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TESORO

Italy’s Strategy for Growth and Fiscal Consolidation

Rome, June 26, 2012

MINISTERO DELL'ECONOMIA E DELLE FINANZE

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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.
- **New policy measures promptly enacted (since 2010) to continue fiscal consolidation and enhance potential growth**.
- **European sovereign debt and banking crisis** represents a major threat to Italy's **economic growth** and **fiscal sustainability.**

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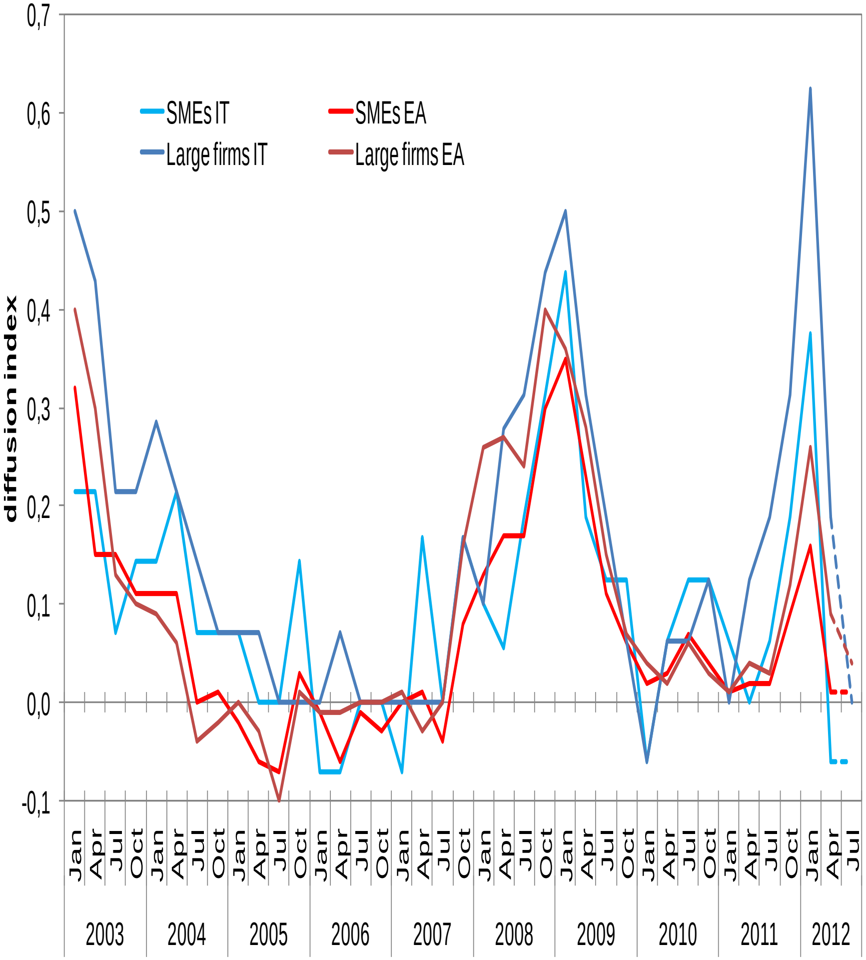
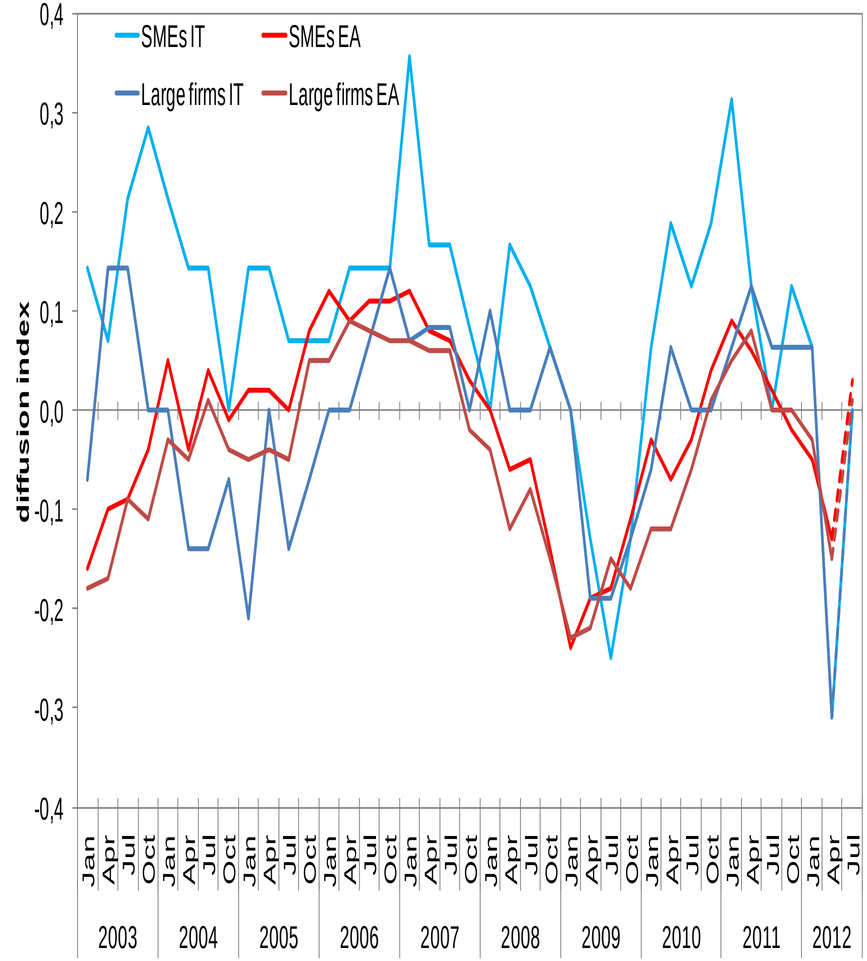
Tightening but, so far, no full-fledged credit crunch

Supply



Demand



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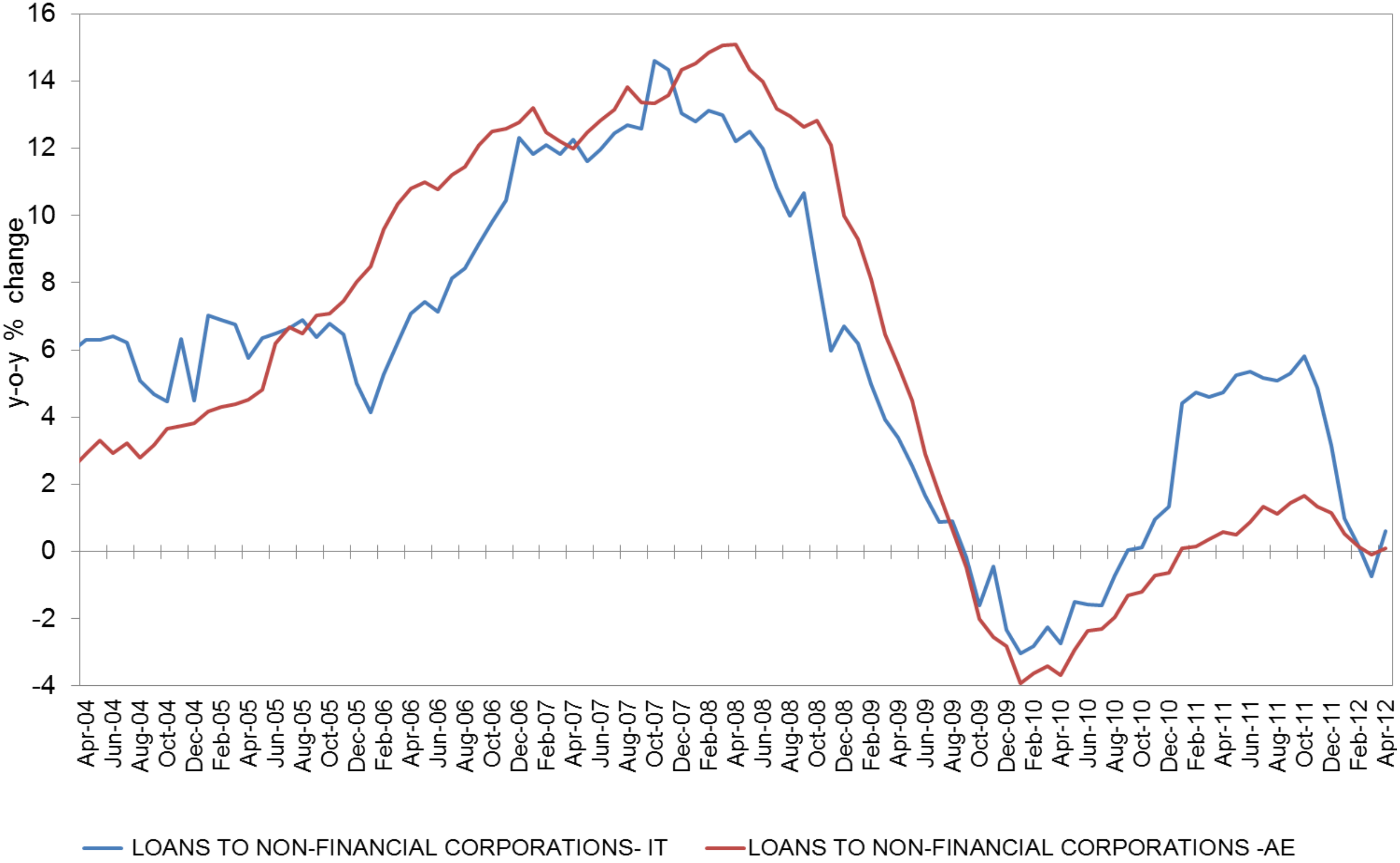
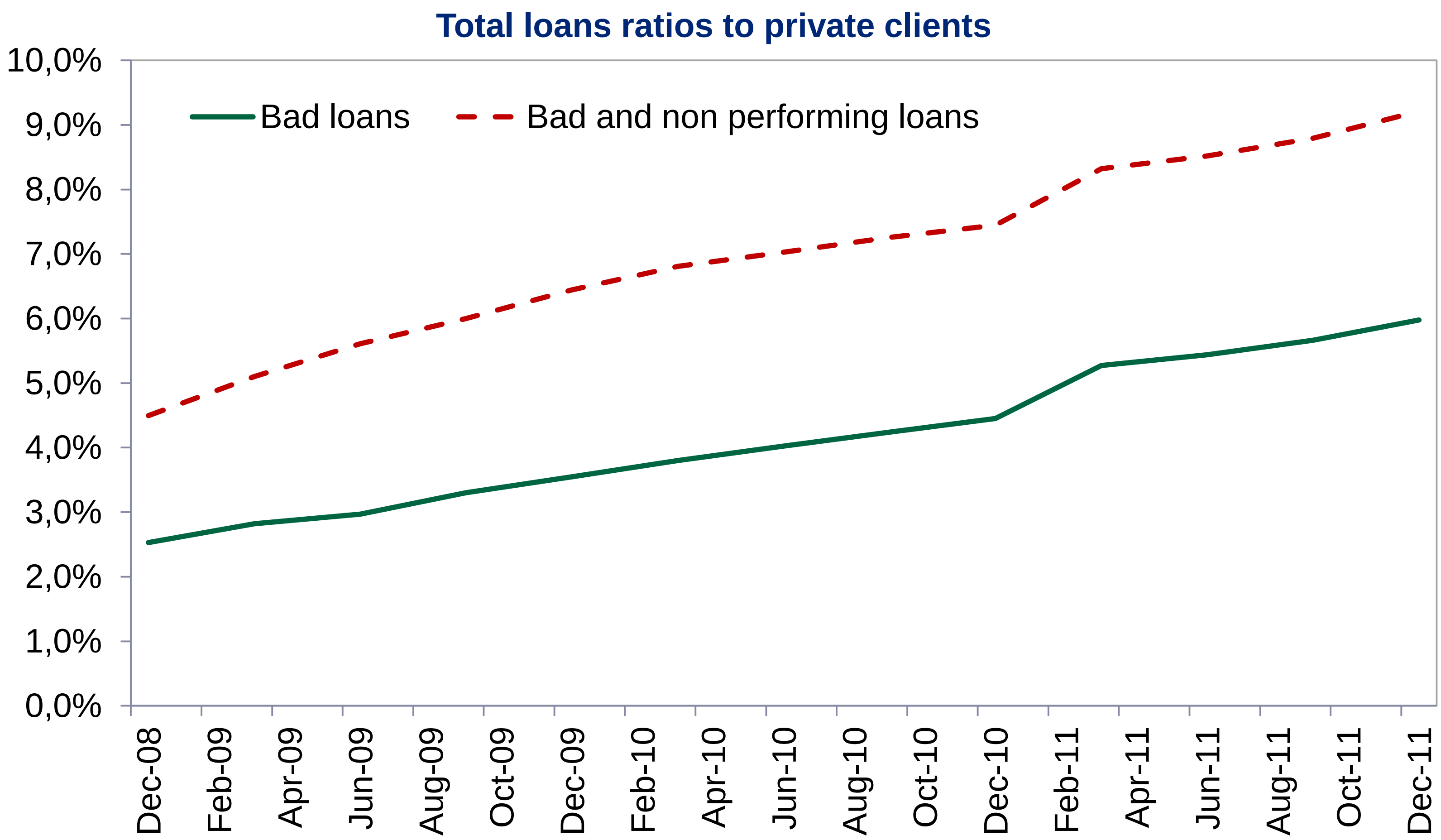
Credit growth slowing fast, in line with the EA



Bad loans are increasing but are still below 10%



Source: Bank of Italy.

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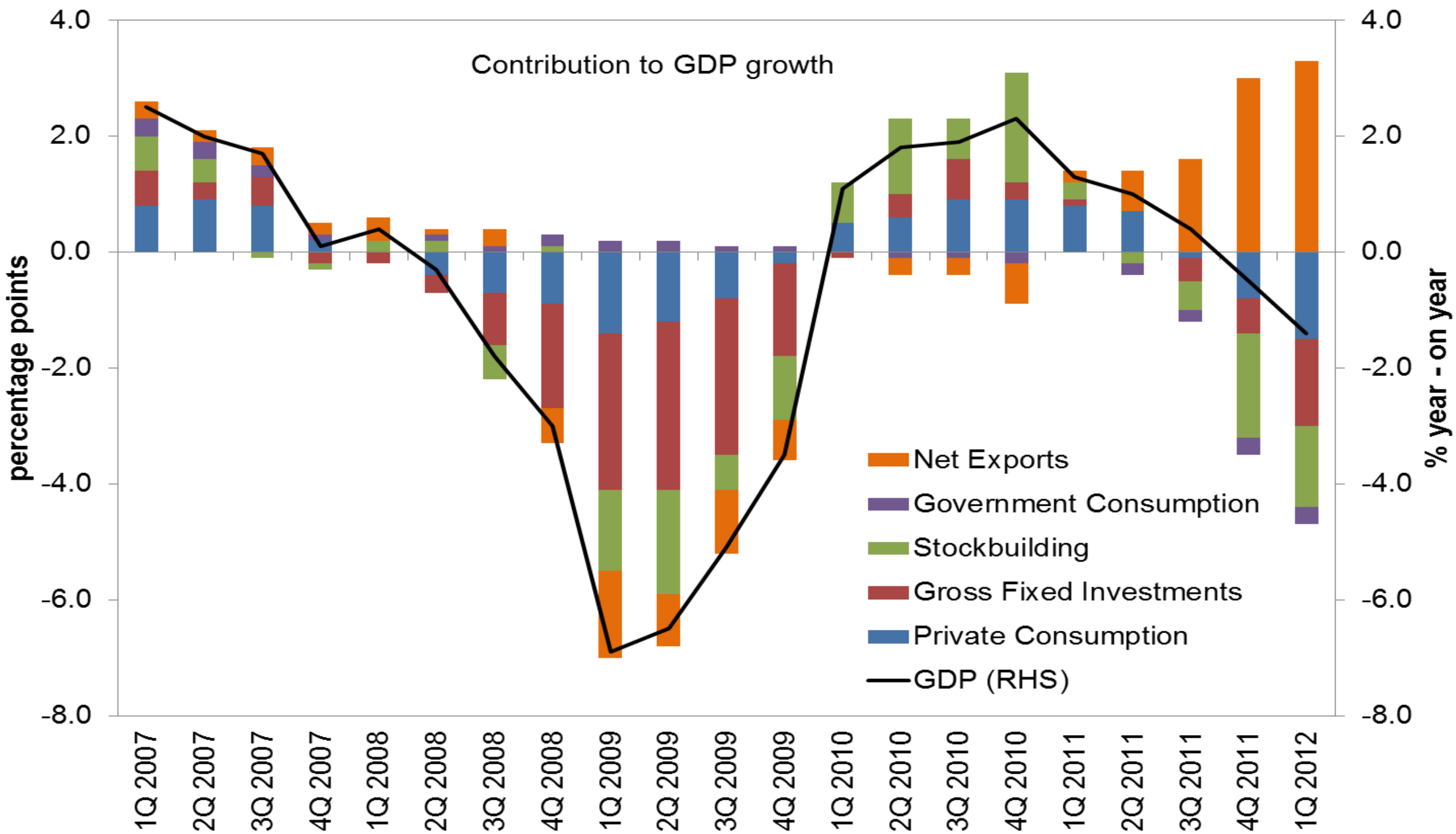
Macroeconomic scenario (2012 DEF)

(% change yoy)	2011	2012	2013	2014	2015
Real GDP	**0.4**	**-1.2**	**0.5**	**1.0**	**1.2**
Domestic demand net of inventories	*-0.4*	*-1.8*	*0.2*	*0.7*	*1.0*
Inventories	*-0.5*	*-0.3*	*0.1*	*0.0*	*0.0*
Net export	*1.4*	*1.0*	*0.1*	*0.2*	*0.3*
Nominal GDP	**1.7**	**0.5**	**2.4**	**2.8**	**3.2**
GDP deflator	**1.3**	**1.8**	**1.9**	**1.9**	**1.9**
Labour cost	**1.4**	**1.1**	**1.1**	**1.4**	**1.3**
Productivity (on GDP)	**0.3**	**-0.6**	**0.4**	**0.5**	**0.6**
Unit labour cost (on GDP)	**1.0**	**1.7**	**0.7**	**0.9**	**0.7**
Employment (FTE)	**0.1**	**-0.6**	**0.1**	**0.4**	**0.6**
Unemployment rate	**8.4**	**9.3**	**9.2**	**8.9**	**8.6**
Current account balance	**-3.1**	**-2.3**	**-2.0**	**-1.7**	**-1.3**

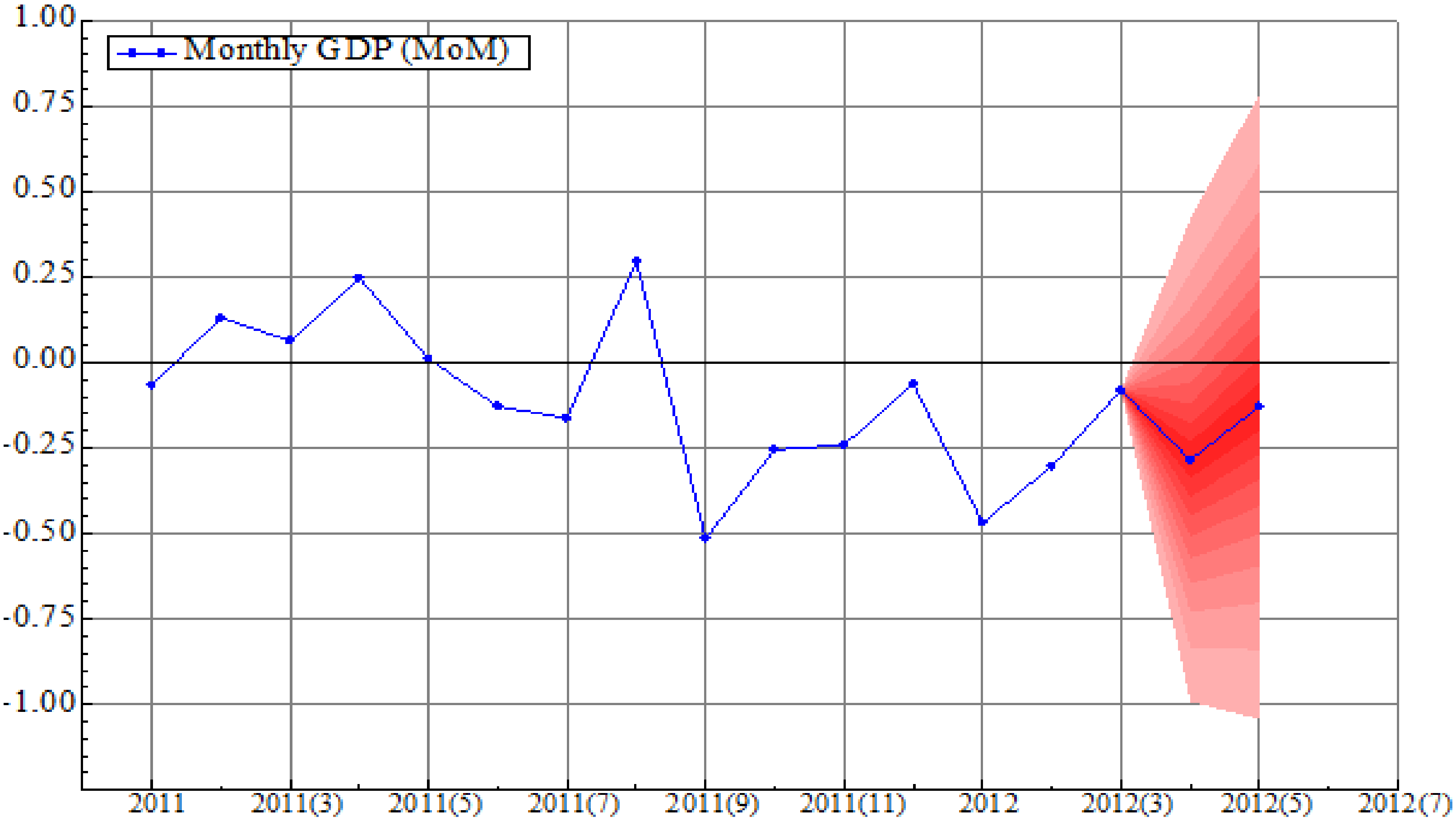
Source: 2012 DEF

GDP growth likely to remain weak in 2Q12



source: Istat

TRILL* model points to very slow recovery



*Treasury Italian Leading Indicator, a mixed-frequency econometric model of the Italian Treasury

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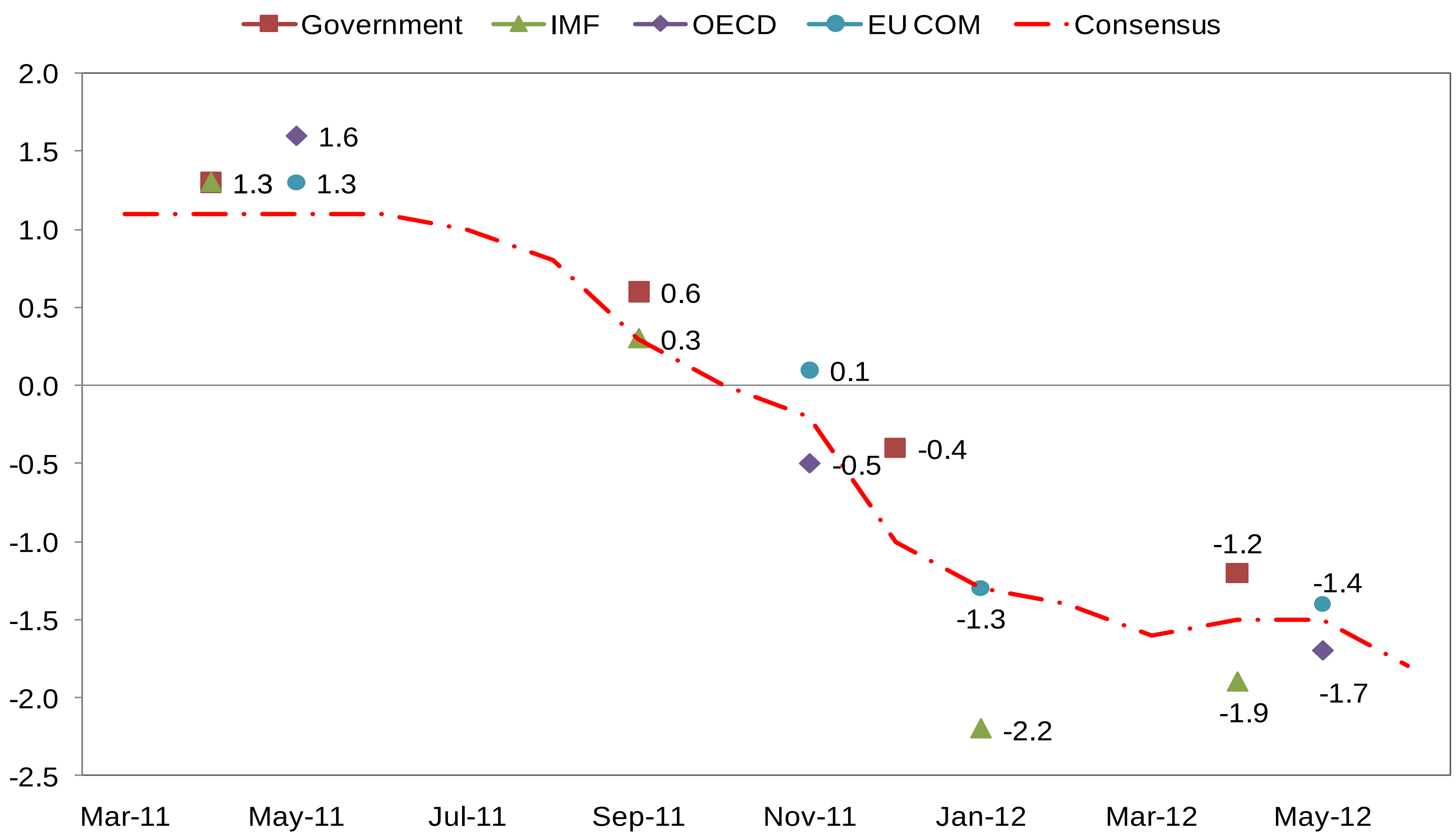
2012 GDP growth forecasts have deteriorated slightly



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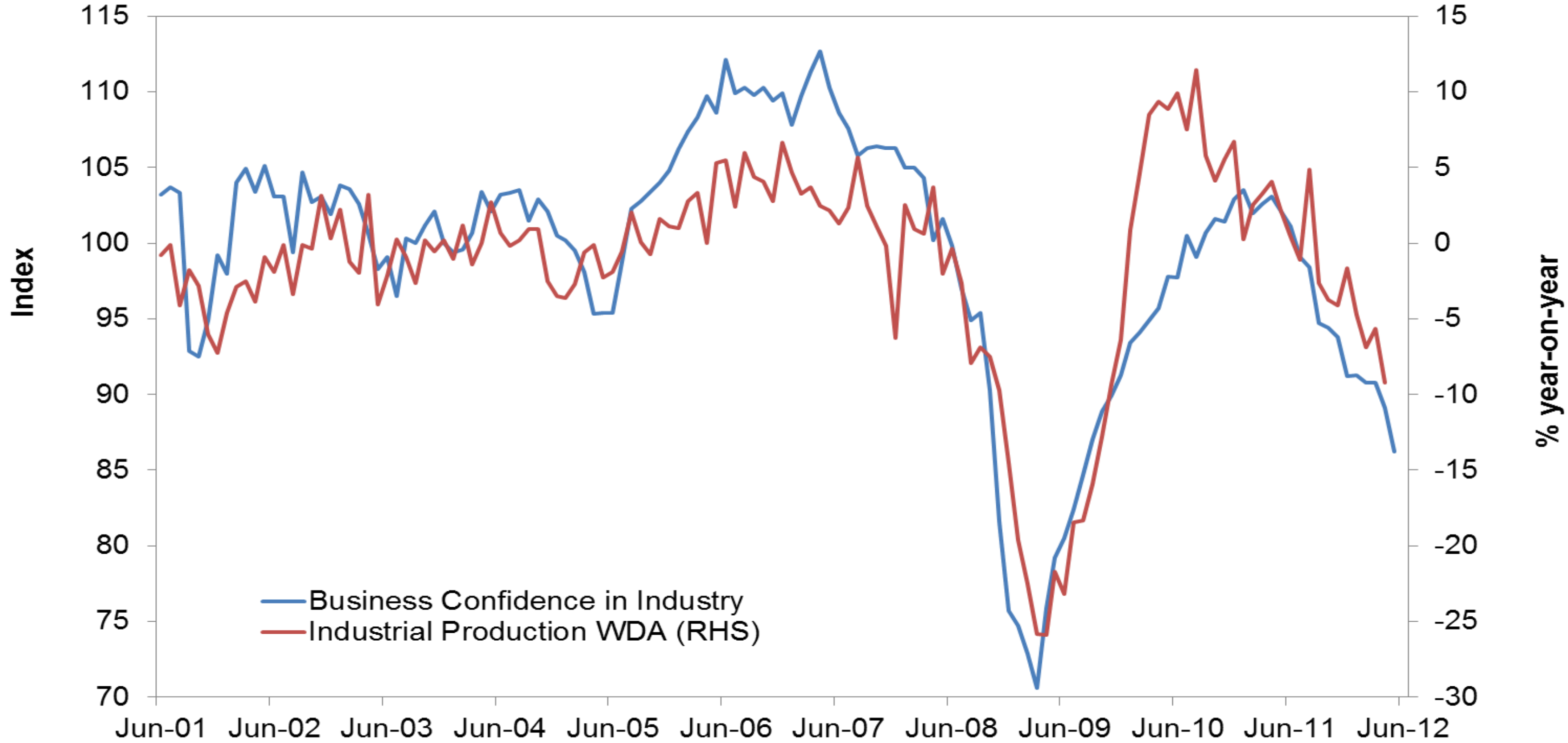
Industrial production still shrinking



source: Istat

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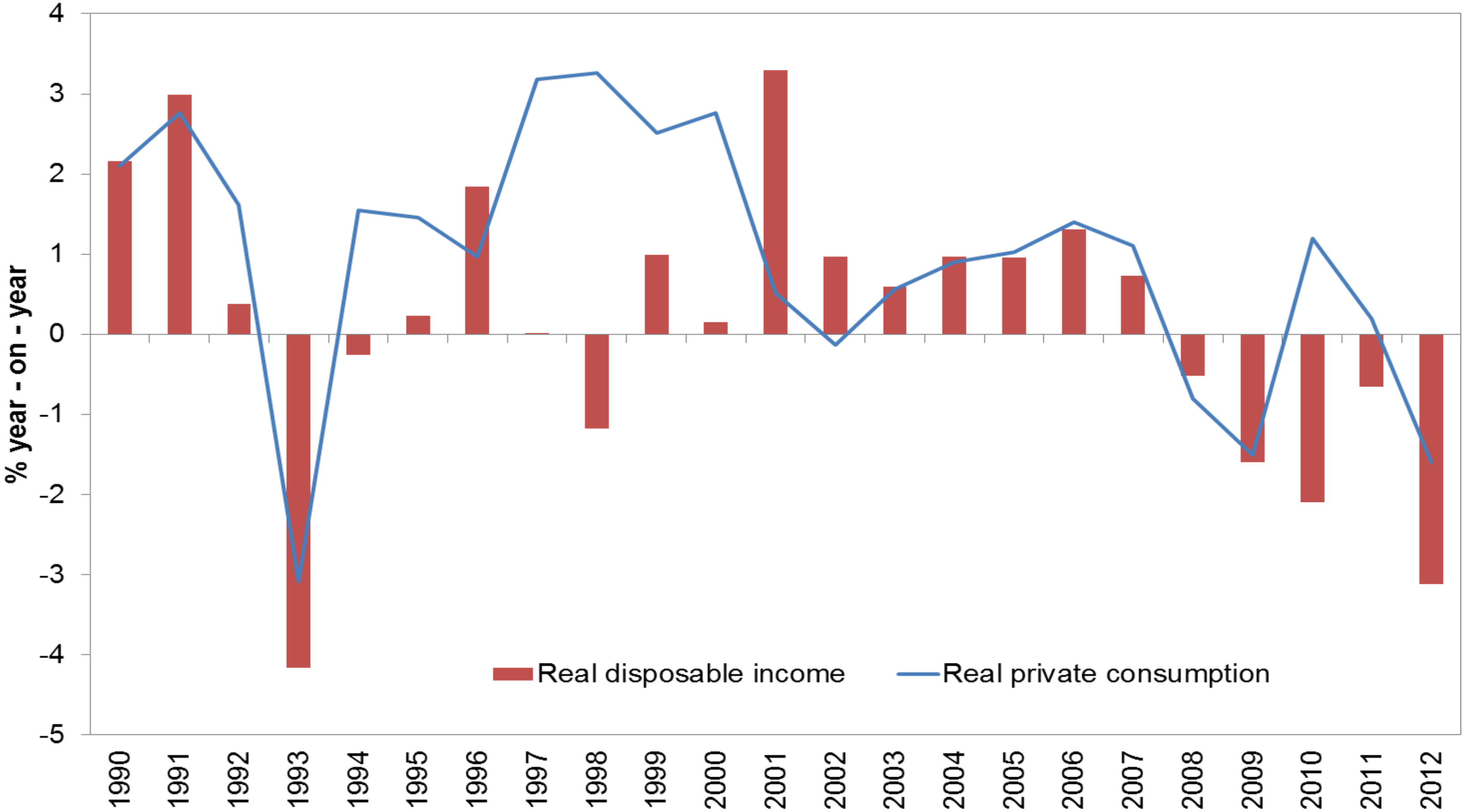
MEF Ministero dell'Economia e delle Finanze

Household consumption declined sharply



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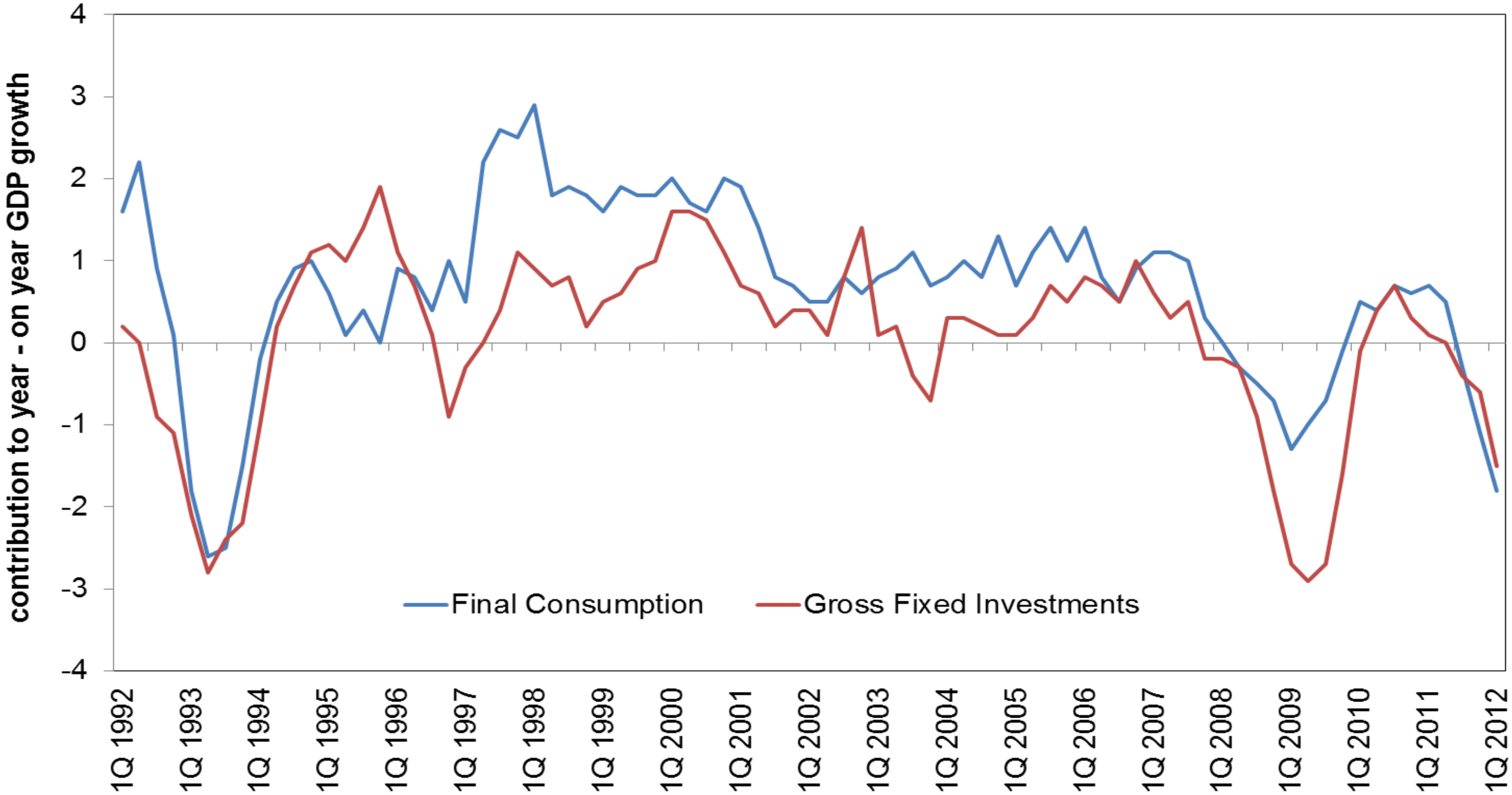
Final consumption likely to remain weak over the near term



source: Istat

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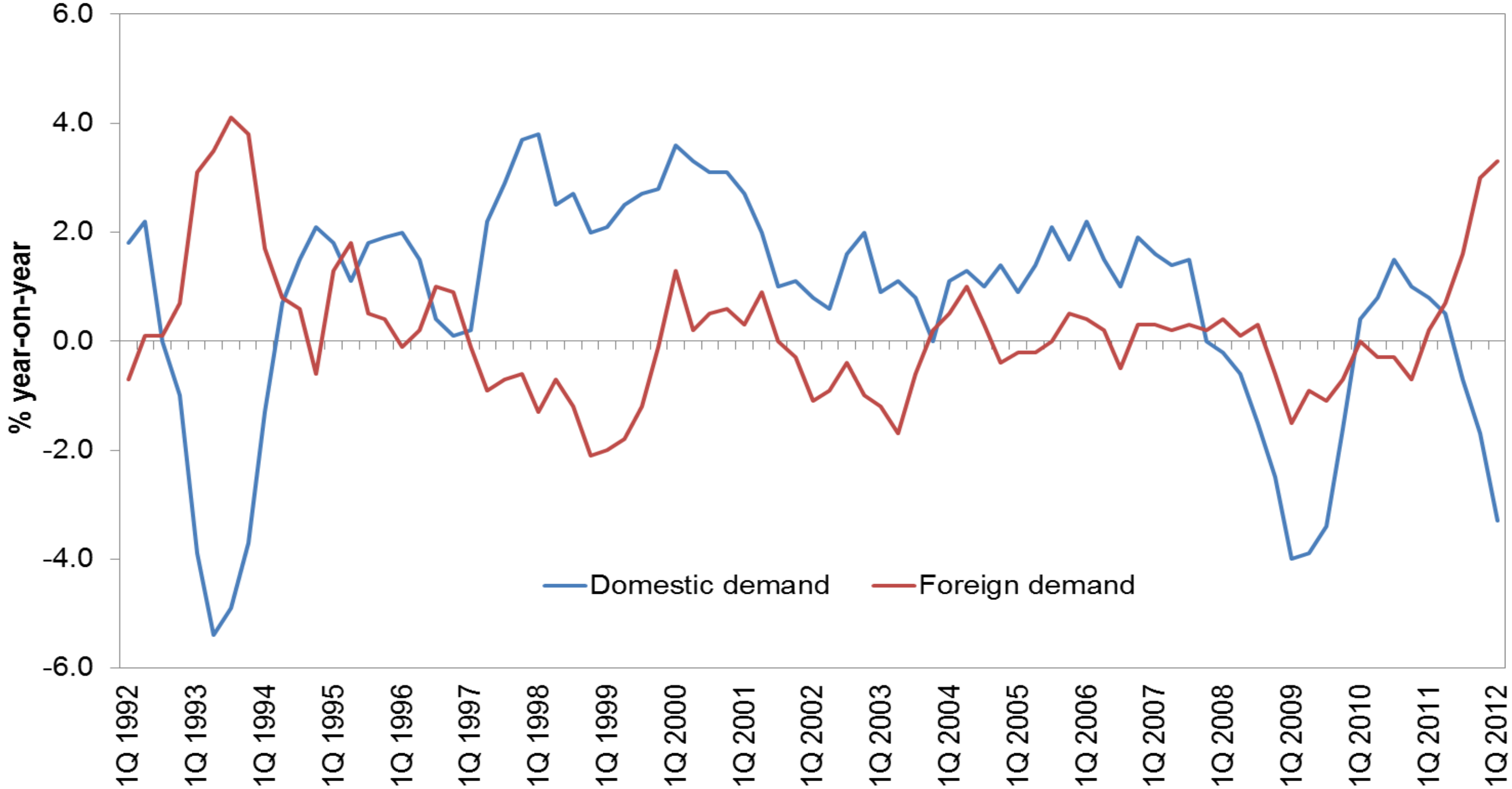
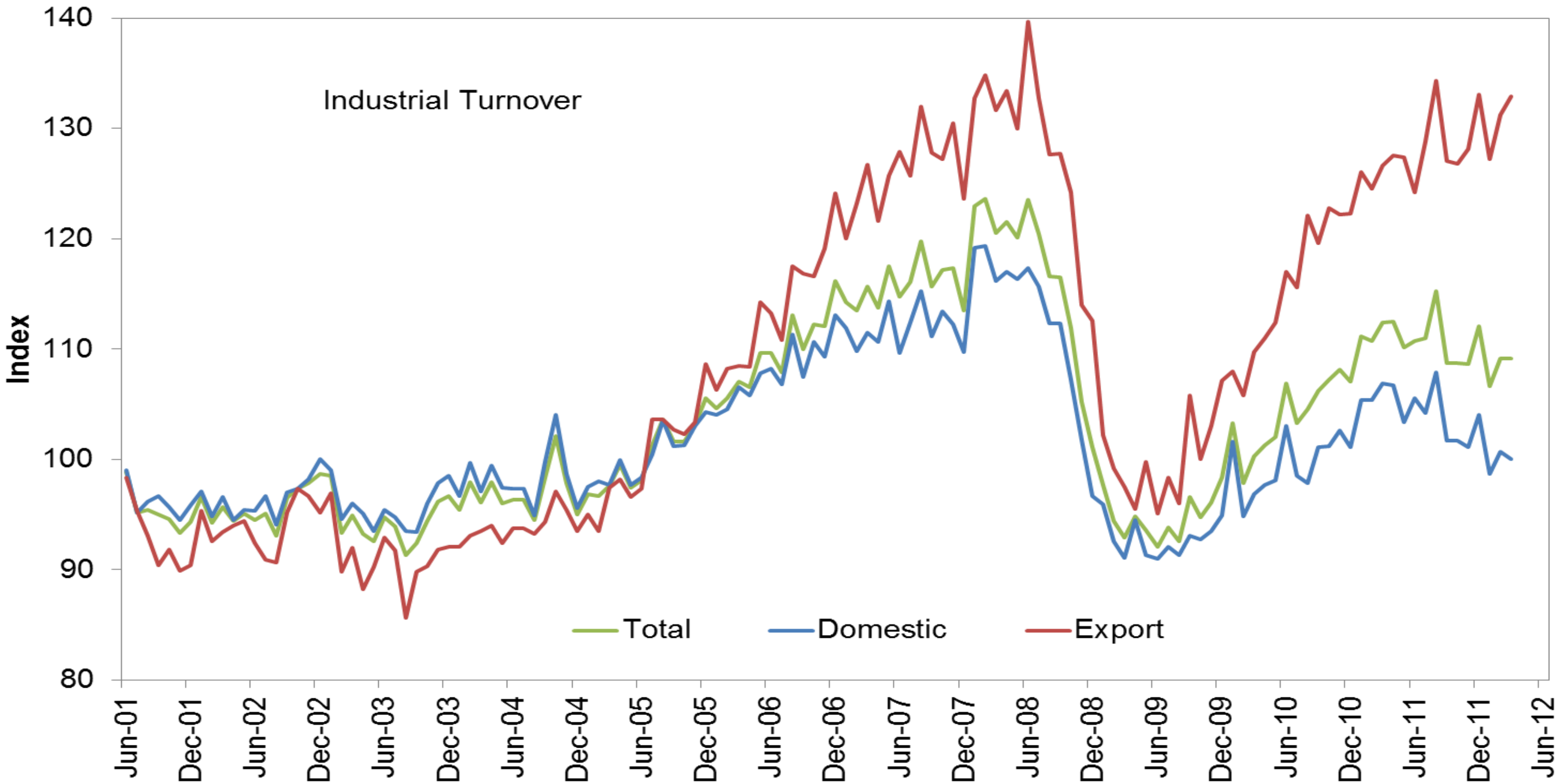
Sharp increase in the contribution of net exports



source: Istat

Italy’s growth led by external demand



source: Istat

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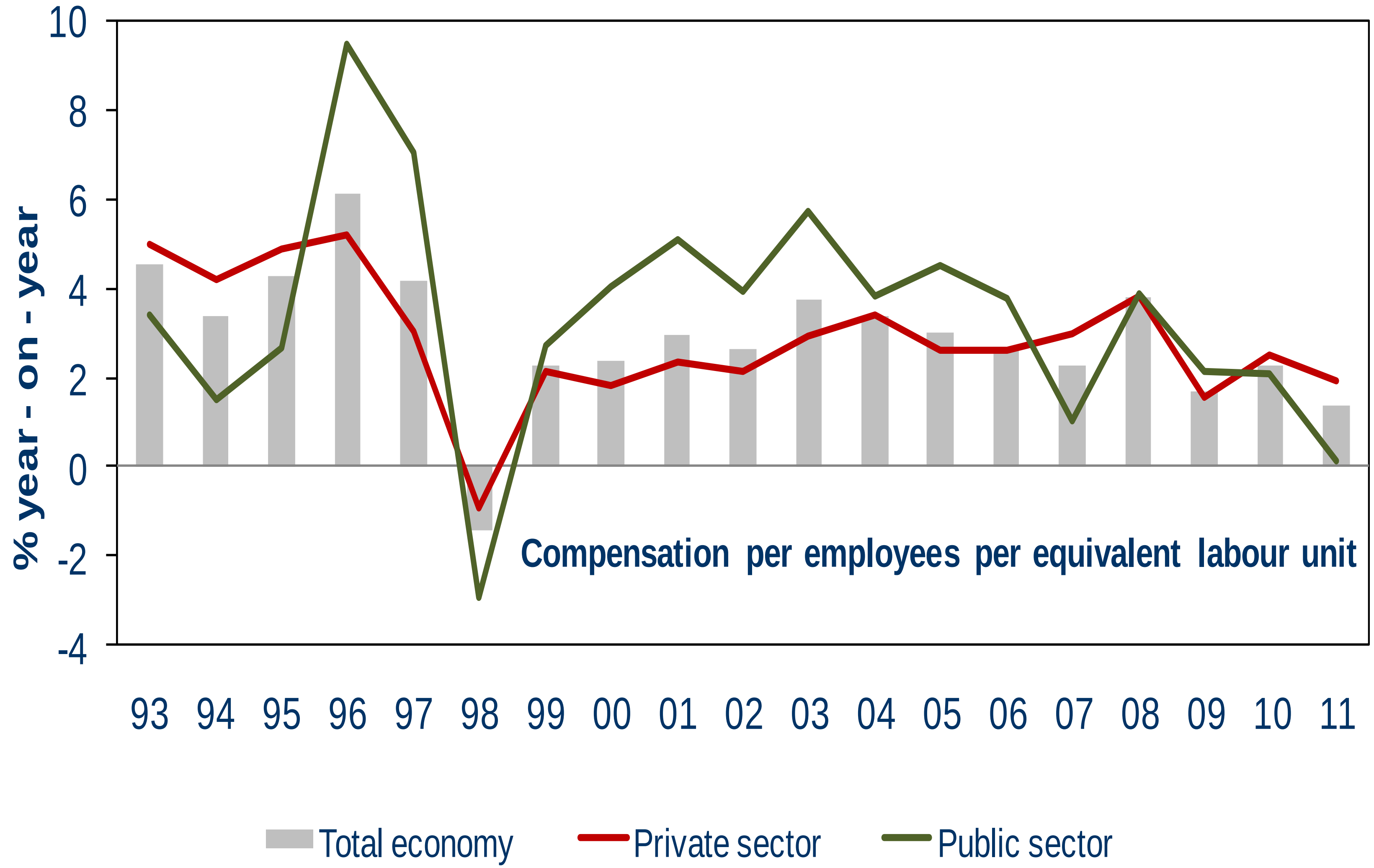
Private wage growth likely to moderate further



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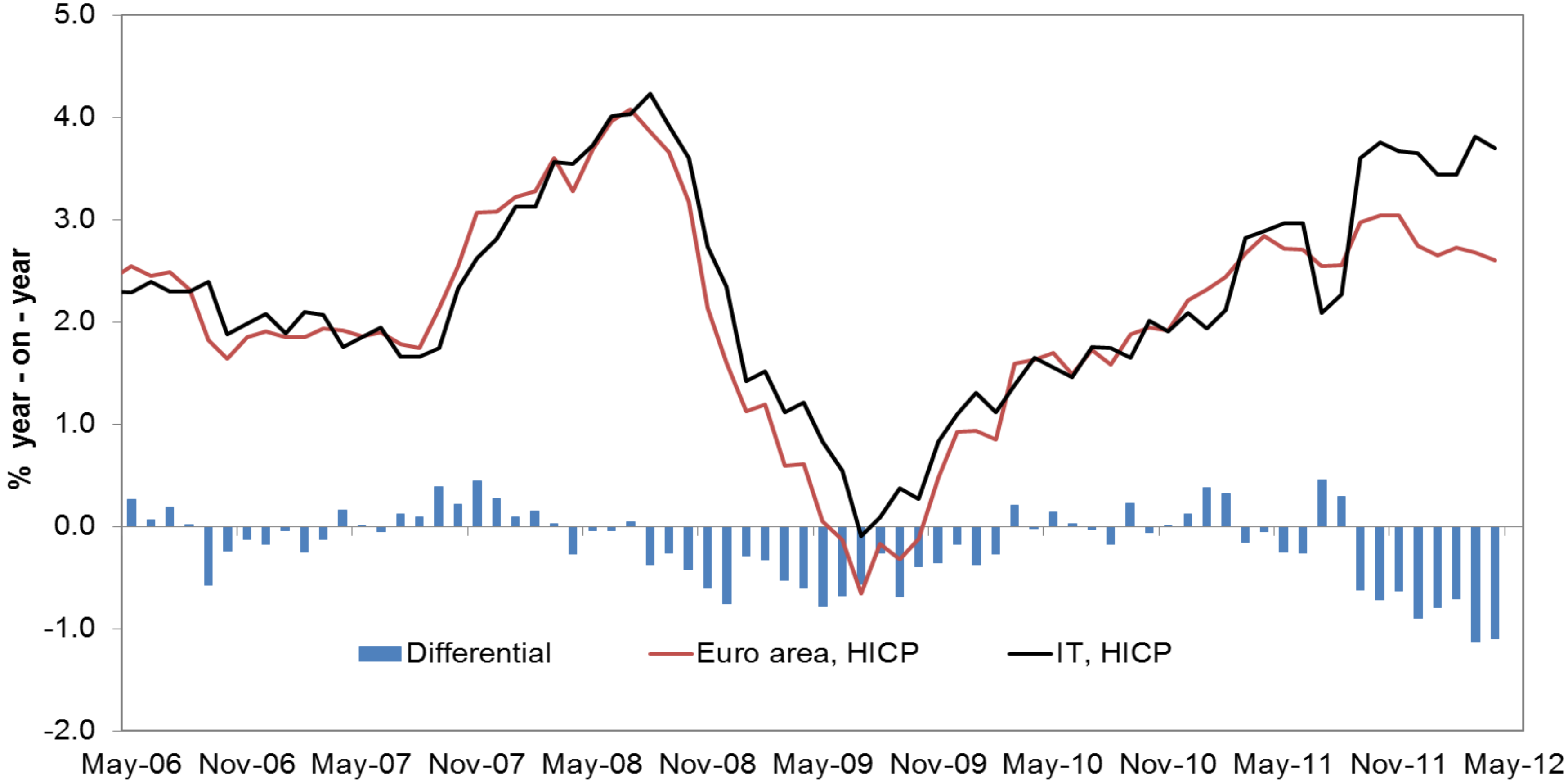
Consumer inflation is expected to slow down shortly



source: Eurostat, Istat

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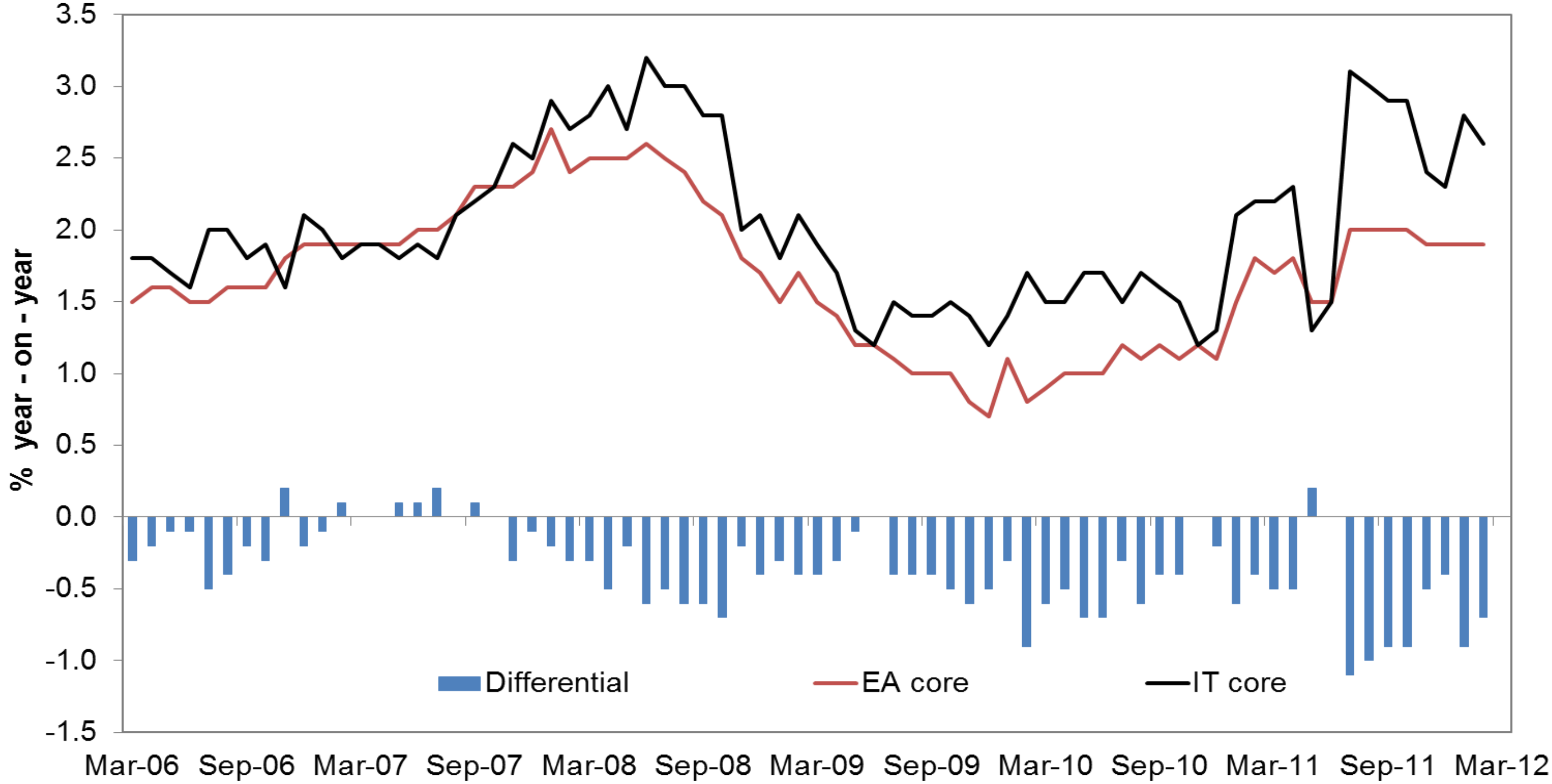
Core inflation about to moderate as well



source: Eurostat

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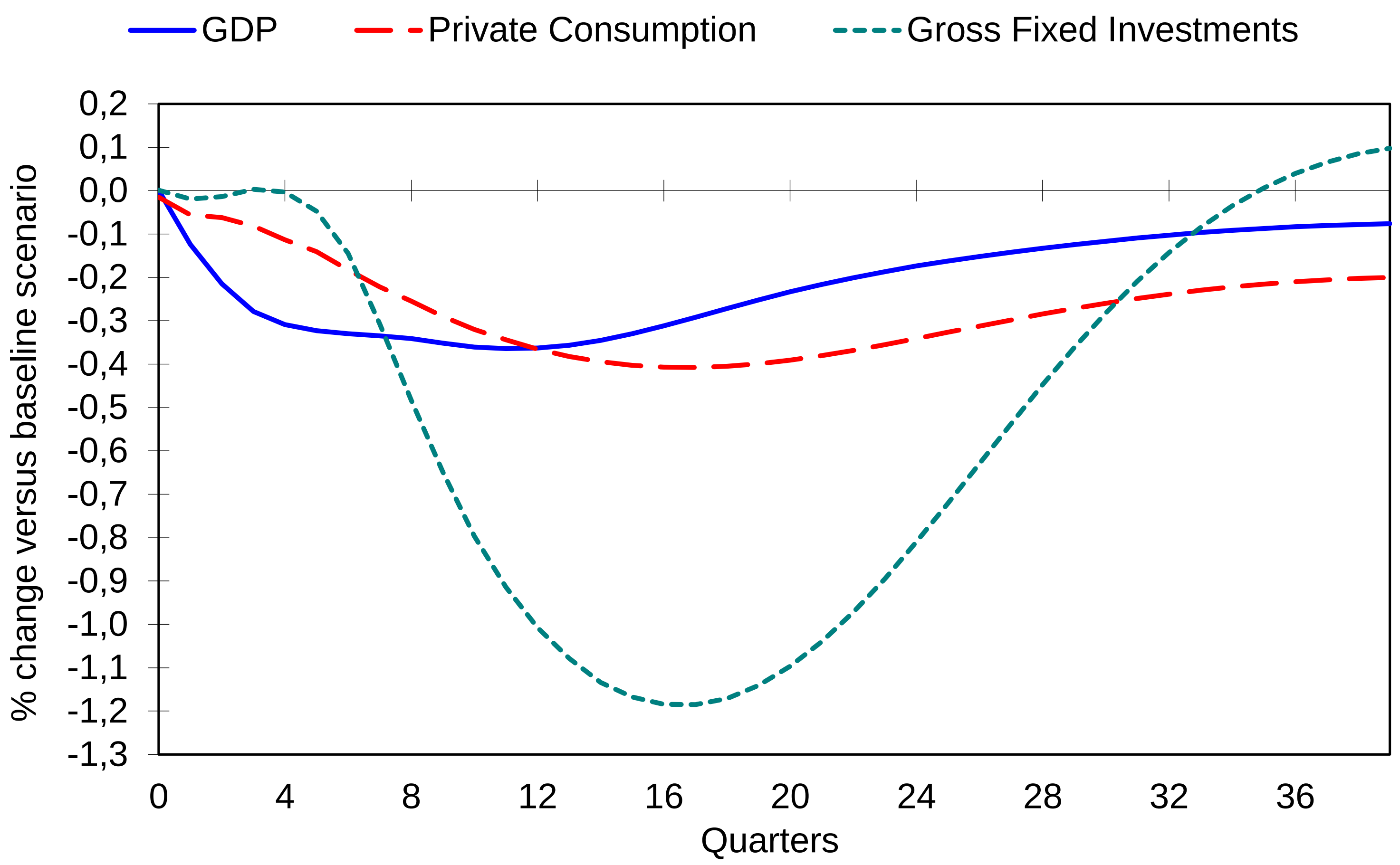
Impact of a 10 USD/bl increase in oil prices



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No major macroeconomic imbalances in Italy

	External imbalances					Internal imbalances				
	Current Account	Net International Investment Position	REER	Export market shares	Nominal ULC	House prices	Private sector credit (flows)	Private sector debt	Public debt	Unemployment rate
	3 year average		on HICP	% change 5 years	% change 3 years	y-y % change				Levels 3 year average
	% GDP	% GDP	% change 3 years				% GDP	% GDP	% GDP	
	-4/+6%	-35%	+/-5 (EA); +/-11% (Non EA)	-6%	+9 (EA); +12% (Non EA)	6%	15%	160%	60%	10%
BE	-0.6	77.8	1.3	-15.4	8.5	0.4	13.1	233.0	96.0	7.7
DE	5.9	38.4	-2.9	-8.3	6.6	-1.0	3.1	128.0	83.0	7.5
IE	-2.7	-90.9	-5.0	-12.8	-2.3	-10.5	-4.5	341.0	93.0	10.6
EL	-12.1	-92.5	3.9	-20.0	12.8	-6.8	-0.7	124.0	145.0	9.9
ES	-6.5	-89.5	0.6	-11.6	3.3	-3.8	1.4	227.0	61.0	16.5
FR	-1.7	-10.0	-1.4	-19.4	7.2	5.1	2.4	160.0	82.0	9.0
IT	**-2.8**	**-23.9**	**-1.0**	**-19.0**	**7.8**	**-1.4**	**3.6**	**126.0**	**118.0**	**7.6**
LU	6.4	96.5	1.9	3.2	17.3	3.0	-41.8	254.0	19.0	4.9
NL	5.0	28.0	-1.0	-8.1	7.4	-3.0	-0.7	223.0	63.0	3.8
AT	3.5	-9.8	-1.3	-14.8	8.9	-1.5	6.4	166.0	72.0	4.3
PT	-11.2	-107.4	-2.4	-8.6	5.1	0.1	3.3	249.0	93.0	10.4
FI	2.1	9.9	0.3	-18.7	12.3	6.8	6.8	178.0	48.0	7.7
DK	3.9	10.3	0.9	-15.3	11.0	0.5	5.8	244.0	43.0	5.6
SE	7.5	-6.7	-2.5	-11.1	6.0	6.3	2.6	237.0	40.0	7.6
UK	-2.1	-23.8	-19.7	-24.3	11.3	3.4	3.3	212.0	80.0	7.0

Source: Estimation on the basis of the 'Alert Mechanism Report' published by the European Commission on 14/02/2012

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Modest deterioration in competitiveness over time

	Current Account	Net International Investment Position	REER	Export market share	Nominal ULC	House prices	Private sector credit (flows)	Private sector debt	Public debt	Unemployment rate
2000						0.3	8.3	79.0	109.0	
2001		-9,9	-5,6	-18,2	5,4	2,7	6,0	81,0	109,0	10,0
2002	-0.5	-13,8	-2,1	-14,1	7,3	8,9	6,1	87,0	106,0	9,3
2003	-0.7	-15,1	8,8	-13,5	11,5	3,1	7,0	92,0	104,0	8,7
2004	-1.0	-16,3	9,8	-7,6	10,4	3,4	7,6	95,0	104,0	8,3
2005	-1.3	-15,7	7,0	-5,5	9,4	5,0	9,2	101,0	106,0	8,0
2006	-1.7	-20,6	1,1	-12,7	7,1	3,1	9,5	107,0	107,0	7,5
2007	-2.2	-21,5	0,7	-9,3	6,9	3,1	12,0	115,0	104,0	6,9
2008	-2.7	-21,5	3,3	-16,0	9,0	-0,6	7,6	120,0	106,0	6,5
2009	-2.5	-19,4	3,9	-17,5	11,2	-1,0	1,4	125,0	116,0	6,9
2010	-2.8	-23,9	-1,0	-19,0	7,8	-1,4	3,6	126,0	118,0	7,6
Threshold	+6%/ -4%	-35 %	+/-5% euro-area; +/-11 % not euro area	-6%	+/-9 % euro area; +/-12 % not euro area	6%	15%	160%	60%	10%

Source: Estimation on the basis of the 'Alert Mechanism Report' published by the European Commission on 14/02/2012 – period 2000-10

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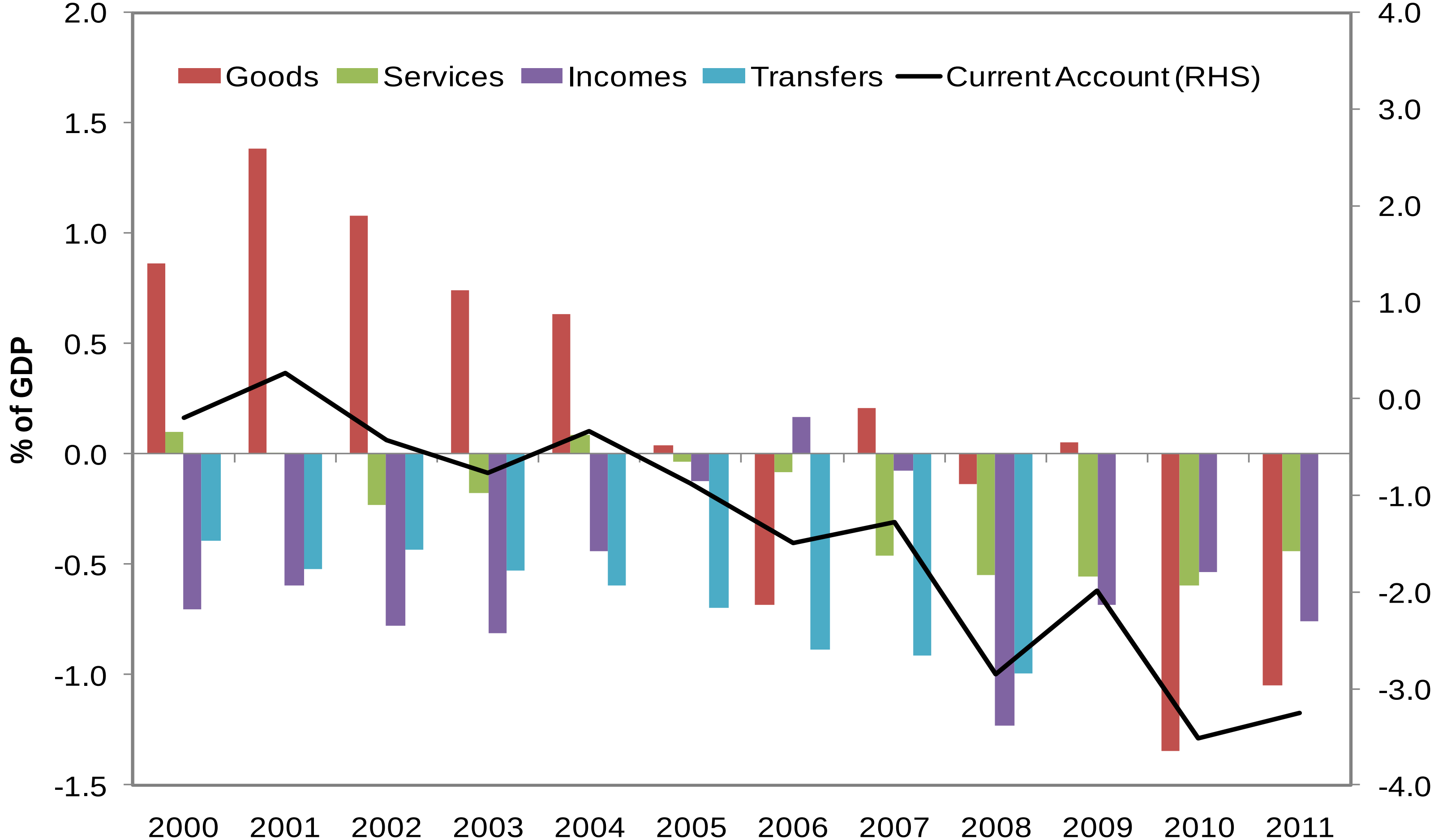
Italy's current account has worsened gradually

- From 2000 to 2010 Italy experienced a **modest deterioration** in the current account, mostly due to higher cost of energy imports.
- Trade of goods has worsened since the second half of 2000; trade of services remained stable in 2002-2006 and worsened thereafter.
- Italian exporters are mostly specialised in **sectors with declining shares of total global trade in recent years** (textiles, clothing, furniture).

Current account deficit: expected to narrow further in 2012



Source: Bank of Italy.

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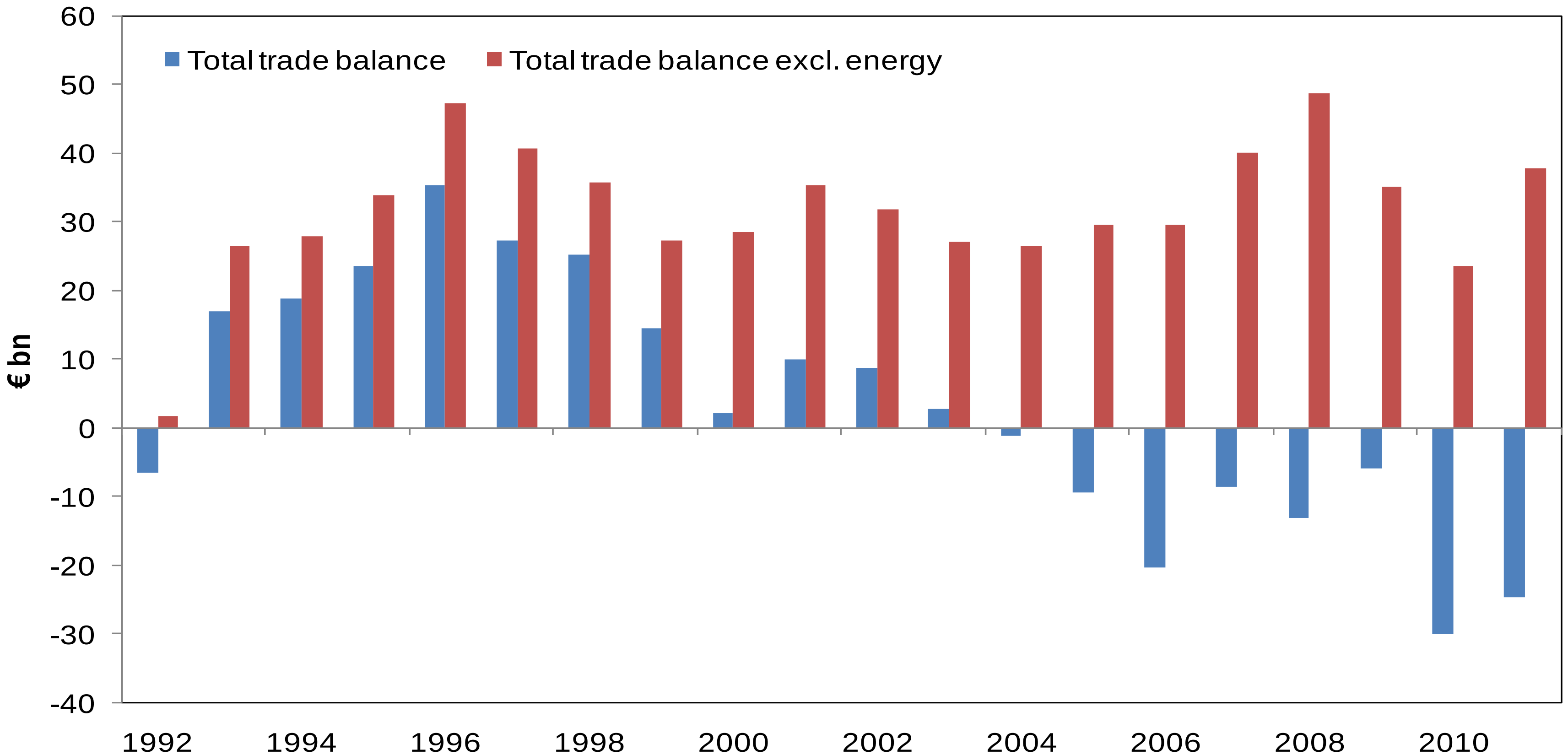
Sharp improvement in Italy's trade balance in 2011



Source: ISTAT.
Note: Energy includes oil and natural gas.

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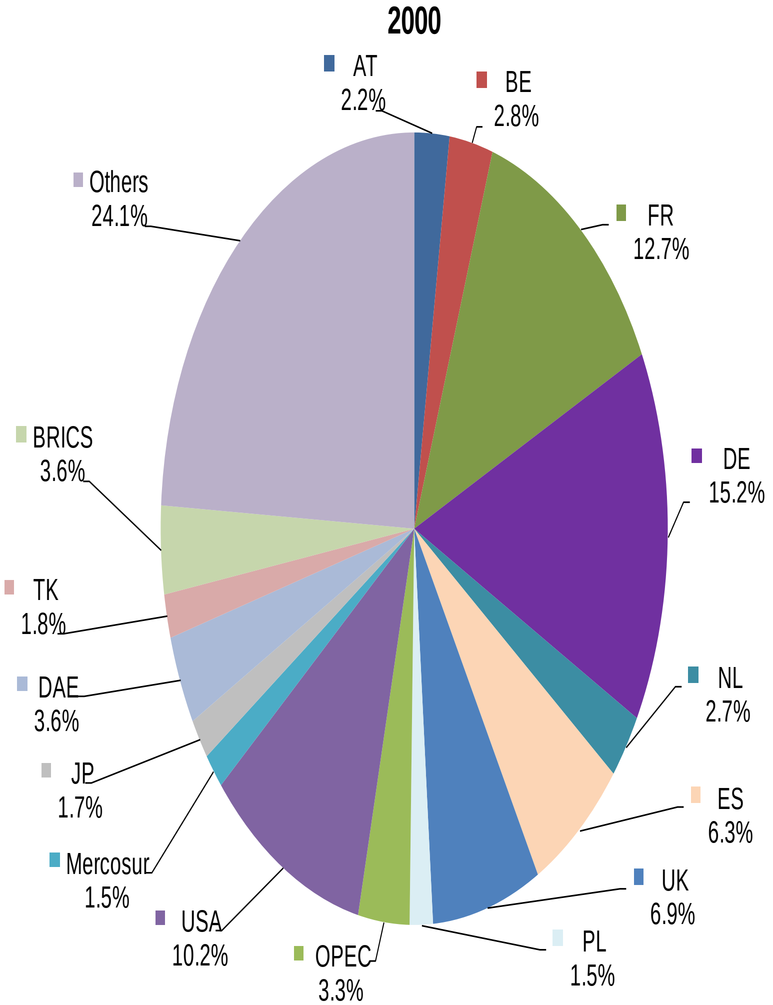
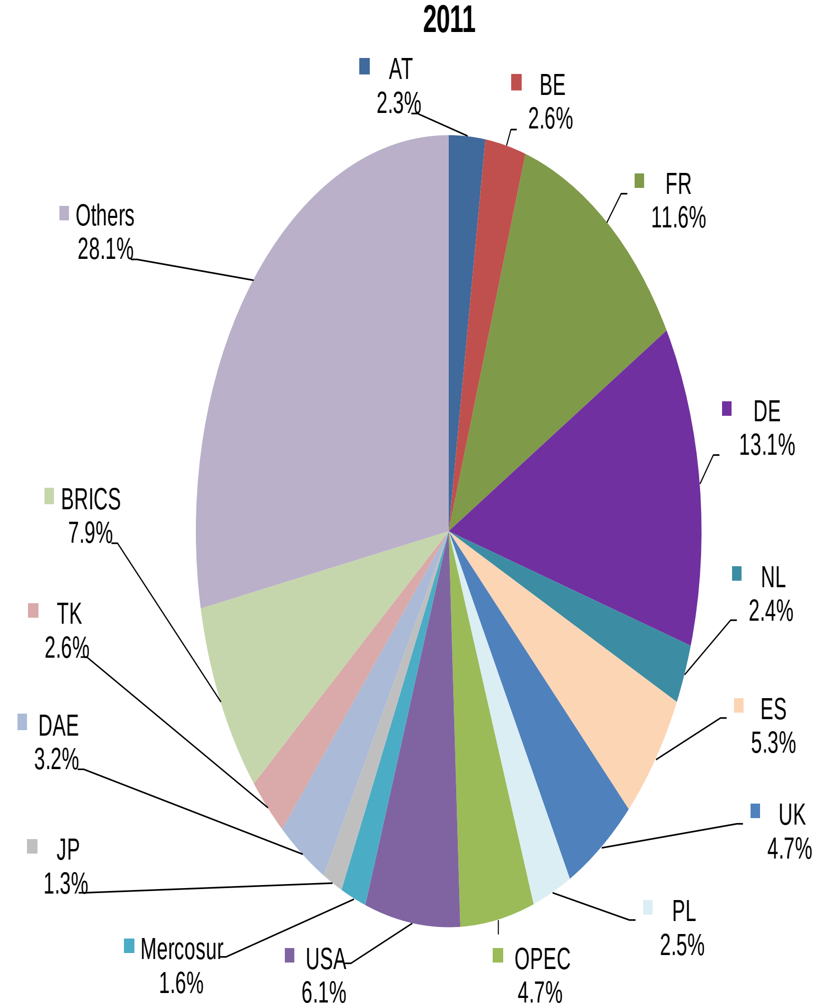
Change in geographical destination of Italian exports





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Source: Calculations on ISTAT data.
Note: Share of total exports by country.

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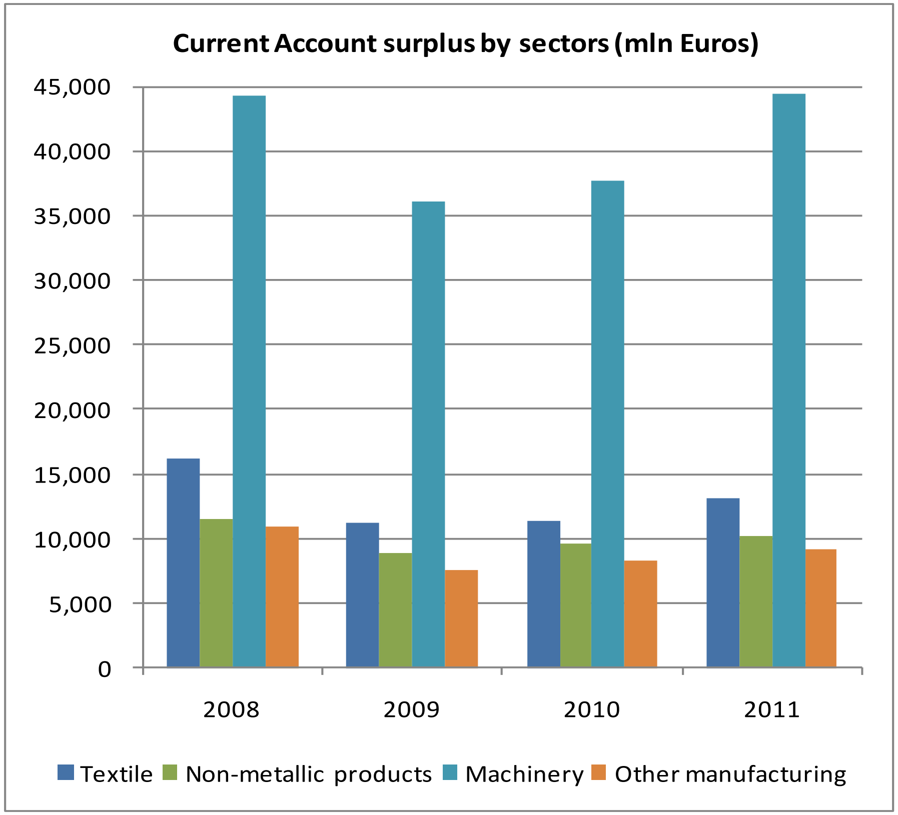
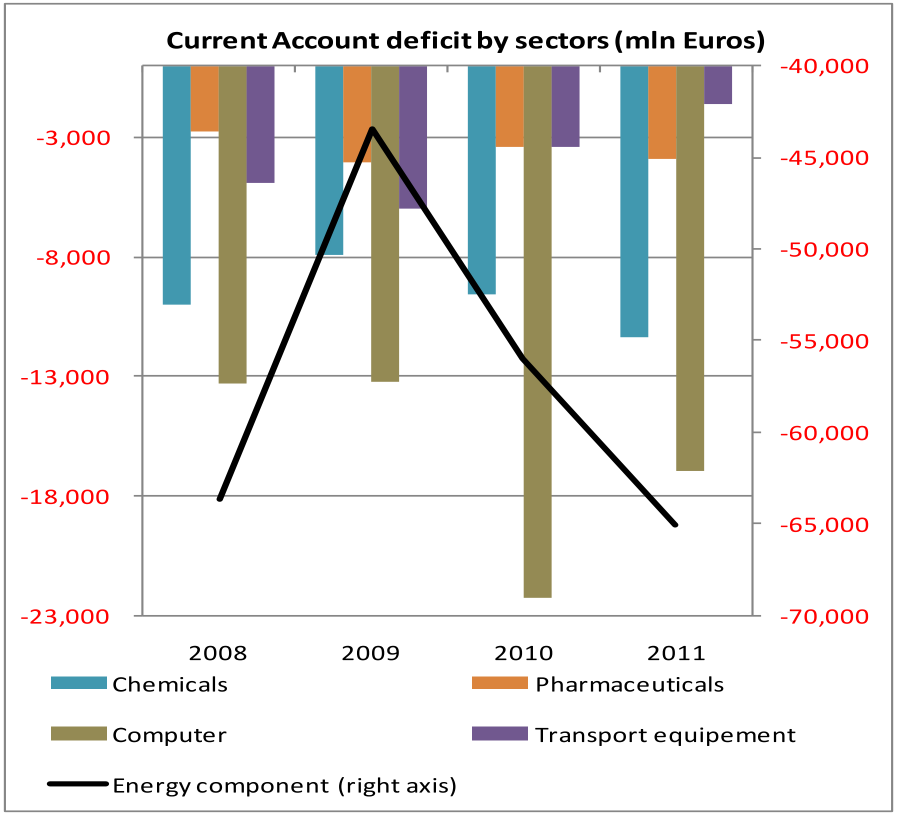
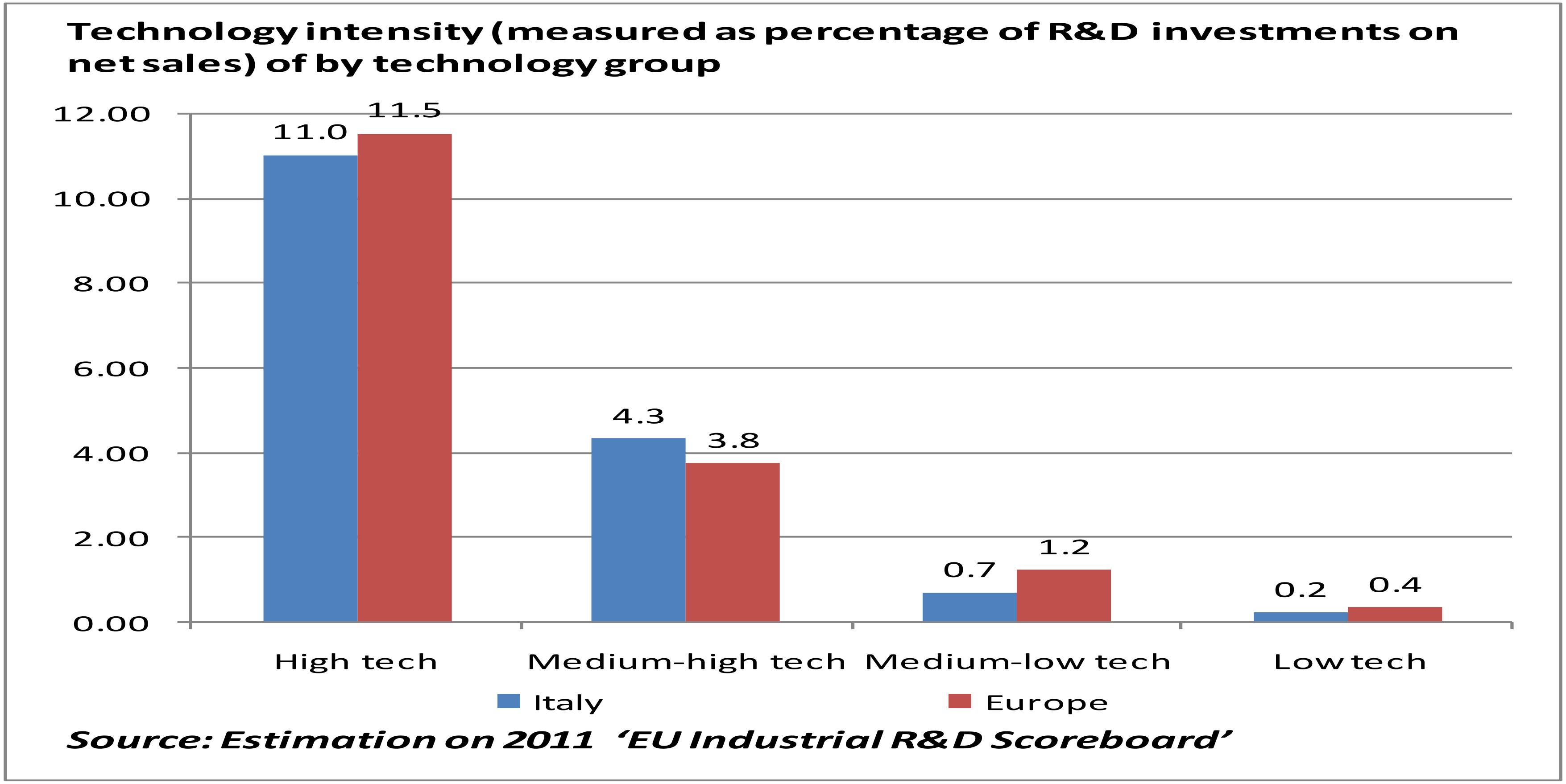
Trade and competitiveness: sectors' performance





The trade surplus is higher in industrial machinery, textile, non-metal products and in other manufacturing sectors (including furniture). Computer, chemical and pharmaceutical show significant deficits. The energy component is structurally negative.

R&D and innovation: Italy's industrial structure



Classifying Italy's industrial sectors according to their technological intensity: **firms performance in terms of investments in R&D and innovation is only slightly lower than the EU average** (1.8% on GDP versus 2.5% in Europe). The difference between Italy and the EU is due to the fact that **sectors investing more in R&D (high tech intensive) represents only a small share of the structure of Italian industry** (6% in Italy and 35% in EU27).

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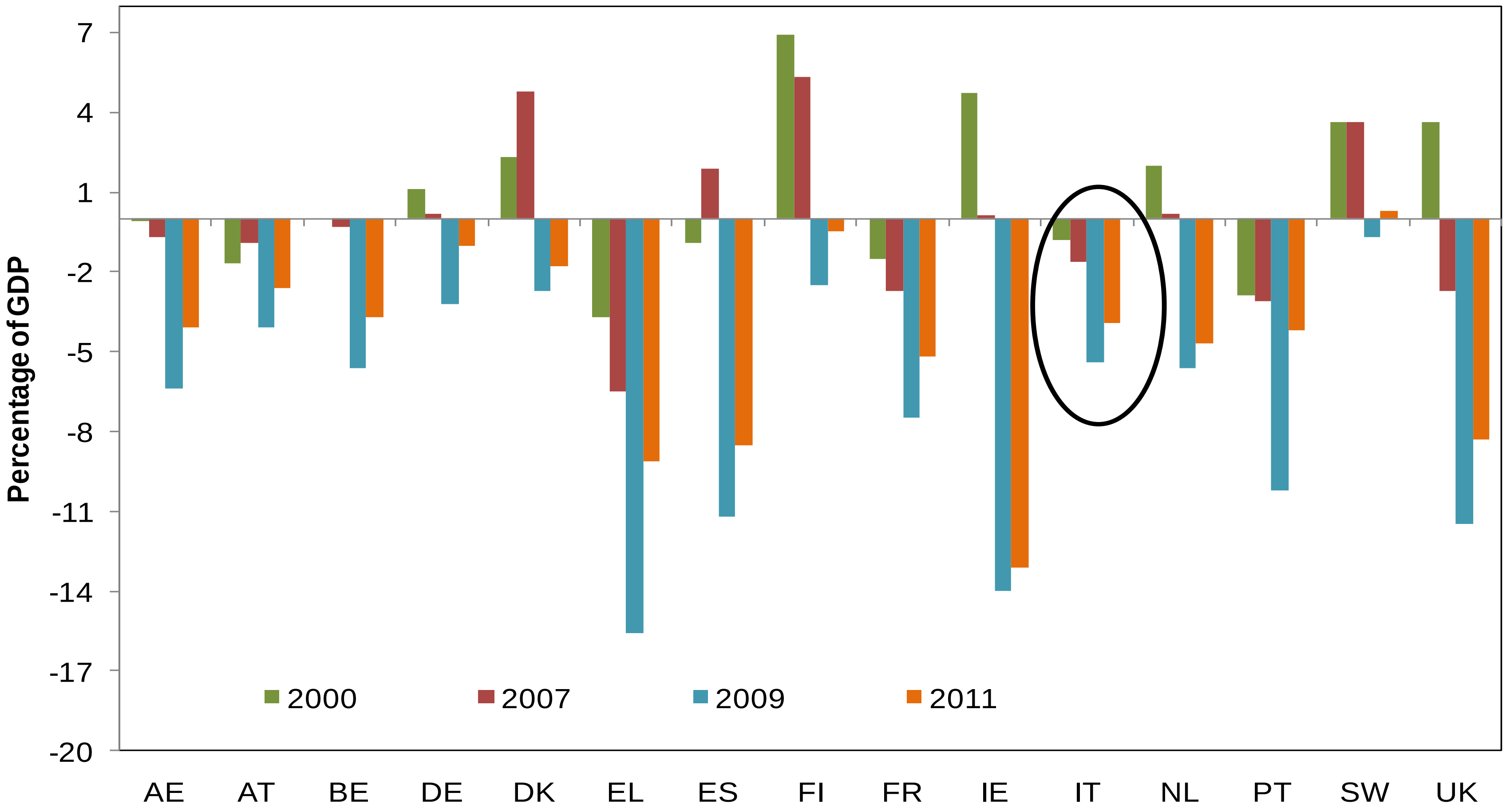
Modest deterioration in Italy’s public deficit during the crisis



Source: Eurostat.

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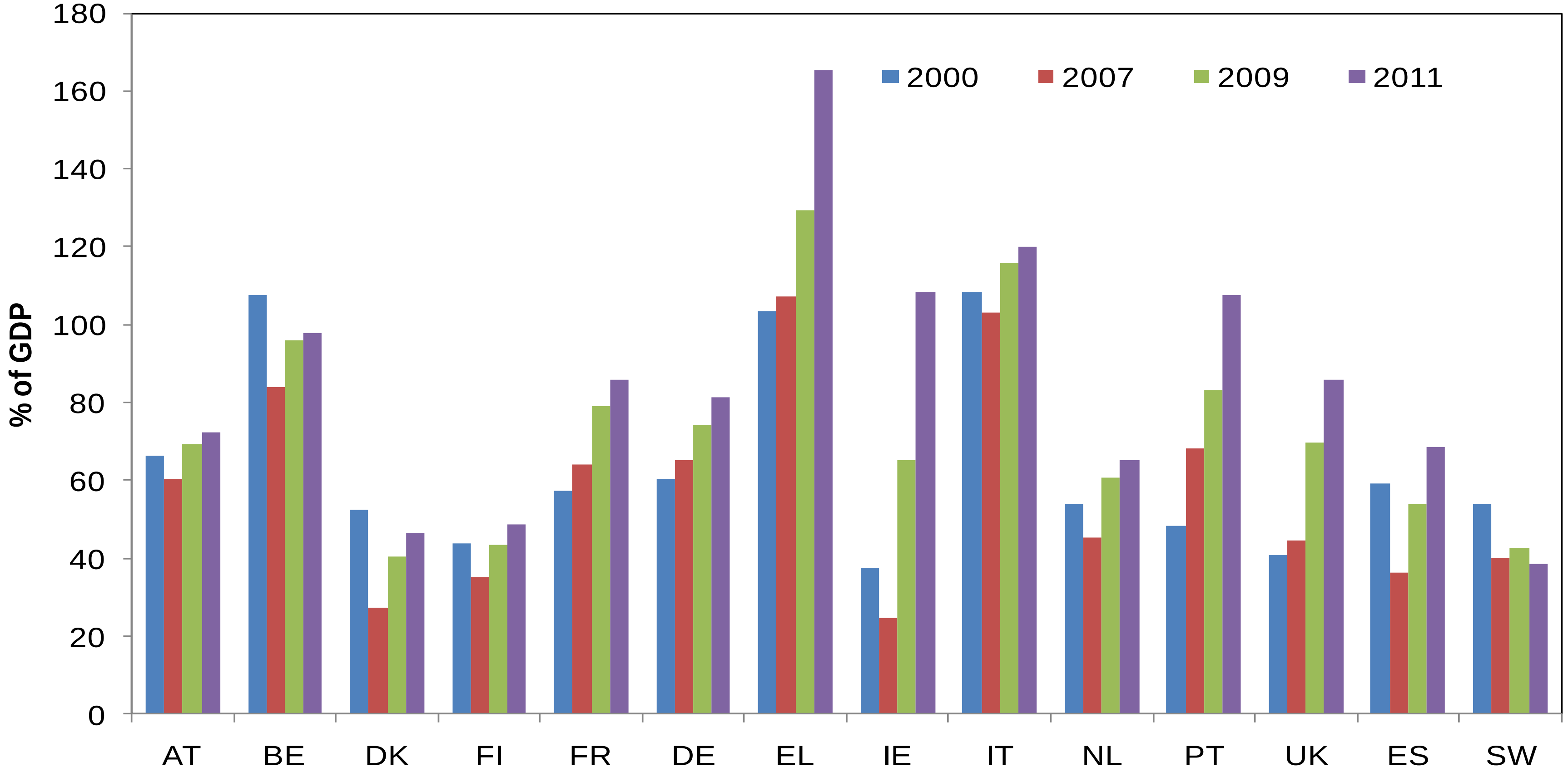
Debt-to-GDP increased mainly due to the denominator



Source: Eurostat

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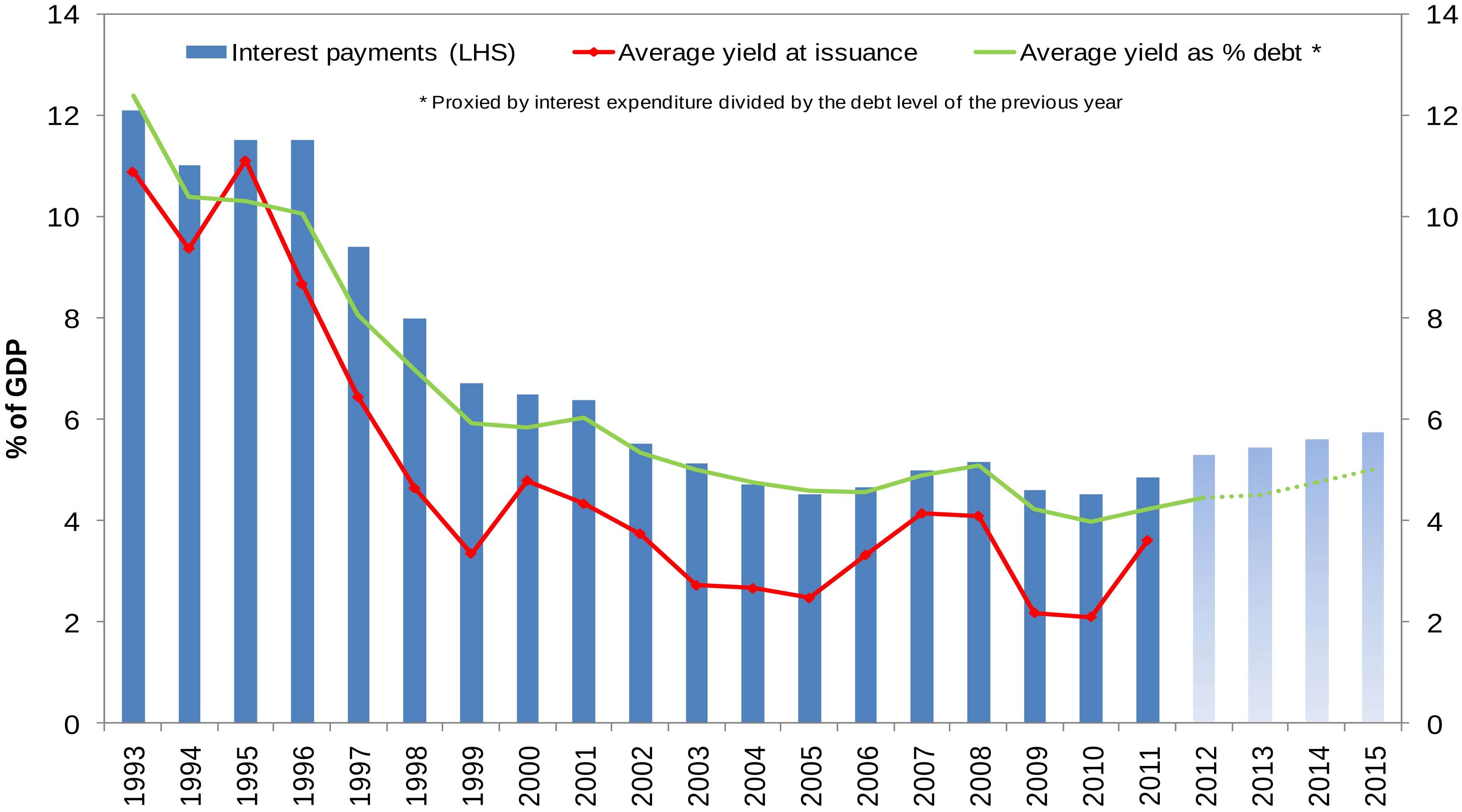
European financial assistance and MSs' public debt

- **EFSF** (European Financial Stability Facility) and **ESM** (European Stability Mechanism) imply **an increase in contributors' public debt.**
- As for Italy, in 2012 EFSF **contribution** amounts to €**5.7 bn.** Debt/GDP projections include the EFSF impact.

Moderate increase in interest payments on public debt



Source: Ministry of Economy and Finance. Figures for international payments in 2012-2014 are official estimates (2012 DEF).

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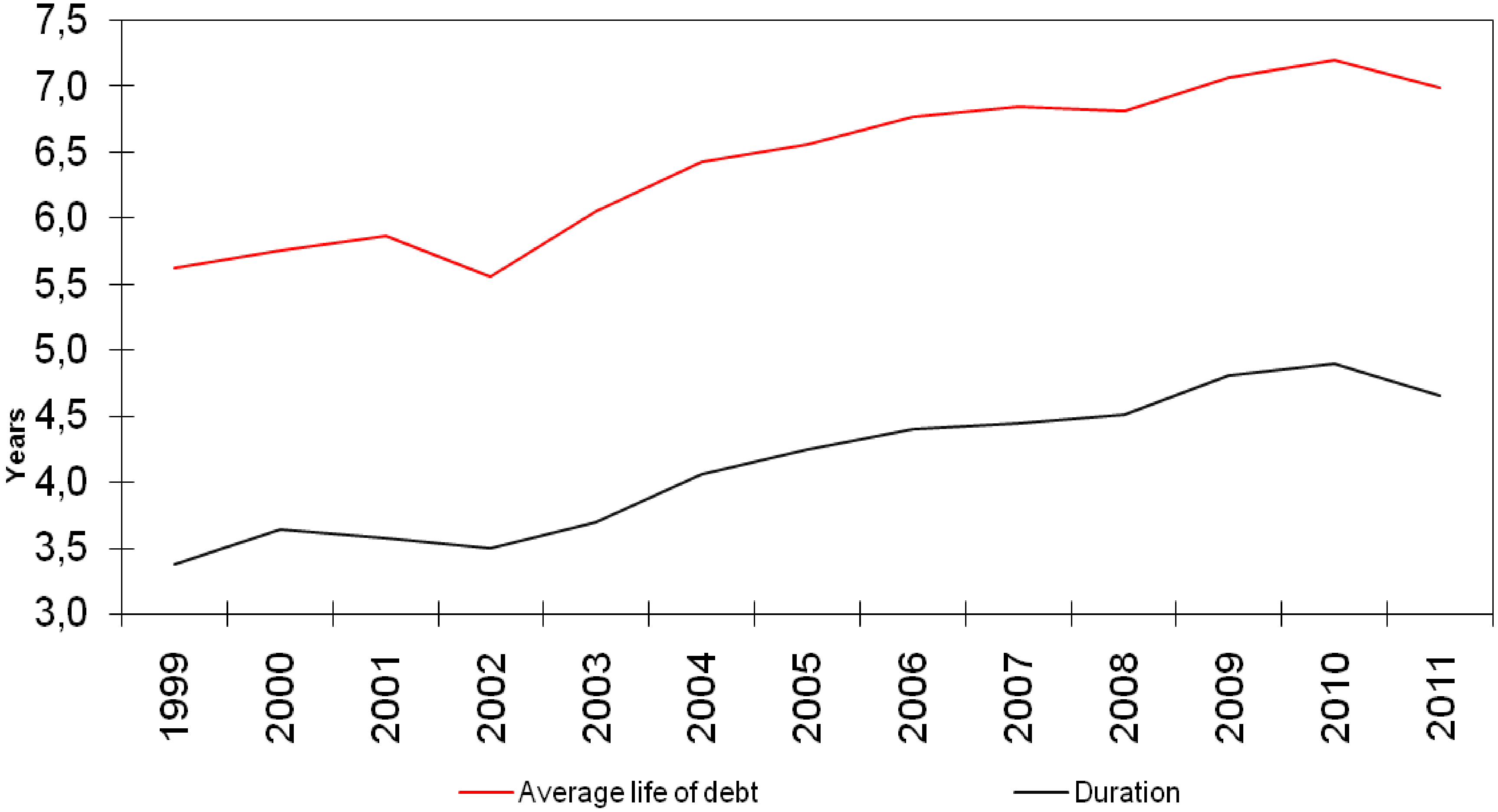
Lengthened maturity of public debt reduces risks



Source: 2012 DEF.

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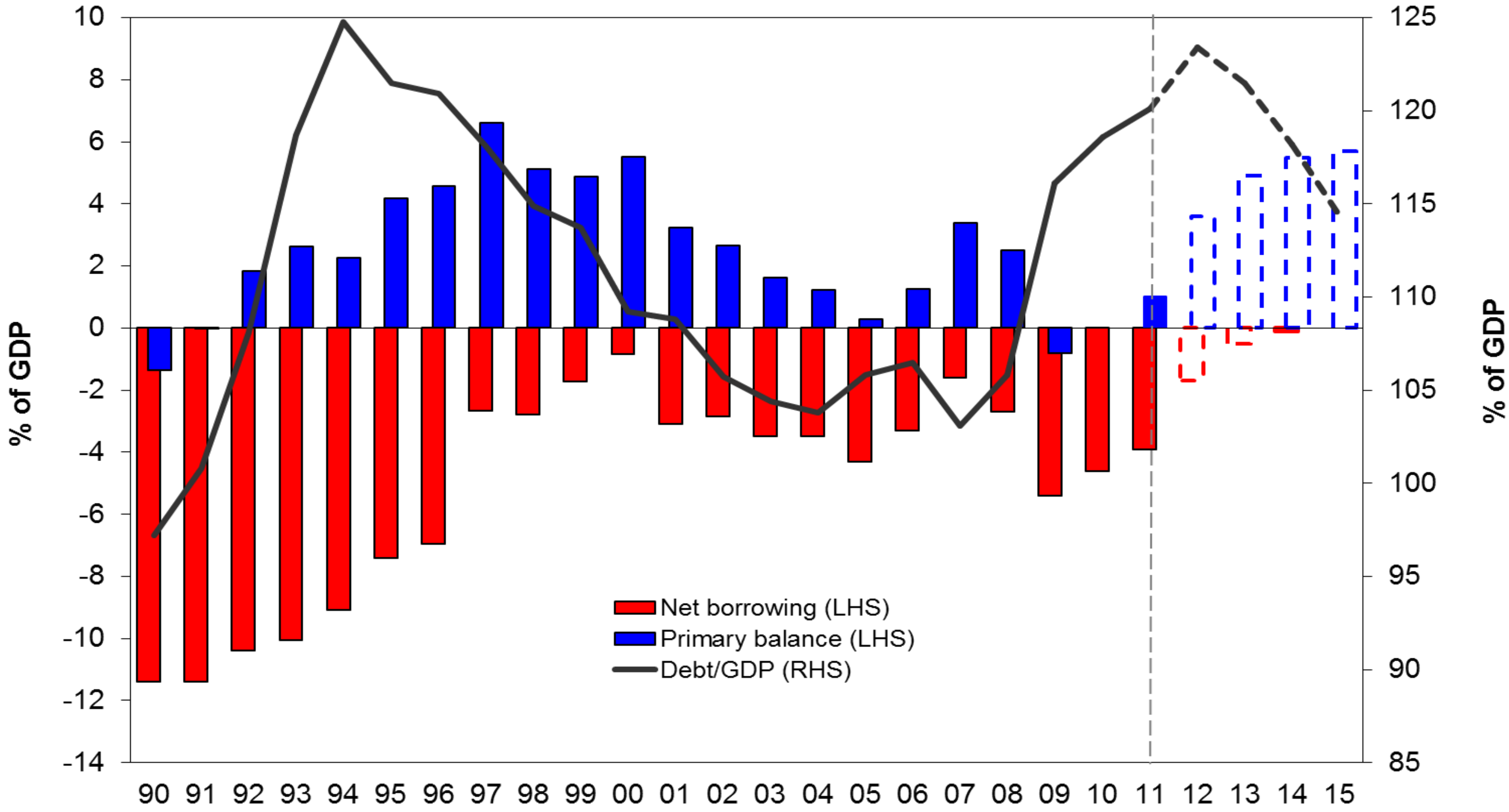
Key public finance projections

% of GDP	2010	2011	2012	2013	2014	2015
Net Borrowing Requirement	**-4.6**	**-3.9**	**-1.7**	**-0.5**	**-0.1**	**0.0**
Cyclically-adjusted NBR	*-3.6*	*-3.6*	*-0.4*	*0.6*	*0.6*	*0.4*
Change in Cyclically-adjusted NBR	-0.4	0.0	-3.2	-1.0	0.0	0.2
Primary Balance	**0.0**	**1.0**	**3.6**	**4.9**	**5.5**	**5.7**
Cyclically-adjusted Primary Balance	*1.0*	*1.3*	*4.9*	*6.1*	*6.2*	*6.1*
Public Debt	**118.6**	**120.1**	**123.4**	**121.5**	**118.2**	**114.4**
Public Debt (net support to EZ)	**118.3**	**119.2**	**120.3**	**117.9**	**114.5**	**110.8**

Source: April 2012 DEF

Primary surplus at 5% of GDP or above from 2014 onwards



Source: 2012 DEF.

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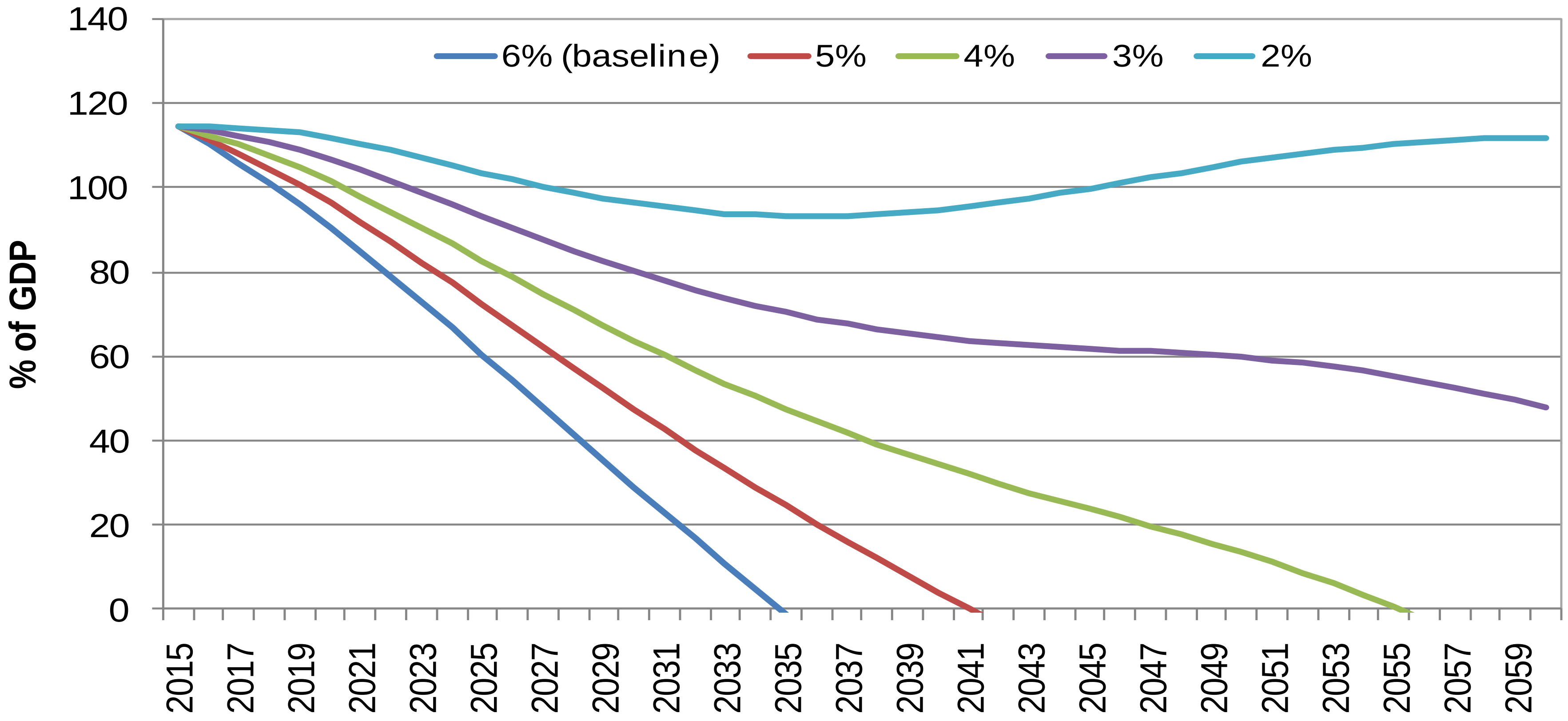
Steady decline of debt/GDP with primary surplus at 5-6%



Source: 2012 DEF.

Note: The baseline scenario is based on the 2012 DEF macroeconomic outlook for 2012-2015. For 2015-2060, the baseline scenario is consistent with the macroeconomic and demographic assumptions of the EPC-AWG 2012 Ageing Report. Unemployment and activity rates converge to AWG structural values in 5 and 10 years respectively. TFP growth reaches 1%, whereas labour productivity converges to 1.5% as of 2030. GDP growth is on average at 1.4 %. Real interest rate and inflation are assumed to be constant and equal to 3% and 2% respectively.

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Expenditure cuts

- **Reduction 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 to remain at work even after the statutory retirement age.
- Links retirement age and contributory periods to **changes in life expectancy.**
- **Improves transparency** by merging entities providing pensions (INPDAP and ENPALS into INPS).

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.

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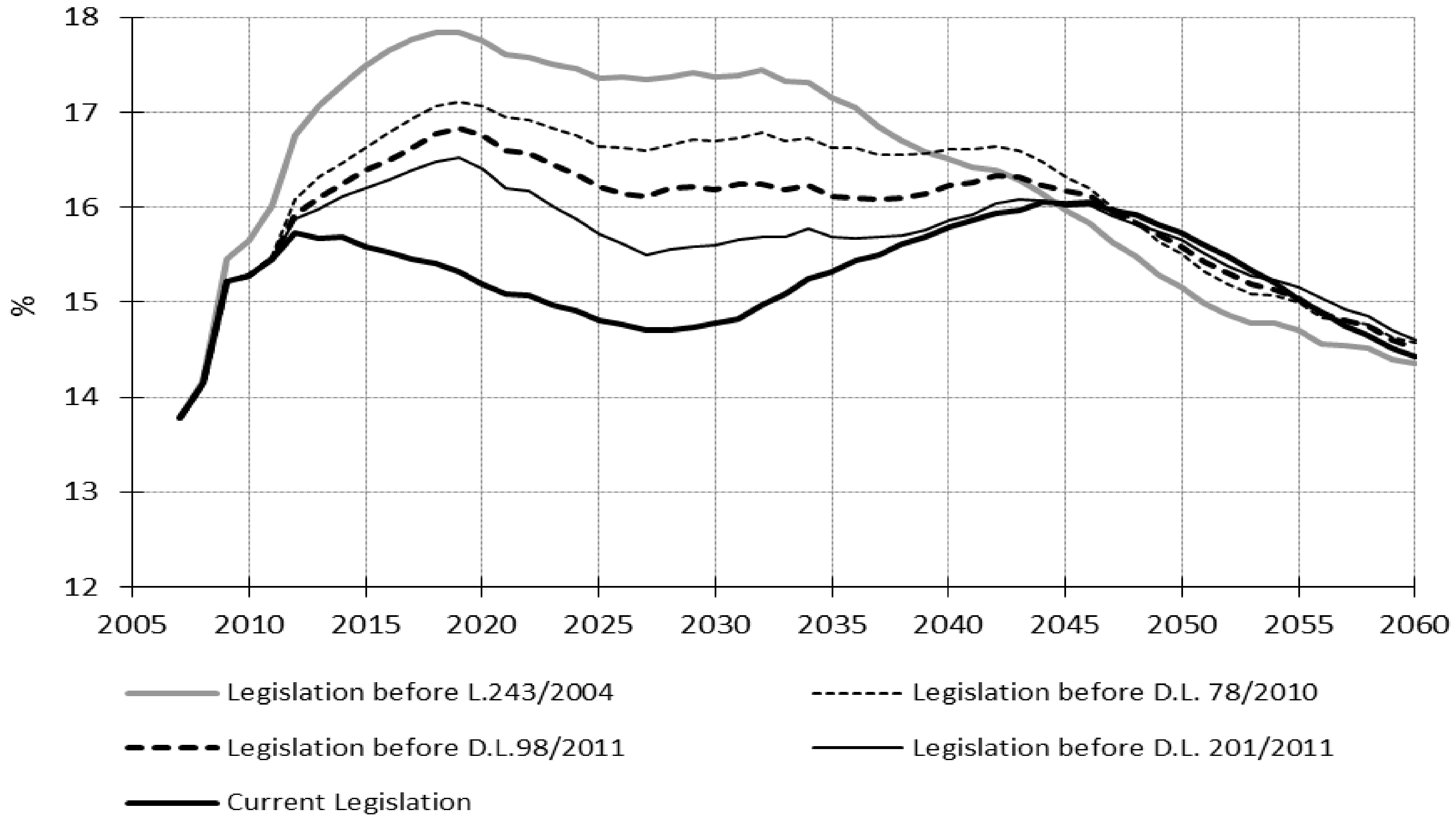
Sizeable effect on pension spending as % of GDP



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Source: 2012 DEF

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Pension reform details (1)

- **Extension of the contribution-based system to all workers** as of 2012 and alignment in statutory retirement ages.
- **Increase from 60 to 62 (63 and 6 months for self-employed) in 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 produces 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.

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Constitutional reforms

- **Balanced budget rule included in the Constitution**: Parliament voted on the draft amendment in December, approved in April (Constitutional Law n. 1/2012 - entry into force FY 2014). Secondary legislation to be introduced by February 2013.
- **Independent authority** for monitoring fiscal sustainability to be established by 2013.

Spending Review (1)

- **Main goals**: public expenditure flows revision; overhauling of public services to tackle inefficiencies; expenditure cuts.
- **Criteria:** revision of expenditures and public transfers, checking efficiency and effectiveness; rationalisation of procurement; census of public property assets to reduce rent expenditure.
- **First Report** examined by Cabinet on April 30: a ministerial committee was set up and a commissioner appointed.
- In the medium term, an expenditure amount of about **€295bn** can be reviewed, while in the short term about **€80bn.**

Spending Review (2)

- On April 30, based on the Report, the Cabinet decided cuts in public expenditures for **€4.2bn** to become effective in June-December 2012.
- On June 12, the ministerial committee proposed **selective cuts,** which might also be higher than the previous amount: rationalisation in the purchase of goods and services, reductions in staff and consultants, reforms of provinces, closure of public bodies, reduction in expenditure for official State cars and aircrafts.

Spending review (3)

- On June 15, the Cabinet of Ministers signed a decree envisaging the **merging of entities and staff reduction.**
- The State Monopoly Autonomous Administration will be merged into the Custom Agency and the Territory Agency into the Revenue Agency. A reduction of Cabinet Offices and Ministry of Economy and Finance staff (20% of executives and 10% of employees) is also envisaged.
- **Structural cuttings**: By the end of September, the Government will present to Parliament plans to rationalise public procurement.

Fight against corruption (1)

- Institution of a **national Commission** (CIVIT) in charge of coordinating activities in fighting corruption in public administration. Collaboration with foreign agencies for analytical exchanges; inspection and investigation.
- **Use of ICT** in communications between citizens and the Public Administration to rationalise purchases of goods and services.
- Prefectures will **monitor outsourcing** to reduce risk of infiltration by organised crime.

Fight against corruption (2)

- **Bans from public offices** for people convicted in final judgment or subjected to judicial measures limiting freedom of movement.

- **Revision of the corruption norms** and introduction of two new offenses in the Code in order to contrast preferential treatments of private persons by public officials.

- **Increase in penalties** for managers or other corporate holders for doing or omitting acts in violation of their obligations or loyalty duties entailing damages to their company.

- **More severe penalties** foreseen especially for the corruption in judicial proceedings.

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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** (to 12 and 23%) 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 (1)

- 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.
- 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.

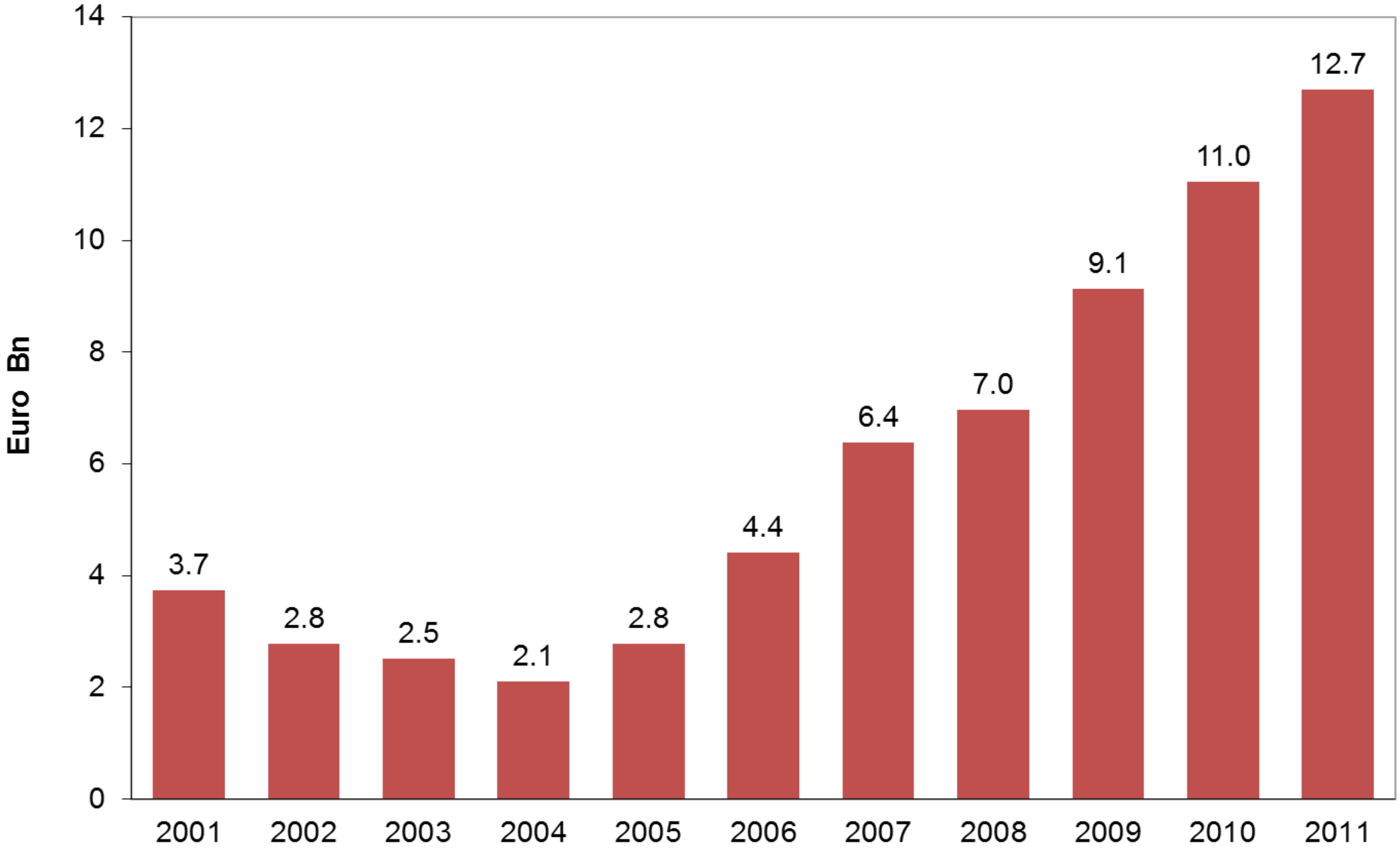
Fight against tax evasion (2)

- 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 to make this measure more **countercyclical**.

Effectiveness of measures to fight tax evasion



Source: Ministry of Economy and Finance- Revenue Agency.

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Macroeconomic impact of the 2011 fiscal consolidation

Differences versus baseline scenario, percentage change of GDP	**2012**	**2013**	**2014**	**2012**	**2013**	**2014**
	ITEM			QUEST III Italy		
GDP	**-1.0**	**-1.0**	**-0.6**	**-0.7**	**-1.0**	**-0.4**
Summer 2011 measures	*-0.8*	*-0.7*	*-0.5*	*-0.6*	*-0.9*	*-0.4*
December 2011 measures	*-0.2*	*-0.3*	*-0.1*	*-0.1*	*-0.1*	*0.0*
Employment (FTE)	**-0.4**	**-0.6**	**-0.9**	**-0.9**	**-1.1**	**-0.5**
Summer 2011 measures	*-0.3*	*-0.5*	*-0.7*	*-0.8*	*-1.0*	*-0.5*
December 2011 measures	*-0.1*	*-0.1*	*-0.2*	*-0.1*	*-0.2*	*0.0*

Source: April 2012 DEF

Direct measures to reduce public debt

- A quota of the **proceeds from auctioning of CO_2 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) for the **establishment of companies, trusts or real estate funds for the development and sale of State properties.**

Further measures to reduce public debt (1)

- The **Government is considering various ways to reduce the stock of public debt.**
- The announced **privatisation plan** will involve both the selling of property assets and the privatisation of companies owned by the State.
- Instrumental to the plan are the **census** on public property assets, concessions and holdings, launched by the Treasury in February 2010, and initiatives to create **value in the public real portfolio**.

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Further measures to reduce public debt (2)

- **The sold of real estate assets** will mainly focus on assets transferred to local governments, involving about 12 thousands units.
- Local bodies should transfer properties to the **Real Estate Agency** to create value and/or dismiss assets. Proceeds will be devoted to reduce public debt and to fund public investment.
- The plan also considers the dismissal of other State assets, of which at least 20% are prisons and military quarters. Properties of social security funds may also be considered.

Further measures to reduce public debt (3)

- **In 2012, about €10 bn expected from the privatisation of public holdings** to reduce debt and government commercial debt.
- Some public holdings (Fintecna, SACE,SIMEST) to be transferred to *Cassa Depositi e Prestiti (CDP)*, a joint-stock company under public control but not included in general government.
- Transfers made at market prices and CDP to pay an advance of 60% of the value.

Government guarantees and EA financial support

% of GDP	2010	2011	2012	2013	2014	2015
Government guarantees	0.8	3.6	na*			
of which: Financial sector		*2.8*	*5,5**			
Euro Area financial support	0.3	0.9	3.1	3.6	3.7	3.6

Source of data: Government guarantees data come from the notification to Eurostat in April 2012 and include information on guarantees provided to financial corporations during the economic crisis; data on Euro Area financial support come from DEF 2012 (section I).
*): Provisional data up to March 2012. Source: Bank of Italy, Financial Stability Report, April 2012.

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Measures for growth and social fairness

- **The new tax framework for businesses (ACE)** reduces tax burden on capital investment 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 workers in 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.

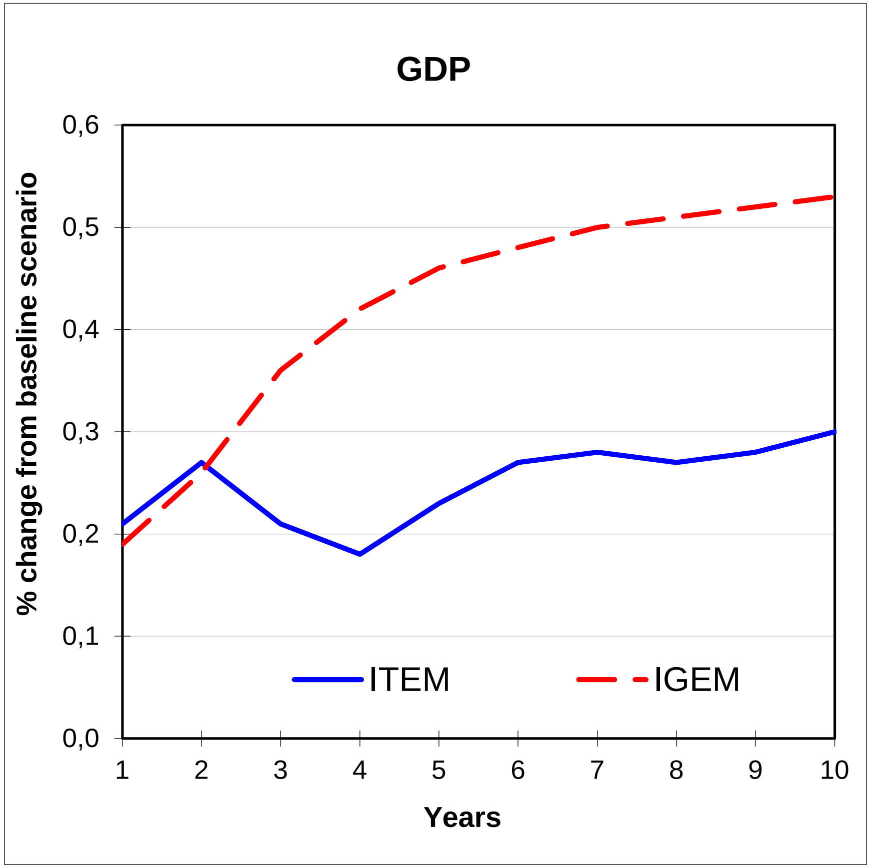
Late payments by the Public Administration (1)

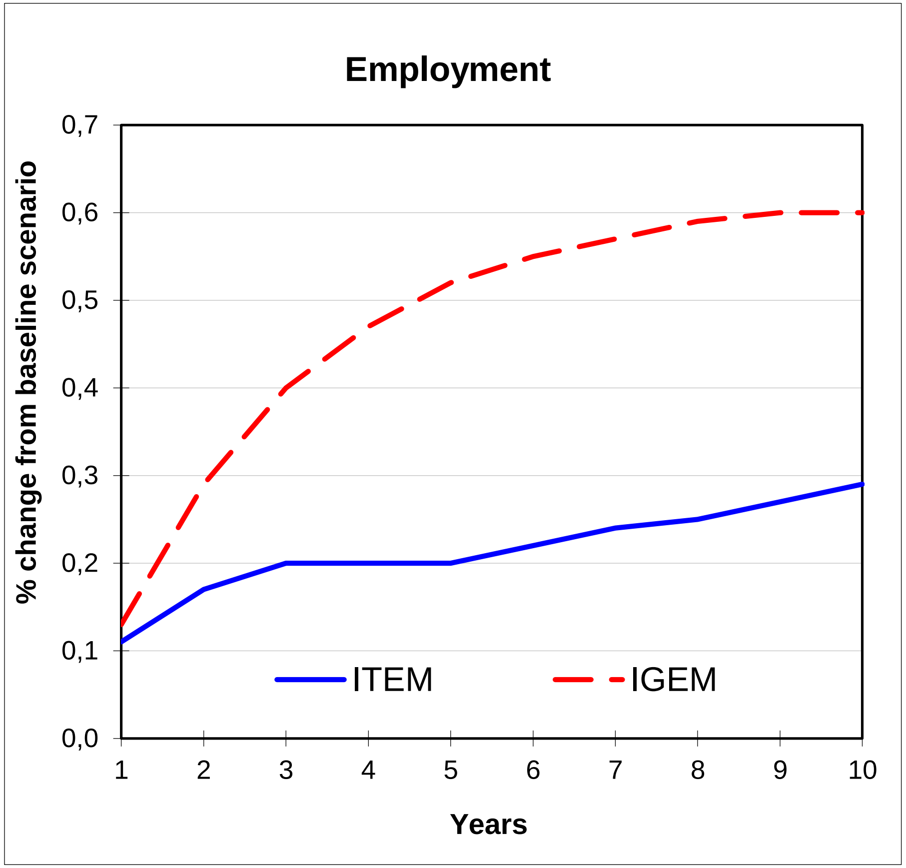
- The **EU Late Payment Directive** has been implemented.
- There will be certification of already-expired credits towards public administrations, regions and local governments (including the NHS).
- Certification can be obtained by the debtor on line. Debtor administration has 60 days to answer. If no reply, certification will be provided by a commissioner within 60 days.

Late payments by the Public Administration (2)

- Once **certification** is obtained, the creditor can:
  - **Offset claims** with tax liabilities.
  - **Get cash advances** from a bank (with possibility of a guarantee up to 70% of the amount from the Central Guarantee Fund and a maximum amount up to €2.5 bn for each firm).
  - **Sell the credit** to a financial institution (with or without recourse).
- Late payments are estimated at about €20 bn. The certification of late payment does not affect public debt.

Potential impact of a tax shift from labour to consumption





ITEM is the Italian Treasury standard econometric model.
IGEM is the Italian Treasury DSGE model.

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Infrastructure

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

Infrastructure and construction sector: new measures

- **Infrastructure**: favorable taxation for project bond to finance new public works; infrastructure financing through tax credits is extended; construction firms will not pay the municipal tax on real property (IMU) on unsold houses for 3 years; more favourable VAT taxation of houses sold within 5 years since their construction; institution of a ‘National Plan for Cities’ for regenerating deprived neighbourhoods; more financial autonomy of port authorities.

- **Building renovations**: tax credit for energy-efficiency renovations is increased from 36% to 50% with an expenditure cap of 96,000 Euros until 30 June 2013.

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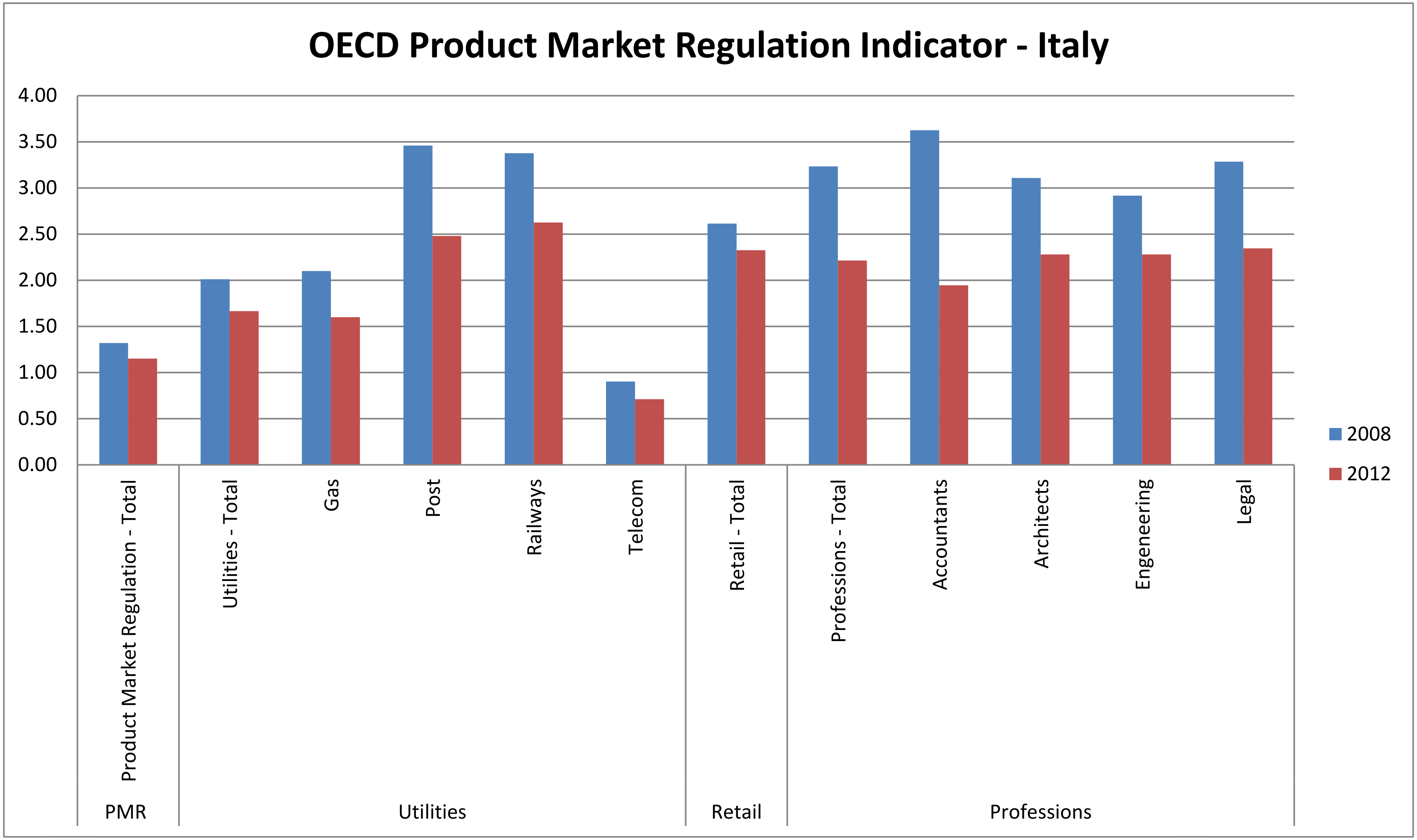
Liberalisation and simplification – reforms by sectors



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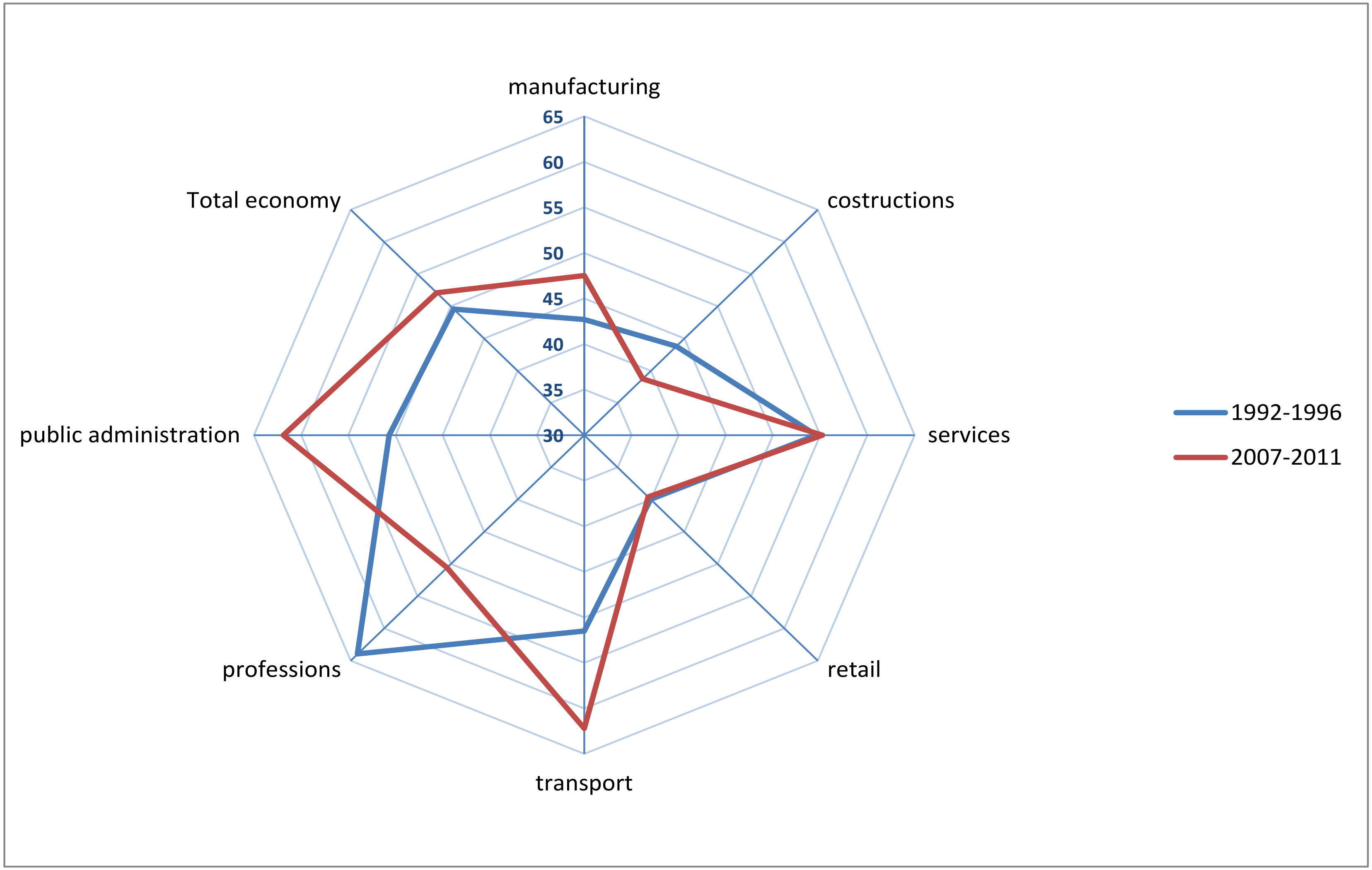
Productivity by sectors: how has it evolved?



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Liberalisation, competition and competitiveness (1)

- 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.**
- 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 ex-ante controls, limits, permits, licenses for start-ups.
- 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**.
- 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 making public companies more efficient, strengthened role of the Antitrust Authority for local public services).

Liberalisation, competition and competitiveness (4)

- Enhanced competition in the **banking and insurance services** reducing charges and improving the quality of services offered.
- For **banking services** it is established a standard current account cost and fees on withdrawals also for ATM.
- Introduction of an annual report to ISVAP for the claims requiring further information concerning the risk of fraud; lower tariffs for voluntary installation of electronic mechanisms by drivers to enhance monitoring of cars; higher penalties for false disability certification; company obligation to provide comparative insurance proposals.

Liberalisation, competition and competitiveness (5)

- **Gas and electricity sector:** gradual delinking of prices from the oil market; unbundling of the gas network; set-off for the inhabitants of regions where hydrocarbons are extracted; reduction in energy prices now takes into account production growth from renewable sources.
- Liberalisation of **fuel and non-oil distribution** in petrol stations.
- Dismantlement of decommissioned **nuclear sites.**

Liberalisation, competition and competitiveness (6)

- Strengthened competition in the **transport sector** (in particular for railway services).
- Provisions for **private infrastructure investment:** introduction of ‘project bonds’ and public-private partnership; easier concessions for public works and their management and increased competition; simplification of projects.

Liberalisation, competition and competitiveness (7)

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

Development Decree (1)

- **Incentives to firms**: 43 provisions on incentives to firms repealed and all resources focused on in the ‘Fund for sustainable growth’, which is split into 3 priority areas:
  - Promotion of R&D and innovation;
  - Requalification of areas affected by severe industrial crisis;
  - Internationalisation of Italian enterprises.
- **Tax credit for researchers**: a tax credit of 35% of costs for hiring high skilled workers (PhD holders and graduates) is introduced (for a maximum of 200,000 Euros for firms). They should be employed for at least for 3 years.

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Development Decree (2)

- **Controls on the use of incentives**: tax police (‘*Guardia di Finanza*’) will verify correct use of fiscal incentives. The Ministry of Economic Development (MoED) will identify indicators and critical values to evaluate projects before and after granting subsides.
- **Restructuring projects of areas of ‘severe industrial crisis’**: the MoED will sign a programme agreement with local institutions in areas of severe economic crisis in the field of education, infrastructure endowment, environment and energy.

Development Decree (3)

- **Financial instruments for SMEs**: special bonds reserved to qualified investors can be issued with the assistance of a sponsor; yields of securities with a duration of more than 5 years can be linked to profits.

- **Internationalisation of Italian companies**: integrated governance for ICE (external trade) and ENIT (tourism entity). ICE and ENIT will also help SMEs to team up with large firms and banks for: import of raw materials and intermediate inputs, specialised training, quality and innovation, trademarks and patents.

Development Decree (4)

- **Renewables**: support to biofuels production and trade to avoid unfair competition of extra-EU countries; reduced incentives for biofuels.
- **Oil extraction and refining**: simplified procedures for extracting and refining oil, and cleaning up sites; coordination of controls over extraction and refining equipment; government can grant permission if regions are silent.
- **Promotion** of youth employment in sectors related to green economy.

Development Decree (5)

- **Gas distribution**: more efficient allocation of gas import capacity by tender.
- **Hydro-electricity**: reduction of concession length (from 30 to 20 years); definition of quality obligations for the contractor, also in term of lower prices for customers.

Development Decree (6)

- **Energy-intensive industries**: subsided energy volumes will be established on the basis of weight of energy costs on output (no more in relation to consumed energy volumes), i.e. no further costs for domestic consumers, nor for public finance.

- **Administrative simplification**: streamlining of registration procedures for network agreements (stable partnerships among enterprises for strategic targets); age-limit to set up simplified limited liability companies is eliminated; the new waste management system (SISTRI) will entry into force from July 2013; institution of the Agency for Italian Digital Agenda.

Education and university (in the pipeline)

- **Promoting merit**: best students in each secondary school and university will be granted rebates on cultural and transport services and reduced fees for their next educational step.
- **Other measures**: the three best Italian students can attend specialised summer courses for free. Championships in mathematics, language and astronomy. Professors will have to do at least 100 hours of lecturing per year.
- **Access to labour market**: the Ministry of University will publish curricula vitae of best students with attribution of two-year fiscal incentives; limited access to some faculties is confirmed.

Simplification (1)

- Possibility to obtain more **certificates online.**
- **Car sector:** quicker renewal of driving licenses for over 80s, simplified procedures to control cars’ emissions, parking permits made easier for disabled.
- **Reduction in administrative burdens** for recruitment of non-EU citizens.
- **Tax credit** for businesses hiring with permanent contracts in the South.

Simplification (2)

- **Simplified controls and checks** to start-up businesses.
- Creation of a **national database for public work contracts.**
- Measures to reduce time of administrative proceedings.
- **Agriculture and fishing:** electronic register for agricultural and fishing businesses.
- Enlargement of activities subjected to SCIA regime (*Segnalazione di inizio attività*).

Simplification (3)

- Strengthening school evaluation systems; INVALSI guideline to establish territorial networks of schools).
- Creation of a **common portal for universities** to register on line the results of exams for students nationally.
- New criteria for the selection of research projects, in particular for researchers ‘under 40’.

Justice system

- **Bankruptcy procedure**: adaptation of existing procedures to a system similar to "Chapter 11" in the US. Increasing protection of the entrepreneur in strains ('*concordato preventivo*') who can continue business activity. Payment of creditors under "Chapter 11" is 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.

Reallocation of funds for Southern Italy

- In May, the Cabinet of Ministers has approved the second phase of **'Action-Cohesion Programme'** and the **'Social Plan for Southern Italy'.**

- **Priorities set by the Government**: better child and elderly care (€730 Mn); new opportunities for young people (€115 Mn); measures for enterprises and culture (€1.5 bn). Total amounts to €2.3 bn.

- €117 Mn earmarked for childcare and elderly care and policies reconciling family and work.

Programme Funds for Southern Italy (2)

Interventions	Resources
Social inclusion	**814.6**
Childcare	400.0
Eldercare	300.0
Young people	114.6
Growth	**1,498.4**
Young people	105.3
Selfemployment	*50.0*
Apprenticeship	*50.0*
Italian researchers in foreign countries	*5.3*
Promoting enterprise develoment	*740.7*
Promoting innovation by public demand	*150.0*
Enhancing culture attraction areas	*330.0*
Reducing time of civil justice	*4.4*
Measures for energy efficiency in urban and natural areas	*168.0*
Total measures	***2,313.0***

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Macroeconomic impact of reforms

THE SPECIFICATION OF THE SCENARIOS IN QUEST III AND THE SIZE OF INTERVENTIONS

Interventions	QUEST variable	Reform scenario	Closing the gap scenario
Mark-up reduction in the manufacturing sector and in the services sector	Mark-up	1.8 p.p.	4.3 p.p.
Reduction in entry costs in the manufacturing sector and in the services sector	Entry costs	12%	35%
Administrative burden reduction	Overhead labour	15%	23%

Source: Elaborations with QUEST III - Italy (European Commission).

MACROECONOMIC EFFECTS (percentage deviations from the steady state)

	Reform scenario					Closing the gap scenario					
	2012	2013	2014	2015	2020	2012	2013	2014	2015	2020	2030
GDP	0.2	0.4	0.7	0.9	2.4	0.5	0.9	1.3	1.9	5.0	7.4
Consumption	0.1	0.1	0.2	0.3	1.1	0.4	0.7	1.0	1.3	3.2	4.7
Investments	0.5	1.1	1.6	2.0	3.9	0.6	1.3	2.0	2.7	6.1	8.8
Employment	0.2	0.2	0.2	0.1	0.1	0.4	0.5	0.4	0.4	0.3	-0.4

Source: Elaborations with QUEST III - Italy (European Commission).

Getting more out of the reforms already introduced

- Liberalisation in the **transport sectors** is strengthened by the creation of an **independent Authority**.
- The range of administrative acts the Antitrust Authority can scrutinise is extended.
- **Local public services:** procurement without tender or by using captive fully controlled entities is subject to the **compulsory advice of the Antitrust Authority**.

The labour market reform

- **Issues at stake:** low labour market (exit) **flexibility**, weak **social safety net,** insiders/outsiders **dualism**, generation and gender **segmentation,** geographical **divide** (North/South).
- New provisions for **labour contracts**.
- Reform of the **social safety net** and unemployment benefit system.
- Revisited **Employment Protection Legislation** (EPL) (art. 18 of the "Workers' Statute", Law no. 300/1970).

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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 with their over the previous 3 years has to be converted into open-ended ones.

Reducing the improper use of flexible contracts

- Employers will have to pay **higher contributions (+1.4%)** for fixed-term contracts and these contracts can only last for a maximum of 3 years.
- Thereafter, the contract can only be renewed as **open-ended**.
- Employers will have limits on the use of different forms of non-standard contracts.

A brand new safety net: ASPI

- **Eligibility**: all workers with ≥ 2-year social security contribution and 52 working weeks over the past 2 years.
- **Duration:** 12 months for workers aged <55-year, and 18 months for those ≥ 55. The replacement rate is 75% of gross earnings up to €1.180.
- **Funding:** ASPI will be funded through increased contributions paid by employers. The contribution can be reimbursed to employers if/when temporary contracts are converted into open-ended ones (so-called 'stabilisation bonus').

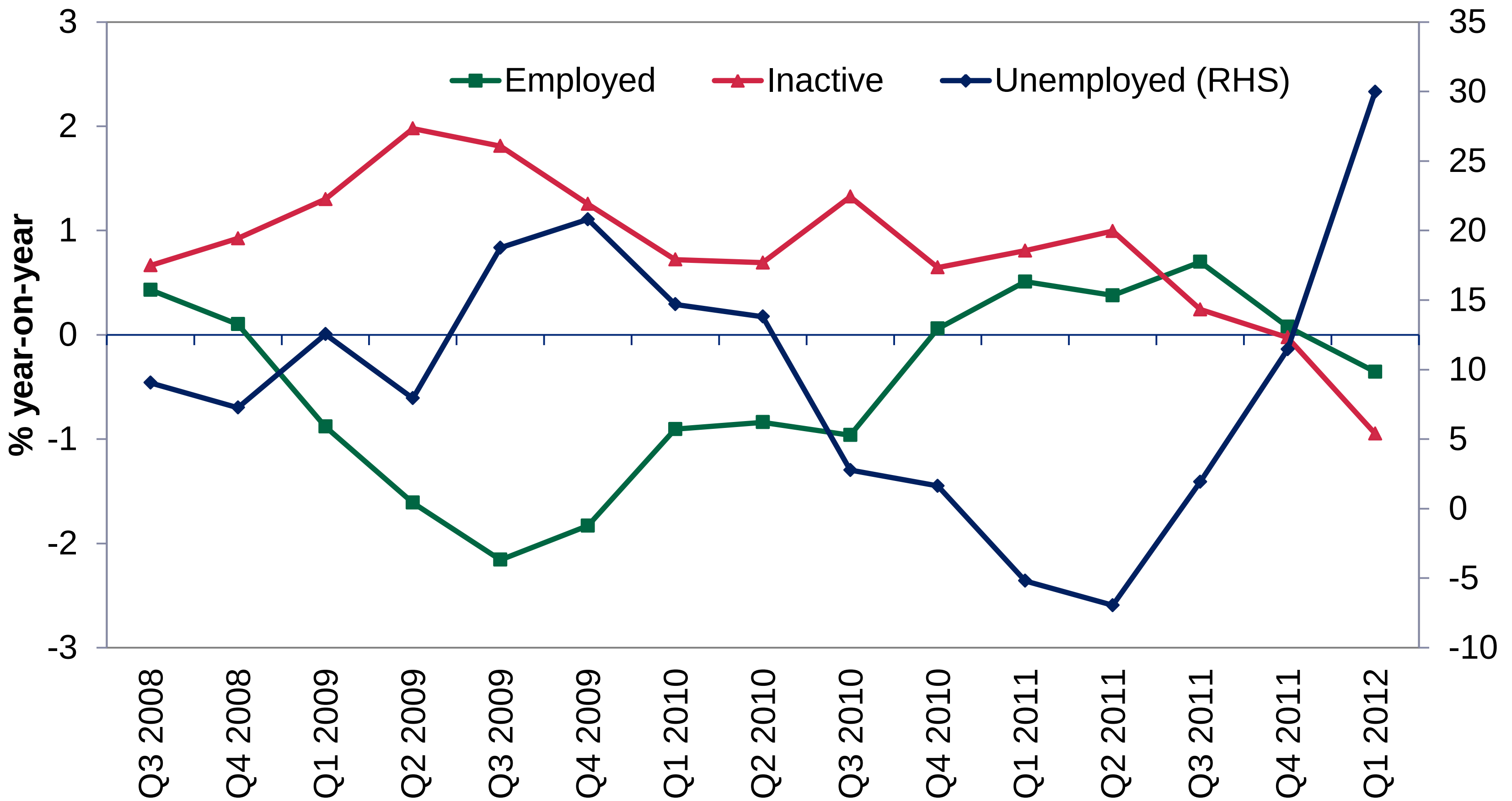
Changes to existing schemes

- **Ordinary wage supplementation** for the industrial sector will not change .
- For other sectors a compulsory **‘Solidarity Fund’** (managed by INPS) **is established** for companies with over 15 employees.
- **Extraordinary wage supplementation** will no longer apply in case of dismissal of activity and enrollment of workers in active labour market schemes.

Employment protection legislation: big revision

- In case of **discriminatory dismissals**: no change as 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 (amounting to 12 up to 24 months of full salary).
- For **unfair dismissals for economic reasons**, the judge can decide for an indemnity (between 12 and 24 monthly payments) or reintegration of the employee in case of no fair reasons for dismissal are recognised.

Rise in unemployment due to increasing market participation



Source: ISTAT (RFL).

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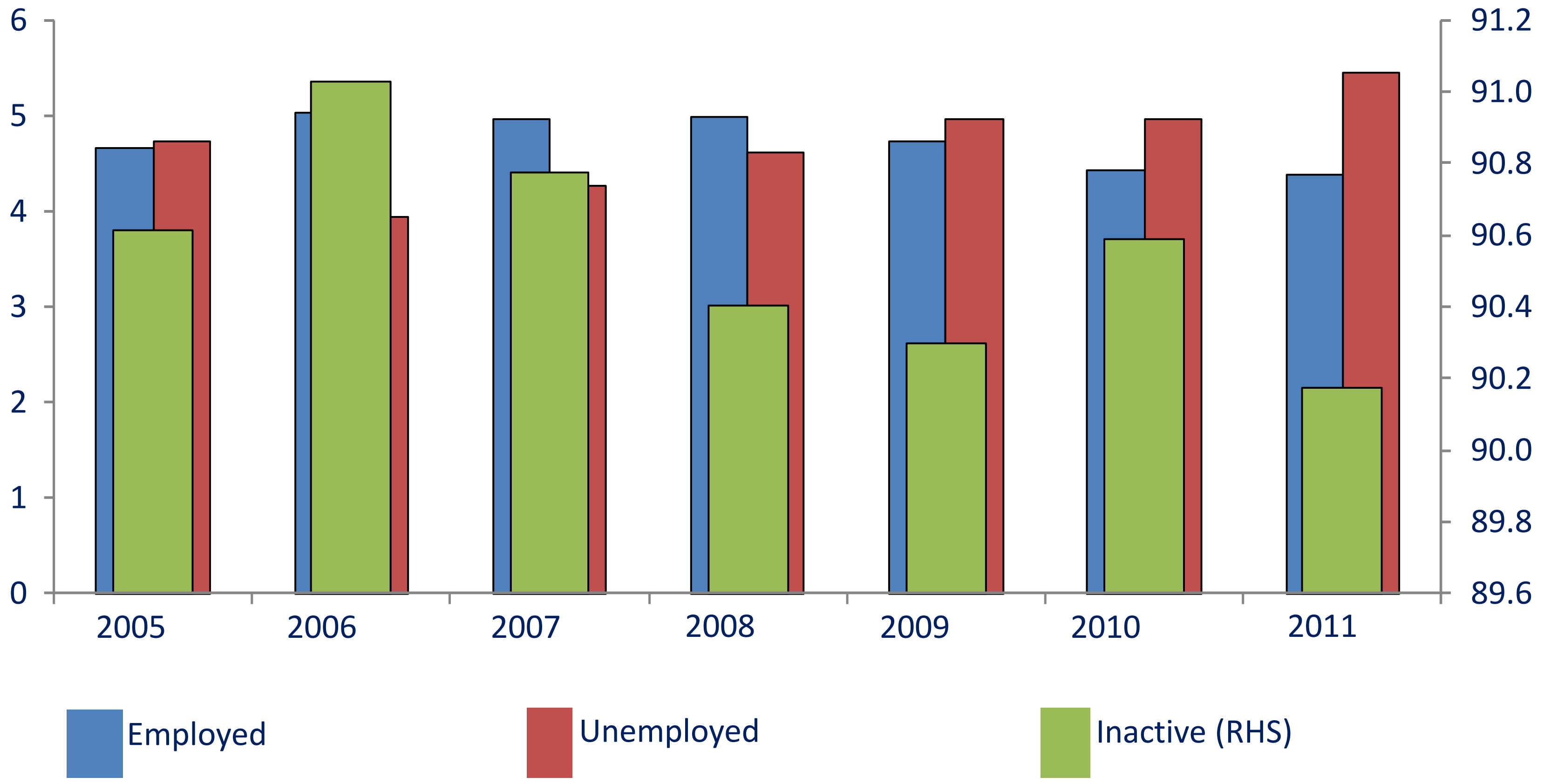
Transition probabilities: from inactivity to another status



Source: MEF calculations on LFS longitudinal microdata

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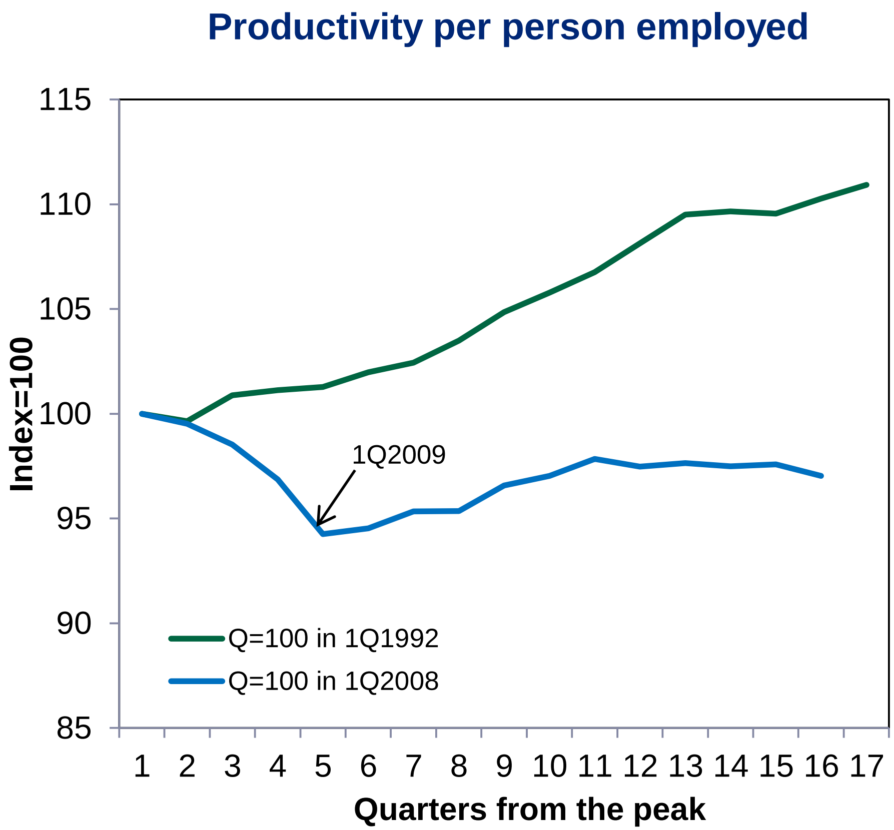
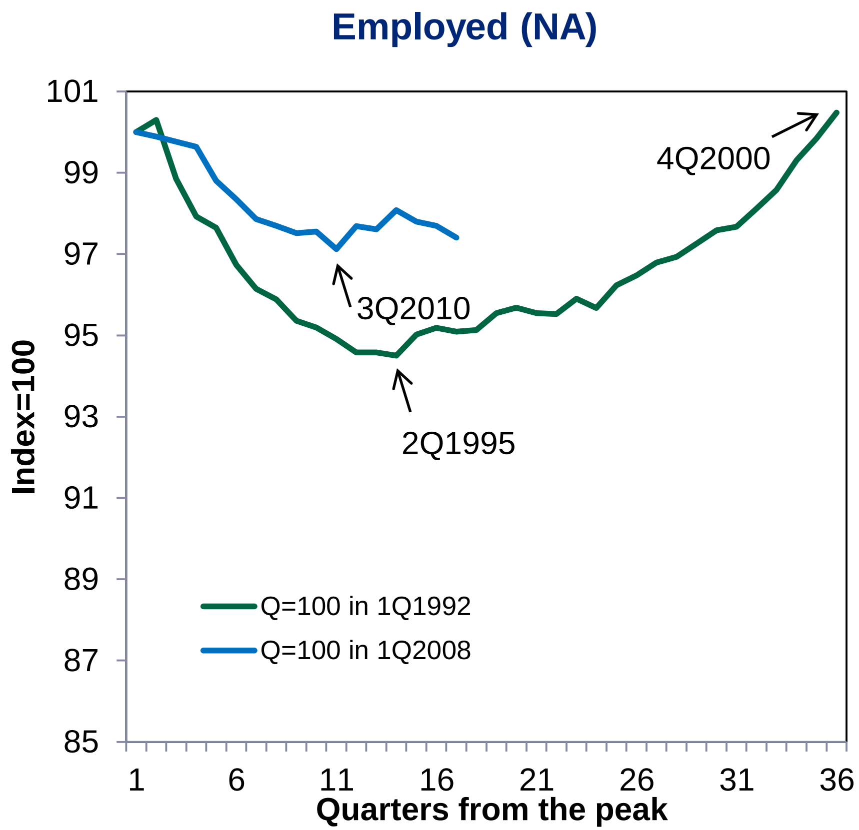
What can past economic crisis suggest? (1992 vs 2008)



Source: MEF calculations based on ECB data.



Source: MEF calculations based on ECB data.

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Bottom line: 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.**