

Structural reforms in Italy and the macroeconomic impact



Dipartimento
del Tesoro

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UNIMC-University of Macerata, 14 July 2016

#leriformeinItalia

http://www.dt.mef.gov.it/it/attivita_istituzionali/analisi_programmazione_economico_finanziaria/strategia_crescita/index.html

#reformsinItaly

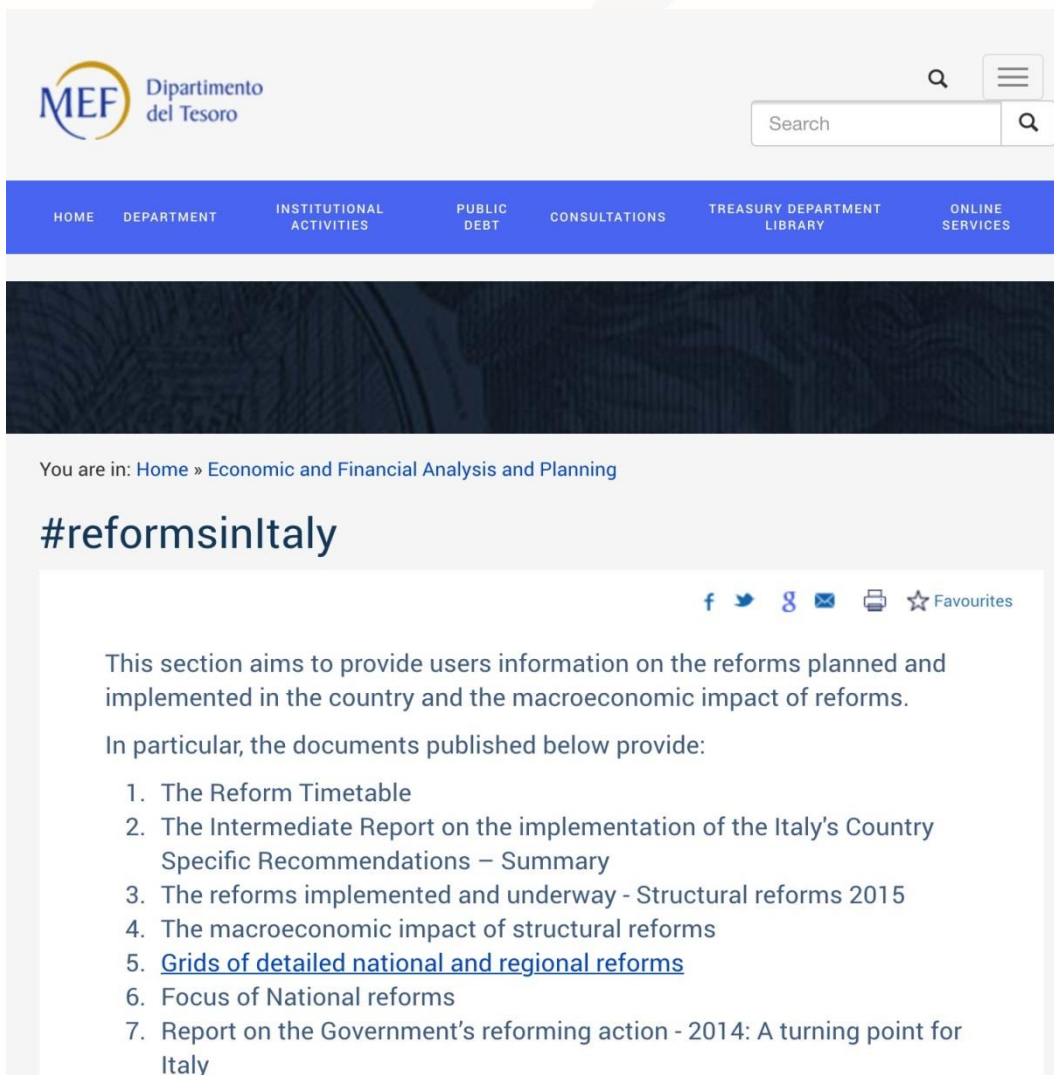
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The Agenda and Timetable: #reformsinItaly



The screenshot shows the MEF website header with the logo and navigation menu. The main content area is titled "#reformsinItaly" and includes a list of documents related to the reform timetable.

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#reformsinItaly

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This section aims to provide users information on the reforms planned and implemented in the country and the macroeconomic impact of reforms.

In particular, the documents published below provide:

1. The Reform Timetable
2. The Intermediate Report on the implementation of the Italy's Country Specific Recommendations – Summary
3. The reforms implemented and underway - Structural reforms 2015
4. The macroeconomic impact of structural reforms
5. [Grids of detailed national and regional reforms](#)
6. Focus of National reforms
7. Report on the Government's reforming action - 2014: A turning point for Italy

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http://www.dt.tesoro.it/en/attivita_istituzionali/analisi_programmazione_economico_finanziaria/strategia_crescita/index.html

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REFORM TIMETABLE

Policy Area	Done	In Progress	Timetable
Fiscal system	Enabling Law on tax reform (L. 23/2014).		March 2014
	Enabling legislative decrees of L.23/2014		
	Fiscal simplification and pre-compiled income tax return (Lgs.D. 175/2014).		November 2014
	Tobacco products (Lgs. D. 188/2014);		December 2014
	Revision of Cadastral committees (Lgs. D. 198/2014).		
		Cadastre: The revision of cadastral values will be subject to a general and organic intervention after an alignment of the databases needed to accurately assess the revenue and distributional effects on taxpayers.	2016-2018
	Legal certainty between tax authorities and taxpayers (Lgs. D. 128/2015		August 2015
	VAT electronic invoicing (Lgs. D. 127/2015).		
	Simplifying taxation for international businesses (Lgs. D. 147/2015)		September 2015
	Simplification of collecting system(Lgs.D. 159/2015)		October 2015
	Monitoring of tax evasion (Lgs. D. 160/2015)		
	Sanction system (Lgs. D. 158/2015)		
	Litigation procedures (Lgs.D. 156/2015)		
	Reorganisation of fiscal agencies (Lgs. D. 157/2015).		



A two-fold reform strategy to ensure growth

Excessive Macro
Economic
imbalances

Low productivity growth
High public indebtedness

Instruments

Sound public finance
Structural reforms

Positive exogenous
factors

ECB decision to launch the **QE** programme
Low Oil prices
Competitive exchange rate \$/€
Confidence

Outcome

Growth

A positive assessment of government's commitments

European
Commission
(2016 CSRs)

The impact of all the reforms on real GDP is estimated by the authorities at 2.2 percentage points by 2020, which seems to be plausible.

IMF
(Italy's Art.IV 2016)

The government has been pursuing a range of important reforms. The list of reform initiatives has been impressive.

OECD
(Going for Growth,
2016)

The pace of reforms continues to be generally higher in Southern European countries (in particular Italy...).

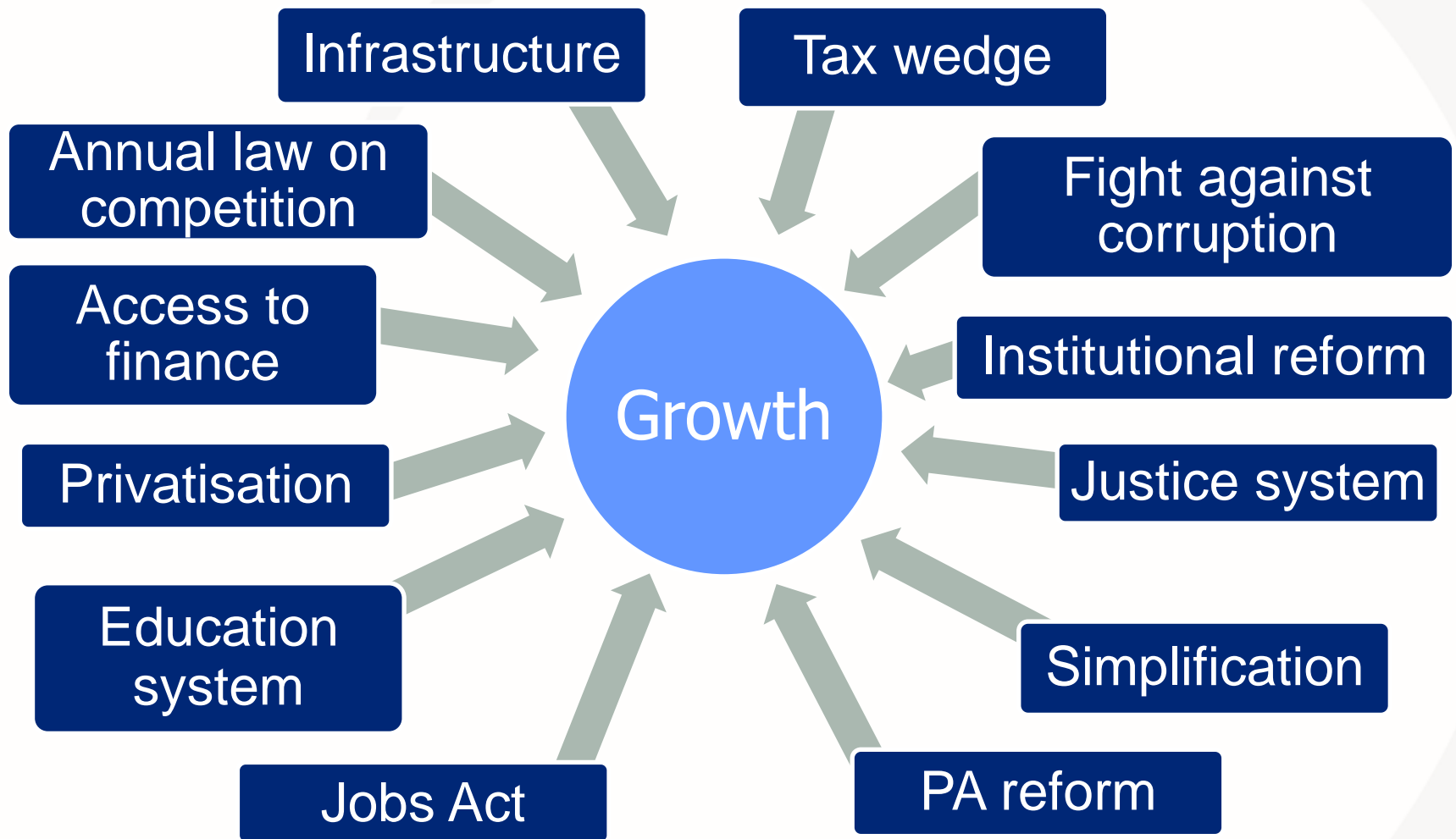
Main structural reforms underway

- **Institutional reforms:** end of bicameralism, simplification of the multilayers governance.
- **Labour market reform:** further flexibility in hiring, labour law reshuffling and simplification.
- **Tax system:** reduction in the tax wedge, a more equitable, transparent, simplified and growth-oriented tax system.
- **Non-performing loans and bankruptcy:** State guarantee mechanism as part of securitization transactions whose underlying assets are banks' non-performing loans. Law decree to allow the restructuring of a firm and avoiding bankruptcy.

Main structural reforms underway

- **Privatisation programme:** State-owned/local Gov.t companies and real estate assets to improve efficiency and reduce debt.
- **Spending review:** reducing procurement costs, increasing efficiency and cutting unproductive public spending.
- **Investment framework:** alternative financing especially for SMEs, incentives for large-scale infrastructure investment; extra budget leeway for public investment at local level.
- **Public administration:** digitalisation and modernisation, open data, transparency, red tape reduction, fight against corruption.

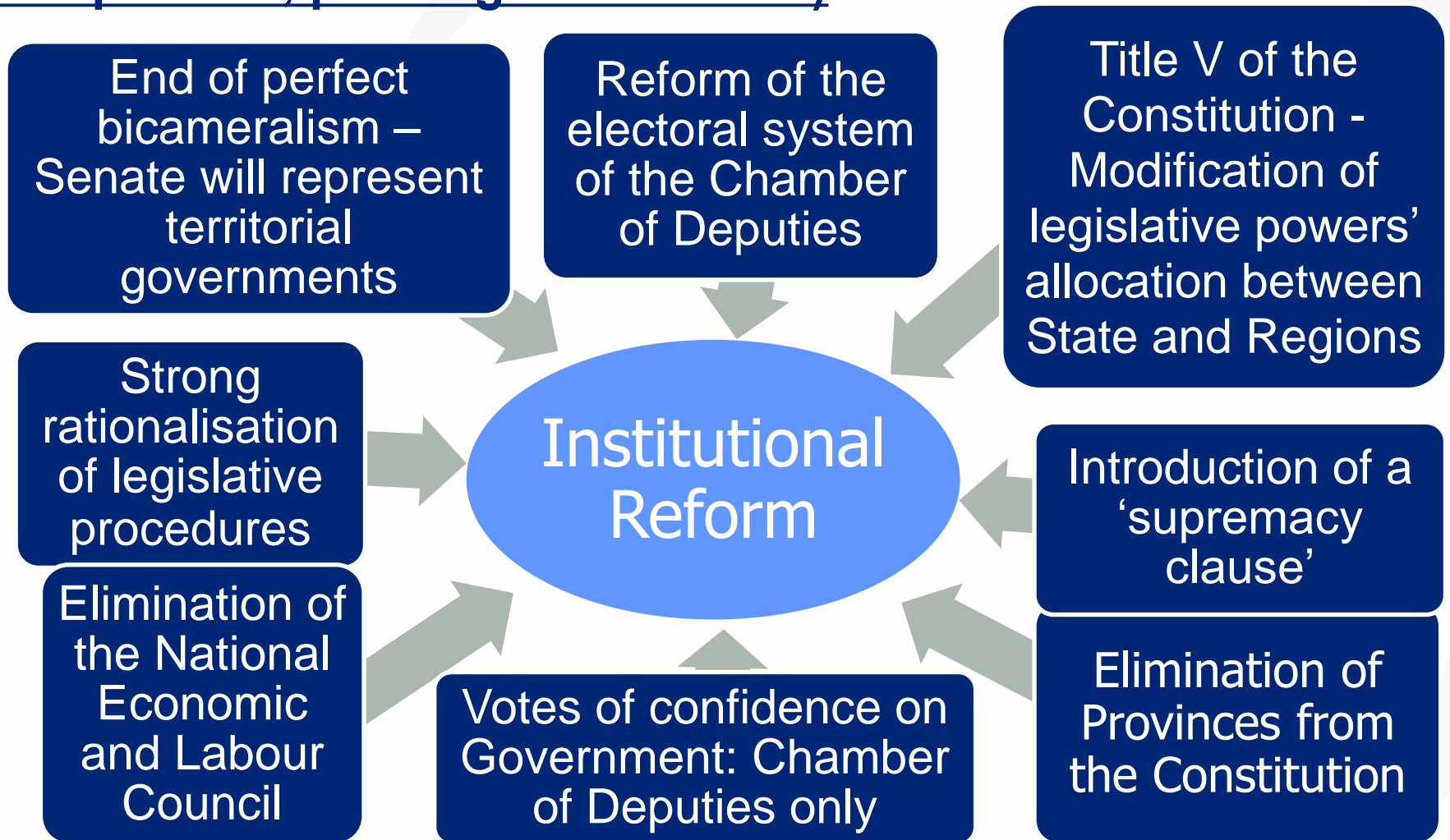
A comprehensive strategy toward economic growth



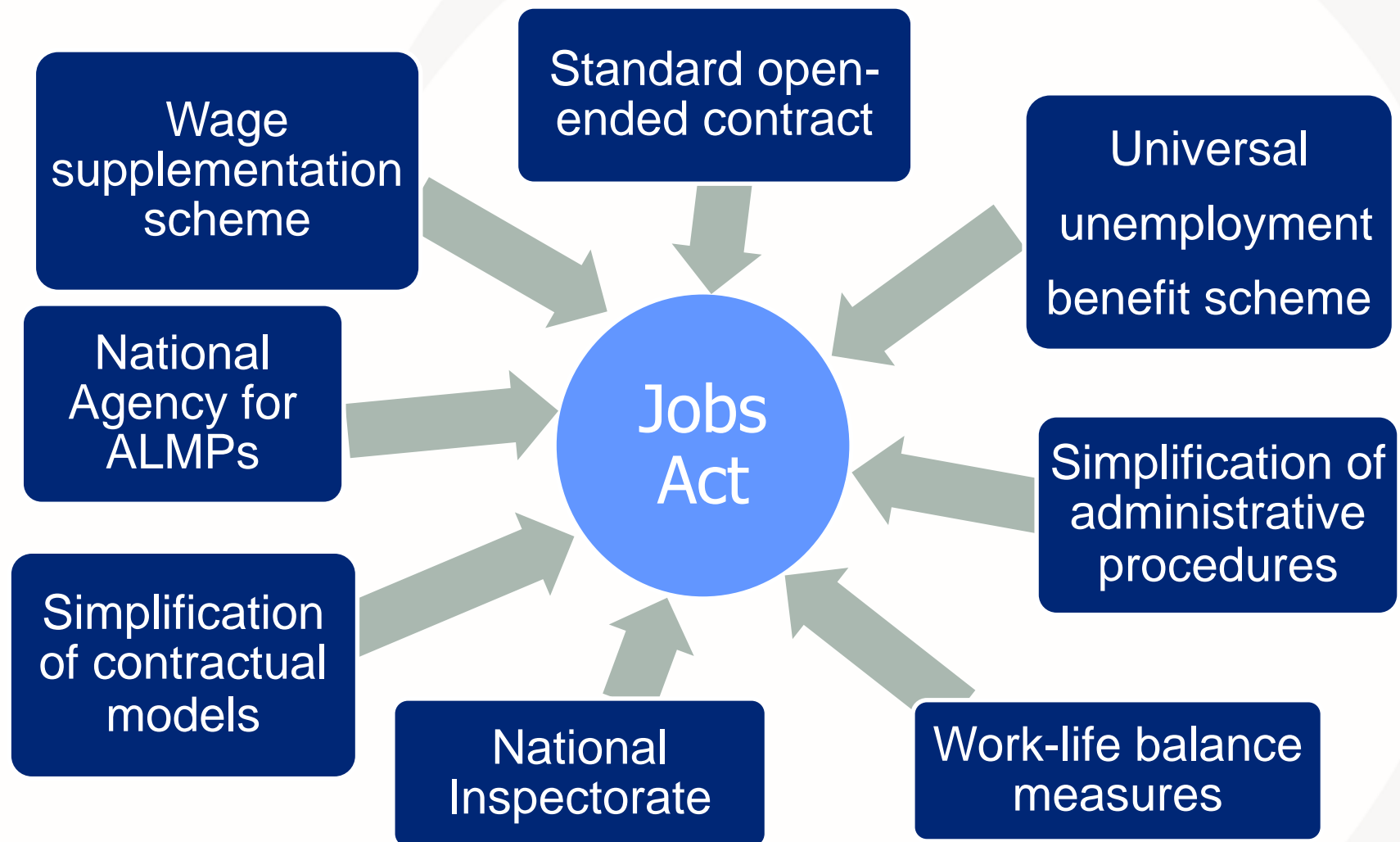
2016 Budget strategy in line with the overall strategy

- **Fully use of flexibility envisaged by the SGP in 2016:** total 0.75% of GDP: 0.5% of GDP for structural reforms plus 0.25% for the investment clause and security.
- **Tax burden reduction:** structural cuts for households and firms to boost employment and investments
- **Higher expenditure:** closely linked to the implementation of structural reforms; support to unemployment and fight poverty; increase public investment at local level.

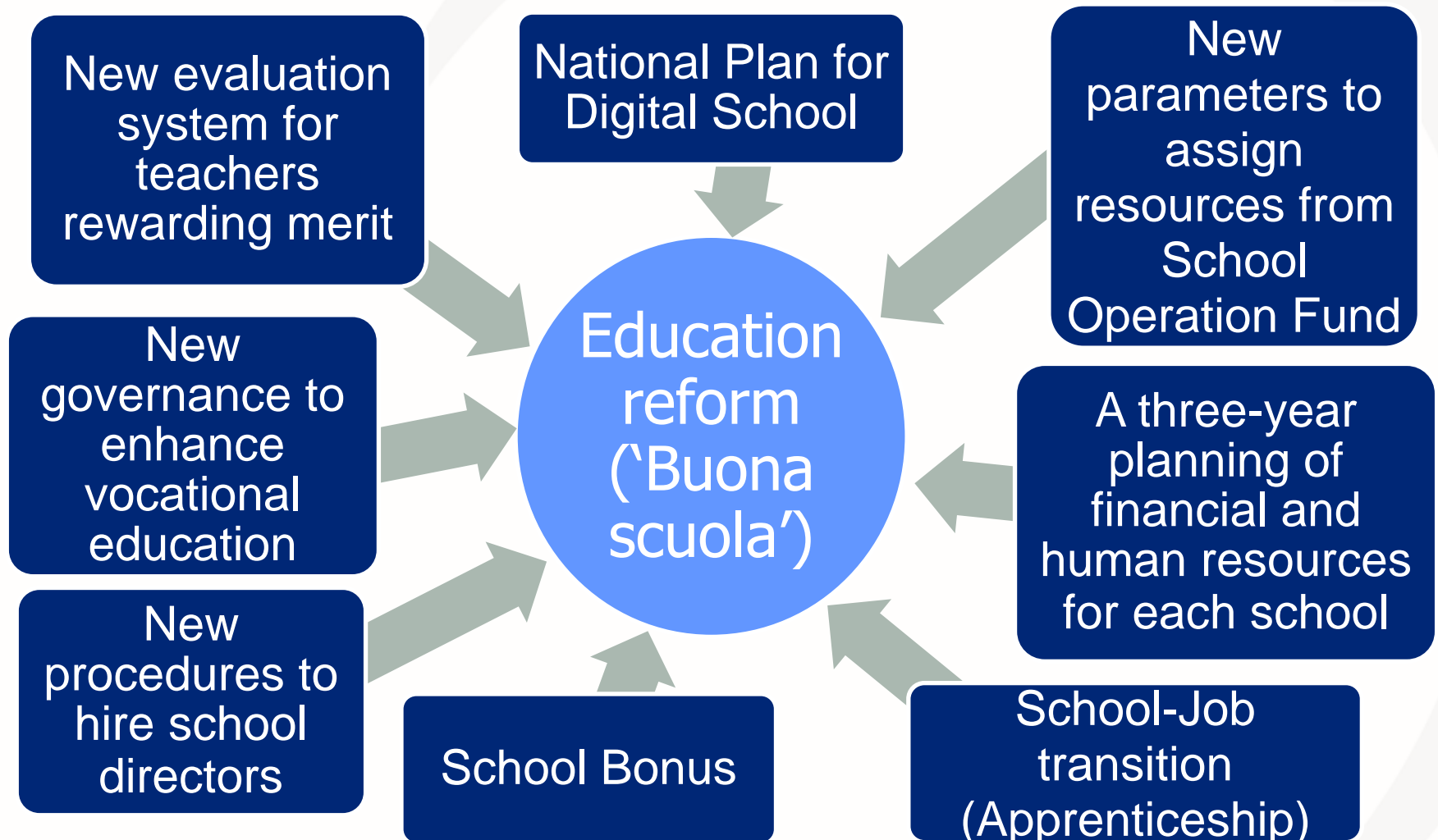
Reforming the electoral system and Constitution (completed in Apr. 2015, pending Referendum)



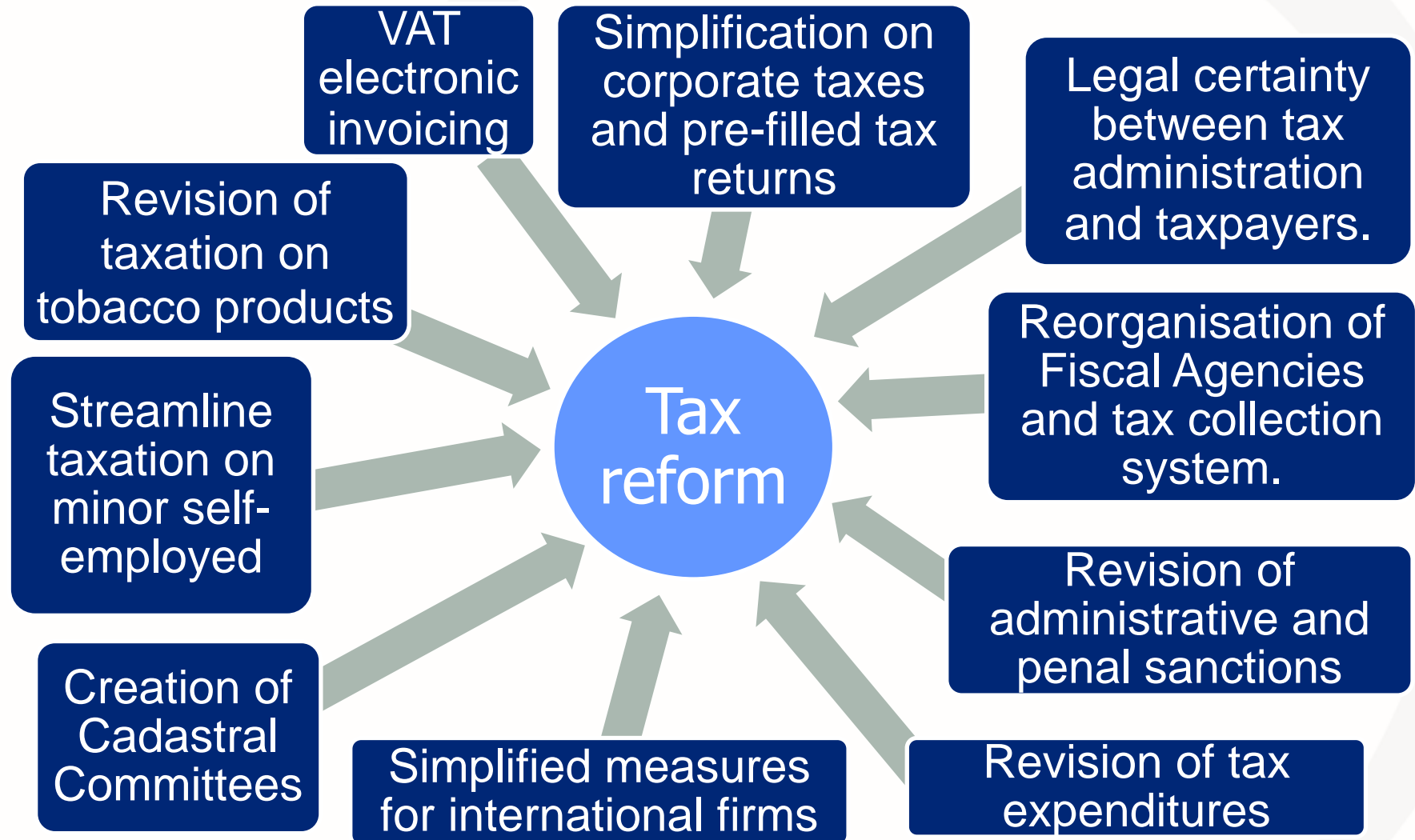
Reforming the labour market (completed in Sept. 2015)



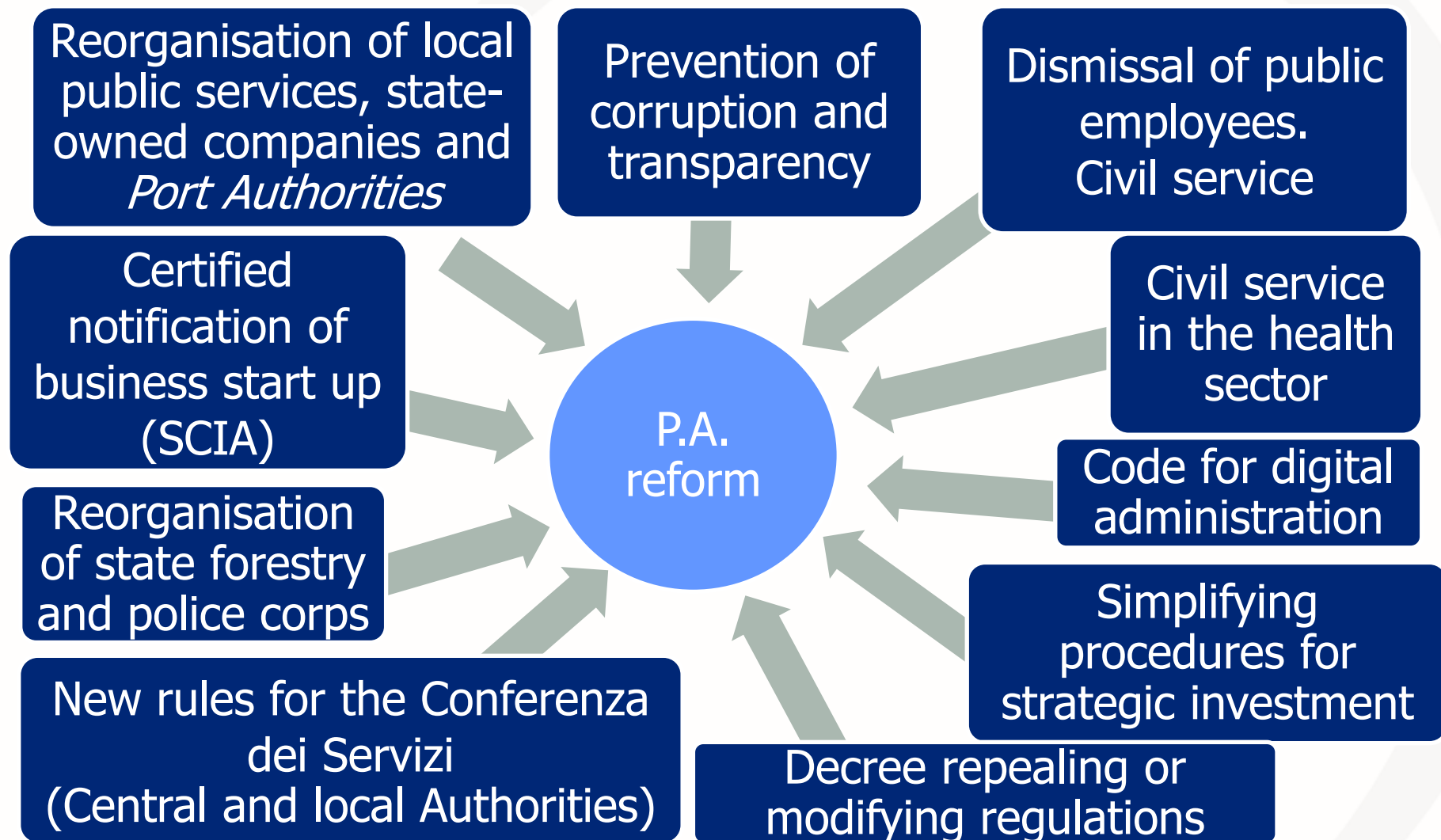
Reforming the education system



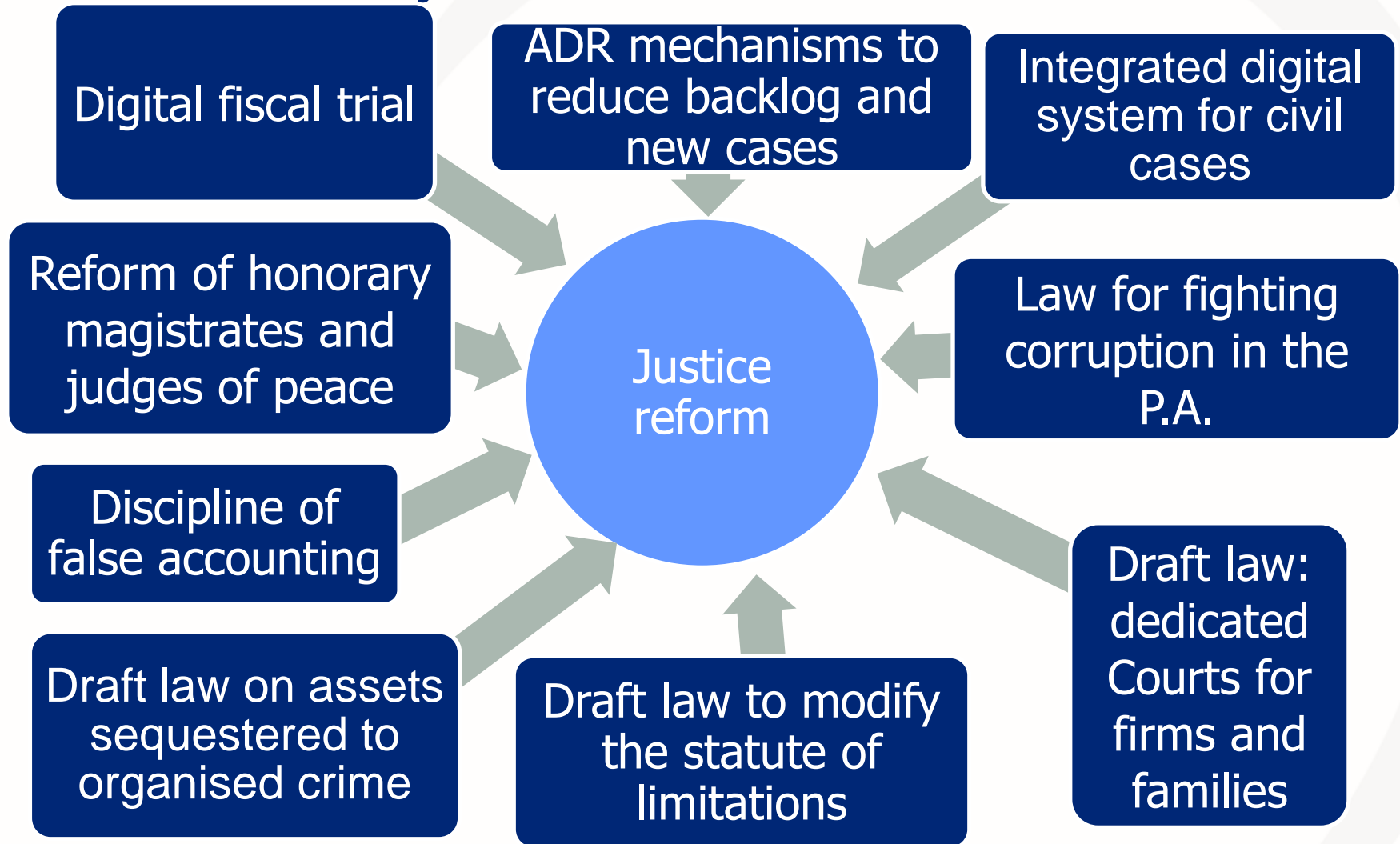
Enabling law on tax reform



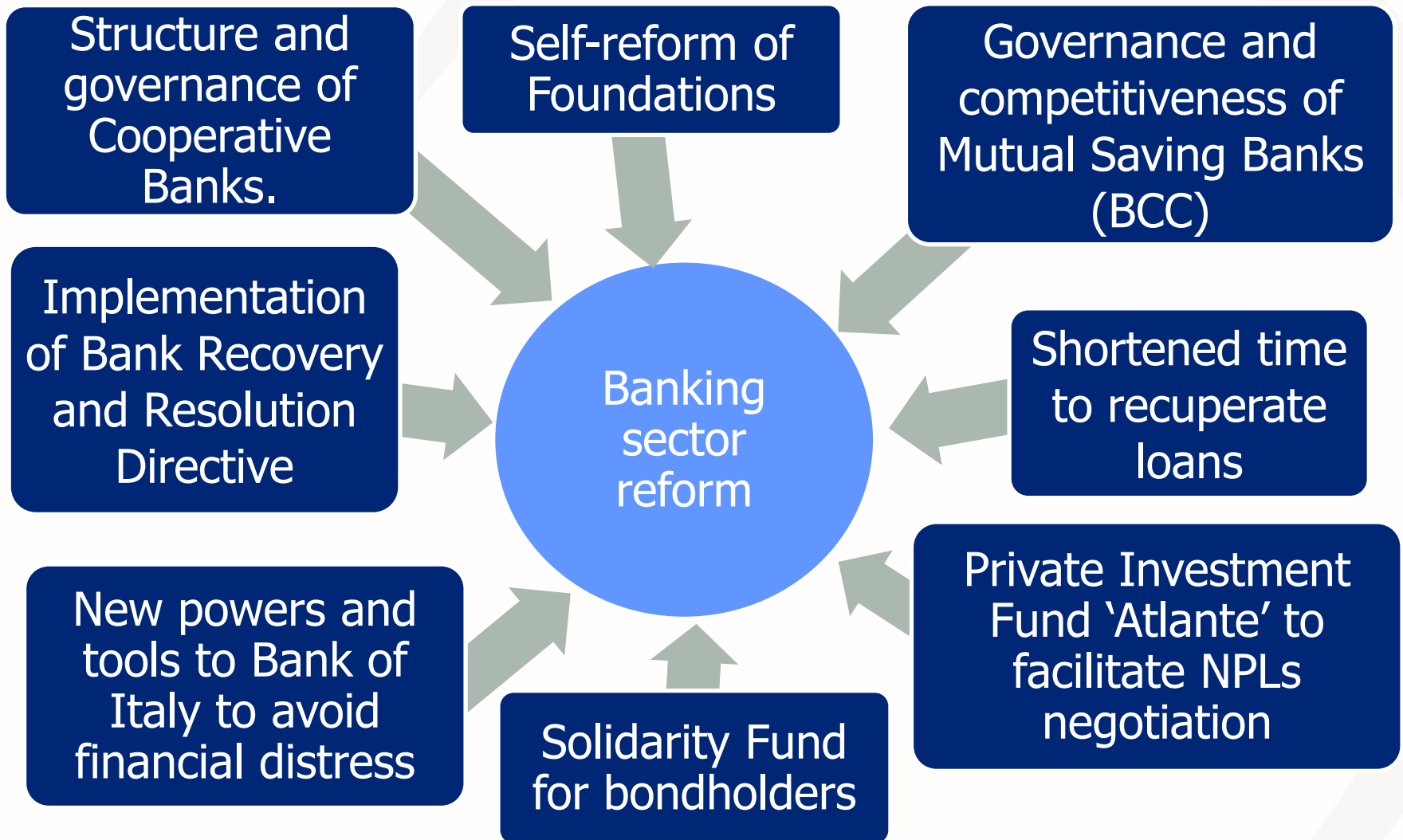
Enabling law reforming Public Administration



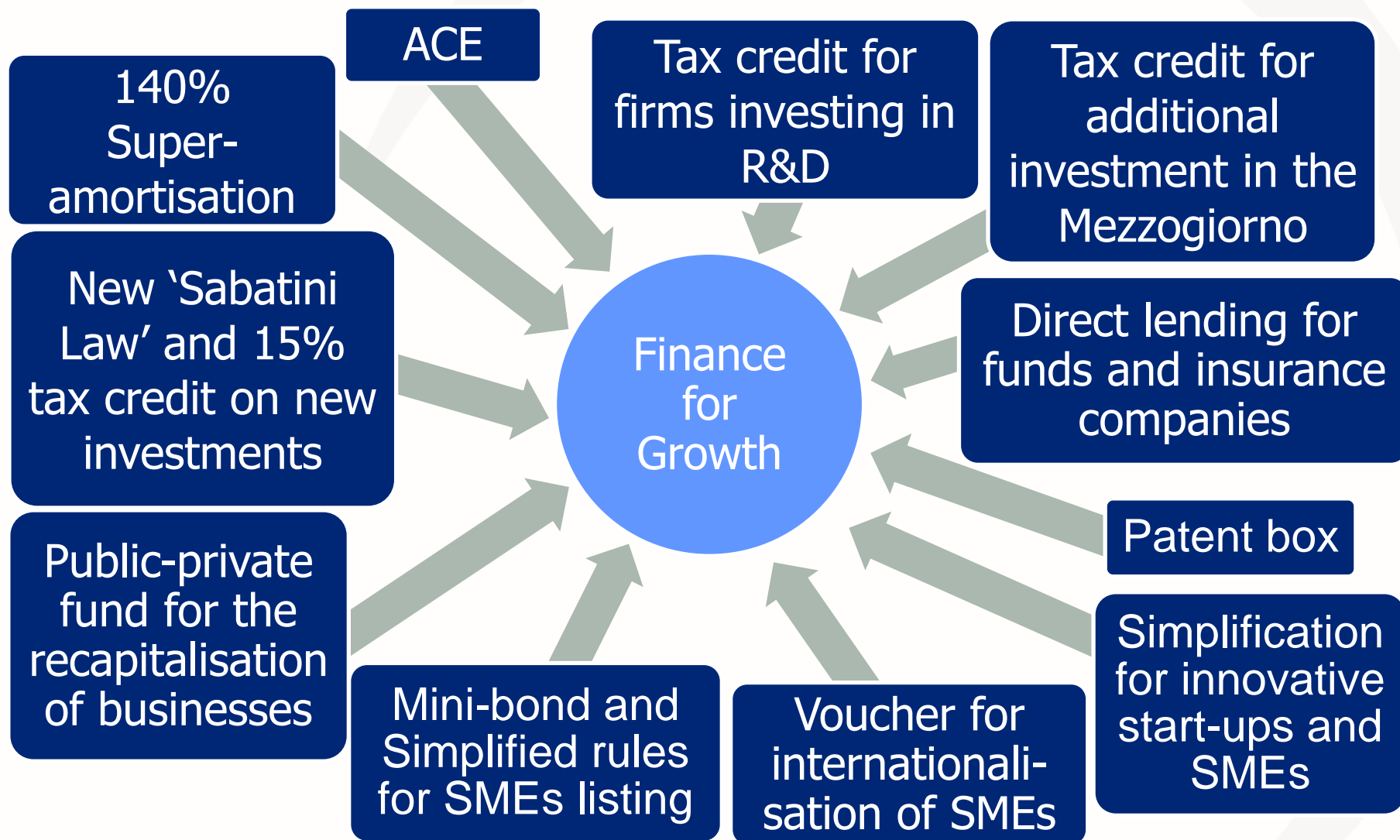
Civil and criminal justice reform



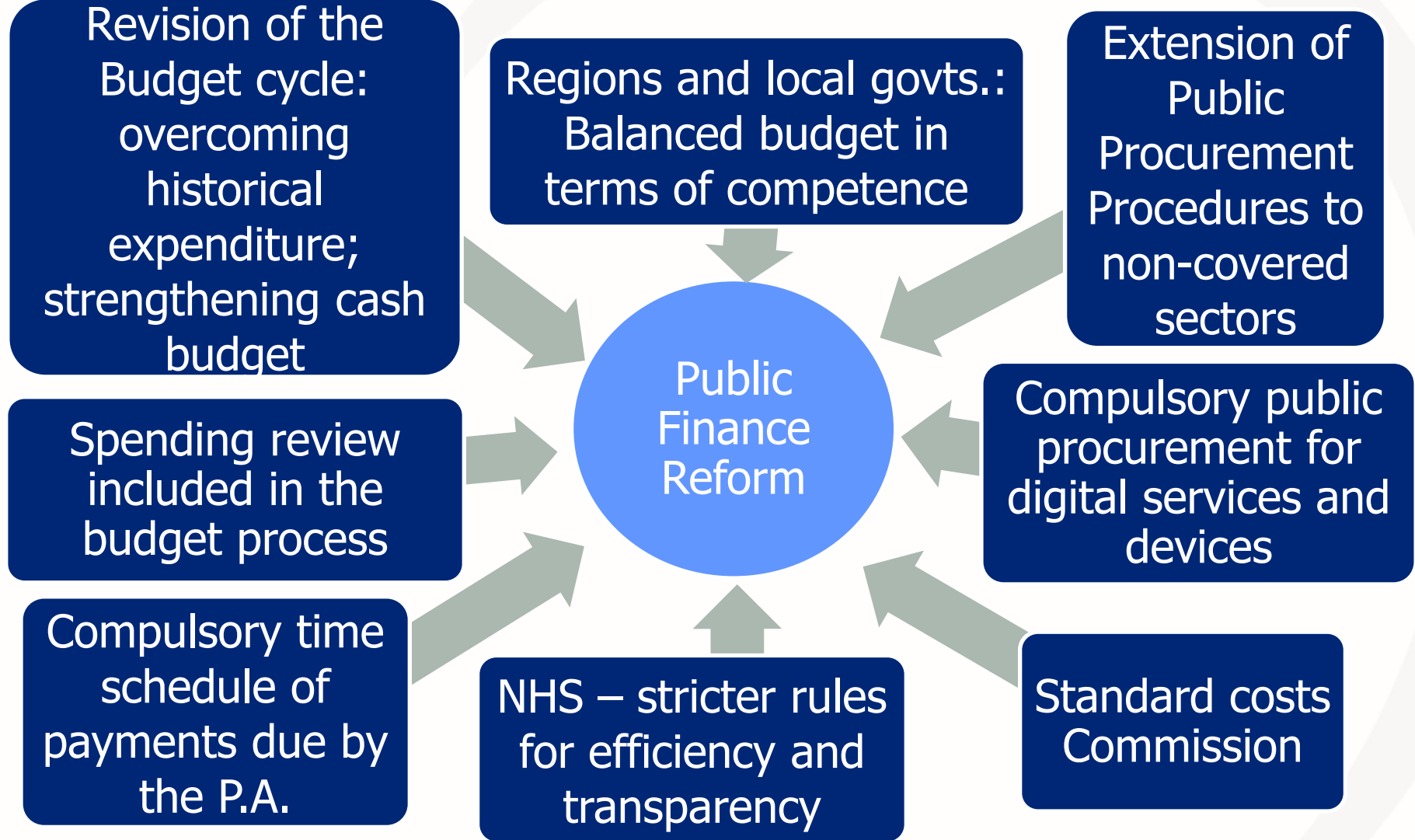
Banking sector reform









Finance for Growth





Central and local public finance reform



PRIVATISATION PLAN

Company Name	Relevant sectors	Transaction description
	<ul style="list-style-type: none"> Shipbuilding – cruise liners, mega yachts, naval vessels, oil & gas vessels 	<ul style="list-style-type: none"> 30% of the company sold through IPO, including a capital increase
	<ul style="list-style-type: none"> Gas transportation 	<ul style="list-style-type: none"> 89% of the company sold to SNAM
CDP Reti 	<ul style="list-style-type: none"> Gas transportation and power high voltage 	<ul style="list-style-type: none"> 35% of the company sold to private investors
	<ul style="list-style-type: none"> TLC infrastructure provider for RAI broadcast 	<ul style="list-style-type: none"> 30% of the company sold through IPO
	<ul style="list-style-type: none"> Multi-national power company 	<ul style="list-style-type: none"> 5.74% of the company sold through accelerated book building
	<ul style="list-style-type: none"> Postal services, financial services, insurance, ICT, logistics 	<ul style="list-style-type: none"> 34.7% of the company sold through IPO (excluding greenshoe); 35% conferred to CDP through a capital increase; 29.7% further IPO.

PRIVATISATION PLAN

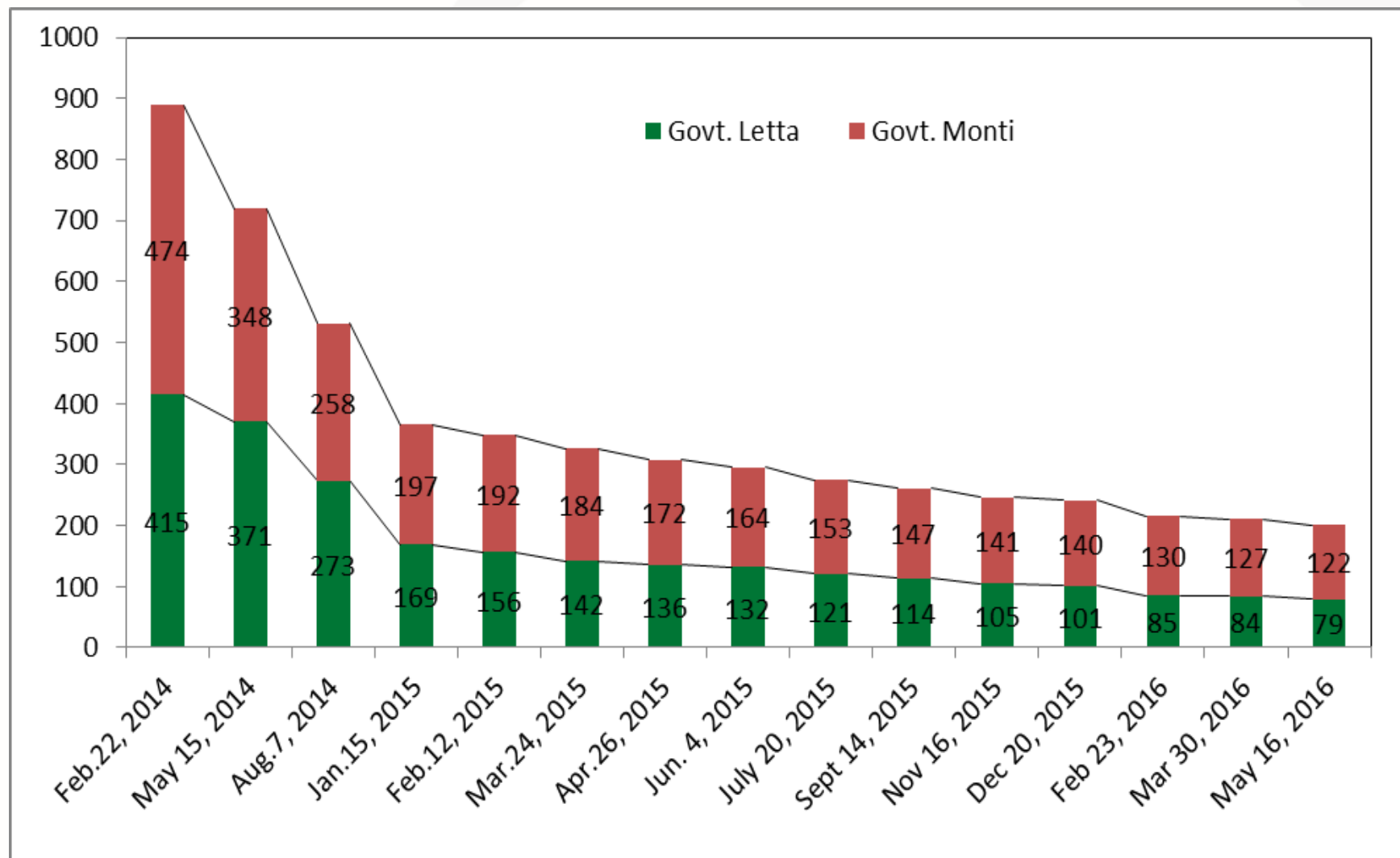
Company Name	Relevant sectors	Transaction description
	<ul style="list-style-type: none"> Investment funds 	<ul style="list-style-type: none"> 12.50% of the SGR to be sold to CDP
	<ul style="list-style-type: none"> Air traffic control 	<ul style="list-style-type: none"> Up to 49% of the company to be sold through IPO
	<ul style="list-style-type: none"> Rail Transport 	<ul style="list-style-type: none"> Reduction of the State-owned stake under study

Further measures	Relevant sectors	Transaction description
Municipal utilities	<ul style="list-style-type: none"> Companies that provide public utilities at local level (water, electricity, waste collection and management) 	<ul style="list-style-type: none"> Opening to private control and significant reduction of their numbers through merger
Public real estate assets	<ul style="list-style-type: none"> Public real estate assets - State and Local authorities properties 	<ul style="list-style-type: none"> Disposal plan of public real estate assets. Decrease the rent of real estate for the PA, increase the efficiency of locations' distribution

Legislative implementation

- **Renzi Gov.t** (February 2014 to May 16, 2016): **339 pieces of legislation** approved, including 131 draft laws, 49 decree laws, 159 legislative decrees. 214 pieces of legislation fully entered into force. 58% of the provision are self enforcing, the remaining need secondary legislation.
- The **implementation rate** of Renzi Gov.t reached **70.5%**.
- As for the implementation of the legislative acts adopted by **previous Governments** (Monti and Letta), out of 889 pieces of secondary legislation required, 201 are left, with an implementation rate of 80.2% (from 38%).

Inherited stock of secondary legislation



Our econometric models for structural reforms

IGEM – Italian General Equilibrium Model

ITEM - Italian Treasury Econometric Model

ITEM e **OEF** - Oxford Economic Forecasting

MACGEM-IT - A new CGE model for Italy

QUEST III -IT Quarterly European Simulation Tool

http://www.dt.tesoro.it/en/attivita_istituzionali/analisi_programmazione_economico_finanziaria/modellistica/index.html

Effects of the interventions eligible for the flexibility clause associated to structural reforms

The expansionary character of these reforms clearly emerges, especially in the medium to long run, with a relevant impact on both consumption and investment.

MACROECONOMIC EFFECTS OF REFORMS (percentage deviation from the baseline scenario)			
	2020	2025	Long run
GDP	2.2	3.4	8.2
Consumption	2.7	4.2	6.3
Investment	3.3	4.8	11.5
Labour	1.5	2.1	3.7

MACROECONOMIC EFFECTS OF STRUCTURAL REFORMS

IMPACT FOR POLICY AREA <i>(percentage deviation of GDP from baseline scenario)</i>			
	2020	2025	Long run
Public Administration	0.4	0.7	1.2
Competition	0.4	0.7	1.2
Labour Market	0.6	0.9	1.3
Justice	0.1	0.2	0.9
School System	0.3	0.6	2.4
Tax Shift	0.2	0.2	0.2
Spending Review	-0.2	-0.3	0.0
NPL and insolvency proceedings	0.2	-	-
Finance for growth	0.2	0.4	1.0
TOTAL	2.2	3.4	8.2

Note: MEF estimates. The macroeconomic impact of structural reforms is carried out by focusing on a scenario where only the most recent reforms are considered, namely those eligible for the application of the structural reforms clause recently introduced by the European Commission (flexibility clause scenario, FCS).

Italy's exercise is coherent with OECD estimates

COMPARING OFFICIAL ESTIMATES <i>(percentage deviation of GDP from baseline scenario)</i>		
	MEF	OECD
Public Administration and Justice	0.5	0.6
Competitiveness	0.4	0.5
Labor Market (Jobs Act)	0.6	0.6
Tax wedge	0.3	0.3
TOTAL	1.8	2.0

Model Choice and Mapping

Simulation tool and mapping

	Tool	Mapping
Public Administration	QUEST III	Overhead labour cost
Competition	QUEST III	Price mark-ups
Labour Market	IGEM	Wage mark-ups, changes in the composition of labour force
Justice	QUEST III	Price mark-ups, user cost of capital
School System	QUEST III	Public spending, changes in the skill composition of the labour force
Tax Shift	IGEM	Tax rates, SSC
Spending Review	QUEST III	Tax rates, Public spending
NPL and insolvency proceedings	ITEM	NPL, discount required by investors for NPL; lending rate
Finance for growth	IGEM	Quality of installed capital (to induce an increase in its accumulation)

Quantitative translation of reform effort

- Quantitative translation of measures – delicate issue
- No problem for tax shifts and spending review: size set by the policy itself
- For other areas need of an **external anchor** - possible strategies:
 - **reduce the gap** with best performers
 - **best practice** among reforming countries
 - past **experience** and empirical evidence
 - **economic theory**
 - a **mix** of the above

MAIN MACROECONOMIC ASSUMPTIONS/SIMULATION ASSUMPTIONS

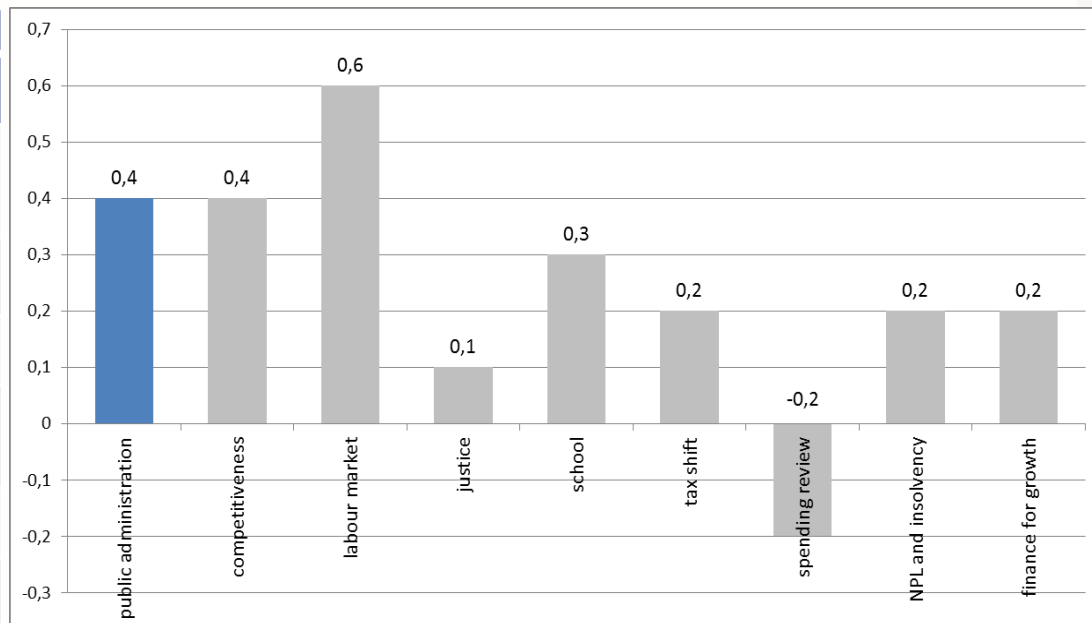
Public administration and simplification

Overhead labour costs: 18 per cent

Timing: Phasing in 10 years

Impact on GDP by 2020

Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	0.4	0.7	0.8	1.2
Gross capital formation	0.1	0.3	0.3	0.8
Employment	0.0	-0.2	-0.2	-0.1
Consumption	0.7	0.9	0.8	0.9



MAIN MACROECONOMIC ASSUMPTIONS/SIMULATION ASSUMPTIONS

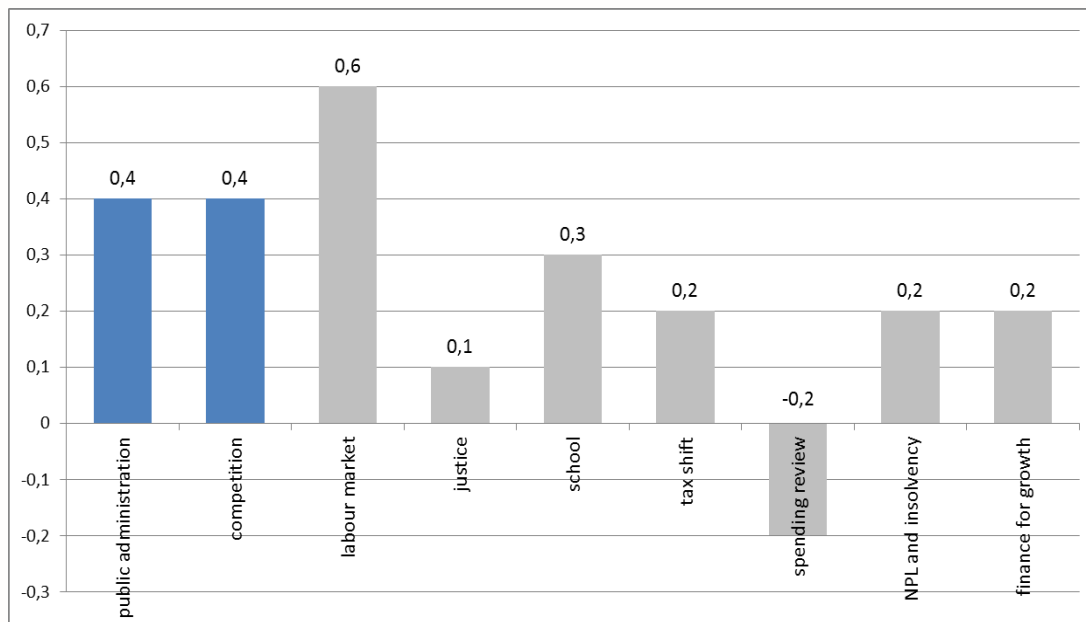
Competition

Price mark-up reduction in the manufacturing sector and in the services sector: 1 percentage point

Timing: Phasing in 8 years

Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	0.4	0.7	0.8	1.2
Gross capital formation	2.0	2.5	2.7	2.9
Employment	0.1	0.1	0.0	0.0
Consumption	-0.3	-0.1	0.0	0.3

Impact on GDP by 2020



MAIN MACROECONOMIC ASSUMPTIONS/SIMULATION ASSUMPTIONS

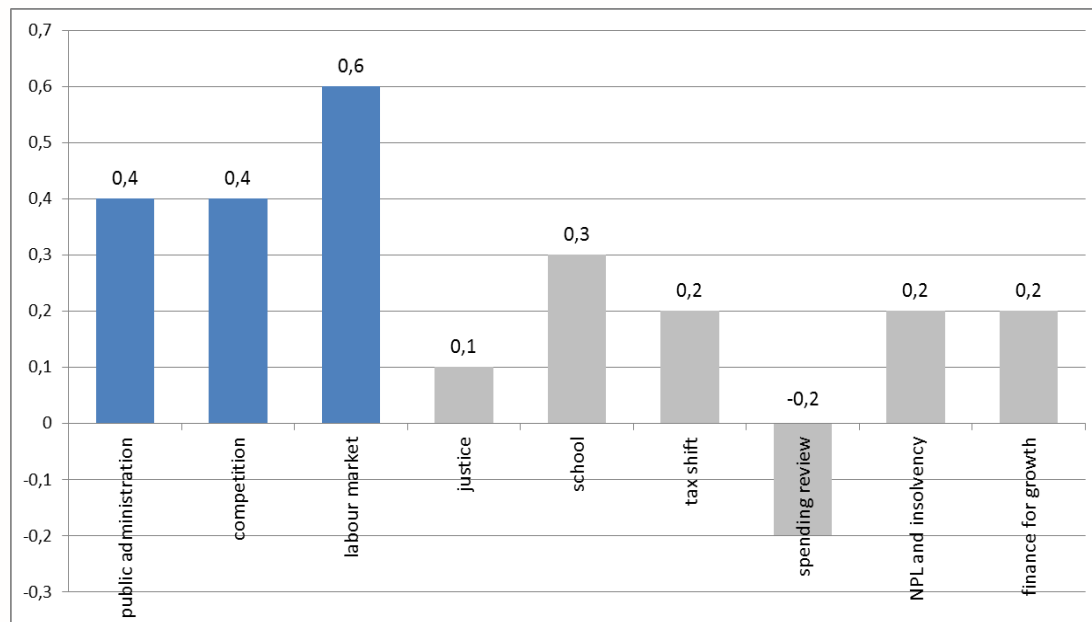
Labour market

Wage mark-up reduction of 14 percentage points for permanent workers; shift from atypical pattern to permanent contract of 6.5 percentage points

Timing: Phasing in 10 years

Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	0.6	0.9	1.2	1.3
Gross capital formation	0.4	0.4	0.6	1.0
Employment	1.0	1.5	2.0	2.0
Consumption	0.6	1.3	1.4	1.4

Impact on GDP by 2020



MAIN MACROECONOMIC ASSUMPTIONS/SIMULATION ASSUMPTIONS

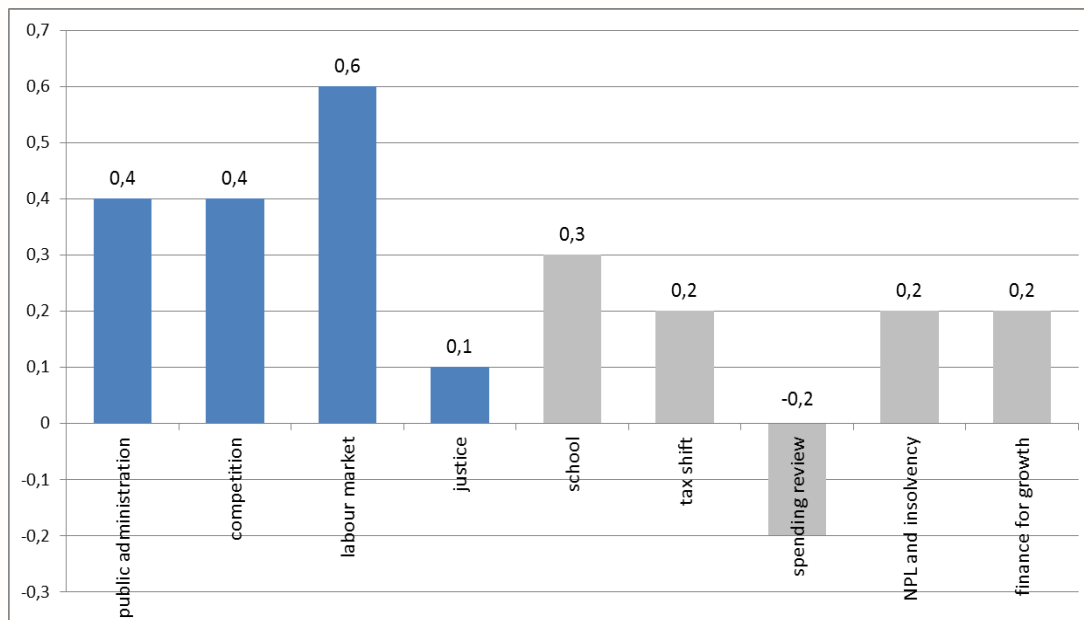
Justice reform

Price mark-up reduction in the manufacturing sector and in the services sector:
0.15 percentage point; reduction of user cost of capital of 5 basis points

Timing: Phasing in 3 years

Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	0.1	0.2	0.3	0.9
Gross capital formation	0.8	0.9	0.9	2.2
Employment	0.0	0.0	0.0	0.2
Consumption	0.0	0.0	0.3	0.8

Impact on GDP by 2020



MAIN MACROECONOMIC ASSUMPTIONS/SIMULATION ASSUMPTIONS

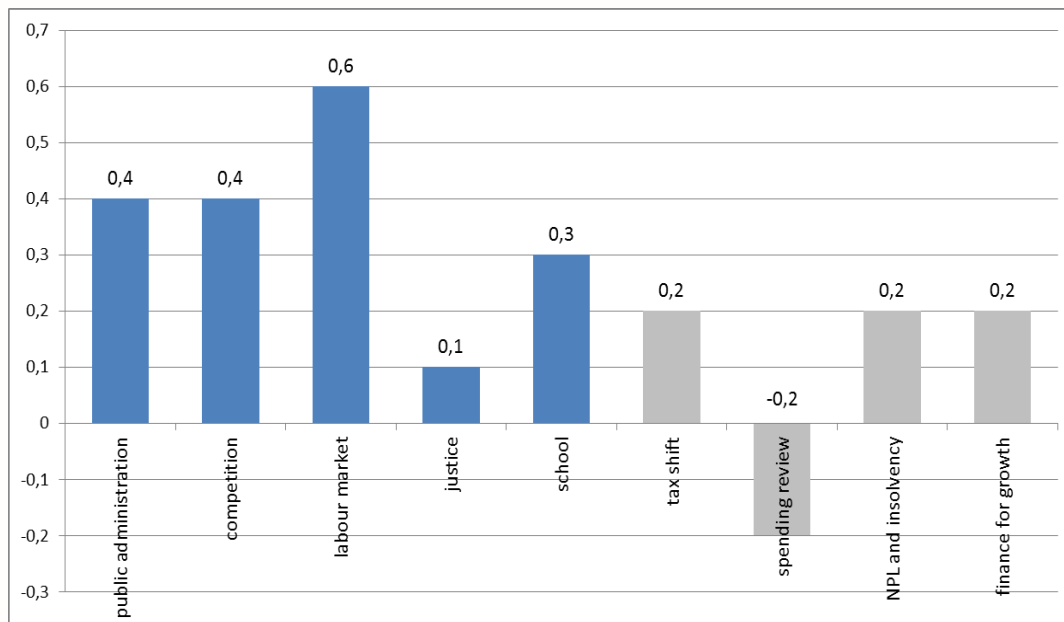
School reform

Shift from low skilled workers to medium skilled workers by 4.6 percentage points.

Increase of public expenditure by 3 billions

Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	0.3	0.6	0.9	2.4
Gross capital formation	-0.5	-0.2	0.3	1.5
Employment	0.2	0.5	0.8	1.1
Consumption	0.4	0.7	1.1	2.1

Impact on GDP by 2020



MAIN MACROECONOMIC ASSUMPTIONS/SIMULATION ASSUMPTIONS

Tax shift

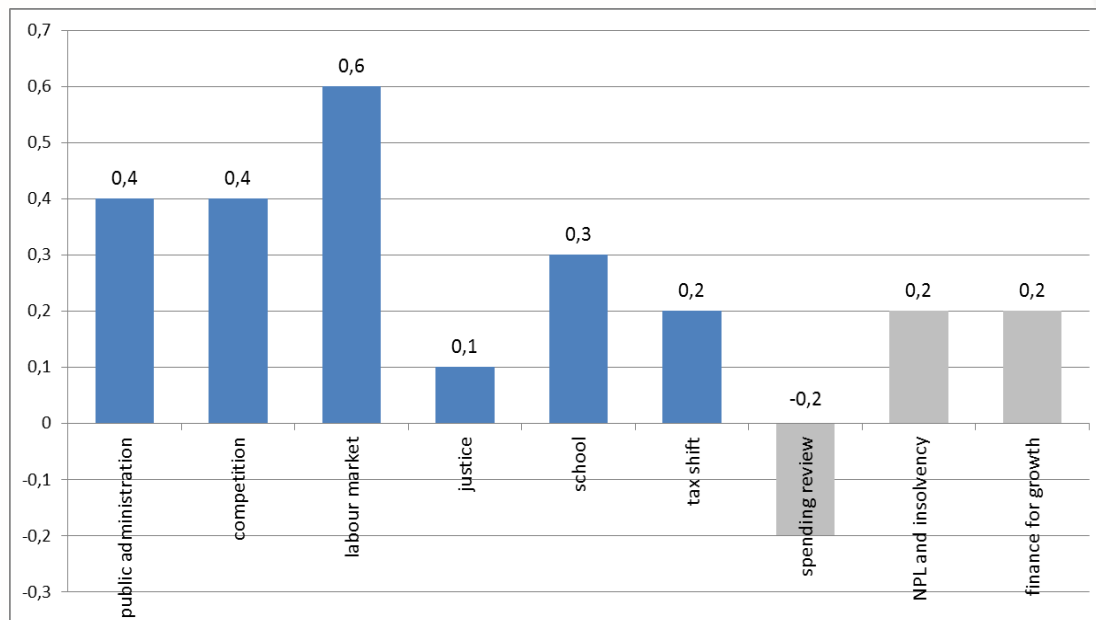
Reduction of labour tax: 0.6 per cent of GDP

Reduction of social contributions paid by businesses: 0.4 per cent of GDP

Increase of financial income tax: 0.16 per cent of GDP

Impact on GDP by 2020

Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	0.2	0.2	0.2	0.2
Gross capital formation	-0.5	-0.2	-0.2	-0.2
Employment	0.5	0.5	0.5	0.5
Consumption	-0.1	0.0	0.0	0.0



MAIN MACROECONOMIC ASSUMPTIONS/SIMULATION ASSUMPTIONS

Spending review and tax expenditures

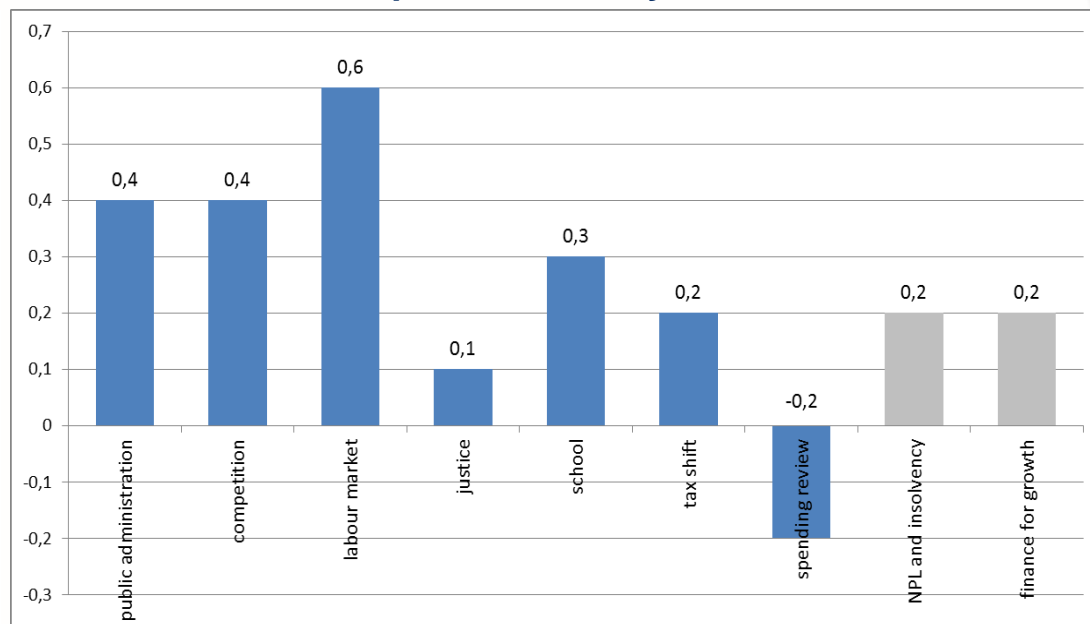
Increase of consumption tax by 0.075 per cent of GDP

Increase of labour tax by 0.075 per cent of GDP

Decrease of public expenditure by 0.9 per cent of GDP

Impact on GDP by 2020

Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	-0.2	-0.3	-0.3	0.0
Gross capital formation	-0.3	-0.3	-0.3	0.0
Employment	-0.3	-0.3	-0.3	0.0
Consumption	1.1	1.0	0.8	0.0



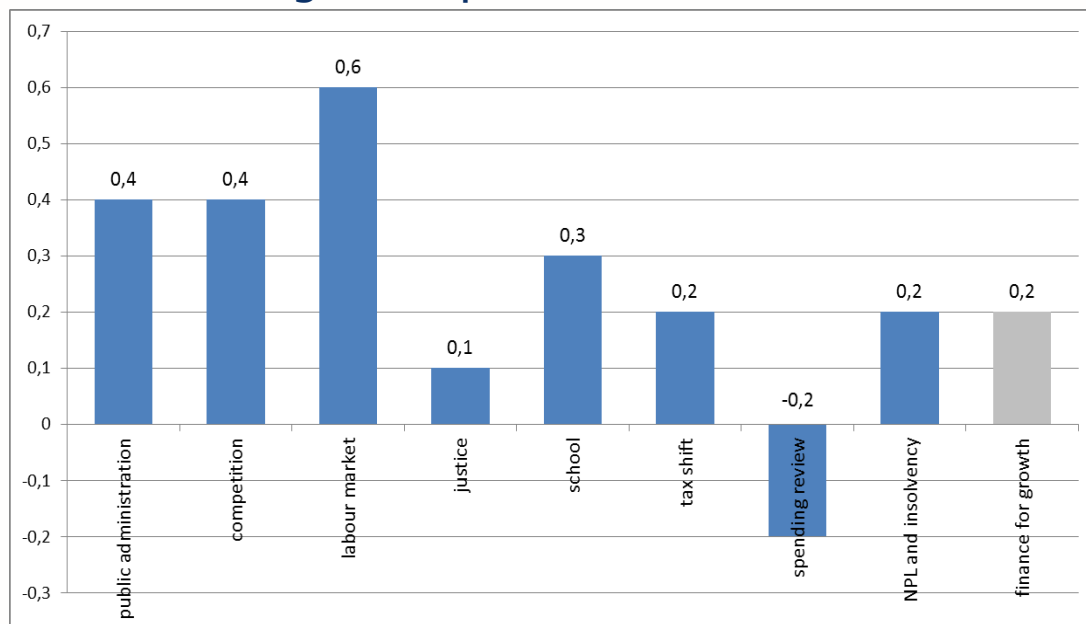
NPL and insolvency procedures

Increase of the share of sold or securitized nonperforming loans from 5% to 30% (over a five year horizon) temporary measure

Reduction of the discount that investors require for purchasing the nonperforming loans from 50% to 30% (over a five year horizon)

Reduction by 10 basis point of the bank lending rate up to 2019

Quantitative elements	
Main outcome of macroeconomic simulations	
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables
	2020
GDP	0.2
Gross capital formation	0.7
Employment	0.0
Consumption	0.2

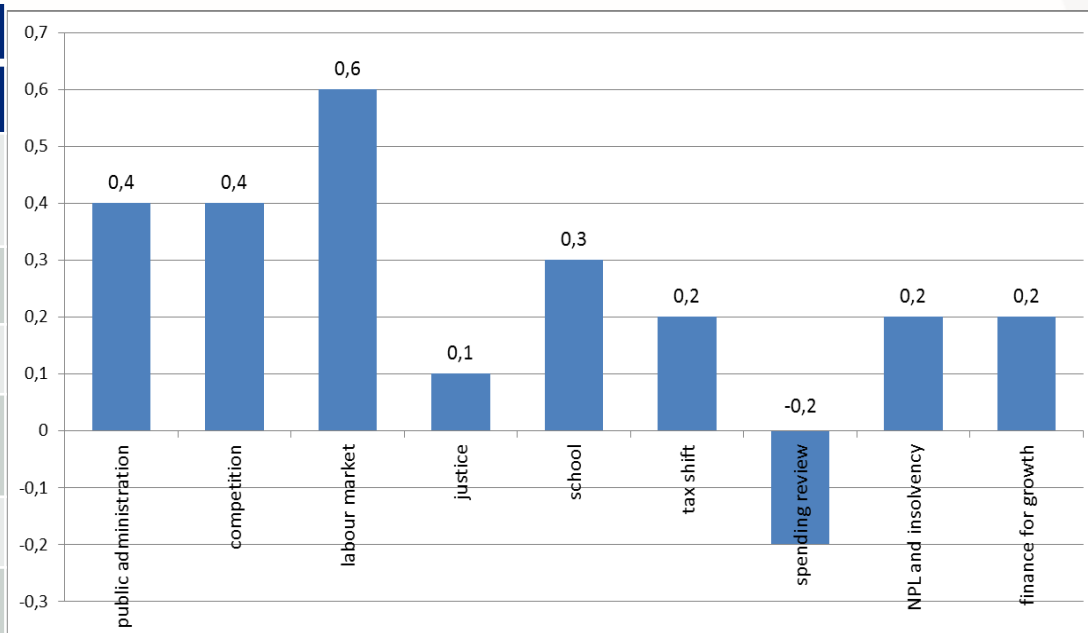


Finance for growth

Increase in the growth rate of physical capital by 0.07 per cent in four years

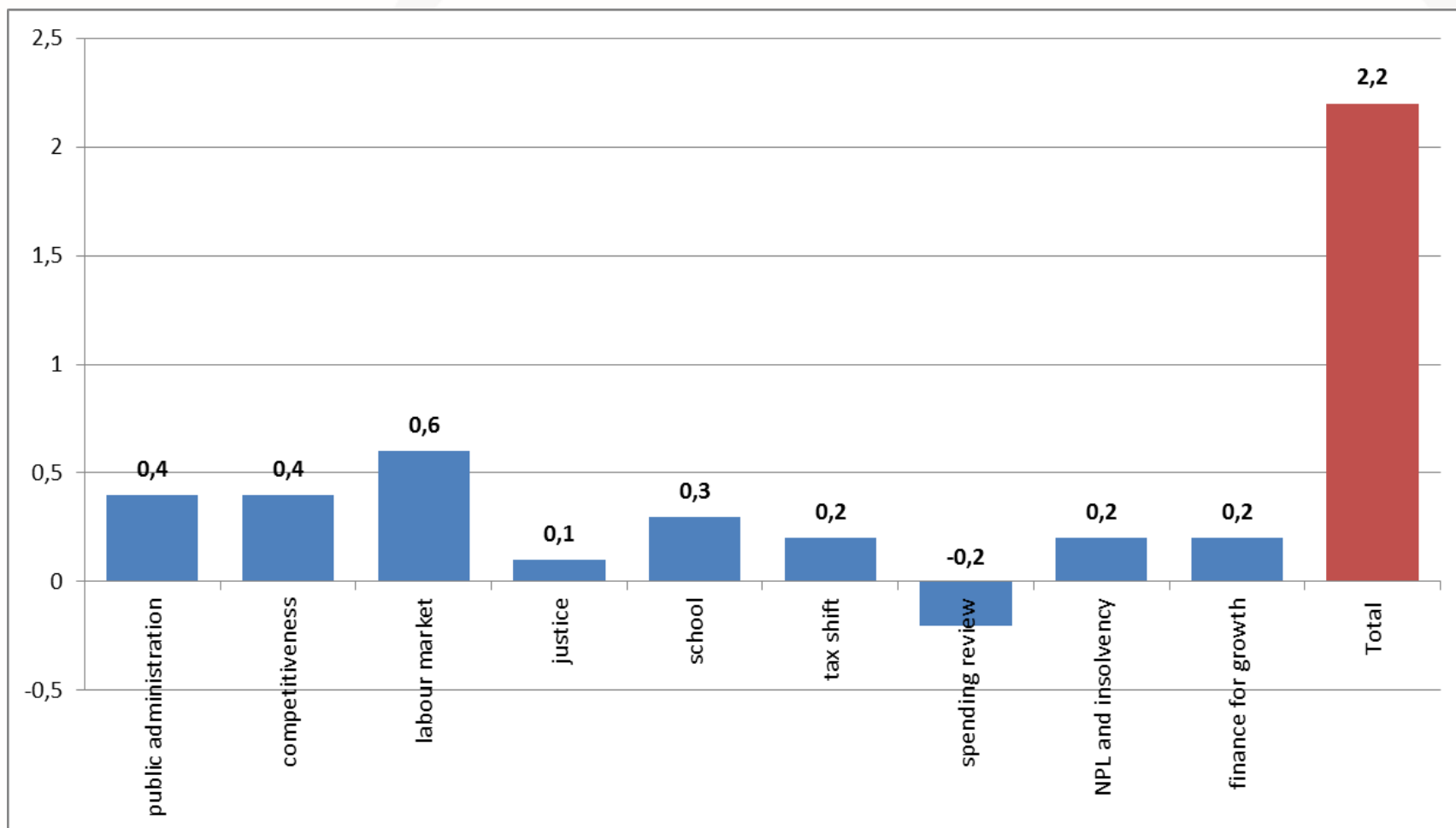
Quantitative elements				
Main outcome of macroeconomic simulations				
Description	Yearly and cumulated effect on GDP and other main macroeconomic variables			
	2020	2025	2030	Long Run
GDP	0.2	0.4	0.6	1.0
Gross capital formation	0.6	1.4	2.2	3.3
Employment	0.0	0.0	0.0	0.0
Consumption	0.1	0.4	0.5	0.8

Impact on GDP by 2020



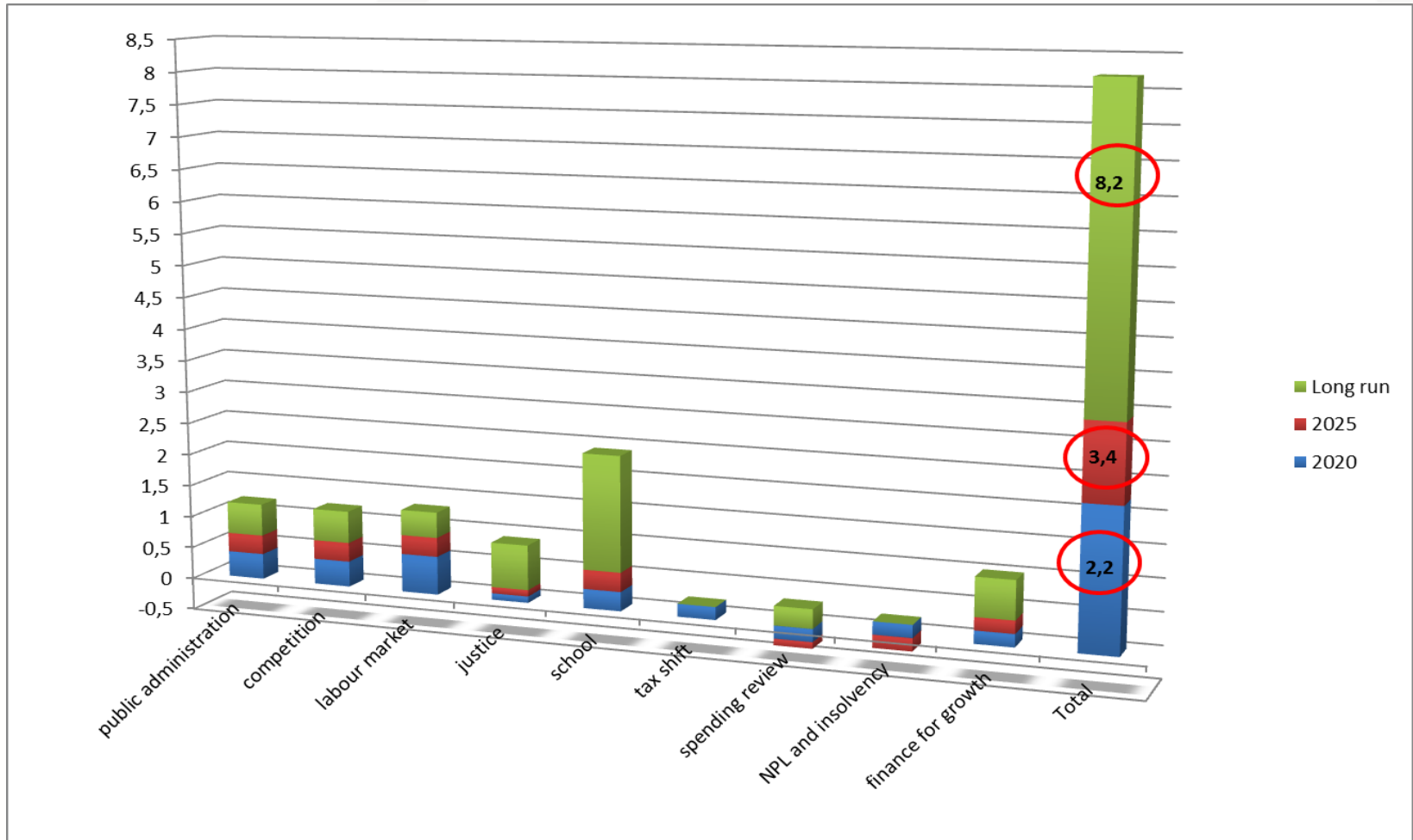
Total impact on GDP by 2020

(percentage deviation of GDP with respect to the baseline scenario)



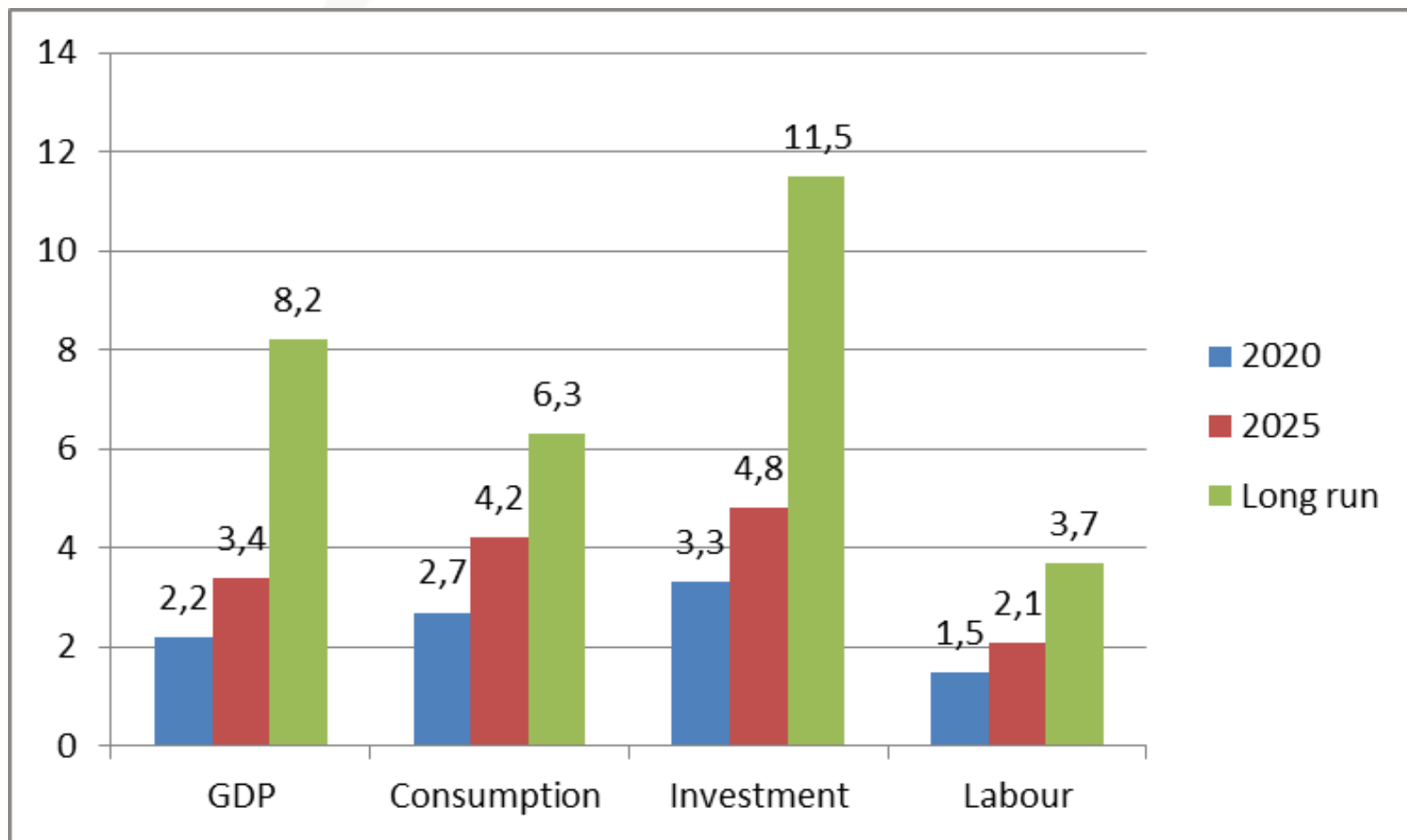
Total impact on GDP by 2020 – 2025 and long run

(percentage deviation of GDP with respect to the baseline scenario)



Total impact on consumption, investment, labour (2020 – 2025 and long run)

(percentage deviation from baseline scenario)



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The image shows a screenshot of a Twitter profile for Francesco Felici (@Felici_Fra). The header features a banner with the word 'RIFORMA' (Reform) in large letters, overlaid with a magnifying glass focusing on the word 'SOSTEGNO' (Support). To the left of the banner is a circular logo with the Italian flag colors and the word 'RIFORMA'. The profile picture is a small version of the same banner. The name 'Francesco Felici' and handle '@Felici_Fra' are displayed. A 'Segui' (Follow) button is visible. The bio states: 'Analisi Quantitativa e Modellistica presso il MEF; Responsabile per il Programma Nazionale di Riforma (PNR). Tweets are personal opinions. Economist -Econometrician'. Below the bio, it shows '714 FOLLOWING' and '870 FOLLOWER'. At the bottom, there are three tabs: 'Tweet' (selected), 'Foto', and 'Mi piace'.

Francesco Felici
@Felici_Fra

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Responsabile per il Programma Nazionale di Riforma (PNR).
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