



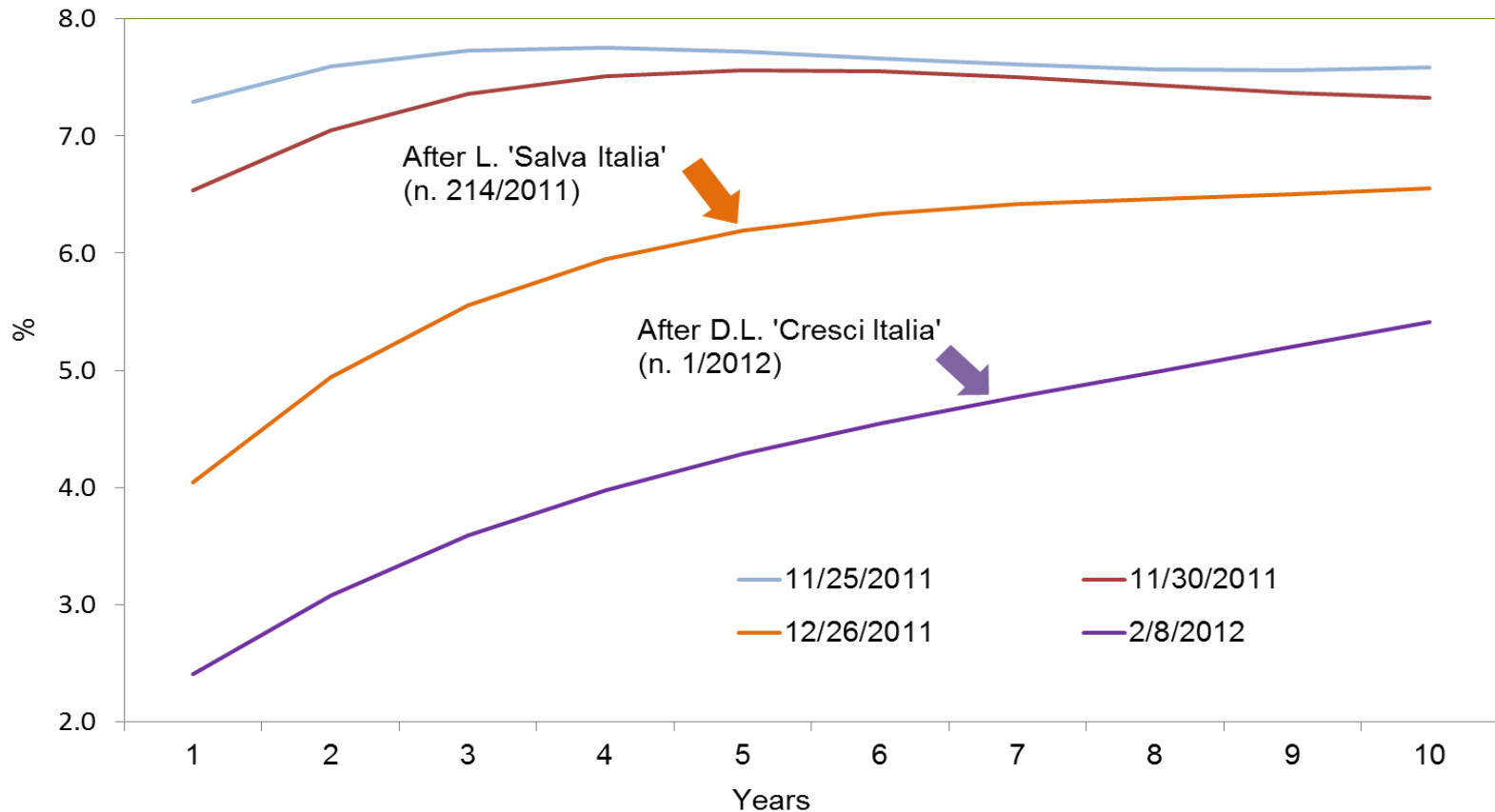
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A Strategy for Growth and Fiscal Consolidation

Italian Ministry of Economy and Finance
March 2012

MINISTERO DELL'ECONOMIA E DELLE FINANZE

Market pressure abating on Italy's govies



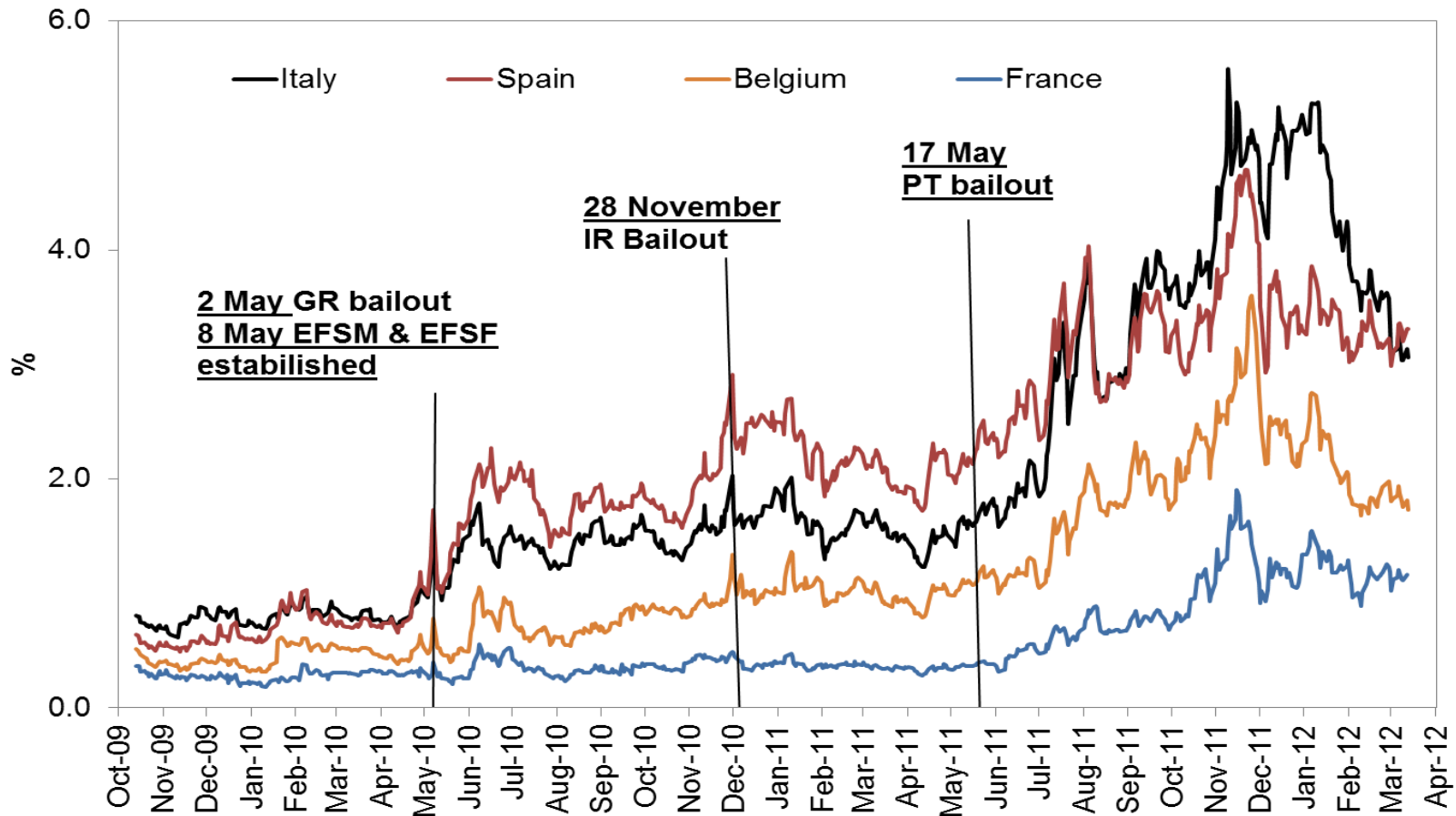
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Italy's sovereign bond spreads keep narrowing

Spreads versus 10 years German bonds



source: Thomson Reuters Datastream

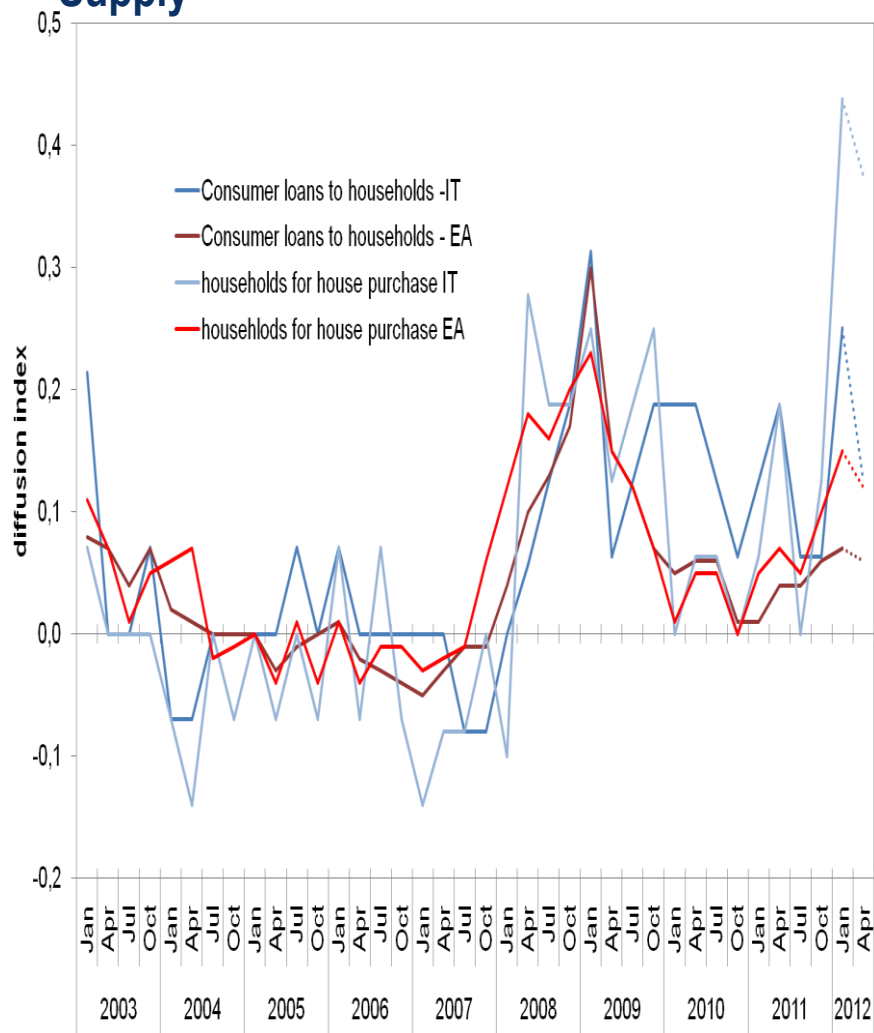


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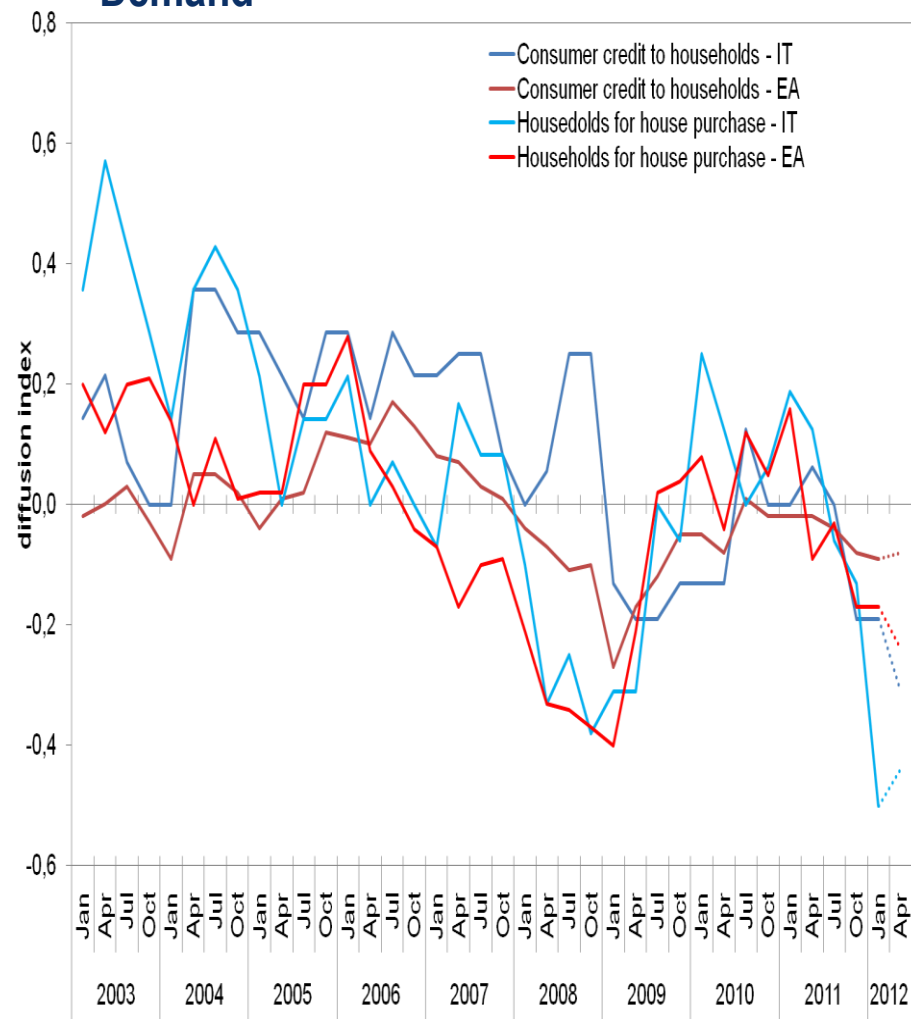
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Temporary tightening in credit but no credit crunch

Supply



Demand

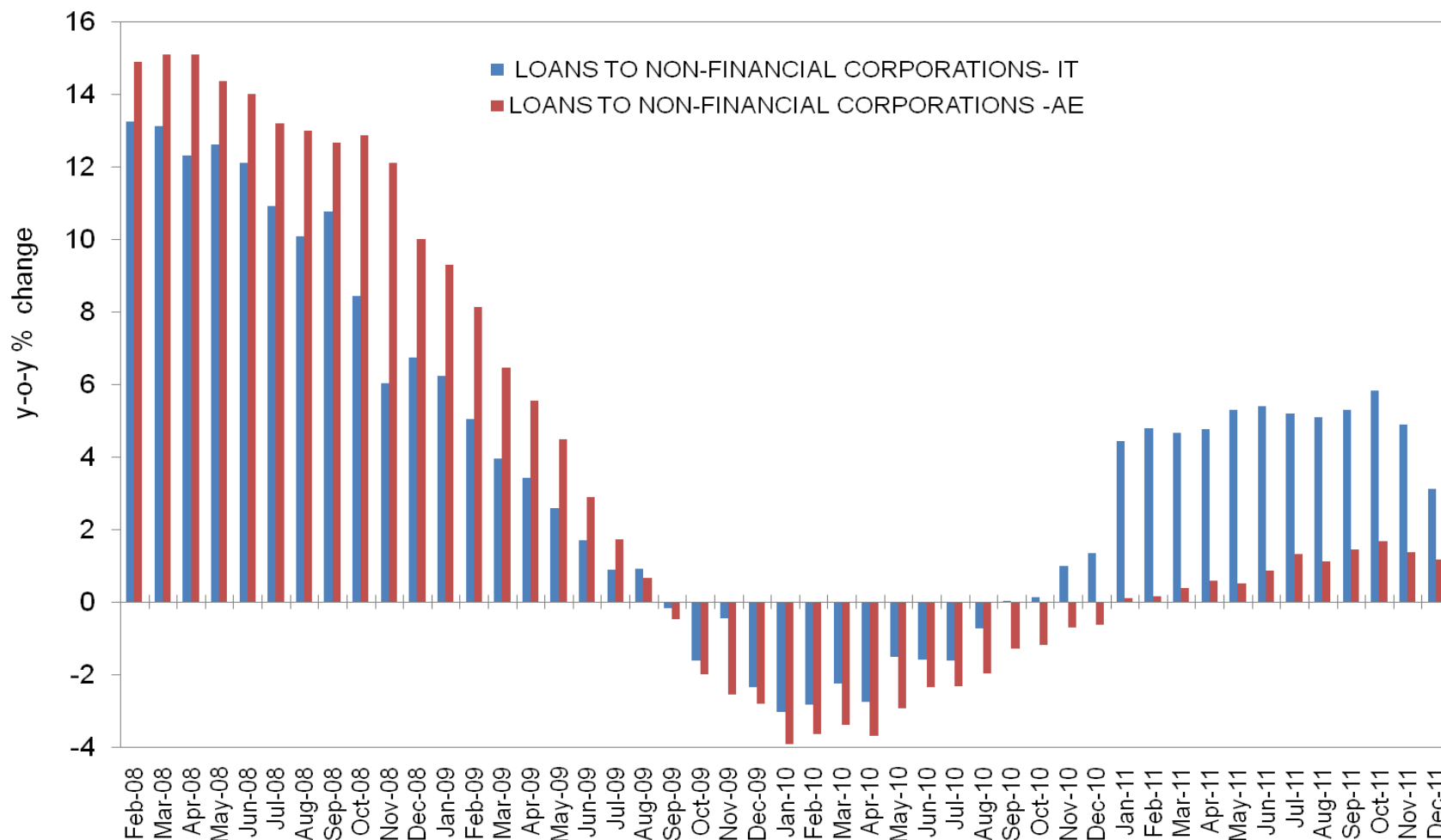


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So far, less credit squeeze than in the rest of Europe

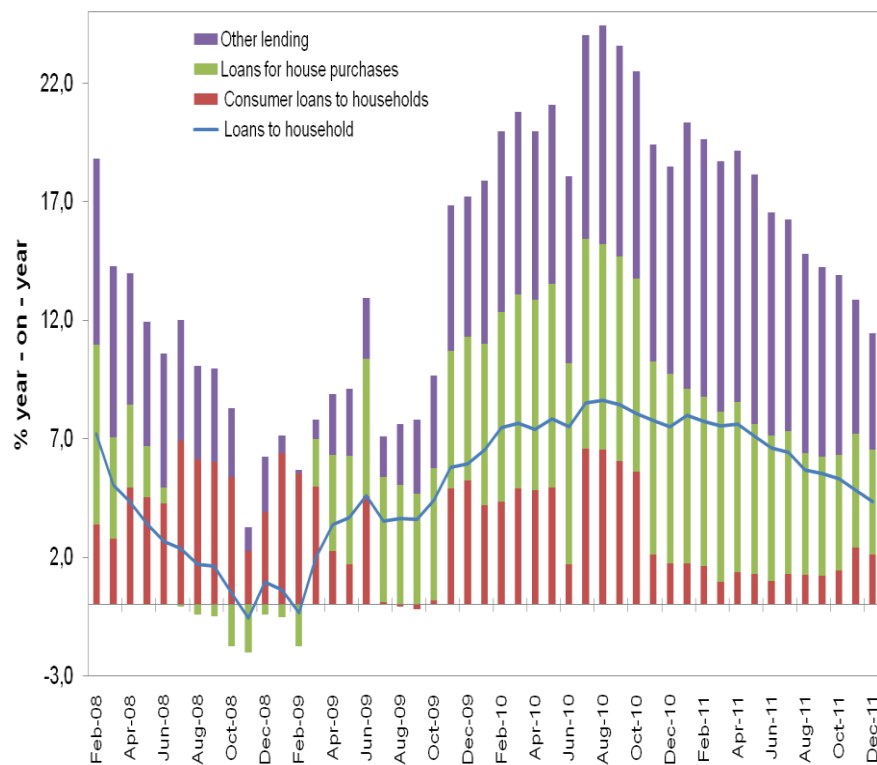


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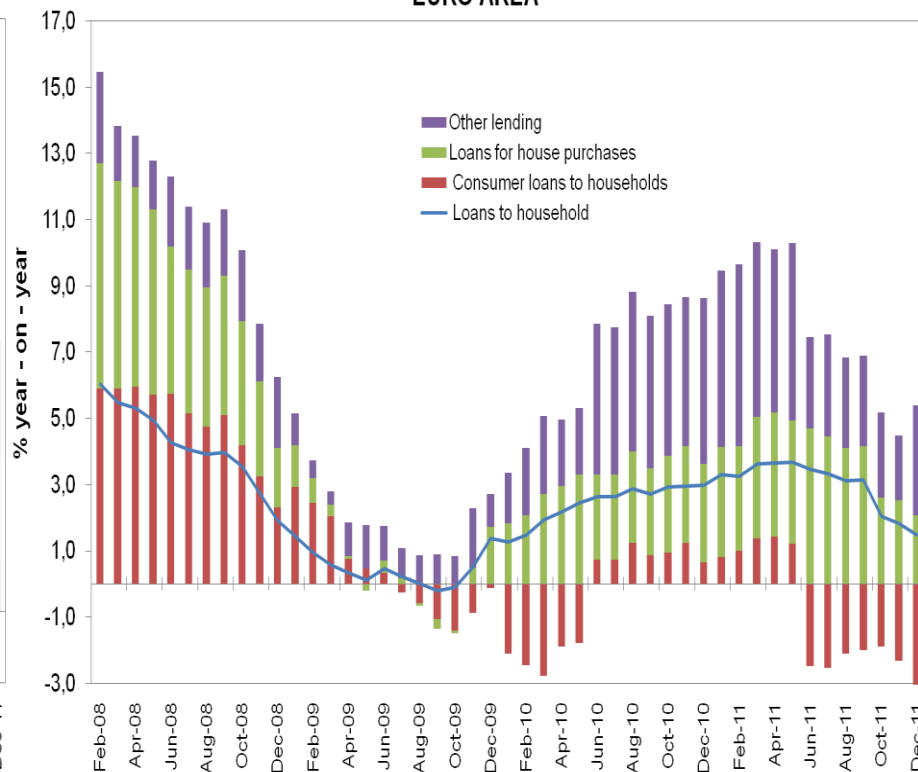
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Credit to households: only moderate softening

ITALY



EURO AREA

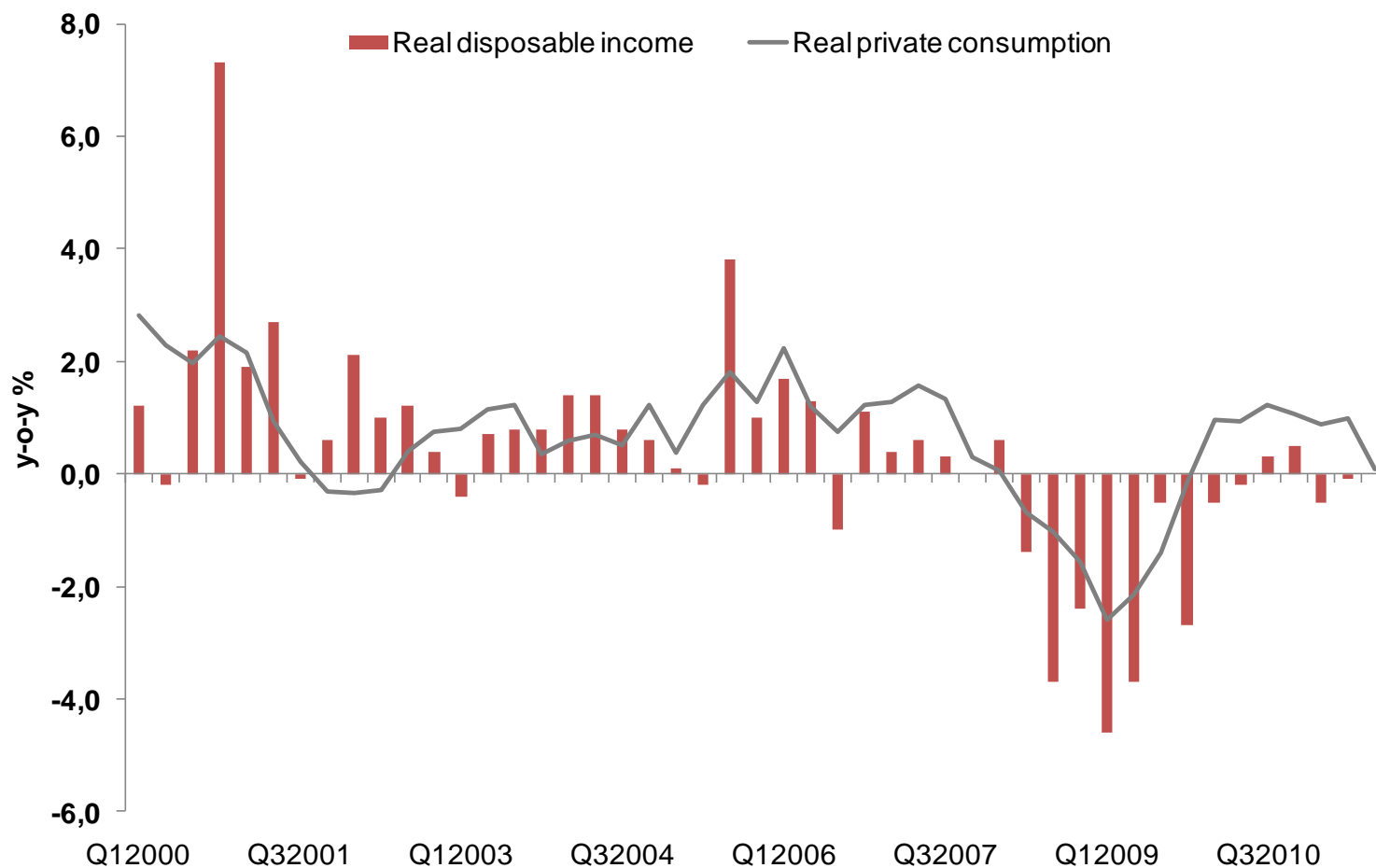


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Households consumption has been resilient



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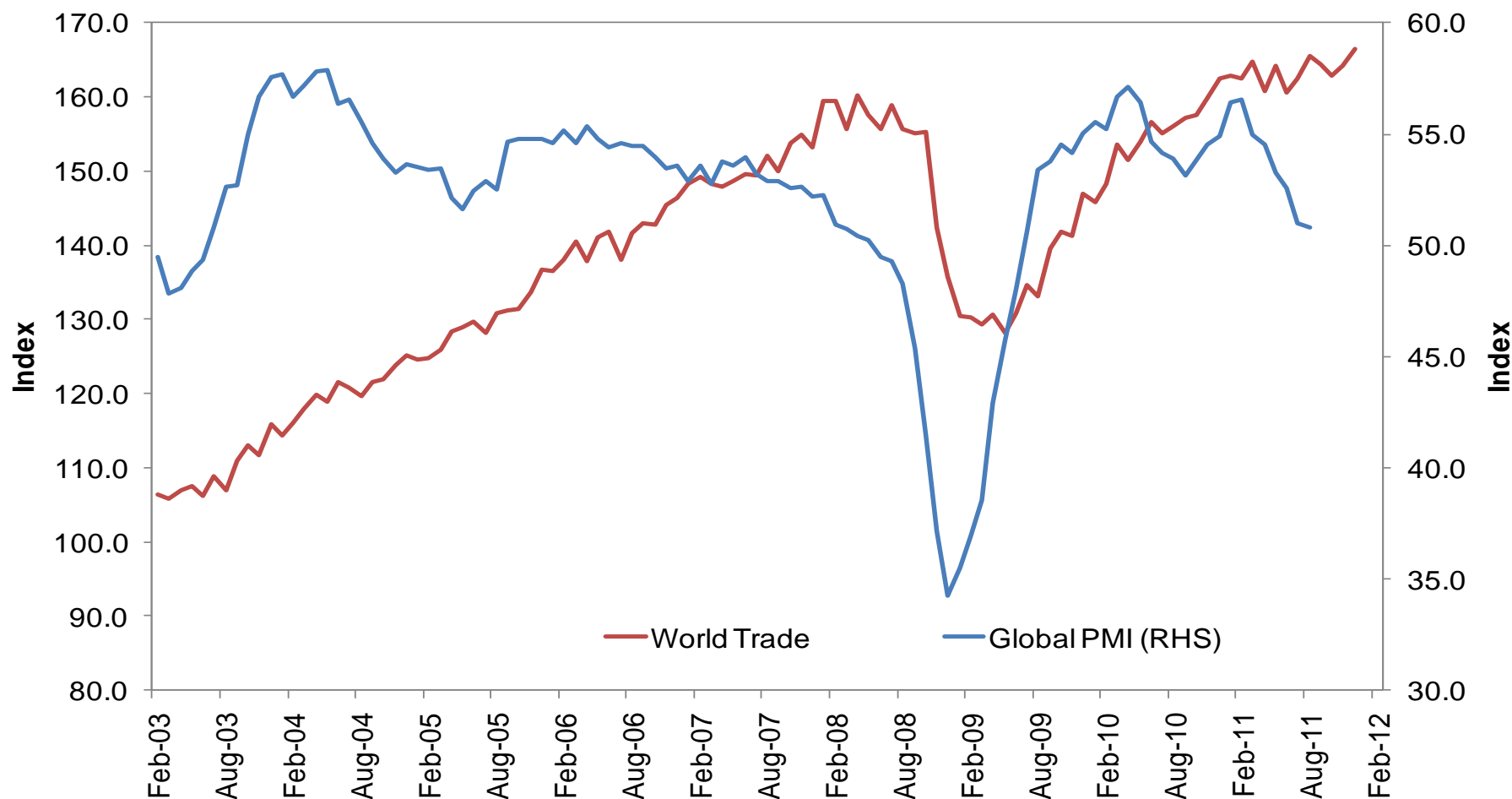
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The international crisis and Italy's economy

- **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 allowed to work.
- **Although market tensions** represented a major threat to **economic growth** and **fiscal sustainability**.
- **Hence, new policy measures were promptly enacted.**



Tentative improvement in the world economy



source: CPB, Markit



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Recent macroeconomic developments

- The **global economic outlook** has somewhat improved recently.
- December's macroeconomic scenario projected GDP growth at **-0.4% in 2012**.
- Assumptions made in December called for **persistent financial market tensions in 1H12 and gradual easing thereafter**.
- After reaching 500bp in November, 10y BTP-Bund yield spreads have narrowed to below 300bp.



December's updated macroeconomic scenario

(% change yoy)	2009	2010	2011	2012	2013	2014
Real GDP	-5.5	1.8	0.4	-0.4	0.3	1.0
<i>Domestic demand net of inventories</i>	-3.2	1.0	-0.4	-0.5	0.1	0.8
<i>Inventories</i>	-1.2	1.2	-0.5	-0.2	0.0	0.0
<i>Net export</i>	-1.2	-0.4	1.4	0.2	0.2	0.2
Nominal GDP	-3.5	2.2	1.7	1.6	2.2	2.7
GDP deflator	2.1	0.4	1.3	2.1	1.9	1.8
Labour cost	1.7	2.3	1.4	1.2	1.1	1.5
Productivity (on GDP)	-2.7	2.7	0.3	-0.2	0.2	0.8
Unit labour cost (on GDP)	4.6	-0.4	1.0	1.4	0.8	0.7
Employment (FTE)	-2.9	-0.9	0.1	-0.3	0.1	0.2
Unemployment rate	7.8	8.4	8.4	8.4	8.7	8.6
Current account balance	-2.0	-3.5	-3.2	-3.7	-3.3	-2.9

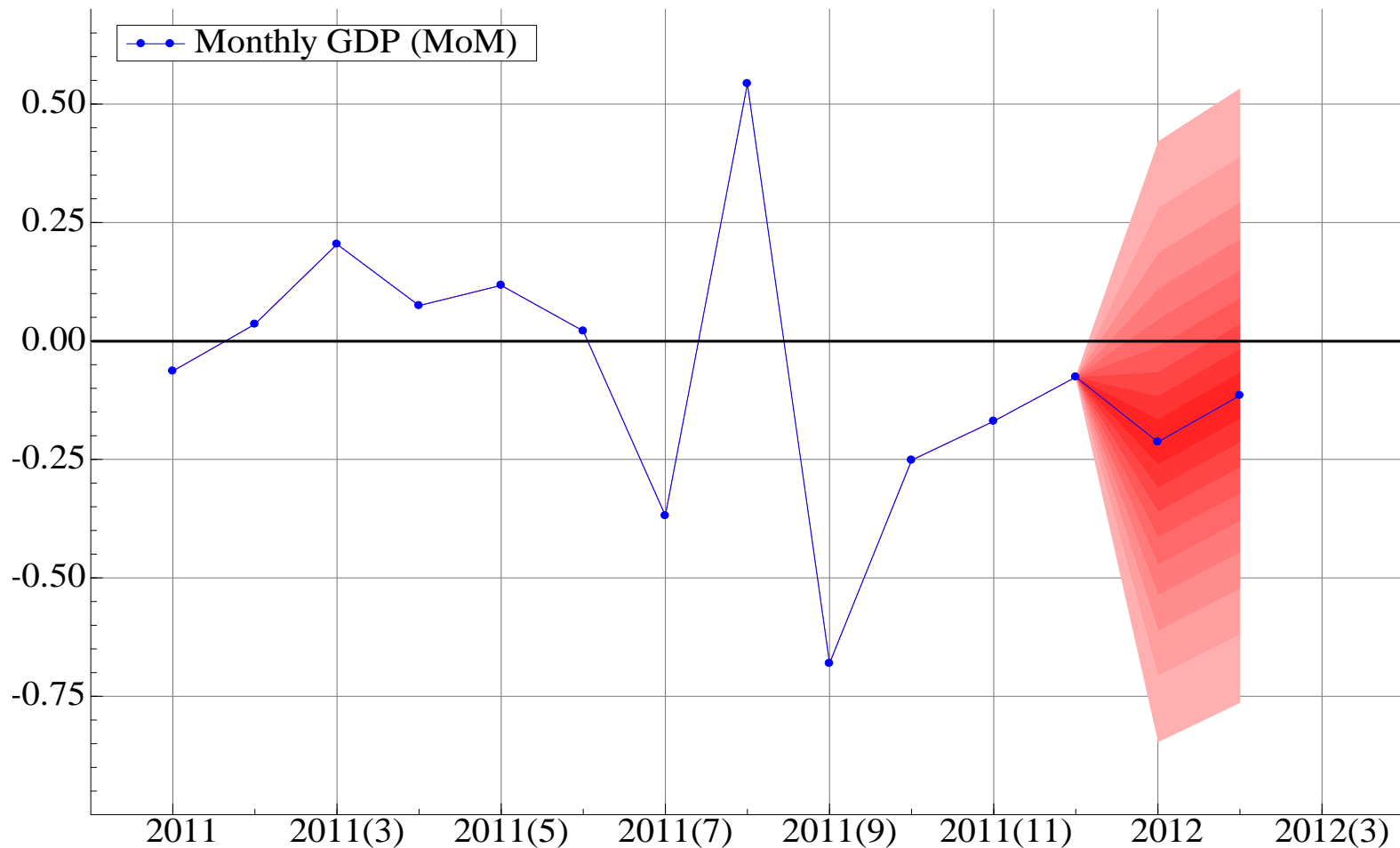
Source: MEF. December 2011; ISTAT.



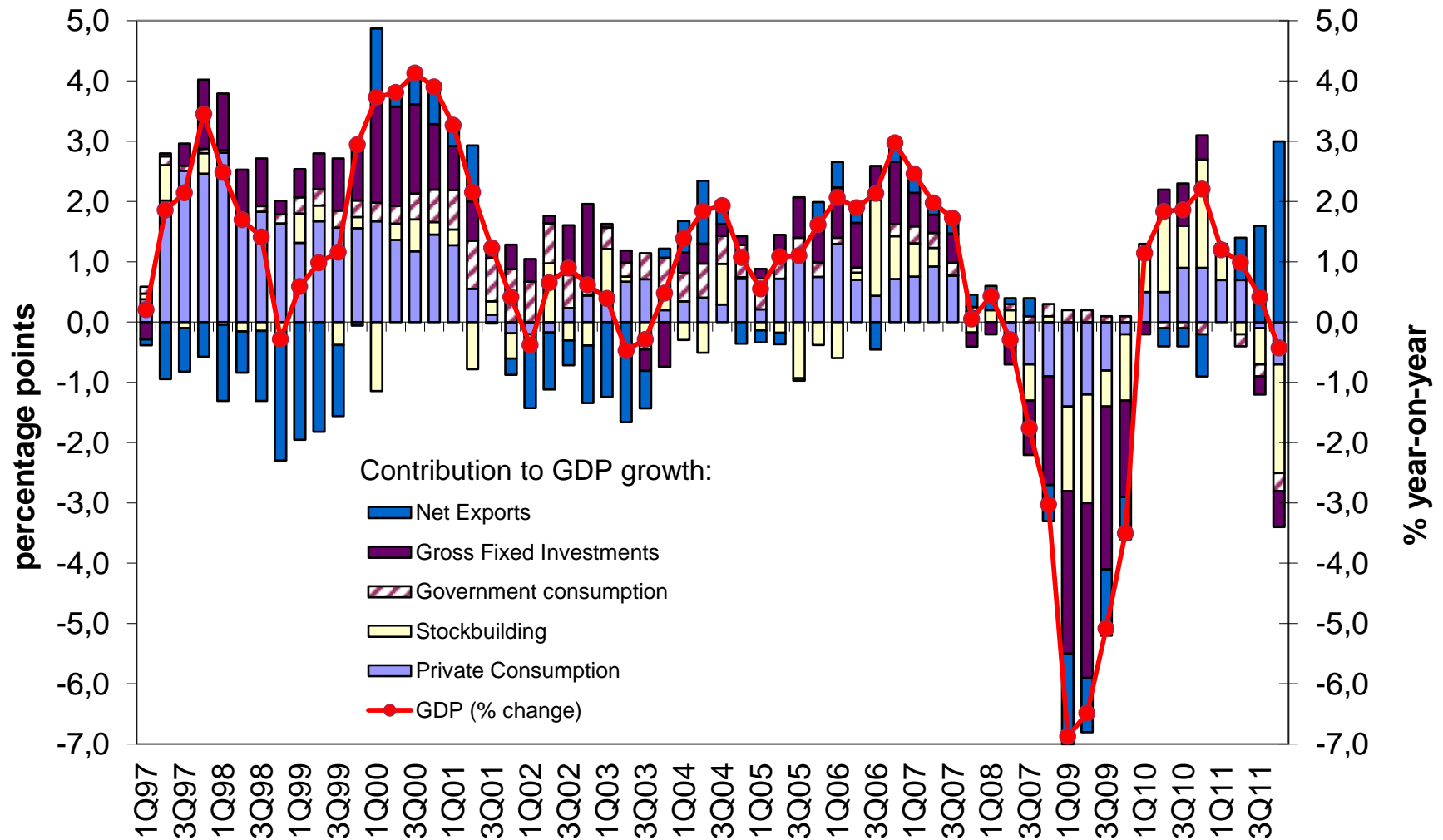
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GDP forecasts in 1Q: still in negative territory though improving



But overall, only mild recession at end-2011/beginning-2012



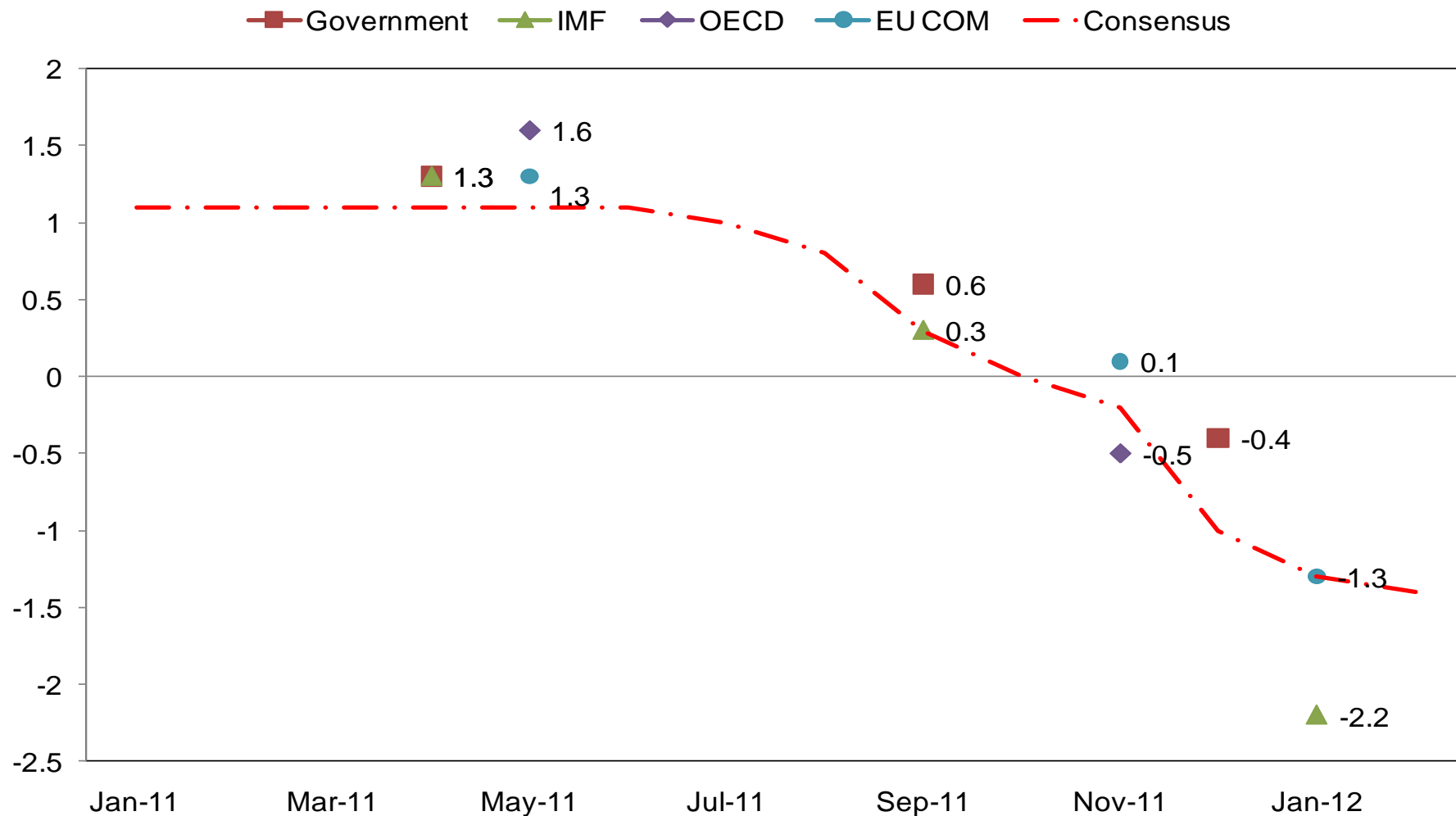
Source: ISTAT



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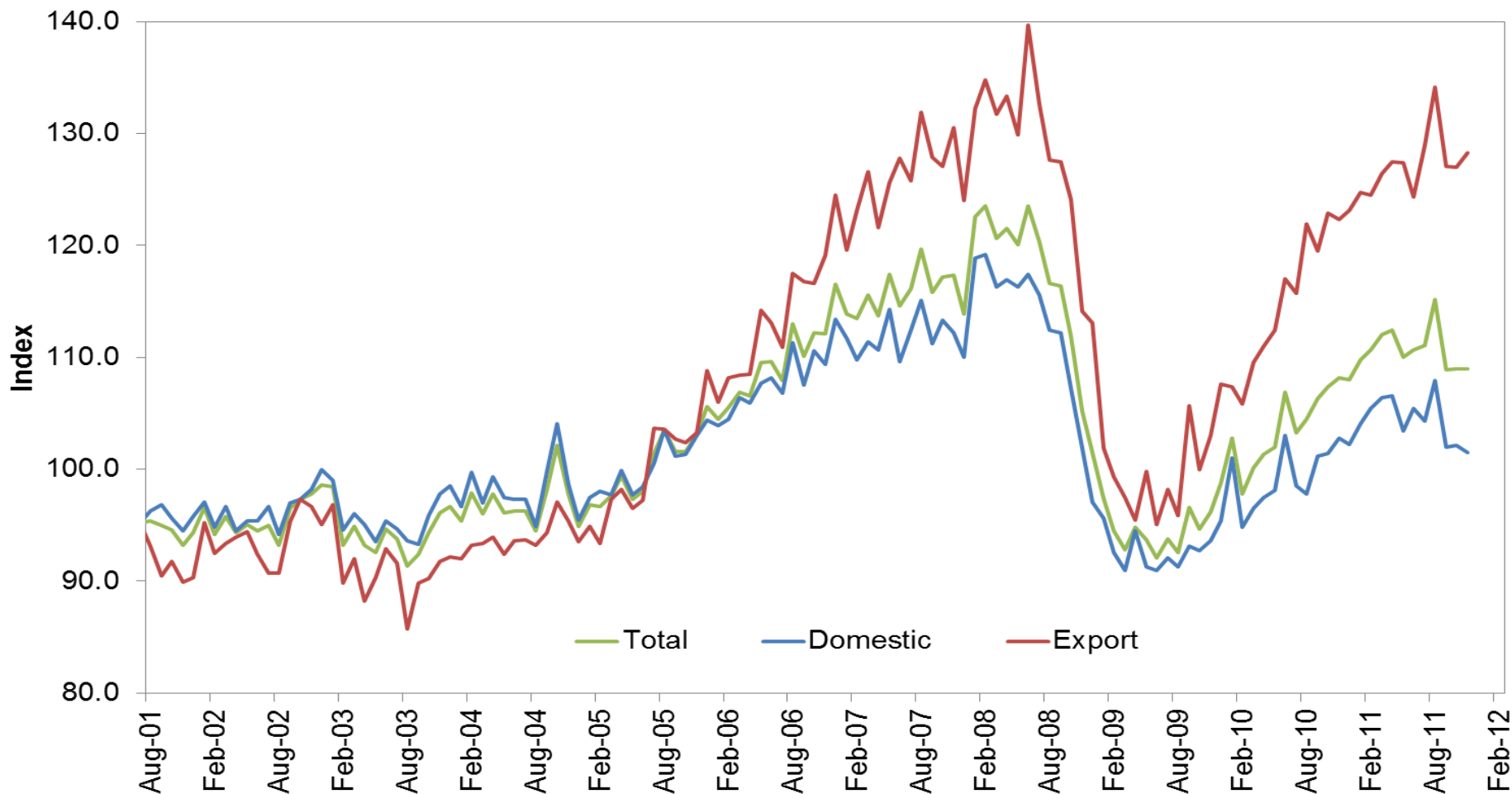
2012 GDP growth forecasts have declined since mid-2011



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Italy about to grow out of recession thanks to foreign demand



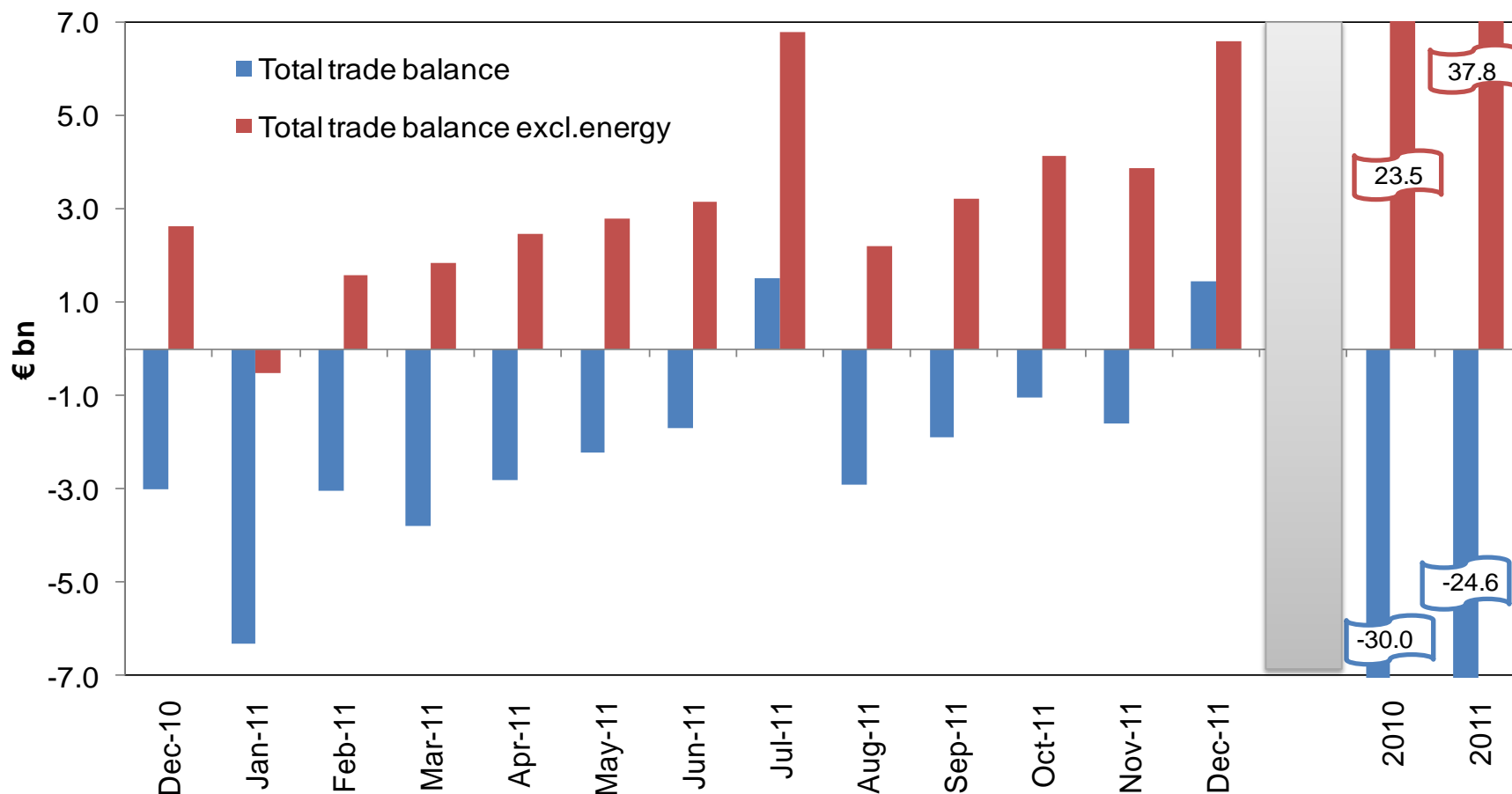
source: Istat



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Sharp improvement in Italy's trade balance in 2011



Source: ISTAT.

Note: Energy includes oil and gas.

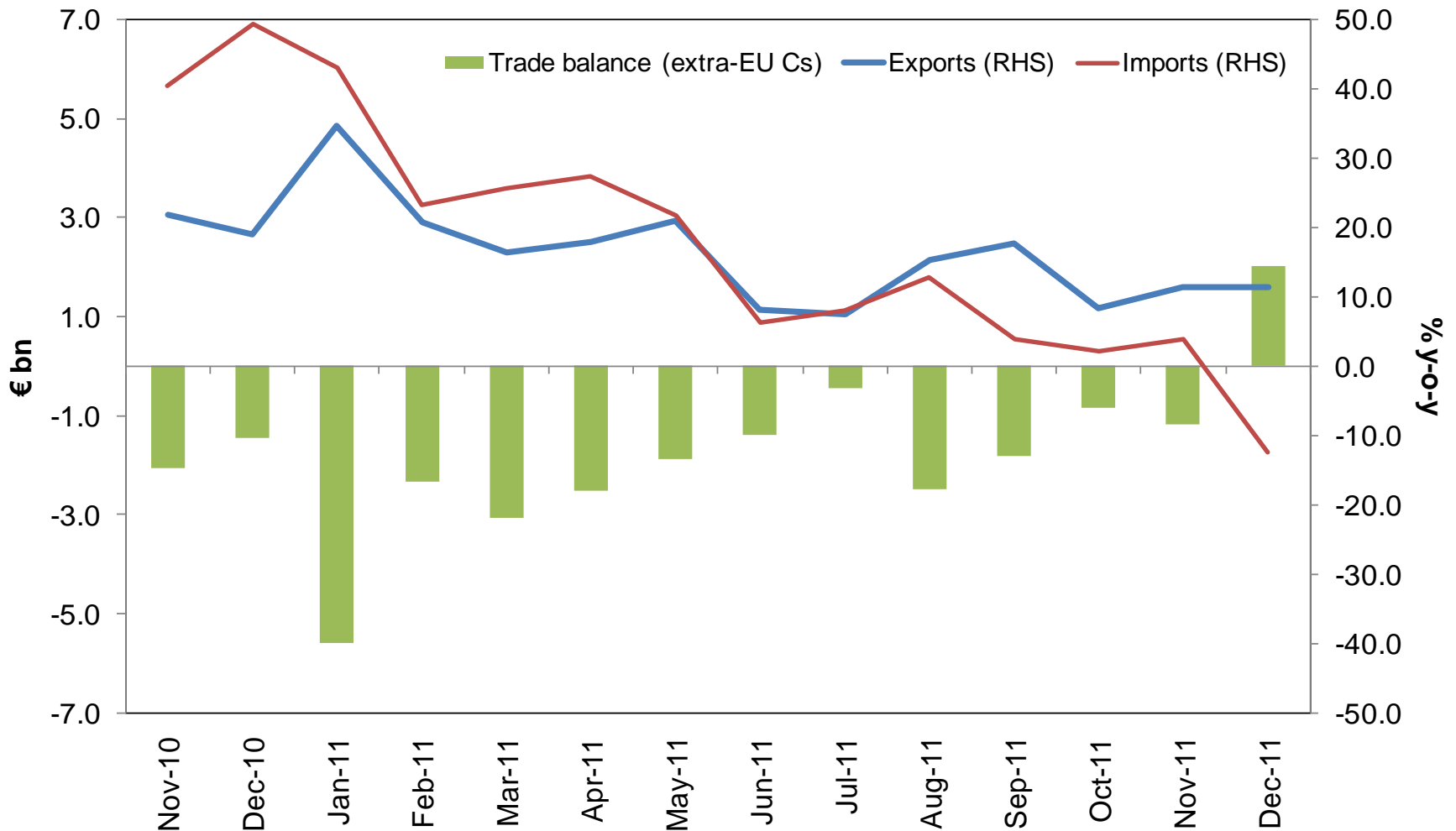


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Non-EU exports to keep the lead



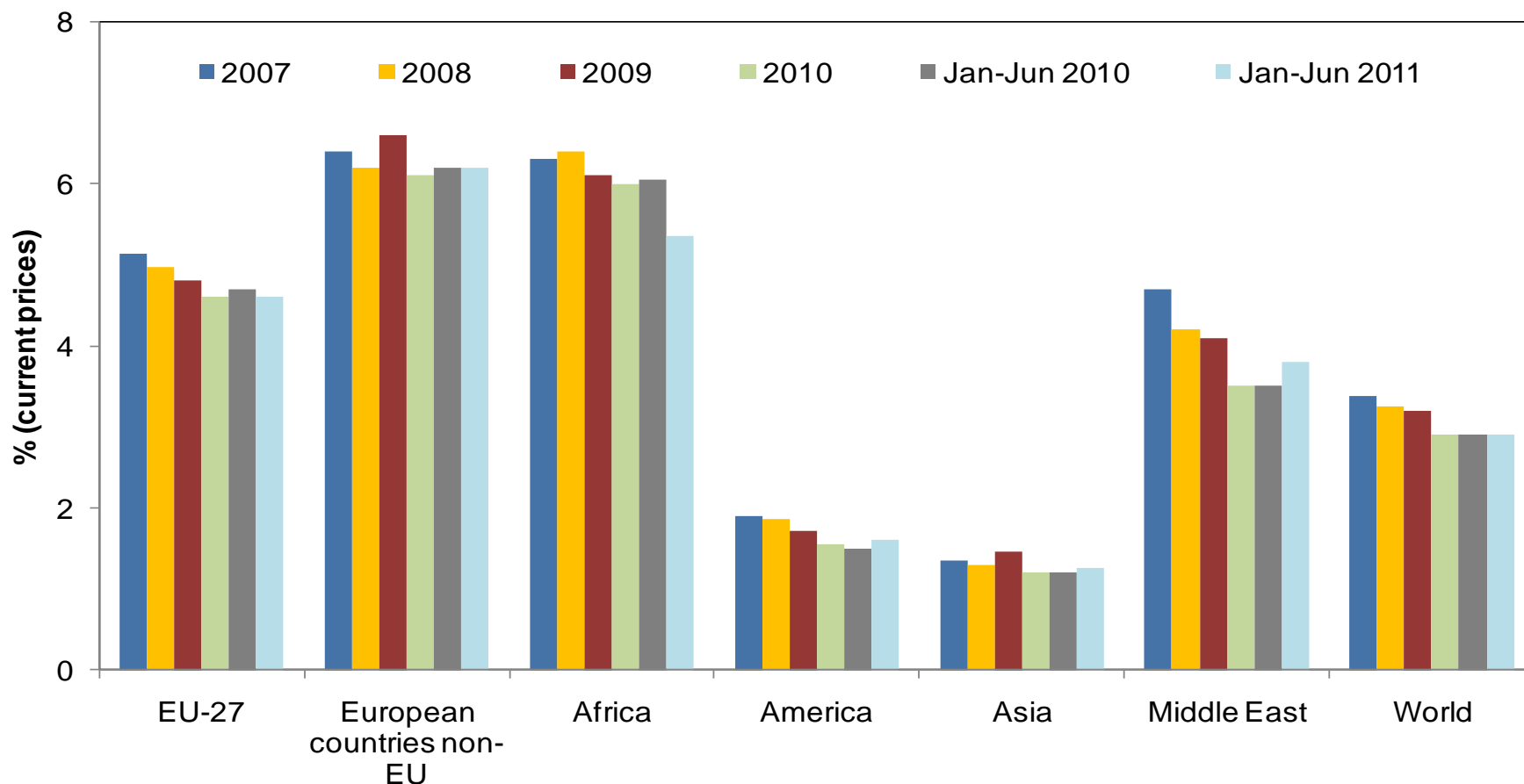
Source: ISTAT.



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Italy's market shares remain broadly stable



Source: Ministry of Economic Development.

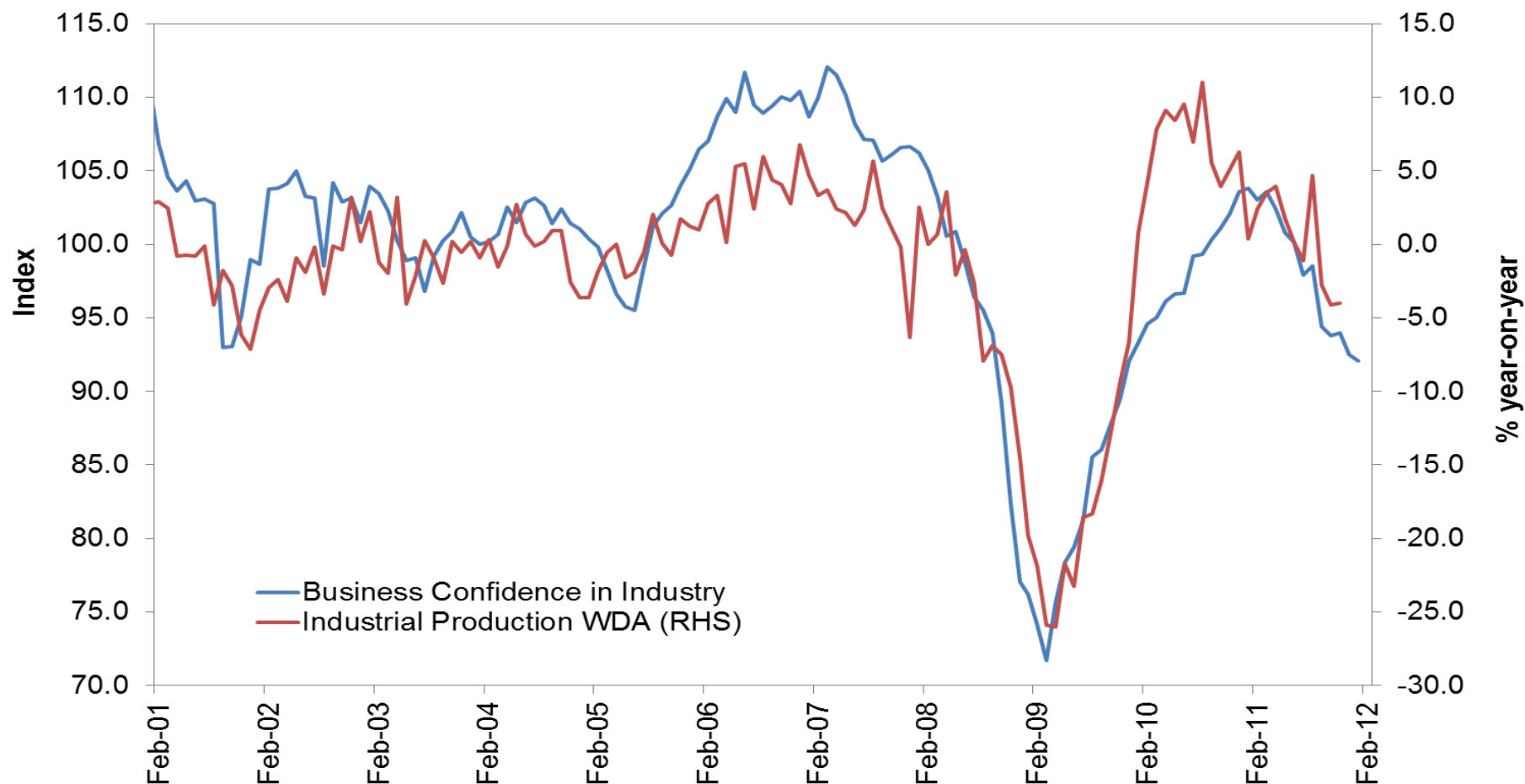
Note: Market share are calculated on imports from Italy and the world by geographical area and countries.



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Industrial production likely to bottom in 1Q12



source: Istat

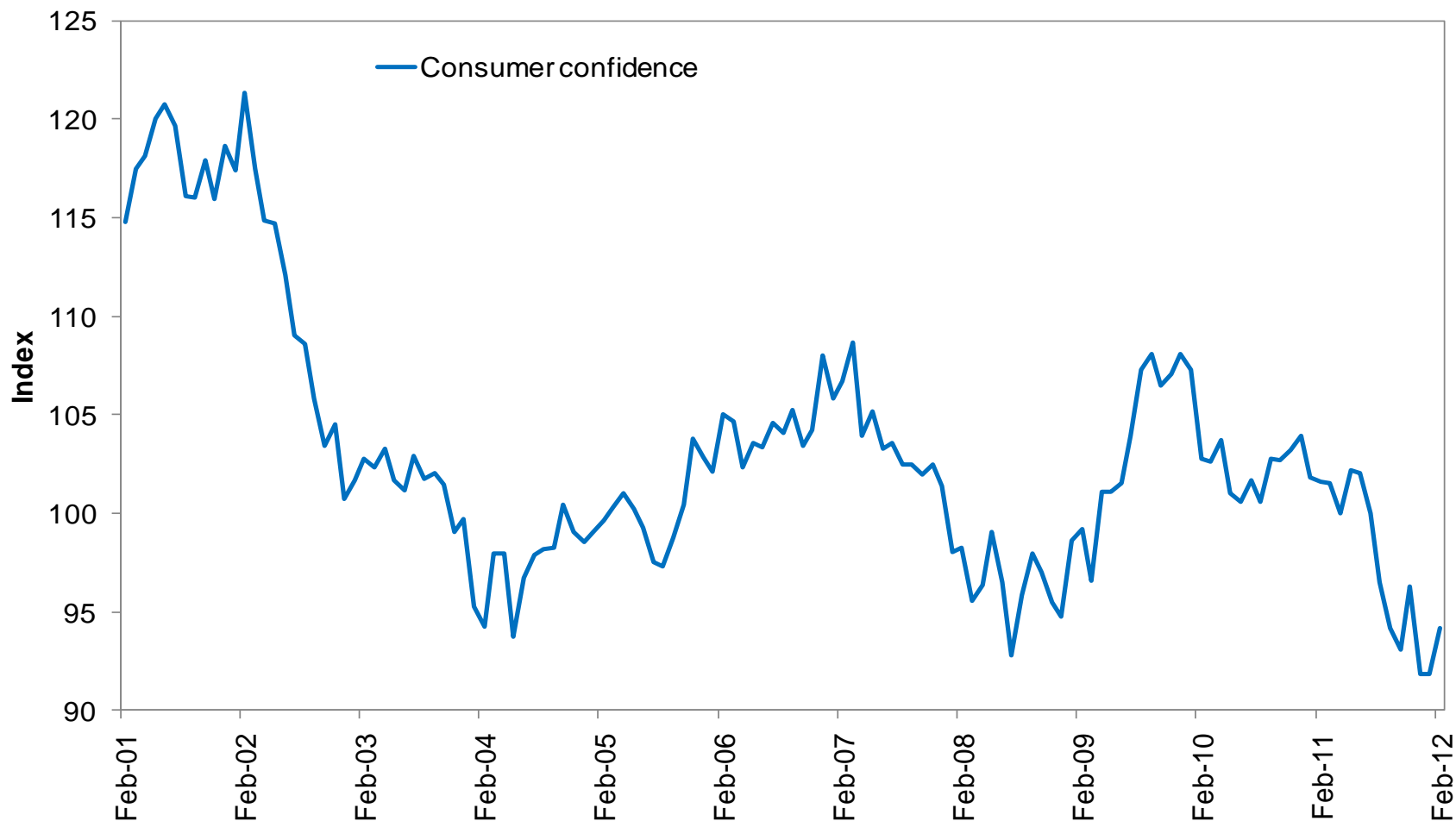


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Tentative signs of improvement in consumer confidence



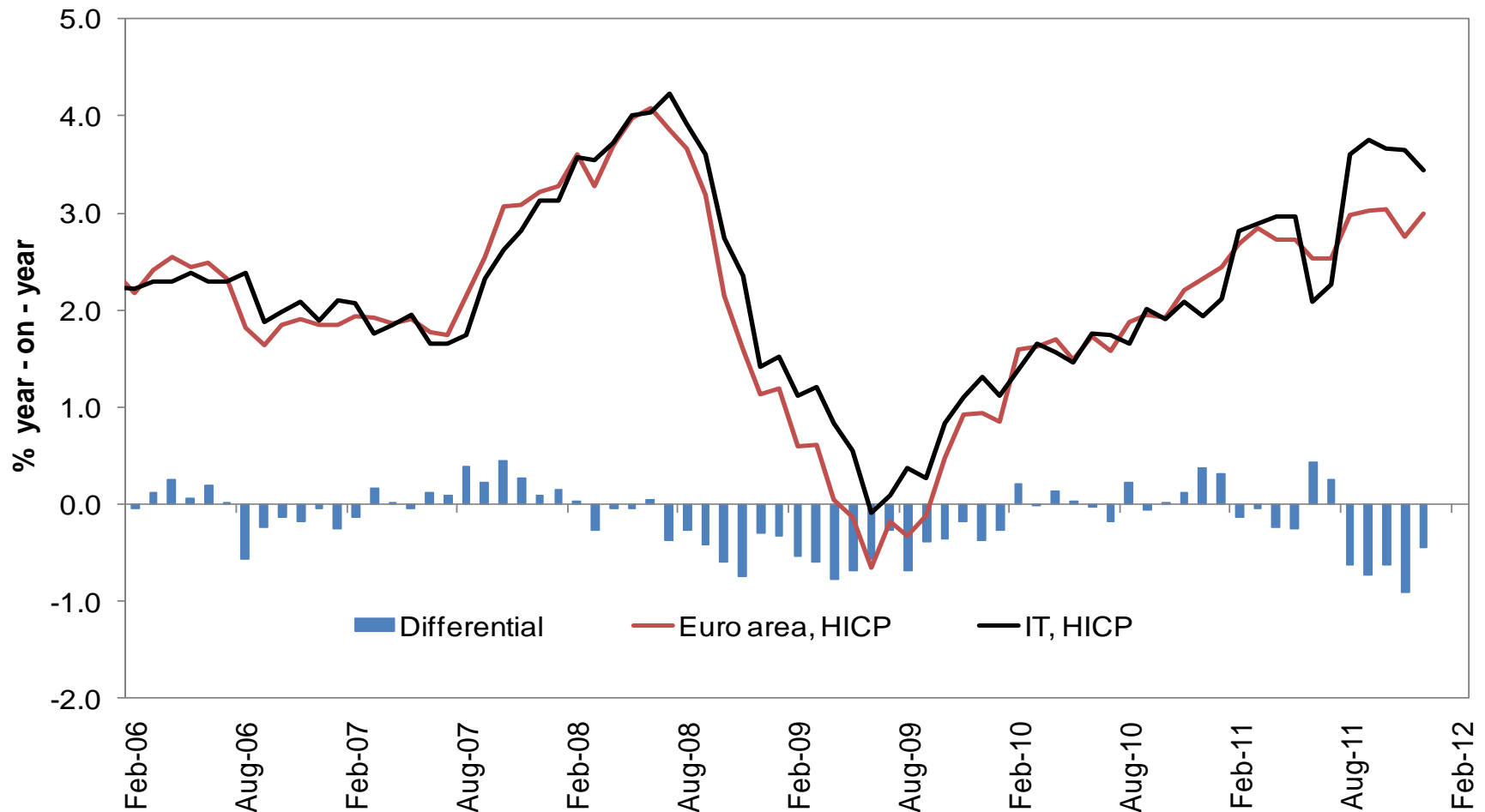
Source: ISTAT.



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Consumer inflation has likely peaked (squeezing real income)



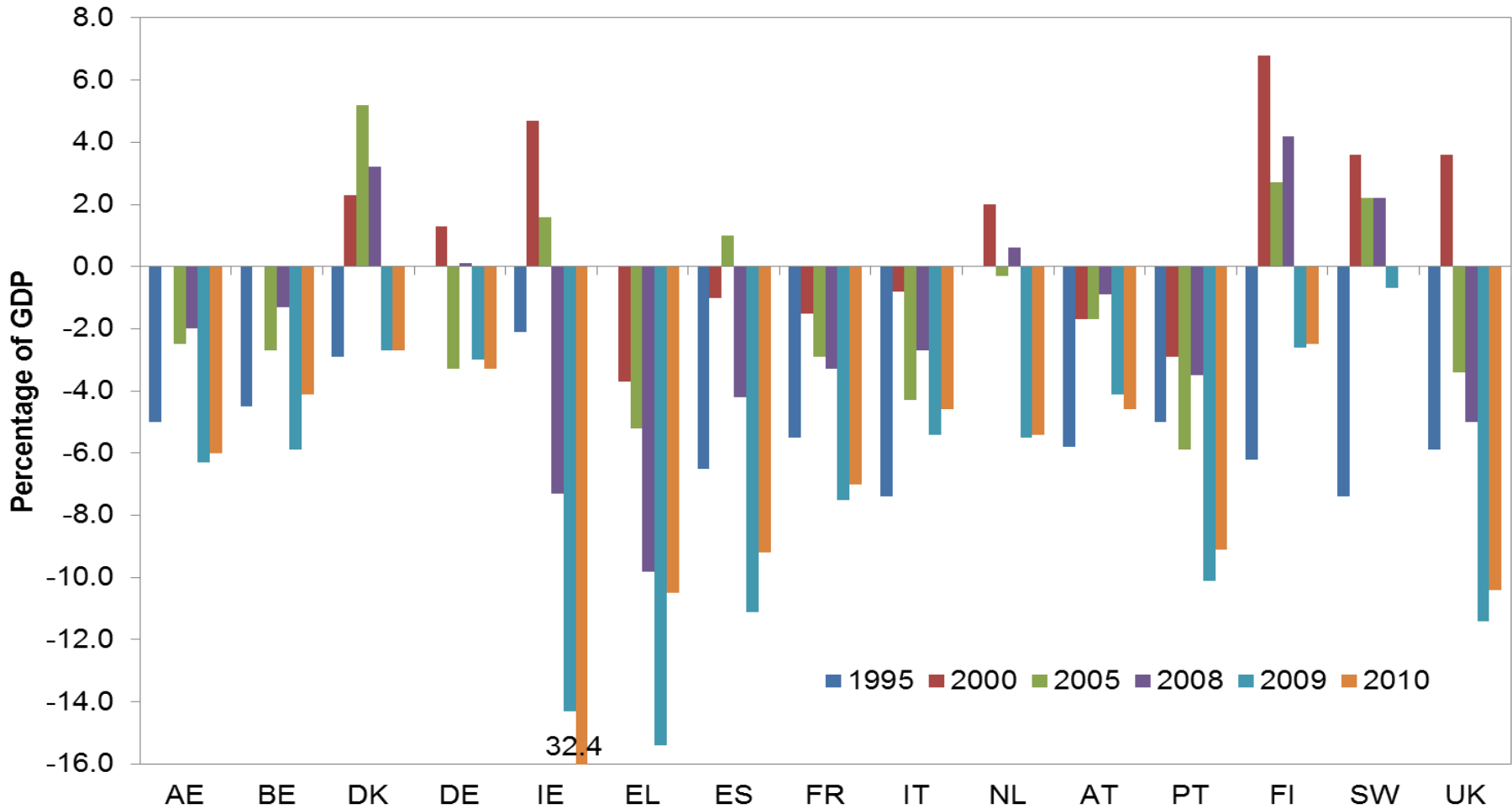
source: Eurostat, Istat



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Modest deterioration in Italy's public deficit during the crisis



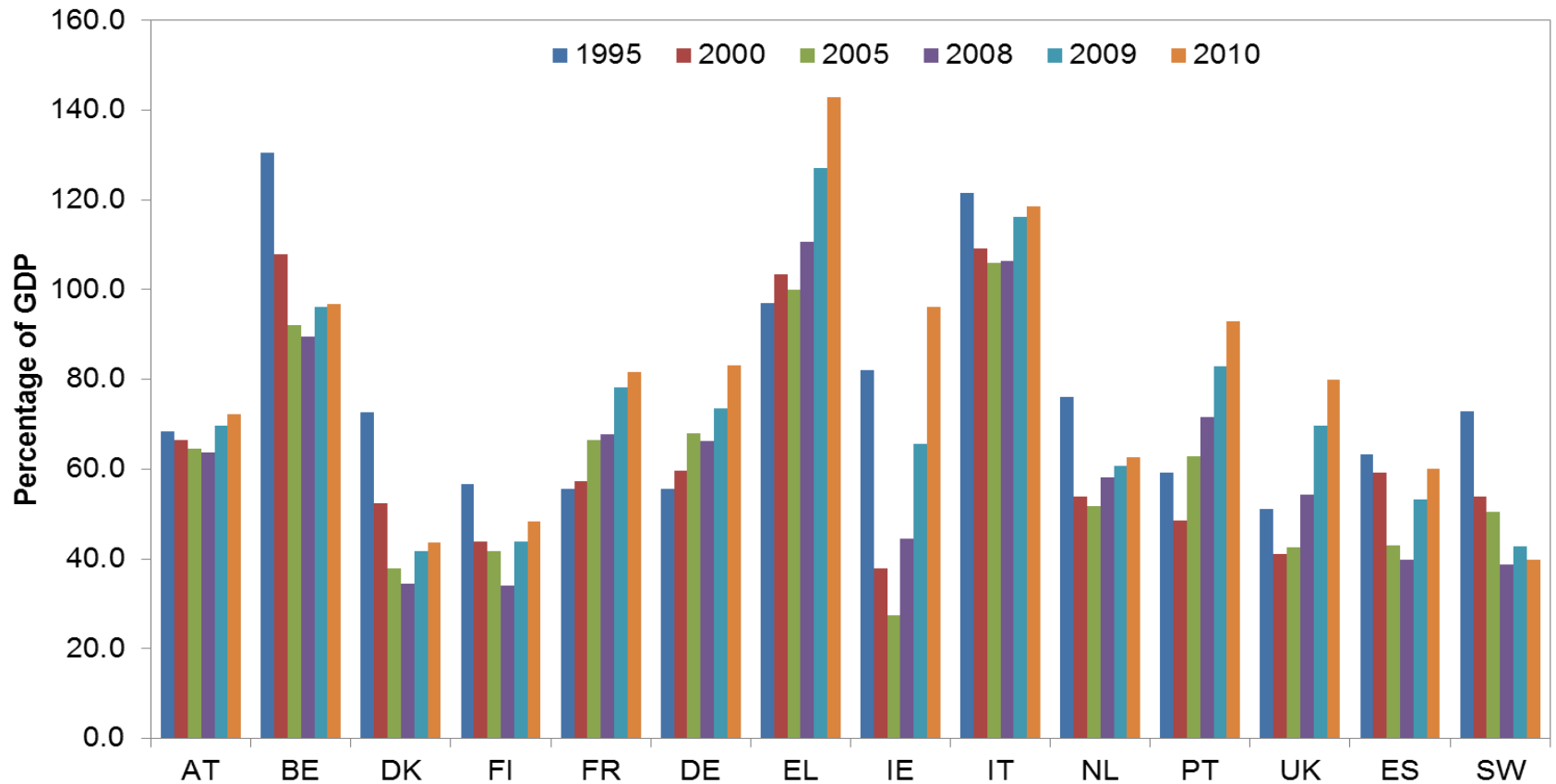
Source: Eurostat



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Increase in Italy's public debt-to-GDP ratio mainly due to the denominator



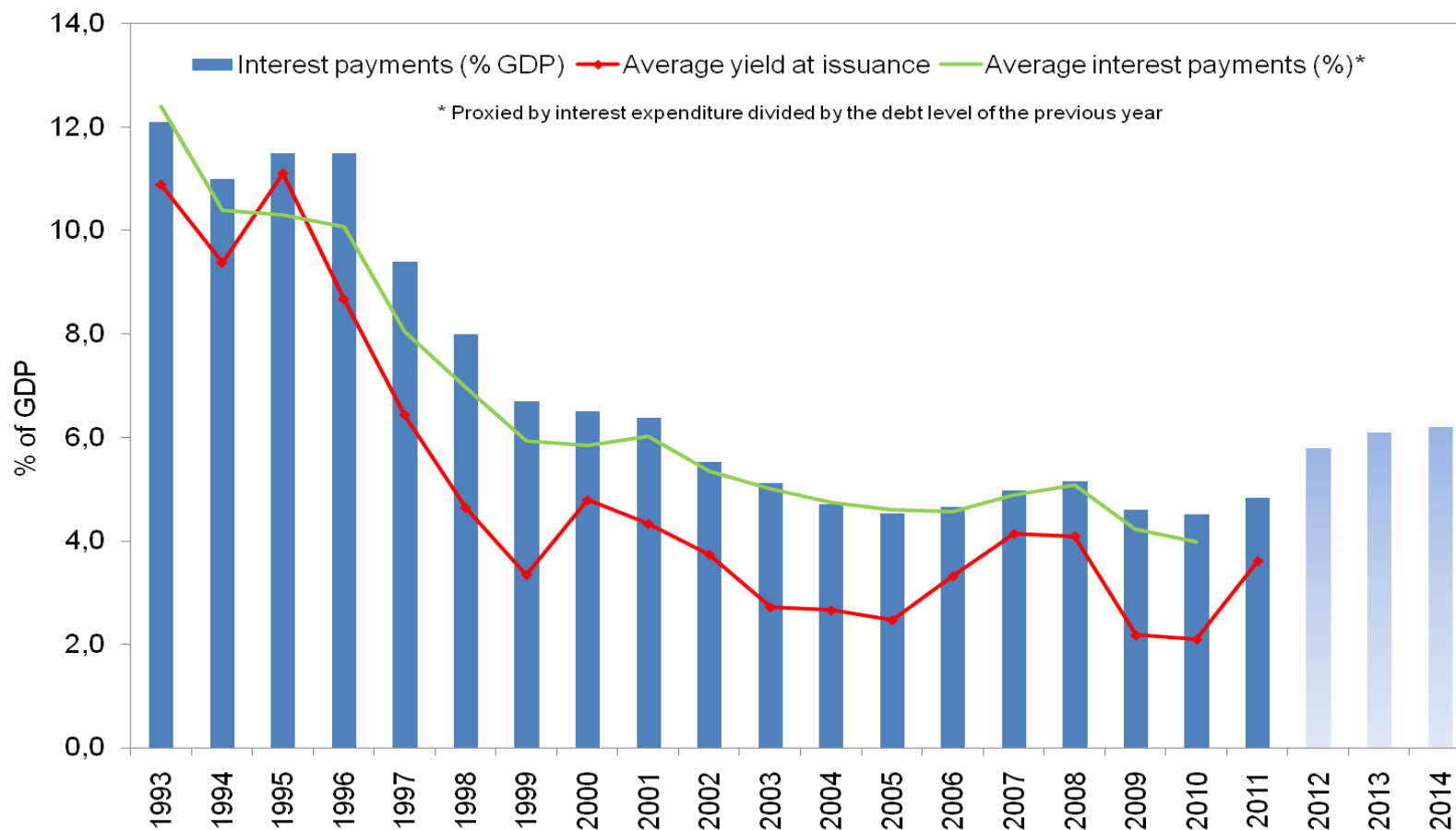
Source: Eurostat



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Contained increase in interest payments on public debt



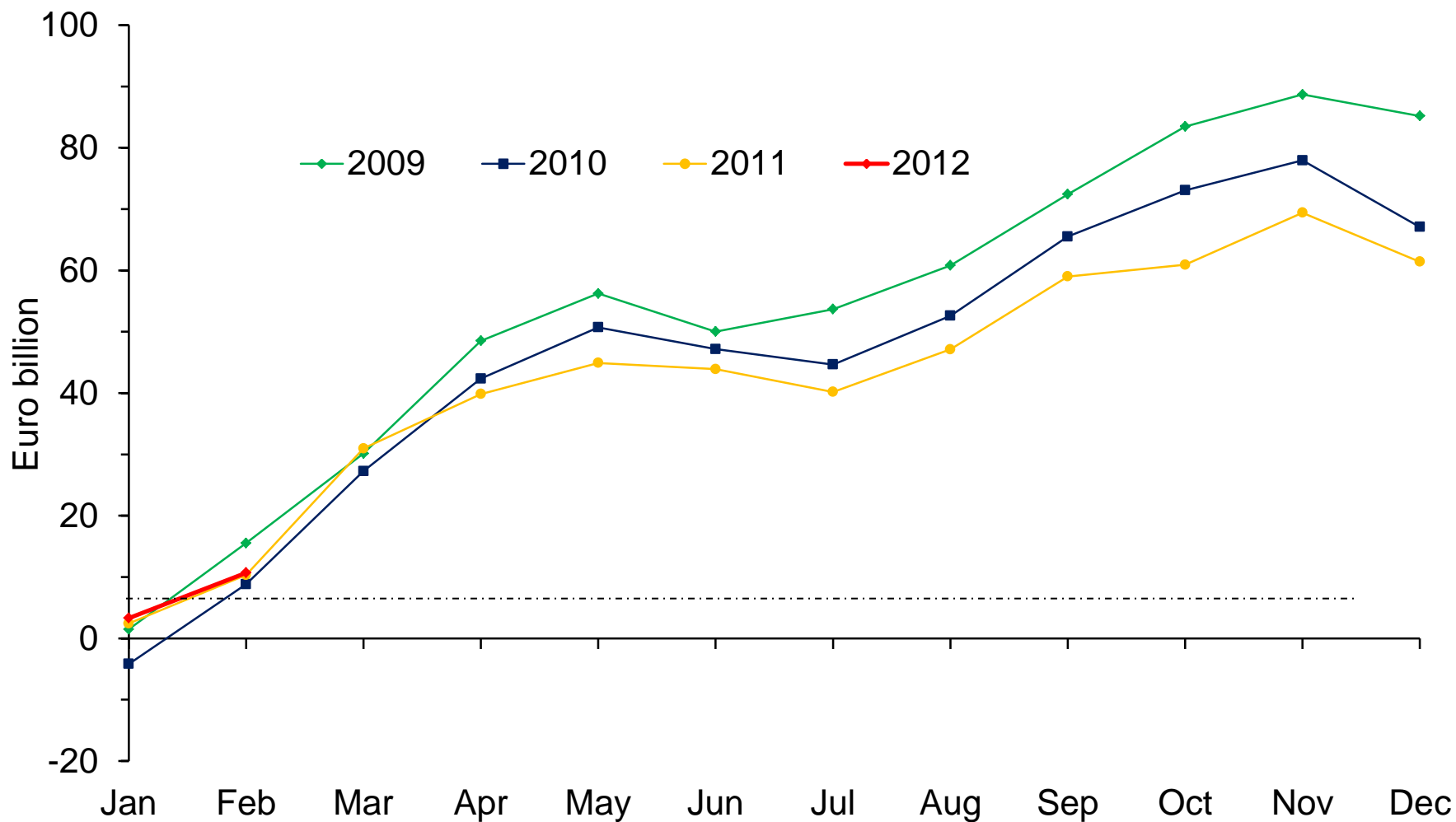
Source: Ministry of Economy and Finance. Figures for int. payments in 2012-2014 are official estimates made in 12/2011.



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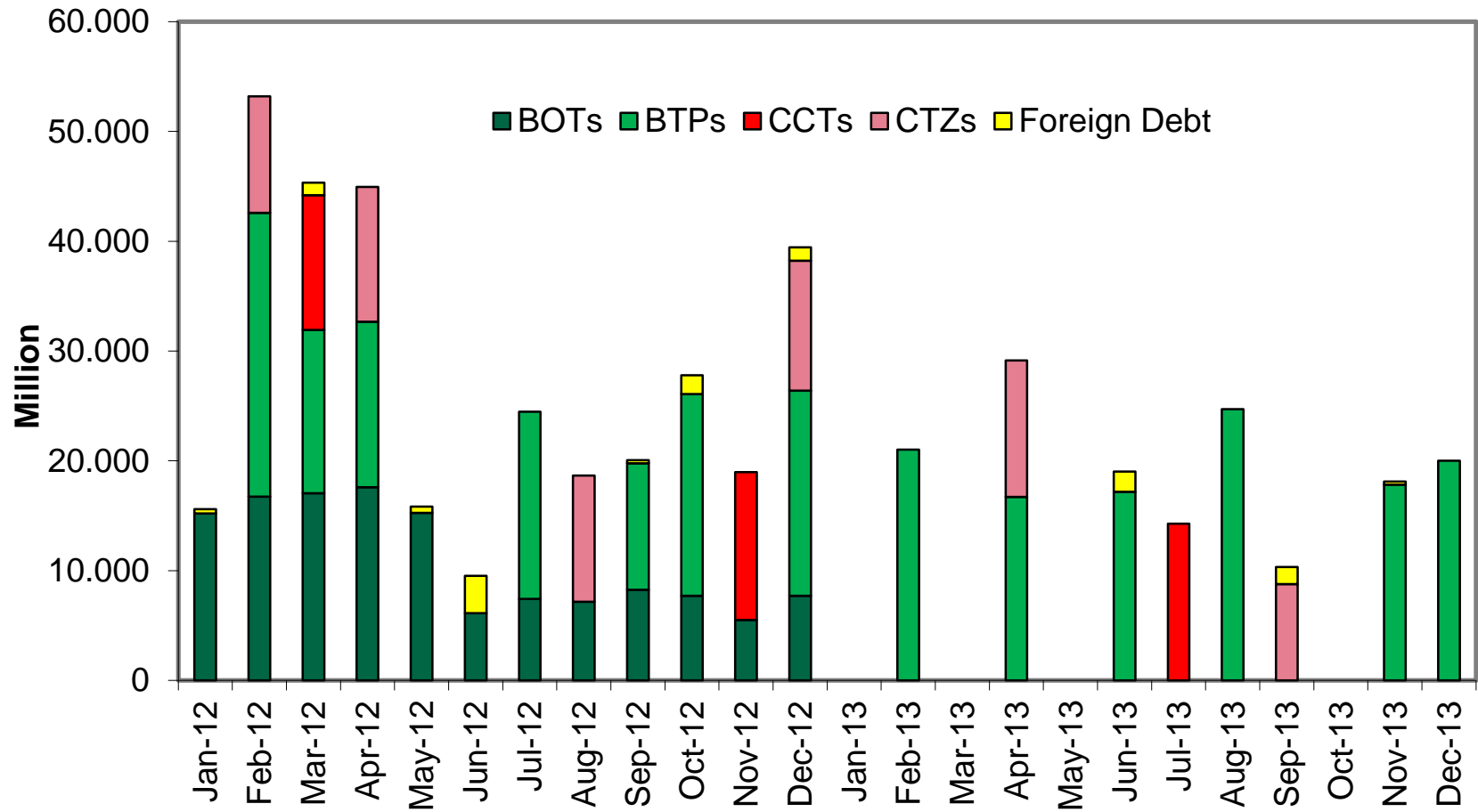
2011 state sector borrowing trends in line with fiscal targets



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Big redemptions almost out of the way



source: Ministry of Economy and Finance
As of 31 December 2011



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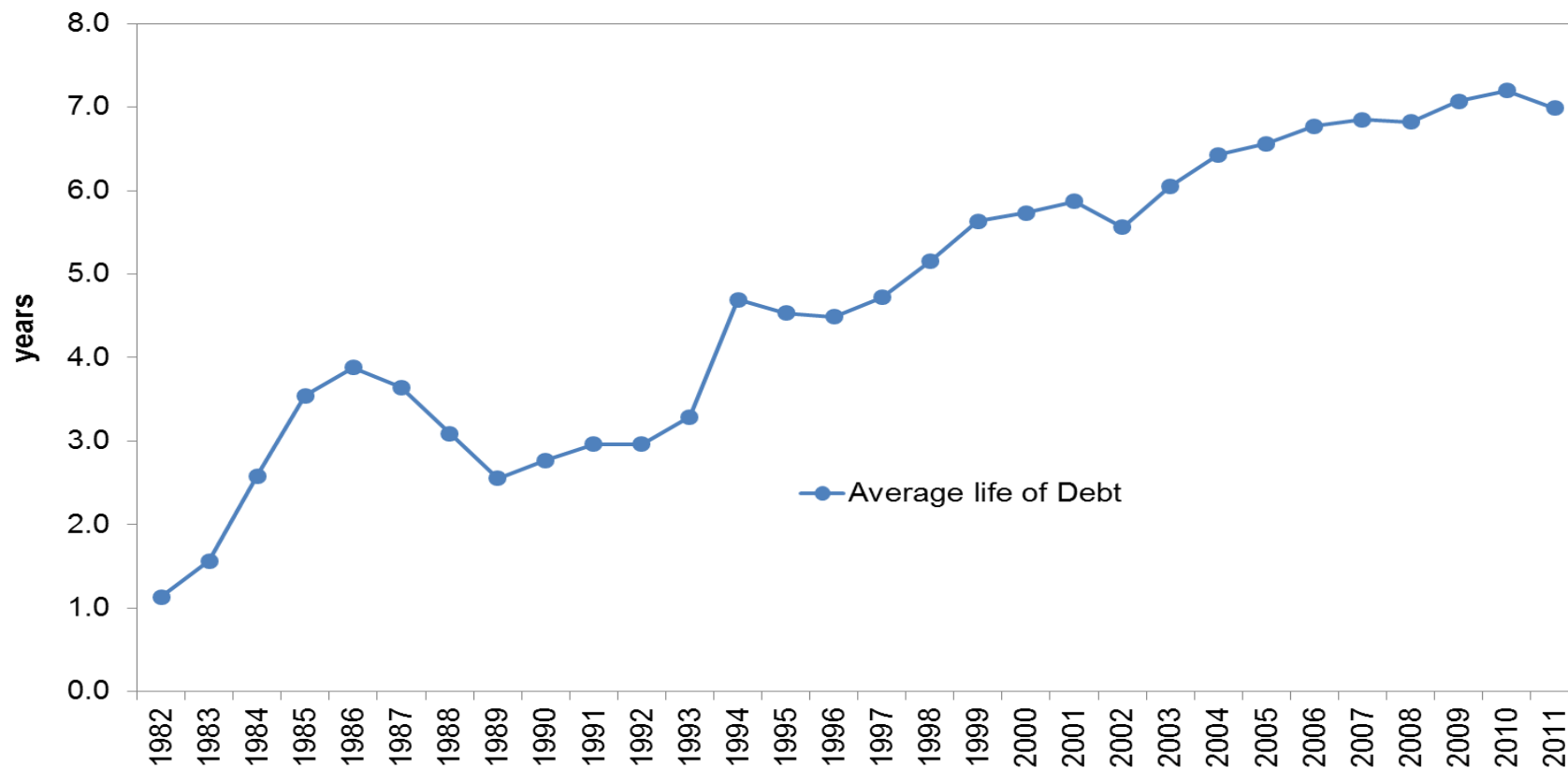
Total gross issuances will hover around €450 bn in 2012

Gross issuance, net of exchange transactions (€ Bn)

	<u>2007</u>	<u>2008</u>	<u>2009</u>	<u>2010</u>	<u>2011</u>
Short-term bonds	231.7	277.9	273.3	214.9	213.7
Medium-long-term bonds	177.4	198.7	261.1	250.2	209.9
Total	409.1	476.6	534.4	465.2	423.6



Yet, lengthening in average life of debt has reduced risks



source: Ministry of Economy and Finance

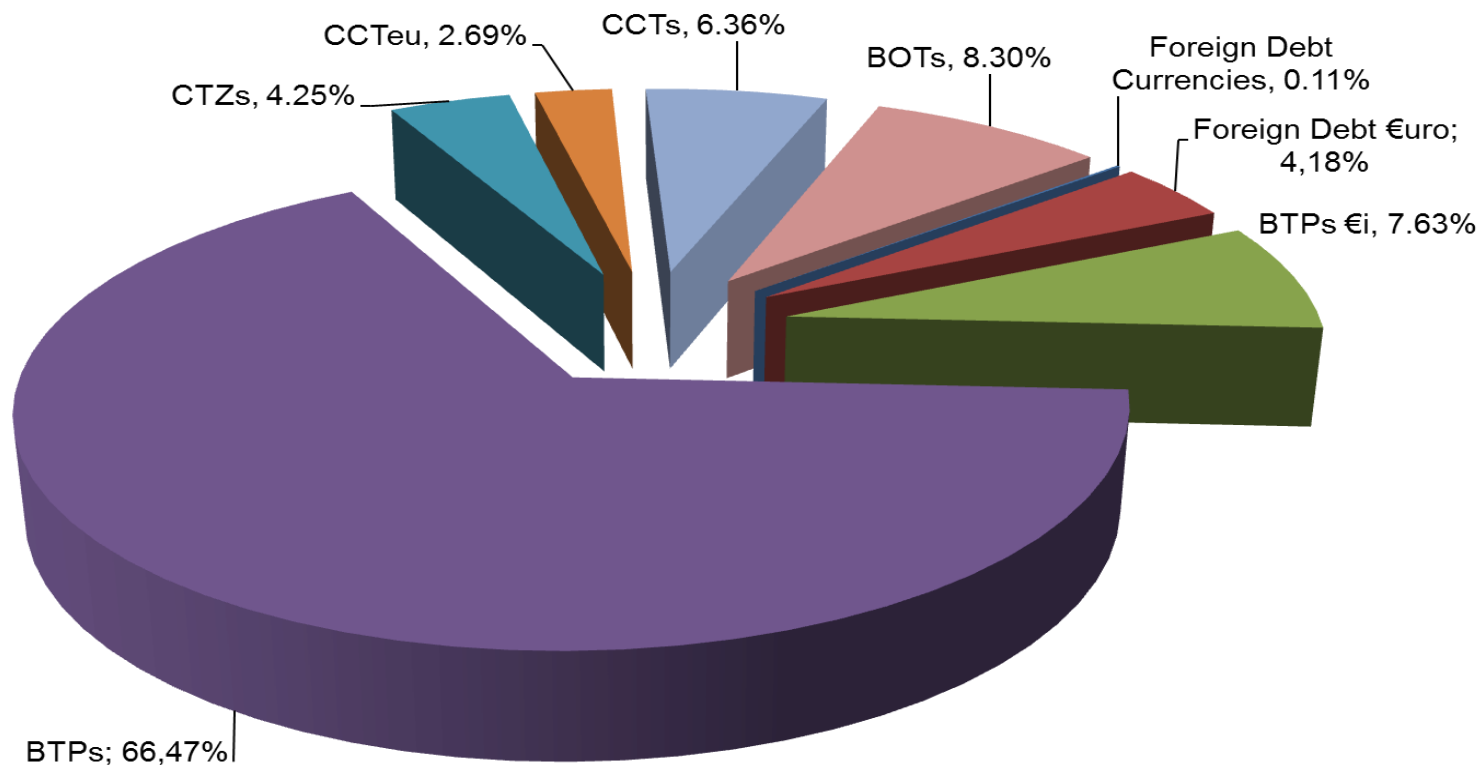
As of 31 December 2011



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With a high share of fixed income and long-term securities



source: Ministry of Economy and Finance

As of 31 December 2011

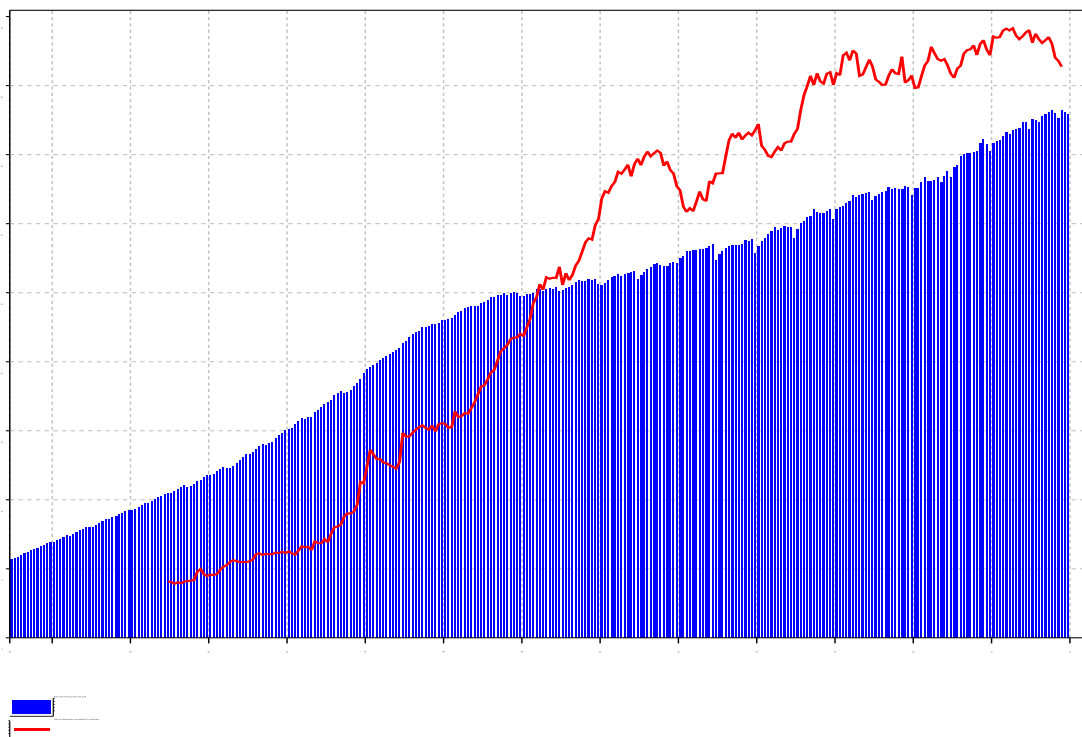


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Relatively stable share of public debt held by non residents



As of October 2011



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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'.
- Paying due attention to **burden sharing and fairness**.



Measures for fiscal consolidation, growth and social fairness

(Law no. 214/2011 – ‘Salva Italia’; Decree Law no. 1/2012 – ‘Cresci Italia’; Decree Law no. 5/2012 – ‘Semplifica Italia’ – Decree Law no. 16/2012 – ‘Semplificazioni tributarie’)

- **Fiscal consolidation and constitutional reforms**
- **Expenditure cuts and pension reform**
- **Revenue increase and public debt reduction**
- **Growth and social fairness**
- **Competition and infrastructure**



Fiscal consolidation

- **Balanced budget by 2013.**
- **December 2011 supplementary fiscal package** worth **€20.2bn** in 2012, **€21.3bn** in 2013 and **€21.4bn** 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**, fight against tax evasion, increased fiscal transparency and **direct measures to reduce public debt**.

Expenditure cuts

- Cuts in **social security spending** (€9.2bn - €7.6bn net of feedback effects).
- Sizeable efficiency savings in **local government** (€5.0bn).
- Cost reduction in the number of politically appointed board members in public entities and local government.
- Responsibilities and resources of provinces to be transferred to Municipalities and Regions by December 2012.



Pension reform: key achievements

- **Enhances the medium and long-term sustainability** of Italy's pension system.
- **Guarantees fairness** across and intra generations.
- **Promotes greater flexibility** and improves the incentive structure to remain at work even after the statutory retirement age.
- Links retirement age and contributory periods to **changes in life expectancy**.
- **Improves transparency**, merging entities providing pensions (INPDAP and ENPALS into INPS).



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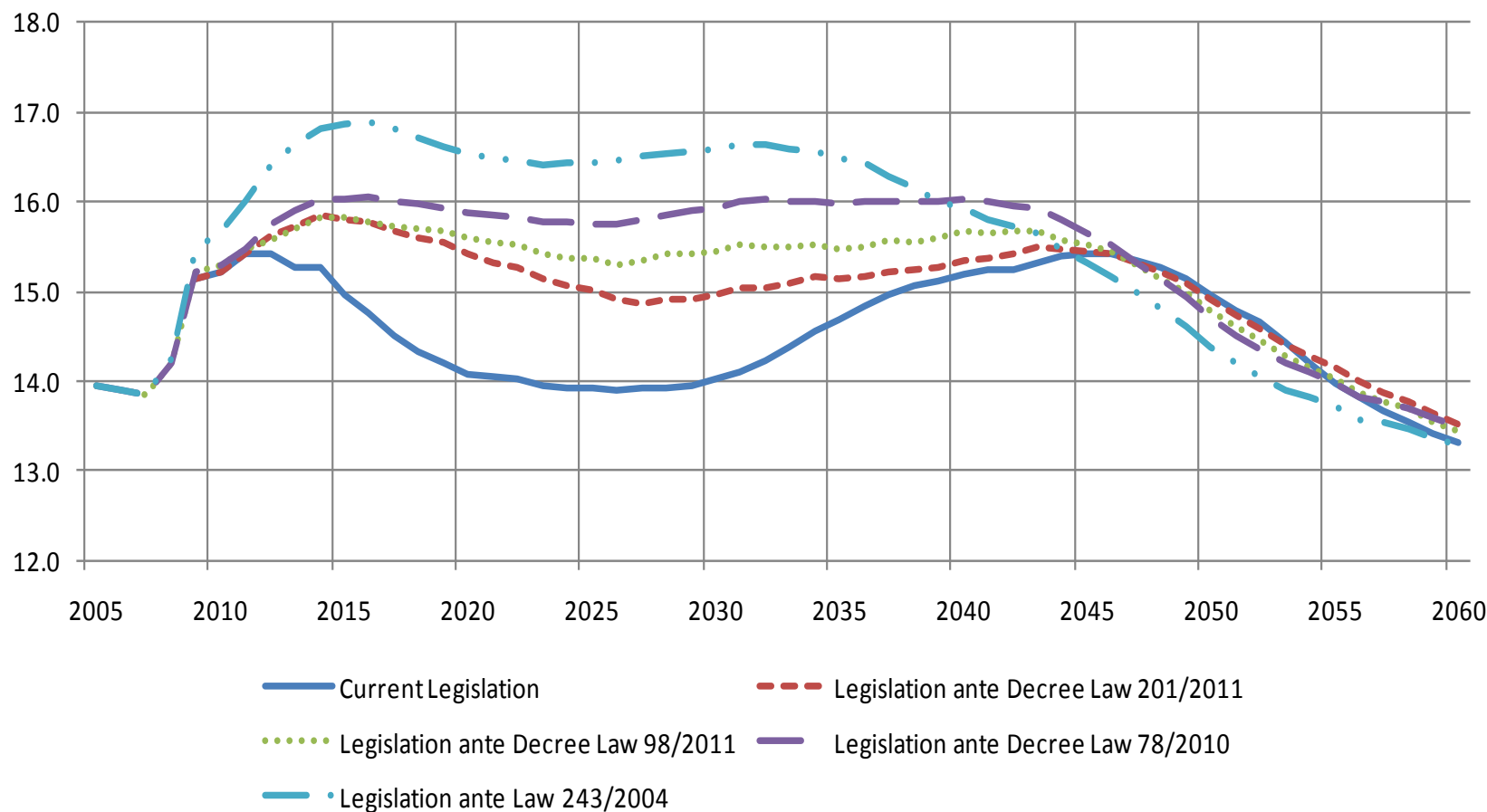
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Pension reform: major structural savings

- About **€7.6bn** total cumulative savings (net of taxation) in 2014, increasing to almost **€22bn** in 2020.
- In 2012-13, **indexation freeze** for 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). Solidarity contributions for high-income pensioners.



Sizeable effect on pension spending as % of GDP



Pension reform details (1)

- **Extension of the contribution-based system to all workers** as of 2012 and alignment in the statutory retirement ages.
- **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 minimum age of **66 as of 2018**.



Pension reform details (2)

- **Increase from 65 to 66 in statutory retirement age for all other workers, as of 2012.**
- **So-called “windows mechanism” eliminated.**
- **For workers hired after 1996, at least 20 years of contribution and pension benefits equal to at least 1.5 times the social pension are needed to retire (old-age pensions).**
- **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).**



Pension reform details (3)

- **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.
- 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).



Pension reform details (4)

- For people retiring before 62, the benefits related to contributions accrued before 2012 **will be reduced by 1pp per year** (increasing to 2pp when more than 2y) up to the age of 62.
- **For workers hired after 1996, possibility to retire at 63 with at least 20 years of contributions** and a pension benefit equal to at least 2.8 times the social pension (**early retirement**).



Pension reform details (5)

- As of 2013, **all pension requirements** (both age and contributions) will also change in line with developments in life expectancy. After 2019, **adjustments for the effects of life expectancy** will be carried out every 2y instead of every 3y.
- **Only for 2012:** men employees aged more than 64 can retire with 35y of contribution; women aged 60 can retire with 20y of contribution.
- Creation of a board of experts to study new forms of **de-contribution** for the third pension pillar, in particular for young people.



Revenue increases

- **Increase in cadastral value of buildings** and 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%) from October 2012. Additional 0.5pp increase in 2014.
- Introduction of a **tax on 'tax-shielded' assets** and measures to **increase** transparency and widen **tax bases**.



Fight against tax evasion

Fight against tax evasion was strengthened in a number of ways (decree Law no. 201/2011):

- The legal threshold for **cash payments** was lowered to € 1000.
- **Less invasive controls** will apply to tax payers who are compliant with so-called sectoral studies.
- As of January 2012, the **transmission to the Tax Agency** of all electronic records and financial transactions is done by banks and other intermediaries.
- **Cheating** to the Tax Agency is now a criminal offence.



Fight against tax evasion (2)

In the 2012-2014 strategic guidelines by the Prime Minister, fighting against evasion has the following priorities:

- Focus on **large tax payers** and **VAT frauds**.
- Synergies with the **Social Security Institute (INPS)** in order to crack down on undeclared economic activity.
- Improved **sharing and transmission** of data between Central and Local Governments to curb evasion.



Fight against tax evasion and business cycle

- Reconciling the fight against evasion with the need to lighten the tax burden on company and individual taxpayers facing economic difficulties.
- Company and individual taxpayers can now apply for a delay in the payment of tax liabilities.
- Instalments can be either constant or increasing so as to strengthen the countercyclical feature of this option.



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**.



Further measures to reduce public debt

- On February 2010, the Department of the Treasury launched a census of **public property assets**.
- The census was widened also to **concessions** and **holdings**.
- The deadline for completion of the census and transmission of data to the Treasury is 31 July 2012.



Data mining in real estate assets

	Area (bn of Sq. Metres)	Estimated market value (€bn)*	
		min	max
Real estate units	0.2	239	319
Land	13	11	39
Total	13.2	250	358

() Real estate market value was estimated on the base of minimum and maximum prices recorded by the Real Estate Market Observatory (OMI) throughout the nation, while the market value for land was estimated on the base of market prices indicated in the INEA database considering minimum and maximum prices for each type of crop at provincial level. Data based on information available up to March 2011.*

Data refers to only 53% of Public Administrations.



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Public holdings in 2009: data received up to May 2011

Legal form of company/entity	No.	%
Corporation	9,516	39
Limited liability company (Ltd)	3,961	16
Cooperative	1,440	6
Services management consortium	3,406	14
Other	5,482	22
Not available	827	3
Total	24,632	100
<i>memo: Total number of companies</i>	<i>13,111</i>	

Data refers to only 36% of Public Administrations.



Focus on Municipalities: big potential for privatisation

Legal form of company/entity	Company/entity		Holdings	
	No.	% over the total	No.	% over the total
Corporation	1,226	32	8,117	42
Limited liability company (Ltd)	1,067	28	3,088	16
Cooperative corporation	33	1	340	2
Cooperative Ltd	167	4	808	4
Association and Foundation	216	6	292	2
Special company*	85	2	389	2
Services management consortium	422	11	2,945	15
Economic public body (EPE)	25	1	107	1
Other	518	13	2,910	15
Not available	99	3	383	2
Total	3,858	100	19,379	100
% over Public Administrations		29		79
<i>memo: Total of Public Administrations</i>	<i>13,111</i>		<i>24,632</i>	

(*) Entity with legal personality and limited liability.

- **79% of public holdings is held by Municipalities, corresponding to 29% of companies owned by Public Administrations.**
- More than a half of these holdings refers to corporations and limited liability companies.

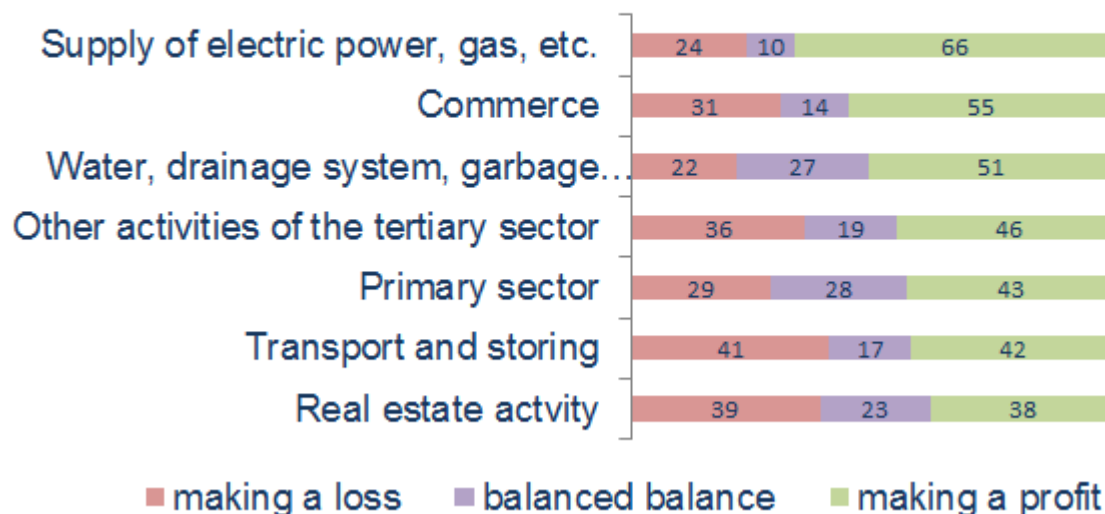


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Focus on Municipalities: big potential for efficiency gains

Distribution of holdings by economic result
(% of each sector)



- Profitability of holdings does not depend either by legal form and type of activity.
- Companies making a profit yield on average a 6.7% total return;
- **Overall, the portfolio held by Municipalities yield a 1.8% total return.**



How much can be expected from the sale of public properties?

- **Proceeds from the sale of real estate by Public Administrations would amount to about €35-40bn.**
- The estimate does not include the effects deriving from better management of public real estate and the potential increase in value of public holdings.
- Further categories of public assets, such as financial credits and non-tangible assets (patents, start-up, etc) could be considered in the future.



Constitutional reforms

- **Balanced budget rule included in the Constitution:**
Parliament voted on the draft amendment in December, final vote in the spring (to become effective in 2014).
- **Independent authority** for monitoring fiscal developments to be established by 2013.



Measures for growth and social fairness

- **The new tax framework for business (ACE)** reduces the tax burden on capital investments to support economic growth.
- **Deductibility of the labour component of IRAP for companies hiring new employees**, with greater deductions in the case of women and workers under 35 as well as for Southern regions.
- Measures to fight tax evasion, including a **ban on cash payments above €1000**.
- **Upper limit** on salaries of public officials and employees in companies fully-owned by the government.



Infrastructure

- Planning, coordination and approval based on CIPE's evaluation of project submissions (CIPE: interministerial committee for economic planning).
- New rules on **management and time limits of projects.**
- Road infrastructure, security regulations for big dams, logistics, construction sector regulation.
- Enhancement of **project financing for infrastructure's development.**



Liberalisation, competition and competitiveness (1)

- Liberalisation of **opening hours** for retailers. **New liberal professions' regulation.**
- Elimination of ex-ante controls on businesses. **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.**
- Measures in favour of **SMEs**, with substantial simplification in their administrative burden. Establishment of an institute for the internationalisation of companies.



Liberalisation, competition and competitiveness (2)

- Reduction in the **administrative burden** for firms: elimination of limits, permits, licenses for business start up.
- Payment of citizen's tax liabilities with an initial lower and gradually increasing rate.
- Establishment of a **simplified framework** for limited liability company for people under 35 years.
- Monitoring by the Government of regional and local laws to ensure coherence in **promoting competition**.



Liberalisation, competition and competitiveness (3)

- Limits to **class action** in order to make it more effective.
- Protection from deceptive and aggressive trade practices also for **businesses with less than 10 employees**.
- More detailed contents of the “**Carta Servizi**”.
- Enhanced competition in **local public services**: incentives to increase competitiveness of public companies, additional funds for local authorities issuing public tenders for entrusting public services and for making public companies more efficient, strengthened role of the Antitrust Authority for local public services.



Liberalisation, competition and competitiveness (4)

- Enhanced competition in **banking and insurance services**, which will reduce costs and improve the quality of services.
- For **banking services**, a standard current account cost and fees on withdrawals is established also for ATM.
- For **insurance services**, measures to enhance competition and reduce frauds.



Liberalisation, competition and competitiveness (5)

- **Gas and electricity:** e.g. new regulated indexation of gas prices for household and SMEs, unbundling of gas network and others.
- Liberalisation of **fuel and non-oil distribution** in petrol stations.
- Dismantlement of decommissioned **nuclear sites**.



Liberalisation, competition and competitiveness (6)

- Strengthened Energy and Gas Authority, which becomes **Authority for networks**, for regulation in the transport sector.
- Strengthened competition in the **transport sector**, in particular for taxis and railway services.
- **Attracting private investment in infrastructure:** introduction of 'project bonds' and public-private partnership, easier concessions to build and manage public infrastructure works with increased price competition; simplifications of projects approval.



Liberalisation, competition and competitiveness (7)

- Enhanced competition in **professional services**: abolition of minimum fees, easier access to professions, increase in the number of pharmacies and notaries.
- Liberalisation of the **sale of newspapers and magazines**.
- In the building sector, municipalities can provide exemptions to the **charges on property** for three years.
- Additional revenues of **VAT** allocated to fund projects for port works.
- **Harmonization** of domestic legislation with the European framework (medical devices, aid to SMEs in specific regions).



Simplification (1)

- Possibility for citizens to obtain **most certificates online**.
- Quicker renewal of driving licenses, simplified procedures in order to control car exhaust gas, parking permits easier for disabled.
- Earlier start of maternity leave.
- **Reduction in the administrative burden** for recruitment of non-EU citizens.



Simplification (2)

- **Reduction of controls and checks** for start-up businesses.
- Creation of a **National database for public works contracts**.
- Simplification in **agriculture and fisheries** (electronic register of the agricultural and fishing businesses).
- Identification by the Government of activities subject to SCIA regime (*Segnalazione di inizio attività*).



Simplification (3)

- **Plan for the construction and maintenance of schools and for the autonomy of their management** (strengthening the evaluation system – INVALSI, guidelines to establish territorial networks of schools).
- Creation of a **common portal for universities** to register on line the results of students' exams.
- New criteria to select research projects, in particular for researchers 'under 40'.



Simplification (4)

- **SMEs** will fill only one form for environmental requirements.
- Conversion of **disused refineries**.
- Real estate **energy requalification**.
- **Digital Agenda**: creation of broadband networks, online data by public institutions, sharing of data within the PA, citizens and PA will exchange information electronically.

