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Structural reforms in Italy

"Germania & Italia: Gruppo giovani"

Promozione dell'economia e della crescita economica in Germania e Italia

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MINISTERO DELL'ECONOMIA E DELLE FINANZE

The international crisis and Italy's economy

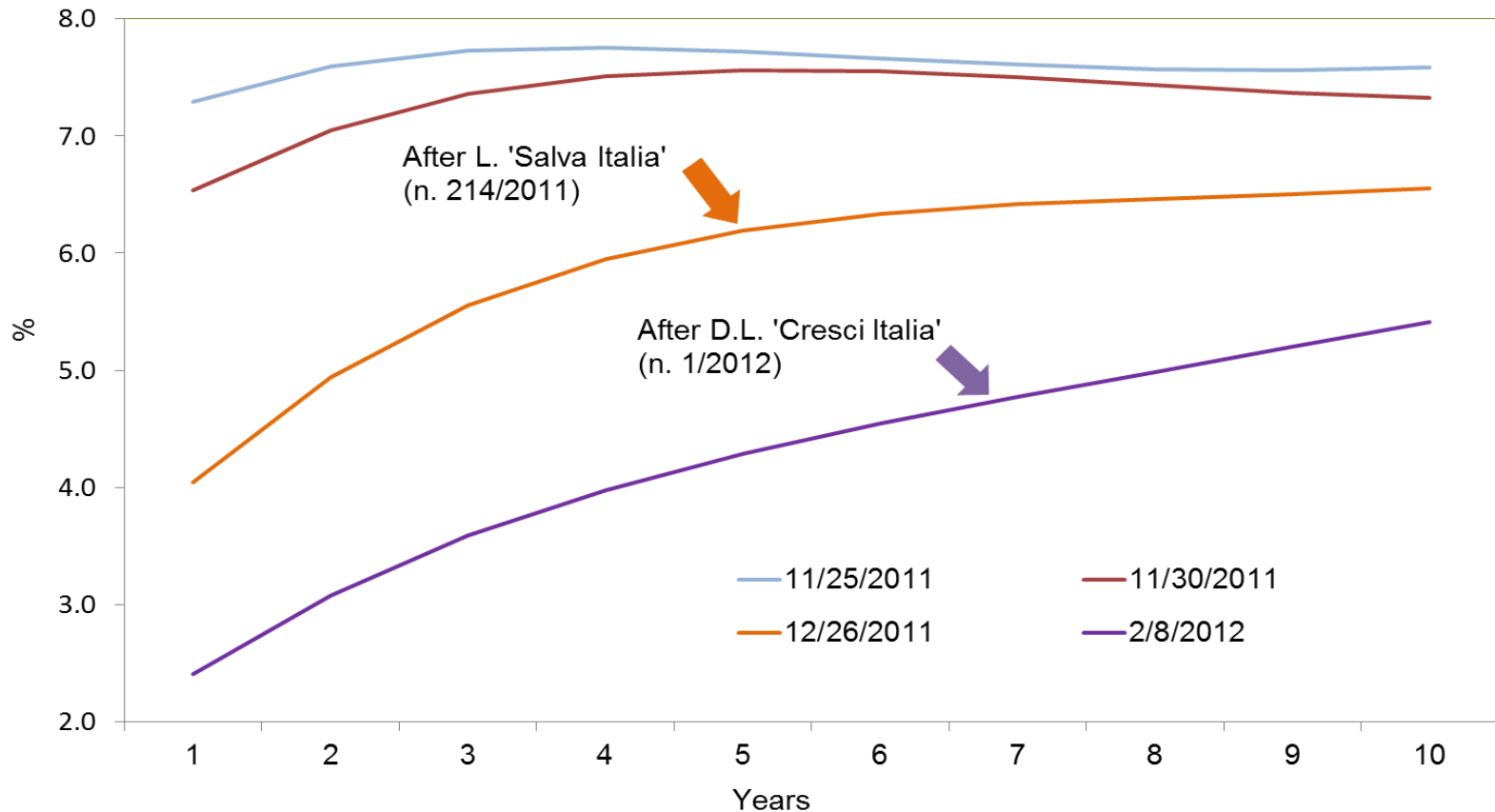
- **No major macroeconomic imbalances apart from high public debt:** no major bubbles in the housing market, low household debt, fundamentally sound banking system, no major external imbalances.
- **No increase in discretionary spending during the crisis:** very prudent fiscal policy; automatic stabilisers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



Measures for stability and growth (December 2011 – January 2012)

- **“Salva Italia”**, decree law no. 1/2012 - **financial stability** (ca. 20 bln Euro over 2012-14 + 10 bln Euro for SMEs (“guarantees fund”) and for employment (fiscal incentives)
- **“Cresci Italia”**, decree law no.5/2012 – **growth: more competition, more infrastructure** (less bureaucracy for start-ups, new financial instruments involving private capitals (e.g. project bond), more meritocracy (e.g. evaluation of Universities), (some) liberalisations, separation between energy distribution and infrastructure) **and equity** (e.g more consumers’ protection)
- **“Semplifica Italia”** – decree law no. 16/2012

Market pressure abating on Italy's govies



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Key structural reforms (undertaken and in fieri)

- Permanent public budget cuts
- Reduction of administrative burden (simplifications, etc.)
- Product market reforms (liberalization, pro-competitive rules, etc.)
- Pension system reform
- Labour market reform (EPL and UB)



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.



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)

- More effective **class actions**
- 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 Automatic Teller Machine (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.



Pension reform: main principles

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



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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).**

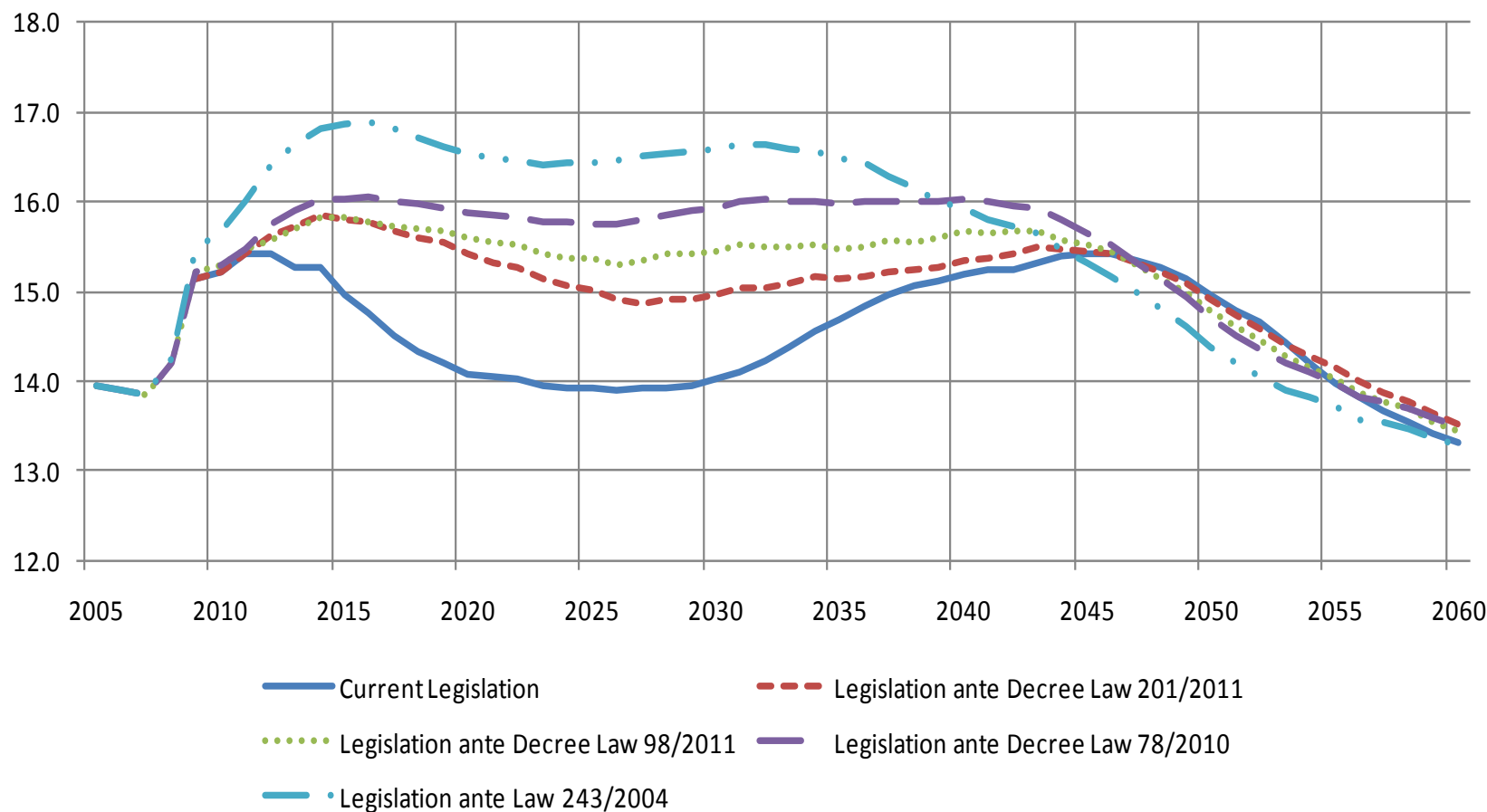


Pension reform details (3)

- 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.



Sizeable effect on pension spending as % of GDP



Further interventions

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).

Anyway: **Balanced budget by 2013**

- **Independent authority** for monitoring fiscal developments to be established by 2013.

Spending review



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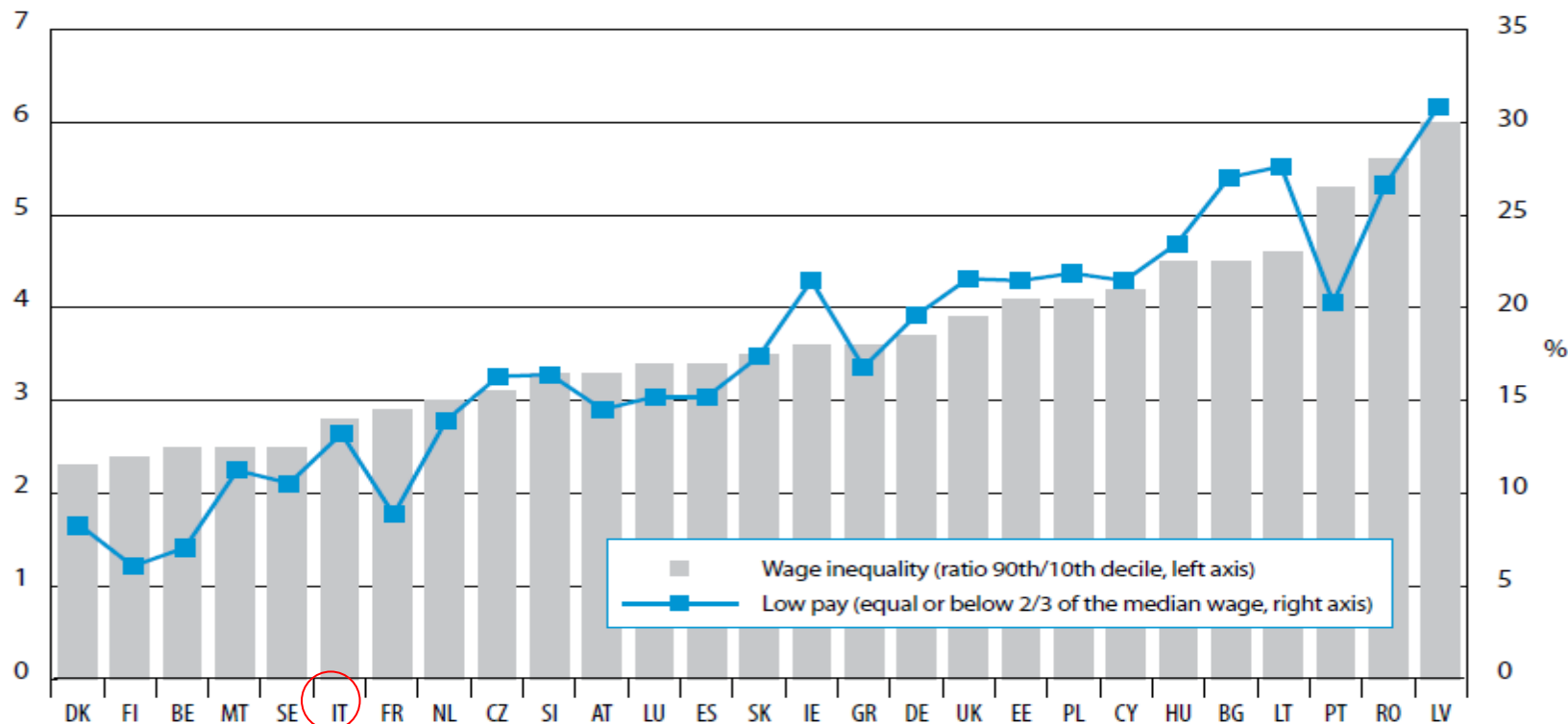
Wage bargaining –towards decentralisation (article 8 of Law n.148/2011, August)

Article 8 of Law n.148/2011 (austerity program) specifies the contractual matters and conditions under which firm level negotiation is allowed to derogate from the national-industry one:

- Working arrangements related to quality of work contracts;
- Increasing competitiveness;
- Managing employment and corporate crisis;
- Investment or start-up.



Wage inequality and low pay



(ECS).

With only a few exceptions low pay and wage inequality are higher in countries where company-level bargaining dominates and coverage of collective agreements is low.



In the context of the economic crisis and the debate about wage flexibility:

- The decentralisation of collective wage bargaining has continued to advance in Italy.
- At the same time, there is an increasing need to pay attention to wage inequality.

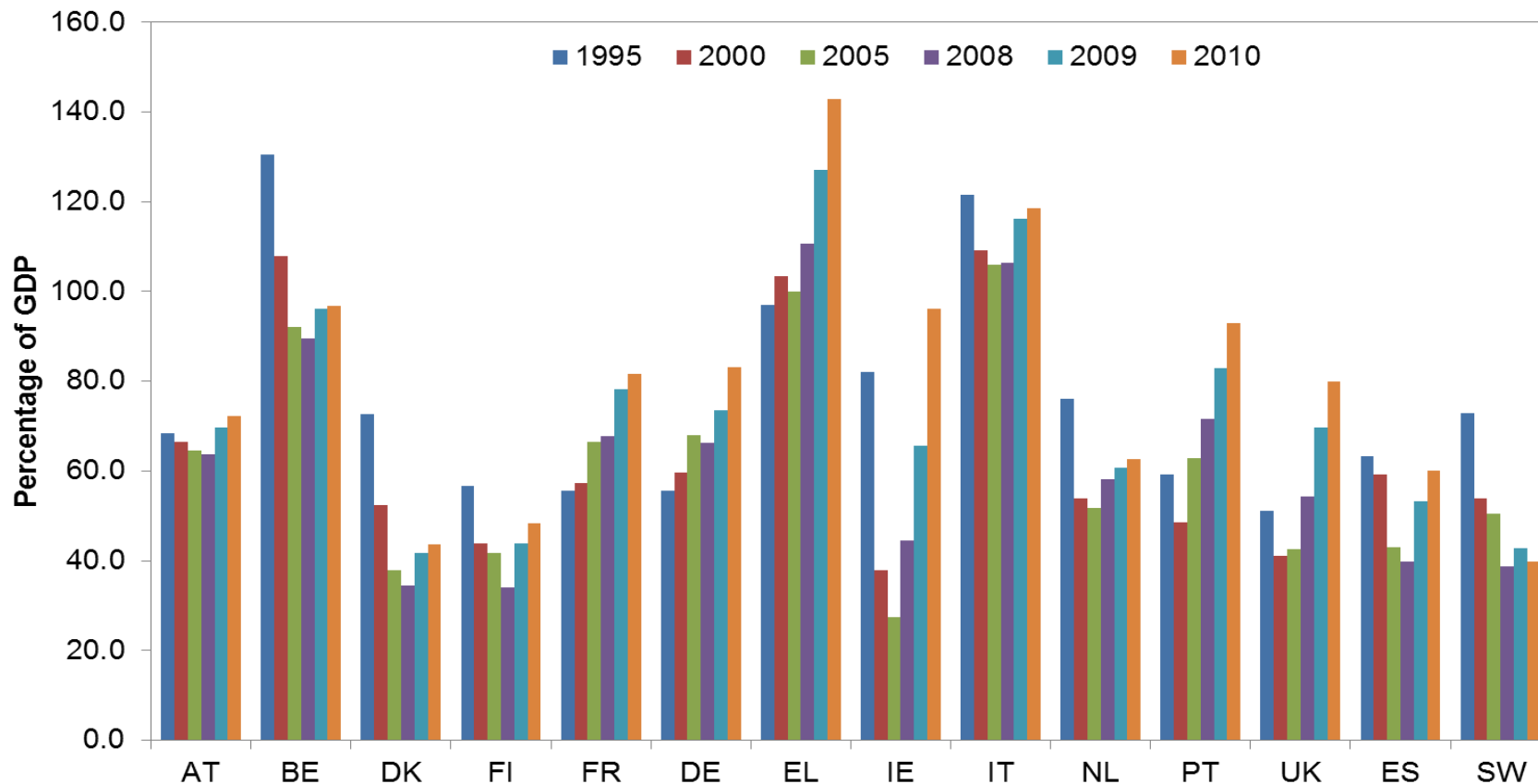


Public finance

	Saldo primario 2011	Deficit 2011	Debito 2011	Incremento debito dal 2007
Germania	1,1	1,3	81,7	16,6
Italia	0,9	4,0	120,5	17,4
Belgio	-0,3	3,6	97,2	13,1
Portogallo	-1,6	5,8	101,6	33,3
Grecia	-2,2	8,9	162,8	55,4
Paesi Bassi	-2,4	4,3	64,2	19,0
Francia	-3,2	5,8	85,4	21,2
Spagna	-4,5	6,6	69,6	33,4
Giappone	-4,5	7,2	206,2	39,2
Regno Unito	-6,4	9,4	84,0	39,5
Irlanda	-6,7	10,3	108,1	83,2
Stati Uniti	-7,0	10,0	101,0	38,6



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



Source: Eurostat



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Measures for growth and social fairness

- **The new tax framework for business (ACE – aiuto alla crescita economica)** 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.

..but need for further measures aimed to boost growth by facing relevant bottlenecks:

- Inadequate level of productivity
- Weak labour market

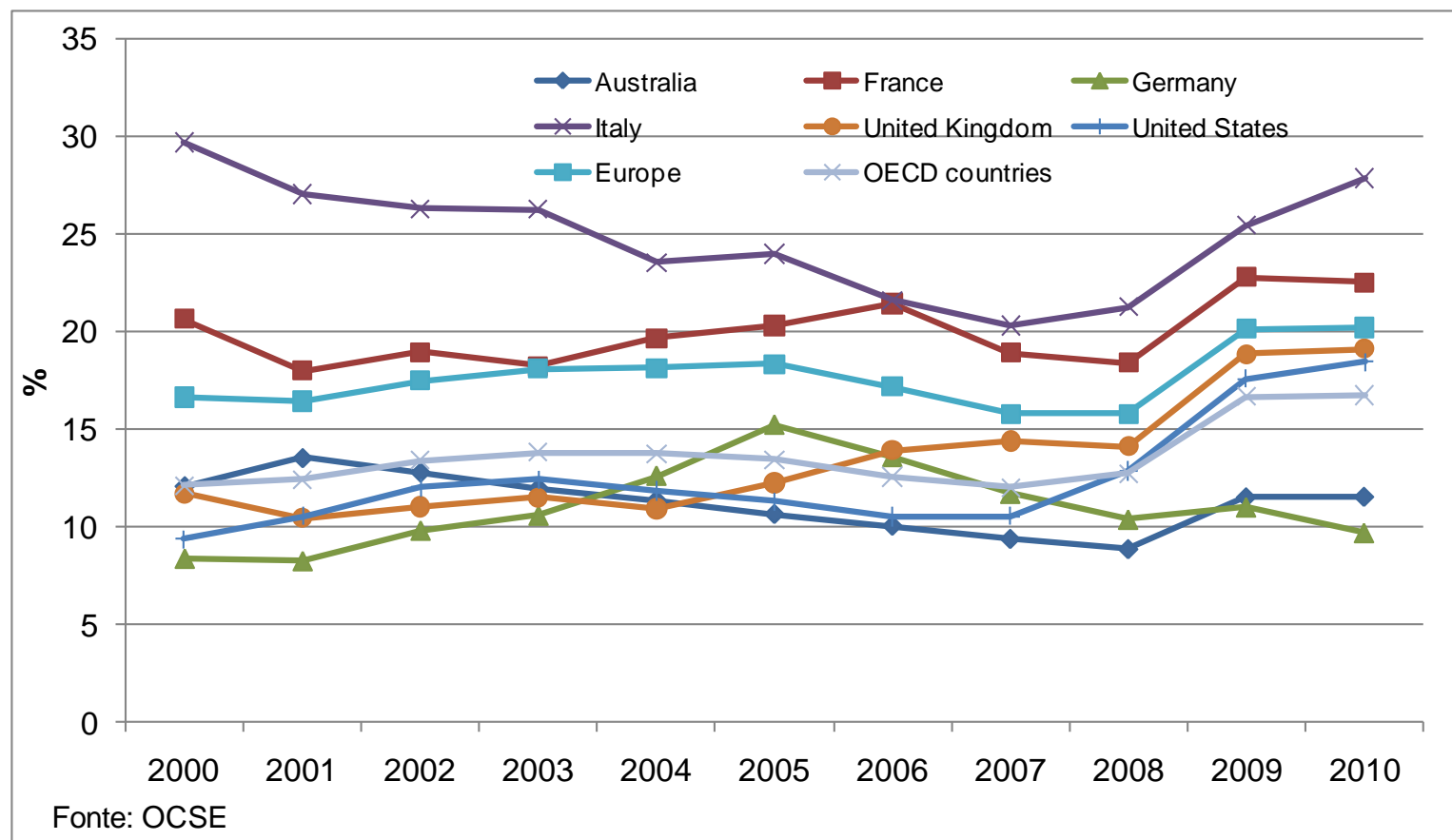


The “labour market reform” package – issues at stake

- Low labour market flexibility (EPL)
- Weak social safety net (UB)
- Insiders/outside dualism + generation/gender relevant differences
- Territorial segmentation (North/South)



Unemployment rates in some OECD countries (2000-2010)



Europe 2020 - the EU's growth strategy for the coming decade

- Same objectives of the Lisbon strategy: **growth, competitiveness and employment**
but
- More limited/focused targets to reach (because of the external context of worldwide crisis) + exit strategy within an enhanced framework of **European economic governance** (consolidation of public finances – Fiscal compact: stronger ex ante monitoring)



The "Europe 2020 Integrated Guidelines" are the following:

- Guideline 1: Ensuring the quality and the sustainability of **public finances**
- Guideline 2: Addressing macroeconomic imbalances
- Guideline 3: Reducing imbalances in the euro area
- Guideline 4: Optimising support for R&D and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy
- Guideline 5: Improving resource efficiency and reducing greenhouse gases emissions



..continued

- Guideline 6: Improving the business and consumer environment and modernising the industrial base
- Guideline 7: Increasing **labour market participation and reducing structural unemployment**
- Guideline 8: Developing a **skilled workforce responding to labour market needs, promoting job quality and lifelong learning**
- Guideline 9: Improving the performance of **education and training systems** at all levels and increasing participation in tertiary education
- Guideline 10: Promoting **social inclusion** and combating poverty



ITALY - Key labour market indicators

- **Unemployment rate** (15-64): 9,2% (+1% compared to last year) *versus* 10.7% Euro zone
- **Activity rate** (labour force/P): 62.2% (51.4% F *versus* 63% M) – so called “discouraged”
- **Youth (15-24) unemployment rate:** 31,1%



..very recently, some (limited) positive signals...

- **Employment rate:** 57,0% (+ 0,2% compared to last year) - Europe 2020 target: 75%
- **Employed people:** + 0,2% versus 2011
- **Inactivity rate (15-64):**37,3% (- 0,8% versus 2011)



Occupational forecasts per sector

L'occupazione al 2010 e le previsioni al 2015

GRANDI GRUPPI PROFESSIONALI***	Numero occupati		Variazione
	2010*	2015**	2010-2015**
Legislatori, dirigenti e imprenditori	85.991	85.694	-297
Professioni intellettuali ad elevata specializzazione	778.361	872.097	93.735
Tecnici	984.930	1.116.949	132.019
Professioni amministrative e di ufficio	502.059	578.271	76.211
Professioni relative alle vendite ed ai servizi alle famiglie	177.708	202.102	24.394
Artigiani, agricoltori e operai specializzati	185.542	209.574	24.032
Conduttori di macchinari e impianti	41.278	44.862	3.584
Professioni non qualificate	327.229	363.007	35.778
Totale occupazione	3.083.100	3.472.556	389.456

*Dati riproporzionati sui valori di Contabilità Nazionale

**Previsioni ISFOL-IRS basate su proiezioni metodo dei coefficienti fissi e metodo delle variazioni semplice (media ponderata)

***Si riportano i grandi gruppi professionali rilevanti per il settore

Fonte: elaborazioni ISFOL-IRS su microdati Istat Forze di Lavoro e previsioni ISFOL-REF



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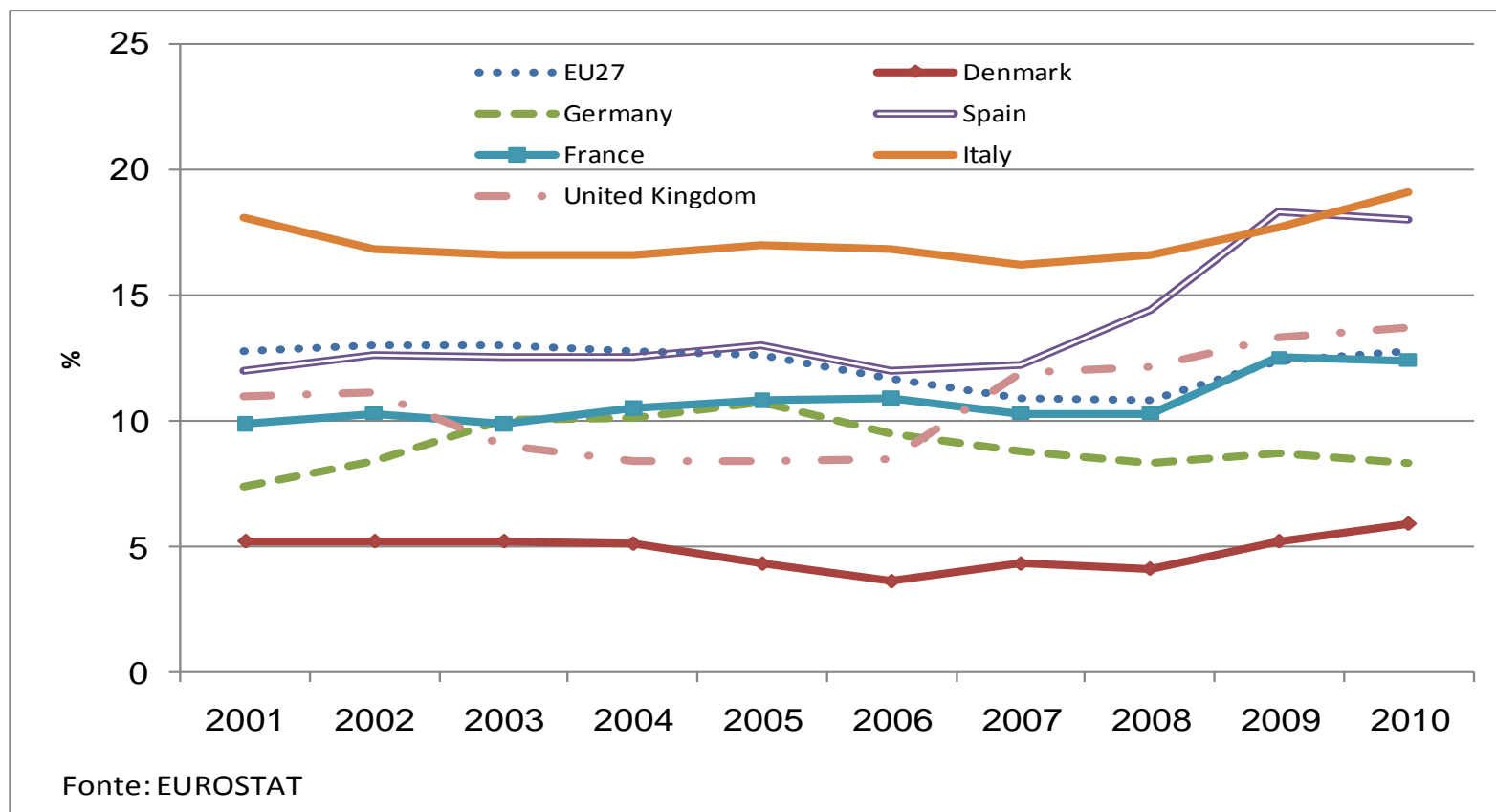
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The «youth problem» in Italy

- High unemployment, high incidence of the so called NEET (*neither in employment nor in education or training*)
- *skills mismatch*
- low quality of first jobs



«NEET» - *Neither in Employment nor in Education or Training* (15-24)



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Legislative measures (entered into force in 2011) to fight unemployment and to reduce the negative social impact of the crisis

- Fiscal incentives for firms hiring young people and women
- Easier access to credit for SMEs



Key pillars of the coming reform (still under discussion)

- **Revision of non-standard contracts** by strenghtening the vocational training component, with focus on **apprenticeship** as the main path for young people to enter the labour market permanently (after 3 years of fiscal incentives benefiting employers). **Flexible contracts** (namely «fixed-term» ones) will cost more for enterprises
- **Broad reform of the unemployment benefit system** in terms of:
 - Limiting the use of «cassa integrazione guadagni ordinaria» (to be granted only for temporary reductions of activity)
 - Introducing an income support for all unemployed people
- **Closer link between active and passive policies**

The EU role and the «action team» for youth unemployment

“Action team”

As agreed at the December EU summit, this initiative is meant, for Countries with high level of youth unemployment, to identify targeted actions to reduce youth unemployment and help small and medium-sized businesses – which create 80 percent of jobs in Europe – obtain credit more easily



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What's next?

General objective

Budget and financial stability measures to be accompanied by initiatives boosting economic growth by preserving also social cohesion



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Thank you



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Microsimulation models

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