



DIPARTIMENTO DEL
TESORO

A Strategy for Growth and Fiscal Consolidation

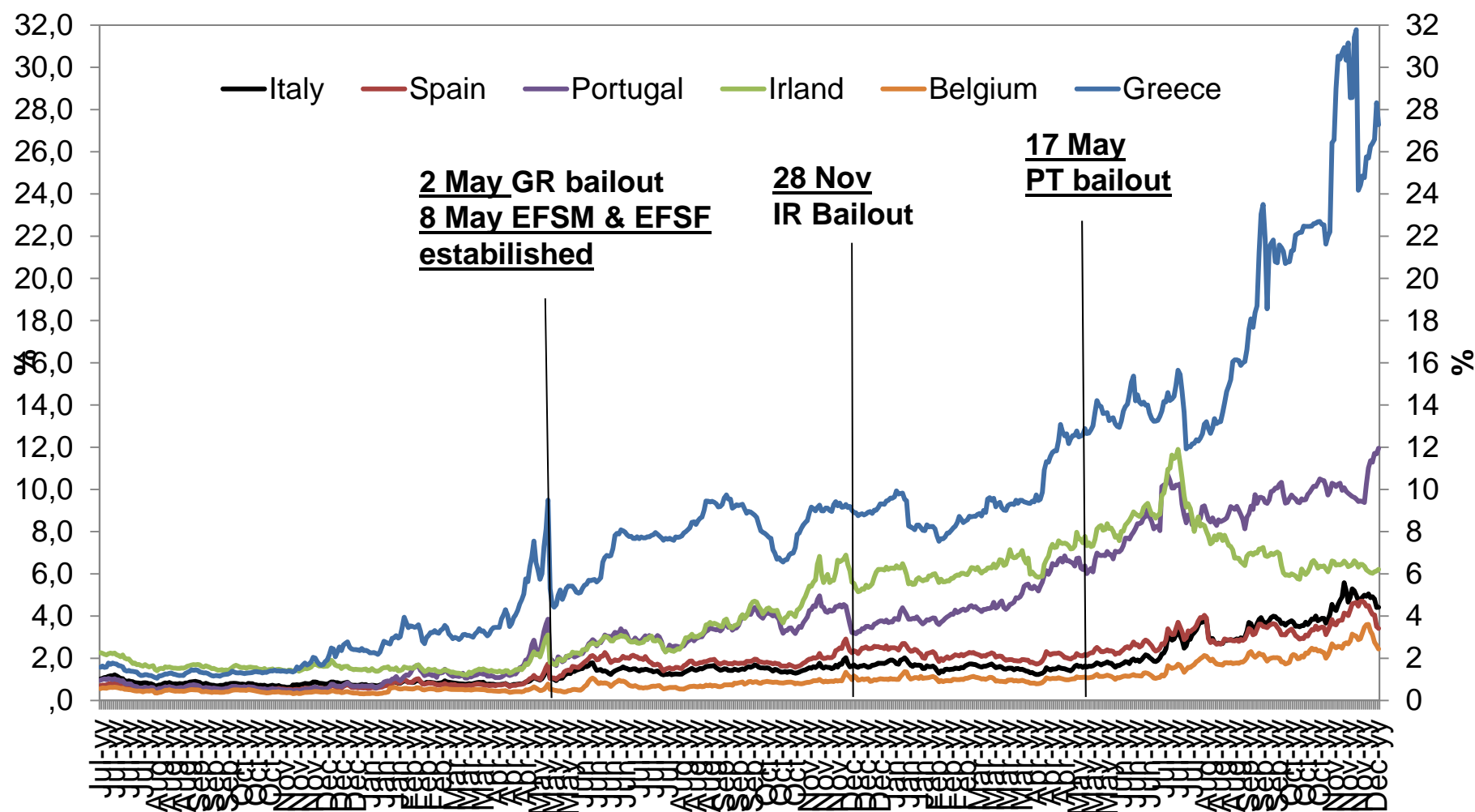
Lorenzo Codogno
Italian Ministry of Economy and Finance
December 9, 2011



MINISTERO DELL'ECONOMIA E DELLE FINANZE



Need to prevent a blow-up in Italy's spreads



source: Thomson Reuters



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

The international crisis and Italy's economy

- **No major macroeconomic imbalances apart from high public debt:** no major bubbles in the housing market, low household debt, fundamentally sound banking system, no major external imbalances.
- **No increase in discretionary spending during the crisis:** very prudent fiscal policy. Automatic stabilisers were allowed to work.
- **But recent market tensions** represent a major threat to economic growth and fiscal sustainability.



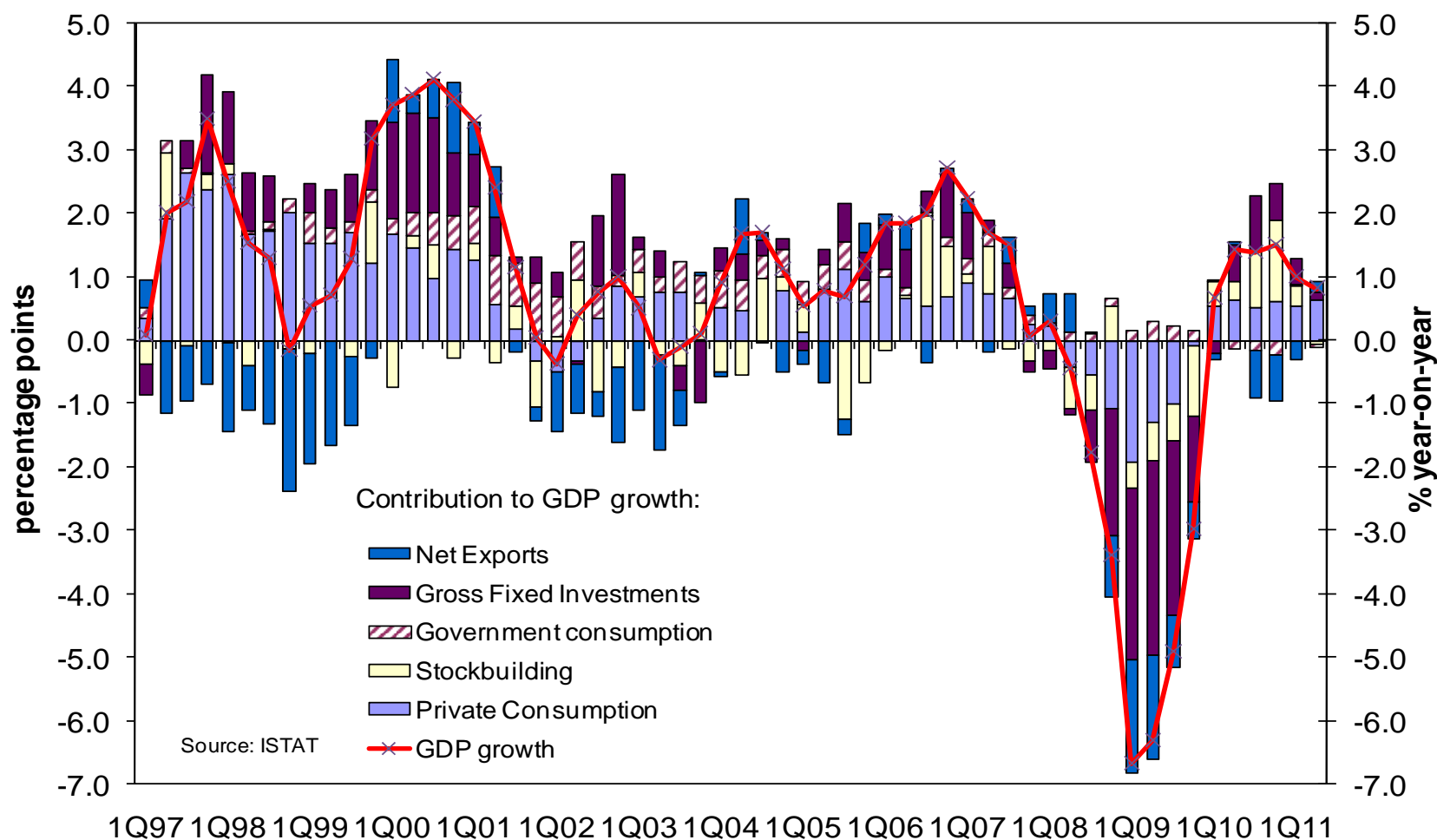
DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Italy's GDP: moderate growth in 1H11, weakening ahead



Note: Italy's 3Q11 GDP data will be released on December 21 due to planned revisions in national accounts.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Recent macroeconomic developments

- The **global economic outlook** has weakened since the Summer.
- **Tensions in financial markets**: in mid-November, 10y BTP-Bund yield spreads exceeded 500bp.
- As a result, the September DEF macroeconomic scenario needs to be **revised downwards**.
- The current scenario incorporates assumptions of persistent tensions in financial markets in 1H12 and gradual easing thereafter.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Updated macroeconomic scenario

<i>(% change yoy)</i>	2009	2010	2011	2012	2013	2014
Real GDP	-5.1	1.5	0.6	-0.4	0.3	1.0
<i>Domestic demand net of inventories</i>	<i>-3.2</i>	<i>1.0</i>	<i>0.6</i>	<i>-0.5</i>	<i>0.1</i>	<i>0.8</i>
<i>Inventories</i>	<i>-0.8</i>	<i>0.7</i>	<i>-0.2</i>	<i>-0.2</i>	<i>0.0</i>	<i>0.0</i>
<i>Net export</i>	<i>-1.2</i>	<i>-0.2</i>	<i>0.4</i>	<i>0.2</i>	<i>0.2</i>	<i>0.2</i>
Nominal GDP	-3.1	1.9	1.9	1.6	2.2	2.7
GDP deflator	2.1	0.4	1.3	2.1	1.9	1.8
Labour cost	1.8	2.0	1.8	1.2	1.1	1.5
Productivity (on GDP)	-2.2	2.3	0.0	-0.2	0.2	0.8
Unit labour cost (on GDP)	4.1	-0.3	1.8	1.4	0.8	0.7
Employment (FTE)	-2.9	-0.7	0.6	-0.3	0.1	0.2
Unemployment rate	7.8	8.4	8.2	8.4	8.7	8.6
Current account balance	-2.0	-3.5	-3.9	-3.7	-3.3	-2.9

Source: MEF. December 2011.



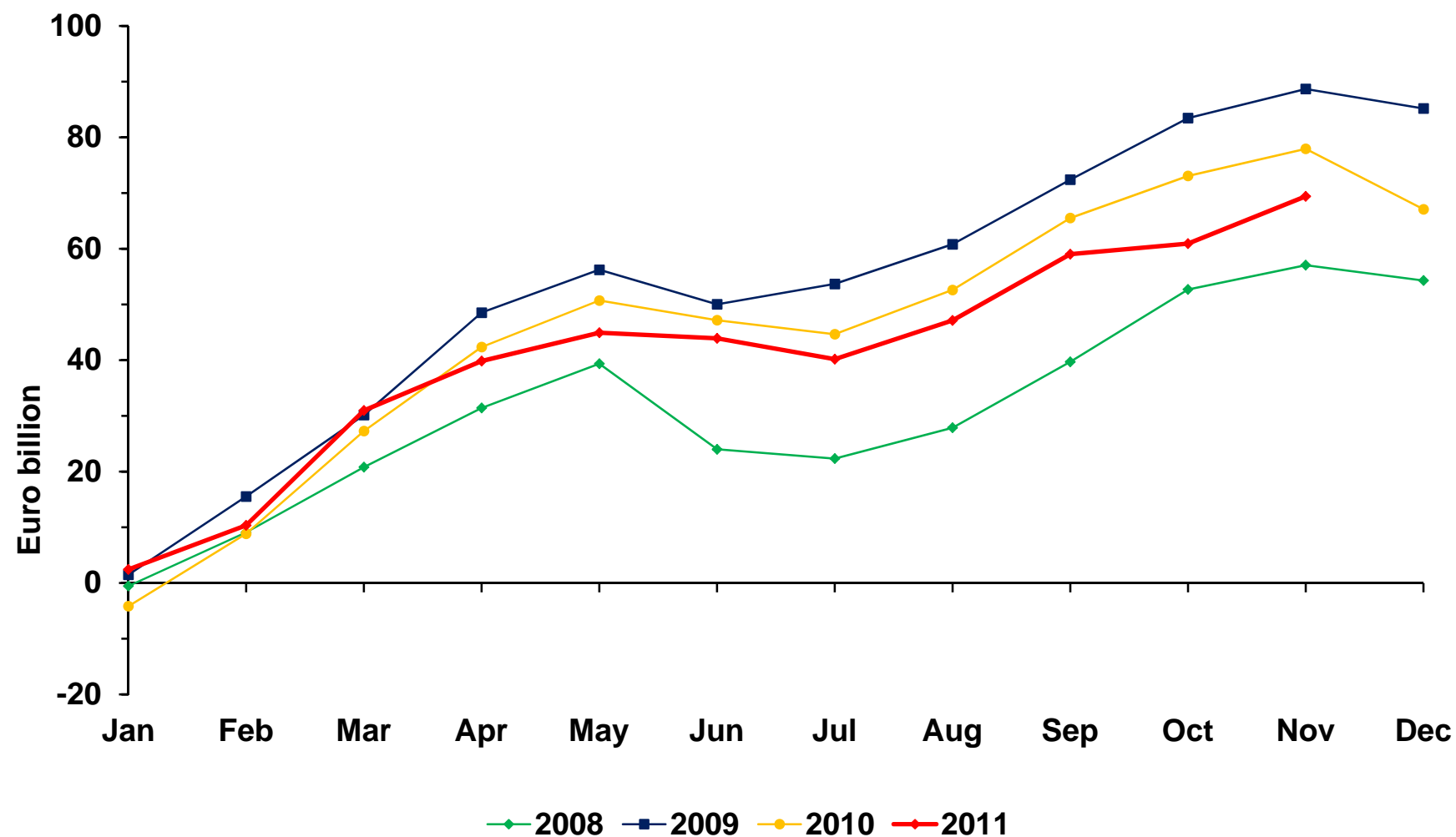
DIPARTIMENTO DEL
TESORO

December. 2011



Ministero
dell'Economia
e delle Finanze

State sector borrowing trends in line with fiscal targets



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Government accounts before the December budget

(unchanged legislation, % GDP)

	2010	2011	2012	2013	2014
Net borrowing/GDP	-4.6	-3.8	-2.5	-1.3	-1.1
Primary balance/GDP	-0.1	1.0	3.4	4.9	5.2
Cut in tax expenditure and welfare benefits			0.2	1.0	1.2
Tax burden	42.3	42.5	43.8	43.8	43.6
Total current revenue/GDP	45.9	46.2	47.5	47.6	47.4
Total revenue/GDP	46.4	46.5	47.9	48.0	47.9
Total current expenditure/GDP	47.5	47.4	48.1	47.8	47.7
Total expenditure net of interest/GDP	46.5	45.5	44.8	44.1	43.8
Total expenditure/GDP	51.0	50.4	50.6	50.3	50.1

Source: MEF, December 2011



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Three pillars: fiscal consolidation, growth and social fairness

- Speeding up the pace of **fiscal consolidation** and strengthening the fiscal framework.
- Spurring economic growth by improving the **business environment, strengthening infrastructure investment and consumers' protection through liberalisation and deregulation**. Cuts in 'cost of doing politics'.
- Being mindful of **burden sharing** and fairness.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Fiscal consolidation

- **Balanced budget by 2013.**
- **Supplementary fiscal package** worth **€20.2bn** in 2012, **€1.3bn** in 2013 and **€1.4bn** in 2014.
- **On the spending side**, key measures relate to **pensions** and transfers to **local governments**.
- **On the revenue side**, property tax, levy on waste and services, excise duties, VAT, tax on luxury goods.
- **Greater emersion of the tax base**, increased fiscal transparency, **direct measures to reduce public debt**.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

BUDGET MEASURES IN A NUTSHELL

	2012	2013	2014
	€ billion		
Measures to reduce net borrowing	32.3	35.1	37.1
of which:			
Property tax (IMU) municipal levy	11.0	12.0	12.0
Excise duties on fuels	5.9	5.6	5.7
Increase in VAT rates	3.3	0.0	0.0
Pensions (net of induced effects)	3.0	6.3	8.8
Local governments	5.0	5.0	5.0
Measures for equity and growth	12.1	13.8	15.7
of which:			
Tax deductions from IRAP	1.6	3.6	3.0
Tax benefits for recapitalization	1.0	1.4	2.9
Reduction 'safeguard clause'	4.0	2.9	3.6
Fund for regional development	1.0	1.0	1.0
Local public transport	0.8	0.8	0.8
REDUCTION IN NET BORROWING	20.2	21.3	21.4

Safeguard clause - change in tax treatment exemption and social systems

Tax incentives from 2013 - Net of amount covered in Dec 2011 fiscal measures	-13.1	-16.4
Increase in VAT rates	13.1	16.4



DIPARTIMENTO DEL
TESORO

Source: MEF, December 2011.

December, 2011



Ministero
dell'Economia
e delle Finanze

Expenditure cuts

- Cuts in **social security spending** (€8.5bn net of induced effects).
- Sizeable efficiency savings in **local government** (€5.0bn).
- **Cost reduction in administrative bodies:**
 - Reduction of members in Government independent authorities and CNEL.
 - **Provinces:** functions and resources transferred to Municipalities and Regions by April 2012. Reduction of members, now elected only by Municipal councils.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Pension reform: key principles

- Enhance the medium and long-term sustainability of the pension system.
- Guarantee fairness across and intra generations.
- Promote greater flexibility and improve the incentive structure to remain at work even after the statutory retirement age.
- Link retirement age and contributory periods to changes in life expectancy.
- Improve transparency, merging entities providing pensions (INDAP and ENPALS into INPS).



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Pension reform: major structural savings

- €8.5bn total cumulative savings in 2014, increasing to €22bn in 2020.
- In 2012-13, **indexation freeze** for pension benefits higher than twice the minimum provision (€4.9bn savings in 2014).
- Overall revision of the **pension system**, including early retirement schemes (€3.2bn in 2014, up to €16bn in 2020).
- **Higher social contribution rates** for farmers and self-employed (€0.6bn in 2014 increasing to €1.6bn in 2020).
- Solidarity contributions for **some schemes and funds**.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Pension reform details (1)

- **Extension of the contribution-based system to all workers as of 2012.**
- **Increase from 60 to 62 (63 and 6 months for self-employed) in the statutory retirement age for women** working in the private sector, as of 2012. Further increases in the following years to reach the age of 66 as of 2018.
- **Increase from 65 to 66 in statutory retirement age for all other workers**, as of 2012. So-called “windows mechanism” eliminated.
- **At least 20 years of contribution** and pension benefits equal to at least 1,5 times the social pension needed **to retire**.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Pension reform details (2)

- A safeguard clause to guarantee that the statutory retirement age increases for all up to 67 as of 2021 (in case this threshold is not reached through the automatic mechanism linking retirement age to increases in life expectancy).
- Transformation coefficients calculated up to 70 years and linked to developments in life expectancy. This determines an increase in pension benefits and an incentive to retire later than the statutory age.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Pension reform details (3)

- As of 2012, **increase in the required contribution for early retirement pensions** from 40 to 42y and 1m for men and 41y and 1m for women and then by 2014 to 42y and 3m for men and 41y and 3m for women. Early retirement allowed only through this channel (the previous system is abolished).
- For people retiring before 62, the benefits related to contributions accrued before 2012 **will be reduced by 2pp per year** up to the age of 62.
- **Possibility to retire early at 63 with at least 20 years of contributions** and a pension benefit equal to at least 2.8 times the social pension (workers who started working after 1996).



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Pension reform details (4)

- As of 2013, **all pension requirements** (regardless of age) will also change in line with developments in life expectancy.
- After 2019, **adjustments for the effects of life expectancy** will be carried out every 2 years (instead of every 3 years).
- Creation of a board of experts to study new forms of **gradual access to pensions**, de-contribution and complementary pillars.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Revenue increases

- Increase in estimated values of property and pilot introduction of **IMU** (tax levy on real estates).
- Introduction of **municipal levy on waste and services** (from 2013) and simultaneous repeal of related existing taxes.
- Higher excise duties on polluting fuels and taxation of luxury goods.
- 2pp increase in VAT rates (10 and 21 per cent) from October 2012. Additional 0.5pp increase in 2014.
- Measures to increase **transparency and the tax base**.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Direct measures to reduce public debt

- A quota of the **proceeds from auctioning of CO₂ permits** are allocated to the **Fund for the Amortisation of government bonds**.
- **Early prescription of Liras** in circulation and allocation of the equivalent to the **Fund for the Amortisation of government bonds**.
- New initiatives (budget neutral) to **establish companies, trusts or real estate funds** for the development and sale of State properties.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Constitutional reforms

- **Balanced budget rule included in the Constitution:** Lower Chamber already approved the draft amendment at end-November (entry into force FY 2014).
- **Independent authority** for monitoring fiscal developments to be established by 2013.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Measures for growth and social fairness

- The new tax framework for business (ACE) reduces the tax burden on capital investments to support economic growth. Creation of an Italian Agency for trade and investment.
- Tax deductibility for hiring women and young workers.
- Measures to fight tax evasion, including a ban on cash payments above €1000.
- Regional programmes co-financed by EU structural funds.



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze

Liberalisation, competition and competitiveness

- Liberalisation of **opening hours** for retailers.
- Liberalisation of **pharmacies and transport sectors**. **New liberal professions' regulation**.
- **Liberalisation of economic activities** and elimination of ex-ante controls. **Strengthening of Antitrust Authority**.
- **Industrial policy**: measures in favour of small, and small-medium enterprises. Simplification of the administrative burden.

Development of Infrastructure

- **Infrastructure:** project planning, coordination and approval based on preliminary submissions to CIPE. Evaluation of working progress by Ministry of Infrastructure.
- New rules on **management and time limits of concessions.**
- **Investment:** road infrastructure, security regulations for big dams, logistics, construction sector regulation.
- Enhancement of **project financing for infrastructure's development.**



DIPARTIMENTO DEL
TESORO

December, 2011



Ministero
dell'Economia
e delle Finanze