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The International Crisis and EU policy responses

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MINISTERO DELL'ECONOMIA E DELLE FINANZE

Outline

- **The evolution of EU institutions**
- The international crisis in the EU context
- The EU policy responses:
 - financial measures.
 - monetary measures.
 - fiscal measures.
- Next steps:
 - Enhancing growth potential.
 - Reforming financial institutions and surveillance.



1950–1952

- In a speech inspired by J. Monnet, **R. Schuman**, the French Foreign Minister, proposes that France, Germany and any other European country wishing to join them, pool their Coal and Steel resources.
- The Treaty of Paris, establishing the **European Coal and Steel Community (ECSC)** is signed in 1951.
- The **ECSC Treaty** enters into force in 1952 and J. Monnet is appointed President of the High Authority.



1957: The Treaty of Rome

- The treaties establishing the European Economic Community (**EEC**) and the European Atomic Energy Community (**Euratom**) are signed by Belgium, France, Germany, Italy, Luxembourg, and the Netherlands in Rome - from then on referred to as the **Treaty of Rome**.
- The EEC starts work and quickly establishes itself as the most important of the European communities, aiming to create a common market through a customs union plus free movement of capital and labour.



In or out? The UK and the EU

- **1963:** French President General C. Gaulle questions the political will of the **United Kingdom** to join the community - giving rise to his famous "non" to British membership of the EEC.
- **1966:** **France** pushes for retention of the unanimity vote when major interests are at stake (**Luxembourg Compromise**).
- **1967:** The **United Kingdom** re-applies to join the Community but France is still reluctant to accept British accession.
- **1972:** Denmark, Ireland, and the United Kingdom finally sign the treaties of accession to the European Communities.



1979: The road to the euro begins with the EMS

- The **European Monetary System (EMS)** introduces the European currency unit (Ecu) and the exchange rate mechanism (ERM).
- The **ERM** binds national currencies in an exchange rate band denominated in Ecus.
- Among other events, the **first elections to the European Parliament** by direct universal suffrage are held in 1979 and **Greece** joins the European Communities in 1981.



1987: The Single Market Act (SMA)

- By amending the original 1957 Treaty, the European Economic Community (EEC) gains an enabling instrument for the **Single Market**. The revised Treaty – **The Single European Act (SEA)** comes into effect on 1 July 1987, aiming to complete the formation of the common market begun by the earlier treaty.
- The SEA intends to **remove barriers and increase harmonisation of policies while improving competitiveness** within and across countries by sweeping away restrictive practices in a range of economic activities. This entails a vast legislative programme involving the adoption of hundreds of directives and regulations.



1991: The Maastricht Treaty on the European Union (1)

- **1984:** The draft Treaty on the establishment of the European Union (Spinelli draft) is passed by the European Parliament by a large majority.
- **1991:** The **Maastricht Treaty on the European Union** is signed in December. It paves the way for **monetary union** and **establishes the euro**: the UK, Sweden and Denmark decline to join the currency.



1992: The Maastricht Treaty on European Union (2)

- The Maastricht Treaty has a rough ride in national referendums. **Danes** reject it in June 1992 and only accept it in a second vote in May 1993, after receiving an opt-out on monetary union like the UK.
- In **France** it barely passes by just 50.4% of votes in favour compared to 49.7% against.
- It passes in other countries including **Germany** and the **UK** despite evidence of public discontent.



1997: The Amsterdam Treaty

- The **Amsterdam Treaty** prepares the EU for its eastward expansion.
- **National vetoes** are abolished in more areas.
- Laws on **employment and discrimination** are strengthened and the social chapter of the Maastricht Treaty becomes an official part of EU law.
- The **Schengen agreement becomes law**, though the UK and Ireland opt-out.



1999: The Euro is introduced

- **Jan 1999:** The **euro** is introduced as the **official currency of 11 EU countries** (France, Germany, Italy, the Netherlands, Austria, Belgium, Luxembourg, Spain, Portugal, Ireland and Finland).
- **2001:** A new Treaty amending the Maastricht Treaty and the Treaty of Rome is signed (**Treaty of Nice**).
- Greece adopts the currency in 2001 while Sweden, Denmark and the UK remain outside the currency union.
- **Jan 2002: Euro notes and coins are introduced** in the 12 participating states as national currencies are phased out.
- **May 2004:** Enlargement to Eastern Europe goes ahead.



R. Mundell and the optimum currency area (1)

- An **optimum currency area (OCA)** is a geographical region in which a single currency can maximize economic efficiency for the entire region.
- In his theory of **optimum currency areas (1961)**, R. Mundell seems to argue in favor of fairly small currency areas, in which asymmetric shocks would be offset through mechanisms like labour mobility.

R. Mundell and the optimum currency area (2)

- The **creation of the euro** is the largest-scale case study of the engineering of an OCA.
- Part of the rationale behind the creation of the Euro is that while single countries of Europe do not each form an OCA, **Europe as a whole does**.
- However, while Europe scores well on some of the measures underlying an OCA, there is **lower labour mobility** than in the USA. Similarly, Europe cannot rely on **fiscal federalism** to smooth out regional economic shocks.



The Treaty establishing the European Economic Community

- **Oct 2004:** EU leaders sign a new constitution in the same room where the **Treaty of Rome** was signed. The new treaty is designed to make the **EU work efficiently even after enlargement**.
- **2005:** Voters in referendums in both France and the Netherlands reject the EU Constitution, which cannot come into effect unless it is ratified by all 25 member states. The EU continues to function on the basis of existing treaties.



The Treaty of Lisbon

- The **Lisbon Treaty** is signed on 13 December **2007** and enters into force on 1 December **2009**.
- The Treaty is an international agreement amending the two treaties which form the constitutional basis of the EU:
 - The **Maastricht Treaty** (also known as the Treaty on European Union, 1993).
 - The Treaty establishing the European Community (TEC, also known as the **Treaty of Rome**, 1957). In this process, the Rome Treaty was renamed as the “Treaty on the functioning of the European Union” (TFEU).



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2008-2009: The global financial crisis (1)

- **2008:** a series of bank and insurance company failures trigger a **financial crisis** that puts large financial institutions at risk of total collapse.
- As a consequence, global stock markets suffer large losses and economies worldwide slow down, with credit tightening and international trade declining.



2008-2009: The global financial crisis (2)

- A combination of complex factors appears to have **sparked the crisis** that initiated within the U.S. banking system. These factors include: misuse of high risk, complex financial products; undisclosed conflicts of interest; failure of regulators and credit rating agencies to spot and address problems.
- **Crisis spreads to other countries through the international banking system.** Amid growing questions regarding bank solvency, reduced credit availability and damaged investor confidence, governments and central banks try to cope with unprecedented fiscal stimulus, monetary policy expansion and institutional bailouts.



2009: The Greek Crisis (1)

- On 19 October, **Greek government** reveals a black hole in government accounts; budget deficit to hit 12% of GDP by year-end. By December, the government admits debt has reached €300bn, accounting to 113% of GDP.
- From November, **closer scrutiny of markets** as fears of debt crisis engulfing sovereign states rise.
- On 8 December 2009, Fitch declasses Greek public debt, from A- to BBB+. Borrowing costs spiral upward, as S&P and Moody's prepare to **downgrade Greek debt as junk**.



2010: The Greek Case (2)

- In January, an EU report condemns “**severe irregularities**” in **Greek accounting procedures**. Greece's budget deficit in 2009 is revised upwards to 12.7%, from 3.7%. The ECB dismisses speculation that Greece will have to leave the EU.
- In February, Greece unveils a series of austerity measures aimed at curbing the deficit. Concern starts to build about **contagion risks spreading to other countries in Europe**, notably Ireland and Portugal.



2010: The Greek Case (3)

- **2010:** Greek borrowing costs reach yet further record highs. The EU announces that, upon closer examination, the **Greek deficit** is even higher than previously thought (13.6% of GDP).
- Finally, on 2 May, the Eurozone members and the IMF agree upon a **€110bn bailout**. In November, the EU and IMF agree to a bailout package to the **Irish Republic of €85bn**.



2010: The spreading of crisis in the EU (1)

- On 2 July, **Hungary** asks for precautionary bailout from EU and the IMF.
- On 28 November, agreement is reached on an **Ireland** rescue package: **€85bn loan facility** of which €67.5bn is to be provided from sources external to Ireland. €35bn goes to support the banking system and up to €50bn to cover financing of the Irish government's budget.
- Ireland moves to take over **Allied Irish bank**.



2011: The spreading of crisis in the EU (2)

- In January, **Portuguese** borrowing costs hit a record.
- In February, Eurozone Finance Ministers set up a permanent bailout fund, called the **European Stability Mechanism (ESM)**, worth about €500bn.
- In May, the Eurozone and the IMF approve a 78bn € bailout for Portugal.
- In June, Eurozone Ministers insist upon new austerity measures in **Greece**. Talk abounds that Greece could be forced to leave the euro area.



2011: The spreading of crisis in the EU (3)

- The involvement of some member states' banks in the financial crisis in Greece and/or Ireland lead them to **introduce bailout measures** to avoid the collapse of their national banking systems.
- These interventions **transfer the insolvency risk from the private sector to public finances**, establishing a strong link between banks and national governments.
- The EU uses temporary financial arrangements or safety nets (**EFSM and EFSF**, described in detail later).



2011: Contagion from “the Greek Disease” (1)

- After weeks of uncertainty over Greece's future, rumours of contingency plans for a **Greek exit** increase the feeling of anxiety.
- **Renewed market tension** following Spain's bail-out raises the prospect of contagion spreading to Italy: it looks inevitable that other countries may need a rescue too.
- While contagion fears hit markets and borrowing costs move close to an unsustainable level, Europe moves with measures to pull endangered countries back from the brink of a debt crisis, as **the future of the euro common currency seems clearly at stake.**



2011: Contagion from “the Greek Disease” (2)

- 9 June 2011: After emergency talks, Spain's Economy Minister confirms his country will make a formal request for up to €100bn in loans from Eurozone funds to **bail out Spanish banks**.
- July 2011: the **Greek parliament** votes in favour of a fresh round of drastic austerity measures; the EU approves another tranche of the Greek loan, worth €12bn. A comprehensive bailout for Greece is agreed: a €109bn package designed to prevent contagion.



2011: No end in sight (1)

- July 2011: The **European Banking Authority** announces that eight banks have failed their stress tests and 16 are in the danger zone. The European Financial Stability Facility's powers are amended to enable it to help countries not officially in bailout **to recapitalise banks**.
- 7 August 2011: The ECB announces it will buy **Italian and Spanish governments bonds** to stabilise financial markets (Securities Markets Programme).
- September: **Spain** passes a constitutional amendment to keep future budget deficits to a strict limit. **Italy** passes a €50bn austerity financial plan to balance the budget by 2013.



2011: No end in sight (2)

- **October 2011: The ECB unveils emergency loan measures to help banks.** Financial markets are bolstered by news that Germany and France have reached an agreement to help resolve the debt crisis.
- **Struggling Franco-Belgian bank Dexia** receives a huge bailout and Eurozone finance ministers approve €8bn tranche of Greek bailout plans, potentially saving the country from default.
- **November 2011: In Italy a technical government**, backed by a parliamentary majority, takes office to carry out urgent fiscal consolidation and policy reforms.



2012: Continuing signs of crisis in the euro area (1)

- January: Standard & Poor's downgrades **France and 8 Eurozone countries**, blaming the failure of Eurozone leaders to deal with the debt crisis. Three days later the agency downgrades the EU bailout fund (EFSF).
- February: the European Commission predicts that the **Eurozone economy** will contract by 0.3% in 2012 while the Eurozone jobless rate hits a new high.
- 2 March: The “**fiscal pact**” is **signed** (described in detail later). The UK and the Czech Republic abstain, but the other 25 members sign up to make it harder to break budget rules.



2012: Continuing signs of crisis in the euro area (2)

- Difficult negotiations between **Greece, private lenders and the “troika”** (EC/ECB/IMF) continue.
- 13 March: A second Greek bailout of €130bn is approved with the required IMF backing.
- 12 April: **Italian** borrowing costs increase and the **Spanish** government's 10-year cost of borrowing rose back towards 6%: a sign of fear over the countries' creditworthiness.



2012: Continuing signs of crisis in the euro area (3)

- 25 May: **Spain's fourth largest bank, Bankia**, asks the government for a bailout. On 9 June, Spain's Economy Minister L. de Guindos announces a formal request for up to **€100bn in loans from Eurozone funds**.
- 12 June: Optimism over the bank bailout evaporates as Spain' borrowing costs rise to the highest rate since 1999.
- **A drastic series of spending cuts and tax increases** are announced in the face of an ultimatum by the EU, as Spain struggles to reduce its deficit while negotiating a bailout for its banks.

2012: Continuing signs of crisis in the euro area (4)

- 17 June: In **Greece** narrow election victory of the broadly pro-bailout New Democracy Party.
- Officials from the troika of international lenders are back in Athens as the three-party government struggles to meet the spending cuts demanded in return for the bailout money.

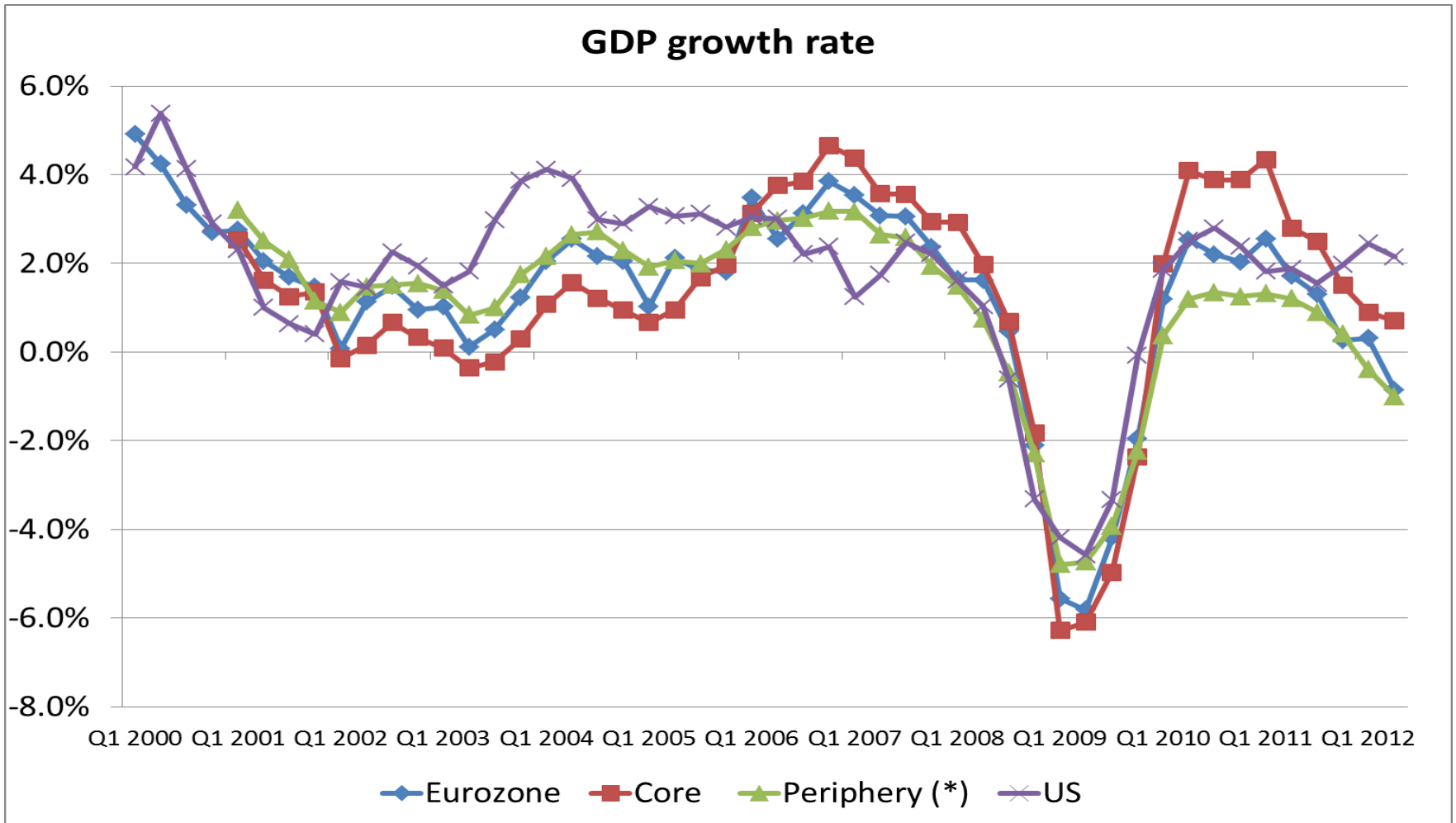


Recent events

- 6 September: The European Central Bank announces **Outright Monetary Transactions** (detailed later) involving unlimited purchases on the secondary market of bonds of governments that seek “bail-out” assistance from the EU's EFSF/ESM.
- The European Commission publishes proposals for a **banking union** for the euro area, which would hand new supervisory powers to the ECB, such as the ability to close poorly performing banks.
- **Spain's** government denies rumours that it is considering asking for a bailout.



Recovery comes to a halt



Source: Eurostat and OECD

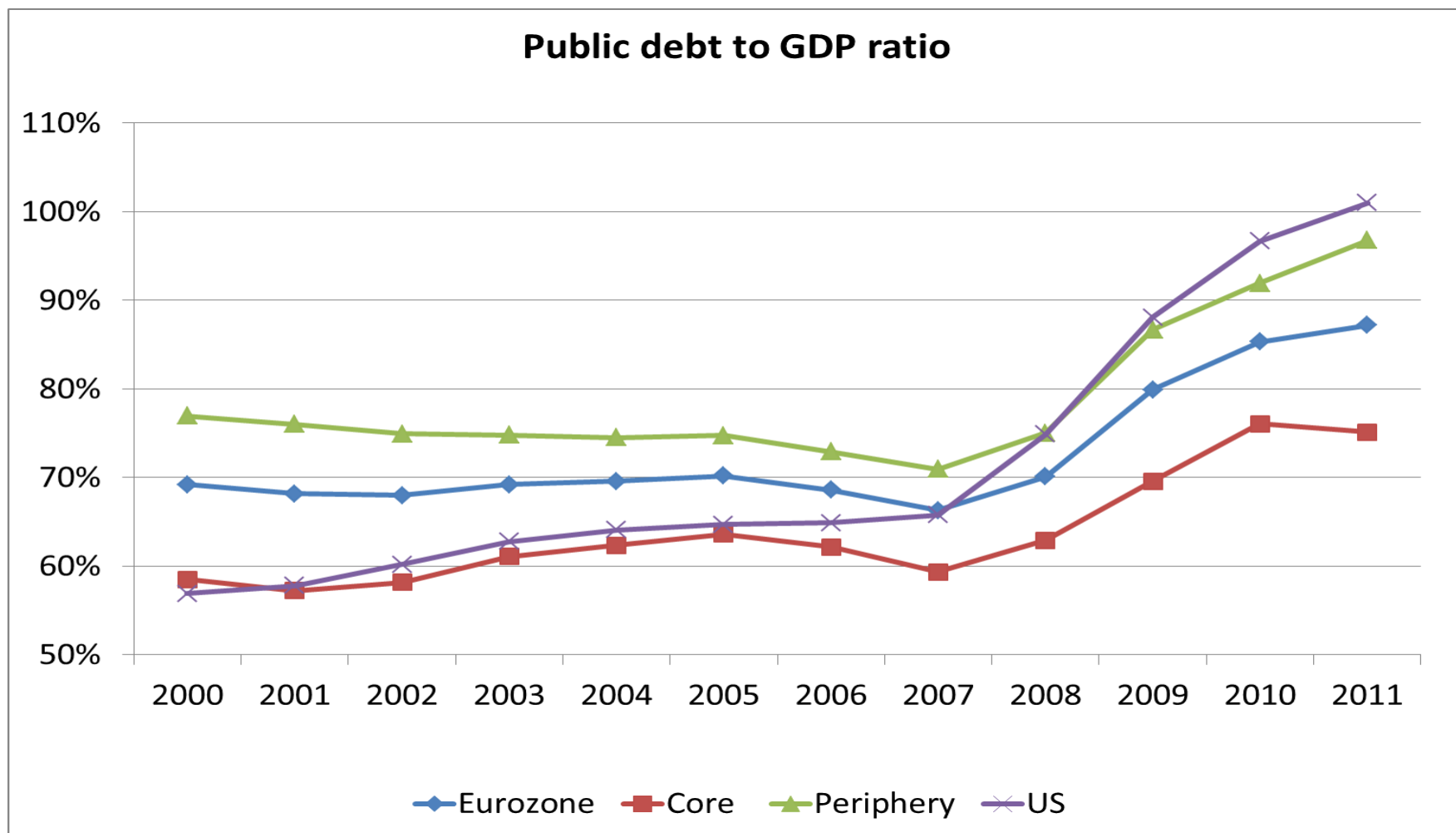
(*) Data for Greece are unavailable since 2011 Q2



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Public debt increases but less than in the US



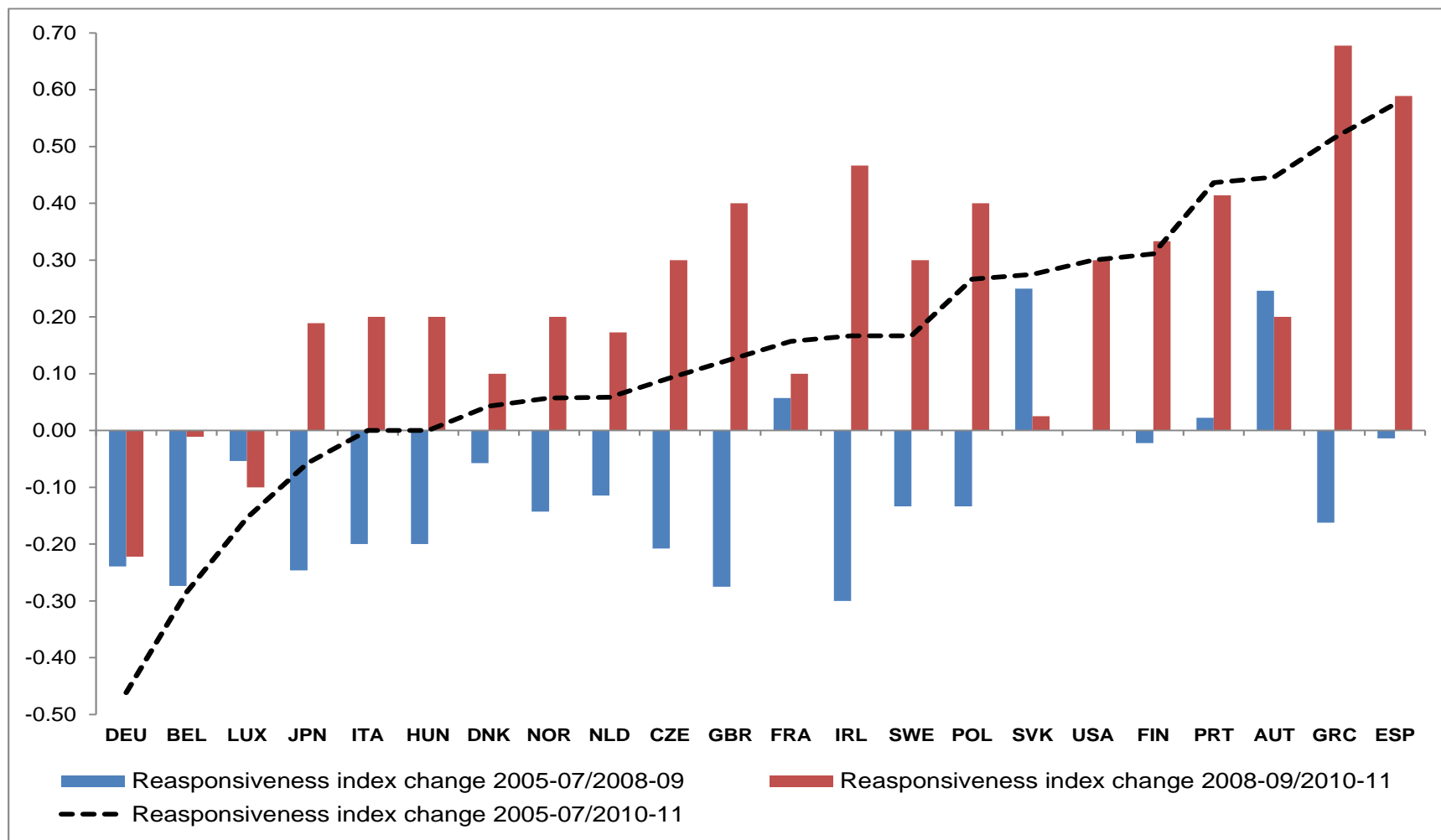
Source: Eurostat and OECD



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Crisis accelerates the implementation of structural reforms



Source: Italian Ministry of Economy and Finance calculation on OECD- 'Going for Growth'



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The main actors of economic governance in EMU

Monetary Policy

ECB

Treaty

Fiscal Policy

Council
Commission
Member States

Stability and Growth
Pact (Treaty and
Regulations)

Structural policies

Council
Commission
European Council
Member States

Broad Economic
Policy Guidelines,
Lisbon Agenda



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The crisis: the EU responses

- The impact of the financial crisis and the economic downturn has underlined need for **coordinated interventions** in the areas of : (1) **monetary policy**, (2) **fiscal policy**.
- Low interest rates together with dysfunctional credit markets **limit the effectiveness of monetary policy**.
- This leads to renewed acknowledgement of the need for addressing fragmentation of monetary policy and coordination of fiscal policies across Member States.



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Financial measures

- **European Financial Stabilisation Mechanism (EFSM – May 2010).**
- **European Financial Stability Facility (EFSF – May 2010).**
- **European Stability Mechanism (ESM – February 2011; implemented October 2012).**



EFSM: European Financial Stabilisation Mechanism (1)

- The **EFSM** is an emergency funding mechanism through which the **Commission is allowed to borrow up to a total of €60bn** from financial markets on behalf of the Union under an implicit EU budget guarantee.
- The **EFSM may act through a loan or a credit line** established for Member States (MS). A credit line is an authorisation by which MS can draw funds up to a indicated maximum amount for a specified period of time.



EFSM: European Financial Stabilisation Mechanism (2)

The EFSM provides assistance to Member States if:

- A Member State is suffering from, or is seriously threatened by, a **severe financial disturbance**.
- The financial disturbance or risk of financial disturbance is caused by events **beyond the control of the Member State concerned**.
- **There is no debt-servicing cost for the Union**; all interest and loan principal is repaid by the beneficiary MS. The EU budget guarantees the repayment of bonds in case of default by the borrower.



EFSM: European Financial Stabilisation Mechanism (3)

- **The Council (Heads of States)** decides by qualified majority whether to grant financial assistance to the MS. If the Council agrees to allocate financial assistance to the MS, its decision comprehends:
 - The procedures for the financial assistance (the amount, the number of payments, the availability period).
 - The general **economic policy conditions** (settled by the Commission).
 - The economic and financial **correction programme** of the MS.



EFSF: European Financial Stability Facility (1)

- The **EFSF is a temporary rescue mechanism** based on **bilateral lending** between euro area MS in partnership with the IMF.
- It provides financial assistance to euro area MS, linked to **appropriate conditionality**.
- It **issues bonds** or other debt instruments on capital markets, allowing funding up to €440bn backed by guarantees of MS shareholders.



EFSF: European Financial Stability Facility (2)

- The EFSF is authorised to intervene in the **primary and secondary debt markets**.
- Intervention in the secondary market only in the case of **exceptional financial market circumstances**.
- Fund **recapitalisations of financial institutions** providing loans to governments.



ESM: European Stability Mechanism (1)

- The ESM is a **permanent international financial institution** established by treaty (ratification process was completed on 8 October 2012).
- The ESM provides **temporary stability support** to euro area Member states by issuing bonds or other debt instruments on financial markets.
- Unlike the EFSF, which was based upon euro area Member state guarantees, the **ESM will have a total subscribed capital of €700bn** provided by euro area Member states.



ESM: European Stability Mechanism (2)

- **New financing tools:** in addition to direct loans to beneficiaries, precautionary financial assistance will be offered, as well as loans to MS for recapitalisation of financial institutions. The ESM will also be able to purchase beneficiary MS' bonds on primary and secondary markets.
- **More flexible pricing:** the price should cover financing and operating costs, including an appropriate margin. Maturities can be extended up to 30 years.



ESM: European Stability Mechanism (3)

- **Alignment with IMF:** the active participation of the IMF will be sought, both at technical and financial level.
- **Link with fiscal compact:** assistance will be provided under stringent economic policy conditionality. MS concerned must ratify the “fiscal compact” (see following slides) and implement the **balanced budget rule** (as specified in that treaty) within the agreed timeline (one year).



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LTRO: Long term refinancing operation

- LTROs are open market operations launched by the ECB on 8 December 2011 to **support European banks by improving liquidity** in the market.
- These operations could be assimilated to the **quantitative easing mechanism** created by Fed.
- Through two operations, in December 2011 and February 2012, the ECB injected **€1019bn** into European banks.
- The ECB lends money at 1% interest rate to euro zone banks for a maturity of three years. The banks can offer sovereign debt as collateral on the loans.



OMT: Outright Monetary Transactions (1)

- “Within our mandate, the ECB is ready to **do whatever it takes to preserve the euro**. And believe me, it will be enough”, M.Draghi, London, July 2011.
- Aim: **safeguarding appropriate monetary policy transmission and the uniqueness of monetary policy.**
- The involvement of the IMF shall also be sought for the design of **country-specific conditionality** and the **monitoring of relative country programmes.**



OMT: Outright Monetary Transactions (2)

- **Conditionality:** attached to the EFSF/ESM programme, the Governing Council of the ECB decides on the beginning, continuation and suspension of OMT.
- **Coverage:** no limit on bond buying, maturities of 1-3 years.
- The liquidity created through Outright Monetary Transactions will be **fully sterilised**.



OMT: Outright Monetary Transactions (3)

- **Creditor treatment:** Eurosystem will not be treated as preferred creditor and will accept the same treatment as other bondholders.
- **Sterilisation:** liquidity will be fully sterilized.
- **Transparency:** purchases will be published on a weekly basis.
- **Securities Markets Programme:** once terminated, the liquidity will be absorbed and existing securities in the SMP portfolio will be held to maturity.



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EU measures: strengthening the EU governance

- **The Stability and Growth Pact and Six-Pack** (1997; 2005; 2011).
- **European semester** (2010).
- **Euro Plus Pact** (2011).
- **Treaty on Stability, Coordination And Governance** (TSGC) and **Fiscal Compact** (2012).
- **Two-Pack** (currently under negotiation).



SGP: The Stability and Growth Pact and the Six-Pack (1)

- The **SGP** (Amsterdam, 1997; reformed in 2005) is a rule-based framework to foster sound government finances ahead of the introduction of the single currency.
- The Commission and Council can impose **sanctions** to push MS to make efforts to achieve more sustainable (structural) fiscal positions.
- SGP has two 'arms': **Preventive and Corrective** to ensure fiscal surveillance and improve enforcement of rules.
- In 2011 the **Six-Pack** introduces fundamental changes both in the Preventive and Corrective arms of the SGP.



SGP: The Stability and Growth Pact and the Six-Pack (2)

- **The Preventive Arm:** MS submit an annual **Stability** (for euro area countries) or **Convergence** (for other MS) **Programme**, along with the **National Reform Programme**.
- The aim is to achieve a **balanced budget over the medium term**. In this context the Commission can issue **policy recommendations** or, if necessary, an **early warning** of an excessive deficit (>3% of GDP).



SGP: The Stability and Growth Pact and the Six-Pack (3)

- **The Corrective Arm:** It governs the **Excessive Deficit Procedure (EDP)**, under which the Council can formulate specific country recommendations. Non-compliance with these recommendations may lead to sanctions for euro area MS.
- The SGP is to be reinforced with proposals to:
 - Give more relevance to the relationship between **debt and deficit** in the Corrective Arm framework.
 - Speed up the EDP and introduce **semi-automatic sanctions** on non-compliant MS.



SGP: The Stability and Growth Pact and the Six-Pack (4)

- The Six Pack introduces a new procedure for the prevention and correction of macroeconomic imbalances (**Macroeconomic Imbalances Procedures – MIP**), aligned with the annual cycle of multilateral surveillance.
- It is based on a ‘preliminary assessment filter’, called ‘**Scoreboard**’, consisting of a limited number of economic, financial and structural indicators, and ‘**In-Depth Reviews**’.
- Such indicators identify macroeconomic imbalances, with corresponding indicative **alert thresholds** (maximum and minimum, differentiated according to whether or not they are Euro Area MS).



SGP: The Stability and Growth Pact and the Six-Pack (5)

- Within the Macroeconomic Imbalances Procedures – MIP, the Commission and the Council can adopt **preventive recommendations** at an early stage.
- For more serious cases there is a corrective arm: an **Excessive Imbalance Procedure (EIP)** can be launched for single MS.
- The MS under EIP has to submit **corrective action plans**.



The European semester (1)

- In 2011, a new approach towards economic surveillance and a new policy-making timetable was agreed: **the European semester**.
- It is a mechanism to align MS' **decisions on economic policies** over the first semester of the year based on common guidelines.
- In particular, it allows for the **coordination of budgetary, macro-economic and structural policies** at EU level.

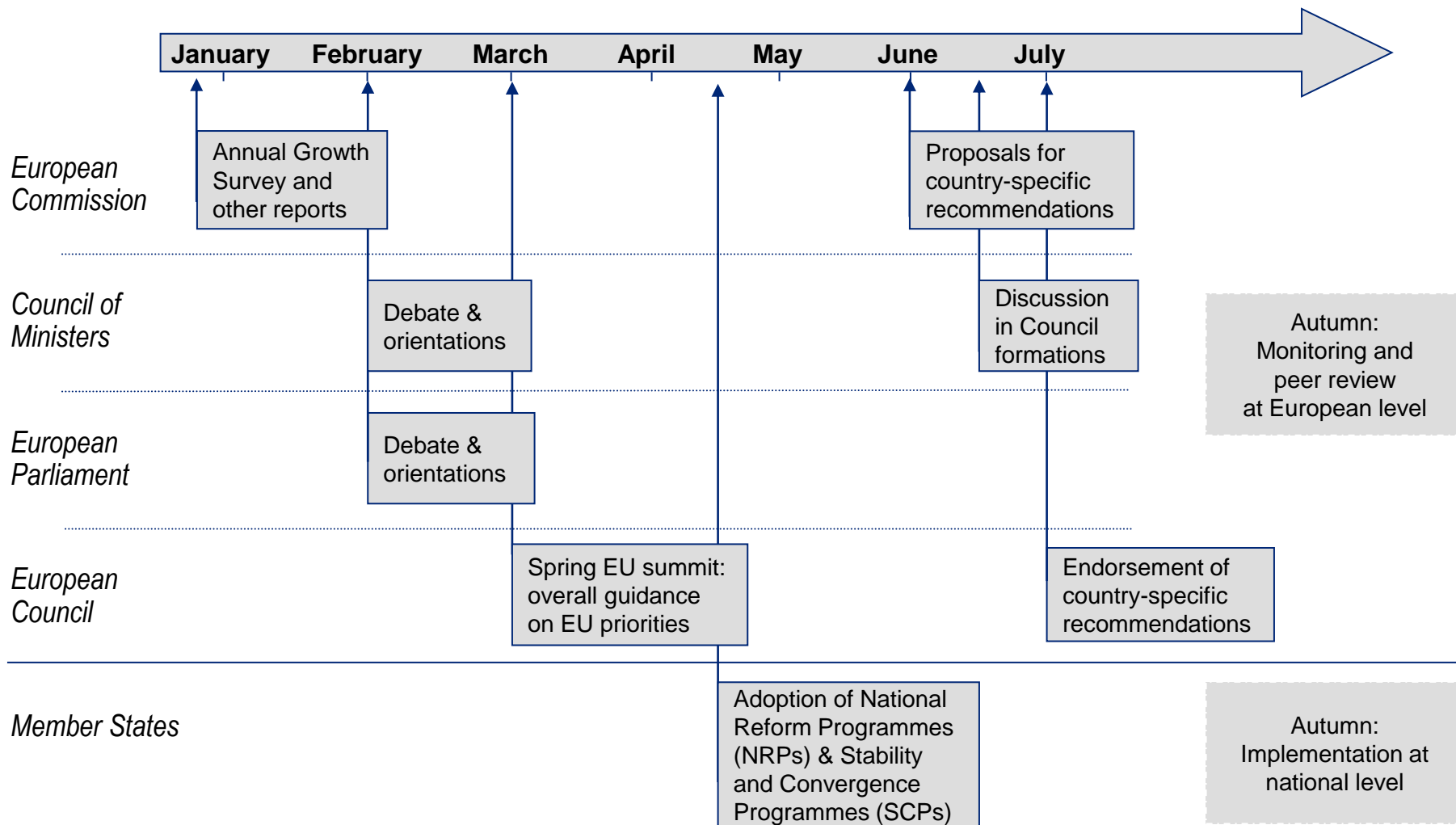


The European semester (2)

- Within the European Semester MS jointly discuss, at EU level, **fiscal policy issues, macroeconomic imbalances, financial sector issues and growth-enhancing structural reforms.**
- This process **anticipates the national draft budgets** submitted for national parliamentary debates in the second half of the year ('national semester').
- The 'upstream' policy coordination should make the **implementation of policy guidance more effective** and help embed the EU dimension in national policy-making.



The European semester (3)



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The European semester (4)

- The yearly cycle begins with the Commission's **Annual Growth Survey**, which gives comprehensive guidance on priority actions to be taken at EU and national level.
- Every MS submit a **Stability or Convergence Programme** on its fiscal plans and a **National Reform Programme** on structural reforms and measures to boost growth and jobs.
- The EC evaluates these reports and proposes concrete **policy recommendations** for each country. During the European Council of June the **recommendations are discussed and adopted by the Council**.



The Euro Plus Pact

- To give further impetus to the governance reforms 23 Member States signed the **Euro Plus Pact** in March 2011.
- The Pact promotes **stronger economic coordination** in four areas (competitiveness, employment, sustainability of public finances and financial stability) and sets concrete goals agreed and reviewed on a yearly basis.
- The Euro Plus Pact is integrated into the European Semester and the **Commission monitors the implementation of the commitments.**



Treaty on Stability, Coordination and Governance in the EMU

- An **Intergovernmental agreement** (not EU law) signed on March 2, 2012 by 25 Member States. Enters into force following ratification by at least 12 euro area MS (expected date: January 1, 2013).
- The fiscal part of the TSCG is referred to as “**Fiscal Compact**” which runs in parallel with the reforms introduced with the Six-Pack.
- A couple of provisions included in the TSCG are mirroring concepts existing in the SGP as reformed by the Six-Pack.



The Fiscal Compact (1)

- The Fiscal Compact defines **new national structural budget balance rules**.
- The rules have to be implemented through provisions of **“binding force and permanent character, preferably constitutional”**.
- Contracting parties have to ensure convergence towards the country-specific **Medium-Term Objective (MTO)**, as defined in the SGP with the limit for structural deficit (cyclical effects and one-off measures are not considered) being defined as 0.5% of GDP; (1.0% of GDP for Member States with a debt ratio significantly below 60% of GDP).



The Fiscal Compact (2)

- **Corrective mechanisms** involve automatic actions to be undertaken in case of deviation from the MTO or the adjustment path towards it, with escape clauses for exceptional circumstances. Compliance with the rule is to be **monitored by independent institutions**.
- **European Court of Justice** may impose financial sanctions (0.1% of GDP) if a country does not properly implement the new budget rules.
- In the case of Euro Area MS, **sanctions** would be channelled to the ESM; in the case of non-Euro Area MS, the money would be attributed to the EU budget.



The Fiscal Compact (3)

- The **debt rule** at supranational level envisages that the public debt-to-GDP to ratio must not be higher than the threshold of 60% of GDP.
- When a MS lies above the threshold, it must follow a plan by which debt is reduced on an annual basis **by no less than 1/20 of the distance between the observed level and the target.**



Promising outlook on the Fiscal Compact

- The Fiscal Compact could provide an opportunity to firmly **anchor fiscal governance at the national level**.
- The combination of the sustainability goal with adjustment to the economic cycle can contribute to **responsible fiscal policy** in the medium term.
- National legislation must be supported by sound **reforms to budgetary institutions and procedures**.



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Two-Pack (1)

- It is a **work in progress**. Discussions between Commission, Council and Parliament are ongoing.
- It aims at further strengthening the **surveillance mechanisms** in the euro area.
- It regards **monitoring and assessing draft budgetary plans and ensuring the correction of excessive deficits**.

Two-Pack (2)

- Monitoring shall be carried out by **independent institutions**.
- It complements the preventive arm of the SGP, in particular, by ensuring appropriate integration of EU policy **recommendations in national budgetary preparations** and increasing peer pressure in the euro area MS.



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Balancing fiscal discipline and growth

- The focus on fiscal discipline should be enlarged to take into account **growth perspectives**.
- The new fiscal consolidation framework should be applied within a timeframe that would allow for **exceptional circumstances**.
- Given **pro-cyclical effects** of fiscal consolidation during economic downturns, structural adjustment policies are to be implemented to promote growth.



Growth enhancing policies

- Structural reforms have two main impacts:
 - **Microeconomic:** Improving regulation and policies that could foster innovation and education systems, flexibility of internal markets, business environment.
 - **Macroeconomic:** Improving aggregate productivity, price and wage competitiveness and external balances.
- **EU2020 policy instruments:** SMA (I and II); Connecting Europe facilities; Industrial policies strategies; Digital agenda; Innovation union initiative; etc.



Europe 2020: the EU's growth strategy

Strengthened EU economic governance

Macro-economic &
fiscal surveillance

Regulation of
financial services

Targets and guidance
for structural reforms

Flagships for smart, sustainable and inclusive growth

Digital
Agenda

Youth
on the Move

Innovation
Union

New
Industrial Policy

New Skills
and new Jobs

Platform against
Poverty

Resource
Efficiency

Modernised EU levers for growth and jobs

Single Market Act

Trade and
external policies

Structural Funds
and future EU budget



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Meeting EU targets for 2020

EMPLOYMENT 75% of the population aged 20-64 should be employed

(68.6% in 2010)

INNOVATION 3% of the EU's GDP should be invested in R&D

(2.0% in 2010)

CLIMATE / ENERGY A reduction of CO2 emissions by 20%

Share of renewable energies up to 20%

An increase in energy efficiency by 20% (11.6% in 2009)

EDUCATION The share of early school leavers should be under 10%

(14.1% in 2010)

At least 40% of the younger generation should have a degree or diploma

(33.6% in 2010)

POVERTY 20 million fewer people should be at risk of poverty
(close to 2 million more people in 2010 compared to 2009)



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Growth enhancing policies: Single Market Act II

- The **SMA II**, now under discussion in the EU, defines a common agenda to exit the crisis drawing on **4 drivers** for new growth:
 - Developing fully integrated networks.
 - Fostering mobility of citizens and businesses across borders.
 - Supporting the digital economy across Europe.
 - Strengthening social entrepreneurship, cohesion and consumer confidence.



SMA II: developing fully integrated networks

- The backbone of the economy and precondition for growth: **one single transport and energy market.**
- **Competition/antitrust rules** to promote market integration and lower prices for consumers.
- Investments in energy systems to modernise networks, make them energy-efficient and decarbonise the economy.



SMA II: mobility of citizens and businesses across borders

- Match **labour demand and supply** cross-border to increase employment levels and economic output.
- Improve **access to finance** for innovative companies.
- Improve the **business environment**.



SMA II: Supporting the digital economy across Europe

- Reducing restrictions for **online cross-border trade**.
- Spill-over effects: (1) **Improved productivity**, (2) **Creativity**: new solutions for societal challenges (ageing, inclusion, education).



SMA II: Strengthening social entrepreneurship and cohesion

- **Inclusive and environment-friendly growth** in a highly competitive social market economy.
- Integration of all citizens into the **economic community**.
- Strengthen the role of **social enterprises**: enhance trust and visibility.



Outline

- The evolution of EU institutions.
- The international crisis in the EU context.
- The EU policies responses:
 - monetary measures.
 - fiscal measures.
- **Next steps:**
 - Enhancing growth potential.
 - **Reforming financial institutions and surveillance.**



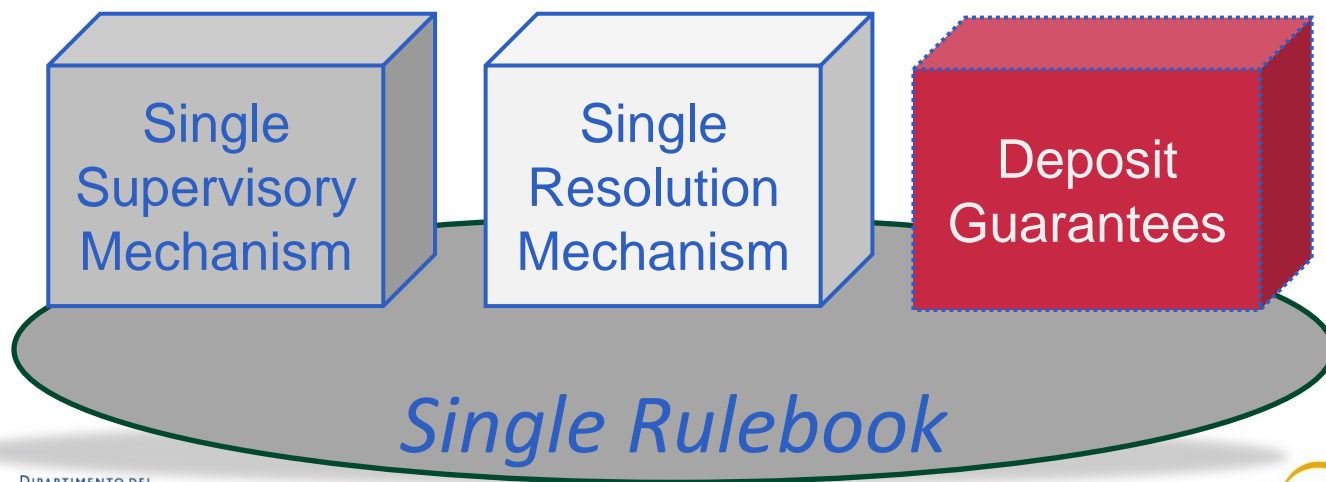
Key elements of the Banking Union (1)

- **Single supervision** is the precondition for the introduction of potential direct recapitalisation of banks by ESM.
- Prevent bank runs and strengthen overall **financial stability**.
- Remove adverse feedback loops between **sovereigns and banks**.
- Preserve the **single market** and the Economic and Monetary Union (EMU).



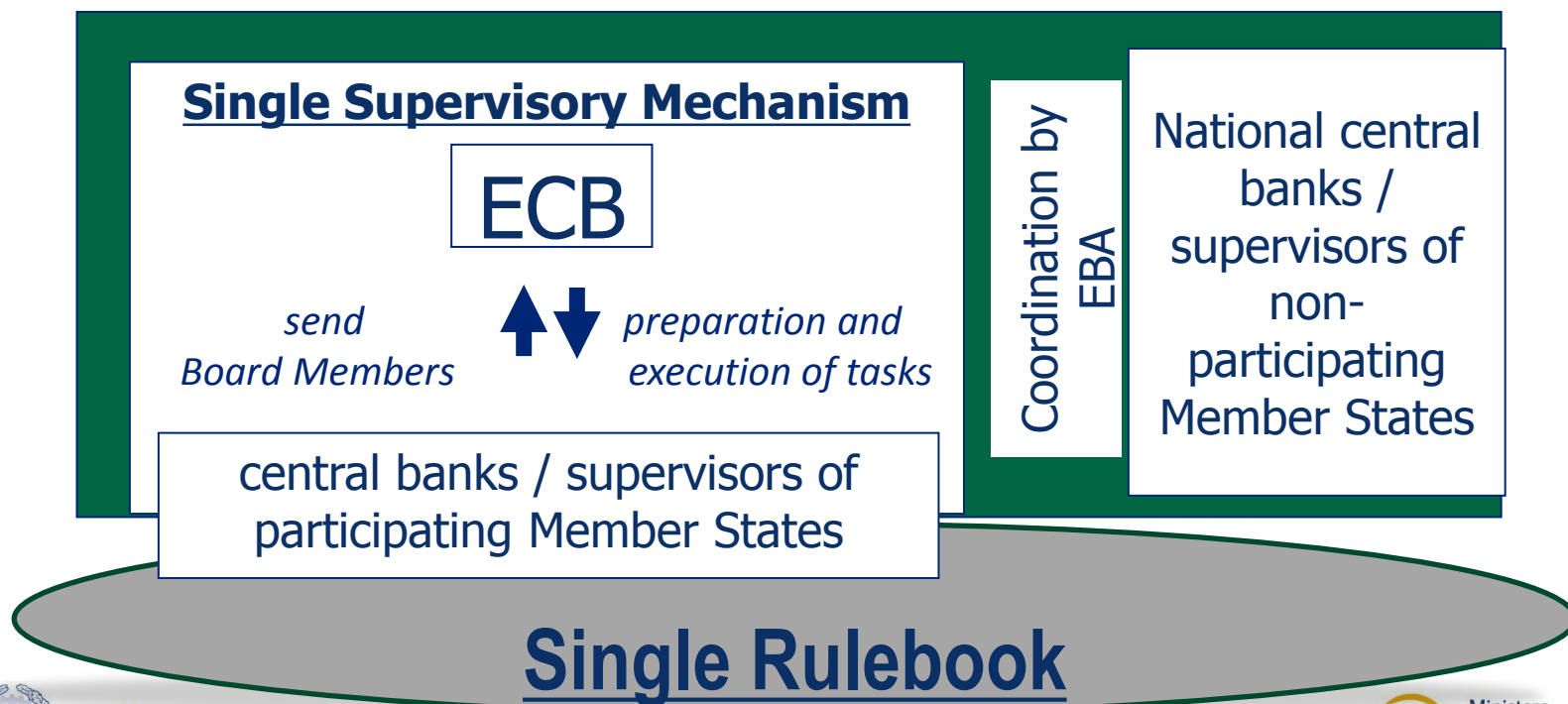
Key elements of the Banking Union (2)

- **Centralisation** of regulation, supervision and deposit guaranties (on-going)
- Bank **recovery and resolution**: ensure that bank failures across the EU are managed in a way which avoids financial instability and minimises costs for taxpayers.



Key elements of the Banking Union: focus on SSM

- Ensure compliance with minimum requirements on capital, leverage and liquidity;
- Early intervention measures where a bank breach requirements (coordinating with resolution authorities).



Conclusion

- Following the outbreak of the Eurozone debt crisis three years ago, the **EU implemented temporary financing measures** (EFSF, EFSM).
- The persistency of the crisis and the need to proceed towards further integration required the **definition of new policies** (financial, fiscal and monetary) related to:
 - A permanent rescue fund (ESM).
 - A “fiscal” treaty between MS (TSGP).
 - Growth enhancing policies (structural reforms).
 - Steps towards increased EU financial stability (banking union).



***When written in Chinese, the word crisis
Is composed of two characters.***

One represents danger and the other represents opportunity.”

John F. Kennedy, President of the United States, 1961-63

“In waking a tiger, use a long stick”

***“We think too small, like a frog at the bottom of the well. He
thinks the sky is only as big as the top of the well. If he
surfaced, he would have an entirely different view.***

Chairman Mao Tse-Tung, political theorist and Founding father of the People's Republic of China (PRC)



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Italy's Strategy for Growth and Fiscal Consolidation

Shanghai, November 6, 2012

Lorenzo Codogno

Italy's Ministry of Economy and Finance

MINISTERO DELL'ECONOMIA E DELLE FINANZE

Official macroeconomic projections

(% change yoy)	2011	2012	2013	2014	2015
Real GDP	0.4	-2.4	-0.2	1.1	1.3
<i>Domestic demand net of inventories</i>	-0.5	-3.6	-0.6	0.7	1.0
<i>Inventories</i>	-0.5	-0.9	0.1	0.1	0.0
<i>Net export</i>	1.4	2.3	0.2	0.2	0.2
Nominal GDP	1.7	-1.0	1.2	3.0	3.2
GDP deflator	1.3	1.4	1.4	1.9	1.9
Labour cost	1.2	1.1	0.9	1.2	1.2
Productivity (on GDP)	0.3	-1.2	0.1	0.6	0.7
Unit labour cost (on GDP)	0.9	2.3	0.8	0.5	0.5
Employment (FTE)	0.1	-1.2	-0.3	0.4	0.6
Unemployment rate	8.4	10.8	11.4	11.3	10.9
Current account balance	-3.1	-1.4	-1.3	-1.1	-1.0

Source: Update of 2012 Economic and Financial Document, September 20, 2012.

Note: National account data for 2011 are coherent with the ISTAT release published on October 4, 2012.



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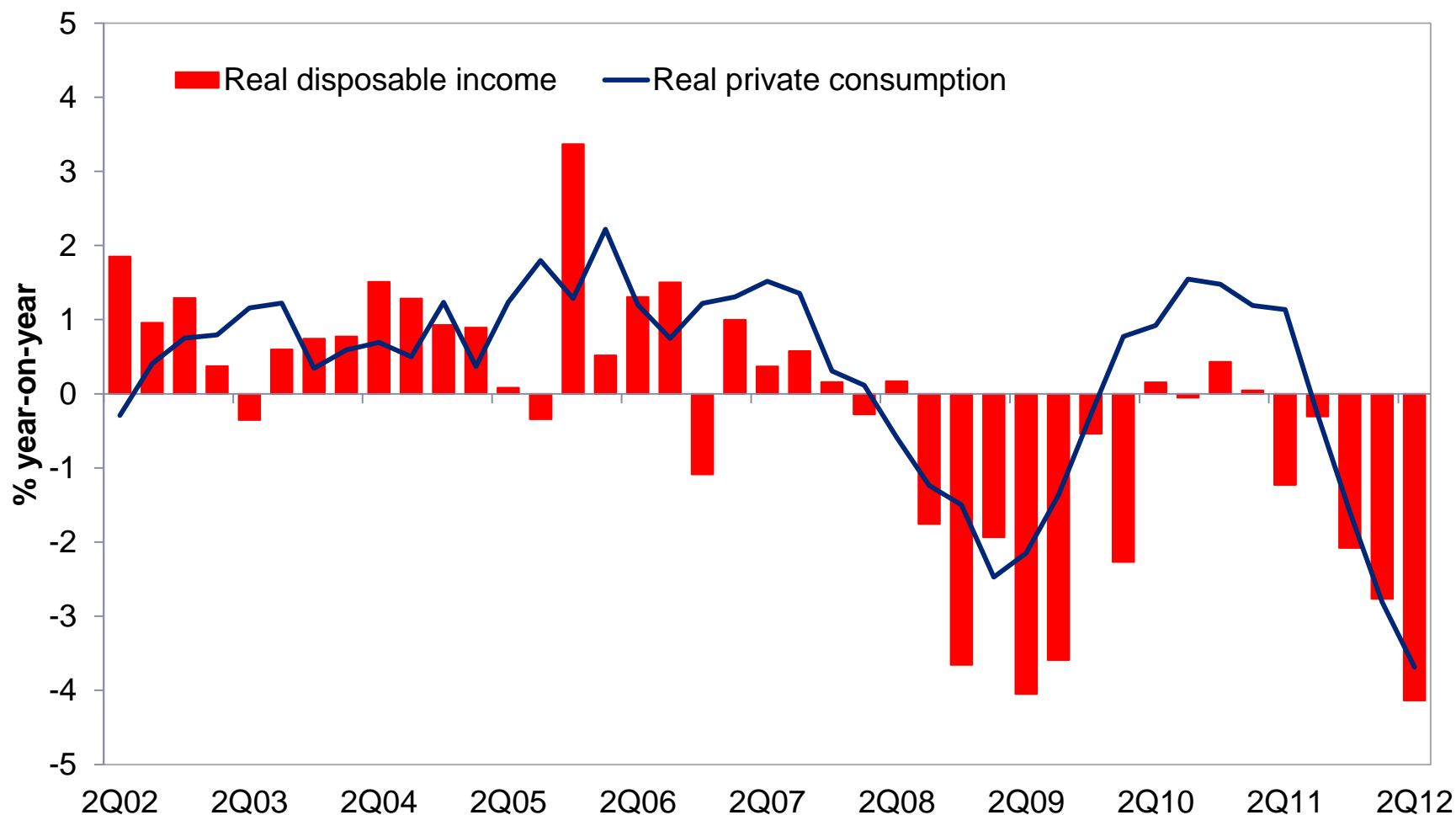
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Why has economic growth weakened so much?

- **Monetary and credit tightening** amid deep recession: credit growth contracting and interest rate spreads widening.
- **Massive fiscal consolidation in a single year**: 2.8pp fiscal correction in structural terms (it will be 0.9pp in 2013).
- Sharp decline in **business and consumer confidence**.
- Some weakening in global demand.
- However, no major structural imbalances (aside from high debt/GDP): **growth can rapidly go back to potential**.



Household income and consumption declined sharply



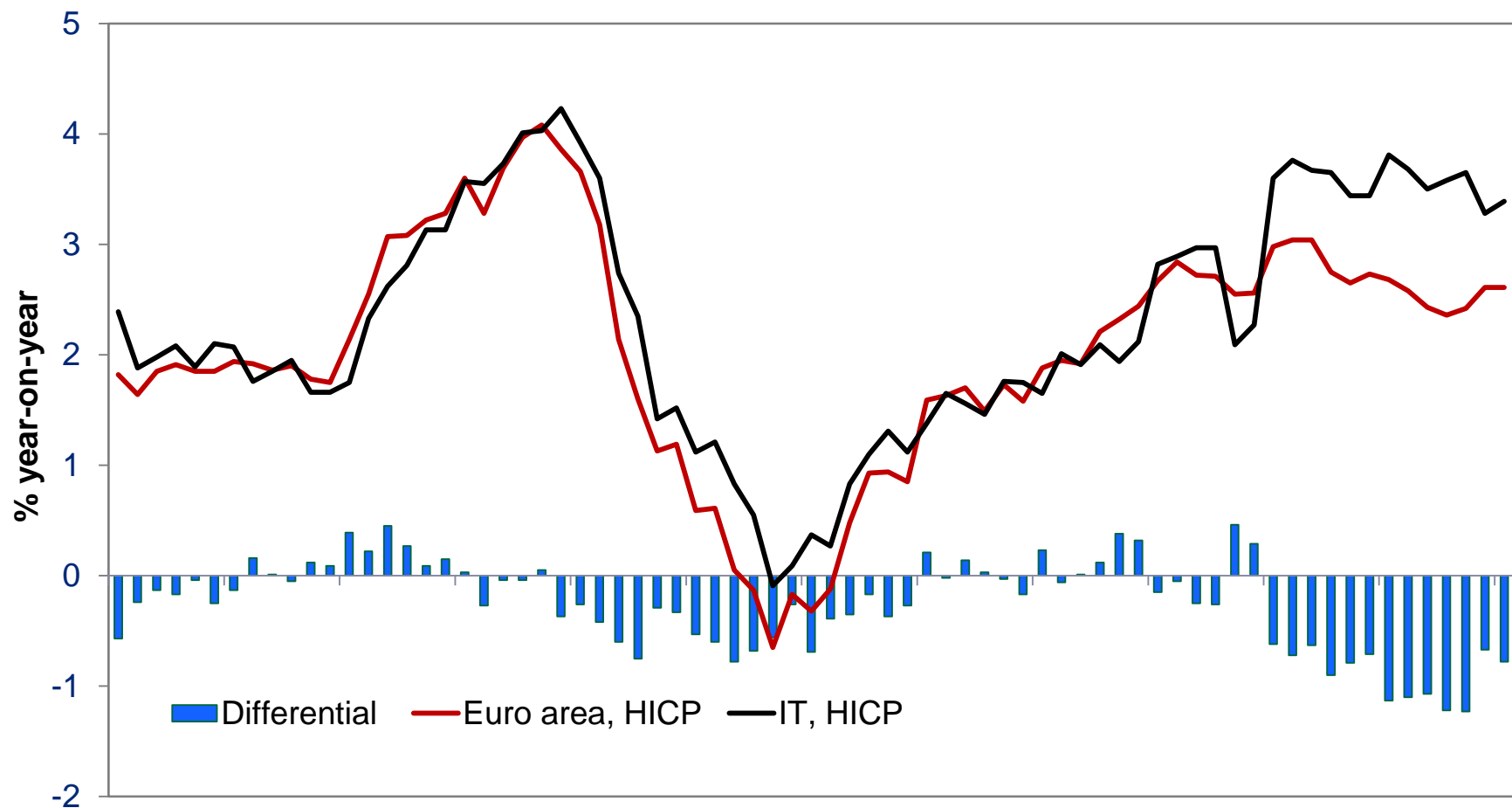
Source: ISTAT.



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Rise in energy and VAT-induced inflation eroded income



Sep-06 Mar-07 Sep-07 Mar-08 Sep-08 Mar-09 Sep-09 Mar-10 Sep-10 Mar-11 Sep-11 Mar-12 Sep-12

Source: Eurostat, Istat.

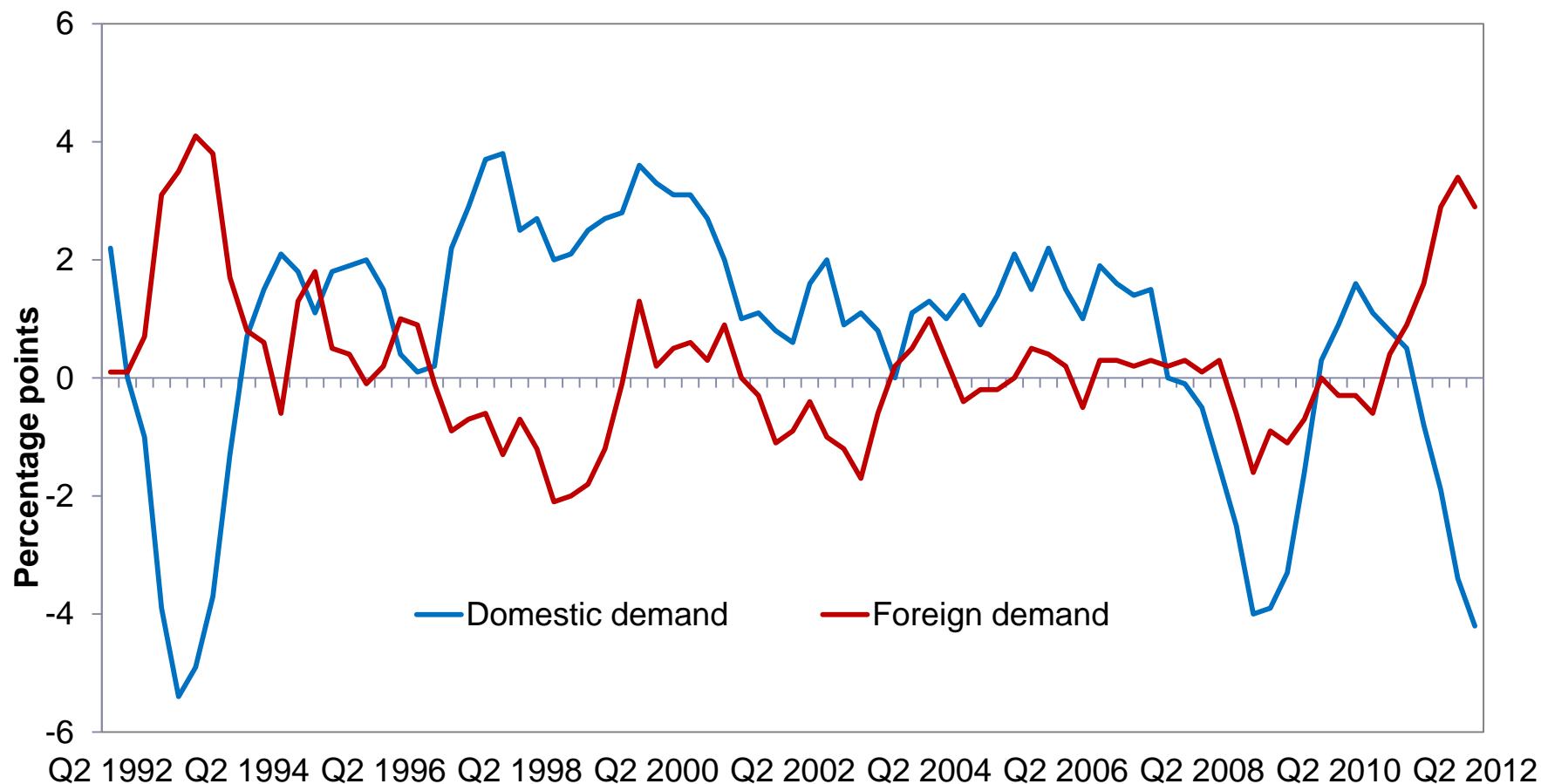


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Demand is deeply split



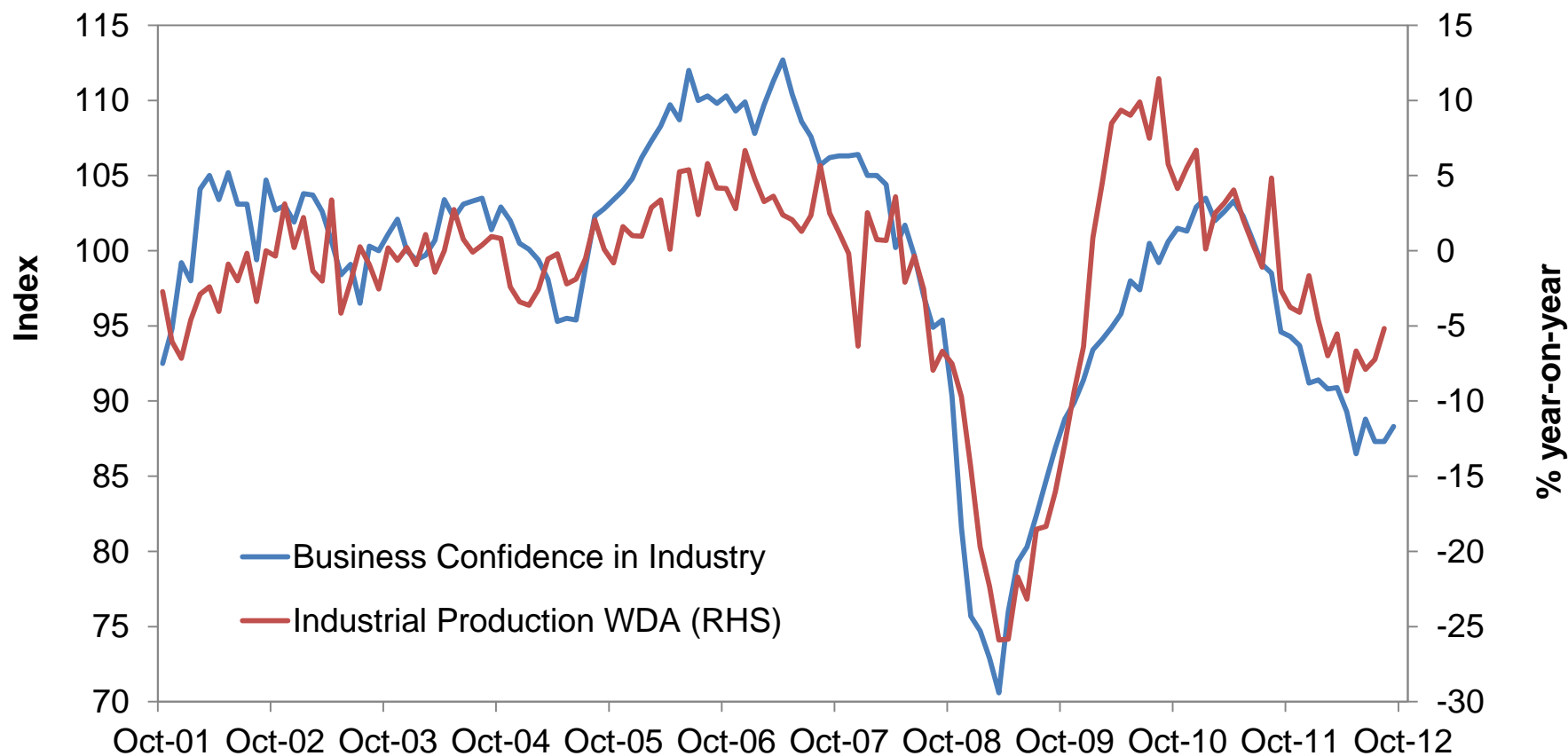
Source: ISTAT.



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Industrial production: stabilisation in sight?



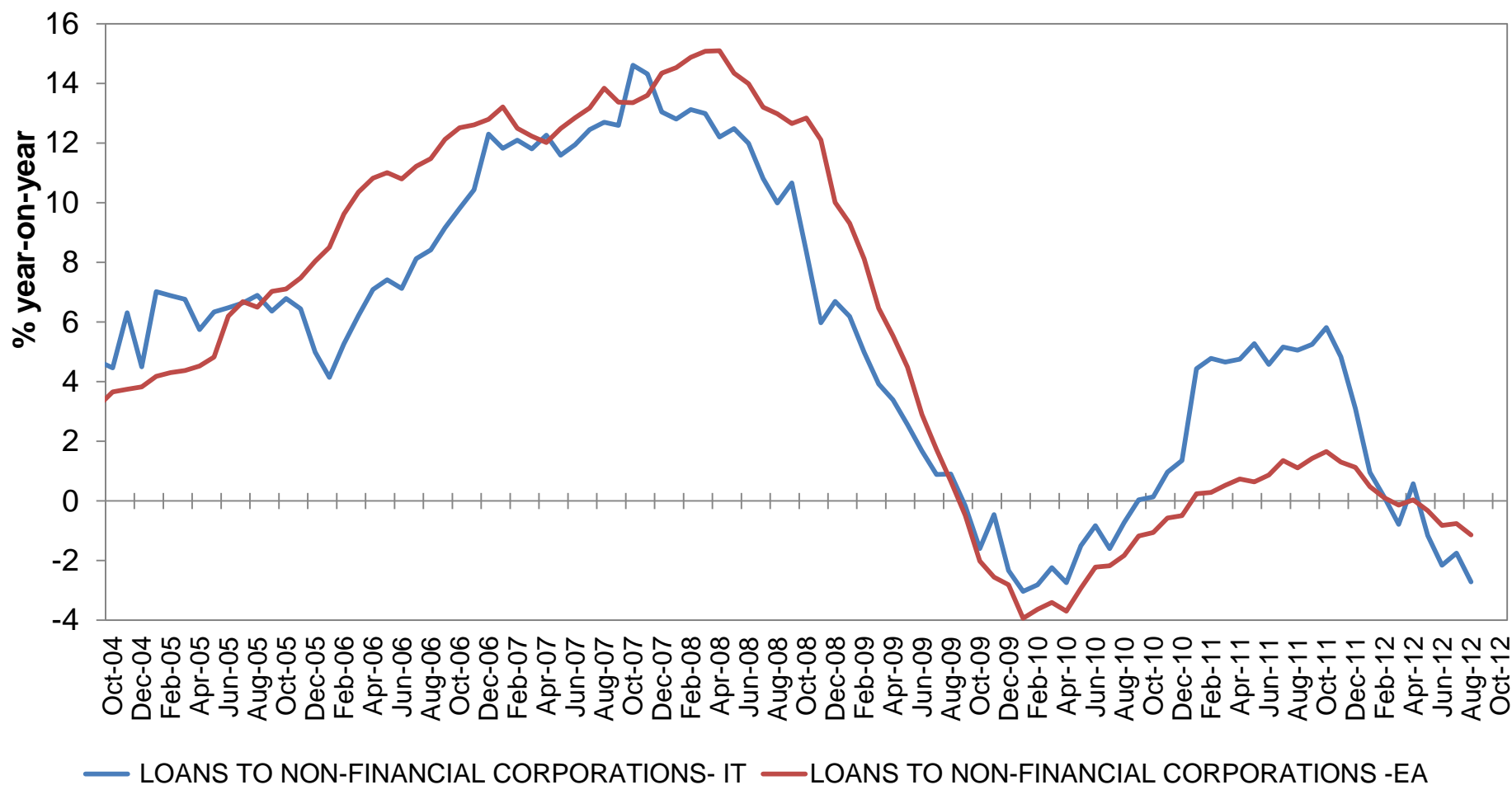
Source: Istat.



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Rapid slowdown in credit growth: will it now turn?



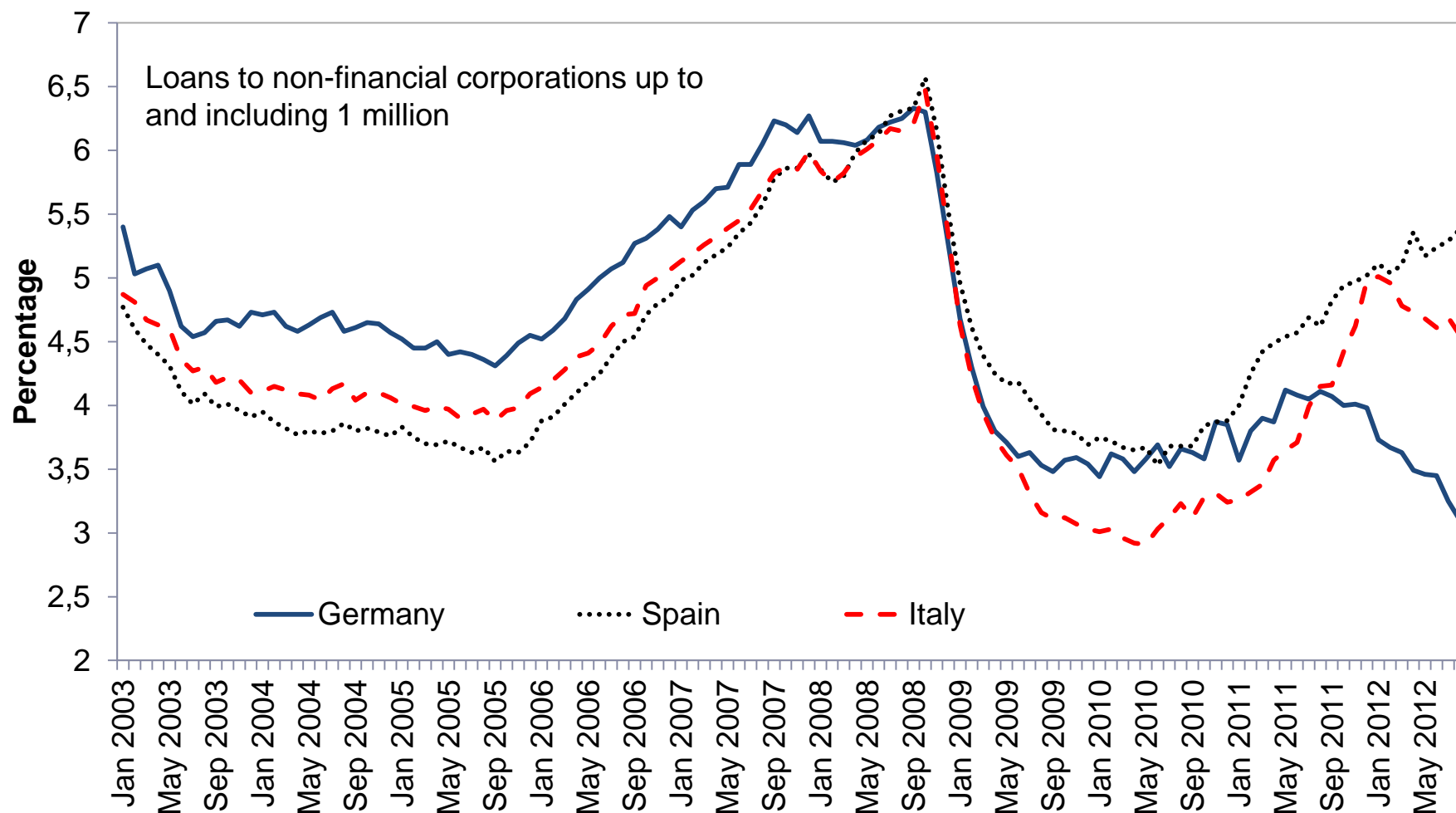
Source: Bank of Italy, ECB.

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Higher interest rates on loans: is it over?



Source: ECB.



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No major imbalances (apart from high public debt)

- **No major macroeconomic imbalances:** 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:** prudent fiscal policy; automatic stabilisers allowed to work.
- **Competitiveness issues** are contained; although high **public debt/GDP** is a major hurdle.



MACROECONOMIC IMBALANCES AND COMPETITIVENESS

No major macroeconomic imbalances in Italy

	EXTERNAL IMBALANCES					INTERNAL IMBALANCES					
	Current Account balance	International Investment Position	Real Exchange (REER)	Effective Rate Market Shares	ULC index	House Prices	Private sector Credit flow	Private sector debt	Public sector debt	Unemployment rate	
	3 year average		on HICP	% 5 year change	% 3 year change	y-y % change				Levels 3 year average	
	% GDP	% GDP	% GDP				% GDP	% GDP	% GDP		
	-4/+6%	-35%	+/-5 (EA); +/-11% (No EA)	-6%	+9 (EA); +12% (no EA)	6%	15%	160%	60%	10%	
BE	-0.4	57.6	1.3	-10.0	6.2	0.4	*	11.5	235.8	97.8	7.8
DE	5.9	35.8	-2.9	-7.6	5.9	-1.0	*	4.8	127.8	80.6	6.9
IE	-0.6	-97.6	-5.0	-12.0	-12.8	-10.5	*	-4.5	* 341.0	* 106.5	13.3
EL	-10.4	-79.5	3.9	-18.1	4.1	-6.8	*	-5.5	125.0	170.5	13.2
ES	-4.3	-92.5	0.6	-6.9	-2.1	-4.3	*	-4.0	215.9	69.1	19.9
FR	-1.6	-15.9	-1.4	-10.5	6.0	3.9	*	4.0	160.4	86.0	9.7
IT	-2.9	-20.6	-1.0	-17.7	4.4	-1.5	*	3.6	* 126.4	* 120.1	8.2
LU	7.1	85.1	1.9	-7.4	11.3	3.0	*	-41.8	* 254.0	* 18.3	4.9
NL	6.6	41.3	-1.0	-7.4	5.8	-2.9	*	0.7	224.6	65.2	4.2
AT	2.6	-3.4	-1.3	-11.5	5.9	-1.5	*	4.1	160.7	72.3	4.4
PT	-9.1	-102.7	-2.4	-8.7	0.9	0.1	*	-3.3	249.1	107.8	11.9
FI	0.7	16.2	0.3	-24.5	9.1	6.6	*	4.6	178.8	49.1	8.1
DK	5.1	24.5	0.9	-16.2	5.0	0.6	*	-2.2	237.6	46.6	7.0
SE	7.0	-7.0	-2.5	-10.6	1.2	6.3	*	6.3	232.2	38.3	8.1
UK	-2.2	-13.0	-19.7	-23.6	8.1	3.0	*	1.0	204.6	85.1	7.8

Source: MEF elaboration on Eurostat MIP database

(*) 2010 data; 2011 not available.

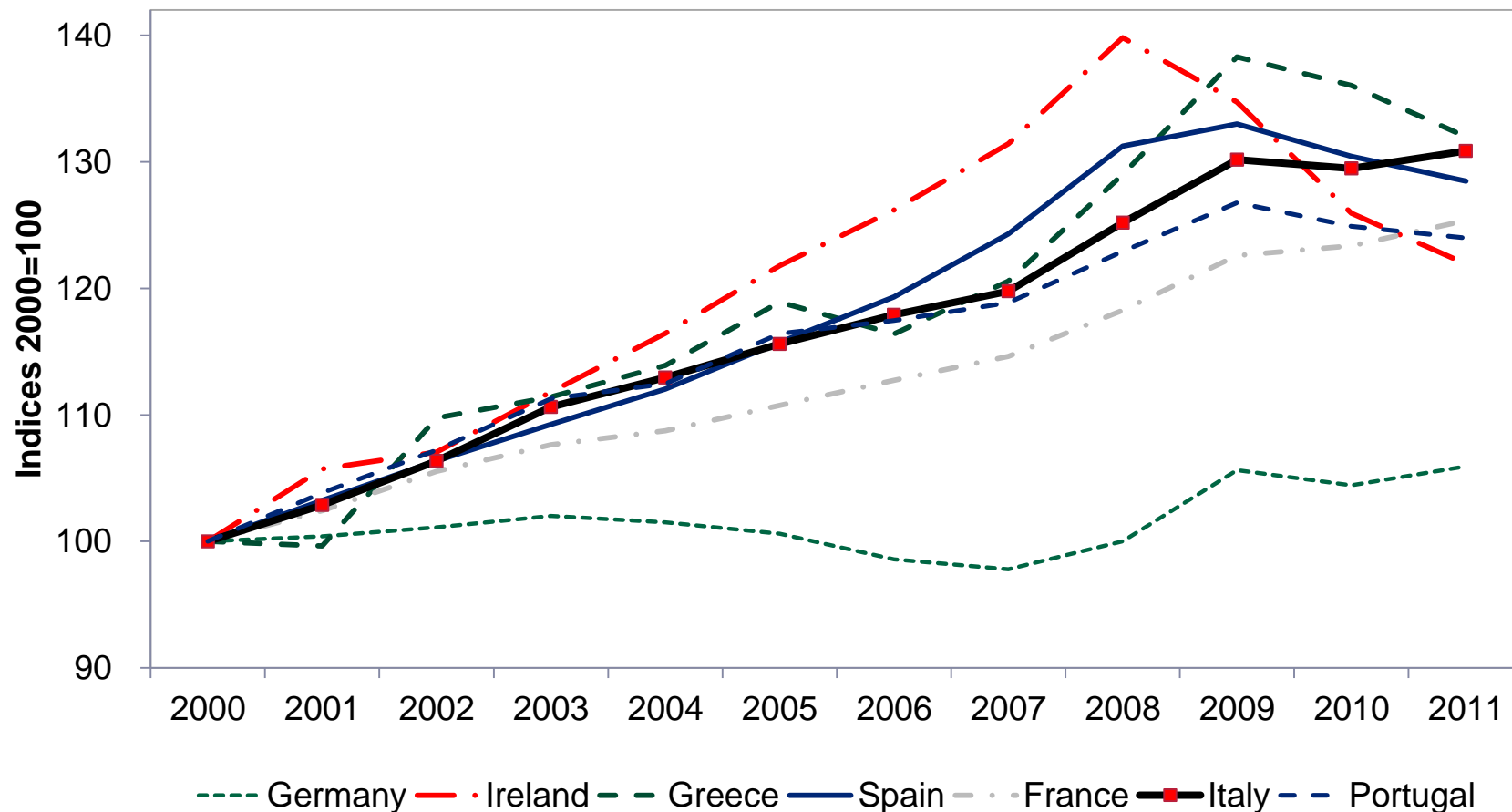
http://epp.eurostat.ec.europa.eu/portal/page/portal/excessive_imbalance_procedure/imbalance_scoreboard/main_tables.



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Is competitiveness deteriorating in line with ULC?



Source: Italian Ministry of Economy and Finance calculation on Eurostat data..



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Unit Labour costs: key Italian features versus EU partners

- Excessive growth in ULC: mainly due to **unfavourable developments in labour productivity**.
- **Limited downward adjustment in wages**: not enough to compensate for poor productivity growth and address unemployment challenges.
- Wage dynamics: (a) **changing composition** of employment, (b) **severance payments** included in labour costs, (c) **time lag** in renewing collective agreements.



MACROECONOMIC IMBALANCES AND COMPETITIVENESS

Modest deterioration in competitiveness over time

	EXTERNAL IMBALANCES					INTERNAL IMBALANCES				
	Current Account balance	International Investment Position	Real Effective Exchange Rate (REER)	Export Market Shares	ULC index	House Prices	Private sector Credit flow	Private sector debt	Public sector debt	Unemployment rate
	3 year average		on HICP	% 5 year change	% 3 year change	y-y % change				Levels 3 year average
	% GDP	% GDP	% GDP				% GDP	% GDP	% GDP	
	-4/+6%	-35%	+/-5 (EA); +/-11% (No EA)	-6%	+9 (EA); +12% (No EA)	6%	15%	160%	60%	10%
2000	0.8	-7.2	-2.2	-20.6	-0.2	n.a.	9.1	79.5	108.5	10.7
2001	0.4	-5.8	-5.9	-18.5	4.8	n.a.	8.1	84.0	108.2	10.0
2002	-0.1	-12.4	-5.6	-14.2	7.0	n.a.	6.1	86.7	105.1	9.2
2003	-0.3	-13.6	-2.1	-13.4	10.7	n.a.	7.1	90.8	103.9	8.6
2004	-0.5	-15.8	8.8	-7.4	9.8	n.a.	7.8	94.5	103.4	8.3
2005	-0.7	-16.8	9.8	-5.2	8.7	n.a.	10.0	101.0	105.4	8.1
2006	-0.9	-22.2	7.0	-12.5	6.5	2.7	10.7	107.5	106.1	7.5
2007	-1.2	-24.5	1.1	-9.3	6.1	0.1	12.2	114.9	103.1	6.9
2008	-1.9	-24.1	0.7	-16.3	8.3	2.5	6.9	119.3	105.7	6.5
2009	-2.0	-25.3	3.3	-17.9	10.5	-0.9	2.0	125.6	116.0	6.9
2010	-2.8	-24.0	3.9	-19.1	8.1	-1.5	3.6	126.4	118.6	7.6
2011	-2.9	-20.6	-1.0	-17.7	4.4	-1.5	* 3.6	* 126.4	* 120.1	8.2

Source: MEF elaboration on Eurostat MIP database

(*) 2010 data; 2011 not available.

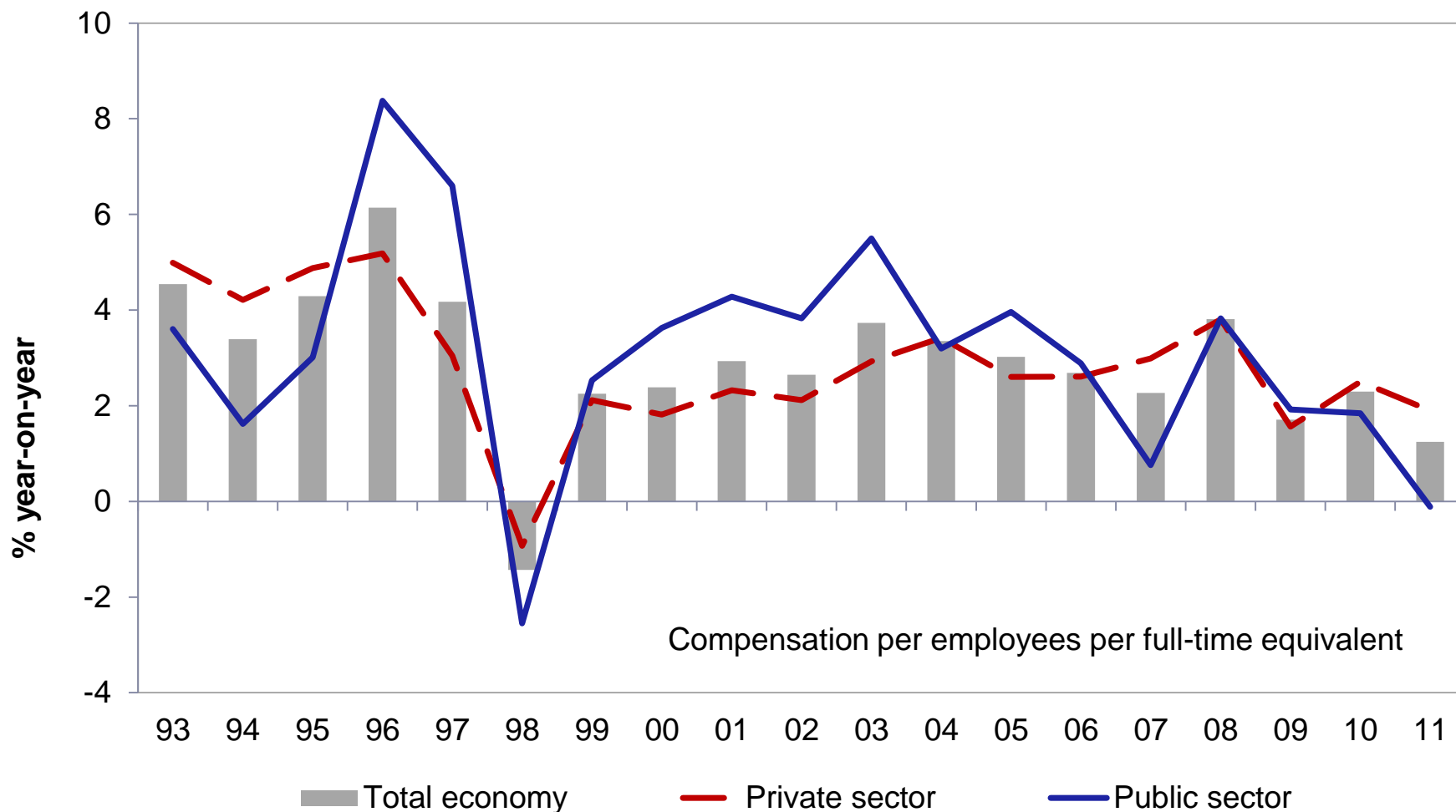
http://epp.eurostat.ec.europa.eu/portal/page/portal/excessive_imbalance_procedure/imbalance_scoreboard/main_tables – period 2000-2010.



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Private wage growth likely to ease further

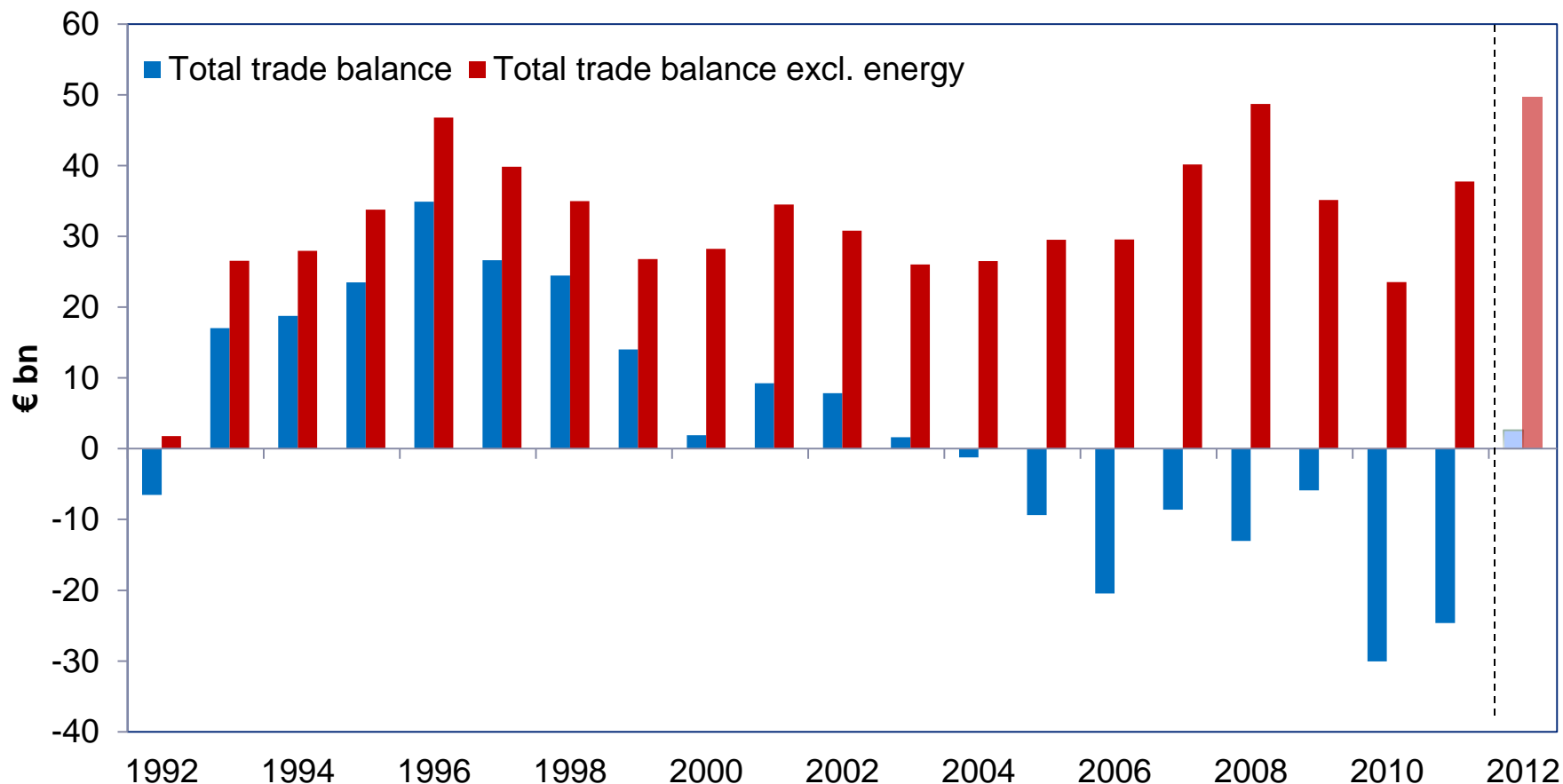


Source: ISTAT.
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MACROECONOMIC IMBALANCES AND COMPETITIVENESS

Bottom line: sharp improvement in Italy's trade balance



Source: ISTAT, MEF calculation on 2012 data.

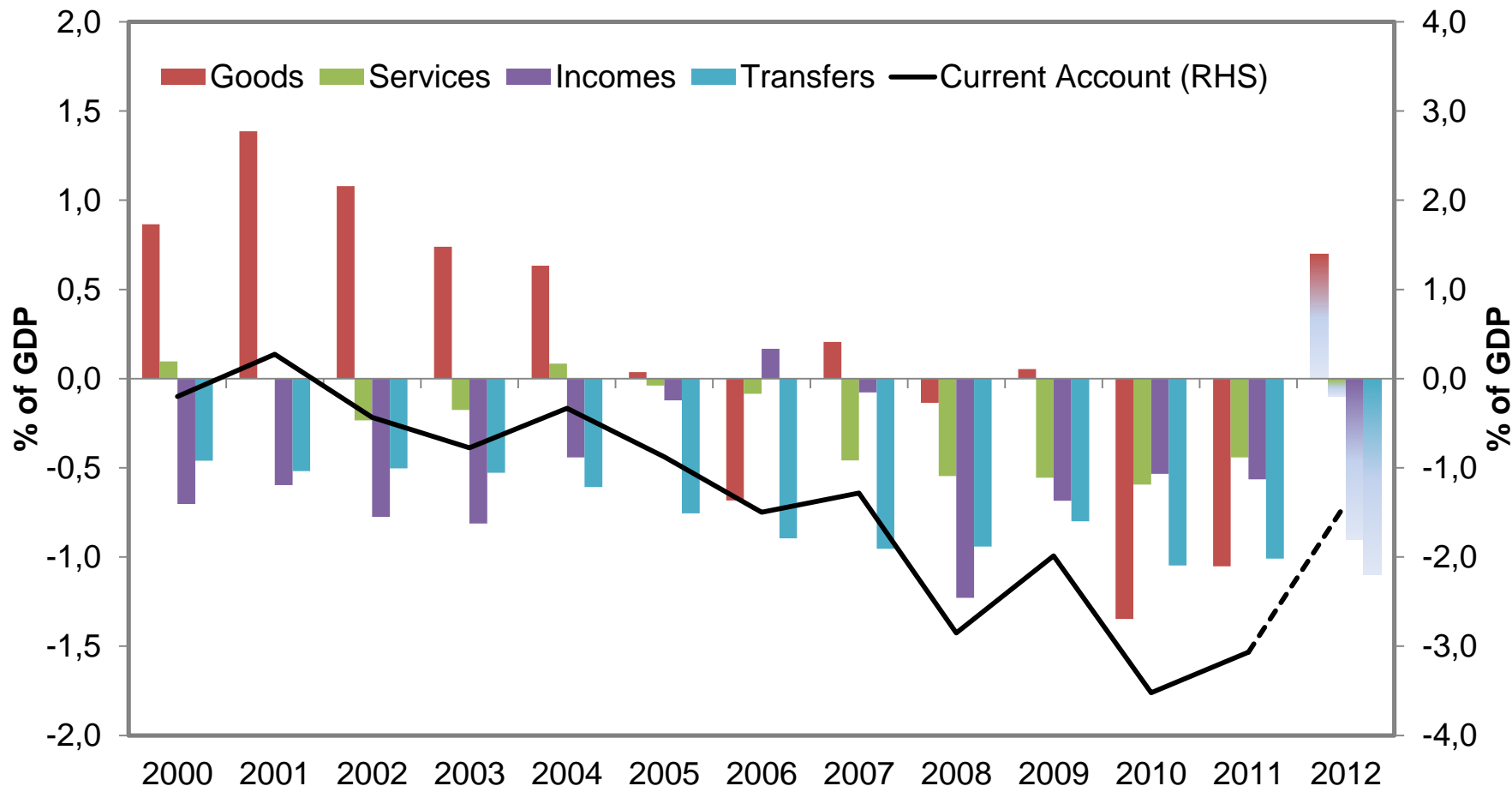
Note: Energy includes oil and natural gas. Total trade balance excl. energy refers to the period January-August 2012.



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Current account deficit: expected to narrow further in 2012



Source: Bank of Italy.

Note: 2012 data are estimates as reported in the Update of 2012 Economic and Financial Document, September 20, 2012.



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FISCAL CONSOLIDATION

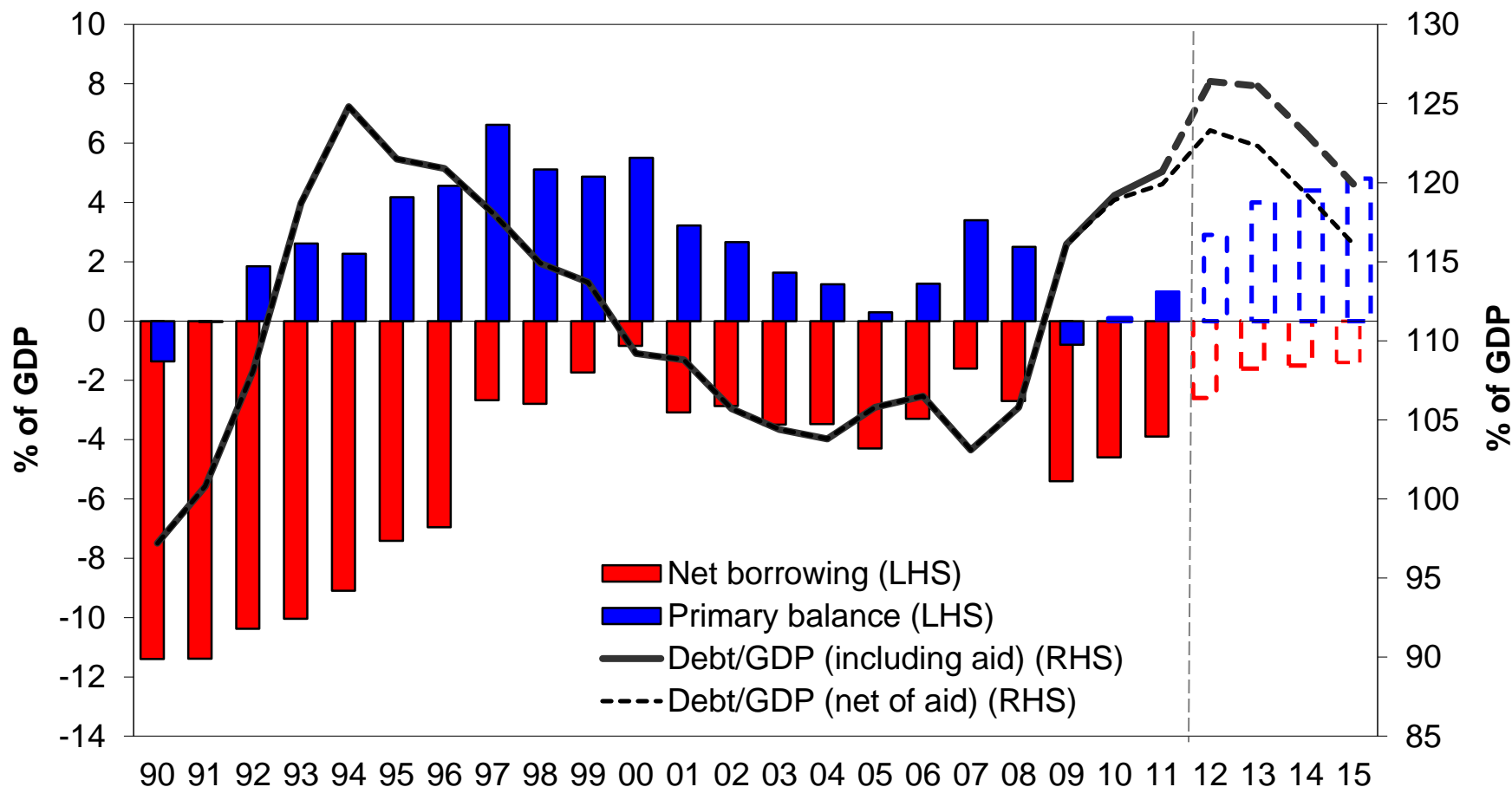
Key public finance projections

<i>% of GDP</i>	2010	2011	2012	2013	2014	2015
Net Borrowing Requirement	-4.6	-3.9	-2.6	-1.8	-1.5	-1.3
<i>Cyclically-adjusted NBR</i>	-3.6	-3.6	-0.9	0.0	-0.2	-0.4
<i>Change in Cyclically-adjusted NBR</i>	-0.4	0.0	-2.8	-0.9	0.3	0.2
Primary Balance	0.1	1.0	2.9	3.8	4.4	4.8
Public Debt	119.2	120.7	126.4	126.1	123.1	119.9
Public Debt (net support to Euro Zone)	118.9	119.9	123.3	122.3	119.3	116.1

Source: Update of 2012 Economic and Financial Document, September 20, 2012.

FISCAL CONSOLIDATION

Primary surplus close to 5% of GDP in 2015



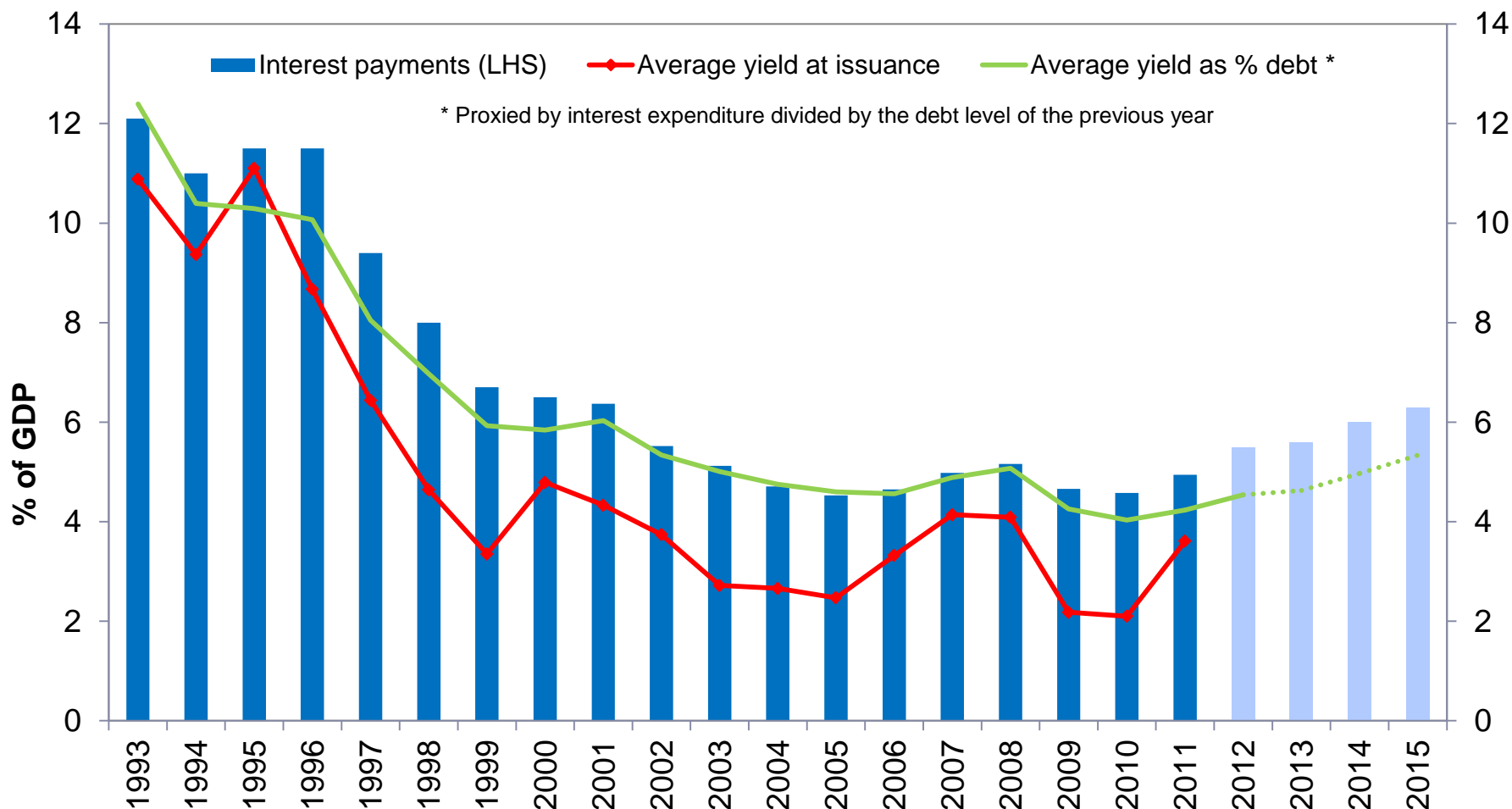
Source: Update of 2012 Economic and Financial Document, September 20, 2012



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Moderate increase in interest payments (forward rates)



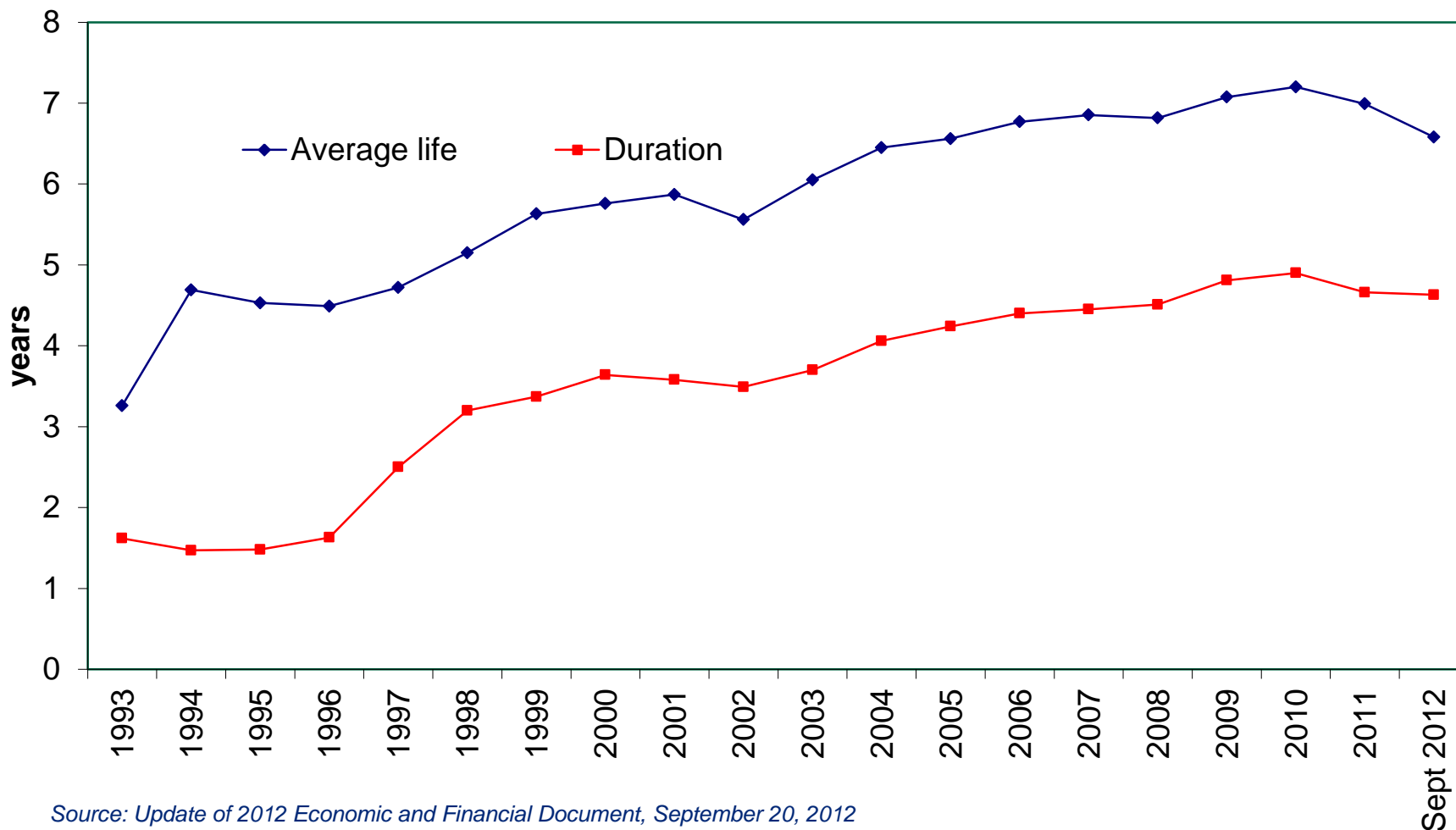
Source: Ministry of Economy and Finance. Figures for interest payments in 2012-2015 are official estimates (Update 2012 DEF).



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Lengthened maturity of public debt reduces risks



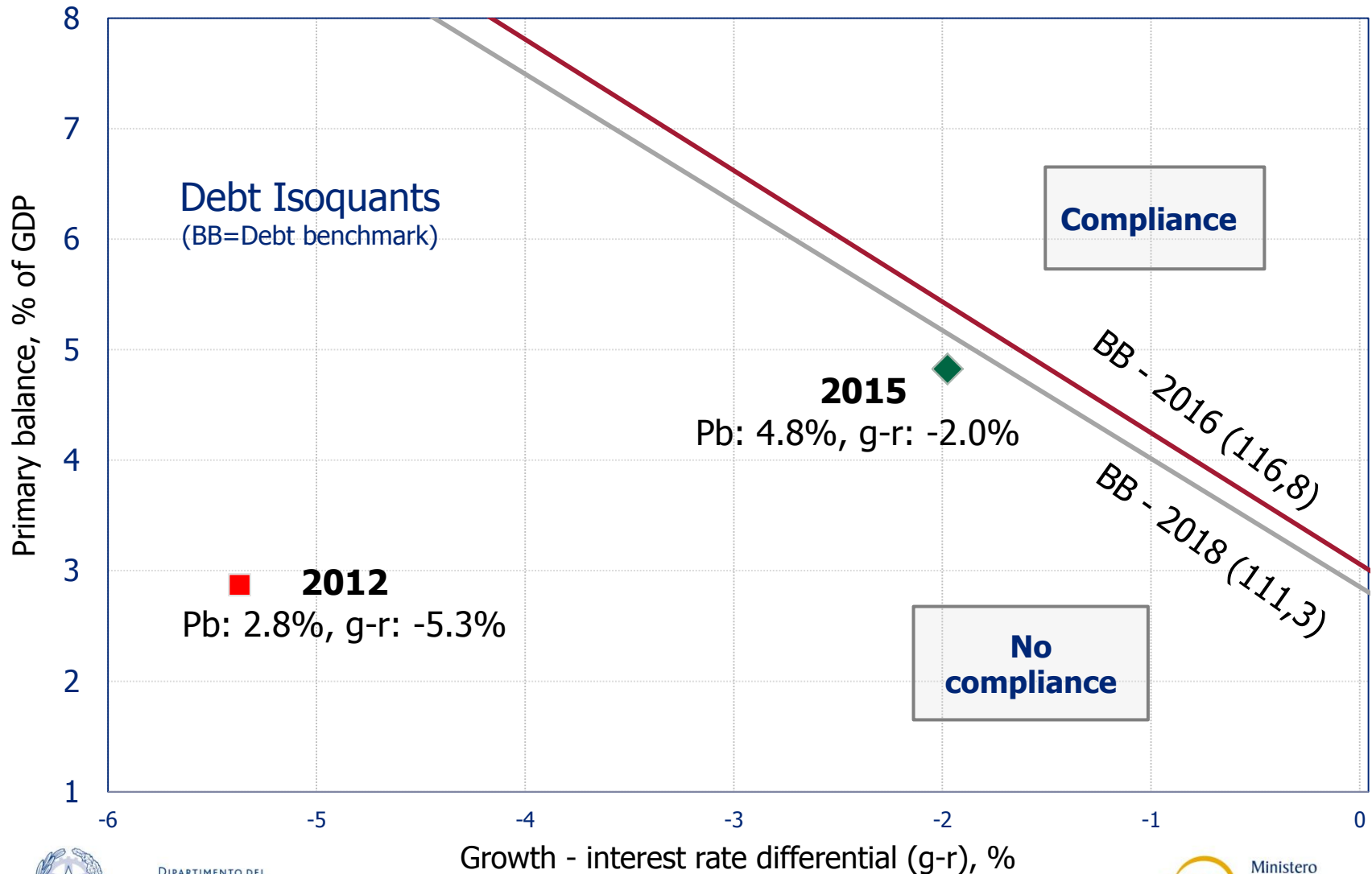
Source: Update of 2012 Economic and Financial Document, September 20, 2012



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Compliance with EU debt rule: not far away



Potential to reduce the stock of public debt

- Proceeds from sale to CDP of **Fintecna, SACE, SIMEST** shares expected by year-end (about €10bn).
- Real estate assets will be transferred from central and local government to a **real estate fund**, which has a mandate to create value and/or dismiss assets.
- The Government expects proceeds from dismissals to reduce public debt by at least **1pp of GDP** per year. This goal needs strong cooperation with local government.



Rebalancing revenues/expenditure to favour growth

- **Balanced budget in structural terms confirmed.**
- **Freeing up resources** of about €10.2bn in 2013, €10.1bn in 2014 and 9.4bn in 2015 respectively;
- **Use of resources** for about €13.1bn in 2013, €10.1bn in 2014 and €9.3bn in 2015 (revenues/expenditure difference already included in official projections).



Freeing up of resources

- The increase in VAT rates is **halved to 1pp** to avoid further negative impact on domestic demand.
- €3,000 cap on tax allowances and a €250 excess.
- **Cut in the first two personal income tax brackets:** from 23% to 22% (up to €15,000); from 27% to 26% (between €15,001 and €28,000).
- Small tax on financial transactions (0.05%).



Continuing effort on the spending side

- Cut of €0.6bn in **NHS spending** for goods and services and medical devices starting from January 2013.
- **Further cuts** due to come from regions and local governments in 2013-2015 (€2.2bn per year).
- **Social expenditure cuts** of about €0.3bn per year.



Key measures to support growth

- Extension to 2013-2014 of **incentives to increase productivity** (wage increases linked to productivity detaxed up €1.6bn).
- Further funding to cover temporary effects of the recent pension reform ('esodati').
- **Resources to fund infrastructure projects:** additional financing of the High Speed Train line connecting Lyon to Turin and the 'MOSE', the dam system for Venice.



Constitutional reforms

- **Balanced budget rule included in the Constitution:** it will enter into force in FY 2014. Secondary legislation to be introduced by February 2013.
- **Independent authority** for monitoring fiscal trends and compliance with fiscal rules to be established by 2013.
- **Amendment to Section V of the Constitutional Law** to bring local finances firmly and permanently under Central Government control.



Tax Draft delegation law

- Reform of **cadastral rents**: adequacy between official and actual real estate values.
- Fight against tax **elusion and avoidance**: reshuffling of tax expenditures for small businesses and low income tax payers.
- **Tax framework for enterprises**: redefinition of the IRAP tax base and a single payment of IRAP, IRES and IVA for small firms.
- **Sanctions proportional to gravity of violation**: more room for judicial settlement procedures and reorganisation of tax collection procedures.



Reduction in the cost of doing politics

- Reduced financing of **political parties** as well as appointees at regional level; reduction in the number of regional counsellors.
- Increased **financial controls and sanctions for Regions** that do not respect the rules (80% cut of central Government financing, excluding health care and transport funding).
- **Greater transparency** in balance sheets of local political groups and regional politicians' income and personal wealth. Stricter criteria regarding politicians' compensation and pension.
- Plan to achieve a balance budget within 5 years in case of excessive deficit by provinces and municipalities.



Key achievements of the pension reform

- **Enhances the medium and long-term sustainability** of Italy's pension system.
- **Guarantees fairness** across and intra generations.
- **Increases the minimum retirement age and contribution period required** to be entitled to pension benefits.
- Links retirement age and contributory periods to **changes in life expectancy**.
- **Improves transparency** by merging entities providing pensions (INPDAP and ENPALS into INPS).



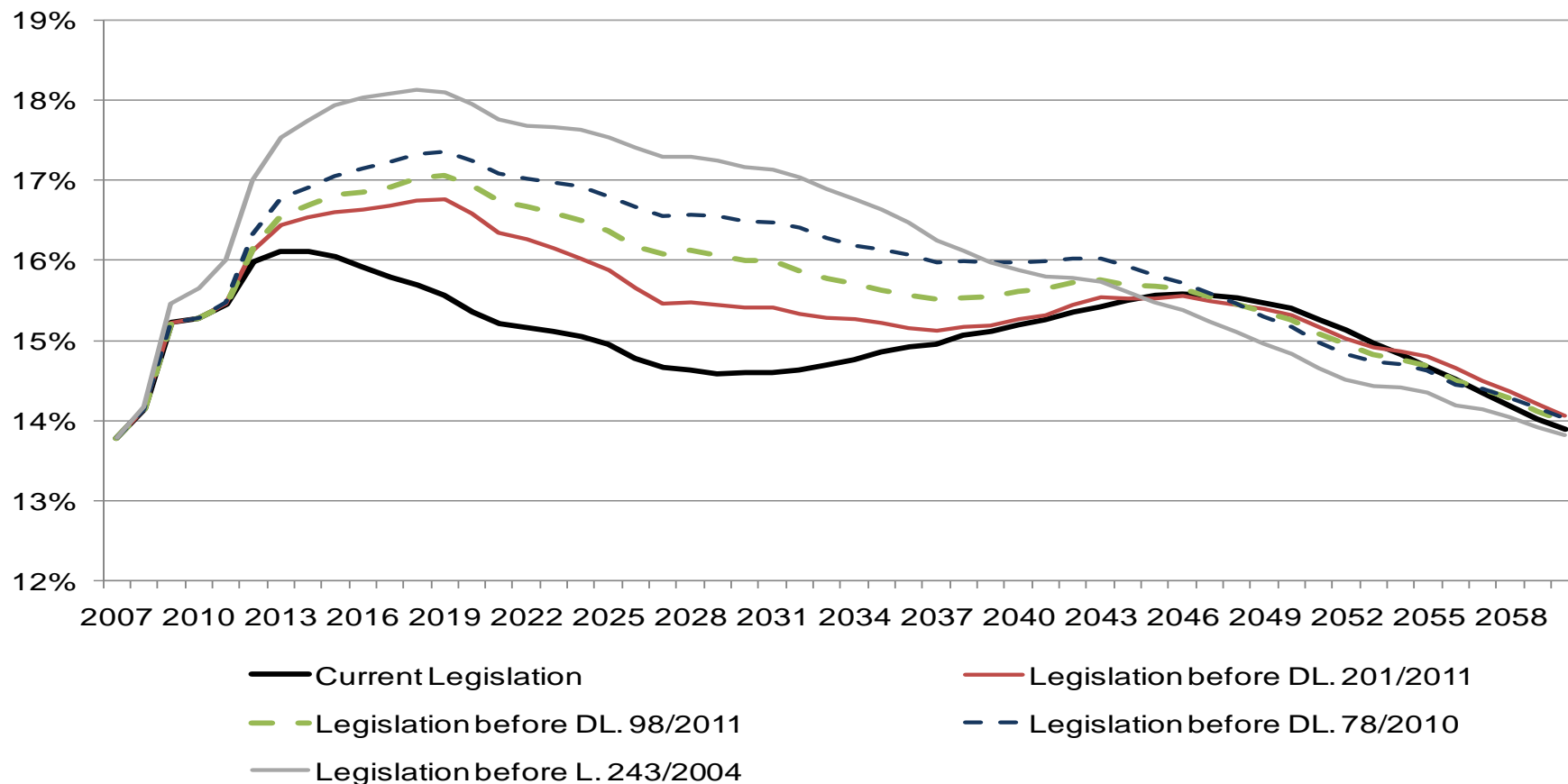
Major structural savings

- About **€7.6bn** total cumulative savings (net of taxation) in 2014, increasing to almost **€22bn** in 2020.
- In 2012-13, **indexation freeze** of pension benefits higher than 3 times the minimum provision (**€3.1bn** savings in 2014).
- Overall revision of the **pension system**, including early retirement schemes (**€2.9bn** in 2014, up to **€15.7bn** in 2020).
- **Higher social contribution rates** for farmers and self-employed from 20% to 24% in 2018 (**€1.5bn** in 2014, up to **€3.2bn** in 2020).



PENSION REFORM

Sizeable effect on pension spending as % of GDP



Source: Update of 2012 Economic and Financial Document, September 20, 2012. Demographic projections from Istat, central demographic scenario 2012.



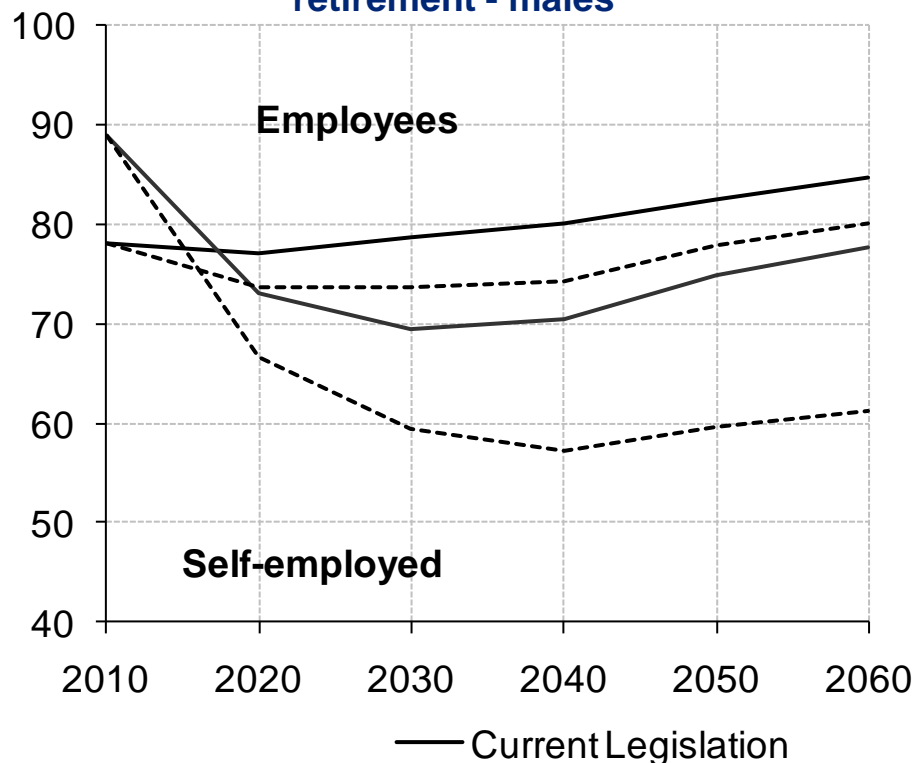
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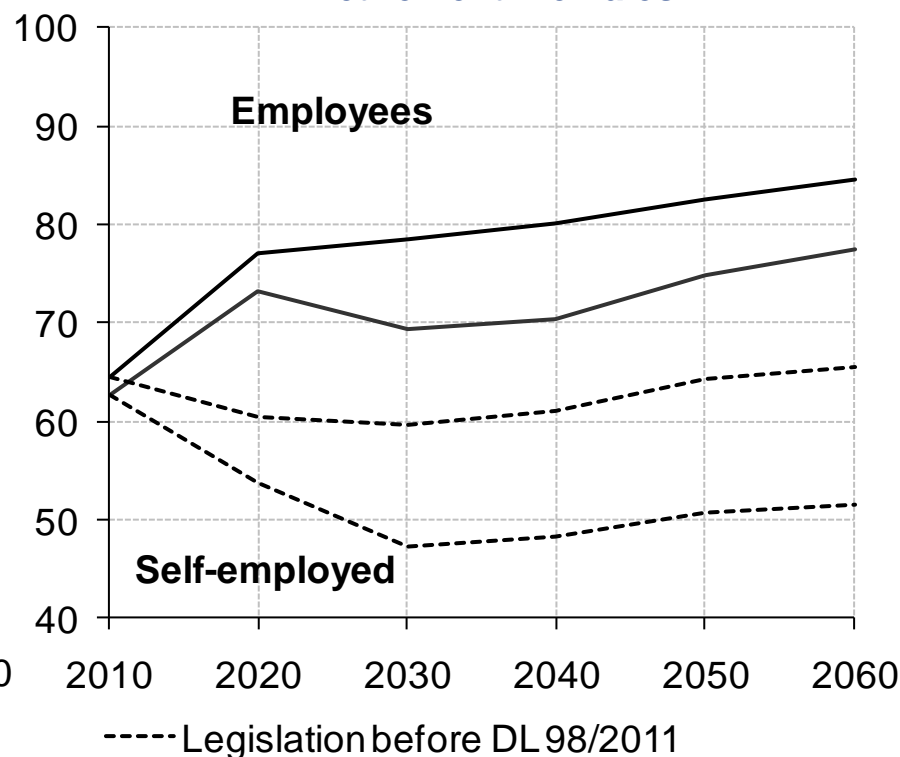
PENSION REFORM

Social adequacy is assured

Net replacement rate for old age retirement - males*



Net replacement rate for old age retirement - females*



Source: "Medium-long term trends for pension, health and long-term care", Report no.13, 2012, State Accounting Office.
 (*) Net replacement rates are net of tax and contributions. Assumption on minimum pension requirement: age/contributory years proportional to age of entry in the labour market. For further information please refer to Box 6.1 in "Medium-long term trends for pension, health and long-term care", Report no.13, 2012, State Accounting Office.



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Towards a leaner and more efficient public administration

- In July, the Government adopted a DL with savings estimated at **€4.6bn** in 2012, **€10.8bn** in 2013, **€11.6bn** in 2014 and **€12.1bn** in 2015.
- Public procurement will be managed by Consip or regional centralised-purchasing agencies only.
- Number of **civil servants** will decrease by 10% (20% at managerial level).
- **Rents** paid by the Public Administration are frozen until end-2014 and are to be renegotiated with a 15% discount.



Rule of law strengthened

- **Ban from public office** for people convicted in final judgment or subjected to judicial measures.
- **Revision of norms against corruption** and introduction of two new legal offenses to contrast acts of preferential treatment by public officials.
- **Increase in penalties** for managers or other corporate stakeholders for doing or omitting acts in contrast with their obligations or loyal duties entailing damages to their company.
- **More severe penalties**, especially in cases of judicial corruption.



Rule of law: stricter procedures and more control

- The Commission for the evaluation, transparency and integrity of the Public Administration (**CIVIT**) becomes the **National Anti-Corruption Authority**.
- Creation of a **National Anti-Corruption Plan** and ***Anti-mafia'* list** for businesses to prevent and fight corruption at national and international level.
- **Incompatibility of public employment** with external assignment ; **code of conduct for public employees**.
- Stricter individuation **eligibility** criteria for public positions at central, regional and local level.



FIGHT AGAINST TAX EVASION

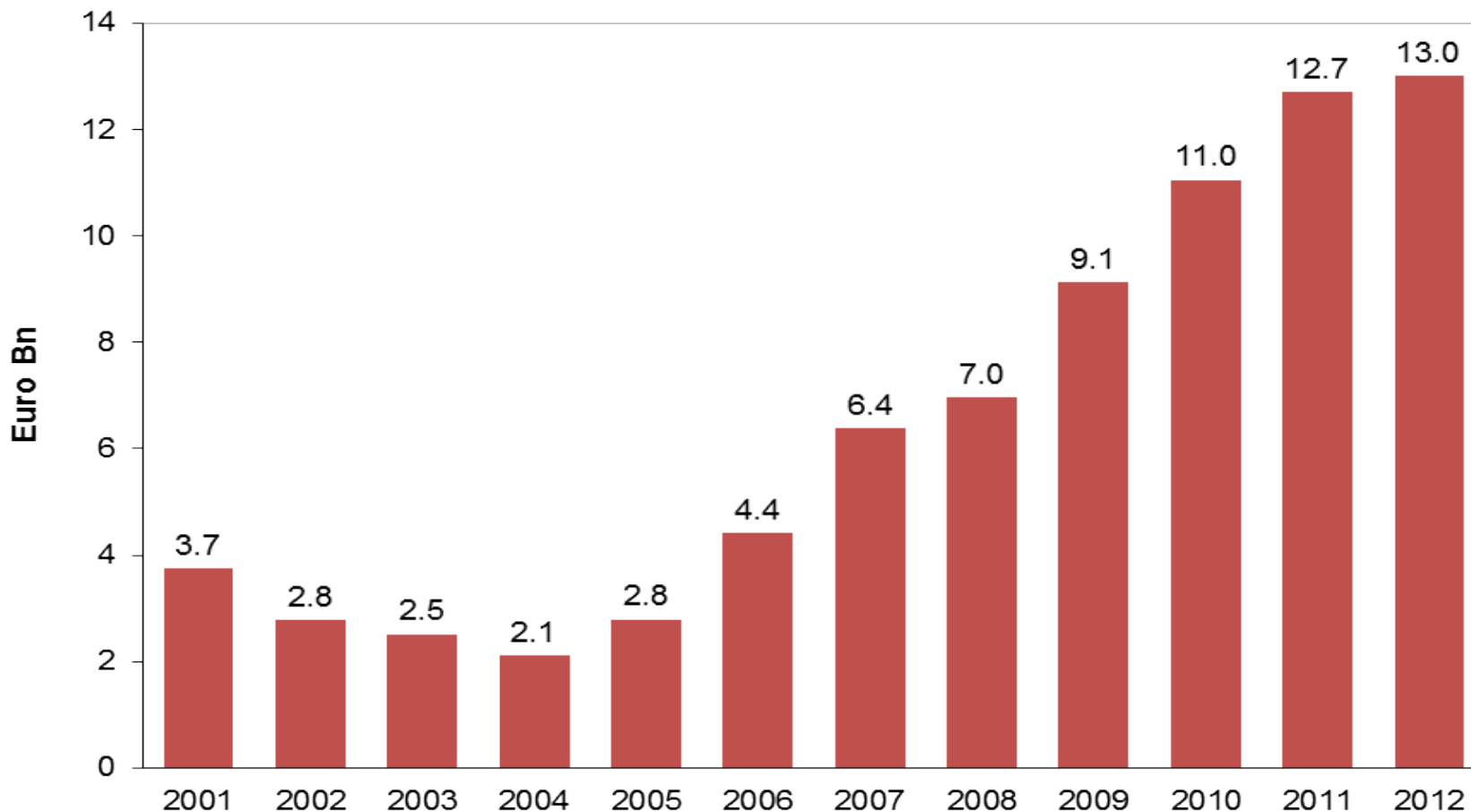
An aggressive stance to reduce evasion

- The legal threshold for **cash payments** is lowered to € 1000.
- **Softer regimes for controls** will apply to tax payers who are compliant with so-called sectoral studies.
- **Cheating** on the Revenue Agency is now a criminal offence.
- Focus on **large tax payers** and **VAT frauds**.
- Synergies with the **Social Security Institute (INPS)** in order to crack down on undeclared economic activity.



FIGHT AGAINST TAX EVASION

Increasing success in the fight against tax evasion



Source: Ministry of Economy and Finance - Revenue Agency.

Note: 2012 data are provisional.



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Greater consumer protection

- Liberalisation of **opening hours** for retailers.
- **Higher competition** and **strengthening of consumer protection** in the financial sector. Strengthening of Antitrust Authority. Vigilance powers in water and postal sectors given to Energy and Communication Authorities respectively.
- Protection from deceptive and aggressive trade practices extended to **businesses with less than 10 employees**.



Lighter administrative burden

- Reduction in the **administrative burden** for firms: elimination of ex-ante controls, limits, permits, licenses for start-ups. Substantial simplification for SMEs.
- Possibility of setting up a limited liability company with **reduced capital stock** and a **simplified framework** for people under 35.

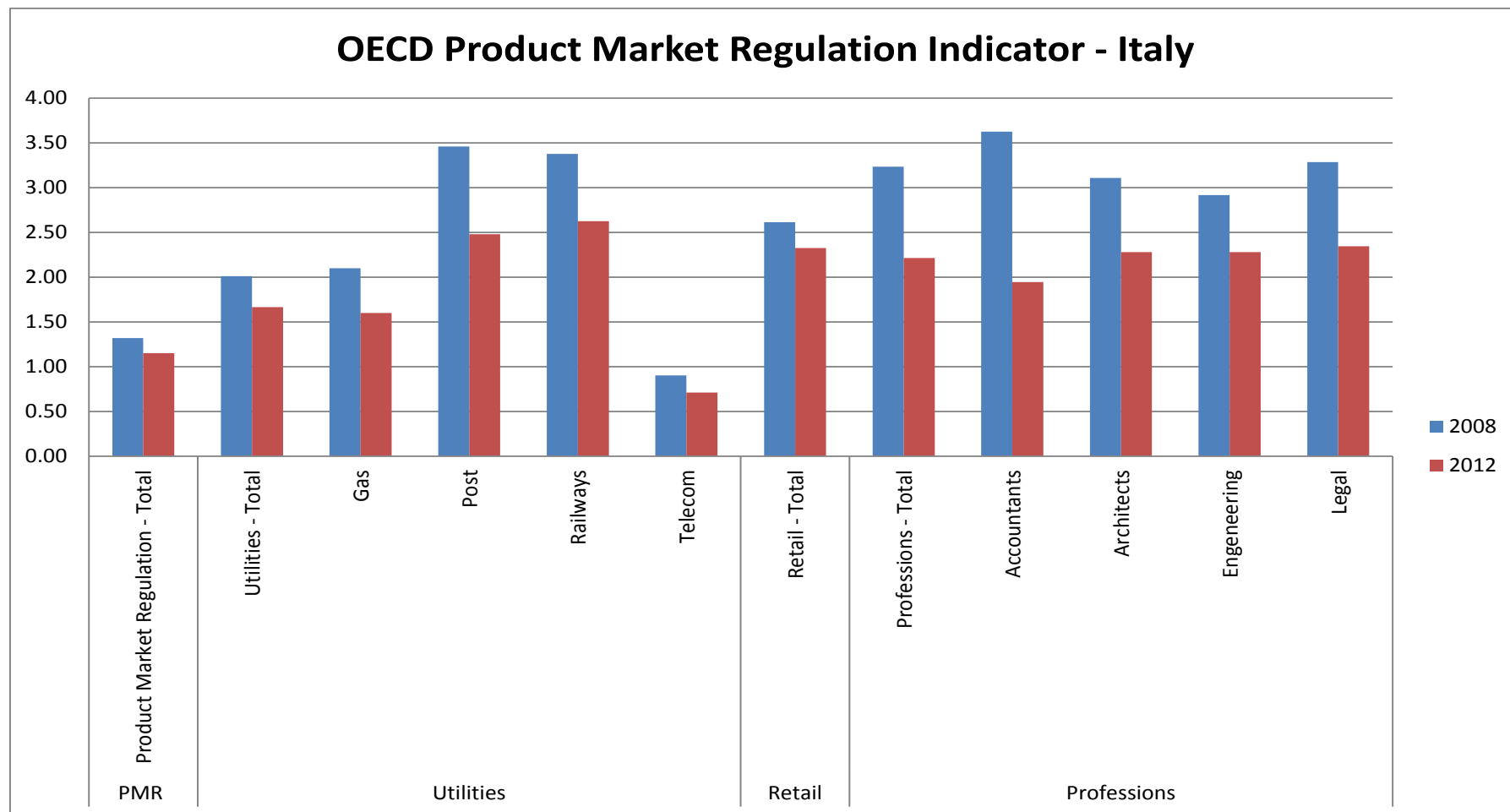


Enhanced competition

- **Local public services:** strengthened role of the Antitrust Authority for local public services.
- **Gas and electricity sector:** gradual delinking of prices from the oil market and unbundling of the gas network.
- **Transport sector:** strengthened competition; liberalisation of **fuel and non-oil distribution** in petrol stations.
- **Professional services:** abolition of minimum fees, easier access to professions with reduction of compulsory traineeship, increase in the number of pharmacies and notaries.



Reforms by sectors



Growth Decree 2.0: the Digital Agenda

- **Digital Agenda** for the development of digital services for citizens especially in sectors of education and health care.
- Mandatory transmission of documents in electronic form within the Public Administration (PA) and between the PA and private citizens (also for civil justice).
- Enhanced powers of the **Agency for Digital Italy** to promote major strategic projects. The Agency will prepare the **National Plan for Smart cities** on annual basis.
- Research projects and innovation linked to strategic issues in line with European '**Horizon 2020**'.



Growth Decree 2.0: innovative start-ups

- **Innovative start-ups** must invest at least 30% in R&D, researchers must constitute no less than 1/3 of total employees, or hold a patent.
- **Tax deductions** for investors (private and institutional) in innovative start-ups.
- Start-ups can hire workers with a fixed-term contract for a period between 6 months and 3 years, renewable several times.
- Start-ups operating in Italy can use for free the services provided by **'ICE'** and **'Desk Italia'**.



Towards more efficient public expenditure

- Introduction of 24 hour **primary healthcare support units** digitally connected with hospitals and other health structures.
- Doctors employed in public hospitals can pursue **private professional activity** only if digitally connected to NHS administrative units. The connection is also used to record payments.
- **Obsolete drugs** will be eliminated from the official NHS list and unnecessary medical examinations reduced.



Making bankruptcy procedure easier

- **Bankruptcy procedure:** adaptation of existing procedures to a system similar to “Chapter 11” in the US. Increasing protection of the entrepreneur under strains (*‘concordato preventivo’*); payment of creditors due for the entire amount and before other creditors; maturity of credits, covered with collateral on assets, can be extended by one year.
- **Trial length:** trials can last no more than 6 years, of which 3 in the first stage, 2 in Appeal Court and 1 in Supreme Court. Every additional year triggers a compensation between €500 and €1,500.



A more dynamic and inclusive labour market

- **More (regulated) flexibility on the hiring side**, discouraging the abuse of temporary contracts and making open-ended work contracts more appealing to companies.
- **More flexibility on the firing side**, facilitating more efficient allocation of workers among sectors.
- **More comprehensive unemployment benefits (ASPI).**
- **More efficient active labour market policies** improving services and incentives to work.
- **Earlier start of maternity leave.**



Access to the labour market: apprenticeships

- **Apprenticeship becomes** the preferential channel for young people (up to 29 years old) to enter the labour market.
- Employers benefit from **fiscal incentives for a 3-year** period. In order to hire new apprentices, at least 30% of apprenticeship contracts signed over the previous 3 years must have been transformed into open-ended ones.



A brand new safety net: ASPI

- **Eligibility:** all workers with ≥ 2 -year social security contributions and 52 working weeks over the past 2 years.
- **Duration** (effective Jan 2016): 12 months for workers younger than 55 and 18 months for those ≥ 55 .
- **Amount:** replacement rate is 75% of gross earnings up to €1,180 (annually increased with CPI) +25% on the remaining income up to a cap; 15% reduction after six and twelve months.
- **Funding:** ASPI is partly funded by the State budget and partly through increased contributions paid by employers, which can be reimbursed in case of workers are hired.



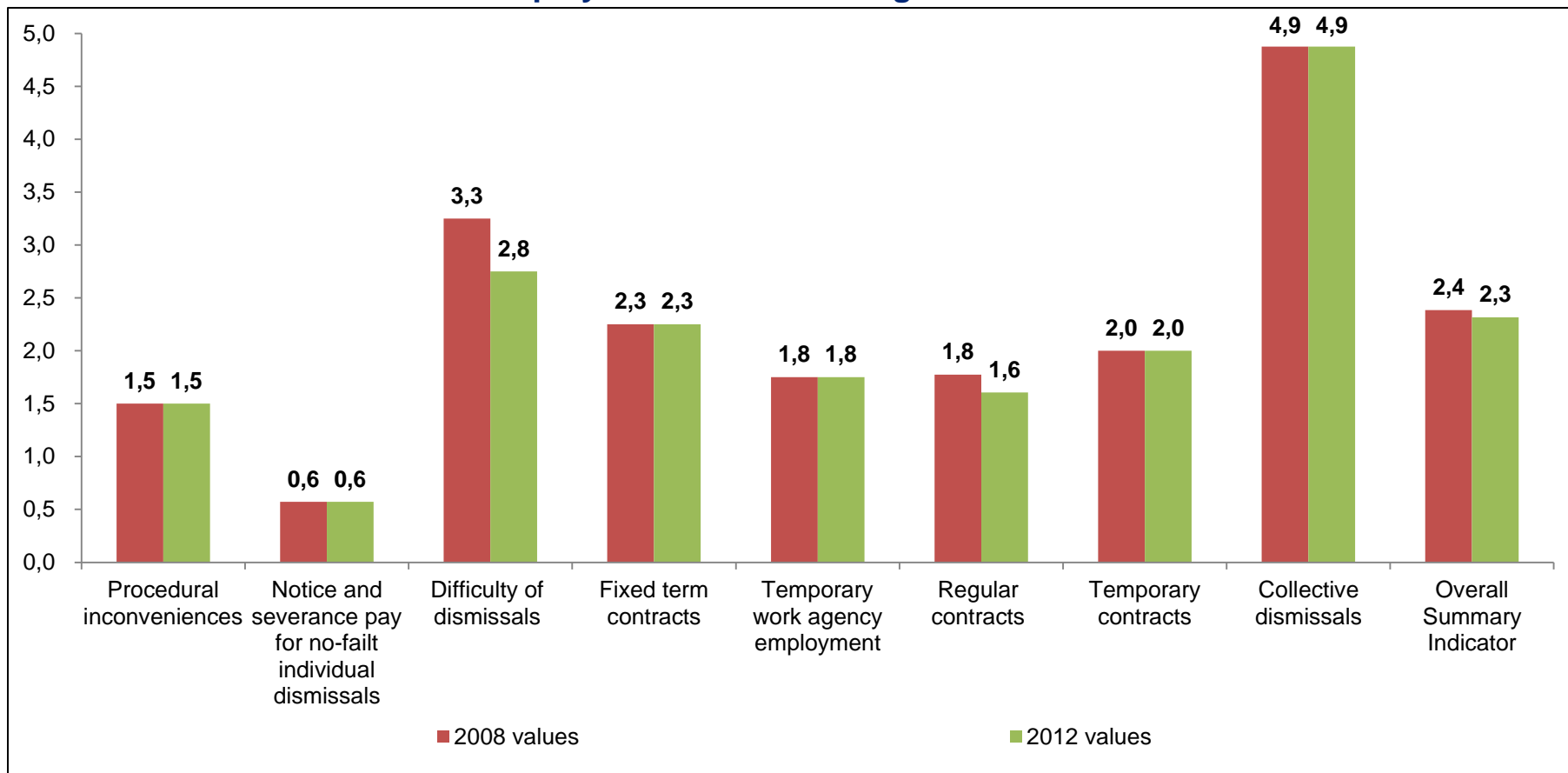
Employment protection legislation: big revision

- In case of **discriminatory dismissals**: no change in terms for reintegration of the employee.
- For **unfair disciplinary dismissals**: it is now up to the judge to choose between reintegration (for the most serious cases) or indemnity (from 12 up to 24 months of full salary).
- For **unfair dismissals for economic reasons**, the judge can grant an indemnity (between 12 and 24 monthly payments) or reintegration of the employee in case no fair reasons for dismissal are recognised.



OECD EPL index: impact of labour market reform

Employment Protection Legislation Index



Source: Italian Ministry of Economy and Finance, estimates based on OECD data, 2012.

Note: The labour market reform refers to Law no. 92/2012.



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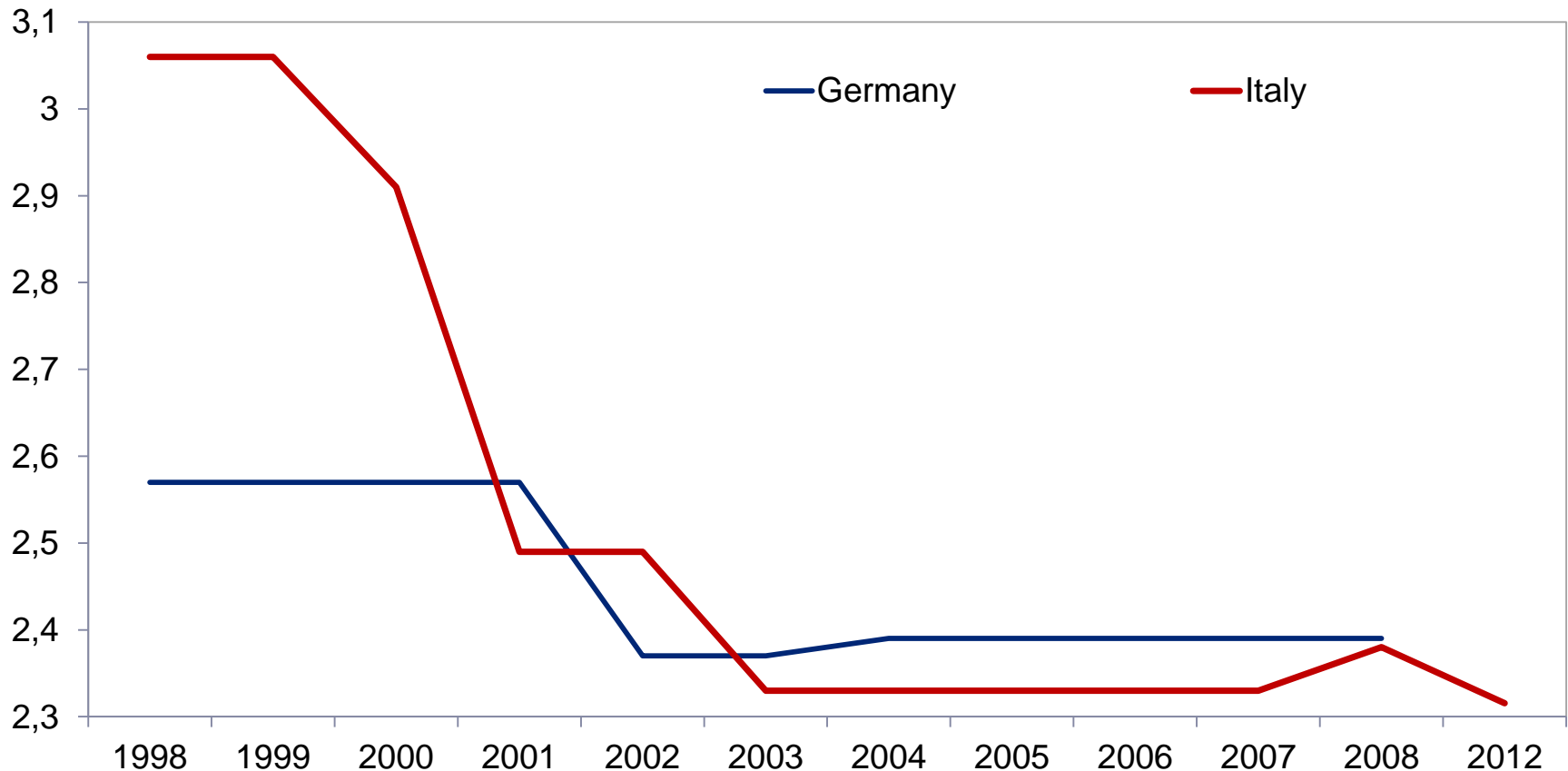


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LABOUR MARKET REFORM

EPL getting less strict than in Germany

Employment Protection Legislation - Overall Index



Source: Italian Ministry of Economy and Finance, estimates based on OECD data, 2012.

Note: The labour market reform refers to Law no. 92/2012.



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The current presentation as well as a note on reforms are updated regularly. You can find them at:

http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/



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