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# Italy's Strategy for Growth and Fiscal Consolidation

Lorenzo Codogno  
Italian Ministry of Economy and Finance  
Washington, April 18-21, 2012

MINISTERO DELL'ECONOMIA E DELLE FINANZE

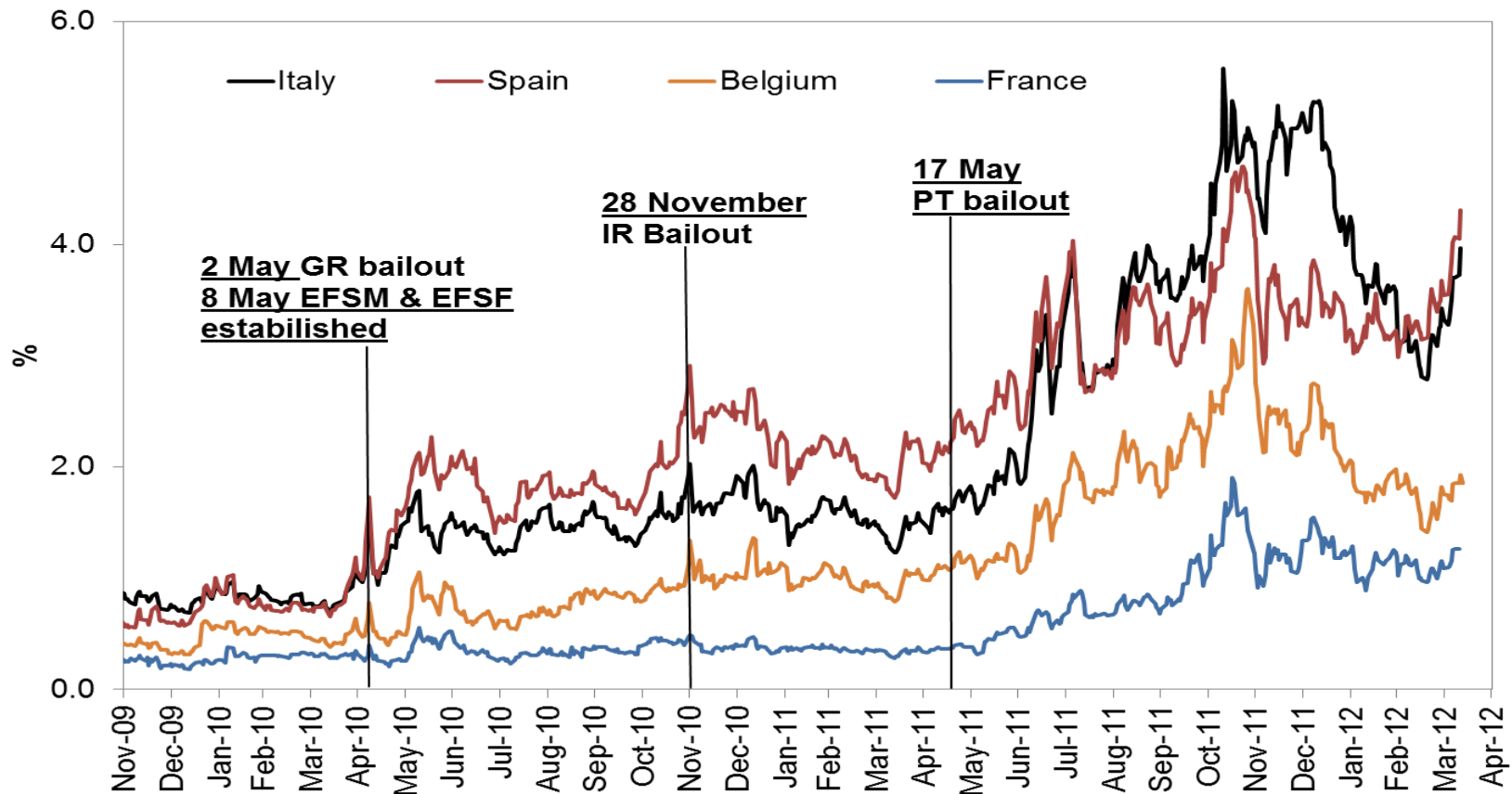
# The international crisis and Italy's economy

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



# Italy's sovereign bond spreads: a bumpy ride

Spreads versus 10 years German bonds



source: Thomson Reuters Datastream

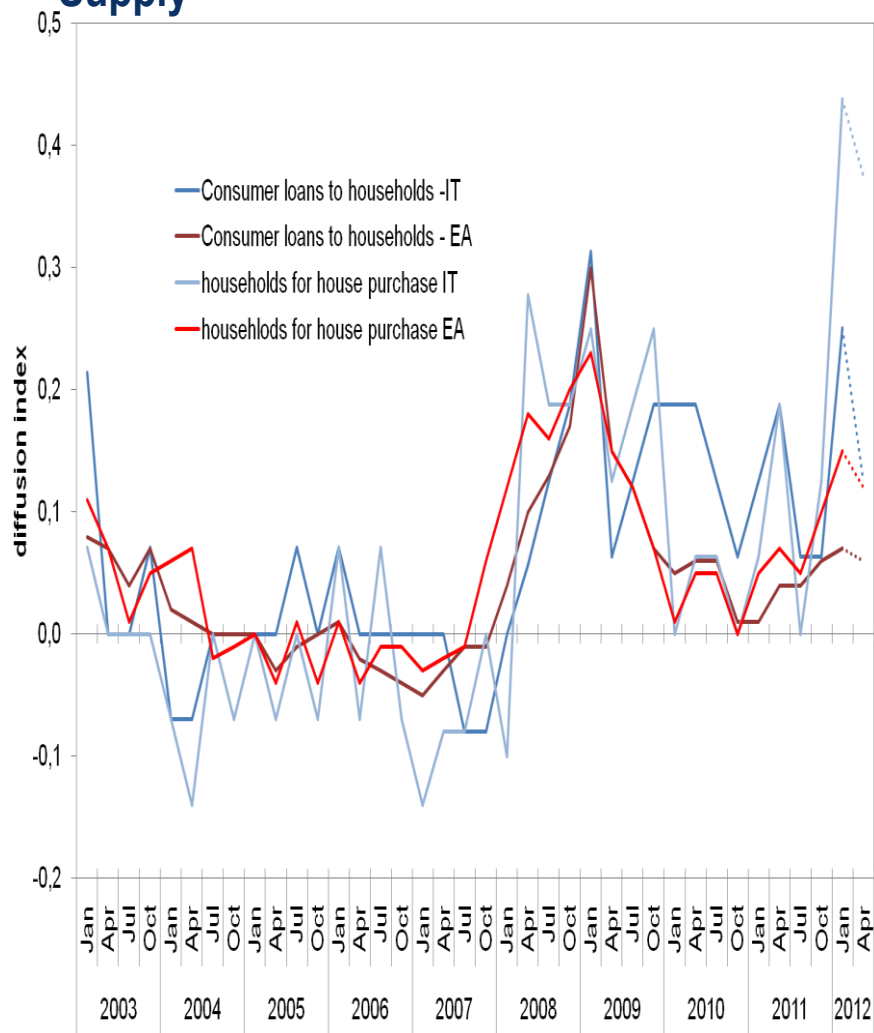


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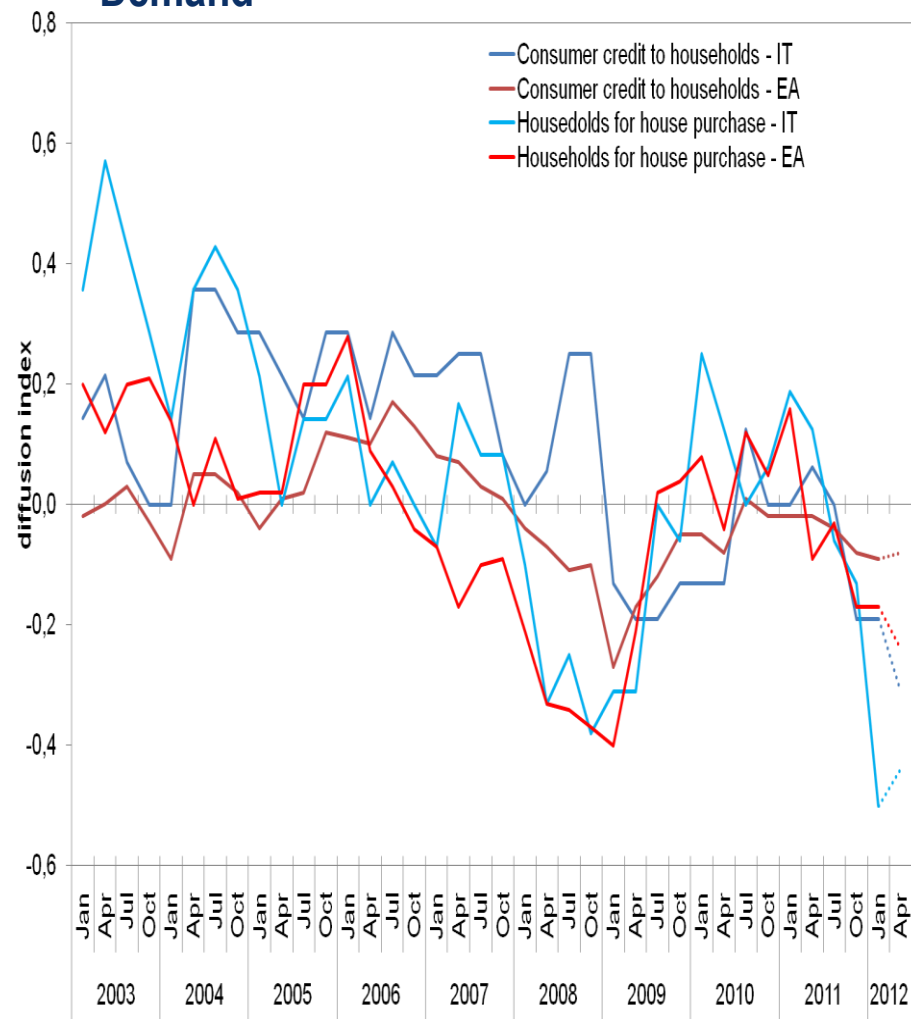
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# Temporary tightening but no credit crunch, for now

## Supply



## Demand

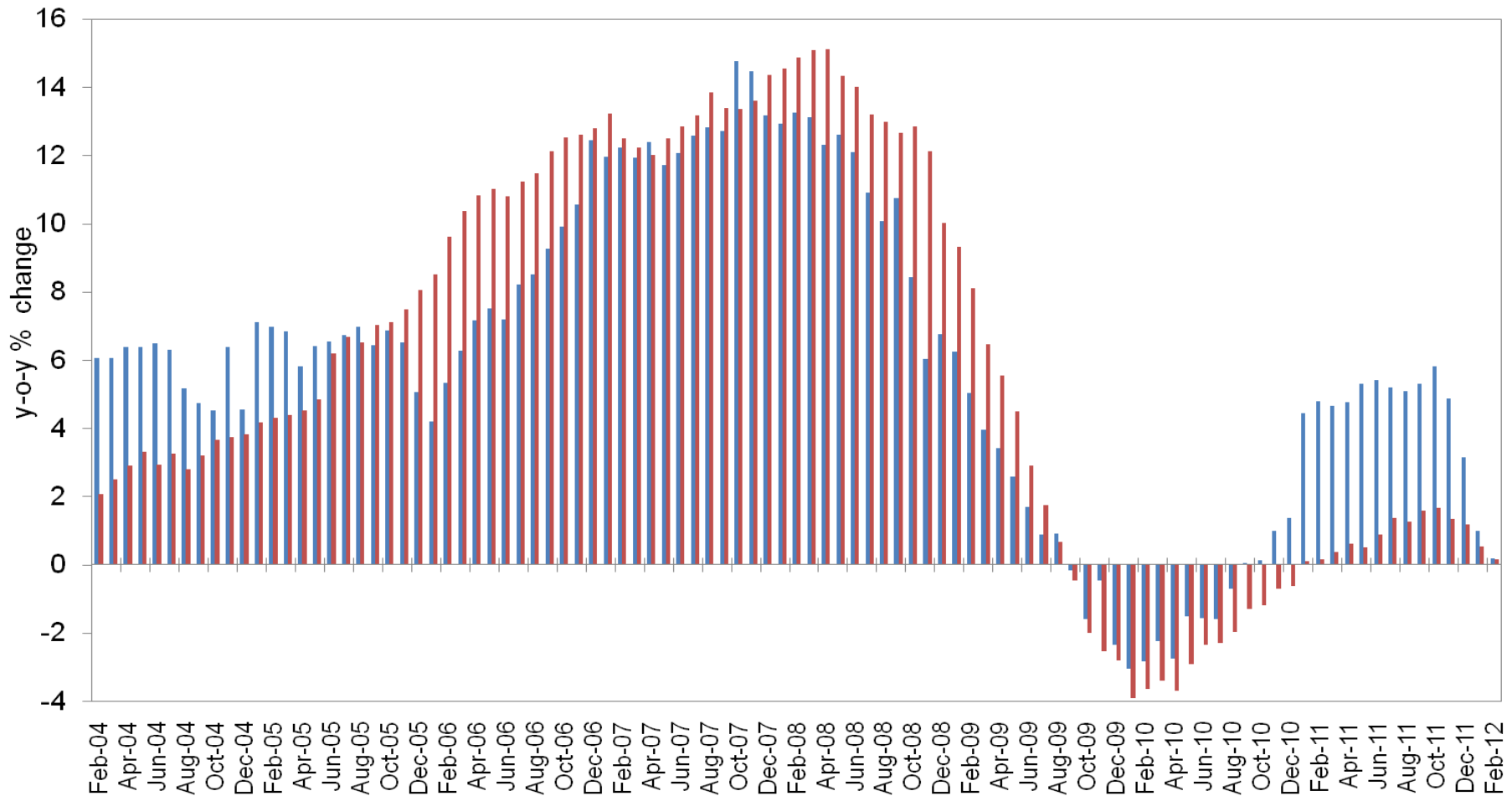


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# Up to Feb: less credit squeeze than in the rest of Europe



■ LOANS TO NON-FINANCIAL CORPORATIONS- IT

■ LOANS TO NON-FINANCIAL CORPORATIONS -AE

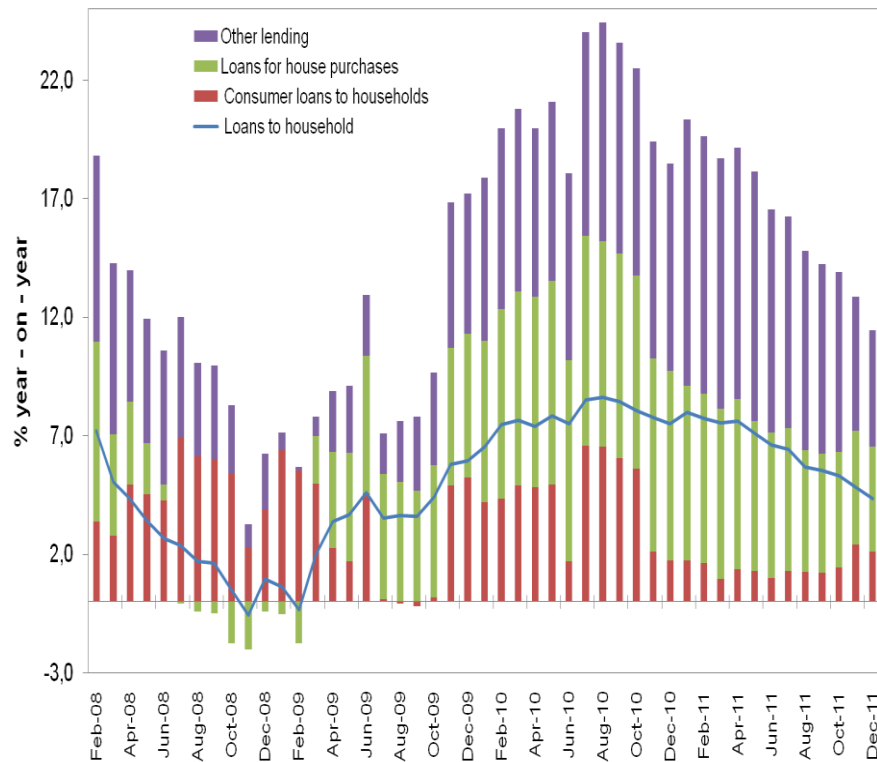


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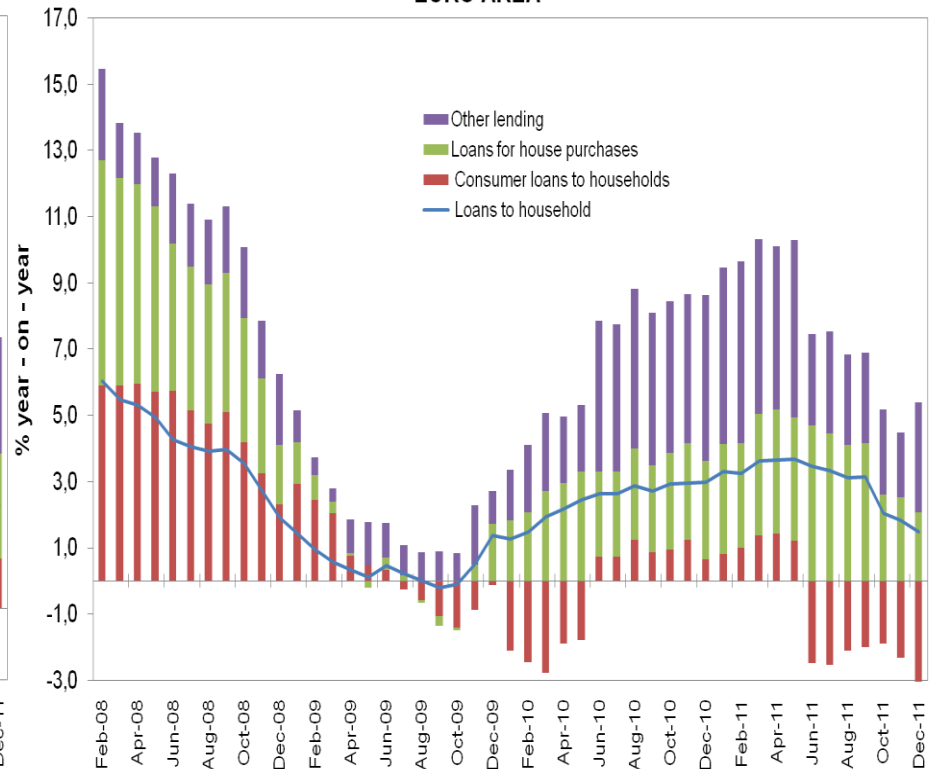
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# Credit to households: only moderate softening

ITALY



EURO AREA



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## Recent macroeconomic/financial developments

- The **global economic outlook** has improved, although only tentatively.
- Official GDP projections call for a **1.2% contraction in 2012**, moderate growth in 2013 (0.5%) and 2014 (1.0%).
- **Interest rates** are projected in line with market forward rates at the beginning of April, i.e. cautious assumption of no reduction in yield spreads.
- After exceeding 500bp in November, **10y BTP-Bund yield spreads** have recently hovered around 300-400bp.



# Updated macroeconomic scenario (2012 DEF)

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

Source: 2012 DEF

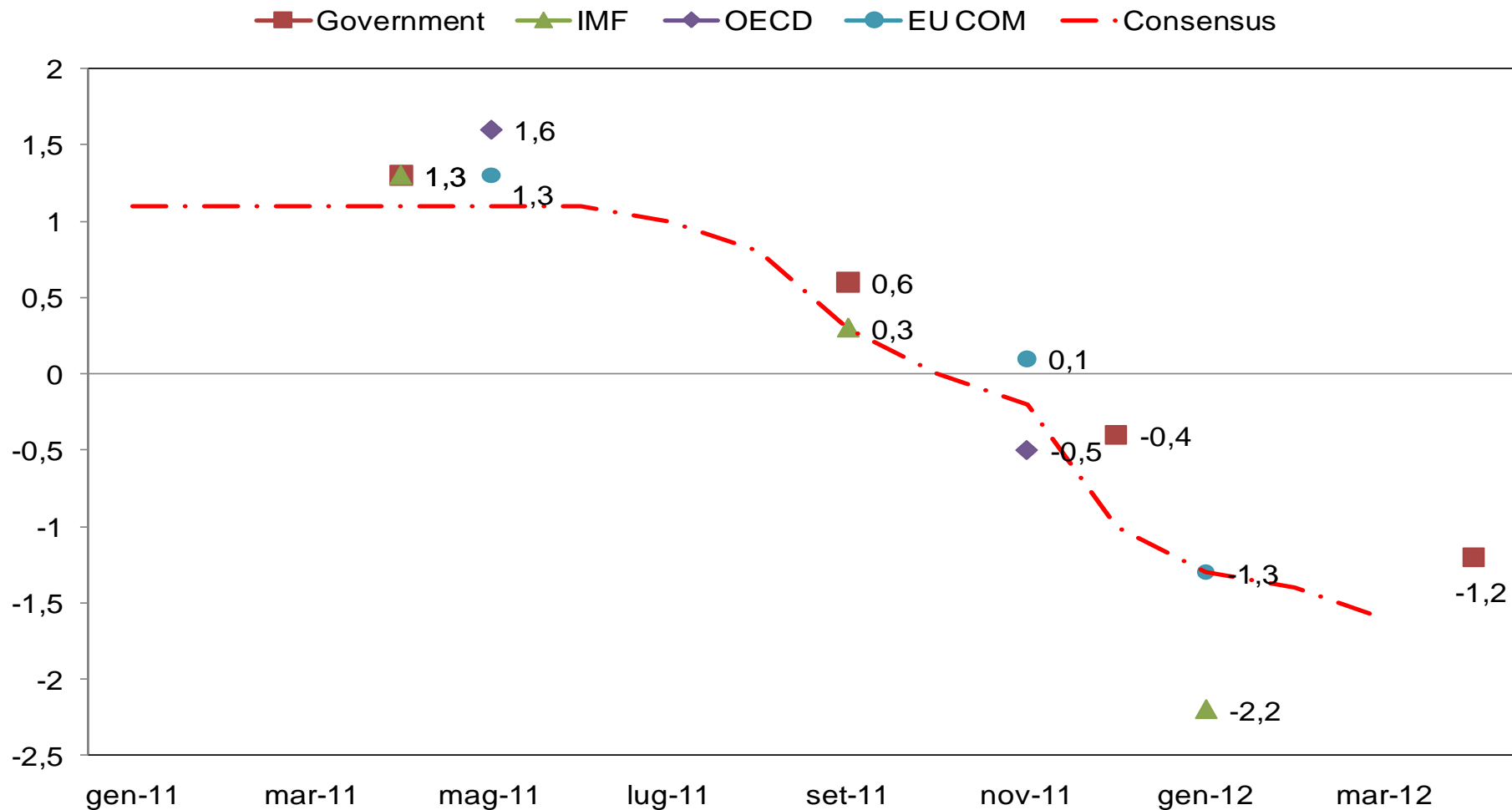


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# 2012 GDP growth forecasts have declined since mid-2011

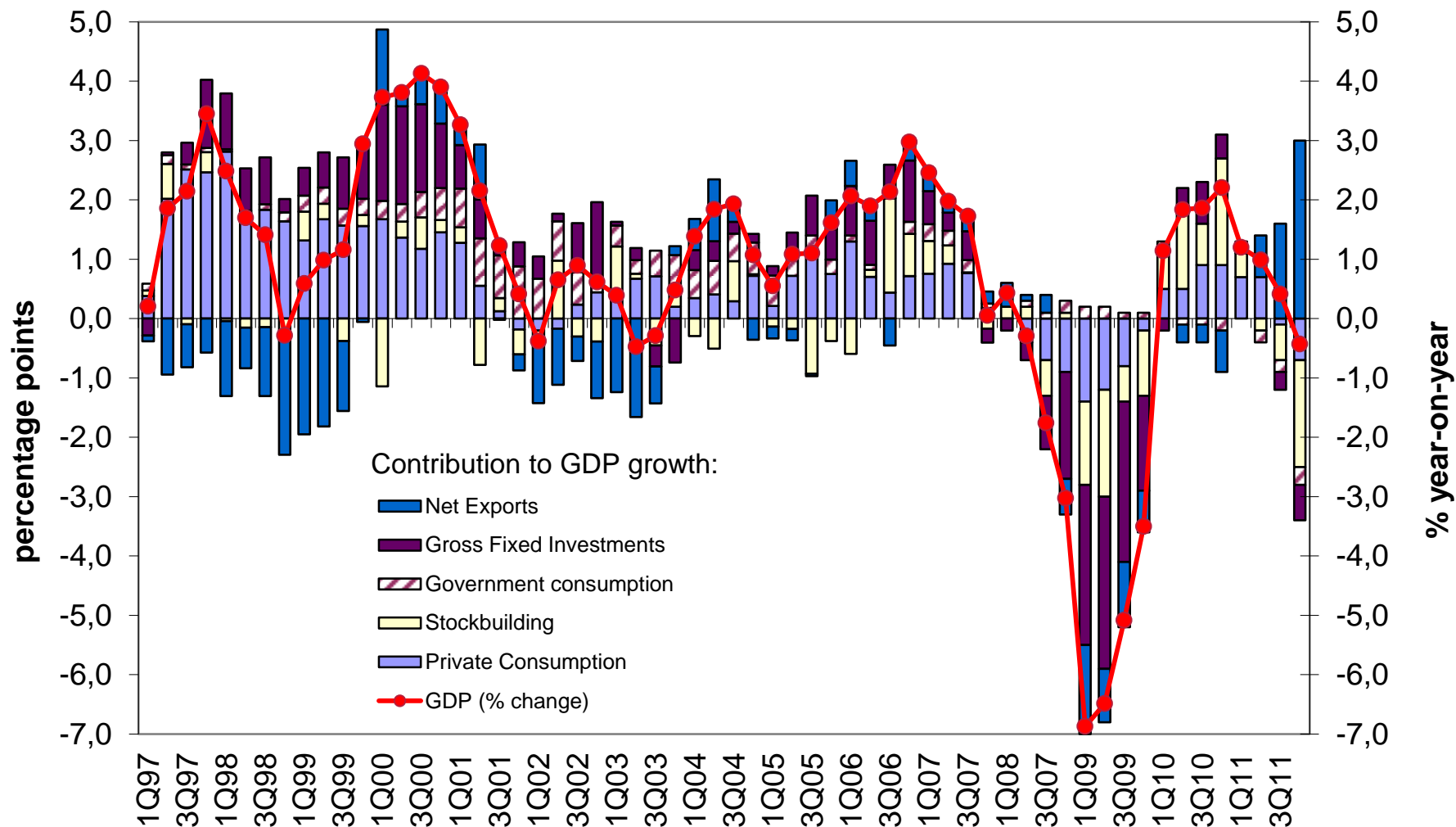


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# Likely only mild recession in late 2011/early 2012



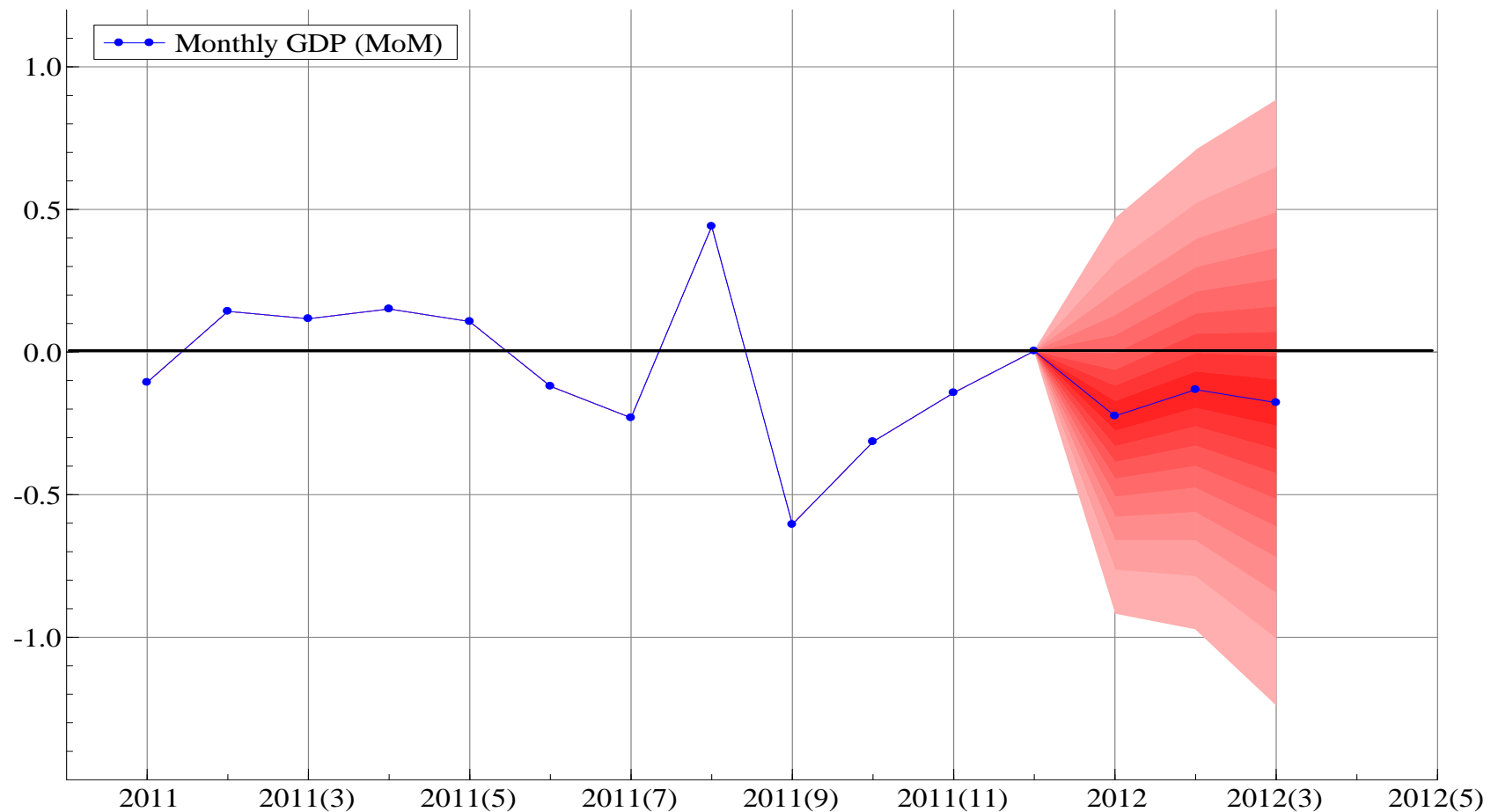
Source: ISTAT



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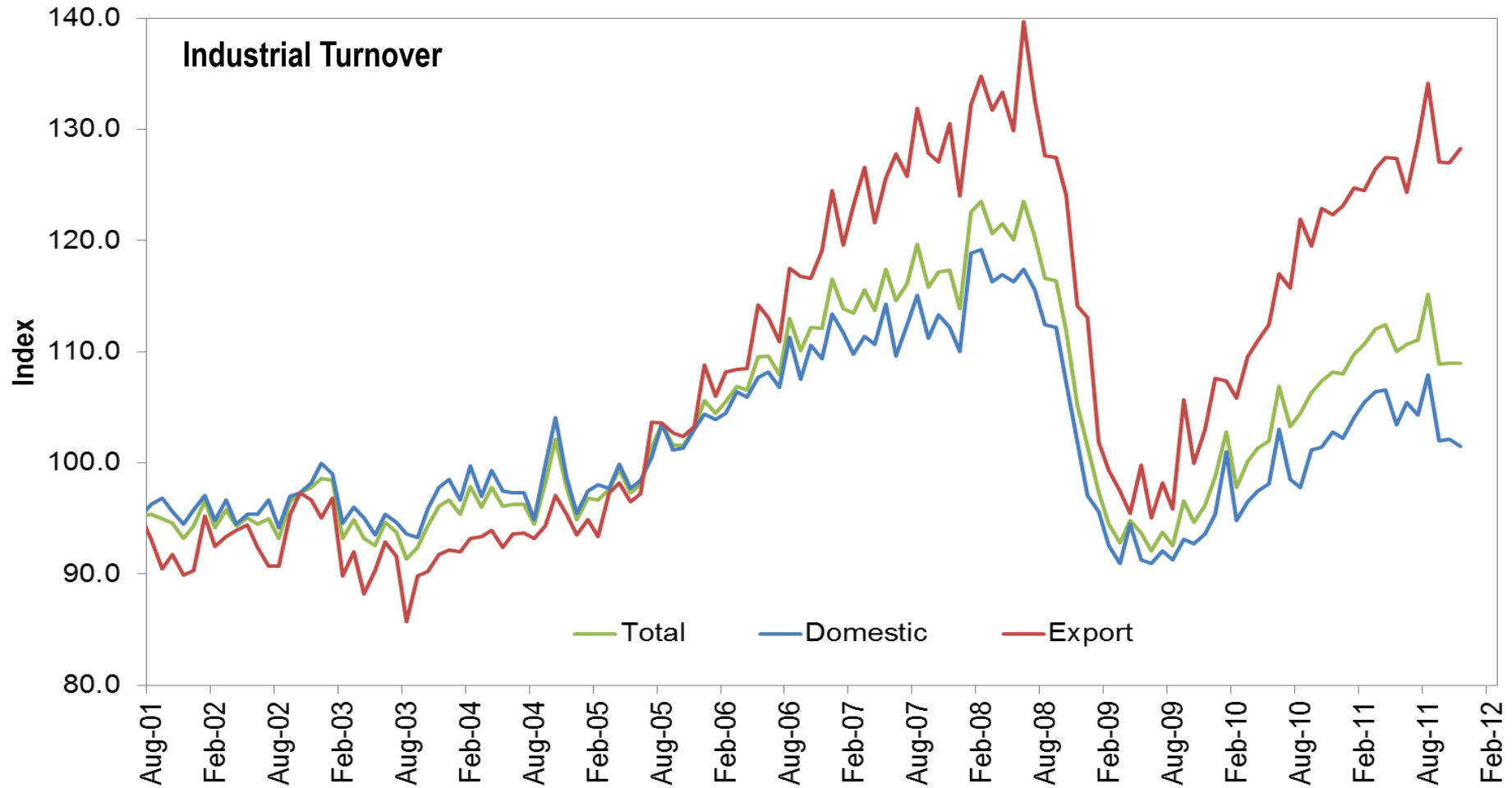
# GDP forecasts for 1T12: still in negative territory



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# Italy about to grow out of recession thanks to foreign demand



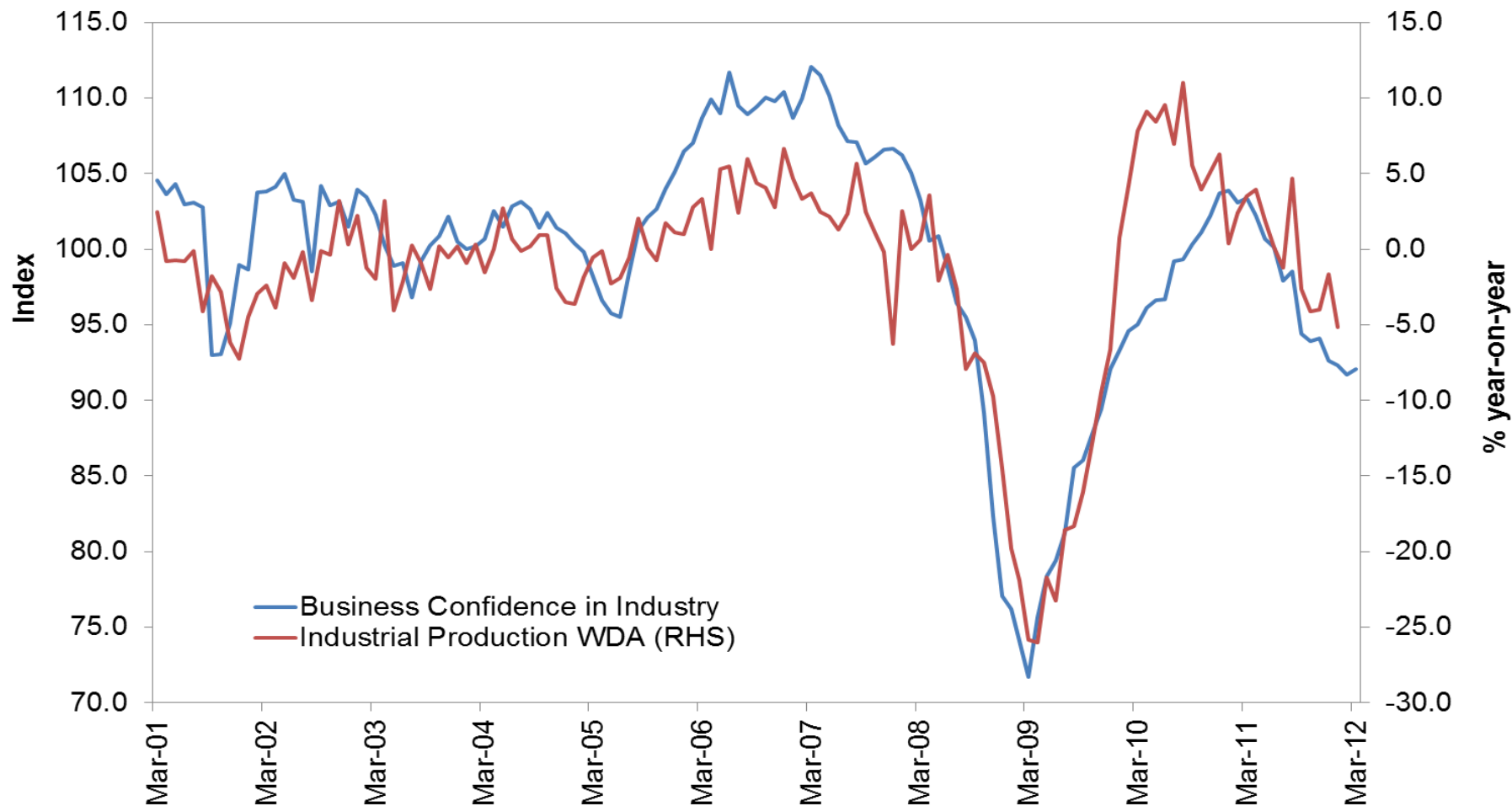
source: Istat



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# Industrial production likely to bottom in 1H12



source: Istat

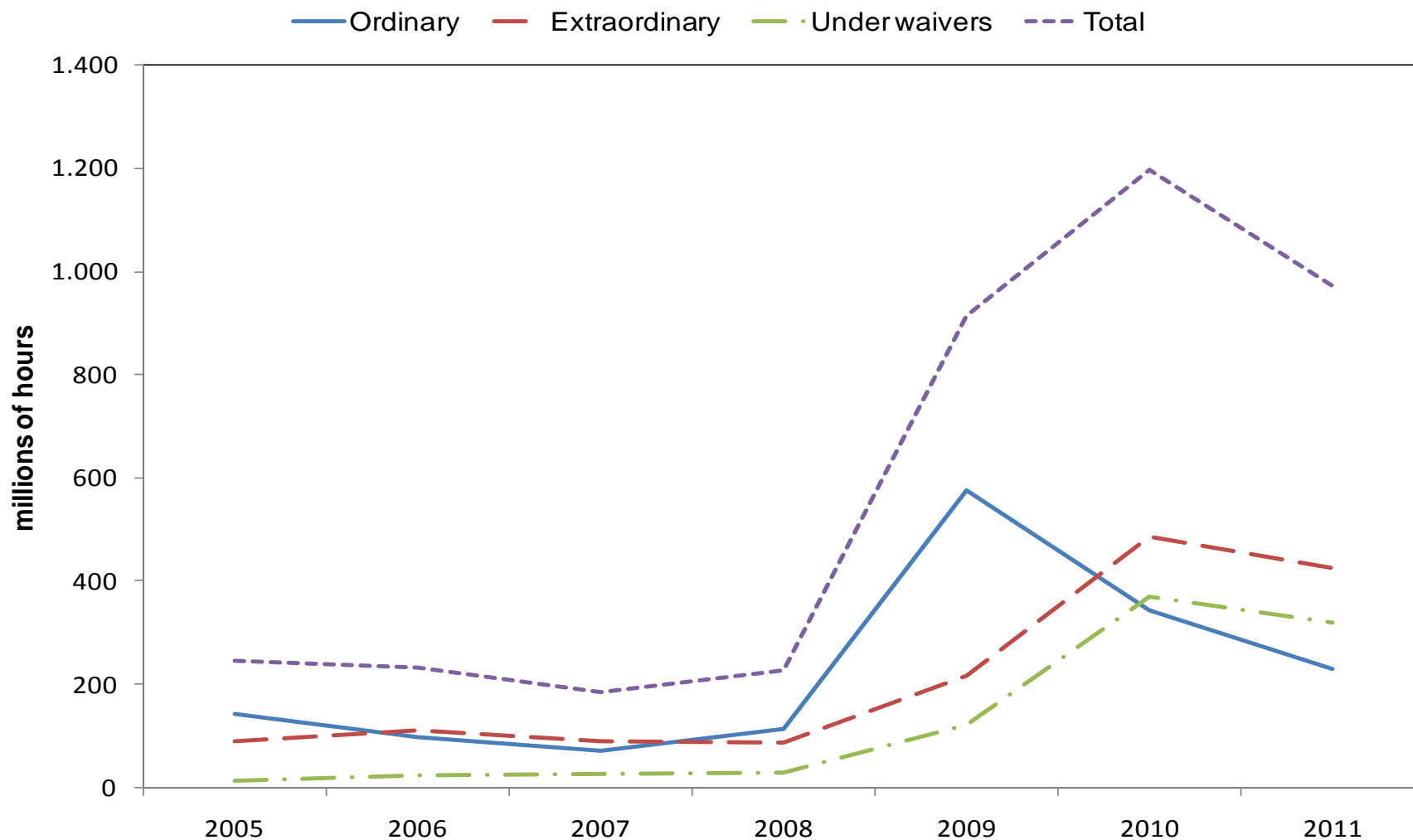


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# Less reliance on wage supplementation schemes



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# Tentative signs of improvement in consumer confidence



Source: ISTAT.

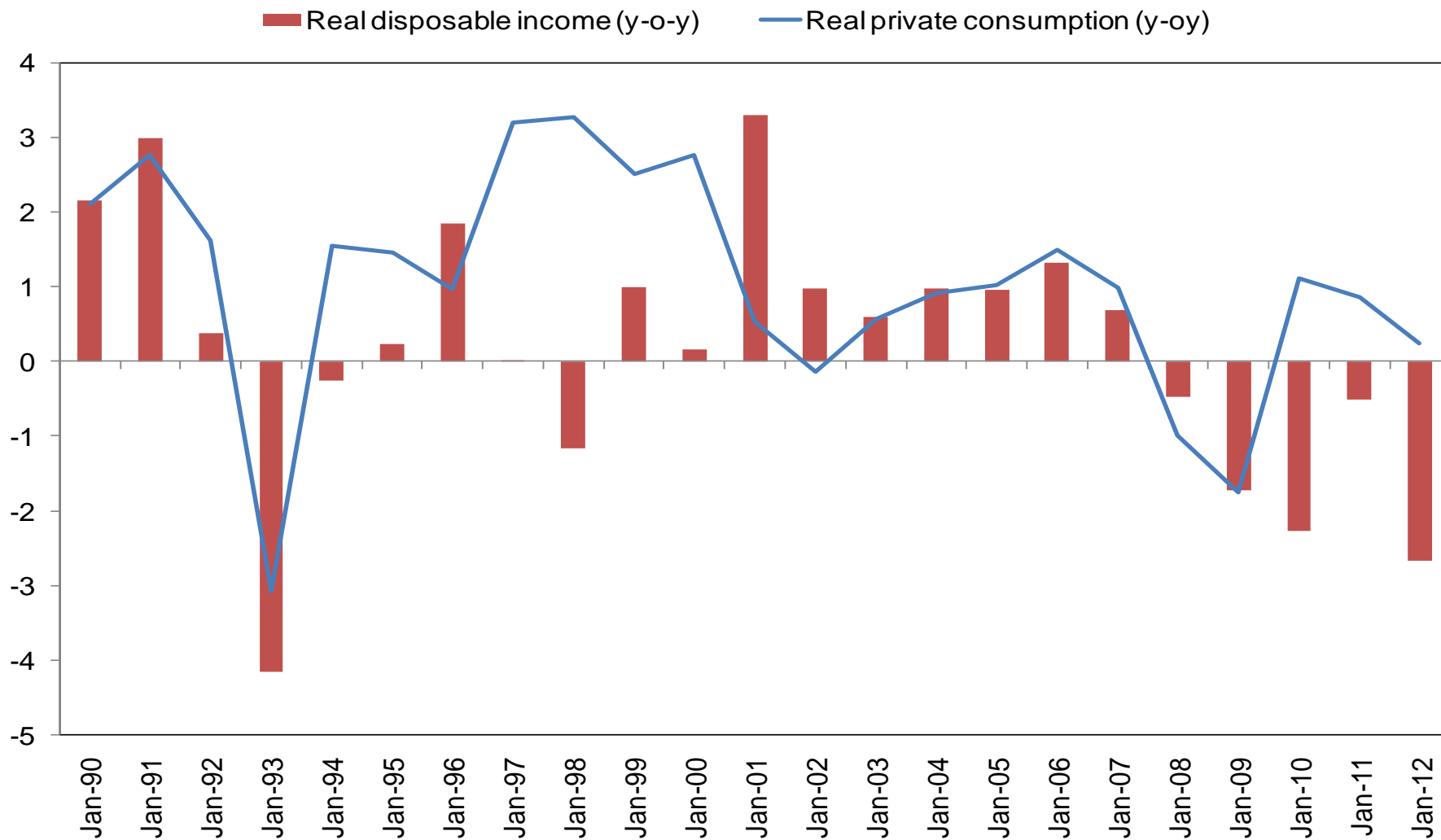


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# Households consumption has remained resilient so far



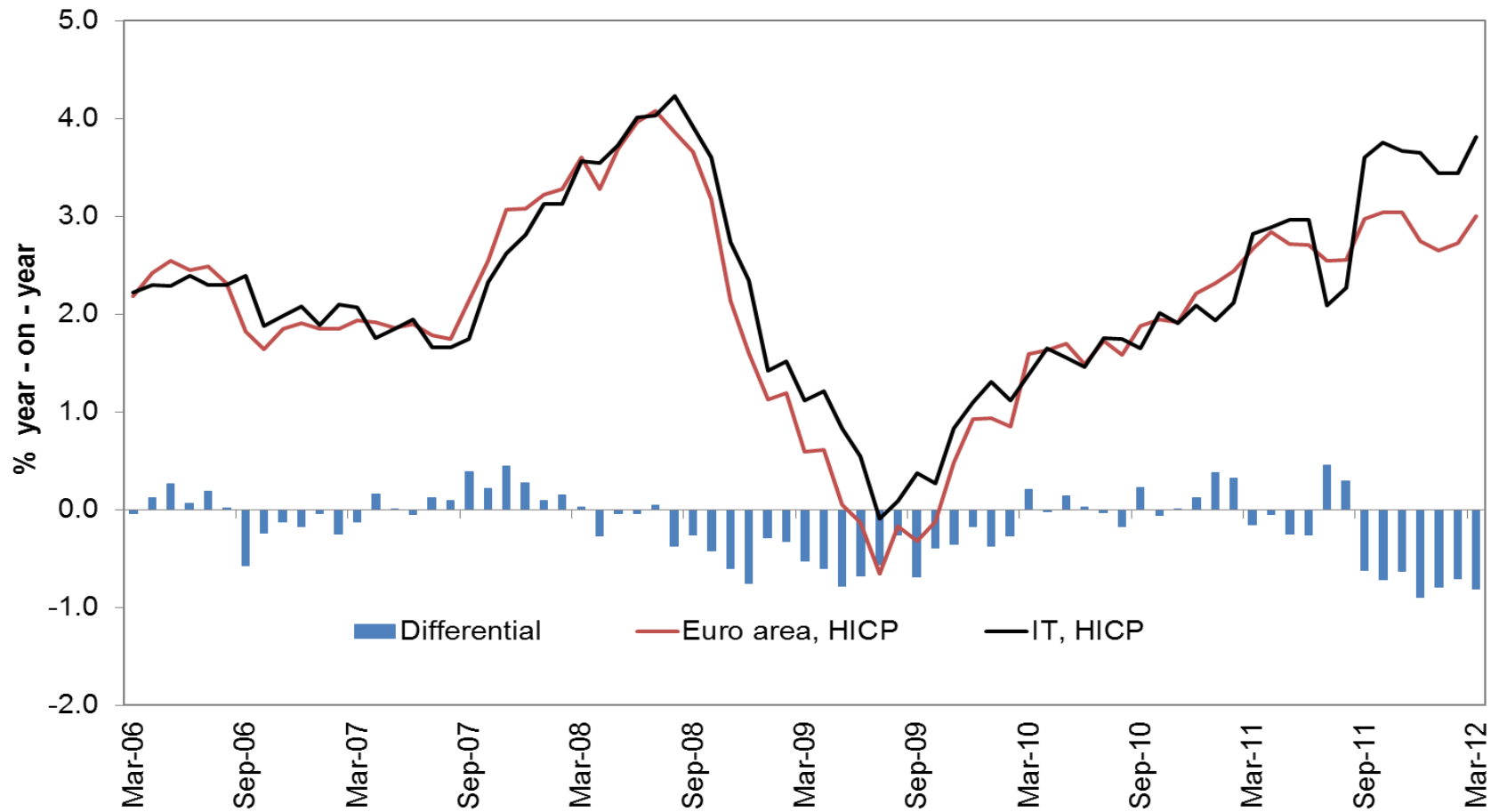
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# Consumer inflation likely peaked in 1Q12



source: Eurostat, Istat



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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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# Mild 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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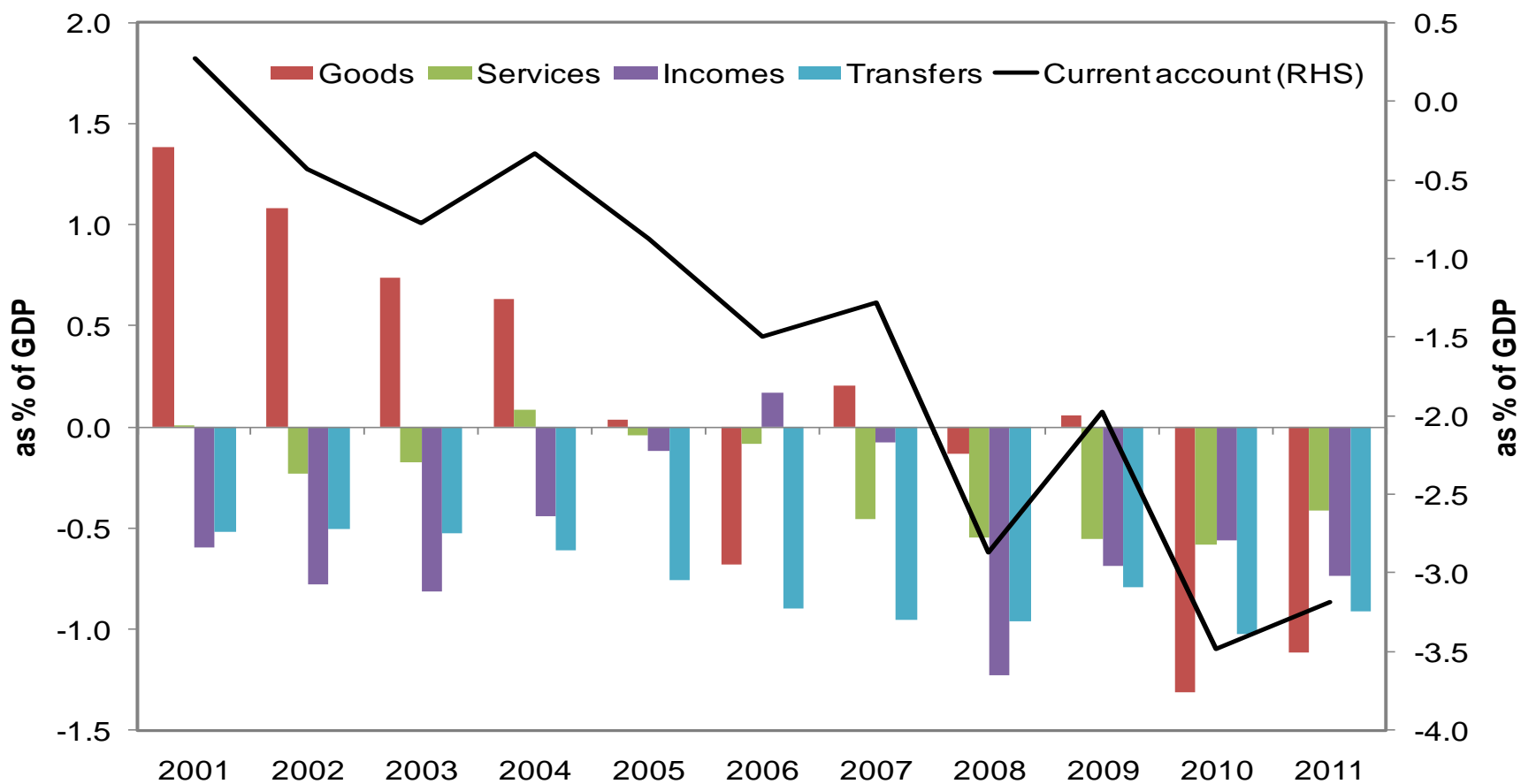
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## Macro Imbalances: current account deteriorating gradually

- From 2000 to 2010, Italy experienced a **modest deterioration** in the current account, mostly due to import in the energy sector.
- Trade of goods worsened from the second part of 2000; trade of services was stable in the 2002-2006 period and worsened in the last years of the 2000s.
- Italian export is specialised mostly in **sectors that are declining as a share of total trade** (textiles, clothing, furniture).



# Current account deficit: slight narrowing in 2011



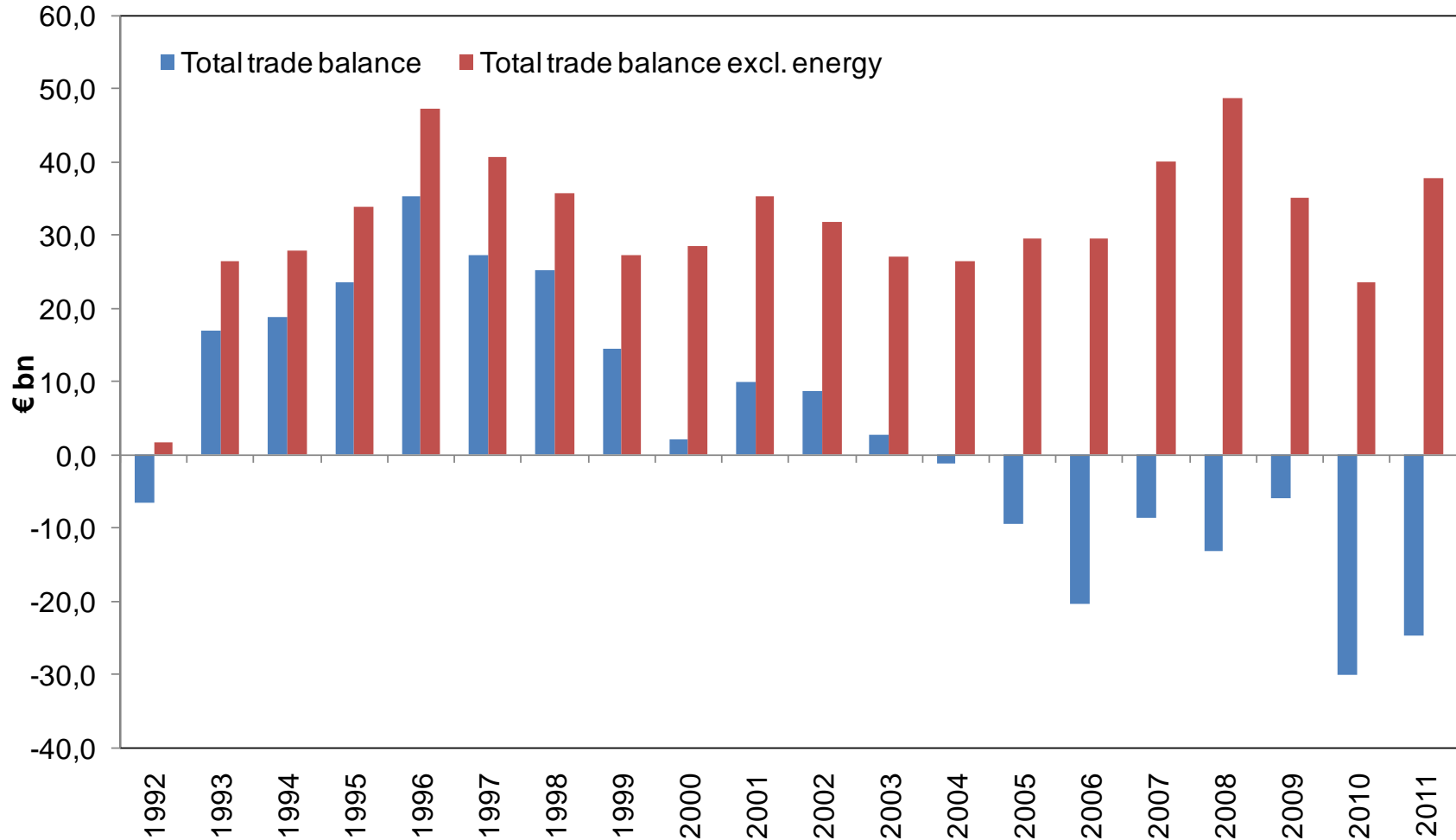
Source: Bank of Italy.  
Note: Preliminary data for 2011.



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# Sharp improvement in Italy's trade balance in 2011



Source: ISTAT.

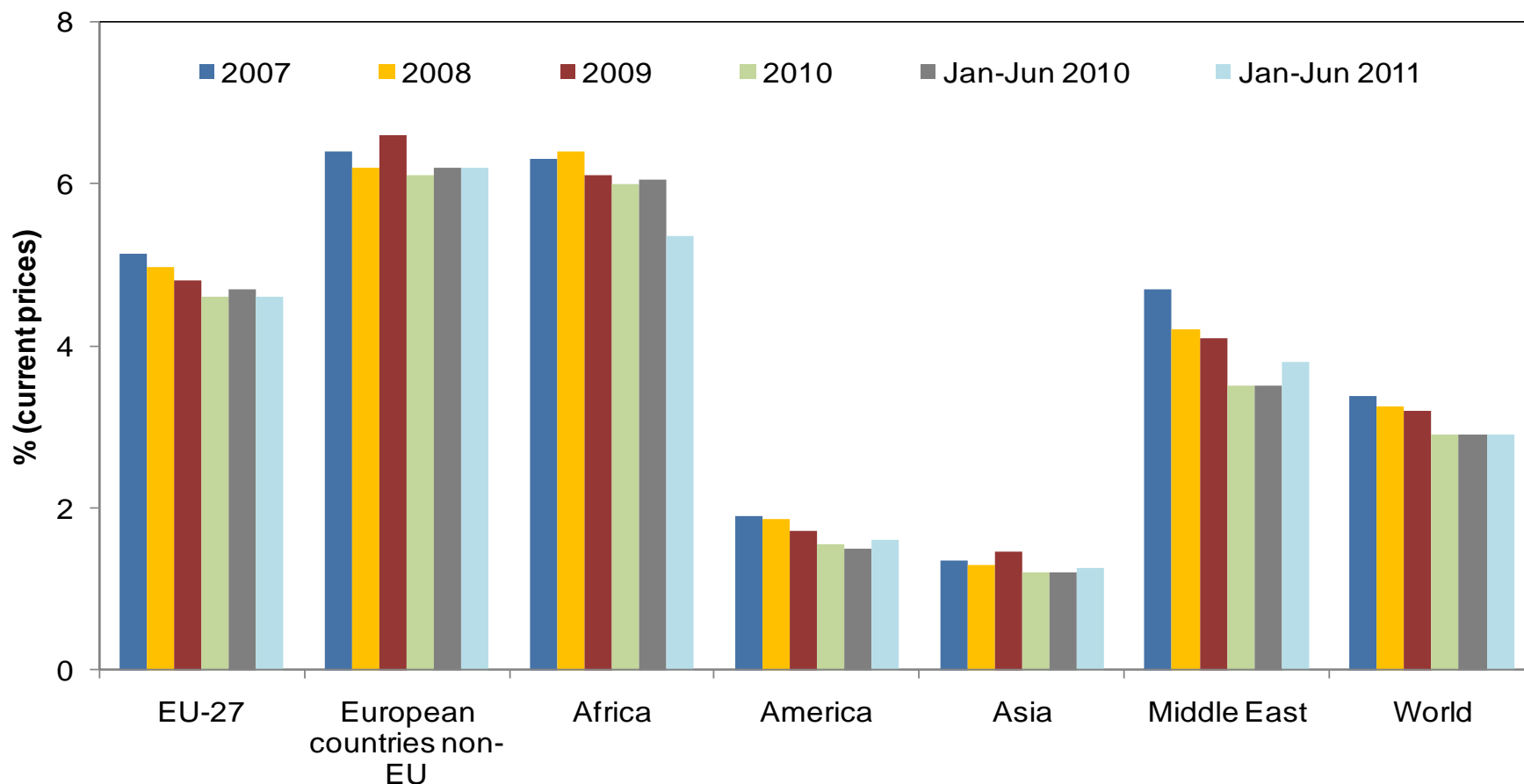
Note: Energy includes oil and natural gas.



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# Italy's market shares remain broadly stable



Source: Ministry of Economic Development.

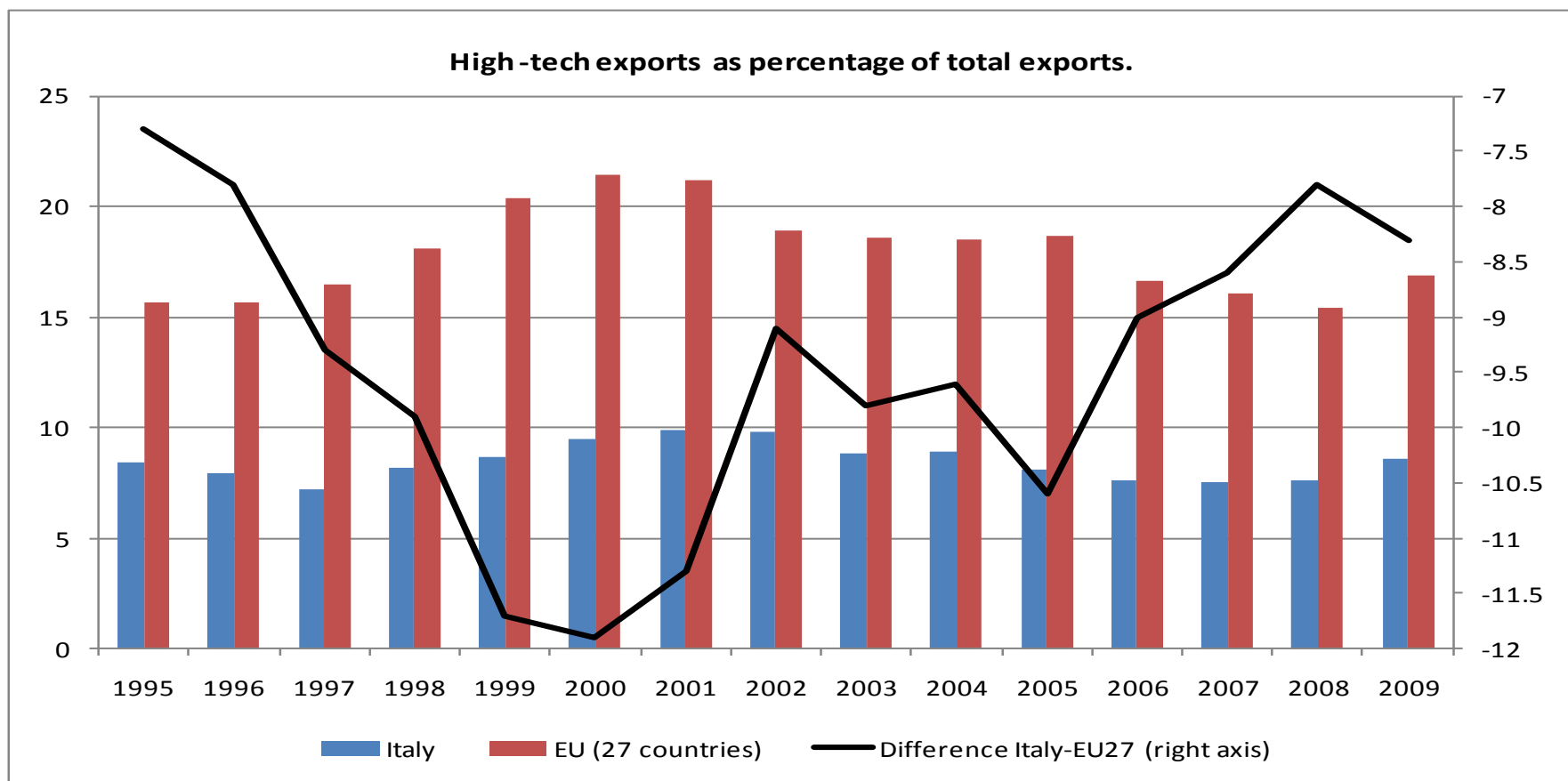
Note: Market share are calculated on imports from Italy and the world by geographical area and countries.



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# Trade and competitiveness



Italy's exports are less technology-intensive than the EU27 average. Competitive advantage in traditional manufacturing (Fashion, 'Furniture and building materials', 'Fabricated metal products, machinery, plastic and rubber products') and 'Food and wines': so-called **'4 F sectors'**.

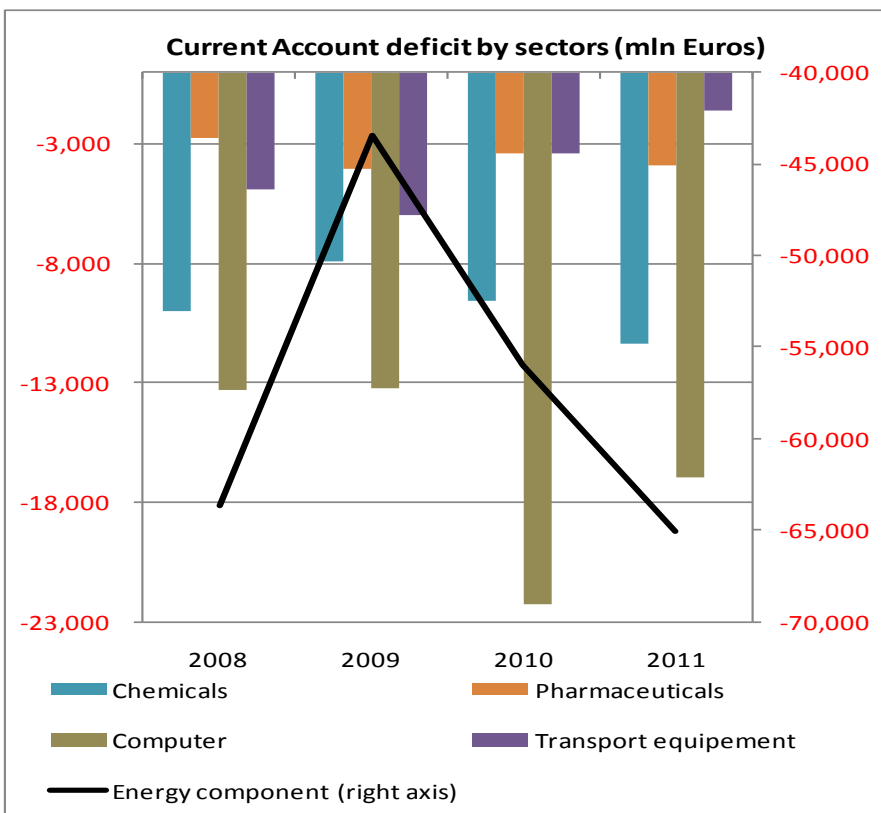
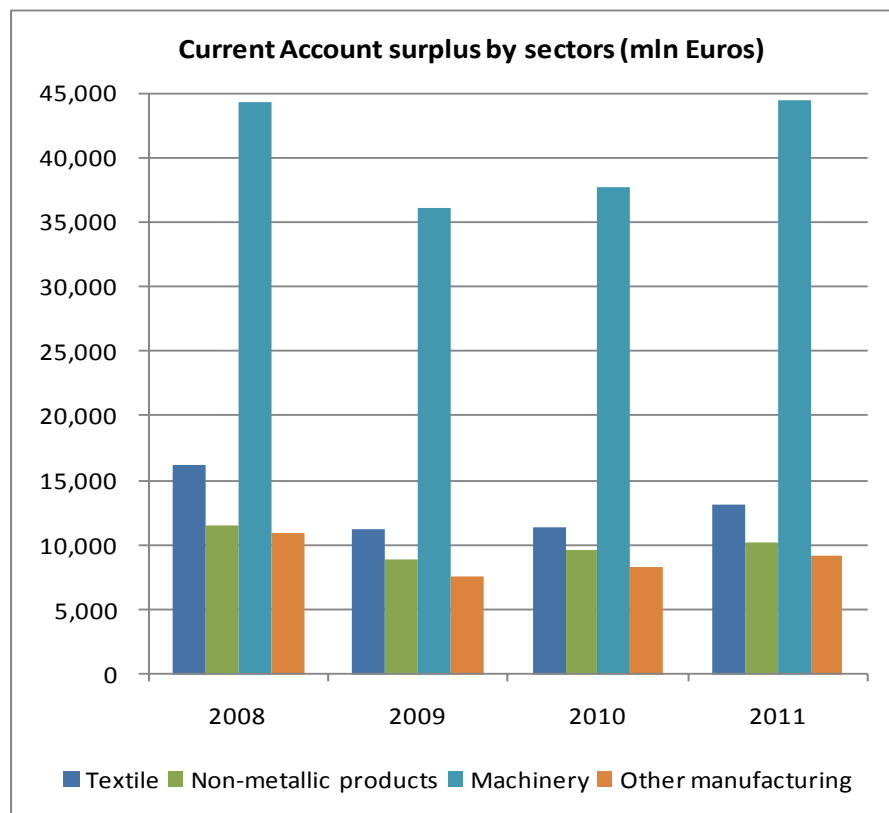


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# Trade and competitiveness



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.



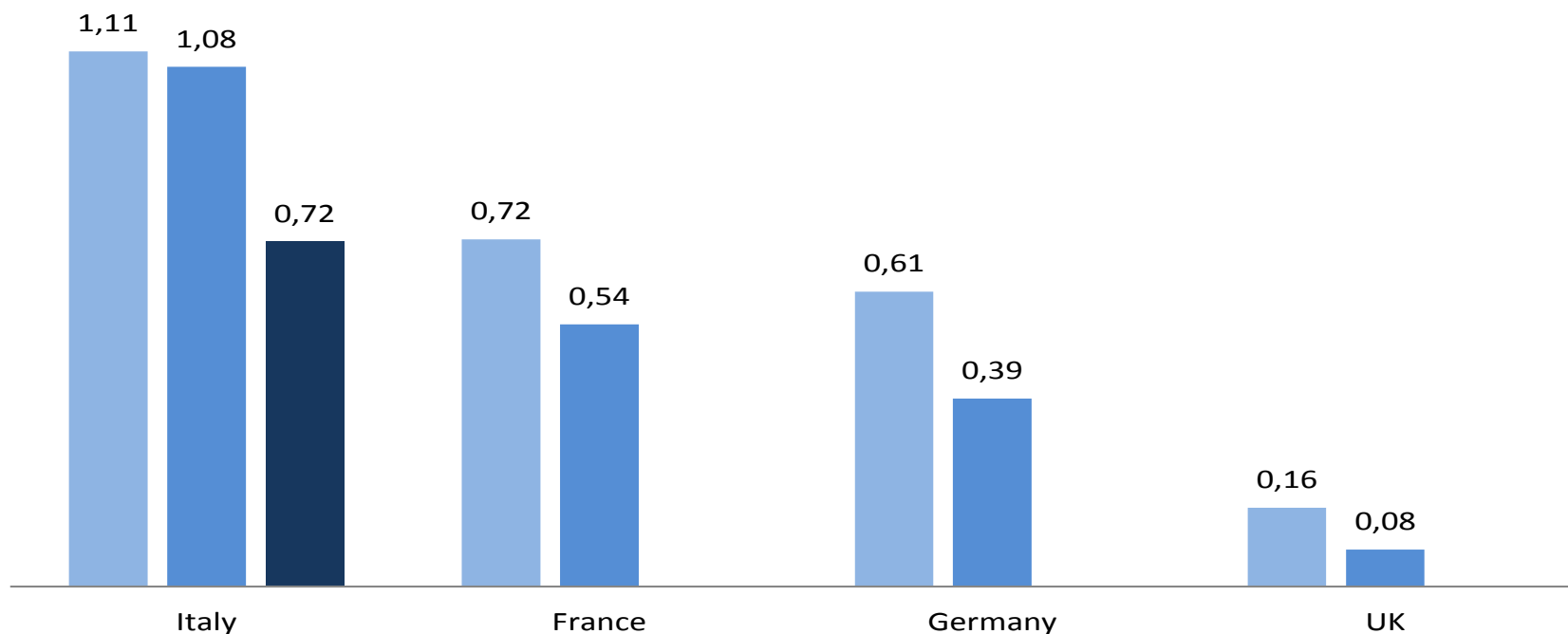
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# Measures to attract FDI\*

## OECD-PMR Indicator: Explicit barriers to trade and FDI

■ 2003 ■ 2008 ■ 2012



\*The OECD Indicators of Product Market Regulation (PMR) are a comprehensive and internationally-comparable set of indicators that measure the degree to which policies promote or inhibit competition in areas of product markets. Italy's PMR indicator has recently been updated to 2012 by the OECD.

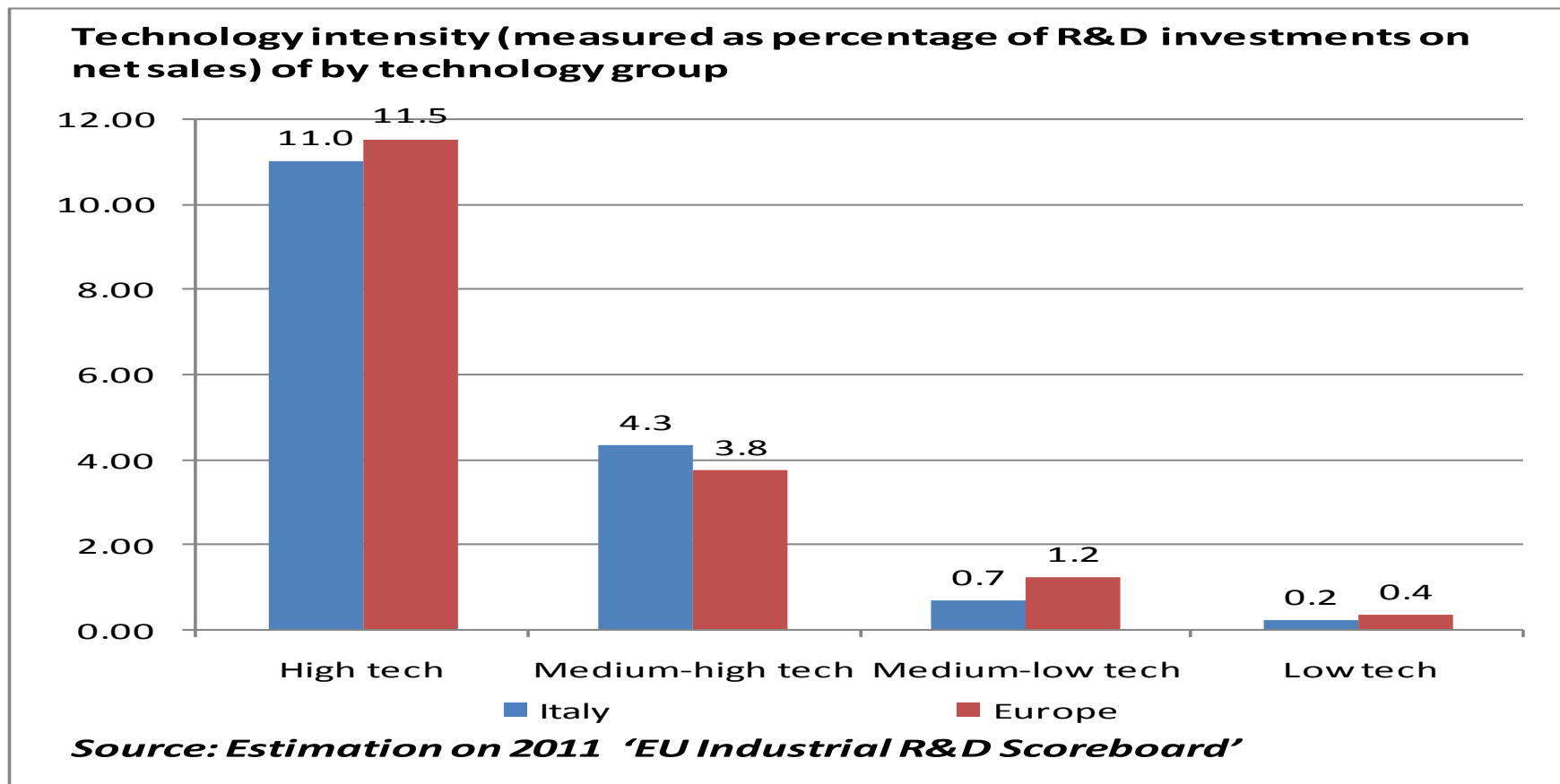


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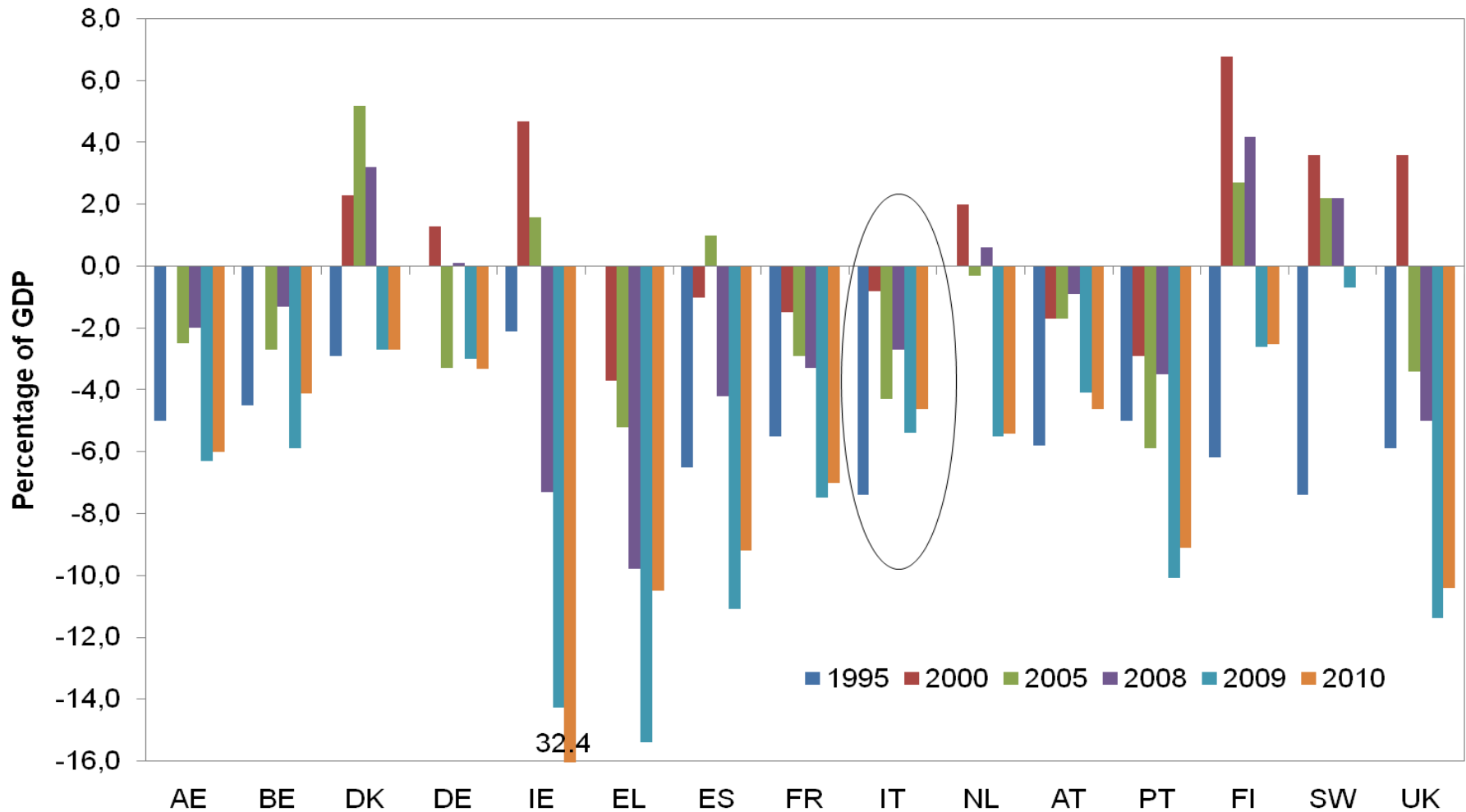
# R&D and innovation: the role of Italy's industrial structure



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).



# Modest deterioration in Italy's public deficit during the crisis



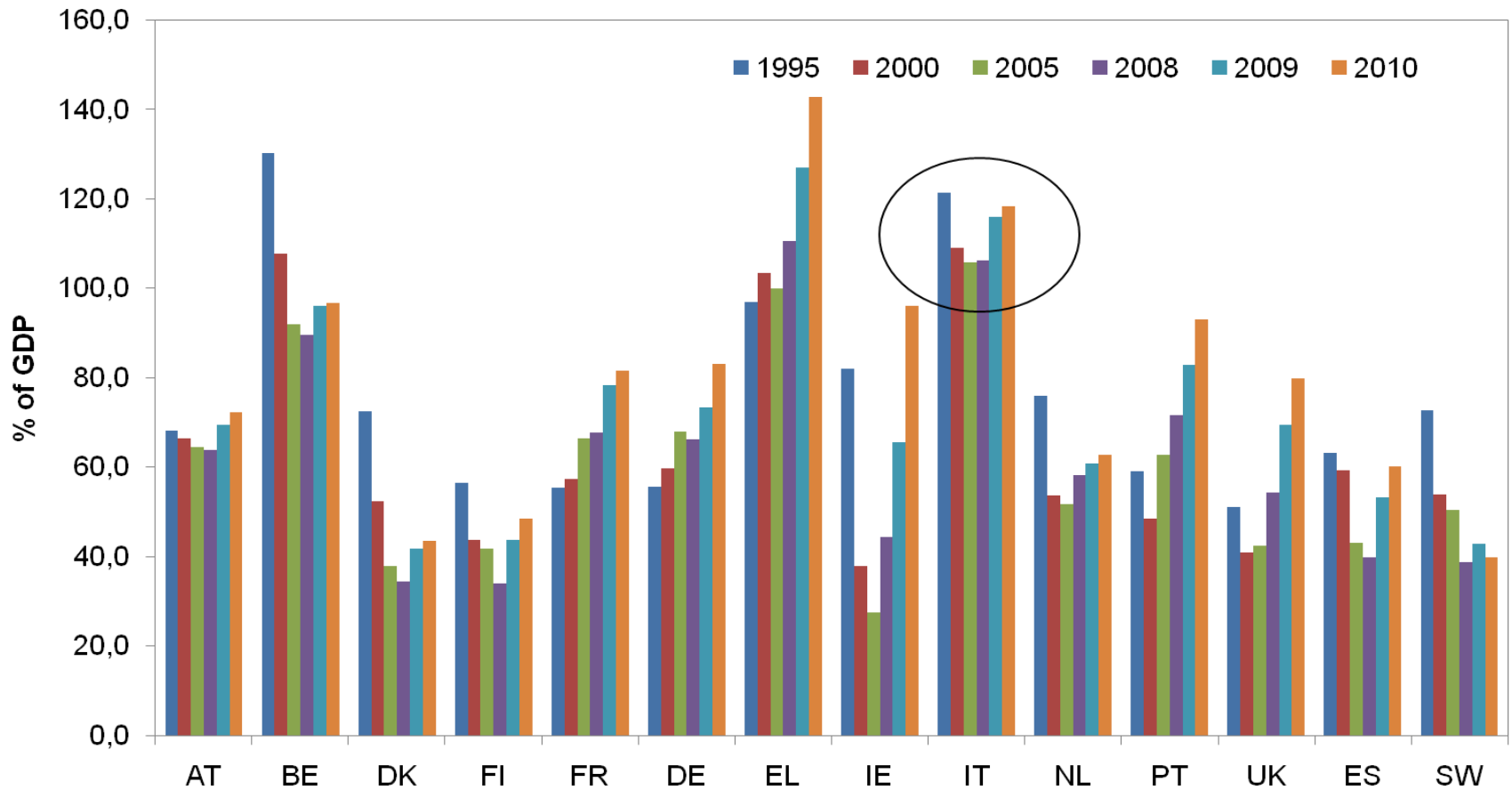
Source: Eurostat



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# Debt-to-GDP increase mainly due to the denominator



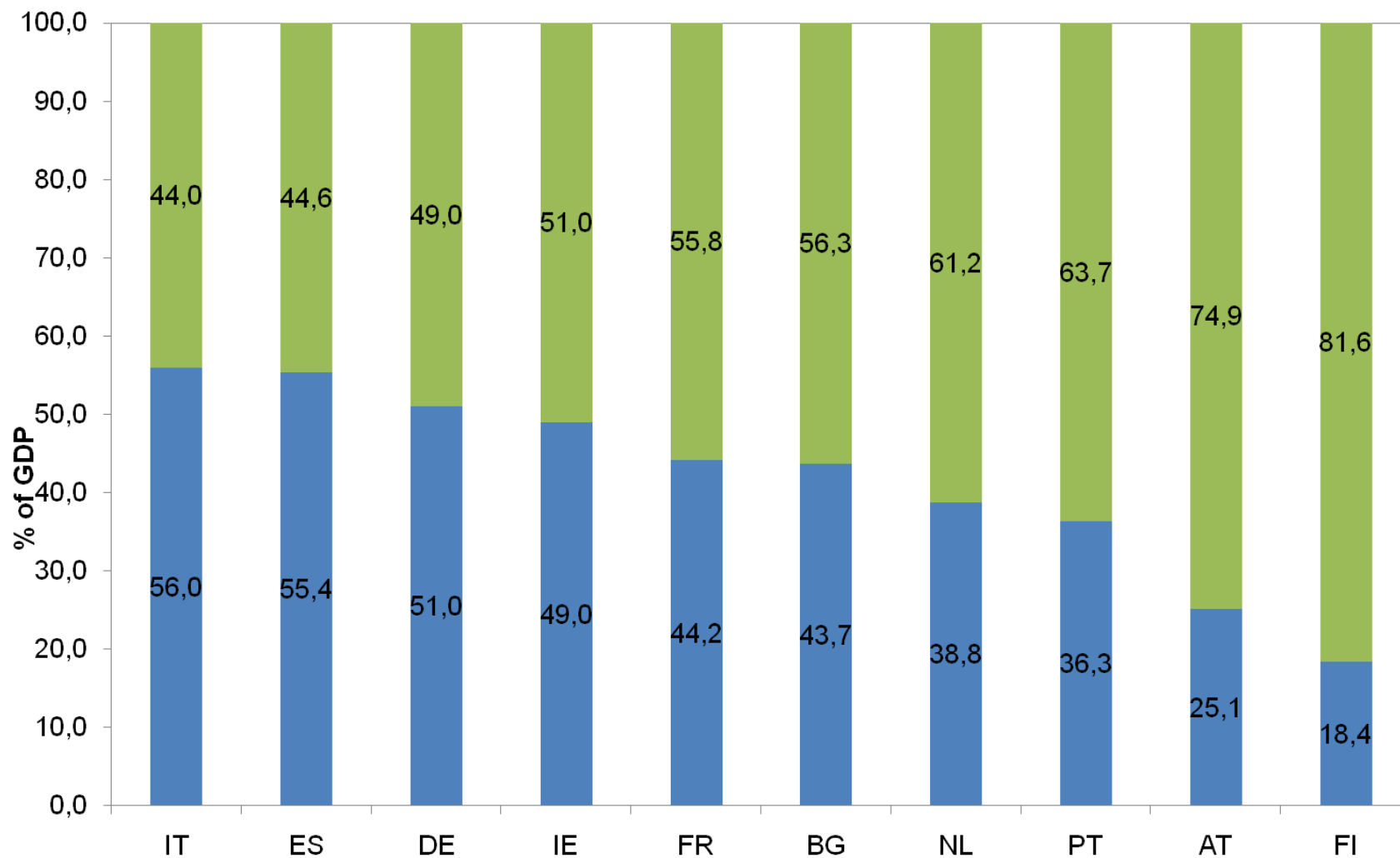
source: Eurostat



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# Sizeable share of public debt held by Italian residents



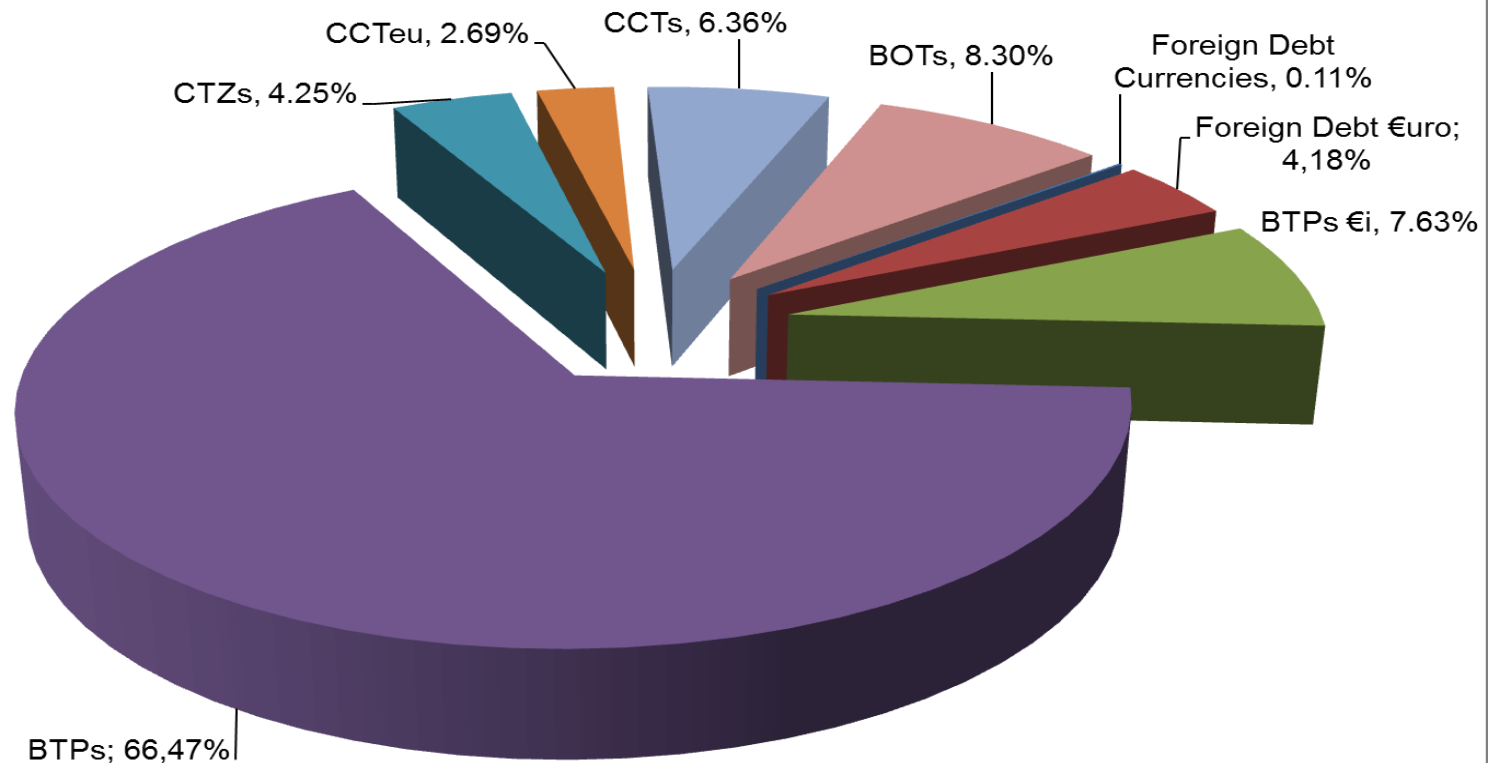
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■ Residents ■ Non- Residents

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Source: 2012 DEF; 2010 data

# Large share of bullet long-term bonds



source: Ministry of Economy and Finance

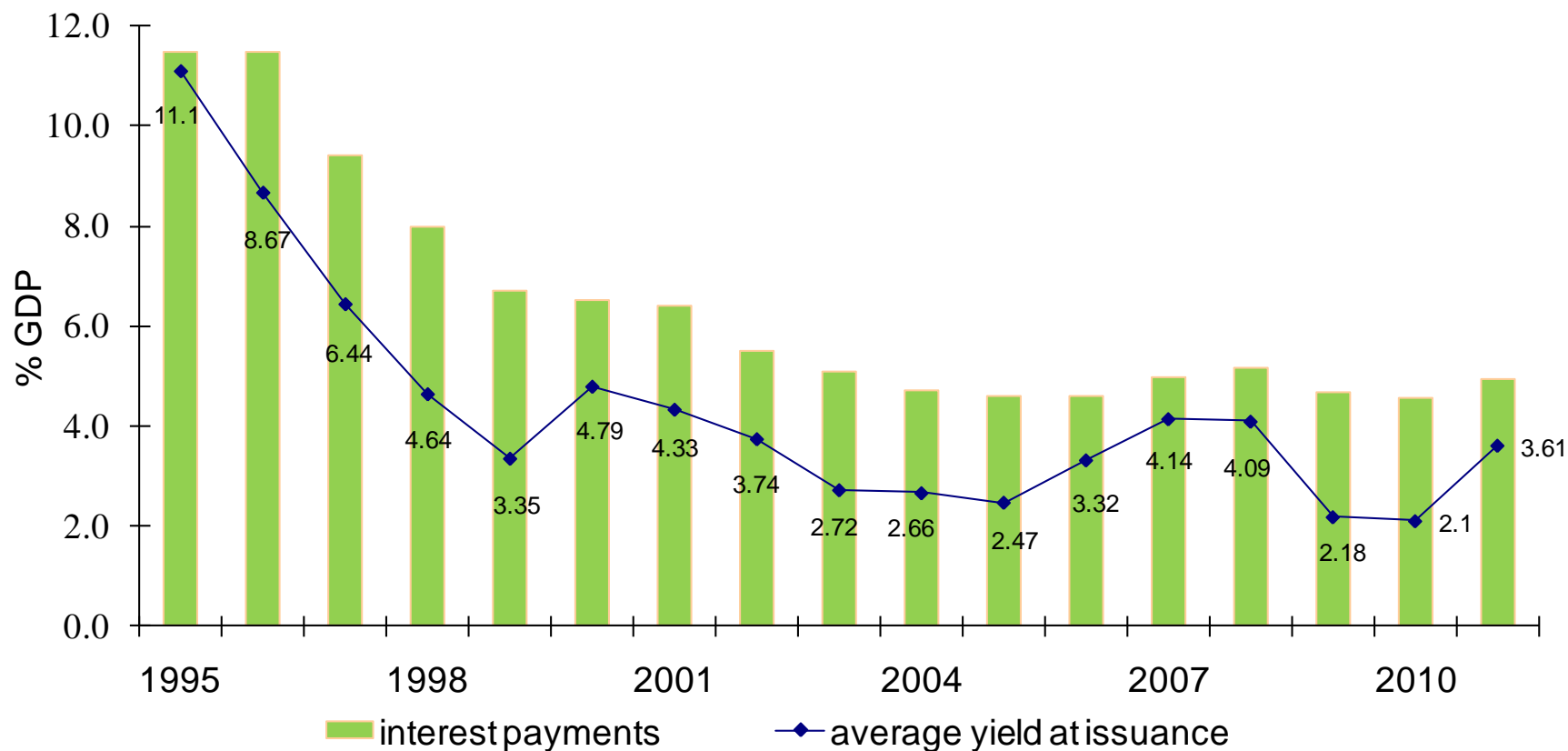
As of 31 December 2011



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# Moderate increase in interest payments on public debt



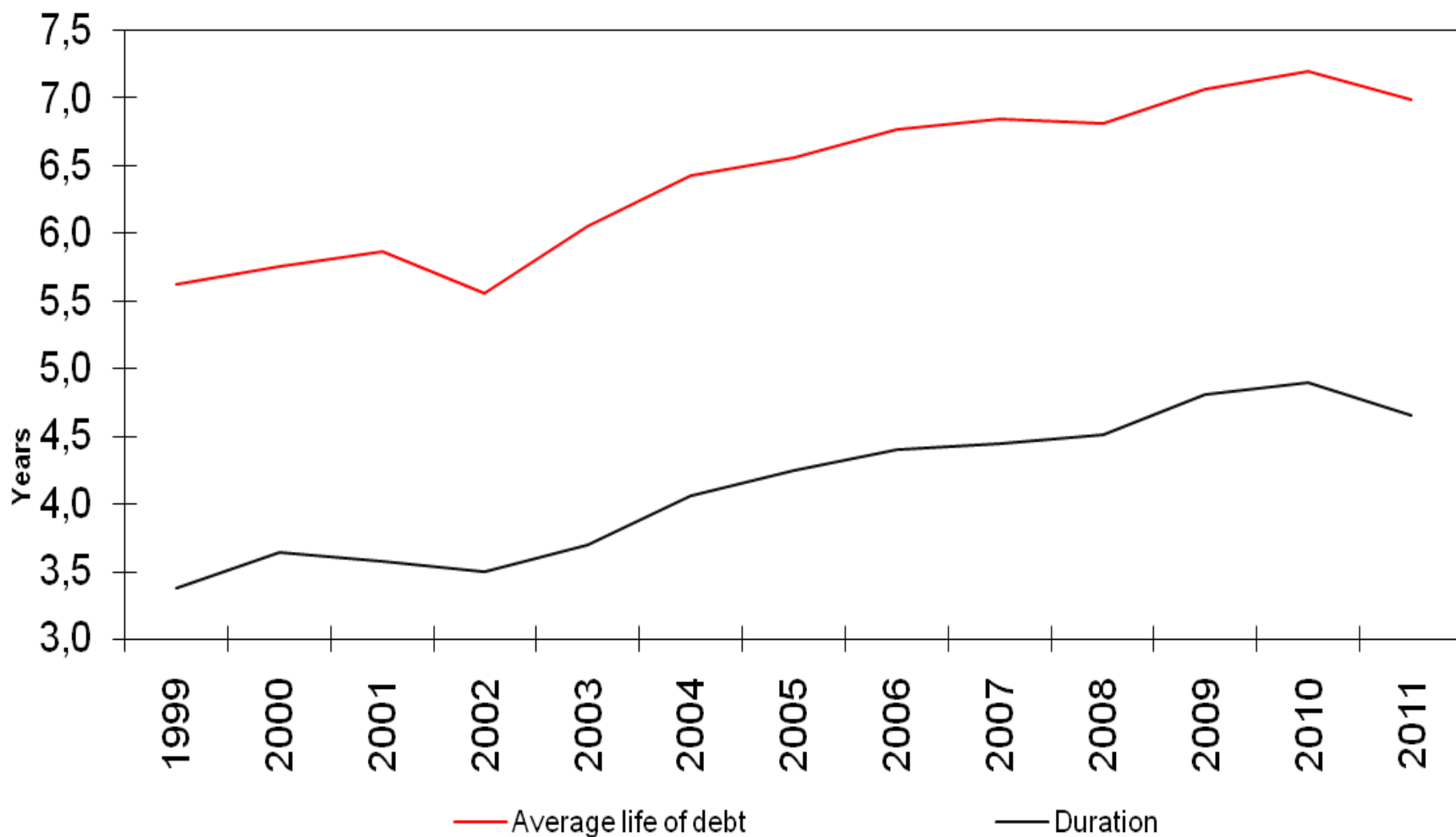
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Source: 2012 DEF

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# Lengthened average life of public debt reduces risks



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Source: 2012 DEF



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# Key public finance projections

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

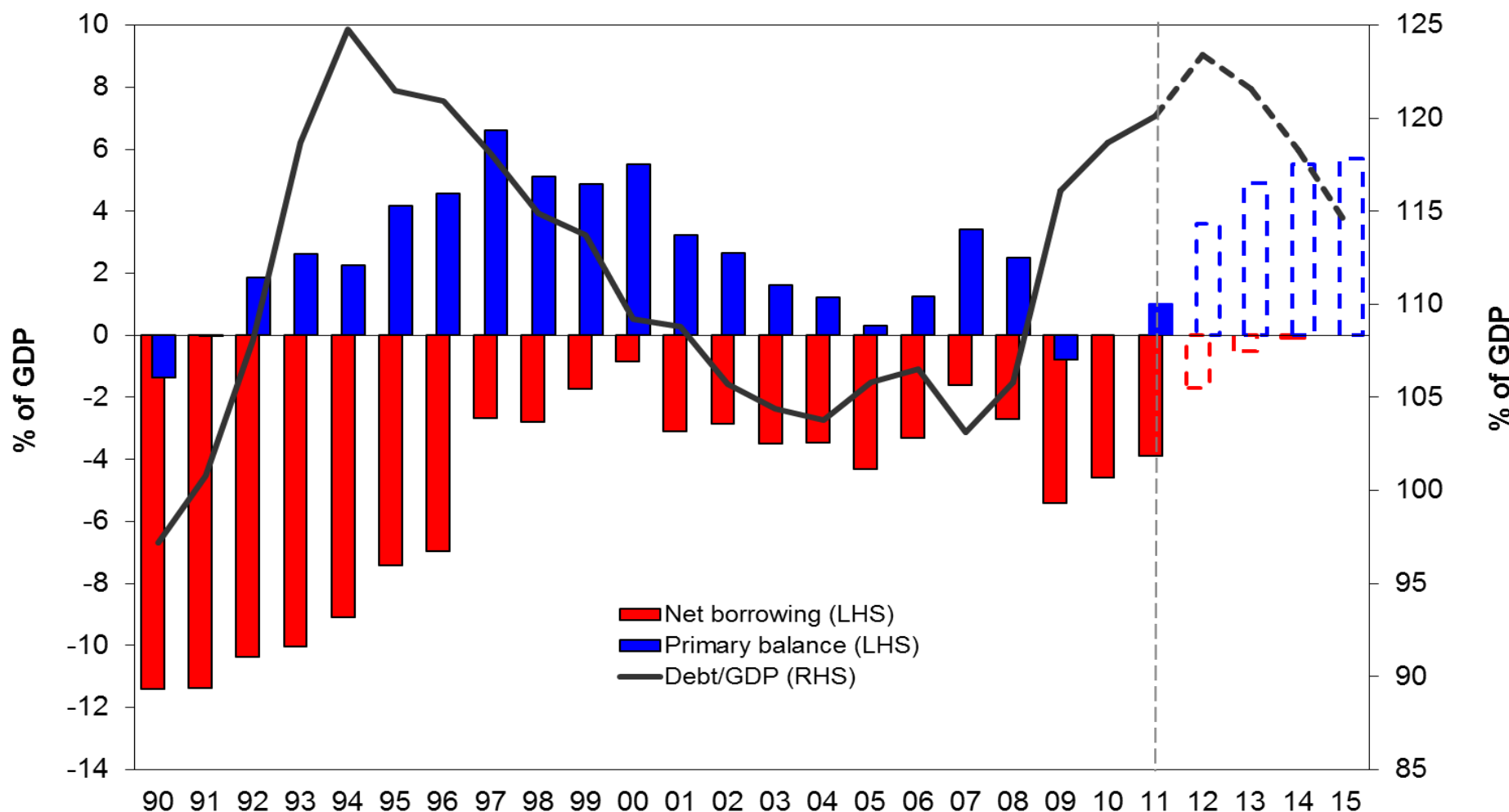
Source: April 2012 DEF



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



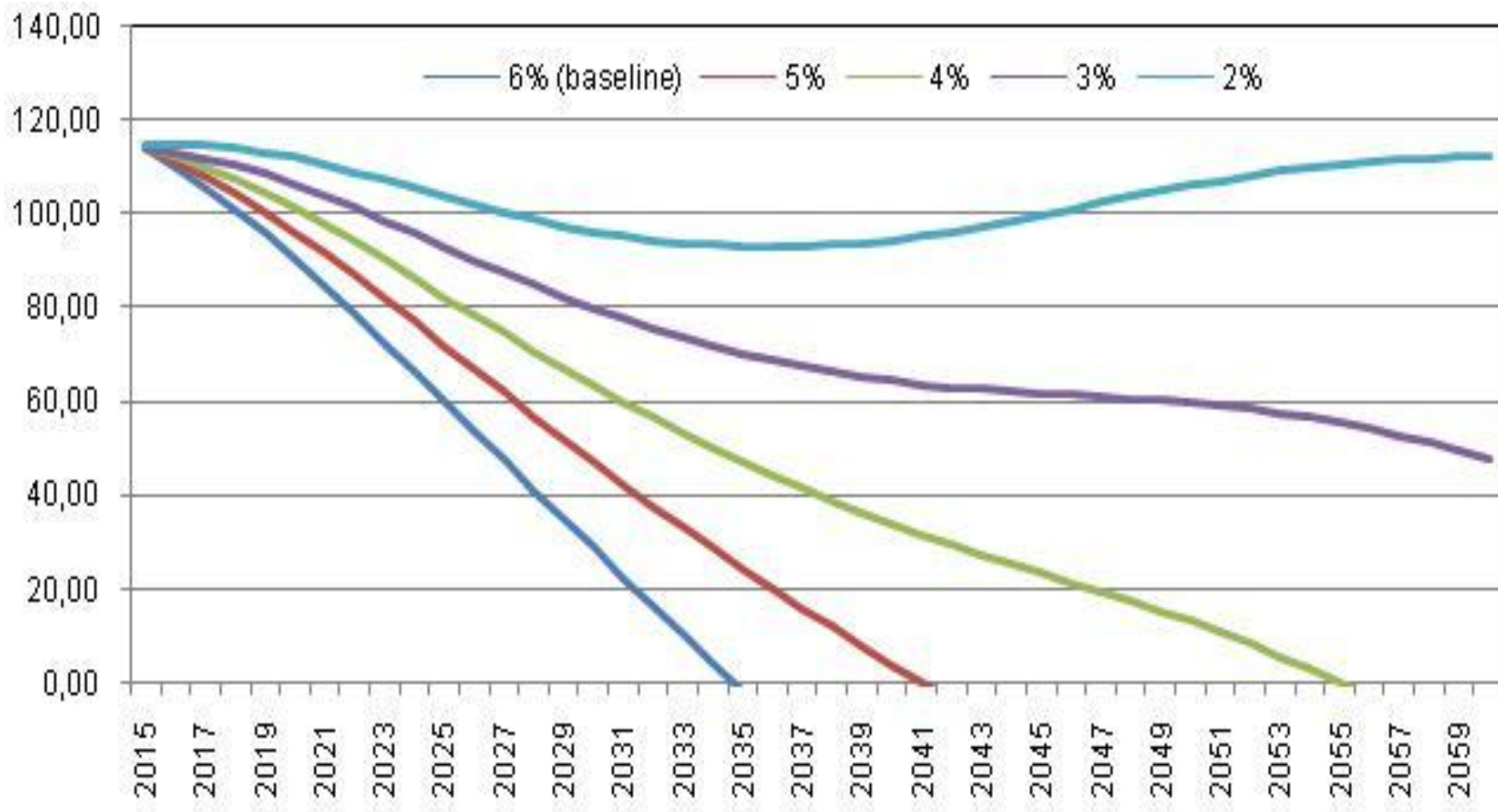
Source: 2012 DEF



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



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Source: 2012 DEF



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## 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 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).

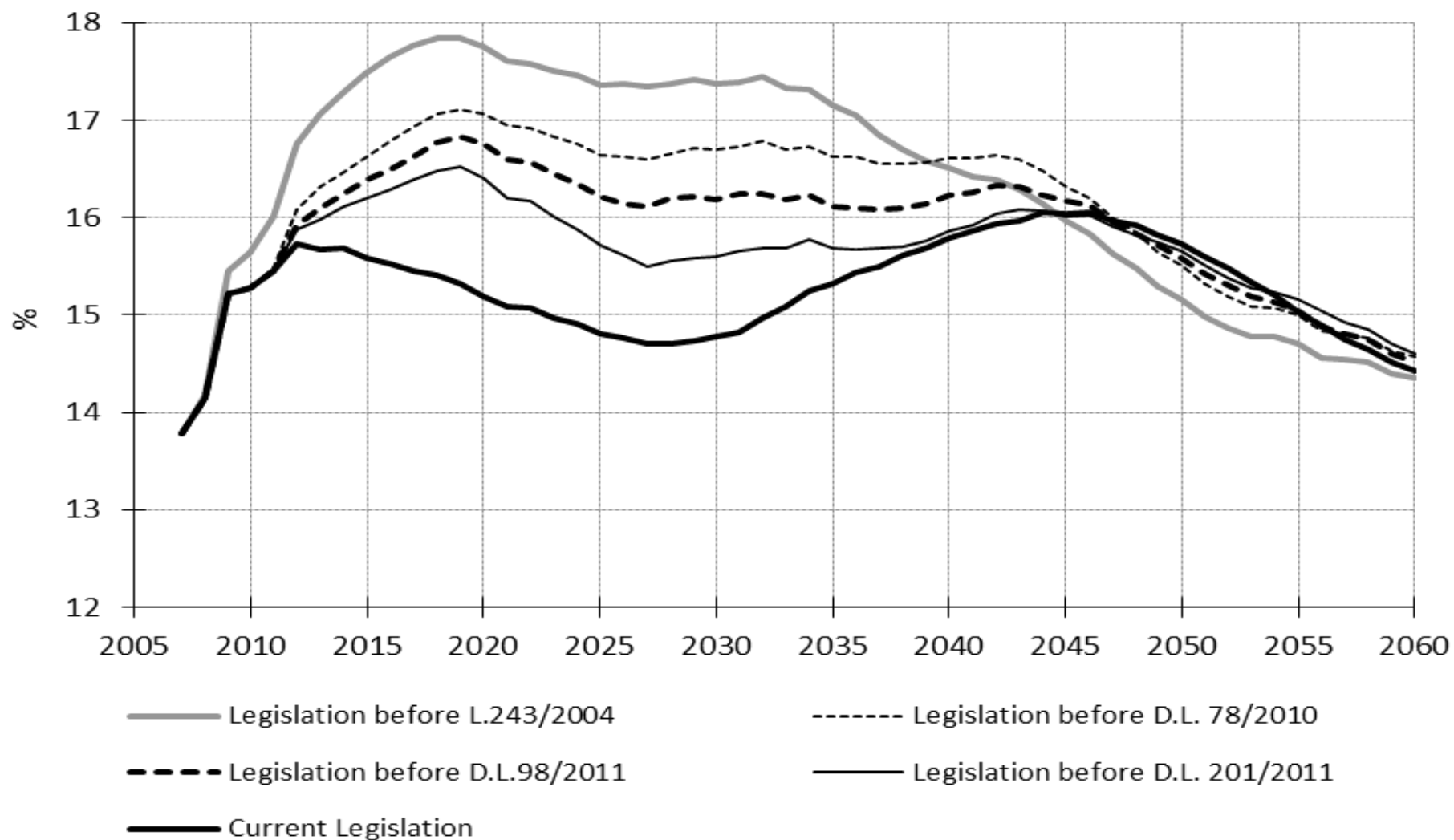


## Pension reform: major structural savings

- 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



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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 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 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.



## 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

- 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)

- 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 CO<sub>2</sub> 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**.
- Once census data are available, the **Government will consider actions aimed at reducing the stock of assets** thus benefitting a reduction of public debt.



# 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
<b>Total</b>	<b>13.2</b>	<b>250</b>	<b>358</b>

(\*) Real estate market value was estimated on the basis 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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# 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.
- **Harmonisation** 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.
- **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.



# The labour market reform

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



## A more dynamic and inclusive labour market

- **More (regulated) flexibility on the hiring side**, discouraging abuse of temporary contracts and making open-ended job contracts more appealing to companies.
- **More flexibility on the firing side**, facilitating the re-allocation of workers away from least competitive sectors.
- **More comprehensive unemployment benefits (ASPI).**
- **More efficient active policies, services and incentives to work.**



## Access to the labour market: apprenticeships

- **Apprenticeships** are used as the main path enabling young people up to 29 years old to be hired permanently.
- **Employers** would benefit from fiscal incentives for a 3-year period. Thereafter, in order to hire new apprentices, they should employ on a permanent basis at least 30% of apprentices already in pay check over the previous 3 years.



## Avoiding abuses 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 will **become open-ended** or expired.
- Employers will have limits on the use of different forms of non-standard contracts.



## A brand new safety net: ASPI

- **Eligibility:** all workers with  $\geq 2$ -year insurance seniority and 52 weeks of work over the last 2 years.
- **Duration:** 12 months for those aged  $<55$  years old, and 18 months for those  $\geq 55$ . The replacement rate is 75% of gross earnings up to €1,180.
- **Funding:** ASPI will be funded through increased contributions paid by employers, who can have this cost reimbursed if/when converting temporary contracts into permanent ones (so-called 'stabilisation bonus').



## Changes to existing schemes

- **Ordinary Wage Supplementation** will not change for the industrial sector.
- For other sectors: a '**Solidarity Fund**', managed by the National Institute for Social Security (INPS) and compulsory for companies with over 15 employees.
- **Extraordinary Wage Supplementation** will no longer apply in case of business closure and 'mobility'.





# Employment protection legislation: big revision

- In case of **unjustified 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 **unjustified dismissals for economic reasons**, there is an indemnity (between 12 and 24 monthly payments) or the reinstatement of the employee in case of 'apparent absence' of the claimed reasons following a decision of the judge.



## 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**.

