of the curricula and the contents; and iii) the development of digital education.

The reform of the upper secondary school has been aimed at enhancing the value of the learning process, facilitating a changeover from schooling based primarily on the transmission of knowledge to schooling based on the acquisition of skills within a continuous learning spectrum, without neglecting knowledge. The knowledge society means that Italy's education system needs not only to invest in knowledge, but also in the development of skills and especially basic skills.

Measures have also been undertaken with reference to the curricula. At the level of upper secondary schools, a decision was made to include three courses (Italian, foreign language and mathematics) as the core of each specific curriculum, with the guarantee of the teaching of sciences and/or physics and art history. In addition, the splitting of the hourly schedule has been avoided by course standardisation. Finally, the courses typical of the upper secondary school have never gone below the threshold of 99 hours so as to ensure that demand by students and their families is actually satisfied with the educational programme proposed.

With reference to technical and professional institutes (IFTS), the reform has provided for increasing the flexibility of the educational experience so as to respond to demands and needs of the business world, the territory, and professionals.

The organisational structure of the new system for secondary education has streamlined the curricula and sectors of study:

– 6 new upper secondary school curricula;
– 2 sectors with 6 curricula for the new professional institutes;
– 2 sectors with 11 curricula for the new technical institutes.

Other elements included in the process of reforming secondary education are:

– the start-up of the 'Plan for Digital Education', in order to get beyond that digital divide that currently divides the students from their teachers, including for age-related factors;
– the institution of non-academic post-secondary school for the purpose of developing professional skills (higher technical education) that fit with the structural trends of the labour market;

[20] Including for the purpose of obtaining resources needed for the qualitative development of Italian education, with a particular focus on innovation in teaching through a broad-based training plan for teaching personnel.

– the introduction at all levels of secondary education of a course dedicated to 'Citizenship and the Constitution'.

In view of the OECD's recent analysis[21] of Italian education, the reform essentially aims to eliminate several of the main critical factors outlined below:

– the fragmentation of the education, with a myriad of experimental course programmes (over 700) that made any form of orientation and conscious choice by families almost impossible;
– too many hours and too many subjects;
– still limited autonomy of schools;
– the absence of courses for initial training of teachers;
– the absence of performance evaluation systems for schools and teachers.

Finally, the Government has made a priority of developing a national system of performance evaluation for the Italian school system. Setting up a performance evaluation system is functional to the improvement of the quality of teaching and the development of school autonomy, and represents an acknowledged and commonly accepted need.

The national objectives for cutting the rate of school dropouts have been established on a basis consistent with EU objectives, with rate targeted to fall to 17.9 per cent as of 2013; 17.3 per cent as of 2015; and 15-16 per cent as of 2020. The 2013 and 2015 objectives are based on current policies aiming at ensuring adequate education to all young people between the ages of 14 and 18. In improving the quality and depth of the education offered, the entire reform of the education system is aimed at curbing the dropout phenomenon as well as reducing territorial differences, including in terms of learning results.

Targets also take into account (i) the additional efforts in 2007-2013 as supported by both structural funds and regional policy nationwide, and (ii) the correlated service objectives for the regions of southern Italy. It is evident that the level of approximation for the 2020 target is greater and depends on variables that are not possible to forecast at present, and thus a review as of 2015 is suggested.

With reference to the university system, the main objective is to eliminate the fragmentation of degree programmes as this has often led to less-than-effective use of resources. At the same time, efforts need to go to improving the quality of the education offered[22].

The entire reform programme[23] has the priority objective of raising the quality of higher education, while it also aims to contribute to the achievement of the EU objective of increasing the number of university graduates.

The establishment of the Merit Fund is particularly important for this purpose. As contemplated by the law governing the reform of the university system, the fund will

[21] 2009 Report
[22] Through efficiency and effectiveness indicators related to both rules governing size and requisites for ensuring the quality of education. The financing of resources will be increasingly tied to performance- and merit-related parameters.
[23] Law No. 240/2010.

provide financial support for the payment of university fees and food and lodging expenses for deserving students. From this standpoint, the funding should contribute to closing the skills gap that divides Italy's human capital from that of competing systems, while it should also favour student mobility.

THE MERIT FUND

The Merit Fund is an instrument provided by Article 4 of the law reforming the university system (passed on 30 December 2010). The entities responsible for the implementation of the reform are the Ministry of Education, Universities and Research and the Ministry of the Economy and Finance.

The law provides two main initiatives based on a system of scholarship grants for the most deserving students and a system of low-interest loans made by the fund's manager. In the case of the loans, the repayment plans run for at least 20 years, and are linked to income after graduation.

The financial resources needed for the funding of the loans can be from public or private sources, including with the involvement of the institutions interested in investing in human capital.

The students are selected through national standardised tests that are administered locally via electronic terminals; once the testing is completed, a national ranking is prepared and used as the basis for establishing which students will get access to the fund's resources.

The national objectives for enrolment in tertiary or equivalent education are: 22.3 per cent as of 2013; 23.6 per cent as of 2015; and 26-27 per cent as of 2020. The 2013 and 2015 targets are based on current policies aiming at reinforcing and integrating the educational systems at the national and local levels, in order to supply workers with the skills needed for the labour market. As in the case of school dropouts, the 2020 target has a higher degree of approximation and will need to be reviewed as of 2015.

REGIONAL POLICY AND EDUCATION

The total investments dedicated to education (approximately €4.3 billion) are to be used for strengthening skills and improving the quality of the education and training systems, with a view toward increasing labour-market participation (particularly by women) and the competitiveness of the productive systems. As such, some €3.8 billion of the total amount provided for the planning period will be used for (i) reform of the education and training systems; and (ii) measures aimed at reducing the rate of school dropouts and increasing the rate of school enrolment.

The initiatives promoted by the national programmes (European Regional Development Fund and European Social Fund) (€1.6 billion) are directed at: (i) upgrading technological equipment and multimedia labs in schools[24] *and (ii) upgrading the process of learning science and technology*[25].

[24] The objective is to give all schools the infrastructures necessary for improving learning, in particular for learning science and knowledge about the use of new technologies.

[25] This effort is directed toward teachers, students and adults, including for the objective of developing diagnostic capacity and devices for the quality of the educational system. The initiatives already tackled by the programmes include the Quality and Merit Project for improving teaching/learning in logic-mathematics which involves 320 schools in Calabria, Campania, Apulia and Sicily and 80 schools in the central and northern regions.

The regional programmes (€2.7 billion) are complementary to the actions carried out under the national programmes. The regions' efforts are concentrated on (i) supplying services to facilitate access to the schools and the opening of school facilities in the afternoon and (ii) activities dedicated to: (a) integrating and improving the quality of the education, training and labour systems, (b) raising skills levels and levels of learning, (c) increasing participation in basic and advance educational opportunities with respect to an individual's lifetime; and (d) improving workers' adaptation capacity.

The regional programmes have already invested €1.3 billion[26]*, and include initiatives already started (€558 million) concerning labs and tools for improving both basic and professional skills.*

In addition to the financing mentioned above, EU programmes have earmarked €374 million[27] *for initiatives to improve the quality of education thanks to the development of the information society within the education sector, with the amount thus counted as part of the investments in research and innovation.*

Finally, within the sphere of the reform of secondary education, it will be useful to develop instruments aimed at guaranteeing standardised links between the course programmes for state professional and technical institutes and the professional training course programmes established by the regions, thereby providing further opportunities for young people to move back into different course programmes and this should automatically contribute to reducing the rate of school dropouts[28]*.*

PROGRAMME FOR IMPROVING SCHOOL INFRASTRUCTURE

With the aim of promoting the full realisation of the right to education, and guaranteeing access to an essential level of infrastructure, the programme provides for the design and construction of new school buildings, or the restructuring of existing buildings that are either owned by the State or to be acquired for use as schools. The aim is to provide the country with schools whose technical and functional characteristics conform to the most modern instructional standards and to reduce the local government outlays for renting properties owned by the private sector and outfitted as schools. The design and construction of school buildings can be promoted only upon the voluntary initiative of the territorial entities, with a view toward replacing schools in premises rented from the private sector with newly constructed public buildings or with space made available through the restructuring of existing buildings.

The proposed projects are to be prepared by the territorial entities, are to contain indications about: i) the areas for the location of the buildings; ii) availability, if any, of land or buildings for realising the work requested, including any assets or other rights that the entities involved might confer for

[26] For the purpose of upgrading the quality of the courses offered (courses to enhance cultural/linguistic knowledge, teaching technologies, teaching qualification) and advanced education for university graduates seeking employment (vouchers for the costs of enrolling and participating in research doctorate and university master programmes).

[27] A total of €238 million from the national programme entitled "Learning Environments" and the remainder from the Sardinia regional programme.

[28] A key element of the reorganisation is the parallel presence of two core structures: the IFTS flexible-vocation course programmes and the stable course programmes concentrated within the higher technical institutes, as institutes of excellence concentrating on the training of highly specialised professionals in areas considered strategic for the nation's development and innovation (*Industria 2015* Programme). The experimental course programmes are supported by the regions and public administration, with the contribution of the European Social Fund Operating Programmes.

such purpose; and iii) the timetable estimated for vacating rented premises and the related rents paid.
Although respecting the responsibilities and prerogatives of the regions and the local authorities, the way of work will be activated hinges on the role of a specialised institution as the contractor which handles general coordination of the construction and management of the buildings. This model appears suited primarily for building up the scholastic infrastructure in regions having the biggest gaps with respect to the rest of the nation, and in general, for the achievement of economies of scale arising from the role of general coordination vested with a specialised institution.

V.4 ECO-EFFICIENT ECONOMY AND CLIMATE CHANGE

Greenhouse gas emissions

Following the ratification of the Kyoto Protocol[29] through which Italy has committed to reducing greenhouse gas emissions during the 2008-2012 period by a total of 6.5 per cent with respect to the 1990 level (in other words, emissions not to exceed 483 MtCO2/year), Italy developed a national strategy to meet the Kyoto objective[30] and a related national action plan to reduce the levels of greenhouse gas emissions and increase their absorption.

The Interdepartmental Committee for Economic Planning (CIPE) Resolution no.123/2002 also instituted an inter-ministerial committee (Greenhouse Gas Emissions Technical Committee), with the task of monitoring the trend of emissions and the status of the implementation of the measures for their reduction, and identifying "additional measures" to be implemented for meeting the Kyoto objective.

The monitoring of emissions trends is ensured by the technical committee as well as by the obligations set out in EU Decision 2004/280/CE that calls for annual reporting of the inventory of greenhouse gases and the bi-annual reporting of the policies and measures implemented and planned for updating the emissions scenarios.

The technical committee is currently working on updating CIPE Resolution no.123/2002 so as to pinpoint the final actions needed for closing the gap that separates Italy from achieving the Kyoto objective, and for putting the nation on a suitable path for respecting the binding objectives[31]. Having considered that the contribution of the sectors included in the Emission Trading System (ETS) obligations in reaching the 2020 objective has already been established by the EU Directive 2009/29/CE, the Government is committed to updating the aforementioned national action plan in order to ensure the reduction of emissions in the non-ETS sectors. .

The projections of emissions through 2015 and 2020 take into account the effects of the policies and measures adopted and implemented through April 2010, including the contents of the Renewable Energy Action Plan.

[29] The ratification occurred with the passage of Law No. 120/2002.
[30] Interdepartmental Committee for Economic Planning (CIPE) Resolution 123/2002.
[31] Decision No.406/2009/CE.

The instruments adopted in 2007-2009 (whose refinancing is now being assessed) are outlined as follows:

- Revolving fund for financing measures aimed at the implementation of the Kyoto Protocol[32], which disburses interest-subsidised loans (0.5 per cent/year) to public and private entities to be used for the substitution of industrial engines with high-efficiency, micro co-generation devices, the use of renewable sources, the increase of efficiency in the final uses of energy, and research.
- Fund for the promotion of the renewable sources of energy, energy efficiency and of the production of solar thermo-dynamic electricity[33], financed over the 2011/2013 three-year period for approximately €20 million per year;
- Fund for sustainable mobility[34], to finance initiatives for the improvement of the air quality in urban areas and for the strengthening of public transport. To date, some 31 programme accords have been signed with metropolitan areas, a €33.4 million tender has been conducted in favour of the municipalities that are not part of the metropolitan areas, programme agreements were signed with the Province of Naples, *Trenitalia* and with ANCMA (a national bicycle and motorcycle association), and a convention was signed with the Italian Municipalities Association for the monitoring of the entire programme.[35]

In addition, a positive contribution to the reduction of the greenhouse gas emissions could come from the activation of a package of national measures for emissions reduction, and as a consequence, the reduction of concentrations, PM10 and other polluting substances that cause the formation of greenhouse gases. The package consists of regulatory measures for the transportation, farming, industrial and domestic heating sectors, some of which have already been implemented, and other specific measures for the transportation sector. The latter will have provisions for prohibiting the circulation of the worst polluting vehicles, along with measures providing incentives for the renewal of the current vehicle fleet, and measures for port electrification so as to minimise the impact of ships and boats at docks.

The related funding for these measures is now being defined. As far as regulatory measures are concerned, limits are being set on the transport sector with respect to the impact of work sites; important powers have been vested with regional governments for limiting the use of fertilisers and effluents from animal breeding activity[36]. In the civilian sector, the provisions introduced[37] will make it possible to promote the more broad-

[32] Kyoto Fund set up at the *Cassa Depositi e Prestiti*; Article 1, Paragraph 1110-1115 of the 2007 Budget Law.
[33] Set up by Article 3, Paragraph 322 of the 2008 Budget Law. In 2009, a €16.8 million drawdown against this fund was made in relation to a tender for financing research projects for energy efficiency and the use of renewable energy in urban areas.
[34] The initial appropriation for the Fund was established by Article 1, Paragraph 1121 of the 2007 Budget Law, and was later reduced by Decree-Law No.120/2008.
[35] Total transfers for these actions amount to approximately 176 million, versus a commitment of resources equal to €238.4 million; co-financing has been approved for 187 initiatives in favour of municipalities implementing 31 Programme Accords and the tender in favour of the municipalities not falling within metropolitan areas.
[36] Lgs. D. No.155/10.
[37] Lgs. D. No.128/10 amending Lgs. D. No.152/06.

based use of certified biomass-powered boilers able to guarantee lower polluting emissions.

Considering the importance of the use of biomasses within the national action plan for reducing greenhouse gas emissions, the aforementioned measure is fundamental in achieving of the common objective of containing greenhouse gas emissions and other atmospheric pollutants, such as PM10.

Similarly, the action plan for environmental sustainability of the public administration's consumption (PAN GPP)[38] can be expected to reinforce demand for products with low energy consumption and for sustainable, eco-efficient public buildings, through the actions contemplated therein, including: the development of environmental criteria for certain categories of products and services (to date, environmental criteria have been defined for 7 of 11 product groups) and the promotion of the public administration's green purchases. The financing of the actions in the plan is now being evaluated.

With a view toward accenting the environmental improvement of the products of SMEs and industrial districts, a protocol of intent is being signed by the Ministry for the Environment and Protection of the Territory and the Sea, the Ministry of Economic Development, several regions and producer associations. This protocol should lead to the definition of eco-innovation production guidelines with regard to the cycle and the products, with the application of environmental analysis tools to production cycles and product life cycles[39].

Finally, it is believed that the definitive approval of the National Biodiversity Strategy will reinforce the synergy between the safeguarding of biodiversity[40] and systemic eco services, and the efforts to combat climate change.

Furthermore, the strategy has significant socio-economic value in that it promotes the concept of integrating biodiversity conservation needs into economic and sector policies which thus means opportunities for new employment, social development and competitiveness.

The Government is now drafting a decree covering the institution of a Joint Committee on Biodiversity, the National Biodiversity Observatory and a business/union consultation group; with the support of the Regional Biodiversity Observatories, these bodies will be used for implementing the provisions recommended by the 15 Strategy Work Areas. The financing of the instruments to implement the priorities identified, and good practices for the green economy in protected areas are now being assessed.

Renewable sources

Intermediate objectives in terms of renewable sources and other pertinent information are the subject of a Renewable Energy Action Plan sent to the European Commission on 27 July 2010. Such plan should be consulted for details.

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[38] Adopted with the inter-ministerial decree No.135/2008.

[39] Experimentation is already under way in several industrial districts (the Pordenone furniture district and the Vicenza tanning district).

[40] Among, the systemic eco services that biodiversity delivers, there is that of contributing to the reduction of the increase of the greenhouse gas in the atmosphere; biodiversity ensures the capacity of absorbing CO2 from farmland, and the role played by the forests as the largest holders of CO_2.

The achievement of the 20-20-20 targets is one of the priorities that spans across the planning by all regions. The targets are to be achieved through the implementation of operating programmes for interregional, transnational, cross-border and territorial cooperation clearly oriented toward the objectives of promoting renewable energy. Particularly important is the allocation of financial resources to renewable energy sources within the Convergence Regions' programmes.

Energy efficiency

Energy efficiency within the entire energy chain and in all end sectors represents an effective and relatively economic way of combating climate change and improving safety. Furthermore, within the current regulatory framework in Europe, energy efficiency is the natural complement to the related objectives in terms of renewable sources, conditioning their achievement in many cases.

Italy has long focused much attention on efficiency policies because of high energy costs. Over the years, Italy has achieved commendable results that make it one of the most efficient countries in the world, and according to data compiled by the International Energy Agency for 2008, the best performing country in terms of efficiency in the generation of electricity produced from fossil fuels.

As a result, the additional efficiency measures that will need to be adopted for achieving energy-efficiency objectives will have a higher marginal cost for Italy.

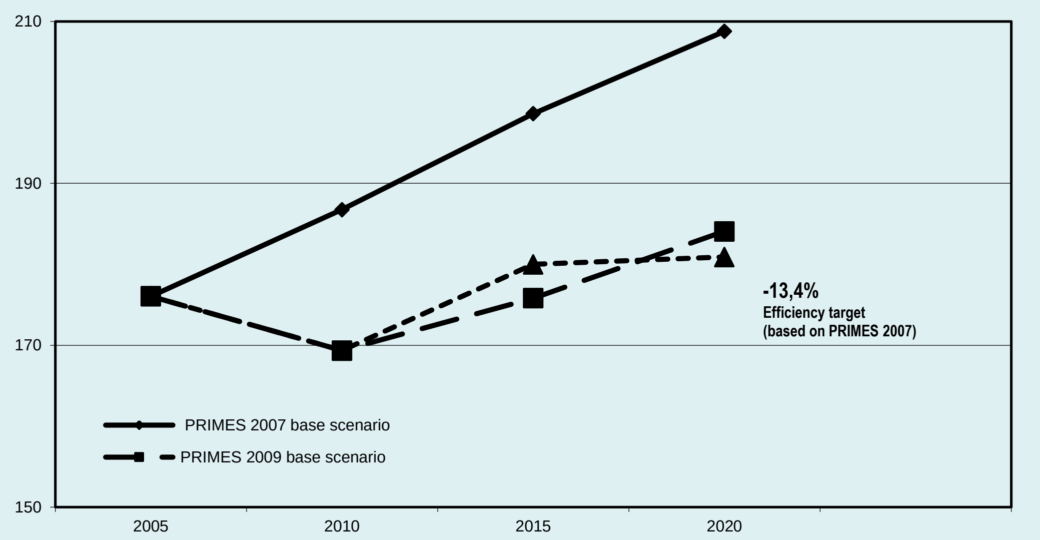
Furthermore, the EU decision to measure energy savings on the basis of primary consumption rather than final use is a decision that implies rigidity for Italy due to the fact that investments in generation are no longer possible (the thermoelectric plants in Italy are mainly new, gas-powered co-generation plants) while investments in the electricity network have also been completed in very recent years.

Italy has adopted a primary energy-savings objective[41] for 2020 equal to 13.4 per cent, to reach consumption of 180.9 Mtep. Italy is also proceeding with the implementation of the 2007 energy-efficiency action plan[42] and it is expected that its measures will be maintained. They regard both thermic and electric use, and are distributed over all sectors.

[41] On the basis of the consumption figure set out in the PRIMES 2007 scenario (208.8 Mtep)

[42] The monitoring data on the primary consumption of energy to 31 December 2009 amount to approximately 42 GWh/year (from ratification of the directive 2002/91/CE; exemptions of 55 per cent for buildings and 20 per cent for efficient and inverter engines; incentives for the eco-sustainable renewal of the automobile fleet) and approximately 33 GWh/year (from the EEC mechanism or white certificates) for a total of approximately 75 GWh/year.

GRAPH V.2: ITALY'S ENERGY EFFICIENCY TREND AND OBJECTIVE FOR 2020



One of the most effective measures is the 55 per cent tax deduction available for expenditures on building renovation for the purpose of updating electrical plant: the advantages of such work not only include energy savings, but also the creation of jobs (employment advantages) and the generation of more tax revenue (economic advantages), with consequent benefits for the State's treasury and the public at large (via the reduction of the external, environmental and health-related costs associated with this type of programme).[43] The adoption of all of these measures has already yielded appreciable results that will make it possible to achieve the intermediate targets (see Table V.2).

[43] The results of the PRIMES scenarios as of 2020 also incorporate efficiency improvements prompted by the application of the following measures either defined or to be defined by the EU:
• Implementation of the Directive 2005/32/CE EuP (Energy Using Products), which sets a limit on the maximum consumption of appliances and other devices put onto the market in coming years.
• Regulation CE No. 643/2009 for refrigerators and freezers
• Regulation CE No. 244/2009 and CE No. 245/2009 for lamps
• Regulation CE No. 642/2009 for televisions
• Similar regulations now being set for: clothes washers, dishwashers, clothes dryers, personal computers
• Regulation CE No. 640/2009 on electrical engines and inverters
• Legislative Decree No. 192/2005, and Legislative Decree No. 311/2006 (implemented via Presidential Decree No. 59/2009), ratifying Directive 2002/91/CE in relation to the energy yield in building.
• Regulation CE No. 443/2009 which sets performance levels with regard to new car emissions.
• Legislative Decree No. 20/2007 enacted on 8 February 2007, ratifying Directive 2004/08/CE in relation to high-yield co-generation.

TABLE V.2: KEY MEASURES FOR ACHIEVING THE NATIONAL ENERGY - EFFICIENCY TARGET

	Residential	Services Sector	Manufacturing Sector	Transportation
Thermic uses	Heat insulation, double-glass windows	Efficient heating	Co-generation	Limit of CO_2 emissions (130g/km) on average for new vehicles
	Efficient heating		Systems for heat recovery	
Electrical uses	Efficient lighting	Efficient lights and lighting control systems	Efficient lights and lighting control systems	
	Efficient home appliances	Efficient HVAC systems	Efficient electrical engines	
	Efficient water heating		Installation of inverters	
	Efficient HVAC			

The Government is examining and evaluating other measures, including: promoting more widespread use of co-generation; encouraging small- and medium-sized firms to produce their own electricity; reinforcing the energy-efficiency certificates mechanism; promoting new building with significant energy savings and the renovation of the electrical plant within existing buildings; and providing incentives for supplying energy services as well as new, high-efficiency products.

THE REGIONS AND ENVIRONMENTAL SUSTAINABILITY

The regional initiatives and thus, the financial resources concentrated on these strategic priorities, regard the following operating objectives:

- *prevention of environmental risk;*
- *improvement of the quality and efficiency of water resources;*
- *energy efficiency and production of renewable energy;*
- *streamlining and optimisation of the waste cycle;*
- *conservation of biodiversity.*

The regional authorities intend to promote the long-term eco-sustainability of economic growth by pursuing greater efficiency in the use of natural resources. Toward this end, and within the framework of better defined national and regional planning, the effort has been oriented toward an increase in the production of energy from renewable sources, an improvement in the demand and supply of energy efficiency, and greater diversification of energy sources.

A specific commitment in the area of energy has been made via incentives to businesses for investments aimed at the introduction and use of renewable energies (geothermic, wind, photovoltaic solar, thermic solar, biomass) and at energy efficiency.

Through the Regional Operating Programmes (European Regional Development Fund), the regions are proceeding to finance initiatives for energy savings in building through the more widespread use of new eco-efficient technologies and the fostering of an energy-savings culture, as well as the promotion of the use of bio-materials, particularly for bio-building.

The regions have also undertaken many actions for environmental sustainability.

With Regional Law No. 4/2007, the Region of Veneto inaugurated a programme for 'Regional initiatives in favour of sustainable building' which promotes the techniques for energy-environmental sustainability.

The Region of Emilia-Romagna has introduced planning acts and standard technology innovation manuals with reference to energy efficiency and savings in buildings, and has involved the system of local authorities in these initiatives.

In Valle d'Aosta, the main initiatives concern the establishment of a centre for energy observation and activity, the design and construction of several district heating plants, the analysis, experimentation and promotion of energy efficiency and the use of renewable sources, with particular regard to photovoltaic, thermic solar, microeolic and biomass energy, as well as the consolidation of hydroelectric supply. The Region of Valle d'Aosta has also promoted the following platforms: technologies for the monitoring and the security of the territory, renewable energies and energy savings, technologies for environmental protection and the reinstatement of ecosystems.

In 2010, the Region of Apulia approved the governance of the single authorisation proceedings for the design, construction and operation of electricity production plants powered by renewable sources and the regional programme for curbing greenhouse gas emissions in relation to the implementation of the Kyoto Protocol.

The Region of Sardinia is involved in realising various security and clean-up initiatives in abandoned mining areas, so as to remedy potentially dangerous situations and to tackle damages consequent to the pollution of the region.

The Region of Umbria has set up systems to support compliance with EU regulations to promote protection of the environment (2008/C 82/01), and with regard to SMEs, it has introduced eco-innovation, technologies and production processes with a low environmental impact in terms of air, water, and land.

The Region of Piedmont has invested in innovation hubs: sustainable architecture and hydrogen, renewable and biocombustible energies, plant engineering, systems and components for renewable energies, renewable energies and mini hydro. With the law regarding provisions for energy yield in buildings, and the plan to include energy efficiency initiatives for public buildings (hospitals, universities and facilities used for the Olympics) as part of the Regional Operating Programmes (European Regional Development Fund), the region is supporting actions and good practices toward the goal of energy savings both in the public sector and in the region's productive systems.

The Region of Lombardy has undertaken a series of integrated actions to favour sustainable development. In particular, the 'Strategic Plan: Technologies for the Sustainability Energy' outlines the critical factors and opportunities related to various options for public intervention, and the Sustainable Lombardy Plan has the objective of having Lombardy become a region with high energy efficiency and a low CO2 intensity and outlines an integrated approach to environment and energy issues.

Through the 2007-2013 Regional Operating Programmes (European Regional Development Fund), it has been possible to finance the industrial research tender for energy efficiency and the experimental 'TREND' project for more widespread use of energy-savings and energy-efficiency technologies and the use of renewable energies within SMEs, with initial funding of €2.5 million.

In Tuscany, the preceding legislature approved: the 2008-2010 Regional Energy Steering Plan (PIER) (appropriation of €48.8 million), with which the region ratified EU objectives on the subject of energy and climate change. The region has authorised an increasing number of plants for electricity production through renewable sources (wind, solar, geothermic, hydroelectric and biomass).

The regional objectives include the design and development of a coastal energy district, near the sites where the region's energy production from traditional and renewable sources is concentrated. Works have begun in the same area for the planning and construction of an offshore terminal for the regasification of LNG along the coast between Pisa and Livorno.
The 2008-2010 Plan for Upgrade and Maintenance of Air Quality (PRRM) has provided for initiatives about (i) public and private transport (the construction of bicycle paths, the renewal of the local public transit fleet), (ii) heating systems in industry, and (iii) the creation of a network for monitoring PM2.5. The regional law for protecting the quality of air and the environment (LR 9/2010) was approved in February 2010.
Finally, the regional plan for environmental action covers a series of initiatives aimed at promoting research, communications, environmental education, voluntary participation instruments (such as certifications), green expenditure, initiatives 'Agenda 21', and sustainable building. Finally, another initiative is worth noting: the creation of ecologically outfitted productive areas, aimed overall at protection of the environment, the competitiveness of firms, favouring the requalification of productive areas; four projects have been financed with €4.0 million of regional resources.
Finally, the completion of a waste-management system oriented toward reducing the volume of waste produced and a minimal environmental impact is particularly strategic for the regional administrations.

Nuclear energy for the growth of the Italian economy

According to one of the International Energy Agency's scenarios for 2050, the world's population of approximately 9 billion will produce around 3-4 times the wealth of today. Such scenario will require double the energy compared with current requirement, even though all of the margins for making energy more efficient today will have been used and the yield on current technologies will have been maximised. It is probable that the second generation of renewable sources will have arrived by that date, and, hopefully, that some innovations will have been made that will allow for quantitative/qualitative advancements in renewable energy production. Notwithstanding its recognition of the increasingly important role that can be played by renewable energies and energy efficiency, the Government has re-opened the possibility of turning again to nuclear production, as a technology capable of blending security in supply, cost savings, and environmental, economic and social sustainability.

In view of the careful consideration both in Europe and around the world about the security of nuclear energy following the Fukushima tragedy in Japan, the Government has decided not to proceed at this point with the implementation of a nuclear programme. Although the Government believes that there have been no changes in the reasons that prompted reconsideration of the nuclear option, it will await the completion of the initiatives already undertaken at the EU level for the supply of elements that can provide full guarantees from the standpoint of security.

Use of EU funds for energy and the environment

Regional policy actions regarding energy and the environment are essentially aimed at reinforcing the chains of production needed for developing renewable energy and for realising energy savings, and at enhancing the value of natural resources for the purpose of making regions competitive and attractive. The investments are thus not only directed at energy-related matters, but also at enhancing environmental services (water resource management and waste management), risk prevention, environmental clean-up, and enhancing the value of natural resources. The financial resources dedicated to these efforts amount to approximately €9 billion for the entire planning period.

Of this amount, approximately €1.6 billion is allocated to the development of renewable energies and to energy savings and energy efficiency, as programmed in the National Operating Programme on Renewable Energies and Energy Savings. The initiatives undertaken are mainly addressed to: saving energy, mostly in public buildings (especially schools and healthcare structures); making public lighting more efficient; and providing incentives for the production of renewable energy. Other investments have regarded the exploitation of biomass for energy purposes, solar energy and, to a lesser extent, the production of hydroelectric and geothermic energy. In the area of the competitiveness, financing has also been made available for heating and/or cooling networks and high-yield co-generation plants. Finally, in the regions of southern Italy, it is expected that investments will be made in electricity networks needed for reinforcing the distribution system in support of the development of renewable energy sources.

On the basis of preliminary estimates, the energy measures outlined in the 2007-2013 National Strategic Framework should be able to contribute to significantly reducing greenhouse gas emissions through 2020 (5-7 million tons of CO2 equivalent per year, or about one-half of the contribution supplied by all of the measures already decided and operational in the sector).

Other environment-related investments entail projects for safeguarding and enhancing the value of natural resources. These are mostly initiatives to facilitate the use (active protection), accessibility and renewal of natural habitats, and the promotion of the network of natural and environmental areas included in the EU's Natura 2000 (sites of importance to the EU and special protection zones) and other protected areas (national and regional parks, nature reserves and other types of protected areas). The planned initiatives are mainly designed for enhancing or creating a new various tourist attractions, such as walking paths, observatories and visitor centres, with the aim of recognising the natural areas, together with the nation's artistic and cultural treasures, as assets to be the focus of investment for sustainable economic development. These efforts should contribute to an increase and better seasonal distribution of tourist flows, for a quality-oriented economy with a low environmental impact. The total financial resources amount to more than €861 million; to date, most of the initiatives have entailed the promotion of existing resources, for expenditure of €11 million; the future initiatives will likely include infrastructure development and the protection and clean-up efforts outlined in programmes often included in integrated planning instruments, with the aim of providing an extension of service across the nation, thereby creating new development opportunities for the resident communities.

ENERGY EFFICIENCY INITIATIVES TO SUPPORT GOVERNANCE OF THE PUBLIC ADMINISTRATION'S PROPERTY

With reference to energy services, CONSIP, the purchasing entity for the public administration, has placed a particular accent on initiatives designed to increase the energy efficiency of the public administration.

As provided by the 2011 Stability Law, the aforementioned initiatives will benefit in 2011 from the extension of fiscal relief for the energy requalification of buildings, with the total resources appropriated therefor amounting to €450 million for the 2011-2013 three-year period and €168.2 million per year from 2014 to 2016.

With reference to this funding, various goods and services to support government and government assets have been identified and can be integrated on a customised basis. The related initiatives not only promise 'economies of scale' but are also considered a vehicle for the innovation, environmental protection and modernisation of government processes and the entrepreneurial fabric in relation to the most efficient procurement and purchasing models (national agreements, master accords, projects with regional buying centres, an electronic market for the public administration (MePA) and vertical projects with the public administration).

A strong emphasis has been placed on making energy more efficient through Energy Performance Contracts, through which a firm is not compensated based 'upon consumption' (i.e. on the basis of the quantity of fuel consumed or initiatives effected) but rather based on results. This tool, for the Integrated Energy Service Convention, provides for the payment of a fee, and represents a strong incentive to savings on the part of the supplier, whereas the Light Service Convention (public lighting) provides for the payment of an all-inclusive fee in function of the individual lighting technology in compliance with the regulations in effect on lighting as dictated by the New Road Code. The administrations signing the Light Service Convention have achieved savings of roughly 20-25 per cent compared with the historical spending (without counting savings in terms of TEP).

Alongside the conventions, a flexible tender for the Electronic Market for the Public Administration (Matel) has been established, whereby the participating administrations can purchase energy-efficiency services/products rapidly, effectively and in a fully transparent manner through a procurement platform.

Similar initiatives have also been made public with respect to the programme for streamlining of the expenditure for the public administration's rental of automobiles and related services, with the CO_2/km emissions limits being more stringent than those provided by Regulation No. 433/2009.

V.5 FISCAL CONSOLIDATION

Like other EU Member States, Italy needs to pursue a fiscal consolidation process for the purpose of reducing the public debt, and thus improving the quality and the sustainability of the public finances. Italy has moved in this direction by implementing a series of coordinated measures addressing several key issues and capable of producing increasing benefits in the years ahead. The aforementioned measures include those illustrated below, and namely, pension reform, the implementation of fiscal federalism and the new governance of the healthcare expenditure, taxation reform, and initiatives to increase the value of public assets to market prices.

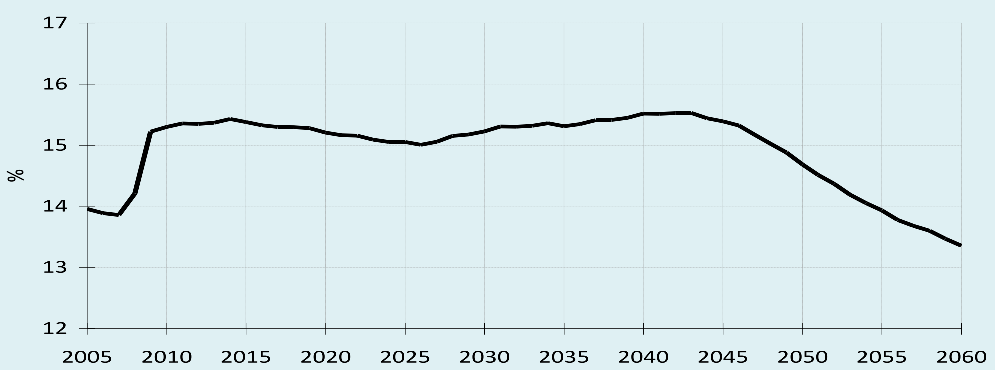
Additional information about the fiscal consolidation process is provided in the Stability Programme.

Pension reform

The process of reforming public spending on pensions dates back in 1995, and was completed with Decree-Law No. 78/2010, which provides measures aimed at the progressive stabilisation and reduction of the pension-expenditure-to-GDP ratio. Despite the existence of a public debt that is comparatively higher than the EU average, Italy does not figure as one of the countries in which population ageing is due to have a significant impact on the stability of the public accounts, and this is because of the reform of the pension system undertaken in recent decades. Indeed, as shown in the international comparison[44], the growth of Italy's pension expenditure-to-GDP is lower than the European average, even though Italy has a less favourable demographic trend.

The description of the medium/long-term trend of the pension-expenditure-to-GDP ratio shows that the process of reforming of Italy's pension system has largely managed to offset the potential effects of the demographic transition on public spending during the next few decades. The prevailing regulatory framework is described below, and takes into account the recent initiatives adopted on the subject of pensions; such initiatives have contributed to further improving the medium/long-term sustainability of the public finances, thereby favouring the reduction of the public debt.

GRAPH V.3: PUBLIC EXPENDITURE FOR PENSIONS (as a percentage of GDP)



Ordinary retirement

Under Italy's pension system, men working in the private sector must be 65 years old in order to qualify for an ordinary retirement pension, whereas the comparable age for women is 60 years old[45]. For women working in the public sector, the age requirement is being increased from 60 in 2009 to 61 years for 2010-2011, and then will be raised to 65 years on 1 January 2012. With the aforementioned changes, the retirement age for men

[44] *Economic Policy Committee-European Commission (2009), 2009 Ageing Report: Economic and Budgetary Projections for the EU-27 Member States (2008-2060); Economic Policy Committee-Social Protection Committee-European Commission (2010), Progress and Key Challenges in the Delivery of Adequate and Sustainable Pension in Europe.*

[45] In any event, a minimum contribution period is also provided.

and women working in the public sector will be the same (65) starting in 2012[46]. In any event, once a person has become eligible for ordinary retirement by meeting the age requirement, the actual date on which the pension becomes effective (and, thus, the actual age for receiving the pension) is deferred by 12 months in the case of full-time employees and 18 months in the case of self-employed workers[47].

Early retirement

Retiring at a lower age than that specified above ('early retirement') is possible in the following cases:

- when a person has made pension contributions for at least 40 years (without respect to the person's age);
- when a person has made pension contributions for at least 35 years[48] and is at least 60 year as old as of 2010, or 62 years old as of 2013 in the case of full-time employees, or 61 years old as of 2010, or 63 years old as of 2013 in the case of self-employed workers. The age requirement is reduced by one year with respect to that indicated only if the worker has made contributions for at least 36 years.

In any event, once the requisite for early retirement is met (including with contributions for at least 40 years), the actual date on which the pension becomes effective (and, thus, the actual age for receiving the pension) is deferred by 12 months in the case of full-time employees and 18 months in the case of self-employed workers[49].

Adjusting eligible retirement age to increased life expectancy

As of 2015, the age requirements for qualifying for ordinary retirement, early retirement and social allowances will be adjusted every three years according to the change in life expectancy with respect to the age of 65 as ascertained by ISTAT for the preceding three-year period. As expressly provided by the law, the procedure of adjusting eligible retirement age to increases in life expectancy every three years is fully within the sphere of administrative action with the consequent certainty of the respect of the deadlines set and of the application of the adjustments[50]. In order to align the time periods for adjusting the age requirements with those for updating the transformation coefficients, the second adjustment of the age requirements will be made on an exceptional basis as of 1 January 2019. Considering ISTAT's baseline demographic

[46] The change was made as part of the implementation of a European Court of Justice ruling handed down on 13 November 2008, which required the elimination of any difference by gender in the requirements for retiring from the public sector.

[47] Accordingly, the minimum age at which pension goes into effect is 66 for full-time workers (including women) in the public sector, 61 years for female workers in the private sector, 61.5 years for self-employed females and 66.5 years for self-employed males.

[48] This second possibility does not really apply to women in the private sector since they can continue to retire at 60 years (adjusted as from 2015 to increases in life expectancy), including in cases where contributions have been made for less than 35 years.

[49] For example, as of 2013, the minimum age with 35 years of contributions is 63 years for full-time workers and 64.5 years for self-employed workers.

[50] This is in line with the procedure already in place for updating the transformation coefficient pursuant to Article 1, Paragraph 6 of Law No. 335/1995.

scenario, the increase in the age requirement as of 1 January 2015 is expected to be equal to 3 months, since it will incorporate a higher increase in life expectancy registered in the preceding three-year period (4 months)[51]; the adjustments every three years after 2019 are estimated to be 4 months through 2030 and around 3 months until about 2050. This means a cumulative adjustment of around 3.5 years by 2050. In any event, the adjustments actually applied will be those proclaimed definitive by ISTAT.

Effects of the recent initiatives[52]

Both the revision of the dates on which the ordinary and early retirement pensions become effective and the adjustment of eligible age for retirement in order to reflect increased life expectancy are measures that exert structural effects. The revision of the dates on which pensions become effective produces a reduction of approximately 0.2 percentage points in the pension-expenditure-to-GDP ratio as from 2013 through and beyond 2030, and then decreases to 0.1 percentage points through 2040. The adjustment of eligible age for retirement in order to reflect increased life expectancy will produce another reduction in the pension-expenditure-to-GDP ratio which is estimated to equal around 0.1 percentage points around 2020, and to grow to 0.3 percentage points during the 2030-2040 decade before decreasing to 0.1 percentage points in 2045 and virtually being cancelled out thereafter. The combination of the two measures thus means a reduction of the pension-expenditure-to-GDP ratio that will equal around 0.2 percentage points in 2015, rise to 0.5 percentage points in 2030, and then descend to 0.4 percentage points in 2040 and 0.1 percentage points in 2045, before being virtually cancelled out thereafter.

Adjustment of benefits to the increase in life expectancy and adequacy of the benefits

Adjusting the retirement age to reflect increased life expectancy is a measure rounding out the pension system's endogenous mechanisms for dealing with the financial effects of demographic transition.[53]. In addition to the financial effects of the savings, the adjustment of the retirement age to incorporate life expectancy also entails improvement in terms of the benefits paid with the contributions-based system when compared with previous regulation.

In essence, since the recent reform measures regarding the age requirements started to manifest their effects as of 2008 and 2009, and thus, with the updating of the scenario reported in the Stability Programme for 2009, it is useful to evidence the pension-expenditure-to-GDP ratio based on the laws and regulations currently in effect, prior to Decree-Law No. 78/2010 and prior to Law No. 243/2004. Taken altogether, the measures adopted have led to a significant reduction in the pension-expenditure-to-GDP ratio amounting to an average of 1 percentage point per year for the entire 2015-2035 period. When considered on a cumulative basis to 2050, the aforementioned measures have paved the way for a reduction of approximately 26 percentage points, with almost one-half of that amount attributable to Law No. 122/2010.

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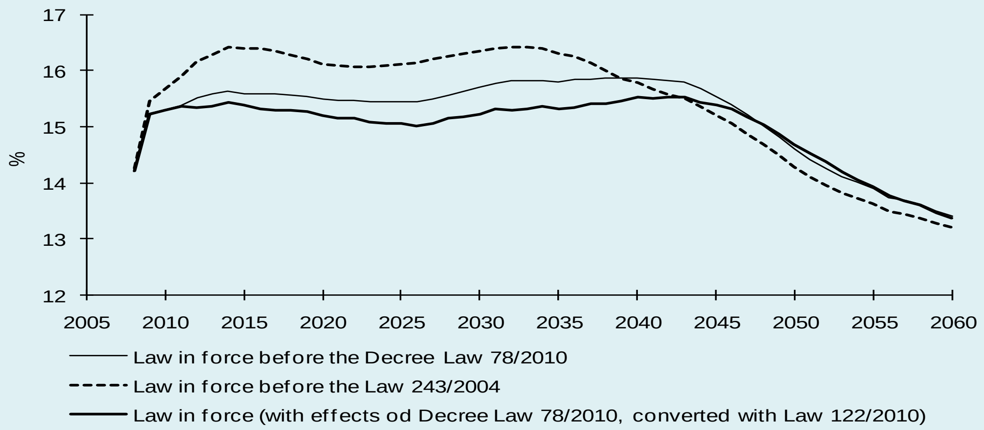
[51] With reference to the adjustment in 2015 only, the increase in the age requirement cannot exceed three months.

[52] Decree-Law No. 78/2010 (converted with amendments by Law No. 122/2010)

[53] With reference to the rules that govern the calculation of pensions within the contributions-based and mixed systems, such mechanisms include the updating of the transformation coefficient every three years.

GRAPH V.4: PUBLIC EXPENDITURE FOR PENSIONS AS A PERCENTAGE OF GDP UNDER DIFFERENT REGULATORY ASSUMPTIONS



Fiscal federalism

In 2010, the Government moved ahead in implementing fiscal federalism measures foreseen by Law No. 42/2009. Such law has defined crucial aspects for public-finance coordination, outlining the institutional framework for the various levels of government and providing the measures for moving beyond a past-expenditure criterion in favour of standard funding requirements and costs.

With the Prime Minister's Decree on 3 July 2009, a Joint Technical Commission for Implementation of Fiscal Federalism was set up at the Ministry of the Economy and Finance, and charged with the task of acquiring and processing information useful for drafting the contents of the legislative decrees to be approved by the Government. The commission also promotes the activities needed for satisfying any requests for information, acting in a consultative role for the restructuring of the financial system involving municipalities, provinces, metropolitan areas and regions.

In 2010, the commission contributed to the drafting of a report concerning the general financial framework for the territorial bodies and the possible assumptions for defining the structure of financial relationships between the State and territorial authorities. The report was sent to Parliament on 30 June 2010.

With the implementation of the enabling act's steering criteria, Italy has definitively approved the first four measures concerning: (i) real estate federalism: (ii) the transitional organisation of *'Roma Capitale'*, (iii) standard requirements for local authorities, municipal, regional (for ordinary-statute regions) and provincial federalism, and (iv) standard healthcare requirements.

With reference to real estate federalism, the Lgs. D. No. 85/2010 has provided for allocating real estate assets to territorial bodies on the basis of criteria of subsidiarity, adequacy, territoriality, simplification and financial capacity, thereby guaranteeing responsibilities and functions are correlated. Such transfer should guarantee management of public assets that is more attentive to the needs of the individual authorities and related territories, providing at the same time that those authorities may transfer assets to certain real estate funds or dispose of them when using the related proceeds for public debt reduction. Other uses are to be submitted for the approval of the European Commission so as to verify the extent to which local government financial strategies are consistent with the national objectives set out in the Stability Programme. The developments to date include the decree issued by the director of the Real Estate Agency incorporating the list of properties not to be transferred to territorial bodies, which was then transmitted to the Joint State-Regions Conference for the required opinion.

While awaiting the implementation of rules for metropolitan cities, Lgs. D. No. 156/2010 set out a transitional arrangement for *'Roma Capitale'*, identifying the related government bodies (Capitoline Assembly, Capitoline Council, and Mayor). This arrangement is based on the fact that Rome is the seat of the constitutional bodies and diplomatic representatives to the Republic of Italy, the area surrounding the City State of the Vatican, and the location of international institutions.

Lgs. D. No. 216/2010 has instead outlined the methods and procedures for the related legislative adoption of standard requirements for local authorities as a reference to be used for measuring (gradually during the transition process and later, when the federalist system is fully implemented) the full financing of expenditure in relation to fundamental functions and essential levels of service of such authorities. The standard requirement criterion will thus have a key role in the new system of financing autonomous territorial authorities, so as to ensure the gradual and definitive changeover from a past-expenditure criterion and thus, the promotion of more efficient use of public resources[54].

The Government's tax reform plan is aimed at simplification of the taxation system, and the transfer of the management of the taxes from the central government to the territorial authorities in line with the principle of fiscal autonomy introduced by the reform of Article 119 of the Constitution. The Lgs. D. No. 23 of 14 March 2011[55] on the subject of municipal fiscal federalism has provided for the changeover from central government funding to greater fiscal autonomy, with the responsibility for tax assessment being decentralised (especially with respect to real property taxation). The past-expenditure criterion will thus be surpassed upon the transfer of the State and regional resources, and a stronger ensuing relationship between financial responsibility and policy responsibility. There are two phases planned for reorganising the financing of territorial authorities. The first phase calls for the devolution to municipalities of 30 per cent of the taxes raised on the transfers of real property, 30 per cent of the taxes raised on real property income, a part of the resources coming from the new tax on property leasing, and the sharing in value-added taxes for municipalities.

In second phase, which gets under way in 2014, two new forms of municipal taxes will be introduced to substitute the existing taxes: (i) a municipal tax on real property including the current tax known as 'ICI' (without prejudice to first-home exemption) and (ii) the personal income tax (IRPEF) with the municipal add-ons limited to income from real property for property not under lease. In addition, there will be a secondary municipal

[54] The developments thus far have included the start-up of coordinated works by sector-studies unit, *Società per gli Studi di Settore* (SOSE), in order to develop the initial questionnaires to be sent to the entities in relation to fundamental functions and related services, for which the standard requirement will be applied as from 2012. The start of the transition phase for abandoning the historical spending criteria is expected in 2012, whereas the federalism system is expected to be fully operational in 2017, with a changeover that will occur gradually for groups of functions.

[55] Published in the Official Journal of the Republic of Italy No. 63 on 23 March 2011 and in effect from 7 April 2011.

tax on the occupancy of state property assets, including for promotional purposes. It is also expected that the activity to fight tax evasion will be further strengthened by providing incentives for the involvement of municipalities in tax assessment. Certain municipalities (regional capitals and cities representing major tourist attractions) will also be given the option of introducing a visitor's taxes well as taxes whose levy is to be used to finance specific public works of communal interest. Finally, regulations will be developed to lift the suspension of the municipalities' power to levy a municipal add-on to personal income tax, or to increase the same in the event in which such add-on has already been introduced.

On 31 March 2011, the Cabinet gave its definitive approval to the legislative decree about the autonomy of revenue for provinces and ordinary-statute regions, as well as the determination of standard costs and requirements for the healthcare sector[56]. The publication of the decree in the Official Gazette is forthcoming.

This legislation essentially aims at eliminating several weaknesses in the structure of the regions' main revenue accounts, without distorting the fundamental configuration. Indeed, the regional tax on productive activity (IRAP), the regional add-on to personal income tax and the sharing of value-added tax continue to be the main sources of financing regional functions. More specifically, the regional add-on to personal income tax will eventually substitute (as from 2013) State transfers and the sharing of excise tax on gasoline. However, the simultaneous reduction of personal income tax rates will guarantee that the taxpayer's total fiscal burden will remain unchanged. The regions will be empowered to pass regional laws that increase or decrease basic tax rates (although any increases will be limited to 0.5 percentage points in 2013, 1.1 percentage points in 2014 and of 2.1 percentage points as from 2015).

The sharing of value-added tax, whose rate for an initial period (through 2012) will continue to be determined on the basis of prevailing laws and regulations, will have a fundamental role in the financing of essential levels of services (including for healthcare, assistance, education and capital expenditure relative to local public transport). The rate will be established at the minimum sufficient to ensure the full financing of the standard requirement in relation to the aforementioned essential levels of services for one single region. For the remaining regions, such supplemental financing will be ensured by an equalising fund financed by an additional amount from the sharing of value-added tax.

As from 2013, the means for allocating shared value-added tax to each ordinary-statute region will change in conformity with the territorial principle, thus taking into account the actual place of consumption.

For the financing of other expenditures, the amounts allocated from the equalising fund will be based fiscal capacity, and specifically, on the amount of the regional add-on to personal income tax per inhabitant that is above or below the national average income per inhabitant. The objective is to reduce the inter-regional differences in fiscal capacity by an amount no less than 75 per cent.

Finally, as from 2013, each ordinary-statute region will have the option of passing regional laws to reduce the tax rates for the regional tax on productive activity (IRAP) or to set the rate at zero, and to provide deductions from the taxable income base. Such

[56] Approved on the basis of: the agreement at the Joint State-Regions Conference as sanctioned on 16 December 2010; the favourable opinion of the parliamentary commission for the implementation of fiscal federalism; and the parliamentary commissions responsible for consequences of a financial nature.

initiatives will be exclusively for the account of the regional budget and they thus may be implemented only in the event of shrewd budgetary management.

Another objective of the legislation for regional and provincial federalism is to streamline the existing regulatory framework with respect to provincial taxes, thereby correcting several improper overlaps.

More specifically, as from 2012, the tax on auto liability insurance (excluding that for motorcycles) will be a provincial tax, with a rate of 12.5 per cent and with the provinces having the option of raising it or lowering by up to 3.5 percentage points as early as 2011. The provincial transcription tax will continue to accrue to the regions, in accordance prevailing laws and regulations and until a change in the same.

The provinces will also share in personal income taxes to the extent needed to make up for (i) the termination of the State transfers of a general and permanent nature as from 2012 (the identification of such transfers is to be outlined in a special decree by the Prime Minister, after having consulted the State-City Conference and local autonomous entities), and (ii) the termination of a provincial add-on to the excise tax on electricity, as referenced in Article 52 of the Lgs. D. No. 504/1995. A part of the personal income tax sharing (equal to no less than the provincial add-on to excise tax on electricity assigned during the year in which this Legislative Decree goes into effect) will be transferred to the respective provinces. The remainder will instead be transferred to an experimental re-balancing fund, set up as from 2012, for the planning and execution, in a gradually and territorially balanced manner, of the attribution to provinces of the revenue autonomy. The regional transfers of a general and permanent nature aimed at financing the expenses of municipalities and provinces are also planned to end in 2013. This will be offset first through sharing of the regional add-on to personal income taxes in the case of the municipalities and the sharing of automobile taxes in the case of provinces, and the possible sharing of other regional taxes.

With reference to the definition of the State equalising financing for the municipalities and the provinces, an experimental transitional re-balancing fund is contemplated for both levels of government (for the municipalities, as part of the legislative decree implementing municipal federalism); the fund will be given enough resources so as to guarantee the territorially balanced changeover from a financing system based primarily on transfers from the State budget to a system based the substitution of State funding with funding from local and provincial taxation. Once the system is fully operational, with the standard spending requirements for fundamental functions having been determined, a state fund will be set up, with separate indication of the appropriations for municipalities and those for provinces, with the amounts therein to be used to contribute to the financing of the functions carried out by local authorities. The criteria for the fund's appropriations and allocation will be established by a subsequent decree to be issued by the Prime Minister, after having consulted the State-City Conference and local autonomous authorities, and according to a scheme for each level of government that will indicate the portions thereof for financing of fundamental functions and those for financing other functions.

The legislation about regional and provincial federalism also provides for setting up a Permanent Conference for Public Finance Coordination, as the body for coordinating public finance between municipalities, provinces, cities, regions and the State. The same legislation provides for the definition of its operation and composition.

Equalising mechanisms are an important part of federalism, with respect to both essential and non-essential functions. Budget harmonisation of the territorial authorities is another key aspect, and is considered indispensable for the preparation of standardised financial data that can be compared for the purpose of consolidation of the public administration accounts as well as for satisfying information needs in relation to the implementation of fiscal federalism. For this purpose, on 17 December 2010, the Cabinet approved a draft of Legislative Decree which was later endorsed by the Joint State-Regions Conference on 3 March 2011 and is currently under review by the parliamentary commissions responsible.

Such decree is aimed at defining uniform accounting principles to be applied not only to the regions and local authorities, but also to the entities instrumental to the same[57].

Other decrees to implement Law No. 42/2009 are in the process of being approved.

On 26 November 2010, the Cabinet approved, 'subject to understandings', the outline of a decree for implementation of Article 16 of Law No. 42/2009 on the subject of additional resources and special initiatives for eliminating economic and social imbalances. The Joint State-Regions Conference did not give its consent to the outline, although the Joint Senate and House Commission is continuing to examine it. The decree has the following general objectives:

a) concentration of the planning and the resources on a limited number of priority objectives;
b) a results orientation and assessment of results through measurable indicators;
c) attention to the progress needed for guaranteeing full-scale achievement of the objectives of economic development and economic, social and territorial cohesion objectives.

The decree's objectives are to be pursued mostly with the resources of the Fund for Underutilised Areas, renamed the Fund for Development and Cohesion, and with the EU's financing for structural purposes and related co-financing at a national level which are exclusively used for funding capital expenditure. The application of this decree is also dependent on the recognition of the infrastructural funding of the territorial authorities and the related financial requirements as provided by the inter-ministerial decree implementing Article 22 of Law No. 42/2009, which is aimed at regulating infrastructural equalisation upon its initial application.

The most recent legislative proposal having received preliminary approval by the Cabinet (30 November 2010) concerns penalty and bonus mechanisms, including regulations to step up the fight against tax evasion by involving the regions and provinces in tax assessment and the active role of the territorial authorities in standard management of regional and provincial taxes; such activity is expected to lead to the detection of

[57] The structuring of the budget by missions and programmes that are consistent with the economic and functional classification identified by special EU rules will improve the capacity to reconcile the accounting systems and budget formats of the territorial entities with those adopted at a European level for the purpose of the excessive deficit procedure. In addition, the plan to supplement the financial accounting system with an economic/capital accounting system (via adoption of an integrated account plan) should allow for representing operations in terms of costs/revenues, with the overall system becoming an information and valuation tool within the framework of the planned fiscal federalism.

additional taxable income, with higher taxes at a local and central level and a consequent positive impact on public finance. This will result in the emergence of a taxable base, with higher revenues both at central and at local level.

Such provisions are closely related to those established by Decree-Law No. 78/2010 with which the Government moved up the timetable for the plan to correct the public accounts for the 2011-13 period. In pursuing the general effort to fight tax evasion (as already begun with the budget package for 2010-2012), the decree has increased the municipalities' share of taxes recovered to the benefit of those authorities having the greatest commitment to such activity.

THE GOVERNANCE OF HEALTHCARE EXPENDITURE

During the past five years, a system of regulating the healthcare sector has been gradually implemented through which both the cost-effective regions and the regions operating with high deficits have become increasingly accountable for their performance. The 2007-2009 and 2010-2012 Healthcare Pacts include specific plans to curb the deficits of the problem regions. Although complex, the governance architecture can be summarised with the following points:

a) A mechanism for the automatic increase of tax rates should any deficit not be covered; this provision is consistent with the principle of making the regions accountable for keeping their budgets in balance;

b) The reinforcement of the tools used in vesting responsibility with the regions for appropriate use of healthcare resources;

c) The obligation for an accord between the regions operating with high structural deficits and the State, including a deficit-reduction plan through which economic-financial equilibrium can be reached and the provision for transitory funding to support the regions committed to reducing their structural deficits; the individual plans outline and selectively tackle the factors that have led to the high deficits, and are thus effectively business restructuring plans that address spending factors escaping the control of the regions.

The implementation of actions to govern the healthcare system has made it possible to achieve a significant slowdown in the growth of healthcare spending in recent years.

It follows that the implementation of fiscal federalism with regard to the healthcare sector cannot but move in line with the pacts signed between the State and regions. And this, in and of itself, is a positive aspect, considering the results being achieved with the governance measures implemented, the deficit-reduction plans and the sanctioning mechanisms. The implementation of fiscal federalism with the Legislative Decree approved by the Cabinet meeting of 31 March 2011 (whose publication in the Official Gazette is forthcoming) confirms the current financial planning and the related containment of the spending trend, thereby improving the institutional structure (including when a comparison is made between regions) both with regard to the splitting of resources and the analysis of existing inefficiencies or inadequacies, supplying another institutional foundation to the programme in process. Indeed, the criterion of choosing the benchmark regions is financial and qualitative. The budget-equilibrium requisite is absolutely necessary and a priority for identifying the regions that provide healthcare services with the resources deemed appropriate by the State. The regions operating with deficits obviously either have areas of inefficiency, or are supplying superior levels of service. In addition to budget equilibrium, the following requisites figure in the selection of the best regions:

a) the supply of essential levels of service in efficient and appropriate conditions;
b) the surpassing of the compliance matters provided by existing legislation, including the quality of the administrative-accounting procedures underlying the proper accounting treatment of business transactions, and the ascertainment of the quality of the accounting data;
c) the presence of quality criteria on the basis of the indicators already shared.

Another advance is thus when quality becomes quantity, in other words, with the subdivision of standard costs between three levels of service. Quantitative and institutional instruments are provided to show that the deficits and/or excess fiscal revenues refer to situations quantitatively detectable and comparable in more analytical terms. The construction of spending and quality benchmarks, the standardisation of accounting documents, and the sanctions contemplated in the event of deficits are elements of a system that is aimed at overturning the logic that the State will make good on regional deficits. Healthcare federalism can represent a positive example to be used as a reference for raising the efficiency of spending and the quality of public-finance decisions in other areas. The provisions contained in the legislation implementing fiscal federalism thus represent the consequent development of a discipline already provided for every region, starting from the shared indicators already in place. The comparison with the standard healthcare costs reported by the better performing regions will be the aggregate of reference for measuring areas of inefficiency and impropriety and for steadily verifying the developments of the system towards organisational and operational models that are gradually performing better.
In addition, the proposed legislative decree concerning budget harmonisation represents another improvement with respect to the accounting procedures in effect in the healthcare sector: the proposed decree contains important provisions aimed at: (i) guaranteeing easy identification of healthcare financing within regional budgets, and (ii) governing, within the regional healthcare budgets, the accounting of regional centralised healthcare management (National Healthcare System financing not allocated to specific authorities but directly managed by the regions), the regional consolidation of healthcare accounts, specific exceptions to Civil Code provisions so as to take into account the specific nature of the bodies involved, and the transparency of cash flows related to healthcare financing.

Taxation reform

Italy's taxation system is income-based, and since its reform in the early 1970s, it has undergone numerous marginal changes over time that have considerably increased the complexity of the taxation structure, simultaneously causing higher costs for both the system's administration and taxpayer compliance. As an example, personal income tax refers to six categories of income and envisages five different tax rates and 134 tax expenditures.

Considering the profound changes occurring in business, competitive, social, environmental and institutional models, it would appear that a rethinking of the fiscal model is necessary, and that the model might be based on the guidelines previously set out in the White Book on Fiscal Reform of 1994 ('from persons to property', 'from central administration to local administration', and 'from the complex to the simple').

In view of the high public debt, the reform strategy cannot be anything but basically neutral from a financial standpoint. The critical factors for the success of strategies that achieve profound reform include: better distribution of the tax burden through transferring part of it from direct taxes to indirect taxes; the introduction of taxes that have less distortive effects on growth (and in particular, environmental taxes); the simplification of the tax system and the procedures for ensuring the certainty of the right; and a turnaround in irresponsible public spending through the involvement and the accountability of local administrations. At the same time, the strategy needs to be oriented toward streamlining the entire system, ensuring financial stability, and adjusting the tax authority structure to new economic, competitive, social, environmental, and institutional models.

The first step in this direction is Lgs. D. No. 23/2011 on municipal fiscal federalism which contains a series of provisions with an essentially neutral effect overall.

In particular, the taxability of transfers in favour of the municipalities in ordinary-statute regions for approximately €11 billion, substituting the same for the years from 2011 to 2013, with: i) the devolution of 30 per cent of the tax income against the transfers, or approximately €1.4 billion (registration, mortgage, cadastral and special cadastral taxes on the transfers of real property); ii) personal income taxes (IRPEF) on income from land (approximately €5.2 billion); iii) 21.7 per cent for 2011 and 21.6 per cent for 2012 of the substitute tax on lease contracts for residential use (flat rate tax) equal to €527 million and €746 million, respectively; iv) sharing in value-added tax for approximately €3 billion; and v) stamp duties and registration taxes on lease contracts (approximately €700 million). The flat rate tax substitutes other current taxation (personal income tax, add-ons to personal income tax, registration tax, and stamp duties) on an optional basis, and it is ultimately expected to generate approximately €4 billion.

Starting in 2014, taxes on the paid transfer of real property will be streamlined through the unification of registration taxes and other taxes and duties (mortgage taxes, cadastral taxes, stamp duties, and special cadastral taxes). The measure involves taxes totalling approximately €4.5 billion. Finally, as of 2014, municipalities may institute a municipal tax that incorporates personal income tax (IRPEF) on income from land not under lease, the related add-ons to personal income tax and property tax (ICI). This new form of local taxation refers to fiscal revenue totalling approximately €11.5 billion. Therefore, as from 2014, the municipalities will collect the municipal tax, while they will also receive: i) 30 per cent of the taxes raised on the transfers of real property; ii) revenues from stamp duty on leasing contracts; iii) personal income tax on income from land; iv) a portion of flat rate tax; and v) a share of value-added tax.

The municipal tax reform could:

a) generate additional revenues for municipalities, guaranteeing adequate margins for the fiscal autonomy of decentralised authorities, through the gradual detection of 'hidden' taxable income, especially in the rental market;
b) provide incentives for changing residence through the progressive shift of lessors' tax savings to renters;
c) reduce transaction costs for property transfers with a positive effect on the real estate market;
d) generate a positive impact on economic growth by reducing the tax burden on buildings owned by business.

BALANCE SHEET OF STATE ASSETS AT MARKET PRICES

State asset management can play an important role in curbing the deficit and reducing the public debt, through decisive development of the return on the property assets or the start-up of a concrete process to enhance property value. The objective is to involve all levels of government in the project, and thus to jointly develop adequate principles and management models.

Article 2, Paragraph 222 of Law No.191/2009 (2010 Budget Law) falls within this framework, as it has given the Ministry of the Economy and Finance the task of preparing an inventory of public assets and valuing those assets at market prices.

The accounting and valuation of the assets began on 18 February 2010 with the reporting of the real property assets (buildings and land).

As of 31 January 2011, 50 per cent of the public administrations participating in the survey had complied with the communications obligations provided by the aforementioned article.

As provided by the decree of the Minister of the Economy of 30 July 2010, the inventory and valuation of two other components of assets (shareholdings and concessions) was begun on 1 February 2011. The project will be gradually extended to other assets subject to economic valuation.

The balance sheet of State assets at market prices will be added to other existing reports, such as the general government account prepared annually by the State's General Accounting Department and the publication of lists of state-owned property prepared by the Real Estate Agency. The balance sheet is different from the other reports in that it is prepared from the standpoint of management and value-enhancement, with the assets stated at market prices. The reporting sphere is also different because it refers to all of the public administrations.

V.6 PRODUCT MARKET AND PUBLIC ADMINISTRATION

Pro-competitive development of Italy's economy has been delayed by the need for further deregulation of the services sector and network industries and the need to boost administrative efficiency to the advantage of the entrepreneurial environment. An effective response to these challenges through immediately implemented actions could contribute to encouraging growth in the near term. The implementation of the EU Services Directive into Italian law in March 2010 represents an essential starting point in this regard, in the wake of the deregulation already initiated by the Government and it should provide a further thrust not only to deregulation but also simplification.

The review of national laws and regulations to make them compatible with the directive's provisions has also been an important occasion for creating efficient coordination between the central government and the regions, while also providing an incentive for structured dialogue about all aspects of the directive's implementation.

Lgs. D. No. 59/2010, enacting the directive, represents a sort of general reform of the services sector, which has allowed for overcoming the institutional fragmentation between the State, regions and local authorities that was impeding the activities of businesses.

With this decree, various decisions were made that are aimed at favouring simplification and free competition on the market, thus eliminating numerous procedures that delayed or impeded the exercise of or the access to services activity. Part I sets out the important principle that, unless otherwise provided, the applicable regulations for accessing and exercising services activity is the declaration of the initiation of activity (DIA) presented to the authority responsible which takes effect immediately. The decree also introduces the important rule that the authorising certificate is effective nationwide and that any limitations must be justified by an imperative reason of general interest.

Subsequent legislation provided[58] that the 'DIA' was to be substituted by the 'Reporting of the Initiation of Activity (SCIA)'. On the basis of the new law, the reporting by the interested party (excluding several exceptions outlined in the law itself) substitutes any act of authorisation, licence, non-constitutive concession, permit or *nulla osta* howsoever named, including applications for registration on registers and rolls as required for the exercise of entrepreneurial, commercial or artisan activity (with a field of application that is therefore broader than that set by the Services Directive) whose issuance depends exclusively upon the ascertainment of the requisites and premises required by the law or by general administrative acts; furthermore, there is no limit or overall condition or specific sector-planning instruments for the issuance of the acts. The administration has 60 days for proceeding to verify the reporting and the accompanying statements and certifications[59].

Lgs. D. No. 59/2011 makes reference to the requisites for access to business, eliminating the previous differentiation in the various regions and unifying on a nationwide basis the previously existing ethical and professional requirements. In the case of opening neighbourhood business establishments for special types of sale and certain cottage-industry activities, the SCIA allows the start-up of the activity as of the same date on which the notice is sent to the municipality responsible. For business in public areas, the requisite regarding the type of legal form was eliminated, with the extension of the activity to joint-stock companies[60].

With regard to the serving of food and beverage items, the decree provides for the maintenance of the authorisation order, considering the need for ensuring environmental and social sustainability, road conditions and public order, as well as the safeguarding of prestigious historic and artistic areas.

Finally, the decree eliminated rolls and lists as the premise for starting up commercial brokerage and business activity, the activity of business agents, representatives and maritime brokers, without modifying any of the access requisites. The tourism sector has also been significantly affected by the introduction of the SCIA.

In relation to the professions regulated by the Ministry of Justice, the decree has simplified the procedures for registering on registers or lists, providing for silent assent once a term of two months has elapsed (a single term for all professions).

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[58] Article 49, Paragraph 4-bis of Decree-Law No.78/2010, (converted with amendments by Law No. 122/2010).

[59] In the event of the absence of the requisites and premises set by the law, the administration may impede the continuation of the activity, subject to the correction of the same within a term set by the administration.

[60] Instead, the previous system provided that the applicant needed to wait 30 days from the date of the notice. Through the institution of the SCIA, the decree also concerns some cottage-industry activity, making the start-up of the activity possible as from the sending of the notice to the appropriate municipality responsible.

Two other regulatory initiatives functional to the promotion and relaunching of the productive system regard the new single contact point for productive activity *(Sportello Unico per Attività Produttiva (SUAP)* and the 'Agencies for Businesses'[61].

The decree on the SUAP (Decree of the President of the Republic No. 160 of 7 September 2010, No. 160) simplifies and revises the governance of the single contact point, identifying the centre's role as a unique link between business owners and the government, and planning the introduction of the exclusive use of online tools for fulfilling all phases of administrative proceedings, so as to guarantee simplification and certainty of the timing for conclusion.

The other decree (Decree of the President of the Republic No. 159 of 9 July 2010) governs the 'agencies for businesses' set up under principal regulations so as to contribute to facilitate relationships between businesses and government, thereby making it possible to overcome possible problems related to the exclusive use of electronic means for the presentation of documentation required for administrative proceedings.

Several regions have already initiated implementation of the Services Directive (in particular the Veneto Region[62]) with measures aimed at simplifying the start-up of handicraft firms and standardising the proceedings regarding business activity.

The annual law for the market and competition represents an important occasion for promoting stronger competition[63].

Having considered information supplied by some of the administrations affected and the additional independently reported needs for deregulation and simplification, the Ministry of Economic Development has come up with an initial detailed draft providing for action in areas in which the competitive problems are the greatest and the need for reform is most urgent. The planned measures also take into account the antitrust authority's reporting about several important matters and sectors for the purpose of encouraging greater market transparency and simplification of procedures. The general purpose of the legislation is to reinforce the tools for competition between businesses, while simultaneously protecting the instruments to safeguard consumers. In addition, the draft includes provisions sanctioning fundamental principles in respect of which the regions and the independent provinces exercise their regulatory responsibilities when matters become evident concerning the safeguarding of competition pursuant to Article 117, Letter e) of the Constitution.

During 2010, the proposed legislation was thoroughly reviewed and debated with public bodies and representatives of the business world and the unions, so as to achieve the high level of consensus needed for its implementation.

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[61] The two instruments were provided by Paragraphs 3 and 4 of Article 38 of the Decree-Law No. 112/2008, converted with amendments by Law No.133/2008.

[62] Regional Law No. 15 of 2010.

[63] The adoption of the law is contemplated by Article 47 of Law No. 99 of 23 July 2009 ('Provisions for the development and international expansion of businesses and the subject of energy'). The objectives of the annual law are in line with the report prepared by Mario Monti to Josè Manuel Barroso, the head of the European Commission, with regard to 'a new single-market strategy' It may represent one of those "specific measures" that, according to the report, are needed for allowing 'citizens, consumers and SMEs to exploit actively the broad range of opportunity' of choosing suppliers, services and products, or the new transfer possibilities while also safeguarding the 'security of the products traded in business'.

With reference to the energy markets, Italy's Government is proceeding with the ratification of the directives known as the "Third Energy Package"[64]. A first draft of a legislative decree on the subject was approved by the Cabinet on 3 March 2011, and is now under review by the parliamentary commissions responsible. The regulations are expected to enter into effect by the end of May 2011.

While Italian legislation is particularly advanced from the standpoint of the actual unbundling of transport networks and the powers of the regulatory authority, there are still some amendments to existing legislation that are needed so that it is fully in line with the changes introduced by the Third-Package directives.

In particular, with regard to the Directive 2009/72/CE (electricity market), special reference will be made to cross-border transport for the purpose of fully integrating Italy in the European electricity market, with it thus being made easier to sign contracts for the sale and purchase of electricity between producers and consumers located in different EU Member States.

Efforts will also be made to achieve optimal allocation of the energy infrastructure within the national territory, with the design and construction of new production plants and new electricity lines in areas of the country in which the infrastructure can produce greater positive effects for the electricity system nationwide.

With regard to the Directive 2009/73/CE (domestic market for natural gas), the delegation criteria are aimed at increasing trade between Italy and other European countries, so as to ensure greater security for procurement and a more efficient and integrated market, while reducing trade barriers. Future plans also call for the presentation of programmes for the long-term development of the transport networks in relation to the demand for gas and for new capacity, as well as the possibility for carrying out programmes to sell gas for the benefit of competition, thus increasing the transparency of the sale transactions.

A series of measures directed at improving the business environment introduced with the Decree-Law No. 78/2010 should also be considered:

– the reduction of administrative costs shouldered by small- and medium-sized enterprise through government settlements, including on the basis of: (i) the results of the measurement of the administrative costs; (ii) the principles of proportionality of administrative formalities; (iii) the needs for protecting the public interests involved; (iv) the extension of self-certification and of the technical certifications on the part of authorised professionals; (v) the automation of formalities and procedures; and (vi) the suppression of authorisations and controls for business in possession of ISO or equivalent certification;
– the possibility of applying a foreign taxation system, if more favourable, for EU businesses that are undertaking over a three-year period new activity in Italy;
– the creation of a network contract which the firms in industrial districts can use for working together in pre-determined environments and types of transactions

[64] The Third Package includes the directive 2009/73/CE, in relation to common rules for the entire natural gas market, the directive 2009/72/CE in relation to common rules for the entire electricity market and the directive No. 2008/92/CE concerning an EU procedure about the transparency of prices to the final industrial consumer of gas and electricity.

pertaining to the exercise of their business activity or the exchange of information or services of an industrial, commercial, technical or technological nature;

– the possibility of setting up "zero bureaucracy" areas in southern Italy, where administrative formalities will be concluded within a specific timeframe (normally, within 30 days), including with the aid of a government commissioner, and the firms can benefit from additional subsidies disbursed by local authorities and preferential treatment in the implementation of governance and public-security plans.

In addition, in acting on the European Commission's Communication 'Think Small First, Small Business Act (SBA) for Europe' issued on 25 June 2008, the Prime Minister formalised a directive on 4 May 2010, making it possible to outline a new 'productive policy' that is focused on the needs of smaller businesses and that is complementary to, and not competitive with, industrial policy.

In support of the priorities outlined in the SBA Directive, the Ministry of the Economic Development has set up a permanent commission for SMEs, to be used as a point of reference for consultation and review of the start-up of initiatives aimed at supporting, improving and developing small businesses. Such initiatives include the inauguration of the activity of the Permanent Italian National Committee for Microcredit, and the promotion of venture-capital instruments through the accord with the Italian Association of Private Equity and Venture Capital signed on 30 April 2010, in line with the European Commission's attention to the issue within the framework of the Annual Growth Survey.

During the first months of 2011, the SBA was further revised with an increased focus on several strategic aspects for SMEs, including, for example, support to the growth of the firms owned by citizens from countries outside of the EU, women's business initiatives, the dissemination of the network culture at small businesses and cottage-industry firms, the use of venture capital in SMEs and the adoption of the SBA at a regional level.

REGIONAL PROGRAMMES TO SUPPORT SMALL/MEDIUM-SIZED ENTERPRISES

Considered altogether, the initiatives undertaken by the regions and autonomous provinces aim to create conditions favourable to the sustainable growth and competitiveness of small- and medium-sized firms.

In line with the 'priority measures' contained in the Annual Growth Survey, the regions have adopted policies oriented toward improving the competitiveness prospects for Italian businesses in the domestic market, while also focusing on reducing the costs of services for the companies.

In general, the initiatives entail the use of specialised tools within the crisis-containment package, with a focus on the activities of start-ups, support to the firms' liquidity, consolidation of pension liabilities, and accompanying measures (such as the suspension of SMEs' payments, certification of the receivables from regions, the conversion of receivables into cash, and the confirmation of support measures).

Within the programmes in favour of the SMEs, a particular emphasis goes to financial stabilisation measures, including from the perspective of responding to the challenges of the serious global economic crisis.

Finally, many regions have committed to supporting the SMEs as a whole, with the objective of improving the conditions for their access to capital and credit, by implementing crisis-containment measures with the use of regional funding.

Some of the specific initiatives are outlined below.

In the Region of Emilia-Romagna, agreements were signed with banks for the implementation of the 'Accord on credit to businesses', and in the regions of the Marches, Umbria and Tuscany, tenders were planned for setting up and managing funds to provide incentives to innovative projects.

Tuscany has also put together training initiatives on the subject of safety and security in the workplace, and has inaugurated actions on the subject of rights and legality in the workplace. It also set up a solidarity fund for the families of victims of fatal accidents at work. Other resources have been earmarked for combating illegal and unregistered employment, sustaining income, increasing the rate of participation of women and young people in the work force, and getting the unemployed back to work; another fund was established to facilitate access to credit for individuals not employed under full-time contracts, while a network of assistance and training centres was financed for atypical workers. Regional Law No. 21/2008 provides incentives for young entrepreneurs, with €10 million being appropriated for the 2009-2011 period for the creation of businesses with innovative development potential.

The Autonomous Province of Bolzano approved crisis-containment packages containing measures for re-launching the economy, the safeguarding of jobs, and subsidies for innovation in favour of firms in crisis. In addressing the economic and financial crisis, the Region of Umbria created crisis-containment funds in order to facilitate access to credit by SMEs, and devised family-support measures[65]*. In some cases (Region of Campania), the temporary measures to contain the crisis have been accompanied by initiatives to help businesses consolidate short-term debt. In underpinning regional competitiveness, some regions have legislated measures in support of credit, entrepreneurship and innovation (Region of Lombardy and Region of Tuscany), particularly through building up the capital of the collective loan-guarantee consortiums (Confidi).*

The Region of Piedmont adopted an extraordinary plan for employment, with the inclusion of training programmes to facilitate the hiring of young people and adults, on-the-job training of young people via apprenticeship contracts, settlement vouchers, and education about equal opportunity and other initiatives for employment of women (using the European Social Fund). Also in Piedmont, the approval of new long-term plan for competitiveness entails proposed new alliances between the chamber-of-commerce system and trade association representatives, and tools that should help the regional economic system to recover lost ground in terms of competitiveness.

The Region of Veneto has instead concentrated its efforts on helping businesses to realise the receivables claimed from the public administration, regional advances on wage-supplementation programmes (CIGS), and the temporary suspension of the payment of instalments on non-subsidised financing for investment in capital goods, with the simultaneous advances of interest. The Region of Veneto also approved a resolution calling for two extraordinary plans of regional financial initiatives for crisis containment, the first of which calls for the injection of more cash

[65] In 2010, the region signed a protocol of intent with the municipalities, provinces and the Italian Banking Association of Umbria, for the use, without recourse, of receivables claimed by companies against the public administration. The protocol also allows the provinces and local entities to identify solutions for financing public works outside of the constraints of the Stability Pact.

liquidity, and the second of which provides for the non-recourse transfer of receivables for supplies, services and tenders. Finally, two measures within the Regional Operating Programmes aimed at supporting the self-employment of women and young people have provided capital subsidies for investment in firms owned mostly by women and support to the incorporation of businesses set up by young people.

Numerous initiatives have been aimed at development of the industrial and cottage-industry firms (Autonomous Province of Bolzano and Region of Sicily) and entrepreneurial undertakings by young people and women.

The Region of Latium has concentrated its efforts on integrating wage guarantee policies (exceptional social safety nets) and active labour policies, including as part of the implementation of a crisis-containment accord legislated in February 2009. The support measures and actions are consistent with 'Latium 2020' and thus, with the strategic guidelines identified by Europe 2020. They respond to the actions outlined in the European Commission's priority statement 'Mobilise the labour market, create employment opportunities' with reference to the Annual Growth Survey of 12 January 2011.

The Region of Apulia recently approved a programme to promote international expansion of local productive systems, and published a notice for usury prevention addressed to the collective loan-guarantee consortiums (Confidi) and other consortiums operating in the region.

Access to credit is one of the key themes for business competitiveness, and it is particularly important to small and medium-sized firms that have been adversely impacted by the negative economic cycle since 2008. With the prospect of an economic recovery, these firms have also shown the need for re-launching their activity.

Against this backdrop, the Central Guarantee Fund has played an important role in favouring the SMEs' access to financing with the granting of public guarantees[66]. The fund was made stronger via refinancing for the 2008-2012 period and a series of reforms was introduced to serve as a premise for gradually increasing the fund's impact on the SMEs. The reforms include: expanding the fund's availability to sectors initially excluded (handicraft industries, cooperatives, cargo transport for the account of third parties); the release of the State's guarantee to the fund which, with its zero weighting, makes the guarantee transactions in favour of the firms more convenient; and the possibility of co-financing from the regions and other parties. Furthermore, with a view toward simplification and greater accessibility, significant revisions were approved in the procedures through which SMEs can take advantage of the guarantee and the evaluation procedures through which the collective loan-guarantee consortiums (Confidi) certify creditworthiness.

Considering the fund is not only anti-cyclical but also a tool for growth, the aim is to make the tool stronger so as to enhance the value of its multiplier effect and increase its impact on the Italian entrepreneurial fabric. From this perspective, a particular emphasis will be placed on outlining the fund's future through dialogue with the territorial authorities. Such effort can be expected to expand the reach of the instrument, with a view toward increasing collaboration with the network of businesses taking advantage of

[66] Set up with Law No. 266/1996 at the Ministry of Economic Development.

the guarantee system, and the involvement of regional funds, the '*confidi*' and other players close to the businesses.

The Government's action to support the economic system and businesses has been fortified with the adoption of an innovative approach to certain aspects of economic policy, thus making it possible to blend budgetary rigour with actions aimed at the growth and greater competitiveness of Italian companies, including in the international marketplace. More specifically, considering the limited manoeuvring room for intervention through traditional fiscal-policy mechanisms, various initiatives have been undertaken that have several key common characteristics: *i)* zero (or very limited) impact on the public budget, but significant positive externalities for the economic system as a whole; *ii)* presence of partnerships between the public and private sectors thanks to the identification of converging interests; this has allowed for attracting private capital and/or involving the banking system in the implementation of economic policy; iii) adoption of legal forms and/or innovative implementation instruments for the public sector.

The initiatives meeting these criteria are the following:

a) Italian Investment Fund: a closed-end private-equity fund for qualified investors, with a management company in which the State has direct ownership, launched in 2010 and operating through the acquisition of minority interests in firms with up to €100 million of revenues and aimed at resolving the businesses' problem of limited capitalisation;
b) Greenfield Infrastructure Fund*:* a 30-year, closed-end mutual investment fund, reserved for qualified investors, with a management company in which the State has direct ownership, set up for the purpose of planning and building new infrastructure and attracting foreign capital so as to reduce the infrastructural gap compared with the competitor countries;
c) *'Jeremie Mezzogiorno'* (*Joint European Resources for Microcredit to Medium Enterprise*): the creation of a revolving fund for SME credit, guarantees, and risk capital, with the objective of efficiently using EU resources available to Italy's southern regions so as to improve access to credit for SMEs in those regions;
d) *Banca del Mezzogiorno*: 'second-level bank' whose principal objective is to solve the credit-rationing problem, with particular regard to medium/long-term financing to SMEs in southern Italy which are operating at a disadvantage when compared with other Italian firms.

The Merit Fund described previously with reference to education also falls within this framework.

ITALIAN INVESTMENT FUND

The Italian Investment Fund is an initiative promoted by the Ministry of the Economy and Finance together with the nation's leading banks and the Cassa Depositi e Prestiti. *In March 2010, a management company (SGR) was set up to manage the funding raised (approximately €1.2 billion) through the subscription of units of a closed-end fund reserved for qualified investors.*

This private-equity fund's activity on the market consists of acquiring minority interests in medium-sized Italian firms. The fund's purpose is to capitalise medium-sized Italian firms (€10 million to €100 million of revenues).

The fund simultaneously meets two objectives: the first (from the perspective of the private sector) is the remuneration on invested capital (in the interest of the investors: banks and Cassa Depositi e Prestiti*); the second (public sector) is the growth of the firms and, more in general, in the strengthening of the Italian economic system.*

The starting point for the various participants in the fund is that economic growth in Italy depends significantly on the productive structure of SMEs, most of which have a large percentage of revenues coming from exports. Even so, because these firms have a low level of capitalisation and limited possibilities for increasing financial leverage, a strong capital injection is needed for making these firms more financially solid and thus capable of competing in the international markets.

The creation of a private-equity fund in which the State has a steering function is considered the most appropriate solution for these critical aspects: compared with traditional private-equity operators mainly focused on leveraged buyouts (more aggressive in terms of risk/ return), the Italian Investment Fund is restricted to operating with an approach more oriented to supporting long-term development of the companies in which it invests. The advantage of a private-equity fund over public incentives is that the analysis of the merit of the development projects and of the solidity of the companies is done by specialised analysts who also have the objective of ensuring a return on the capital invested by the private sponsors.

Operational since October 2010, the fund has already approved its first investments.

GREENFIELD INFRASTRUCTURE FUND

The project for creating the Greenfield Infrastructure Fund was inaugurated in March 2011, following the approval of Decree-Law No. 225 of 29 December 2010 (converted in Law No. 10/2011, Article 17-septies).

As outlined by the law, the State is authorised to subscribe units of a management company set up to manage closed-end securities investment funds reserved for qualified investors that pursue the objective of designing and building new infrastructure in the national territory.

The objective of the legislation is the creation of an institutional management company that will manage a 30-year fund for the design and construction of greenfield infrastructure and that is capable of attracting the capital of foreign sovereign funds. This initiative is the last of various instruments aimed at closing national infrastructural gap; the other instruments are the F2I, a fund active in the field of brownfield infrastructure primarily on a national scale, and Marguerite, a fund specialising in projects with reference to the trans-European networks for transport, energy and renewable energy (TEN-T and TEN-E).

In terms of its operational sphere, the new fund will deal with strategic projects of national interest and new infrastructure of local interest.

As to resources, the funding objective is €1.01.5 billion.

The fund should be fully operational as of the start of 2012, and an entirely innovative aspect of the project is the involvement as sponsors of both the Cassa Depositi e Prestiti *and investors traditionally interested in this activity (retirement funds, insurance companies, banking foundations, sovereign funds, and foreign institutional investors (e.g. pension funds)).*

JEREMIE MEZZOGIORNO

'Jeremie Mezzogiorno' is an initiative provided by the Plan for Southern Italy approved by the Council of Ministers in November 2010, which is based on the creation of a revolving fund of a superregional nature.
The initiative is proposed for resolving problems that SMEs located in southern Italy may encounter in accessing debt and risk capital, by capitalising on the experience already gained in the implementation of programmes co-financed by 2007-2013 structural funds, and by overcoming the current fragmentation of financing due to the co-existence of different tools for the implementation of different programmes.
The fund may grant loans and guarantees, and participate in private-equity transactions, thereby facilitating investment and getting beyond the logic of sinking fund contributions.
The planning of superregional 'Jeremie Mezzogiorno' *fund will make it possible for firms and banks to benefit from the advantage of a single fund, with standardised procedures for all regions, in compliance with all of the regulations for use of EU funds, including for financial reporting purposes (with separate accounts to be used for each operating programme).*
'Jeremie Mezzogiorno' *provides the regions with an easy tool for efficient use of EU funds, with savings on administrative charges and bureaucratic formalities and the benefit of economies of scale that come from the use of a single instrument.*
The resources to be allocated to 'Jeremie Mezzogiorno' *will presumably come from the 2007-2013 Regional Operational Programmes and National Operational Programme and, in particular, by using the financial-engineering measures in the programmes. With the involvement of the regions defined, the fund will probably become operational during the second half of 2011.*

BANCA DEL MEZZOGIORNO

The Banca del Mezzogiorno *(BdM) has been created pursuant to Article 2, Paragraph 162 and the paragraphs thereafter of Law No. 191/2009 (2010 Budget Law), and is a second-level financial institution set up for supporting investment projects in southern Italy and for promoting medium/long-term credit to SMEs. As a second-level institution, BdM will operate with the post-office network and the networks of the banks that participate in the project.*
The bank should become fully operational in the summer/autumn of 2011, with Poste Italiane *and its distribution network initially playing an important role in the bank's ownership.*
The BdM initiative aims to reduce the gap that firms of southern Italy experience in terms of access to credit. Indeed, the penetration of banking networks is lower in southern Italy than in the country's northern and central regions, with the south having 50 per cent less branches than the central-northern areas, and the number of bank branches per 1,000 inhabitants at 0.3 in the south versus 0.6 in the central-north areas.
From the standpoint of the entrepreneurial fabric, the disparity translates into less credit available to the firms of southern Italy. Such factor is also shown by the loan-to-deposit ratio that is higher in the central-northern regions.
This evidence seems to affirm the presence of drainage of resources on the part of the banking system which raises funds in the southern regions and then redeploys them in the central and northern regions.
More specifically, the loan-to-deposit ratio for the central-northern regions is approximately 46 percentage points higher than that for the southern regions (184.6 per cent versus 138.2 per cent).

The scenario described is compatible with a situation of credit rationing in which even reliable and solvent firms and firms with solid investment projects can encounter difficulties in obtaining financing because they are perceived as risky by the banks: as widely known, the problem has afflicted southern Italy as a whole since the perception is attributable to an environment that does not take into account the state of health of the individual business.

Italy's industrial fabric can further expand provided that it has an efficient and modern transportation and logistics system: recent estimates indicate that the overall inefficiency of the logistics sector leads to losses of around €40 billion per year. In this regard, the New Logistics Plan responds to the need for a clear-cut long-term transportation strategy.

The new plan now being approved by the Government has the objective of reducing the system's inefficiency and attracting traffic to the nation's ports and airports. These objectives will be pursued through specific actions:

1) single customs contact point;
2) decree covering expected timing for loading and unloading;
3) reform of the port authorities;
4) deterrents in order to reduce the transport of empty containers;
5) bonuses for logistics outsourcing;
6) urban distribution of goods;
7) intermodal transport, co-modal transport and an interport network system;
8) national plan for intelligent transport systems.

Italy is also committed to organising the "Doing Business" survey at a regional level, in collaboration with the World Bank. This initiative will make it possible to evaluate constraints to the start-up and development of businesses and the related territorial differences, so as to promote the actions needed at every level of governance involved. The survey will be concentrated in the regions of southern Italy, and will involve some of the northern regions of the country as benchmarks.

Finally, it is worth noting some of partnership measures implemented as from the second half of 2010, for international agreements ratified Italy on economic, commercial, industrial, fiscal and customs cooperation. The international initiatives have been primarily addressed at developing special instruments to stimulate cooperation, mutual administrative assistance, and the use of the information technology in the customs and border operations through specific international accords[67]. In the last case, the effort is mainly to develop stronger and more effective working relationships between the respective customs services in order prevent customs law violations that could prejudice the economic interests of the nations involved.

Indeed, the exact determination of duties and taxes on importation or exportation transactions and the proper application of the measures for the prohibition, restriction or control of exports and imports (including the application of laws and regulations regarding counterfeit merchandise and the use of registered trademarks) are data of fundamental importance for businesses that need to make informed economic choices by

[67] Law No. 43/2010; Law No. 92/2010; Law No. 208/2010.

taking into account all factors available to them. In addition, these measures facilitate the simplification and the improvement of procedures, with the consequent more efficient use of public resources through the realisation of cost savings.

Accords aimed at avoiding double taxation (income tax) and preventing tax evasion have been ratified[68] with the intent of streamlining bureaucratic and regulatory requirements so as to make the business environment more competitive while also facilitating international expansion of businesses.

Another area of Italy's international involvement is that of infrastructure and development, through accords promoting the planning and construction of common infrastructural networks and projects, including the strengthening of cross-border rail links that are strategically important for the nation's sustainable development[69].

Rounding out the reforms aimed at increasing the wellbeing of individuals and businesses, the Government has recently approved a Constitutional law bill for the reform of the justice system.

Reform of the Public Administration

The reform of the public administration undertaken by the Government is concentrated on increasing efficiency and aimed at generating a significant macroeconomic dividend. First of all, raising the level of the public administration's productivity has a direct impact on the productivity of the economy as a whole. In addition, the reduction in transaction costs, inclusive of administrative costs, has positive repercussions on the labour market and generates monetary savings that can translate into consumer purchases of greater quantities of goods supplied by the private sector and a reduction in unit production costs for businesses.

In various cases, the initiatives in this field involve the targets set by Europe 2020 with respect to human capital and innovation, thus contributing both directly and indirectly to their achievement.

The reform is being developed in three ways: the internal reorganisation of the public administration, innovation and digitalisation within the public administration nationwide, and improvement in the relationships between the government, citizens and businesses.

More specifically, each administration will be expected to define a performance measurement system, and to prepare three-year performance plans and the related reports. In this manner, the public administrations decision-making processes will be based on structured and periodic measurements of operating efficiency and effectiveness. Consequently, a process of continuous performance improvement is begun, making better personnel management possible and allowing for merit-based compensation tied to results.

The second reform deals with innovation and digitalisation of the internal productive processes, inter-operability within the public sector, and improvement of the supply of public services online. Such developments are not only functional to the adoption of a system for managing performance, but they will also allow for creating an accessible, fast and low-cost channel for interaction between the public administrations,

[68] Law No. 70/2010; Law No. 77/2010; Law No. 118/2010.
[69] Law No. 71/2010; Law No. 69/2010.

individuals and businesses. More in general, the innovative and digital public administrations will be given a decisive role in disseminating and encouraging innovation in the country, including through the promotion of excellence in the high technology sector (the 'Italy of Innovators' initiative) .

The reform has been implemented in the past two years. In particular, with regard to the objectives of innovation in internal organisation, new rules have been defined with respect to: transparency; the prevention of corruption; performance measurement and evaluation; bonuses; collective bargaining; executives in the public sector; and disciplinary sanctions[70]. Alongside those rules, policies have been updated with respect to the processes of personnel hiring and training. The resources derived from measures for efficiency improvement or innovation will be used for the purpose of bonuses (the so-called efficiency dividend). In line with the principles of accountability and transparency and as a measure to promote a culture of government at the service of its citizens, individual citizens have been given the power of verifying and presenting claims in the event of a violation of the standards and terms for the exercise of a public function or delivery of a public service[71].

The improvements in the public sector's efficiency as the result of the reform and other actions undertaken to modernise government are potentially very significant, although difficult to quantify. However, for some activities, such as social-welfare bodies, it is possible to find measures of production efficiency or effectiveness that are useful for evaluating the potential of the reform. One of the key elements of the reform is represented by the introduction of a performance management cycle[72]. In several institutions of the social-welfare system, innovative management techniques and digitalisation of processes were introduced in the years preceding the reform. It should nonetheless be noted that the reform implies a delicate process of adaptation, in which there are not only cognitive elements, but also cultural elements in play, meaning it takes time before change can occur across the entire system.

Furthermore, with the objective of eliminating one of the bottlenecks impeding the country's economic growth – that of the weakness of the business environment - and of contributing to the flagship 'Digital Agenda', the reform has been further enhanced with two specific measures: the revision of the Digital Administration Code (DAC) and the 2010-2012 Plan for Simplification. The approval of the revision of the Digital Administration Code redefines the regulatory framework aimed at accelerating the digitalisation of the public administrations, flanking the e-government policies already implemented to facilitate dialogue between the public administration, citizens and firms, and the policies for modernising processes in healthcare, education and the justice system. Although all of the projects initiated in the three sectors by the e-government plan will contribute to convergence toward the Europe 2020 target, a strong, direct and immediate

[70] Lgs. D. No. 150 of 27 October 2009
[71] Lgs. D. No. 198 of 20 December 2009
[72] Using a 'case study' (management control of the Social Security Administration (INPS)), it was possible to pinpoint the best performer scale, in terms of the application of the innovative management techniques and the processes digitalising activities, and from a comparison with other, poorer performing entities, to measure the potential for performance improvement – in terms of unit cost reduction – coming from the extension of such techniques and innovative processes. In particular, it was found that the unit cost of the weakest performing enetities was on average about 1.6 times higher than the best performing entity's in the year of reference (2009).

impact has been produced by the projects in the education area. For this sector, the e-government plan sets out a series of plans for increasing digital innovation in schools and universities in order to increase the quality, efficacy and accessibility of the education systems, simplifying administrative relationships for families and students, digitalising administrative management of the structures, and developing and disseminating avant-garde instructional methods.

Three years after the start-up of the plan, it is possible to confirm a significant level of dissemination of innovative technologies and use of the Internet[73], not only as a channel for simplifying administrative relations, but also as a tool for proposing innovative teaching methods in synergy with the start of the reform of Italy's education system.

THE DIGITAL ADMINISTRATION CODE AND THE DIGITALISATION OF THE PUBLIC ADMINISTRATION

The new Digital Administration Code (DAC) goes hand in hand with public employment reform in Italy, and is part of the process of reforming the public administration initiated with Lgs. D. No.150/2009.

Since going into effect with Lgs. D. No. 82/2005 on 1 January 2006, the DAC has been subsequently adjusted so as to bring the regulation in line with the ongoing development of technology. Important changes and supplements were recently introduced by Legislative Decree No. 235/2010, which has further updated the regulatory framework on the subject of digital administration. The new code introduces a group of regulatory changes that will have a concrete impact on the administrations' conduct and practices, as well as on the quality of the services rendered to the public and businesses, guaranteeing greater transparency, timeliness, accessibility and efficiency.

The most recent reform went into effect on 25 January 2011 with the phase-in of the initiatives planned for 2012, consistent with the e-government plan.

The new DAC endorses new rights for the public and businesses, as well as new opportunities and new obligations for the public administrations. The principal changes are summarised as follows:

- *citizens and businesses have the right to use information technologies for all relationships with any public administration. The concept of the advanced electronic signature is introduced in conformity with EU regulations, making it possible to sign an electronic document with full legal validity. In addition, it will be possible to make payments to the public administrations via debit card, credit card, or prepaid card, and any other electronic payment instrument available. Electronic ID cards and national services cards are planned for the purposes of electronic identification;*
- *all of the public administrations must have a fully legal valid, secure, certified digital channel (in most cases consisting of certified electronic mail, that will substitute return-receipt, registered mail) that will allow citizens and businesses to use their computers to communicate with public*

[73] For public services: 'Reti Amiche' and 'Linea Amica'. For schools: the portal innovascuola.gov.it, active since 2 May 2009, which allows access to multimedia contents, with 1,190 pieces of content free for primary and lower and upper secondary schools; since 1 January 2010, another portal www.scuolamia.it has been available for providing digital services to households and students. The use of smart technologies for promoting innovative solutions in e-government (smart towns, smart hospitals, etc.) is also worth noting; one project, Smart Inclusion, is offered to children in cancer and cardiosurgery wards of hospitals for virtual links with their parents and schools.

offices; the overall reform of the public administration allows for demanding this right, including through the use of class action;

- *the savings obtained through technological and organisational innovation ('efficiency dividends') must be actually measured and will be used in part to fund incentives to the personnel involved, according to the provisions of* Lgs. D. No. *150/2009, and in part for funding new projects in innovation; bonus mechanisms are being introduced for the best performing administrations as a result of the application of digital technologies, while disciplinary measures will be used for the administrations failing to comply;*
- *actions coordinated between the State, regions and local authorities will be promoted for achieving the objective of the digitalisation of the administrative activity and adopting common standards of efficiency;*
- *for the development of the process of book entry of documents, it is expected that the public administrations' original documents will be drafted by using information technologies and that the rules governing the copying of administrative and electronic documents will consequently be revised; in addition, the development calls for the introduction of a system of an electronically generated password that can be printed out directly by citizens in order to prove the paper documents conform with the digital documents;*
- *the management of document conservation and the related process will be handled by an archive management entity that may make use of public or private bodies offering suitable guarantees; the reform also calls for the introduction of accredited curators, persons authorised by the digital public administration as being in possession of the security and reliability requisites for effecting the processing and conservation of electronic documents;*
- *the reorganisation of the public administrations contemplates the creation of a single office to be responsible for ICT activity, the organisational and IT streamlining of procedures, and the introduction of the IT protocol and electronic file equipped with a special identifier;*
- *the implementation of the DAC provisions will be significant for the measurement and evaluation of the organisational and individual performance of executives, since innovation will become for the first time an element of personnel performance evaluation, with related incentives and penalties;*
- *in order to achieve greater simplification of relationships, the public administrations will need to make their public data available in open formats that can be reprocessed by third parties; the exchange of data between businesses and the public administrations is also planned. The administrations holding databanks will be required to enter into publicly disclosed agreements for ensuring the accessibility of their information to the other administrations. The agreements will govern the limits and the conditions of access to the databanks, including for ensuring the confidentiality of personal data. Should any administrations fail to enter into the agreements, the President of the Council of Ministers will be able to appoint a commissioner* ad acta.

Within the framework of the reform of the public administration, an important effort has gone into the programme for reducing administrative burden, with the objectives set in line with those at an EU level. The goal is to cut bureaucratic costs by at least 25 per cent by the end of 2012, through completing the measurement and reduction of all of the costs for the account of the State and the extension of the model to the regions and local authorities. In line with the Small Business Act, the criterion of the proportionality of administrative compliance has been introduced in relation to size, the sector in which the business operates, and the actual need of safeguarding public interests[74]. The measurement activity has thus far involved 71 high-impact procedures; these were selected with the agreement of business associations and mostly concern sectors referable to the five objectives set by Europe 2020. The administrative costs for businesses are estimated to total €21.5 billion per year.

The full-scale implementation of the simplification measures already defined with reference to labour, social welfare, fire prevention, the arts, the environment and taxation (including the simplification rules for SMEs) entail an estimated €6.9 billion per year of savings for businesses[75]. Additional measures on the subject of privacy and contracts are currently under parliamentary review, with the related reduction in costs pegged at more than €900 million once the measures are fully implemented.

It is estimated that the full-scale implementation of all of the initiatives (those already defined, those under review and those planned to complete the reduction of the charges for the account of the State) will be able to generate savings of approximately €11.6 billion for businesses (see Table V.3).

TABLE V.3: REDUCTION OF ADMINISTRATIVE CHARGES FOR BUSINESSES (by regulation area)

Implementation Status	Areas	Reduction of Administrative Charges for Businesses (in € billion)
Definitive measures	▪ Labour and social welfare ▪ Fire prevention ▪ Landscapes and the arts ▪ Environment ▪ Taxation	6.9
Measures under review	▪ Privacy ▪ Contracts	0.9
Planned measures	▪ Other charges for the account of the State	3, 8[76]
Total reduction of administrative charges to businesses for the account of the State		11.6

Source: Ministry of Economic Development.

Additional reductions of administrative costs borne by businesses - an estimated €5.3 billion per year - could be derived from extending the programme to quantify the burden to regions and local authorities, as already planned[77].

[74] Law No. 122/ 2010.

[75] The measurement programme follows the European SCM methodology and the calculations are based on a broader sample of firms vis-à-vis other countries. It should be noted that the estimates are indicative of the magnitude of the charges associated with the reporting obligations subject to measurement.

[76] While awaiting completion of the measurement, the figure has been estimated by assuming that the €70 billion of charges estimated by the European Commission for Italy are broken down into: €12.8 billion referable to the EU (*EU Competitiveness Report* 2005, DG E&I, WIFO), €36.4 billion to the State and €21 billion to the local level. The portion of the €36.4 billion not yet accurately measured (€15 billion) will be reduced by 25 per cent, or €3.8 billion. Altogether the reduction target identified for the charges under the State's responsibility is more ambitious than 25 per cent after taking int account the results already achieved, and it has been quantified at €11.6 billion per year.

[77] 'Provisions on the subject of simplification of the public administration's relationships with citizens and businesses, and Government delegation for issuance of the Charter of the public administrations' obligations and for the codificaiton on the subject of the public administration', now under review by the Senate.

With the completion of the 'Simplification' package, other initiatives for reducing the costs are planned and are focused on: i) containing the number of compliance formalities with respect to the government's regulatory and administrative acts and those acts for ratifying EU directives; ii) extending the programme for measurement and reduction not only to the regions and local authorities, but also to independent authorities and to the costs borne by individuals; and iii) ex-post monitoring and evaluation the reduction initiatives. The enforcement of the simplification plan is further strengthened by the adoption of the 'Charter of Public Administration Duties'.

The complete and effective implementation of the reform of the public administration requires a joint and coordinated effort by all levels of government. For this reason, Lgs. D. No. 150/2009 obligated the regions and local authorities to adjust their systems to the principles contained in the decree by 31 December 2010. In this regard, the regions have leveraged the process of implementing the structural reform of the public administration as a further stimulus for proceeding with the institutional and administrative policy reorganisation already initiated at a local level.

The state of completion in the application of the reform at a regional level shows that: 12 of 22 regions and autonomous provinces have definitively ratified the reform (50 per cent), 6 regions have prepared proposed implementation legislation now under review by regional councils (27 per cent), 5 regions have documents under review and thus, in the preparatory phase (23 per cent).

This process has turned out to be an impulse to the reorganisation of regional authorities, agencies and shareholdings, in terms of both unification and rationalisation (one example is Tuscany) as well as to the simplification of the relationships between businesses and the public administrations (Lombardy). Much has been invested in the electronic infrastructure processes and the supply of services to the community (in Tuscany, for the digitalisation of the single service centres for productive activity, or in Apulia). Finally, the Region of Apulia and the Region of Sicily have proceeded to improve the system of disbursing services through both streamlining healthcare structures and reforming the administrative structure.

THE PROCESS DIGITALISING THE PUBLIC ADMINISTRATION FOR THE PURCHASES OF GOODS AND SERVICES: THE ELECTRONIC MARKET FOR THE PUBLIC ADMINISTRATION (MEPA)

Within the process of digitalising the public administration for purchases of goods and services, the Electronic Market for the Public Administration (MePA) (the e-procurement instrument for the public sector which is managed by CONSIP for the Ministry of the Economy and Finance (MEF)) is an important instrument for supporting SMEs that intend to be suppliers to the public administration. Indeed, the significant business opportunities offered by the MePA have prompted many SMEs to revise their internal operating processes through the support of information technologies.

The market is entirely virtual in which the buying administrations and potential suppliers meet, and negotiate and conclude legally valid on-line supply contracts, thanks to the use of the digital signature. The public administrations can seek out, compare and purchase goods and services, for values below the EU threshold, as proposed by the supplier companies authorised to present their catalogues on the system.

The MePA is Europe's first structured electronic market using digital signature for public procurement public. In accordance with flexible rules, the system allows the public administration to decide the procedure deemed more efficient (direct order or request for bids) for each purchase, while it allows companies to set their strategy and the geographic area where they wish to operate, with particular advantages for small sized companies.

The MePA's most important innovations include the reduction of procurement/selling times and costs, greater transparency and efficiency of procedures, and the expansion of the market to new suppliers, in particular to SMEs. The access of firms to the public administration market without intermediaries, and the possibility of securing orders in a safe and speedy manner across the entire country is another occasion for the most efficient small firms to grow and develop.

From 2004 to 31 December 2010, more than 5,300 public buyers have used the MePA for more than 250,000 orders for a total value of more than €800 million, thanks to the presence of more than 5,000 authorised suppliers, 98 per cent of which are SMEs. In 2010 alone, the platform's volume was €255 million with more than 77,000 transactions.

Finally, the MePA plays an important role in the environmental sustainability and green purchases: the administrations can seek out and buy products on the MePA that have recycled components or environmental labels, with saving, for example, of as much as €53 million per year of expenditures for the purchase of toner.

With specific reference to green purchases, the programme for streamlining the public administration's expenditure on goods and services managed by CONSIP for the MEF has the objective of favouring the dissemination of sustainable consumption/purchasing models; this approach is consistent with the information outlined in various institutional documents (2008-2011 DPEF, budget laws, and laws ratifying European directives). The buying centres do indeed play a key role for the implementation of the GPP, since they can elect a preference for sustainable consumption/purchasing models that (i) emphasise more intelligent public expenditure through the analysis of product life cycles, including in terms of cost, and (ii) stimulate and support the investments of businesses in the innovation and development of eco-compatible solutions.

In this regard, an analysis has also quantified the economic effects of the introduction of environmental criteria in the public administrations' purchasing initiatives. The starting point of the analysis is the consideration that green purchases also represent a tool for curbing and streamlining public expenditure since they take into account three primary objectives - efficiency and savings in the use of resources, reduction of the use of hazardous substances, quantitative reduction of waste products – thereby offering concrete economic savings for the administrations.

For example, the use of an energy-efficient personal desktop computer with the most advanced environmental labels has led to savings of €3.4 million for purchases made through the programme to rationalise the expenditure for the public administration's goods and services, having considered a 5-year average life of the computer. These savings would rise to almost €10 million if the same energy-savings characteristics were to be included in the purchases of desktop PCs made in one year for Italy's entire public administration (estimated quantity of approximately 300,000 computers).

In addition to the considerable economic savings, the environmental advantage in terms of reducing CO_2 emissions is equal to 12,548 tons with the purchase of this desktop, with that figure potentially going up to 36,000 if Italy's entire public administration were to purchase the energy-efficient equipment with the same characteristics of those set out in the agreements provided by the programme.

V.7 REGIONAL DISPARITIES AND DEVELOPMENT POLICIES

Over the past decade, Italy has been unable to close the strong disparities existing between different areas of the country, with the percentages of GDP, labour units and household consumer spending referring to southern Italy remaining far below the corresponding percentage of the population.

Supported by the reinforcement of policies in favour of disadvantaged areas (and in particular, higher investment flows), the economy in southern Italy could end up performing better than the rest of the nation toward the end of the 2010-2014 period, with the territorial divide being reduced, albeit only marginally.

In particular, the use of human resources is seriously insufficient in southern Italy, with an employment rate (43.9 per cent in the third quarter of 2010) that is structurally some 20 percentage points lower than that in the central and northern regions, and with a very high rate of unemployment among young people (35.2 per cent in the 15-/24-year age bracket). The specific regional disparities with respect to the European target are evidenced in the preceding section in relation to the labour market.

The territorial divide is also significant when it comes to productivity: in 2009, the value added per unit of labour in southern Italy was equal to around 83 per cent of the comparable figure for the central and northern regions of the country. Such trend is mainly driven by the modest presence of industry in the southern regions where the average sized firm is also smaller

A reduction of the productivity gaps, in particular in areas that are behind in development, is one of the objectives outlined in the Pact for Competitiveness, submitted for the approval of the European Council.

TABLE V.4: TERRITORIAL MACROECONOMIC DATA: GDP AND GROSS FIXED INVESTMENT

	2009	2010	2011	2012	2013	2014
SOUTHERN ITALY						
GDP (% change)	-4.4	1.3	1.3	1.3	1.8	1.8
Gross fixed investment/GDP	21.4	21.7	21.8	22.4	23.1	23.9
CENTRAL-NORTHERN ITALY						
GDP (% change)	-5.4	1.3	1.0	1.3	1.4	1.6
Gross fixed investment/GDP	18.7	18.9	19.0	19.2	19.3	19.4
ITALY						
GDP (% change)	-5.2	1.3	1.1	1.3	1.5	1.6
Gross fixed investment/GDP	19.3	19.6	19.7	19.9	20.2	20.5

Source: MEF-DT for the national data; estimates by Cohesion and Development Department of Economic Development Ministry (DPS) for southern Italy and central-northern Italy. The DPS estimates by territory have been obtained by starting with the national macroeconomic data (Stability Programme 2011) and using the percentages of the breakdown of GDP for ISTAT's regional accounting.

The territorial divides in Italy are serious and persistent, and they represent a significant threat to macroeconomic balance. In order to correct the territorial divides the Government and the ministries and regional administrations responsible for operating programmes have committed to accelerating the planning and execution of projects aimed at ensuring the availability of modern and efficient transport, environment and energy infrastructure, and improvement in services, particularly in areas that are behind in terms of development. This approach is in line with the action contemplated by the European Commission within the framework of the Annual Growth Survey. In such framework, the investments planned by the 2007-2013 National Strategic Framework represent an important factor for improving the competitiveness of businesses, increasing the attractiveness of the territories and improving the quality of life.

Employing the resources of cohesion policy, the regions of southern Italy have strongly oriented their programming toward strengthening and qualifying their infrastructural system and socio-economic structure, so as to promote balanced and sustainable development.

Services are supplied in southern Italy at conditions that are less advantageous than in the central and northern regions of the country. Significant differences are seen in both essential services offered to the public and in strategic network services for ensuring favourable conditions for development. Although in and of itself not the only thing needed, improving the supply of services is necessary for the re-launch of southern Italy, and is an essential element for the development of the area and for ensuring equal opportunity and rights to all citizens regardless of where they live.

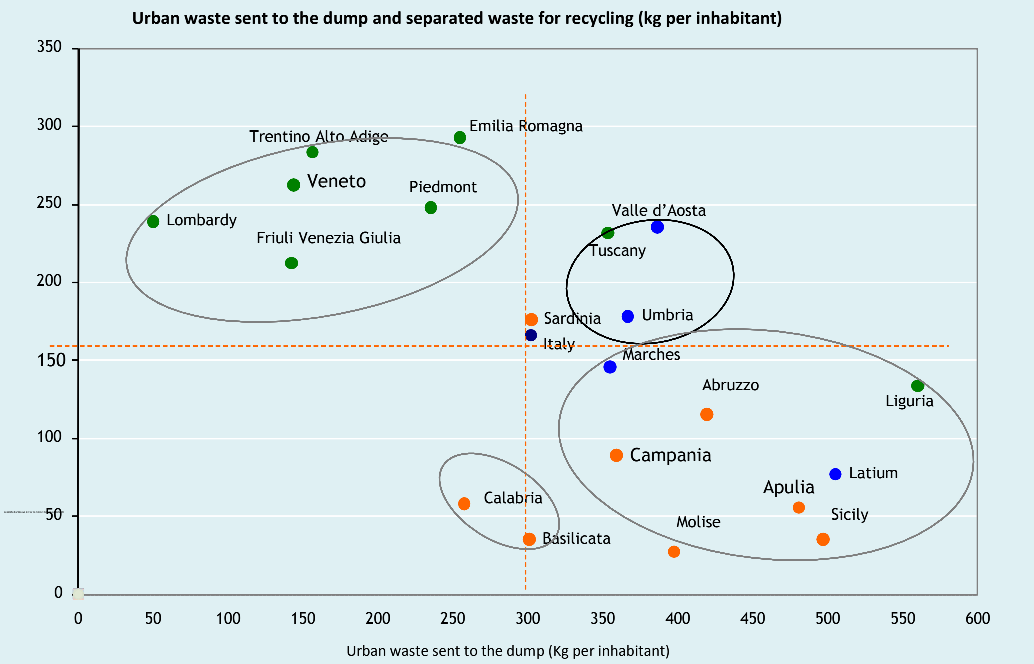
The differences in education and water services are outlined here with reference to the targets of the Europe 2020 Strategy, and include mention of incentive-based system for monitoring the service objectives set out in the 2007-2013 National Strategic Framework

The use of EU funds in these areas on a basis consistent with European objectives, and Italy's early adoption of a set of objectives for southern Italy have contributed to reducing the differences, but much more needs to be done for reinforcing the conditionality system, objectives and impact assessment.

The rate of dropouts from upper secondary and higher education is still high in the southern regions, where 25 per cent of youths between the ages of 18 and 24 has only completed the lower secondary school, and has not completed any professional training; in comparison, the rate is 16.7 per cent in the central and northern regions.

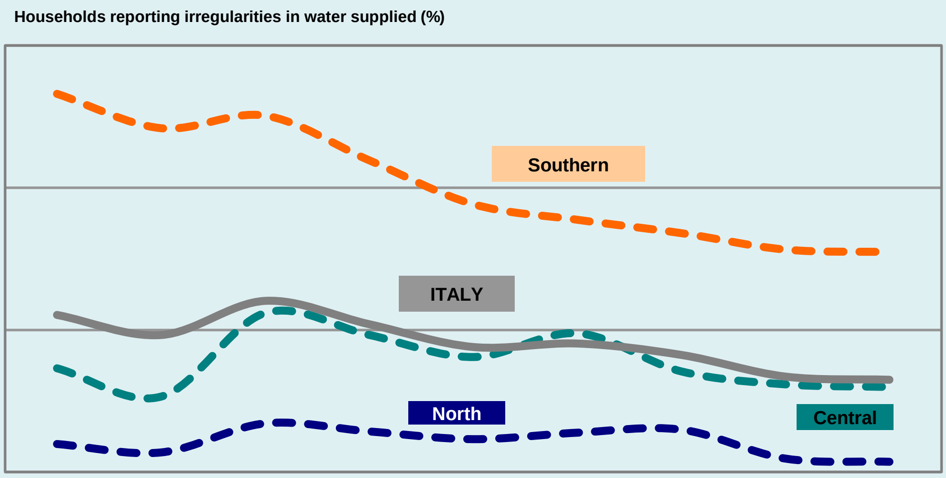
The regions of southern Italy are also still behind schedule in fully implementing the objectives set by EU and national laws on the subject of urban waste management; such objectives include minimizing the waste materials sent to landfills, a strong increase in the separate collection of waste, and maximization of the capacities for recycling waste. The percentage of families reporting irregularities in water distribution is high (20.5 per cent in southern Italy versus 5.7 per cent in northern Italy).

GRAPH V.5a: DISPARITIES IN WASTE MANAGEMENT SERVICES



Source: DPS analyses

GRAPH V.5b: DISPARITIES IN WATER SERVICE



Source: DPS analyses.

The implementation of the regional development policy financed with additional EU and national resources in the 2007-2013 National Strategic Framework is helping to correct the territorial divides that are an important source of macroeconomic imbalance in Italy. Aimed at expanding services and infrastructure and improving the competitiveness of the territories, this policy has made a significant contribution to European strategy for growth and employment in the past ten years. A large part of the expenditure for the initiatives undertaken in the 2000-2006 structural fund planning cycle regarded the Lisbon Strategy priorities, and in particular, research, development and improvement of human capital and strategic infrastructure in the transportation sector, together with those aimed at improving water and waste management services. With the 2007-2013 planning, this orientation was further reinforced.

With reference to EU resources, some 71.6 per cent of the €59.4 billion planned for the 2007-2013 National Strategic Framework was dedicated to implementing Lisbon priorities (69 per cent in the case of programmes aimed at convergence, and 80 per cent for those for competitiveness) and to the achievement of national targets. Approximately 66 per cent of the total resources still to be expended by the end of 2015, or roughly €35 billion, is earmarked for the five Europe 2020 priorities.

As outlined in the preceding sections, the financial commitment and the initiatives are mainly concentrated on the issues of research and innovation, improvement of human capital, energy and the environment, and social inclusion.

The programmes in the area of education (against which the services objectives mechanism is operative) are more advanced. In order to ensure the full achievement of the 2007-2013 planning objectives and the full use of the EU resources available, the reinforcement of the initiatives for education and research have been stepped up and adjusted[78].

In order to make the implementation of the cohesion policy more effective, the European Commission has linked the disbursement of structural funds to specific conditions[79]. Italy believes that the introduction of conditions represents an opportunity for strengthening the credibility of planning and achieving tangible results, provided that such conditions are closely linked to the implementation of the cohesion policy and are appropriately defined in advance. In this manner, it will be possible at the time when the operating programmes are prepared to guarantee the presence of all of those institutional, administrative, regulatory, planning and project requisites needed for ensuring the effectiveness of the investments, thus resolving in advance any critical elements that could jeopardise their realisation.

[78] This is also in accordance with the implementation of the measures provided by the Interdepartmental Committee for Economic Planning (CIPE) resolution of 11 January 2011 and the consequent resolutions adopted by the National Strategic Framework Committee that, in addition to specific acceleration measures, have set the commitment targets at 31 May and 31 December 2011 and the expenditure targets have been moved up to 31 October 2011, which if not met will mean the reprogramming of a part of the resources of the programmes involved in favour of other programmes.

[79] See European Commission's statement entitled "*Enhancing economic policy coordination for stability, growth and jobs – Tools for stronger EU economic governance*"', COM(2010)367, 30 June 2010; '*EU Budget review'*, COM (2010) 700 of 19 October 2010; conclusions of the '*Fifth report on economic, social and territorial cohesion'*, COM (2010) 642 of 9 November 2011.

TABLE V.5: STRUCTURAL FUNDS AND NATIONAL CO-FINANCING FOR 2007-2013 BY EU 2020 PRIORITY AND OTHER PRIORITIES (million of euros)

EU 2020 Priorities for 2007/2013	Sub-sector	Programmed
Energy and climate (1)		7,721
including:	Biodiversity and enhancement to the value of natural resources	861
	Energy	3,927
	Sustainability in transportation	2,933
Inclusion		3,868
Education		4,354
Labour and employment		3,558
Research and innovation (2)		20,850
including:	Human capital for innovation	2,419
	Innovative entrepreneurship	2,180
	RTDI	12,827
	Information society	3,424
Total EU 2020		40.351
Infrastructures and transportation		6,813
Other (3)		12,249
Total structural funds		59.413

1) In addition to the proposed Europe 2020 issues reported in the table, regional policy invest approximately €4 billion in other environmental issues such as: enhancing environmental services (water resource management and waste management), risk prevention, and environmental clean-up. The financial resources dedicated to energy and the environment accordingly amount to approximately €9 billion.
2) The total financial commitment planed for research also includes around €370 million to benefit education (multimedia labs, increasing technological structures in schools, etc) and around €300 million to benefit social inclusion (telemedicine, e-health, etc.).
3) The other account includes: environmental services (water, waste and clean-up, air quality, risk prevention and measures to protect against, mitigate and adapt to climate change); tourism and cultural services; integrated projects for urban and rural renewal; other assistance to businesses; initiatives in traditional energy sources; technical assistance; initiatives for security not included in the EU2020 priorities.
Source: DPS estimates starting from the reclassification based on territorial criteria of all categories of expenditure of the 2007-2013 Structural Funds in the operating programme, in conformity with the provisions of Article ll of the European Commission's Regulation 1828/2006.

With reference to the national resources appropriated to socioeconomic rebalancing that come from the Fund for Underutilised Areas, the past experience prompted the Government to initiate an audit of the use of the resources during the second half of 2010.[80] The audit work has shown the existence of a significant amount of resources assigned to initiatives that are being started up again, following appropriate adjustments. Resources that could be redeployed for new projects were also reported. The findings of the audit work were reported to political authorities at different institutional levels. At present, a new, shared strategy for the use of the resources is being defined on a basis consistent with the guidelines in the National Plan for South Italy; in this regard, the 2007-2013 resources from the Fund for Underutilised Areas represent an essential element for the plan's implementation. Altogether, the additional national resources deployable for the achievement of the National Strategic Framework's objectives amount to €40.3 billion, with more than 60 per cent earmarked for infrastructure and transportation.

The options available include the decision to focus on infrastructure considered strategic at a regional and superregional level, using appropriate assessment, monitoring and verification systems that will ensure their positive effect for the citizens directly interested and more in general, for the entire national framework.

The macroeconomic model for analysing the effects of regional policy on economic growth and employment allows for quantitative evaluation of the impact of the public investment and business-support initiatives financed by the Structural Funds and

[80] In order to get beyond possible impediments to the effective and rapid implementation of the initiatives and to redeploy resources originally assigned to initiatives that are either no longer consistent with the strategies pursued or are impossible to actually realise.

the Fund for Underutilised Areas. Such valuation is made in terms of differentials compared with neutral scenario. The impact is based on programmed projections of capital expenditure for southern Italy, broken down into national and EU components. The simulations done for 2006-2015 show the policies financed with structural funds will pave the way for an additional 0.4 per cent annual growth of southern Italy's GDP. The impact on employment, in terms of FTEs, is equal to approximately 0.2 per cent. The magnitude of the estimates also reflects the fact that the EU component of the public sector's total capital expenditure in southern Italy has been growing in weight (in programmed terms) in recent years[81].

In southern Italy, the action undertaken through programmes financed by additional resources, the Fund for Underutilised Areas and the Structural Funds is part of the National Plan for Southern Italy, a planning document approved by the Government in November 2010, that identifies several priority points:

a) large infrastructure projects, and in particular, the major rail links in the southern regions;
b) an extraordinary programme to improve the effectiveness of the school system, related to a renewed commitment within the universities, aimed at supporting the creation of relationships both with business and with international training networks;
c) initiatives to adjust local public services, in particular, the conditions for the operation and efficiency of water networks and the system used for urban solid waste management;
d) strengthening of the instruments for security and legality;
e) reform of the system of incentives, so as to concentrate the national and EU resources on a limited number of instruments;
f) *Banca del Mezzogiorno* for increasing credit supply, using the means closest to the territories;
g) overhaul of the public administration, with the introduction of mechanisms to create incentives for efficiency in administrative proceedings.

The National Plan for Southern Italy also identifies procedural and methodological changes considered necessary; these changes were finalised in December and January through several related provisions (the previously mentioned Interdepartmental Committee for Economic Planning (CIPE) resolution that defines reprogramming criteria and means, the proposed legislative decree to implement the law on fiscal federalism, that changes the rules regarding the planning of the Fund for Underutilised Areas). A new instrument, the institutional development contract, will also be used for

[81] The quantitative evaluation of the effects of regional policy on growth and employment was specifically requested by the European Commission. The DPS' macroeconomic model, developed as part of the assessment of the European Support Framework 2000-2006 and of the National Strategic Framework (NSF) 2007-2013, has estimated the impact of regional policy by quantifying both the direct effects of the public expenditure in the capital account and the externalities generated by such initiatives. For a description of the characteristics of the model see: '*Programming Documents: Role, Structures, Processes and Instruments of the MEF*'- Department of the Treasury, Ministry of the Economy and Finance, March 2006, pp. 125-128. Pellegrini G., Rossi S. P. S., Tarola O., '*How Regional Policies Can Affect Growth: a Macroeconometric Model for the Southern Italian regions'*, Journal of public Finance and Public Choice, No. 2-3/2007, pp. 169-199.

implementing the strategic priority initiatives; this instrument provides for the agreement of all public bodies involved in the phases of planning and implementation of initiatives so as to establish the bodies' reciprocal commitments and to be able to introduce any corrective measures as soon as possible.

Attachment to the
Economic and Financial Document 2011
National Reform Programme

DESCRIPTION OF THE GRID ATTACHED TO THE NRP

The main measures described in this National Reform Programme (NRP) have been summed up in a grid, not least with a view to quantitatively assessing their impact through econometric models used by the Treasury Department.

The grid contains different items whose aim is to describe the reforms, assess their impact on the budget and show their functionality with respect to meeting EU objectives.

In order to make the measures and their impact easy to refer to, they have been grouped into the following main action areas:

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

First of all for each measure reference is made to existing regulations, starting from primary sources of law (laws, decrees and legislative decrees) down to Government bills or specific programmes or projects which may not be of a regulatory nature. There follows a brief description of each individual measure and its implementation progress.

The implementation stage is defined in various ways, depending on the type of action through which measures are implemented. It ranges from – measures not yet implemented – i.e. still being planned – to those adopted by the Cabinet, up to the measures published in the Official Journal. Once the measure becomes final its implementation stage starts ("implementation underway" or "implementation started"). It should be noted that in the case of delegated legislation, the mere publication in the Official Journal of a legislative decree marks the beginning of its implementation. Finally, when regulatory measures are no longer in force or have been completed, they are referred to as 'completed'; measures are still included in the table if they have a residual impact during the period covered by the NRP.

The implementation stage column should be read in conjunction with the following column 'implementation progress': the first stage is 'still in planning' stage, which shows that there is a general policy on the measure in question; the second stage is that relating to 'made into law' – a stage in which the specific regulatory content of the measures has been defined; then follows the stage of 'operational', in which the measure is implemented; finally there is the stage referred to as 'completed' when the implementation of the course of action ends.

The columns "Star Date" and "End Date" specify the years, or quarters, starting from which and up to which the measure shall be implemented in the period covered by the NRP.

The impact on public finance of each measure is assessed (where possible), in terms of higher/lower expenditure or higher/lower revenues. In general, the grid contains measures with a negative impact on public finances; however, there may also be measures with no impact or measures that result in lower spending and higher revenues.

Finally, the last columns list measures based on the objectives and priorities agreed at a European level. Under the heading 'bottlenecks' of the Italian economy, one can find the measures included in one of the following areas:

– Fiscal consolidation and public debt (bottleneck No. 1);
– Competitiveness, wages and productivity (bottleneck No. 2);
– Product market - Competition and administrative efficiency (bottleneck No. 3);
– Innovation - R&D (bottleneck No. 4);
– Reducing regional disparities (bottleneck No. 5).

If the measures contribute to putting in place a "frontloading measure", they can be ranked as follows:

– Work incentives;
– Reform of wage bargaining;
– Sectoral competition and market liberalisation;
– Improving the business environment.

According to the 'Europe 2020' strategy the objectives are:

– Increasing the share of renewable sources;
– Increasing the employment rate;
– Increasing energy efficiency;
– Reducing school drop-out;
– Improving tertiary education;
– Increasing R&D and innovation expenditure.

Finally, in line with the 'Annual Growth Survey', each measure has been ranked according to the priority it can meet, more specifically:

– Fiscal consolidation;
– Pension reform;
– Making work more attractive;
– Getting the unemployed back to work;
– Balancing job security and job flexibility;
– Attracting private capital to finance growth;
– Releasing the potential of the single market.

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
1	Employment and pensions	Pension expenditure reduction	Reform, started in 1992/1995, was strengthened in 2004 and recently completed through Decree Law 78/2010 (converted into Law 122/2010)	Decree Law 78/2010 (converted into Law 122/2010): change to the requirements to access an ordinary pension (65 years of age also for women in the public sector) and a seniority pension with review of the start dates, life expectancy adjustment of pension benefits (life expectancy adjustment of benefits has already been envisaged through the mixed regime and the contribution-based regime introduced by the 1995 reform).	Published in the Official Journal	Operational			Overall, the courses of action followed since 2004 have reduced the incidence of pension expenditure as a proportion of GDP by an average of 1 percentage point a year over the whole 2015-2035 period. In cumulative terms up to 2050 the above-mentioned overall action leads to a reduction of about 26 percentage points, almost half of which is to be ascribed to Law No. 122/2010. In nominal terms, overall pension expenditure savings can be estimated at € 600 million in 2008, about € 3,000 mln in 2009, about 4,000 mln in 2010, at about € 6,300 mln in 2011, about 10,300 mln in 2012, about 11,800 mln in 2013 and about € 13,000 mln in 2014.	**Bottleneck No. 1** Fiscal consolidation and public debt	Employment rate	Pension reform
2	Employment and pensions	Measures on wage bargaining	2009 Framework Agreement on the reform of wage bargaining	Agreement between Government, Confindustria (Italy's employers' association) and trade unions on new wage-bargaining rules.	Started	Still in planning stage	2010		No additional burden	**Bottleneck No. 2** Competitiveness, wages and productivity	Employment rate	Making work more attractive
3	Employment and pensions	Development of productivity	Art. 1, subp. 67 e 68, Law No. 247/2007; Lgs.D. 27.10.2009, No. 150 Art. 1, subp. 47; Law 13.12.2010, No. 220.	Extending decentralized bargaining; abolishing taxes and contributions on second-level wages	Partly underway in the public sector limited to law-enforcement, defence and emergency services staff.	Operational	2009		As a result of scrapping taxation in the law-enforcement, defence and emergency services sectors: higher expenditure to the tune of € 60 mln in 2009, 2010 and 2011. Contributions paid by employers and employees in the private sector have been scrapped up to a total amount of € 650 mln starting from 2008. Cutting taxation in the private sector, as envisaged by the existing regulations up to 2011, the technical report data show lower revenues equal to -835 mln in 2011 and -263 mln in 2012.	**Bottleneck No 2** Competitiveness, wages and productivity	Employment rate	Making work more attractive
4	Employment and pensions	Employment policies	Art. 6, paragraph 1, of Decree Law No. 185/2008, amended and converted into Law No.2/2009	Deduction of 10% of IRAP on interest payment and on labour costs from IRES and IRE (company income taxes) for firms not established as companies.	Implementation underway	Operational	I Q 2009		Lower accrual-basis revenues are estimated at € 1,078 in 2009, 648 mln in 2010 and 634 starting from 2011.	**Bottleneck No. 2** Competitiveness, wages and productivity	Employment rate	Getting the unemployed back to work
5	Employment and pensions	Employment policies	Youth programme'	Various measures: re-employment bonus, apprenticeship for the 15-18 age group to ensure compulsory school attendance, training, support for self-made entrepreneurs, third-level apprenticeship (FIXO programme), monitoring youth skills (PISA and OECD PIIAC Programmes), 58 special technology schools, PhDs, school and university placement services, call for tenders for opening 21 centers for business start-ups at universities.	Implementation underway	Still in planning stage			Appropriation underway of approximately € 1.1 bn.	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Getting the unemployed back to work

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
6	Employment and pensions	Employment policies	Law of 4 November 2010, No. 183 (Bill on work labour legislation called 'DdL Collegato Lavoro')	Possibility to resort to arbitration preventively (Art. 31); universities are required to send C.V.s to the National Labour Exchange (Art . 48); delegated powers to legislate on strenuous jobs (Art.1); new regulations on dismissal; fight against irregular employment (Art. 4 and 7); delegation on the reorganisation of incentives, apprenticeship, employment sevices, social safety nets, female employment (Art. 46).	Passed in November 2010	Still in planning stage			As for delegated legislation on incentives, apprenticeship and social safety nets it has been envisaged that its implementation should not lead to any additional Government expenditure. As to delegated powers to legislate on early retirement for workers in strenuous jobs, these powers were used to pass the draft of the Decree Law in the Cabinet meeting of 28 January 2011 as first stage and exam by the competent parliamentary committees is about to be completed: the resulting expenditure of € 312 million in 2011, 350 million in 2012 and 383 million starting from 2013 is to be covered through the Fund that was established for this purpose by Law 247/2007 ('Fondo Protocollo Welfare').	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Balancing job security and job flexibility
7	Employment and pensions	Employment policies	Three-year employment programme	The Programme identifies three priorities: fight against irregular employment; decentralisation of regulation and subsidiarity; skill development.	Adopted in the Cabinet meeting of July 2010	Still in planning stage			The legislative proposals for implementing the programme are still being drafted; if they were to entail higher expenditure or lower revenues they would also need to specify how adequate funding can be provided.	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Balancing job security and job flexibility
8	Employment and pensions	Employment policies	Italy 2020 – Programme for the inclusion of women in the labour market.	Reconciling work and family life and promoting equal opportunities in accessing work and employment.		Still in planning stage			€ 40 million have been allocated.	**Bottleneck No. 2** Competitiveness, wages and productivity	Employment rate	Making work more attractive
9	Employment and pensions	Social buffers on derogation - *ammortizzatori in deroga*	Law 2/2009 (converted into Decree Law 185/2008) as later amended by Law 220/2010 (Budget 2011)	Funding for Wage Guarantee Fund on derogation *(Cassa Integrazione in deroga)* , less stringent requirements for accessing unemployment benefits and measures to protect atypical workers.	Implementation underway	Operational	2009		Before netting out expenses for non-cash contributions, wage guarantee fund and targeted action (including less stringent requirements for accessing unemployment benefits and the measures to protect atypical workers as envisaged by Law No. 2/2009) overall in the 2009-2010 period Government funds amounting € 5,350 mln have been appropriated (some of which will also be used in 2011). The Agreement between the State and the Regions for the 2009-2010 period also envisaged regional programmes mainly on training and active labour market policies (and partly on providing funding for a residual part of wage guarantee fund on derogation); also in this case parts of the funds will be used in 2011. For 2011, again before netting out expenses for non-cash contributions, the Stability Law (No. 220/2011) has provided for an additional €1,000 mln appropriation of Government funds for wage-guarantee measures and other targeted actions. For 2011, Law No. 2/2009 has provided for € 304 million for lowering requirements for accessing unemployment benefits and the measures to protect atypical workers .	**Bottleneck No. 2** Competitiveness, wages and productivity	Employment rate	Getting the unemployed back to work

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
10	Employment and pensions	Employment vouchers for occasional supplementary employment	Law No. 133 /2008, Law No. 33/2009 and Law No. 191/2009 (2010 Budget)	Establishment of a comprehensive form of social security contributions and accident insurance for occasional work.	Implementation underway	Operational	2008	Beyond 2012	Starting from August 2008 until October 2010, 10,135,646 employment vouchers were sold for a total amount of € 100 million (total income). As a result, the share relating to contributions is significantly lower.	**Bottleneck No. 1** Fiscal consolidation and public debt	Employment rate	Fiscal consolidation
11	Federalism	Fiscal federalism	Delegated Legislation 5 May 2009 No. 42	The Lgs.D.s implementing Law 42/2009 have been definitively approved: 1. Lgs.D. No. 85/2010 on real estate federalism; 2. Lgs.D. No. 216/2010 on establishing standard requirements for the fundamental functions of local government bodies; 3. Lgs.D. No. 156/2010 on the programme 'Rome as the capital city': it contains regulatory provisions ruling the governance bodies of Rome. 4. Lgs.D. No. 23 of 2011 on municipal taxation; 5. Lgs.D. on regional and provincial taxation as well as health-care standard costs, definitively approved in the Cabinet meeting of 31/03/2011 (not yet published in the Official Journal) . Other Lgs.D.s implementing Law 42/2009 are working their way through Parliament: 1. Lgs.D. on the harmonization of accounting systems and budget formats; 3. Lgs.D. on special programmes; 4. Lgs.D. on rewards and sanctions.	Implementation underway	Still in planning stage	Only for Decree Law No. 42/2009, May 2009	Only for delegated legislation No. 42/2009, May 2011	Decrees currently working their way through parliament: the decree on special programmes envisages procedural and planning innovations in the FAS Fund (Fund for Underutilised Areas), which has been renamed 'Development and Coesion Fund', whose financial endowment is established by the Stability Law, in compliance with fiscal constraints and budget targets. The other measures so far do not entail any additional expenditure.	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation
12	Federalism	Fiscal federalism – standard requirements of local government bodies	Lgs.D. of 26 November 2010. No. 216 (standard requirements of local government bodies)	The company '*Società per gli studi di settore*' is entrusted with the task of assessing -in cooperation with local government bodies - the standard requirements for funding the fundamental functions and related services of Municipalities, Provinces and Metropolitan Areas. Hence, the new criterion for allotting resources to local government bodies shall be based on the setting of standard requirements needed for ensuring integral funding for minimum service levels with regard to social and civil rights and the fundamental functions of local government bodies with a view to ensuring the gradual and final elimination of the past-expenditure criterion.	Published on the Official Journal	Still in planning stage	2011	2017	No additional burden	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
13	Federalism	Municipal federalism	Lgs.D. 23/2011	The decree on municipal federalism rules the shift from funding derived from the Government to municipalities' own-source revenues, whereby annual Government transfers – allotted to local government bodies on the basis of past expenditure – are replaced by the municipal taxes and state shared revenues.	Published on the Official Journal	Still in planning stage	2011	2014	The Decree on municipal federalism contains a series of basically zero-impact provisions. More specifically, it envisages funding through taxation of transfers to the municipalities of the Special Statute Regions amounting to € 11 bn approximately, which over the 2011 – 2013 period shall be replaced by: i) the devolution of 30% of revenues to transfers, calculated to amount to € 1.4 bn (registration tax, mortgage tax, land tax as well as special land taxes on the sale of real estate; ii) personal income tax (irpef) on income from land (5.2 bn approximately); a share amounting to 21.7% in 2011 and 21.6% in 2012 of the substitution tax on residential lease agreements (flat rate tax) equal to € 527 million and € 746 million; iv) sharing of VAT revenues, amounting to € 3 billion approximately; v) revenues from stamp duties and registration taxes on lease agreement (700 million approximately). The flat rate tax may replace income tax, income tax surcharges, stamp and registration duties for a total of approximately € 4 billion. Starting from 2014 taxation on the sale of real estate is simplified through the amalgamation of the registration tax with other taxes and levies (the mortgage tax, the land tax, the stamp duty as well as other mortgage taxes and special land duties). This simplification affects overall revenues equal to approximately € 4.5 billion. Finally, starting from 2014 there will be the possibility for municipalities to levy their own taxes, which will include personal income tax on income from land relating to real estate that is not leased, any surchages as well as the local housing rates. This new form of local taxation accounts for overall revenues of approximately € 11.5 billion. Starting from 2014, therefore, municipalities will receive: i) 30% of the real estate transfer tax; ii) the revenues of the stamp duties on lease agreements; iii) the tax revenues from income from land ; iv) a share of the flat rate tax; v) a share of revenues from VAT.	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation
14	Federalism	Real estate federalism	Lgs.D. No. 85/2010 about real estate manegement	It egulates the assignment of property to local government bodies and regional authorities.	Published on the Official Journal	Operational	2010	2014	No additional burden	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation
15	Federalism	Regional and provincial federalism	Lgs.D. definitively adopted in the Cabinet meeting of 31 March 2011	Identifies sources of funding for ordinary-status regions and provinces while at the same time abolishing Government transfers. It also governs the setting of costs and the standard requirements for the health-care sector.	To be published on the Official Journal	Made into law	2011	2017	The Decree contains provisions having zero impact on public finances.	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation
16	Containing Government expenditure	Measures to contain Government health spending	Agreement between the State and the Regions of 3 December 2009, as well as Art. 9, paragraph. 16 and Art. 11 paragraph 5 of Decree Law 78/2010.	Governance in the health-care sector is strengthened and more specifically a € 1,018 million package is envisaged for the health sector for the year 2011 and € 1,732 million starting from 2012 as a result of measures to contain staff and pharmaceutical expenditure.	Started	Operational	2010		In the 2009-2013 period health-care spending will reach an annual growth rate of 2.9%. In the 2005-2009 period the annual growth rate was 3.6 %. Government funding for the NHS amounts to € 103,461 million in 2009, 105,565 in 2010 and 106,800 in 2011.	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
17	Containing Government expenditure	Reform of the Budget Law	A. Law No. 196/2009 B. Bill AC 3921-B C. Delegation in Law No. 196/09, article 30	A. New regulations for the Government budget within more certain timeframes and with more defined content; containing Government expenditure; B. Changes to Law 31 December 2009, No. 196, following the new rules adopted by the European Union on the coordination of economic policies of the Member States; C. Traceability of capital expenditure and monitoring of public works.	A. Adopted B. Adopted C. Implementation underway	Operational	A. 2010 B. 2011 C. 2010	C. II Q 2012	For the development of a unified database € 10 billion have been allocated in 2010 (Art. 13), € 11 million for 2011 and € 5 million starting from 2012.	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation
18	Product market, competition and administrative efficiency	Competition and opening markets	Lgs.D. 59/2010 – Implementation of the Services Directive	With Lgs.D. 26 March 2010, No. 59, Directive 2006/123/EC has been transposed into our legal system. Thereby clear choices have been made to favour simplification and free competition in the service market.	Published on the Official Journal	Operational			No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
19	Product market, competition and administrative efficiency	Competition and opening markets	Regulation No. 713/2009 establishing an Agency for cooperation among national energy regulatory authorities, Directive 2009/72/EC and Directive 2009/73/EC on electricity and natural gas, and Regulations No. 714/2009 and No. 715/2009 on conditions for access to the natural gas transmission networks.	With a view to ensuring the security of gas supply and balancing supply and demand on the national market as well as the quality and maintenance level of networks, the Ministry of Economic Development has issued a number of policy statements. More specifically, with a decree to be adopted within 18 months since the coming into force of the transposition decree, a transparent and non-discriminatory procedure will be developed to achieve new electicity generation capacity.	Lgs.D. adopted in the Cabinet meeting of 3 March 2011 (preliminary consideration)	Operational			No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
20	Product market, competition and administrative efficiency	Foreign tax regime	Decree Law 78/2010	Cutting administrative costs; application of the foreign tax regime to EU businesses.	Started	Operational	2010			**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
21	Product market, competition and administrative efficiency	'No-bureaucracy areas'	Decree Law 78/2010	Establishment of areas with fewer administrative constraints in Southern Italy.	Started	Operational	2010		No additional burden	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Releasing the potential of the single market

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
22	Product market, competition and administrative efficiency	Improving the business environment through administrative efficiency	Decree Law 78/2010, Art.49 paragraph. 4-bis that replaces Art. 19 Law 241/1990	Cutting administrative costs through the introduction of SCIA (Segnalazione Certificata di Inizio Attività – Certified report of start of activity). Compared to the previous DIA (Statement of Start of Activity), SCIA allows activities to be started immediately without the 30-day waiting period.	Started	Operational	2010		No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
23	Energy and environment	Renewable energy national action plan	Directive 2009/28/EC Art.4	Promotion of renewable energies.	Implementation underway	Operational	2010	2020	No additional burden		Renewable sources	Efficient access to energy
24	Energy and environment	Renewable energy sources	2009 Community Law	Promotion of renewable energies.	The Lgs.D. was definitively adopted by Cabinet in the meeting of 3 March 2011.	Still in planning stage			No funds have been allotted. Costs for incentives are to be paid through the A/3 component of tariffs paid by all users.		Renewable sources	Efficient access to energy
25	Containing Government expenditure	Tax reform		Fairer distribution of the tax burden, shifting part of direct taxation onto indirect taxes; introduction of taxes having fewer distortions to growth, especially environmental taxes; simplification of the tax system and of requirements to be fulfilled to ensure legal certainty.	Not started yet	Still in planning stage				**Bottleneck No 2** Competitiveness, wages and productivity	Employment rate	Fiscal consolidation
26	Employment and pensions	Scrapping payroll taxes		Gradual increase in the number of workers benefitting from reductions in contributions and concessionary income tax rates correlated to higher competitiveness criteria of firms, including balance sheet profits, based on local or firm-level bargaining.	Not started yet	Still in planning stage				**Bottleneck No 2** Competitiveness, wages and productivity	Employment rate	Making work more attractive
27	Product market, competition and administrative efficiency	Reform of the judicial system	Adoption in the Cabinet meeting of 10 March 2011	Constitutional and ordinary regulations on judges and prosecutors, on how to prosecute, the defendant's defense rights and disciplinary action of the Ministry of Justice against judges and prosecutors.		Still in planning stage			No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency		Releasing the potential of the single market
28	Containing Government expenditure	Balance sheet of State assets at market prices	Law 191/2009 (2010 Budget) Art. 2 paragraph 222 and ff.	Asset report at market values': launcing the portal on the Ministry of Finance website where General Government bodies (under the S13 ISTAT list) are required to register and input data concerning real estate (land and buildings) which they own or hold.	Started	Operational	18 February 2010		No additional burden	**Bottleneck No. 1** Fiscal consolidation and public debt		Fiscal consolidation

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
29	Product market, competition and administrative efficiency	Bank of Southern Italy (called *Banca del Mezzogiorno*)	Art. 6 ter Decree Law. 112/2008 converted into Law 133/2008	The Bank shall operate for at least five years as a second-level financial institution, supporting investment projects in Southern Italy and especially prviding credit to SMEs also through the support of financial intermediaries with adequate equity. Financial support must be used primarily to foster the establishment of new businesses, youth and female entrepeneurship, increase in business size and internationalisation, so as to create more jobs.	Implementation underway	Made into law	2010			**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth
30	Product market, competition and administrative efficiency	Three-year development plan	Decree Law No. 112/2008, Law No. 133/2008, Directive PCM 04-05-2010	Simplifying the legislative environment; facilitating entrepreneurial activities; reform of local public services.	Implementation underway	Operational	II Q 2008	IV Q 2011	CIPM surveillance: 2011 appropriation is € 1.8 million (including CIPM management activities, focussing on entrepreneurial activities outside the EU). Agreement between AIFI and the Ministry of Economic Development: no funds have been appropriated yet.	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
31	Product market, competition and administrative efficiency	Annual law on competition and markets	Art. 47 Law No. 99/2009	Market liberalization, consumer protection and strengthening the links between Government action and the investigations of the Competition Authority.	Art. 47 of Law 99/2009 provides for the government to submit an annual competition bill.	Made into law	III Q 2009		No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
32	Product market, competition and administrative efficiency	New regulatory framework and simplification of requirements for enterprises	Articles 5 and 6 of Law No. 99/2009	Simplification of regulations to be complied with by those who want to install new plants.	Not implemented yet	Still in planning stage	III Q 2009		No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
33	Product market, competition and administrative efficiency	Public Administration Government Industrial Plan	Lgs.D. No. 150/09 and 198/2009	Quality of collective bargaining, improving civil servant; more efficient general government bodies, more merit and more openness of Public Administration.	Implementation underway	Operational	III Q 2008		Resources have been allocated to the 'Commission for assessing the transparency and integrity of General Government bodies: € 2 million in 2009 and € 8 million starting from 2010.	**Bottleneck No. 3** Product market - Competition and administrative efficiency	R&D	Releasing the potential of the single market
34	Product market, competition and administrative efficiency	Competition and opening markets	Transposition of Directive 2009/81/EC	The relevant regulations (Dir 2009/81) set out the European regulatory framework for awarding public contracts in the defence and law-enforcement sectors, protecting the security of information, supplies and greater flexibility in public contract award procedures .	Transposition underway	Operational	2009	The 2009/81 Directive must be transposed by 21 August 2011		**Bottleneck No. 3** Product market - Competition and administrative efficiency		Releasing the potential of the single market

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
35	Energy and environment	Renewable energy sources and energy efficiency	Financial Law No. 296/06 Art. 1, paragraph 345 and ff. – Financial Law No. 220/10 Art. 1, paragraph 48	Tax breaks for measures for increasing the energy efficiency in buildings. The Government is currently defining new regulations to implement the 'Housing Plan – Private Housing'. Here particular emphasis will be laid on incentives for the use of renewable energy sources.	Implementation underway	Operational	2007	Tax breaks extended to 2011	Impact on the budget: Year 2011: + € 124.8 million Year 2012: - € 32.4 million; Year 2013: - €292.8 million; 2014-2016 period: - €168.2 million each year.	**Bottleneck No. 4** Innovation – R&D	Renewable sources	Efficient access to energy
36	Energy and environment	Fund for the promotion of renewable energy sources, energy efficiency and the production of electricity from thermodynamic solar energy	Art. 2, paragraph 322 Financial Law 2008	Control and reduction of greenhouse gas emissions and promotion of solar energy.	Not started yet	Still in planning stage			For the 2011-2013 period, € 20,860 million a year have been allocated to the Fund for the promotion of renewable energy sources and energy efficiency. The amounts under that budget chapter can be readjusted.	**Bottleneck No. 4** Innovation – R&D	Renewable sources	Efficient access to energy
37	Energy and environment	Introduction of tax incentives for energy saving (low emission fuel efficient vehicles)	2007 Financial Law paragraphs 224-241; Law No. 31/2008; Law No. 33/2009	Reduction of greenhouse gas emissions by scrapping vehicles manufactured before 1996.	Completed	Completed			Provisions envisage incentives for scrapping highly polluting vehicles and replacing them with low emission vehicles. The Financial Law 2007 has resulted in expenditure – including induced effects – amounting to € 140 million in 2007, 84 million in 2008 and 63 million in 2009. Law No. 31/2008 resulted in expenditure, including induced effects, amounting to € 48 million in 2008, € 37 million in 2009 and € 22 million in 2010. Law 33/2009 resulted in expenditure, including induced effects, of € 377 million in 2009, € 11 million in 2010 and € 17 million in 2011.		Energy efficiency	Efficient access to energy
38	Energy and environment	Revolving fund for meeting the 2007-2009 Kyoto targets	Art 1, paragraph 1110-1115, 2007 Financial Law ; Law No. 120/2002	Development of high-efficiency engines, production of electricity, heat and refrigeration through co-generation.	Implementation underway	Operational	2011	Not applicable as it is a revolving fund	€ 200 million a year for the 2007/09 period, for a total of € 600 million. It should be noted that as it is a revolving fund, it is fed by the sums of money repaid by the firms that benefitted from it, therefore the emission reductions will gradually increase in the years following the first. It should be noted that in addition to GHG emission reduction, this measure entails a series of important additional benefits such as savings resulting from lower fuel consumption, benefits linked to technology substitution, etc.		Energy efficiency	Efficient access to energy
39	Product market, competition and administrative efficiency	International customs and taxation cooperation	International customs and taxation agreements ratified by Italy (Law No. 208/2010; Law No. 92/2010; Law No. 43/2010; L. No. 118/2010; Law No. 77/2010; Law No. 70/2010)	Promotion of cooperation, mutual administrative assistance and the use of IT for customs purposes; measures aimed at avoiding double taxation in income tax and preventing tax evasion.	Published on the Official Journal	Operational	2011	As of the "timeline start"	Law No. 208/2010 (€ 21,665 euro a year starting from 2010, Table A Ministry of Foreign Affairs); Law No. 92/2010 (No additional expenditure); Law No. 43/2010 (€ 28,455 a year as from 2009, reduction in expenditure authorisation Law No. 170/1997); Law No. 118/2010 (€ 43,000 a year for 2010 and €158,000 starting from 2011, reduction in expenditure authorisation Law No. 170/1997); Law No. 77/2010 (No additional expenditure); Law No. 70/2010 (No additional expenditure).	**Bottleneck No. 3** Product market - Competition and administrative efficiency		Releasing the potential of the single market

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
40	Energy and environment	Implementation of Directive 2009/125/EC	Lgs.D. No. 15/2011	It establishes a regulatory framework for placement on the market, operation and free movement of energy-related products, ruling out passenger and freight transport means.	Implementation underway	Operational			No additional burden		Renewable sources	Efficient access to energy
41	Product market, competition and administrative efficiency	Administrative simplification plan for households and businesses 2010-2012	Law No. 133/2008; Simplification regulations for SMEs; Circular Letter 1/E of Agenzia delle Entrate (the revenue authority) of 25 January 2011	Action aimed at simplifying administrative costs for households and companies.	Decision-making process completed	Operational	IV Q 2010	IV Q 2012		**Bottleneck No. 3** Product market - Competition and administrative efficiency	R&D	Releasing the potential of the single market
42	Product market, competition and administrative efficiency	Code of digital administration	Lgs.D. No. 235/2010	Reform of the regulatory framework for the digitization of General Government bodies with a view to improving efficiency and quality of services.	Started	Operational			No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	R&D	Releasing the potential of the single market
43	Innovation and human capital	School reform	School reform school reorganisation: Art. 2 paragraphs 411 and 412 Financial Law No. 244/2007; Art. 64 Law No. 133/2008	Provisions on school organisation.	Implementing decrees: Presidential Decree (P.D.) No. 81/2009 (reorganisation of the education system); P.D. No. 89/2009 (regulatory review of the first cycle of education); P.D .No. 119/2009 (technical, administrative and support staff). Implementing decrees of higher secondary school reform: P.D. 87/2010 (reorganisation of professional schools); P.D. 88/2010 (reorganisation of technical schools); P.D. 89/2010 (reorganisation of secondary schools - licei).	Operational	School year 2009/2010, except the reform of higher secondary school which goes into effect as of school year 2010/2011	school year 2011/2012 as the reform of higher secondary school becomes operational - school year 2014/2015	Art. 2 paragraphs 411 and 412 of Law No. 244/2007 – staff expenditure savings as envisaged in the technical report: € 837.25 million in 2009, € 1,158.5 million in 2010, € 1,372.7 million starting from 2011; Art. 64 Law No. 133/2008 – expenditure savings under paragraph 6 Art. 64, not less than 456 million in 2009, 1,650 million in 2010, 2,538 million in 2011 and € 3,188 starting from 2012. In school year 2009/2010 overall expenditure savings amounted to approximately € 1,630 million. In the following school years a compulsory review of the envisaged expenditure savings will be carried out.	**Bottleneck No. 4** Innovation – R&D	School drop out	Making work more attractive

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
44	Innovation and human capital	University Funds	Law 13 December 2010, No. 220 (Stability Law 2011). Law 13 December 2010, No. 221 (budget forecast for 2011-2013).	Provisions on university education and research. FFO increase (FFO - Ordinary Fund for University) a share of the increase is allotted to an extraordinary plan to hire associate professors for each year in the 2011-2016, regardless of the constraints envisaged by the existing regulations governing university staff turnover (Art. 1, paragraph 24). Tax credit to firms outsourcing research and development activities to universities or public research intitutions. Increase in the Supplementary Programme Fund for '*Prestito d'Onore'* (Loans with income contingent repayment) and grants.	Implementation underway	Operational			For the FFO € 800 million in 2011 and € 500 million a year as of 2012. For the tax credit there is an expenditure authorisation of € 100 million for 2011. For the supplementary fund the amount is € 100 million for 2011. € 25 million funding for private universities in 2011; € 100 million for the extension of the 0.005 per cent of income to be devolved to charities. Contribution of € 5.2 million for 2011 for Special Status University Institutions established by law (PISA NORMALE; PISA S. ANNA, TRIESTE SISSA) with a share of the contribution (2 million) to be alloted to *Scuola IMT* (istituzioni, mercati, tecnologie) and *Alti Studi di Lucca* (paragraph 85)	**Bottleneck No. 4** Innovation – R&D	University education	Making work more attractive
45	Innovation and human capital	Tax incentives to attract research workers back to Italy	Decree Law No. 78/2010 Art.44 (provision already introduced by Decree Law No. 185/2008)	Incentives to attract research workers back to Italy. Exemption of 90% of income of research workers from taxation. In the case of businesses, salaries are not subject to IRAP (Regional tax on production activities).	Implementation underway	Made into law	2011	2013	Data from IRAP tax returns submitted in 2009 show a revenue loss of approximately € 9.2 million.	**Bottleneck No. 4** Innovation – R&D	University education	Making work more attractive
46	Innovation and human capital	Tax incentives to attract research workers back to Italy	Law No. 296/2006 (Financial Law 2007) Art.1, paragraphs 280-281	Tax incentives to attract research workers back to Italy . 10% tax incentive (which can be increased to 40% in the case of agreements with Universities and Research Centres) for costs incurred in relation to research and development.	Completed	Completed	2007	2009	Appropriations in the Government budget for tax credits (Decree Law No. 185/08) amount to € 375.2 million in 2008, € 533.6 million in 2009, € 654 million in 2010 and € 65.4 million for 2011. The actual funds used through tax deduction in F24 amounted to approximately € 362 in 2009 and approximately € 367 million in 2010.	**Bottleneck No. 4** Innovation – R&D	University education	Making work more attractive
47	Innovation and human capital	Tax incentives to attract research workers back to Italy	Law No. 238/2010	Reduction of the percentage through which income is calculated as taxable income.	Implementation underway	Operational				**Bottleneck No. 4** Innovation – R&D	R&D	Making work more attractive
48	Innovation and human capital	Tax cut on investment in machines	Decree Law No. 78/2009 (Law No. 133/20009)	Increase in investment and hence in innovation and other advantages.	Adopted	Operational	2010	2010	The Technical Report has estimated that revenues will decrease by € 1,833 million in 2010, by 2,390 million in 2011 and by € 224 million in 2012.	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market
49	Innovation and human capital	Foundation of *Istituto Italiano di Tecnologia*	Art.1 paragraph 578 Law No. 266/2005; Art. 17 Decree Law No. 112/2008	Strengthening of a centre of excellence in scientific research.	Implementation underway	Operational	III Q 2008		Government budget appropriation of € 90 million (chapter 7380 Ministry of the Economy and Finance). Burdens starting from 2008.	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
50	Innovation and human capital	*Fregate* FREMM' and Medium Armoured Vehicles (VBM) Projects		Internazionalization of production techniques of military ships and command, control, communications and combat electronic systems; strengthening of knowledge and production skills in hi-tech sectors of Italian businesses through the development of strategic programmes; consolidation of national defense.	Implementation underway	Operational	IV Q 2008		Appropriations in the budget chapter of the Ministry of Economic Development No. 7485, established through Financial Law of 2006 (Law No. 266/2005) for the multi-mission frigate, provide funding for both FREMM and VBM. As for the budget amounts, the Financial Law 2006 (Law No. 266/2005) envisaged three contributions: € 30 million from 2006 for 15 years; €30 million from 2007 for 15 years; €75 million from 2008 for 15 years. The Financial Law 2008 (Law No. 244/2007, Art.2 paragraph 181) envisaged other contributions that have been grouped and updated. Therefore the following appropriations have been made in the budget always in the chapter No. 7485 : €280 million in 2009; €375 million in 2010; €375 million in 2011.	**Bottleneck No. 4** Innovation – R&D	R&D	
51	Innovation and human capital	Scrapping taxes on investment in industrial research	Art. 4, paragraphs 2-4 Decree Law No. 40/2010 (Law No. 73/2010)	Increasing spending on research and development through tax incentives.	Implementation underway	Operational	II Q 2010	IV Q 2010	According to the original Technical Report the sum amounts to € 70 million.	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market
52	Innovation and human capital	University reform	Law 30/12/2010, No. 240	Provisions on the organisation of universities, academic staff and recruitment, as well as delegated powers to the Government to incentivize the quality and efficiency of the university system.	Implementation process through Lgs.D.s and regulations that have not yet been adopted.	Made into law	2011		Art. 29, paragraph 9 - A portion not exceeding € 13 million in 2011, € 93 million in 2012 and € 173 million as of 2013 to be drawn from the funds envisaged by the Stability Law for the ordinary fund for universities (FFO fondo finanziamento ordinario) is earmarked for hiring associate professors Art. 5, paragraph 3, subparagraph. g) expenditure not exceeding € 11 million in 2011. Art. 22, paragraph 6, expenditure estimated at € 3,5 million starting from 2011. Any expenditure savings or additional costs shall have to be assessed and tallied as part of the regulations to implement the reform.	**Bottleneck No. 4** Innovation – R&D	University education	Making work more attractive
53	Innovation and human capital	Tax credit for promoting university research	Art. 1, paragraph 25 Law No. 220/2010		Decision-making process completed	Operational	I Q 2011	IV Q 2011	With regard to the tax credit for the promotion of university research, expenditure shall amount to € 100 million in 2011.	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market
54	Innovation and human capital	Reorgainsation of public research institutions supervised by the Ministry of Education, University and Research	Lgs.D. No. 213/2009	Rationalisation of activities, recognition of statutory independence, enhancement of the European research workers card	Decision-making process completed	Made into law	I Q 2011	II Q 2011	No additional burden	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
55	Infrastructure and development	Building strategic infrastructure	Strategic Infrastructure Plan (annex 8 to the Public Finance Document - Table 2 – Priority works)	PIS Plan – Strategic Infrastructure Plan (whose priority works include): Frejus tunnel Brenner Pass Po Valley plurimodal corridor Tyrrhenian- Brenner plurimodal corridor Tyrrhenian Northern Europe plurimodal corridor Adriatic plurimodal corridor Central Ridge Plurimodal Corridor MOSE system Strait of Messina Bridge Cross corridor and appennine ridge Urban system Euro-Mediterrean Sardinia Logistics Platform Harbour hubs Inter-harbour hubs Water systems – water emergency action in Southern and Insular Italy Also the TEN-T plans are included in the Strategic Infrastructure Plan.	Adopted by the Interministerial Committee for Economic Planning on 18 November 2010	Operational	2010		For the 2001-2013 period € 71,000 million have been appropriated; the funds will be allocated starting from 2008 on the base of projects included in the 'Legge-Obiettivo' financed through fund under Law No. 2/2009: € 8,300 million as net portion of works. This amount does not include the planned FAS relating to the Plan for the South. As for the Stratigic Infrastructure Plan PIS the following are DIPE (Department for Economic Planning) data (in billions of euro), relating to works financed by CIPE (Interministerial Committee for Economic Planning) from 2001 to date: Cost of approved works: 132.37; Funding: 71.3; Additional funding to be found: 61.07. Funding ensured so far (compared to the historical figure of 71.3 billion that was included in the Infrastructure Annex to the Public Finance Decision 2011-2013) It is divided into the following sources of funding (in billions of euros) and includes legally binding commitments: Specific appropriations for the Strategic Infrustructure Programme Target Law: 17.7; Other public funds 20.7; Mortgage cancellations Art. 46 Decree Law 78/2010: 0.230; Infrastructure Fund under Art. 18 Decree Law 185/2008: 5.6; EU Funds: 3.3; Regions, provinces and municipalities: 5.3; Private funds: 24.2.	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth
56	Infrastructure and development	Housing Plan (a) and Housebuilding Plan (b)	(a) Agreement between the State and the Regions; (b) Art.11 Decree Law No. 112/2008 converted into Law No. 133/2008; Agreement between the State and the Regions of 5 March 2009 implemented through the Decree of the Prime Minister of 16 July 2009 and 31 March 2010	(a) Citizens are offered the possibility to carry out enlargement or renovation works in their homes; cutting rad tape for building projects; Regional authorities may adopt their own town-planning laws containing provisions on increases in cubic meters and / or the possibility to demolish and rebuild . (b) Increase in the public residential housing stock through: - participation in real estate funds; - programmes falling within the responsibility of former -IACP (Independent Institute for Social Housing), already included in the Extraordinary Programme for Public Residential Housing adopted with the Ministerial Decree 18/12/2007; - concessions to housing cooperative firms established by the individuals benefitting from the programmes; - integrated programmes to promote residential development, including council houses .	Implementation underway	Operational	2010		(b) Of € 844 million available in the Government budget € 718 million have been shared out or earmarked; payment of the funds shall be made as procedures performed by the recipient entities advance; to date €109 million have been disbursed.	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
57	Infrastructure and development	Implementing measures to increase logistics efficiency	National Logistics Plan - 2010	Efficiency-enhancing measures included in the National Logistics Plan: - Logistics Pact 2 - Plan for the South - Expo 2015 - Reform of Port Authorities - Intermodality, co-modality and networked system of interports: requests and priorities - The TEN –T Network Plans : Protocol of the Alps and Corridor companies - Rail main network - The role of the harbour system and its funding - The motorways of the sea - Air transport: a first test of passing from FOB to CIF contracts (then to be extended to other transport sectors) - the river system - Logistical platforms and programmes on a national scale - Single point of contact at customs - Performance reserve for logistics outsourcing - 'Ferrobonus' and 'Ecobonus' incentives - Measures to reduce the cost of labour in transport and logistics - Rolling stock modernisation - Measures for policies to take action in the different sectors - Rules and regulations for implementing the Plan - Tax policy for logistics (VAT reform, VAT credit, VAT at customs) - 'Tremonti-Ter' (Third Tremonti Plan) for aggregations extended to other transport sectors - Smart transport systems: National computerised platform - Galileo Project	Not started yet	Made into law			**EXPO 2015**: financial size of essential programmes: € 2,945 million, 1,486 million of which to be paid by the State for the 2009-2015 period, authorised under Article 14 of Decree Law No. 112/2008. The logistics plan is made up of ten strategic lines: for some of them the necessary resources could be found in the ordinary endowment of the Ministry of Infrastructure and Transport at unchanged legislation and should not entail any additional expenditure The following is a list of sectors for which funds are available (at unchanged legislation): **A fund to continue programmes for road transport (the so-called logistics fund** for 2011 € 276 million under Law No. 221/2010); however, these resources have been earmarked for a whole series of programmes to support the industry and not just for the development of logistics. To meet the needs of the whole industry there are also € 124 million envisaged under Art. 1, paragraph 40 of Law No. 220/2010. The "structural" resources for the whole sector amount to approximately € 215 million. **'Ferrobonus' incentive - intermodality**: Law No. 454/97, Art. 10, paragraph 1 has authorised 3 commitments of approximately € 25 million starting from 1997,1998 and 1999 respectively. For the year 2011 € 21 million have been appropriated (following the cut envisaged in the Financial Law 2008) while the final year in which contributions shall be made is 2013. **Motorways of the sea ('ecobonus' incentive)**: for 2011 € 30 million (Art. 1, table 1, Decree Law 225/2010 provided for the regulatory framework to be extended to the programmes under Art. 2, paragraph 250 of the Financial Law 2010 within the limits of the available resources year 2010 and implemented through Ministerial Decree No. 27 of 31.1.2011); for the 2008-2010 period € 77 million a year have been authorised. **Multi-modal infrastructure**: Law 454/1997 authorised a contribution of approximately € 5.16 million for 15 years starting from 1998; Law No. 413/1998 envisaged two further 15-year contributions, of approximately € 10.196 million from 2000 and 10.254 from 1999. For 2011 the funds available amount to € 25.6 million (cap. 7770/MIT); **Funding for the harbour system**: € 362 million for 2011 for various programmes (chapters 7262,7265,7267,7273,7274,7631): Finally, Art. 2, paragraph 2-novies Decree Law No. 225/2010 (Extensions of terms to 2011) envisaged the cancellation of funds already disbursed to the port authorities and which have not been used; subject to an investigation by the Ministry of Infrastructure and Transport these funds (up to a limit of € 250 million for 2011) can be reallocated to the construction of infrastructure works; they can be reallocated again up to the same limit in the following years 2012 and 2013. **Sea and road transport in the Po Valley and Veneto**: there are three 15-year contributions (€ 2.6 million from 2001 under Law 388/00, € 20.6 million from 2000 under Law No. 413/98 and € 20 million from 2004 under Law No. 350/2003); for the year 2011 (chapter 7700/MIT) € 43.2 million have been appropriated. **Investment in rolling stock**: Art. 10 of Law 297 of 1978 provides for renewing existing rolling stock. € 4 million have been appropriated for 2011 (chapter 7137/MIT). In addition, under chapter 7141 of the Ministry of Infrastructure and Transport 342 million are allocated to investment. **Air transport**: testing change from FOB to CIF contracts extended to other transport sectors : no comparison can be made as no information is available. **Galileo Project**: no national contributions have been envisaged to date for funding Galileo's additional costs. The EU Commission has committed itself to funding it through the EU budget resources with an amount of € 3.4 million over the 2007-2013 and has identified the need for further € 7.7 billion for the 2014-2020 period both for completing the project and operating it. In June the Commission shall submit its first funding proposal.	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
58	Innovation and human capital	National Strategic Framework 2007-2013	EC Regulations No. 1083/2006; 1080/2006, 1828/2006; 1081/2006, as amended by successive regulations; Decision by the Interministerial Committee for Economic Planning (CIPE) of 22 December 2006	Strategy document for planning EU and national resources (2007-2013) allotted by the coesion policy to the Regions of Souther Italy and those of Central and Northern Italy and activated through national and regional Operational Programmes	Implementation underway	Operational	2007	2015	The EU and national resources for planning of the Strategic Funds for the 2007 -2013 period amount to a total of € 59.4 billion, including: a) for the EU2020 priorities: € 40.3 billion, 7.7 billion of which for energy and climate; € 3.8 billion for social inclusion; € 4.3 billion for education; € 3.5 billion for work and employment; € 20.8 billion for research and innovation; b) for infrastructure and transport (not a EU 2020 priority): € 6.8 billion.	**Bottleneck No. 5** Reducing regional disparities	R&D	Releasing the potential of the single market
59	Infrastructure and development									**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth
60	Business support									**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth
61	Energy and environment									**Bottleneck No. 5** Reducing regional disparities	Renewable sources	Efficient access to energy
62	Infrastructure and development	Enhancing cross-border infrastructure	Agreements in the network and infrastructure sector (Law 71/2010; L. 69/2010)	Building crossborder rail infrastructure	Published on the Official Journal	Operational	2011	Starting from 'timeline start'	Law 71/2010 (€ 139,000 for the year 2010 and € 200,000 starting from 2011, cut in expenditure authorisation Law 170/1997); Law 69/2010 (No additional expenditure).	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
63	Business support	SMEs and *Small Business Act* (SBA)	European Commission Communication (2008)394	EU package to promote SMEs and their sustainable growth on the basis of the 'Think small first' principle.	Implementation underway	Operational	I Trim. 2009		No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
64	Business support	Strategic projects and programmes to facilitate support for research activities, development and innovation in technological areas deemed to be strategic for the country's competitiveness	Measures adopted by the Ministry of Economic Development to support industrial research programmes and innovation (industrial innovation projects as envisaged in Art.1, paragraph 842 Law No. 296/2006, Law No. 46/82 and any additional measures that may be taken)	Development of new technologies, new products and services in sectors or areas considered to be strategic	Implementation underway	Operational	2011		Financial resources will be used that will from time to time be drawn from the existing funds (FIT, FAS,PON, Competitiveness fund); to date only FIT funds can be quantified (law 46/82), whose programmes can be funded through repayments to the Fund (approximately € 250 million in 2010), as well as 785 million of the revolving fund for business support and investment (FRI) established at *Cassa Depositi e Prestiti* - earmarked for technological innovation contracts through a decision by the Interministerial Committee for Economic Planning of 18 November 2010. Moreover, approximately € 592 million for 2011 have been pledged in the industrial innovation projects under Art. Paragraph 1, 842, Law 296/06, whose call for tenders has already been published.	**Bottleneck No. 4** Innovation – R&D	R&D	Attracting private capital to finance growth
65	Business support	District taxes	Art. 3 of Decree Law 5/2009	Support for the industrial and innovative base of SMEs.	Not implemented yet	Made into law	I Q 2009		Article 3, paragraph 4, of Decree Law No. 5/2009 lays down that the provisions shall not entail expenditure exceeding € 10 million in 2009 and € 50 million starting from 2010. It has not been started yet.	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Attracting private capital to finance growth

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
66	Business support	Tax credit for the purchase of capital goods in underutilized areas	Law No. 296/2006 (Financial Law 2007) Art.1, paragraph 271 and ff.	Tax credit on the purchase of capital goods (machinery, software, patents) in the following Regions: Calabria, Campania, Apulia, Sicily, Basilicata, Sardinia, Abruzzo and Molise.	Started	Operational	2007	2013	F24 tax forms show a number of frequencies equal to 2,303 and deductions from taxes of approximately € 50 million in 2009 and € 207 million in 2010.	**Bottleneck No. 5** Reducing regional disparities	R&D	Attracting private capital to finance growth
67	Innovation and human capital	Broadband Plan to bridge the digital divide providing all Italian citizens with access to 2-20 mbps broadband	Art. 1 Law No. 69/2009	Completion of the infrastructure plan for electronic communications networks in the areas of market failure, thereby allowing all citizens to have a fast Internet connection (from 2 up 20 mbps).	Implementation underway	Operational	2009	2013	Available resources at unchanged legislation: € 370 million without specifying how much a year (2011-2015) to be drawn from the FAS/Italy's Strategic Fund .	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market
68	Innovation and human capital	National Plan for new generation networks		Start of the Plan to make new generation networks available to 50% of Italian citizens. A public-private partnership which sees the participation of Italy's 20 main telecommunications operators.	Development of the executive plan	Operational	2011	2016	No grants are needed, simply the financial commitment of *Cassa Depositi e Prestiti* .	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market
69	Innovation and human capital	Call for tenders 800 frequency band		Greater availability to offset the liberalisation of frequency bands by local radio and television stations. Soon a Prime Minister's Decree will be issued for the establishment of a Committee of Ministers tasked with supervising the tendering process. The call for tenders for the frequencies of the so-called digital dividend, now being used by local television stations, to be assigned to broad-band mobile telephony has been brought forward to 2011.	Definition of tendering procedure	Made into law	2011	2011	Revenues for the Government budget estimated at € 2.4 million.	**Bottleneck No. 4** Innovation – R&D	R&D	Releasing the potential of the single market
70	Innovation and human capital	Advanced completion of the analogue television swith-off plan		Bringing forward the completion of television switch-off plan toward analogue way in whole Italy.	Implementation underway	Operational	2008	2011	Topping up the "Digital Terrestrial Television Fund" with € 30 million in 2011 as envisaged in Decree Law No. 225/2010, converted into Law No. 10/2011, Art. 2, paragraph 4-octies. These are funds that had already been allotted in the FAS .	**Bottleneck No. 4** Innovation – R&D		
71	Innovation and human capital	R&D - Internazionalization of research	Fund to support applied research (FAR) managed by Ministry of Education and University.	Regulations on Italy's participation in 'Joint Technology Initiatives' (JTI) under Art. 185 of the EU Treaty.	Implementation underway	Operational	II Q 2011			**Bottleneck No. 4** Innovation – R&D	R&D	Attracting private capital to finance growth

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
72	Energy and environment	Air quality package	The package concerns a series of legislative measures (A Government bill of 9 July 2010, Lgs.D. 155/10, and Lgs.D. 152/06), regulations (interministerial decree for the implementation of the above-mentioned decree) and guidelines, all aimed at sectors with high PM10 emissions.	General measures: limiting the impact of agricultural activities, technical building requirements and maximum levels of civilian thermal plants, emission levels and requirements for industrial plants, limiting the impact of construction yard activities. Transport measures: limiting the circulation of freight vehicles and incentives for scrapping old vehicles and replacing them with new ones, differentiated taxation on freight vehicles based on Euro emission classes, limiting emissions from docked ships (port electrification).	General measures: Implementation underway Transport measures: Provisions currently examined by Cabinet to provide funding .	Made into law			General measures are of a regulatory nature and do not envisage any provisions entailing higher expenditure.			
73	Energy and environment	National biodiversity strategy	Law No. 124/94 and Art. 6 of the 'Convention on biological diversity'	National strategy to respond to commitments made under the Convention on biological diversity and in line with the Europe 2020 goals: conserving biodiversity by maintaining and restoring ecosystem services , developemnt of the green economy, mitigation and adaptation to climate change.	In the starting stage	Operational	2011	2020	No additional burden			
74	Energy and environment	National Action Plan on Green Public Procurement (PANGPP)	Art.1, paragraph 1125,1126, Financial Law 2007 – Interministerial decree 135/2008 (National action plan)	The Plan contains general and operational suggestions on Green Public Procurement (goals, organizations involved, operational arrangements, priority products) which General Government bodies must apply.	Environmental criteria have been defined for 7 out of 11 product classes.	Made into law	III Q 2008	2011	One-off amount of € 50,000 to finance the implementation and monitoring of an 'Action plan for the environmental sustainability of General Government consumption'.		Renewable sources	Efficient access to energy
75	Innovation and human capital	Merit Fund	Art. 4 of Law No. 240 of 30 December 2010	The law provides for the establishment of a system of loans to be disbursed at a low interest rate by the Fund operator with repayment plans of at least 20 years based on post-graduate income. For the worthiest students loans may be turned into grants.	Adopted	Made into law	2012		The funds needed for the disbursement of loans can come from both private and public sources, enlisting institutions interested in human capital investment.	**Bottleneck No. 4** Innovation – R&D	University education	Making work more attractive

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	Legal and regulatory information	Description of measure	Implementation stage	Progress	Start date	End date		Bottlenecks	Europe 2020 targets	Anual Growth Survey actions
76	Business support	Jeremie Project for Southern Italy	Cabinet meeting of 26/11/2010 (Plan for Southern Italy)	Facility for the disbursement of funds, participation in venture capital and the provision of guarantees for SMEs.	Adopted in the Cabinet meeting of November 2010, its operational mechanisms are currently being defined.	Operational	III Q 2011	Permanent measure; resources remain available to the Regions also after the end of EU programmes.	No additional expenditure. Resources envisaged under the financial engineering provisions in PONs and PORs shall be used.	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth
77	Infrastructure and development	Greenfield Infrustructure Fund	Art. 17-septies, Decree Law No. 225, 29 December 2010, converted into Law No. 10, 26 February 2011	Closed-end funds restricted to qualified investors whose goal is the construction of new infrastructure mainly on the national territory and with long-term effects. The Government may have a stake in the fund's asset management company.	In the starting stage	Made into law	III Q 2012	2041	€1 million	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Releasing the potential of the single market
78	Business support	Italian Investment Fund	Art. 2 paragraph 235 of Law 23 December 2009 No. 191	Closed-end investment fund restricted to qualified investors which aims at strengthening SME assets and aggregation. The Government may have a stake in the fund's asset management company.	Started (the first investments have already been approved by the *AMC*	Operational	III Q 2010	2022	€ 500,000 euro	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Attracting private capital to finance growth
79	Business support	Moratorium for SMEs		Joint notice of SME debt suspension (suspension of mortgage payments, lease payments and extension of short-term credit). Agreement signed by the Ministry of the Economy and Finance, the Italian Banking Association and the most important business associations.	Underway	Operational	III Q 2009	2011	No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Attracting private capital to finance growth
80	Business support	Fund of *Cassa Depositi e Prestiti* for SMEs	Art.8 Law 102/2009	Fund of € 8 billion financed trough resources coming from *Risparmio Postale* (postal savings accounts) made available by *Cassa Depositi e Prestiti* to the banking system for long-term funding for SMEs.	Underway	Operational	II Q 2009	Until all the funds are used up.	No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Attracting private capital to finance growth
81	Business support	Central Guarantee Fund	Art. 2, Law 662/96, as amended through Art. 11 of Law 2/09 and Art. 7 quinques of Law 33/09	Strengthening the Central Guarantee Fund for SME access to credit. The Fund provides collateral for any type of financial transaction guaranteeing 60% of the transaction (or 80% for convergence areas) on guarantees granted by Confidi and on joint Central-Guarantee-Fund – Confidi guarantees.	Underway	Operational	I Q 2009	Permanent measure	No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Attracting private capital to finance growth

IT		Descrizione delle misure							Impact on public finance	Classification of measures		
		Measure	**Legal and regulatory information**	**Description of measure**	**Implementation stage**	**Progress**	**Start date**	**End date**		**Bottlenecks**	**Europe 2020 targets**	**Anual Growth Survey actions**
82	Business support	Finalised securities for Southern Italy	Law No. 191 of 23 December 2009, Art. 2, paragraph 178-180	Application of a 5% substitute tax (instead of the ordinary 12.5% tax levied on bonds with similar features) on interest and other income from bonds issued to finance medium- to long-term investments (longer than 18 months) of SMEs in Southern Italy. The maximum issuance amount for these bonds is € 3 billion.	Operational mechanisms are currently being defined	Made into law	IV Q 2011	Until all the funds are used up	€ 9 million ceiling in case the maximum issuance amount of € 3 billion is reached.	**Bottleneck No. 5** Reducing regional disparities	Employment rate	Attracting private capital to finance growth
83	Business support	Support for quotatation on the stock exchange of SMEs		Through SACE (Export Credit Insurance Agency), establishment of a € 50 million fund to support SMEs listing their companies on Italy's SMEs stock exchange with a view to attracting other institutional investors.	Operational	Operational	IV Q 2011		No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency	Employment rate	Attracting private capital to finance growth
84	Innovation and human capital	Improving human capital	Programme for school infrastructure	Construction of new school buildings, or renovation or improvement of other real estate belonging to General Government bodies or to be acquired in order to provide local communities with school buildings that meet modern educational standards; action can be taken by local government authorities on a voluntary basis in coordination with the Regions.	Operational mechanisms are currently being defined	Still in planning stage	2012	General measures of a structural nature	No additional burden	**Bottleneck No. 4** Innovation – R&D	School drop out	Making work more attractive
85	Product market, competition and administrative efficiency	Reform of economically significant local public services	Art. 23-bis Decree Law No. 112/2008, Law. No. 133/2008, Art. 15 Decree Law No. 135/2009, Law No. 166/2009, Presidential Decree No. 168/2010	Bringing the regulations governing economically significant local public services into line with EU legislation, in order to i) increase the liberalization momentum in a certain and clear regulatory framework ; ii) facilitate the initiative of individuals; iii) reduce General Government expenditure; iv) ensuring the best quality of services provided to users.	Published on the Official Journal	Operational	2008	2015 (final deadline envisaged under the transitional system)	No additional burden	**Bottleneck No. 3** Product market - Competition and administrative efficiency		Releasing the potential of the single market