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Italy's Strategy for Growth and Fiscal Consolidation

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Italian Ministry of Economy and Finance

London, May 14-16, 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 promptly enacted (since 2010) to continue fiscal consolidation and enhance potential growth**.
- **European sovereign debt and banking crisis** as a major threat to Italy's **economic growth** and **fiscal sustainability.**

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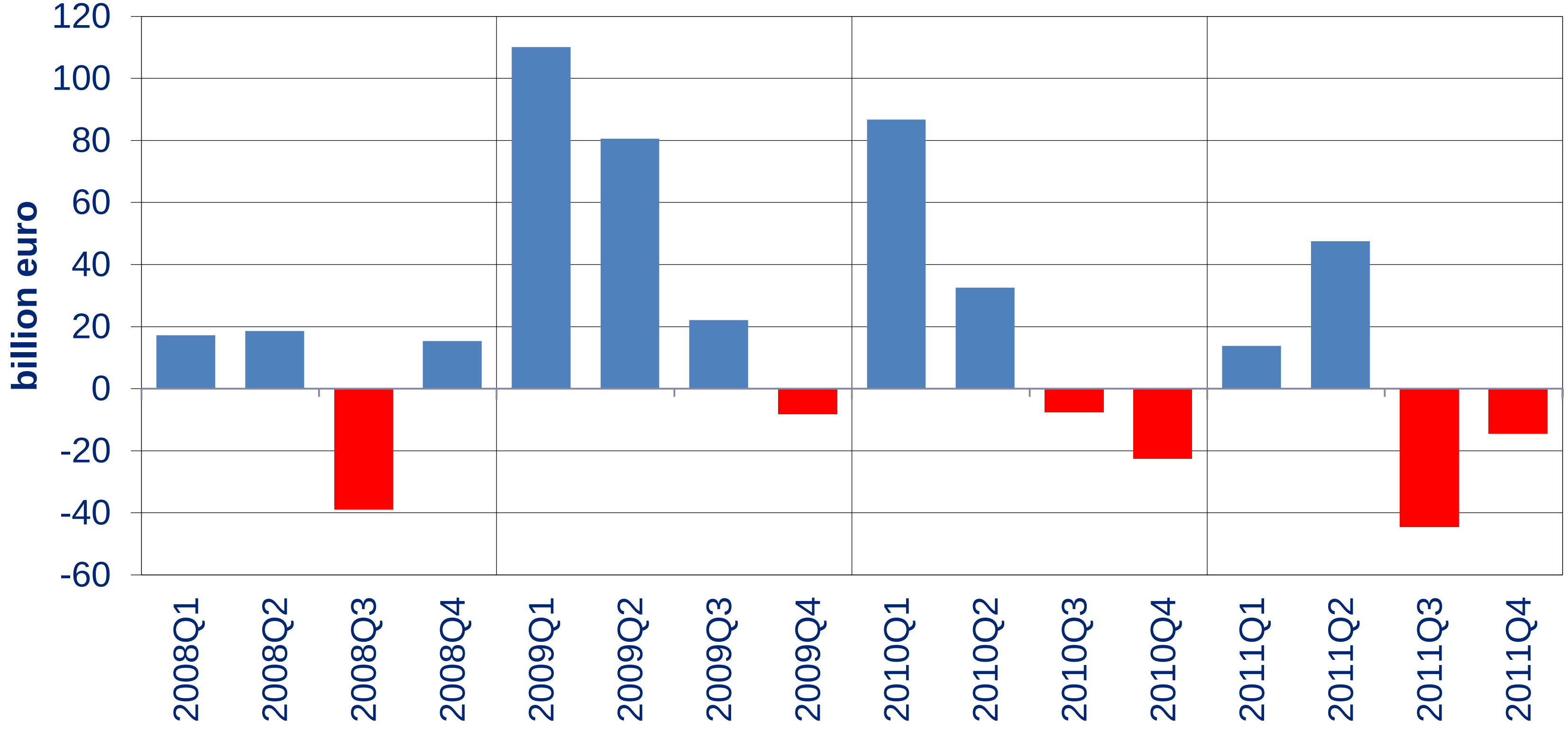
EA's banks sold govies before the LTRO

Net purchases of Euro Area's sovereign bonds by Euro Area's credit institutions



Source: ECB.

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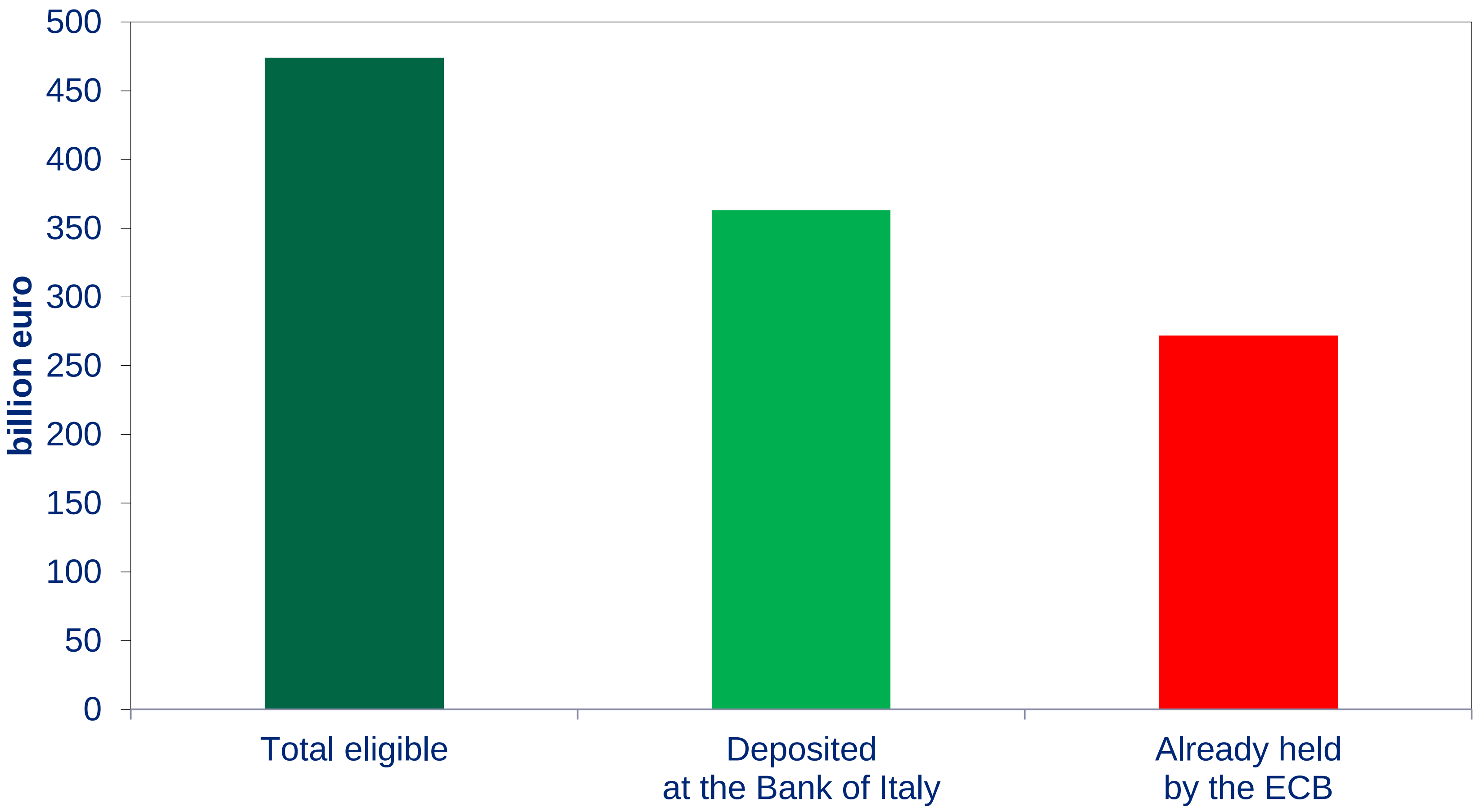
Italian banks: amount of collaterals is not a constraint



Source: Bank of Italy March 2012.

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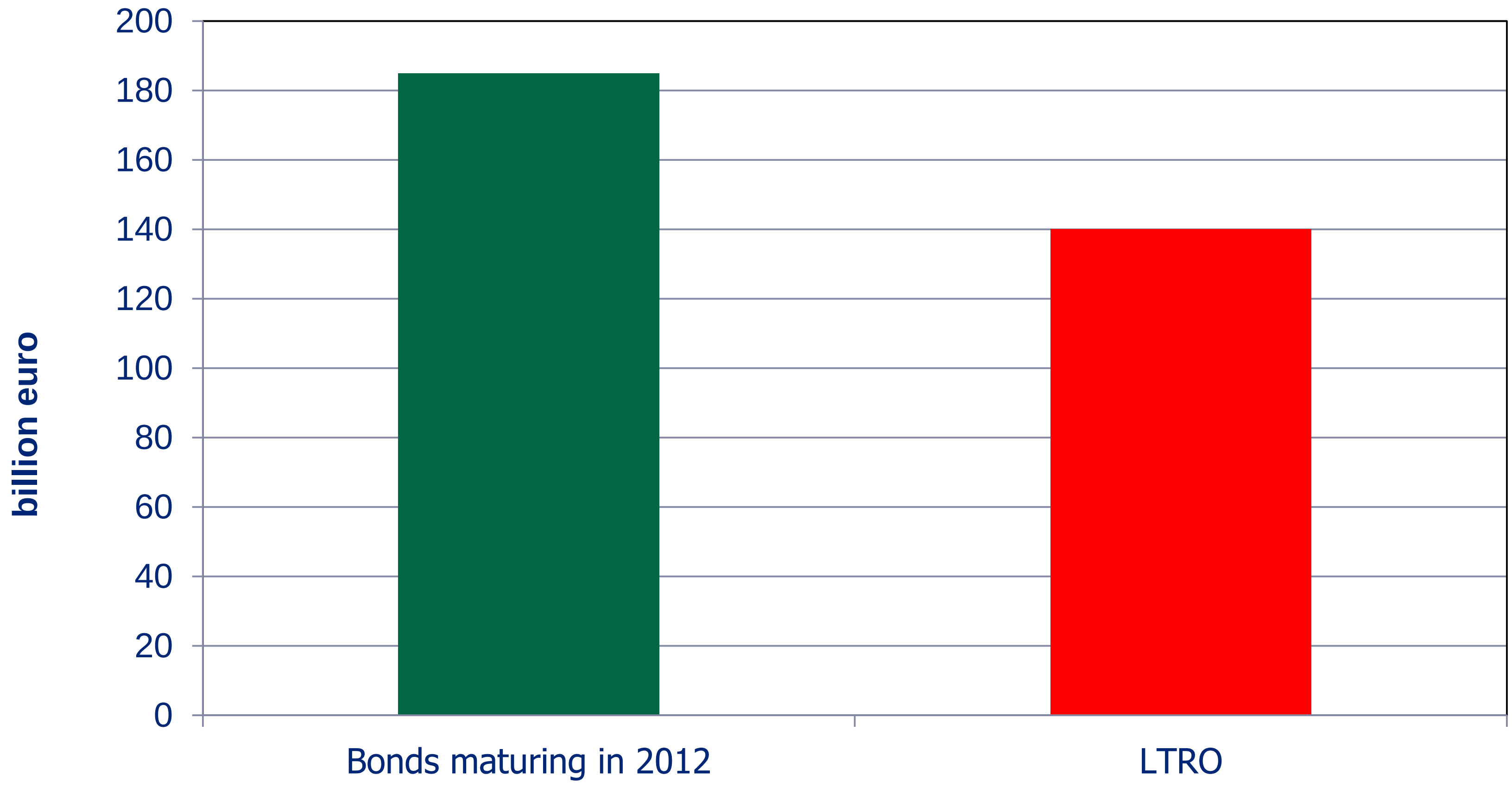
LTRO can replace most Italian bank bonds expiring in 2012



Source: ABI.

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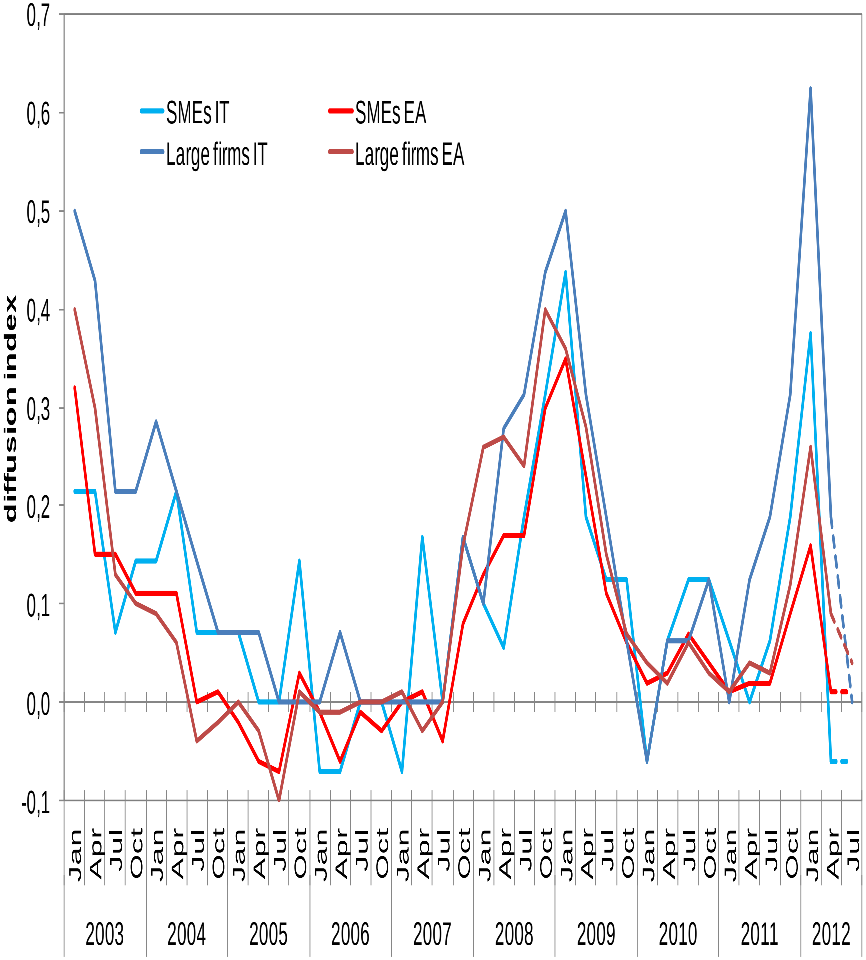
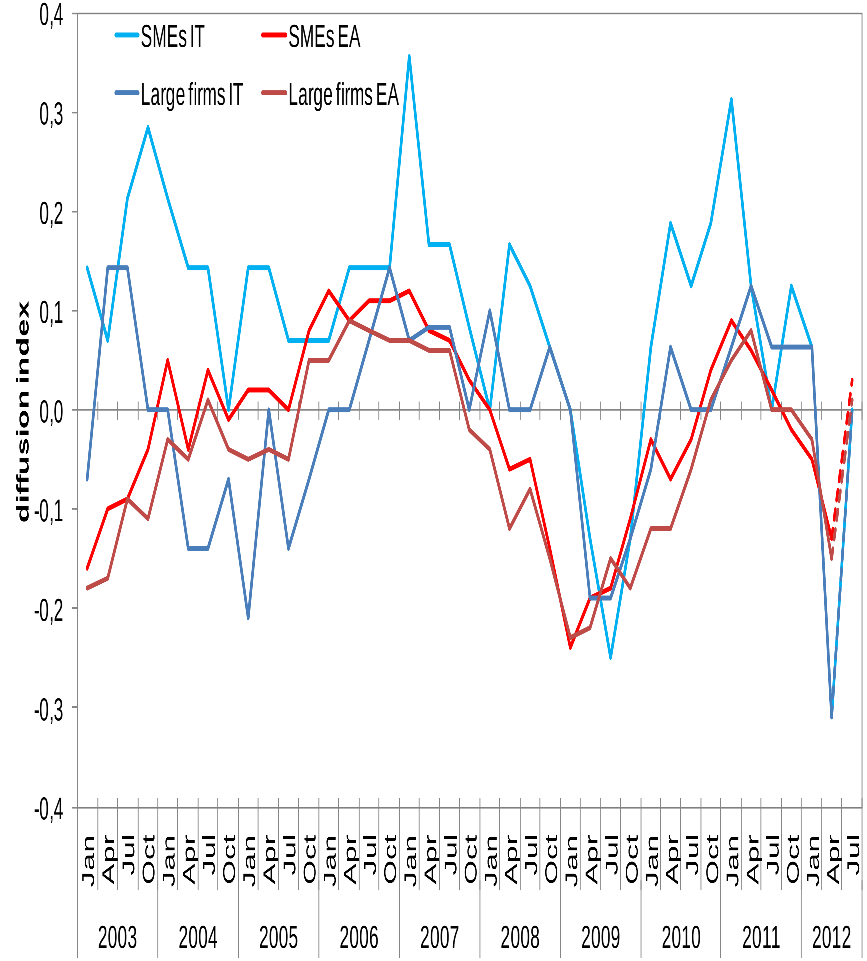
Tightening but no full-fledged credit crunch, for now

Supply



Demand



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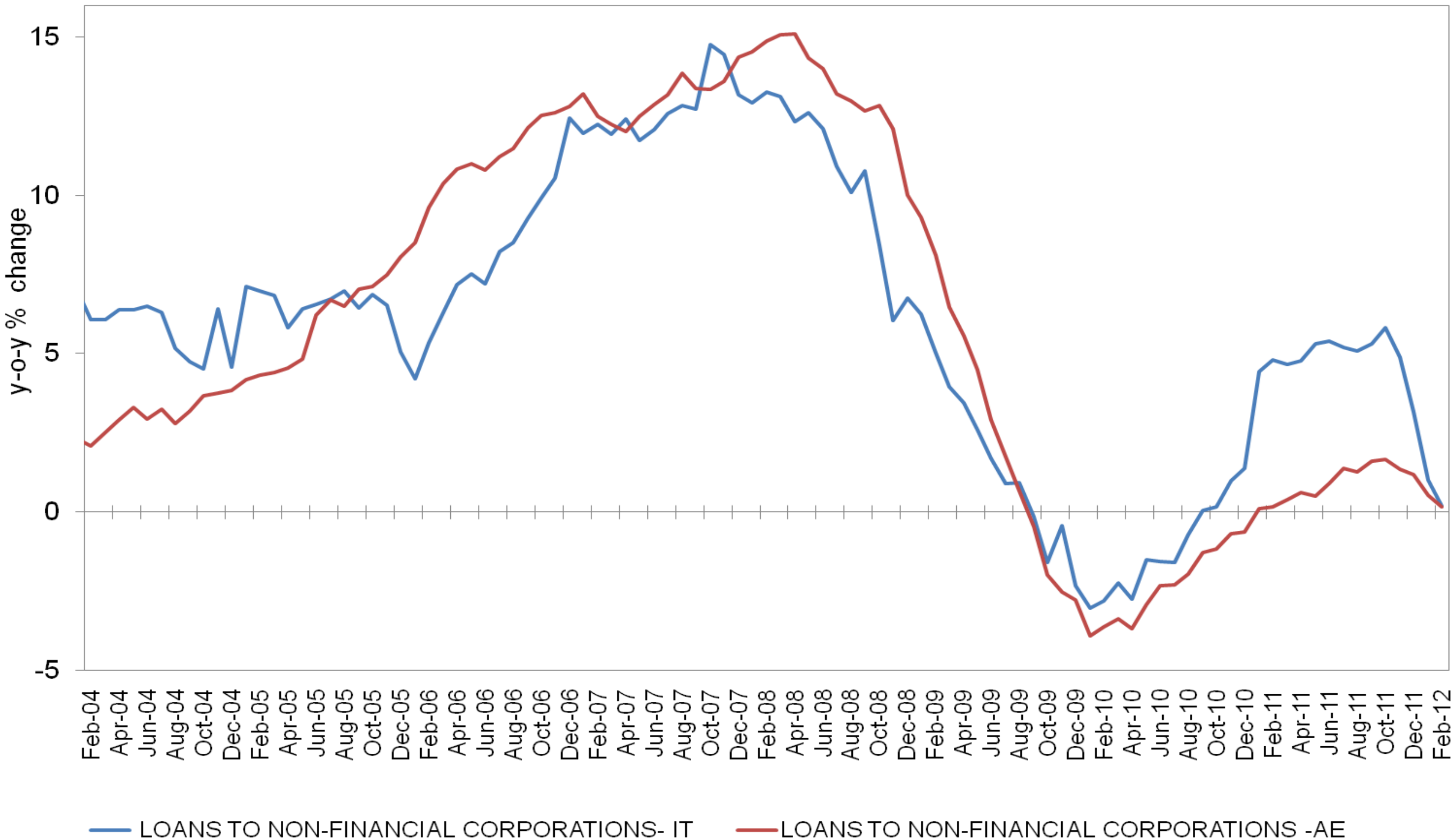
Credit growth slowing fast, in line with the EA for now

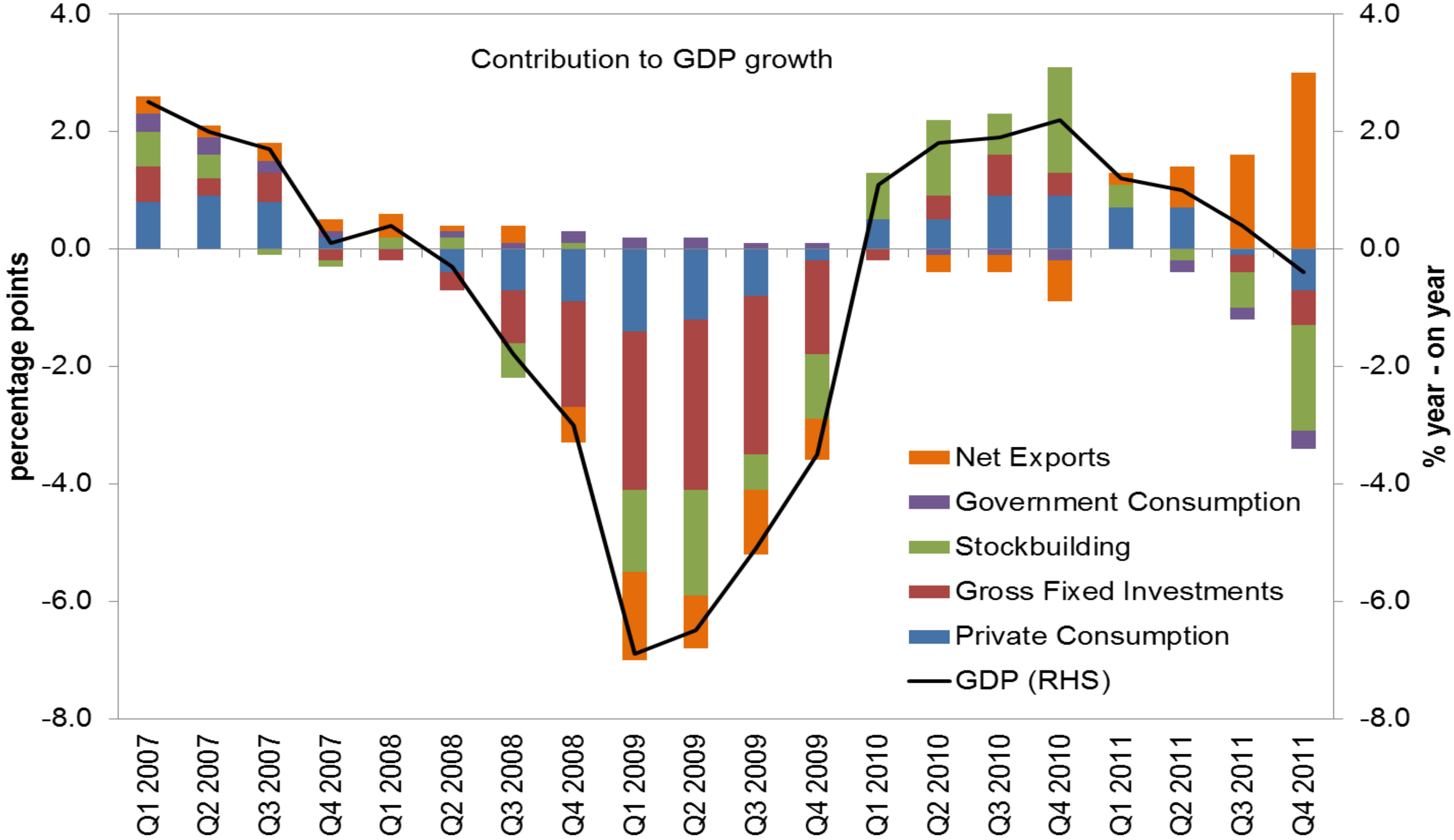


Updated macroeconomic scenario (2012 DEF)

(% 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 1H12



source: Istat

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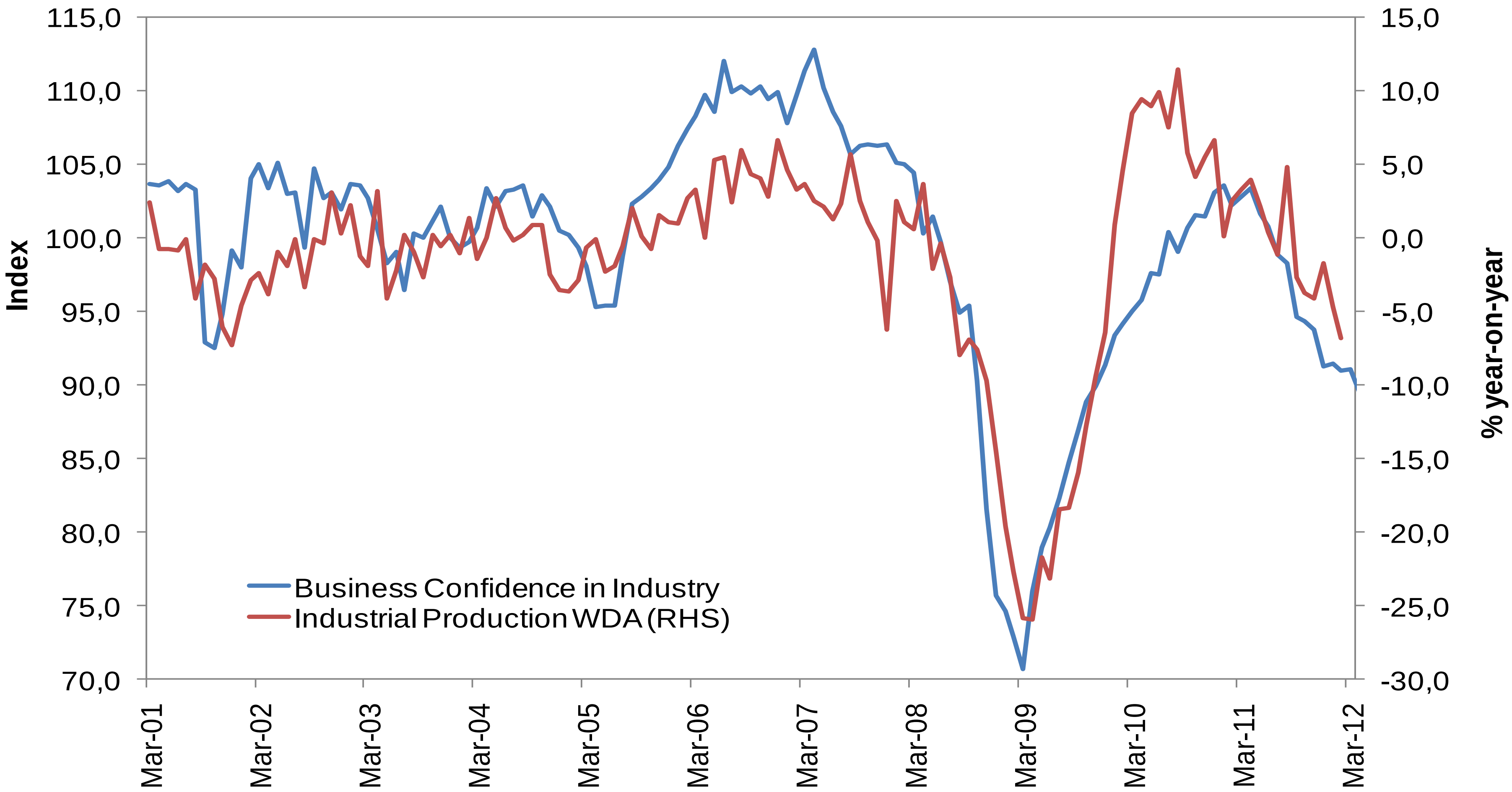
Industrial production still very soft over the near term



source: Istat

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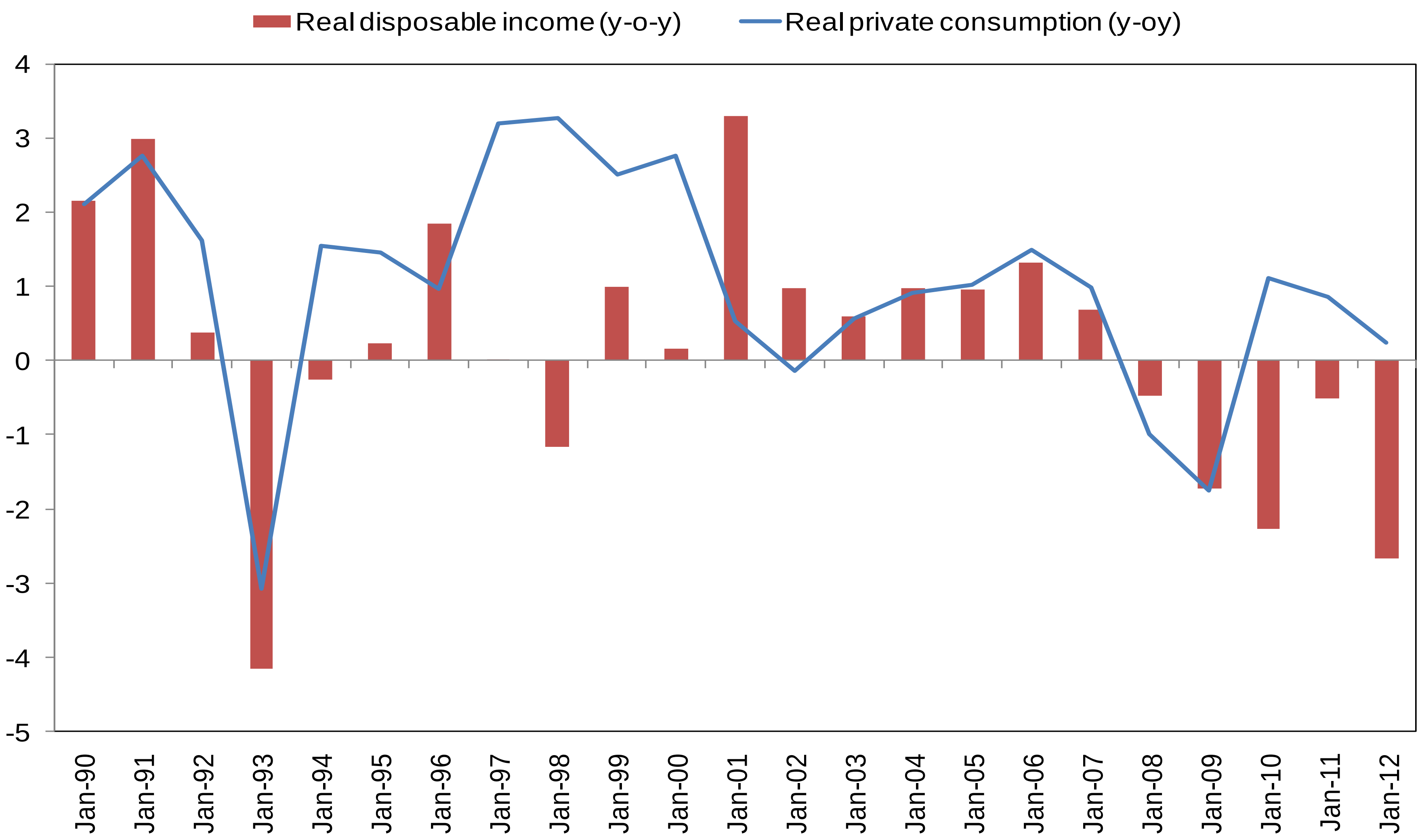
Household consumption has been resilient so far



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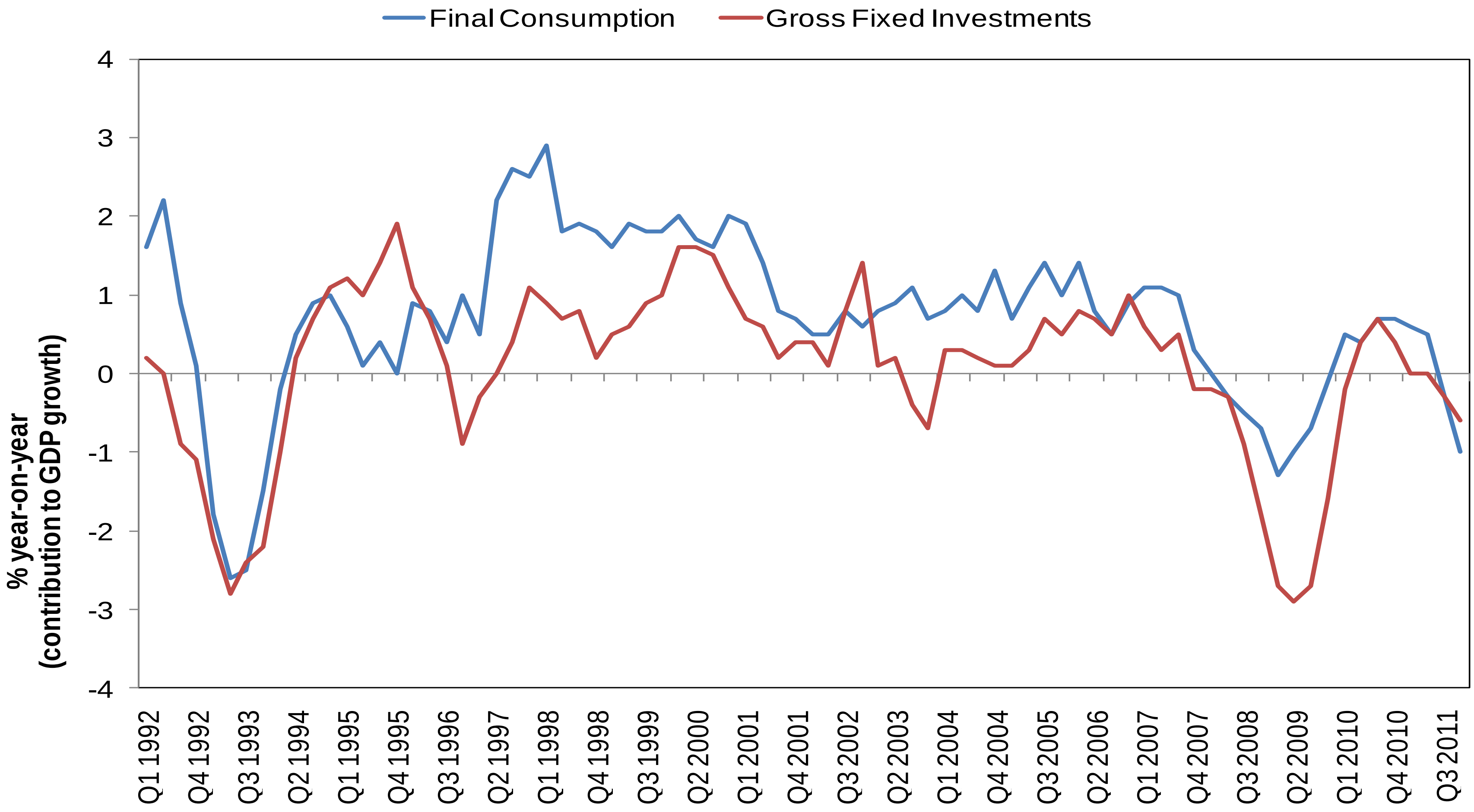
Final consumption likely to remain weak over the near term



Source: 2012 DEF

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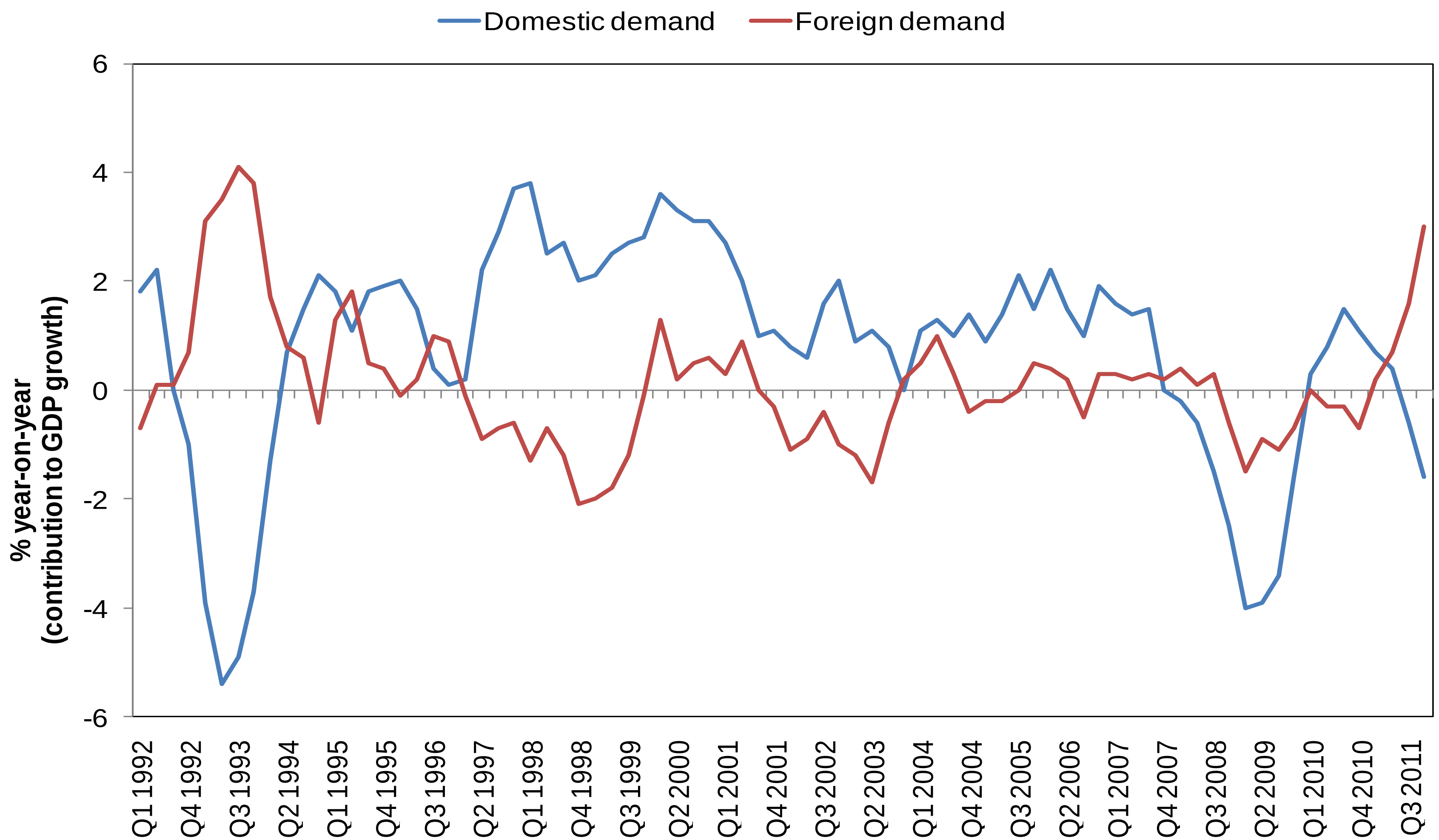
Sharp increase in the contribution of net exports



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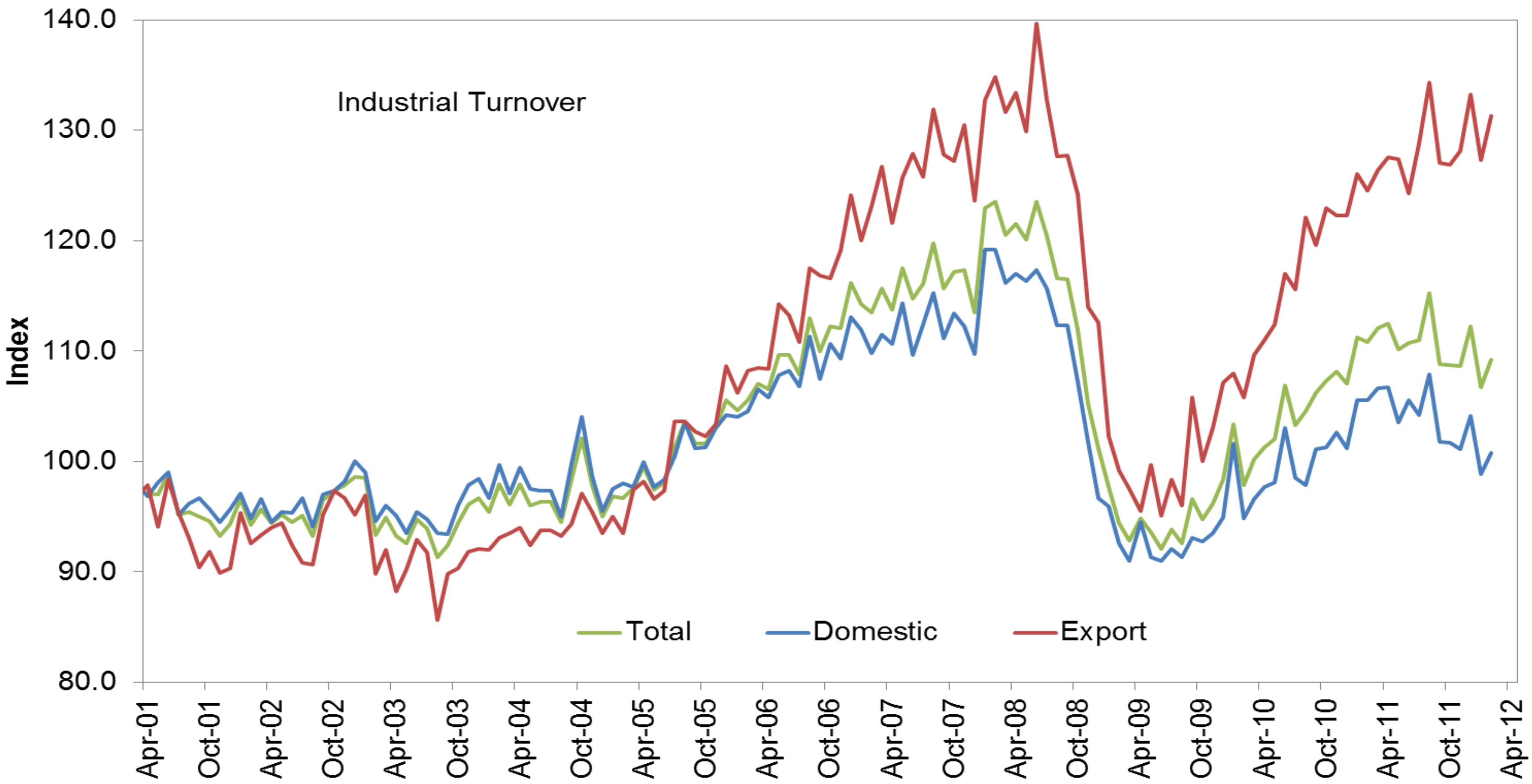
Italy about to grow out of recession thanks to foreign demand



source: Istat

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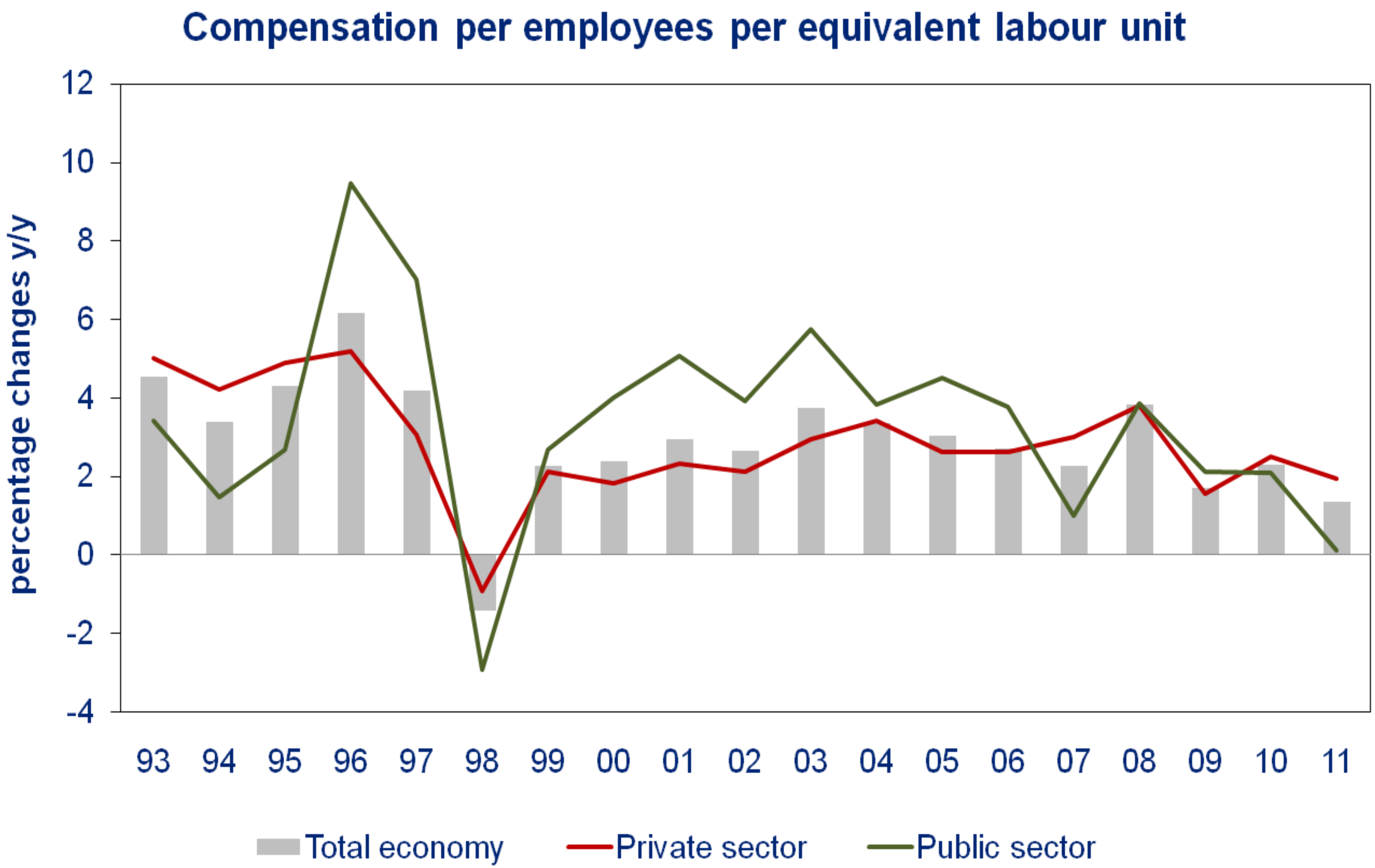
Private wage growth likely to moderate further



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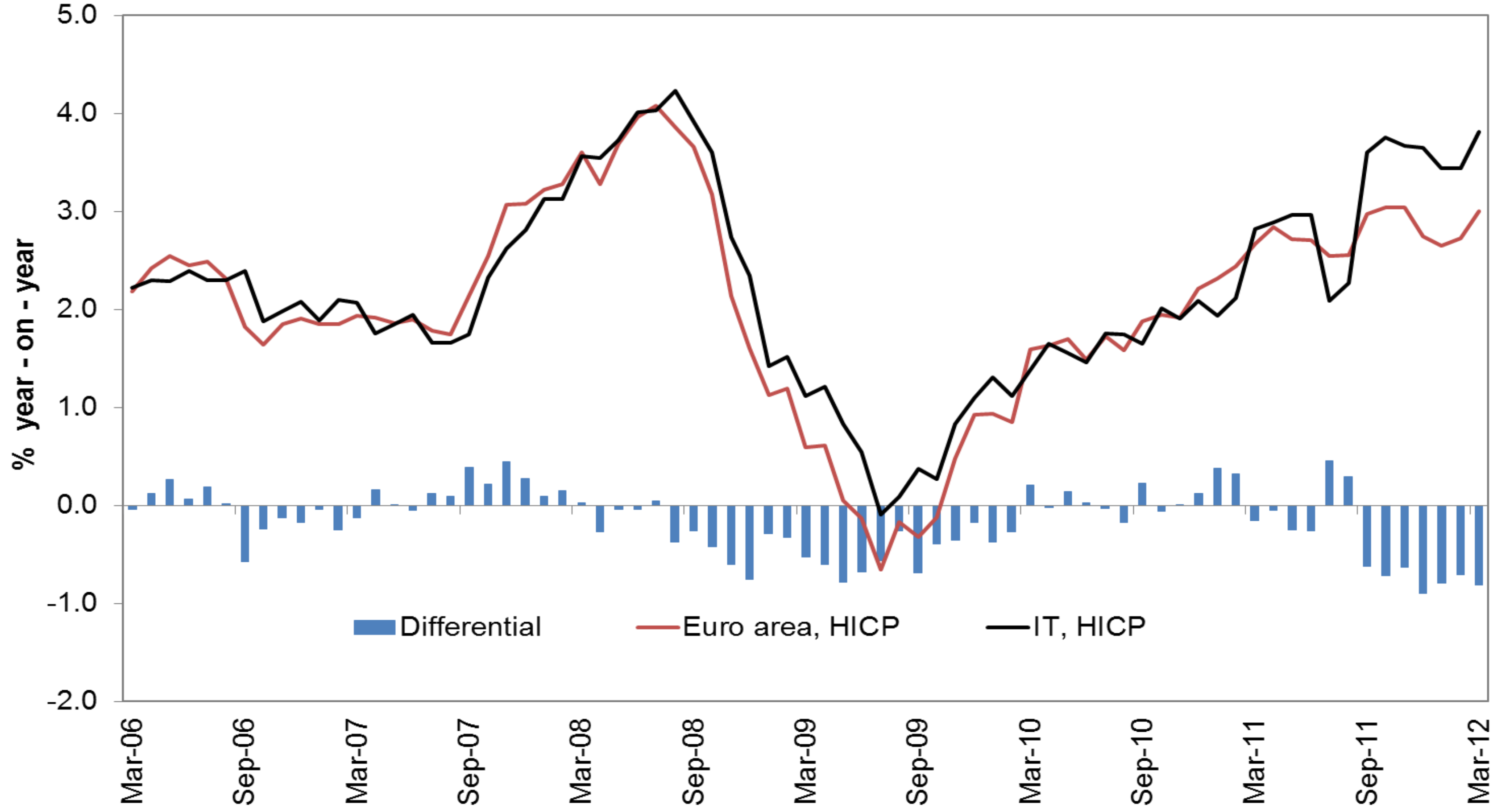
Consumer inflation likely to peak soon



source: Eurostat, Istat

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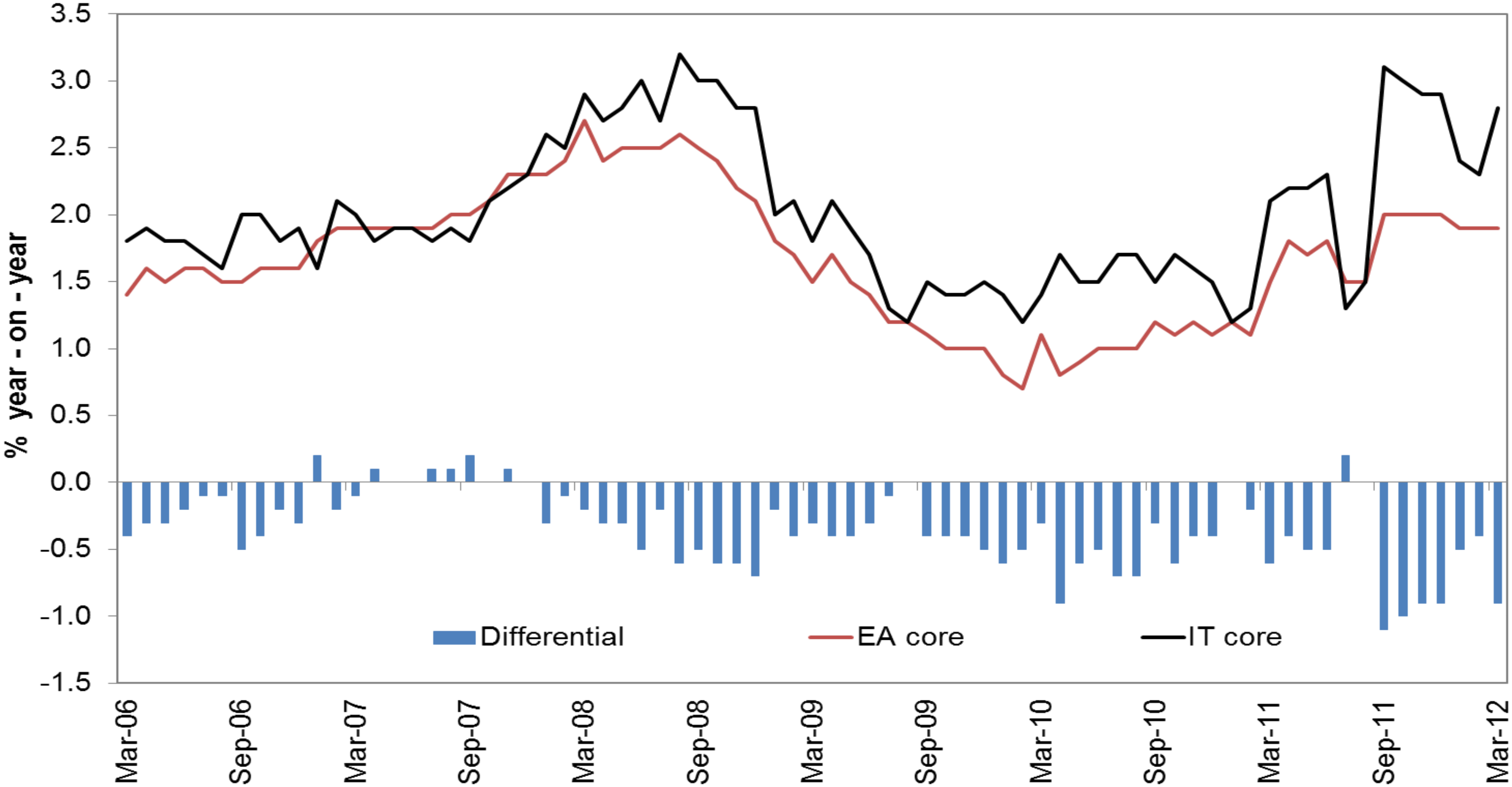
Core inflation to moderate as well



source: Eurostat

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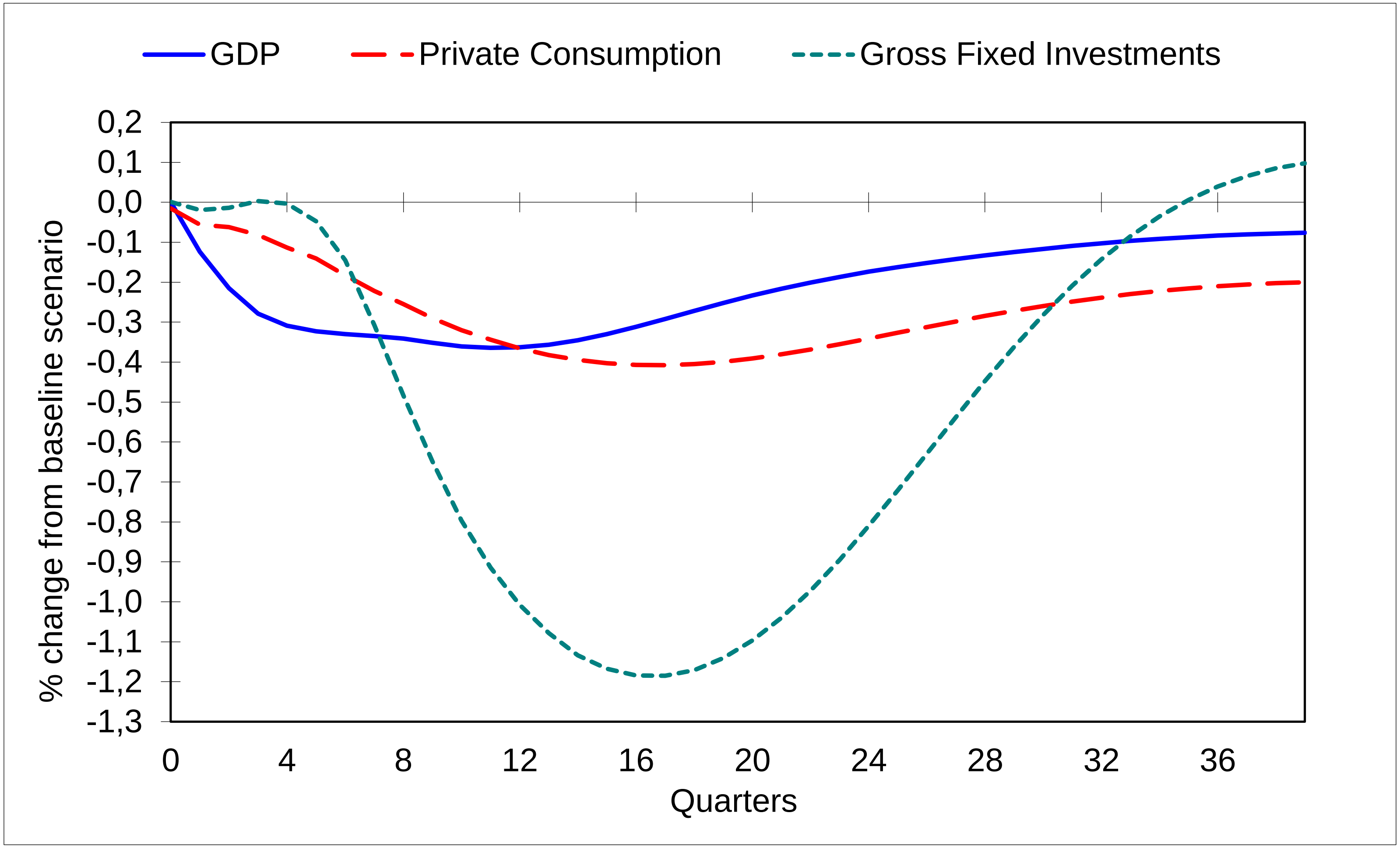
Impact of a 10 USD/bl increase in oil prices



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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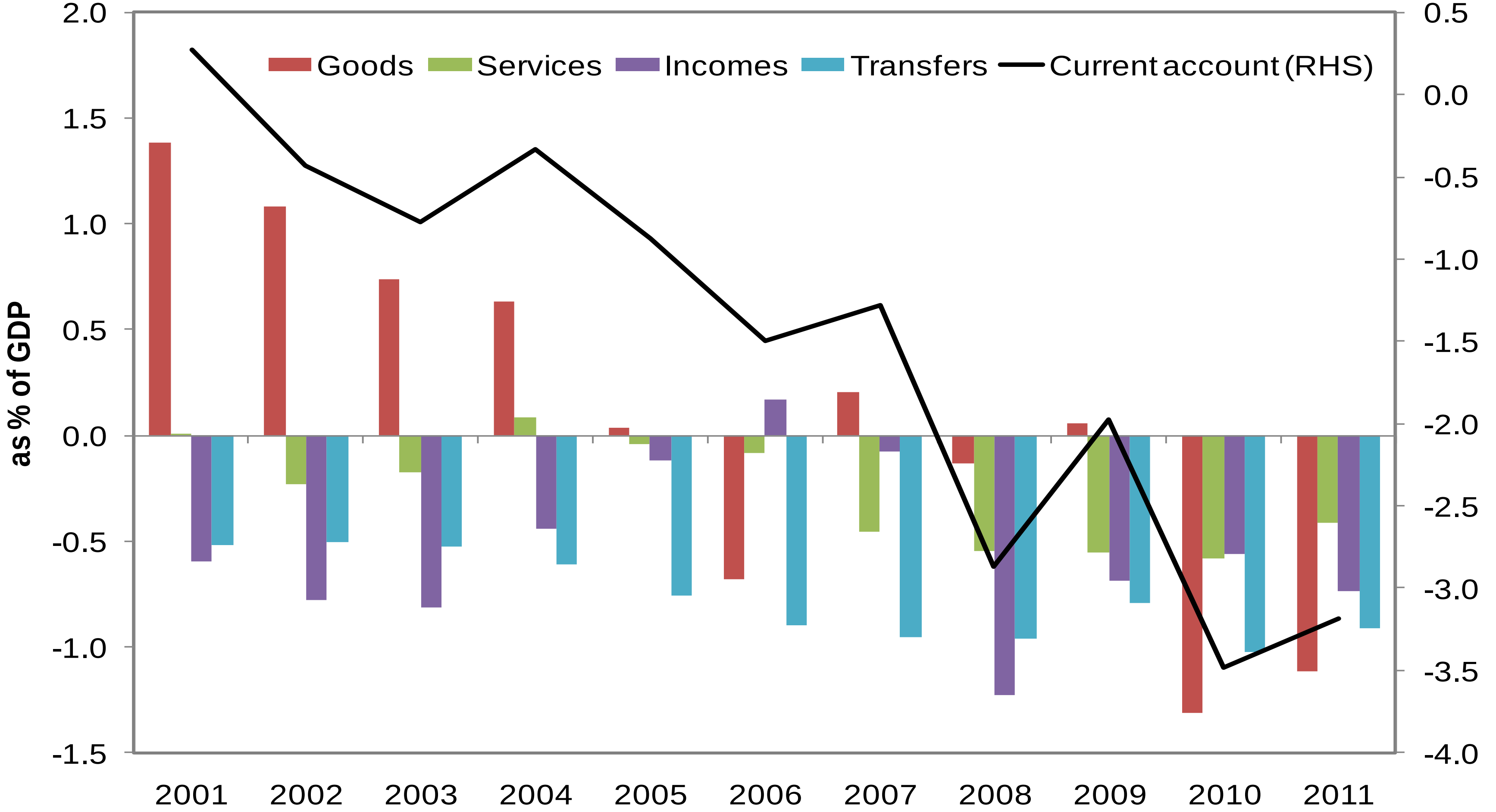
Italy's current account has worsened gradually

- From 2000 to 2010 Italy experienced a **modest deterioration** in the current account, mostly due to the higher cost of energy imports.
- Trade of goods has worsened since 2H00; trade of services was stable in 2002-06 and worsened thereafter.
- Italian exporters are specialised mostly in **sectors that have declined as a share of total global trade in recent years** (textiles, clothing, furniture).

Current account deficit: expected to further narrow in 2012



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

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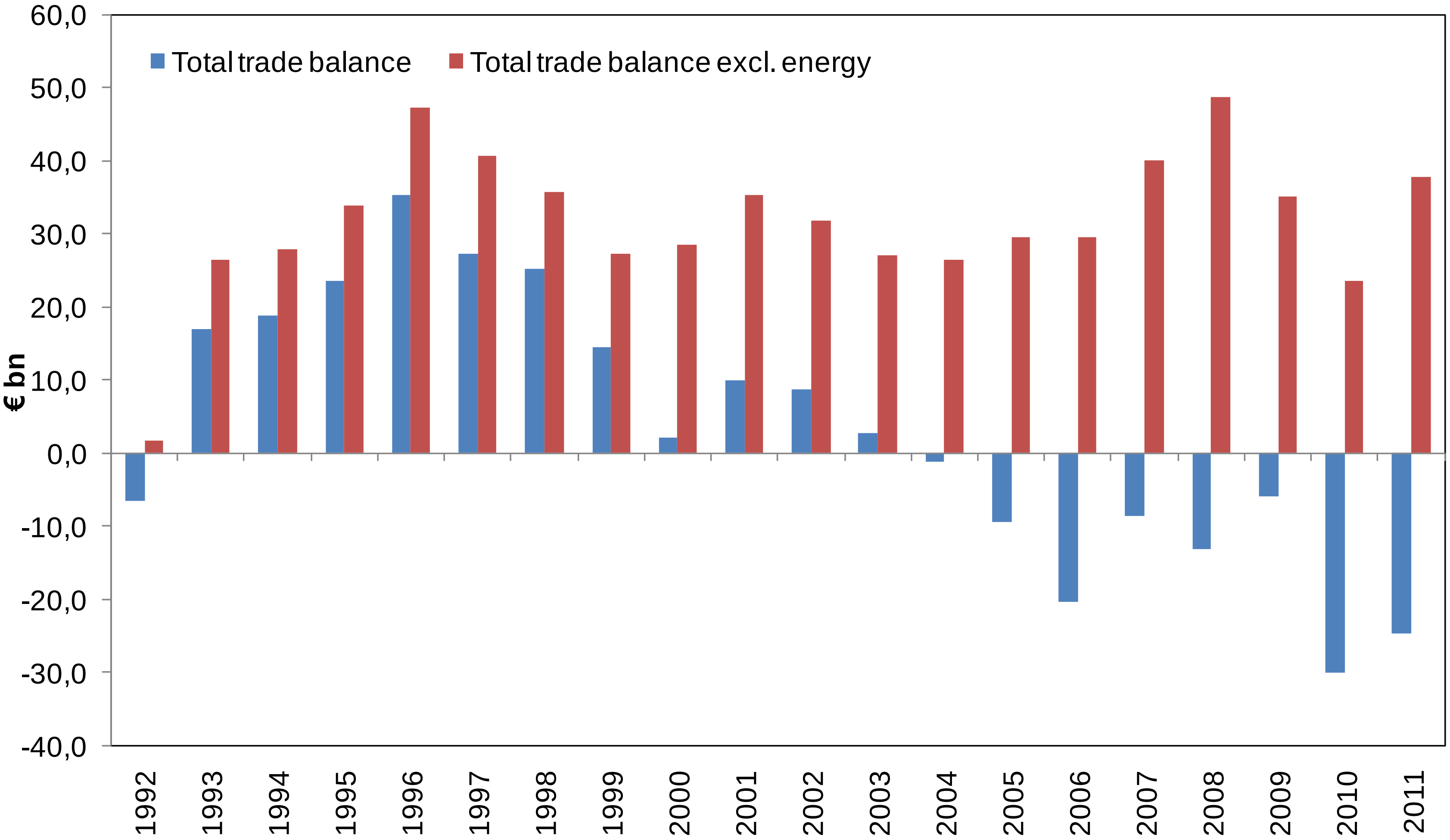
Sharp improvement in Italy's trade balance in 2011



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

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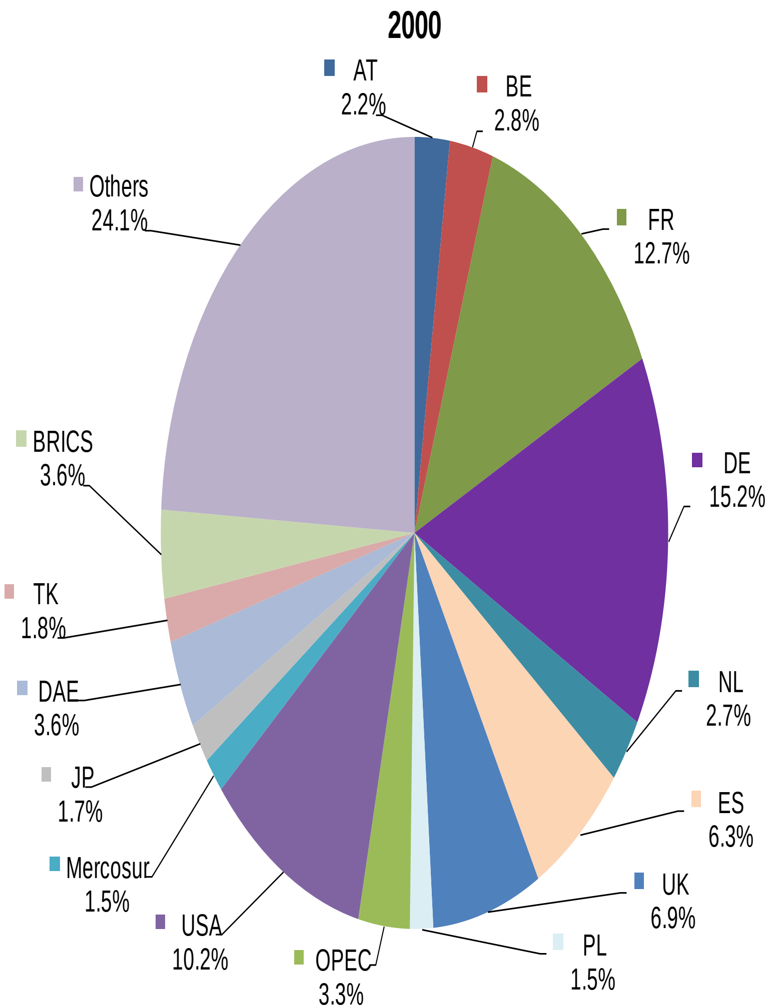
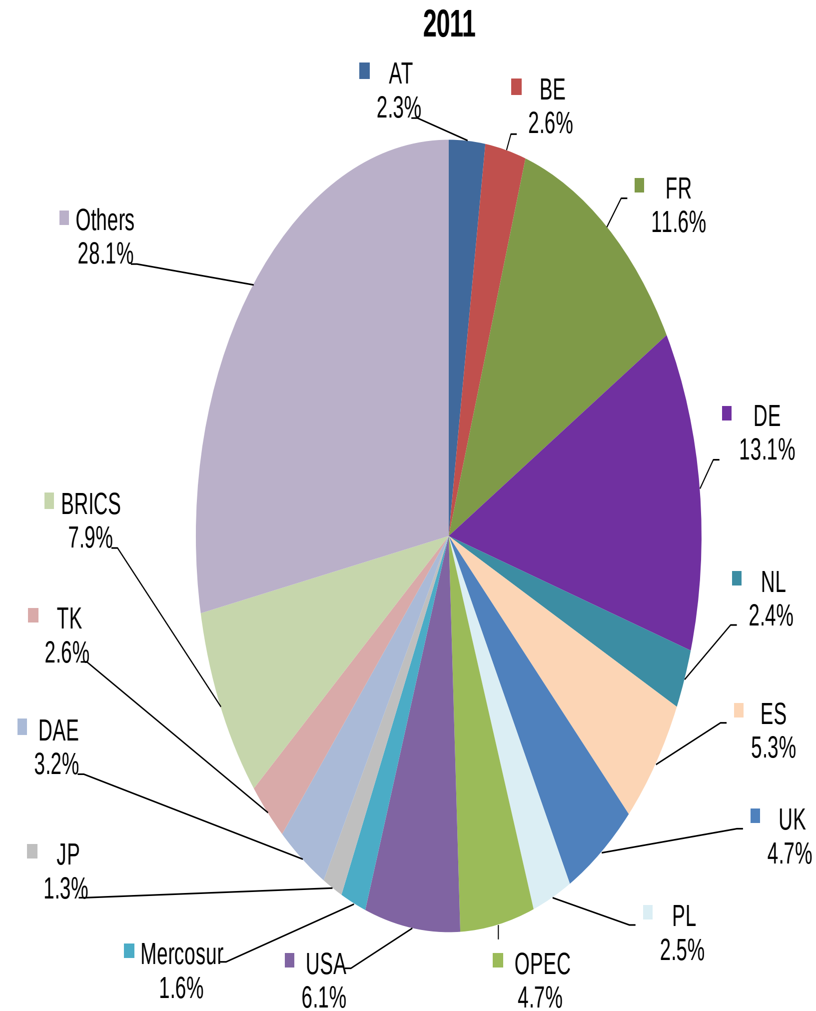
Change in geographical destination of Italian exports





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

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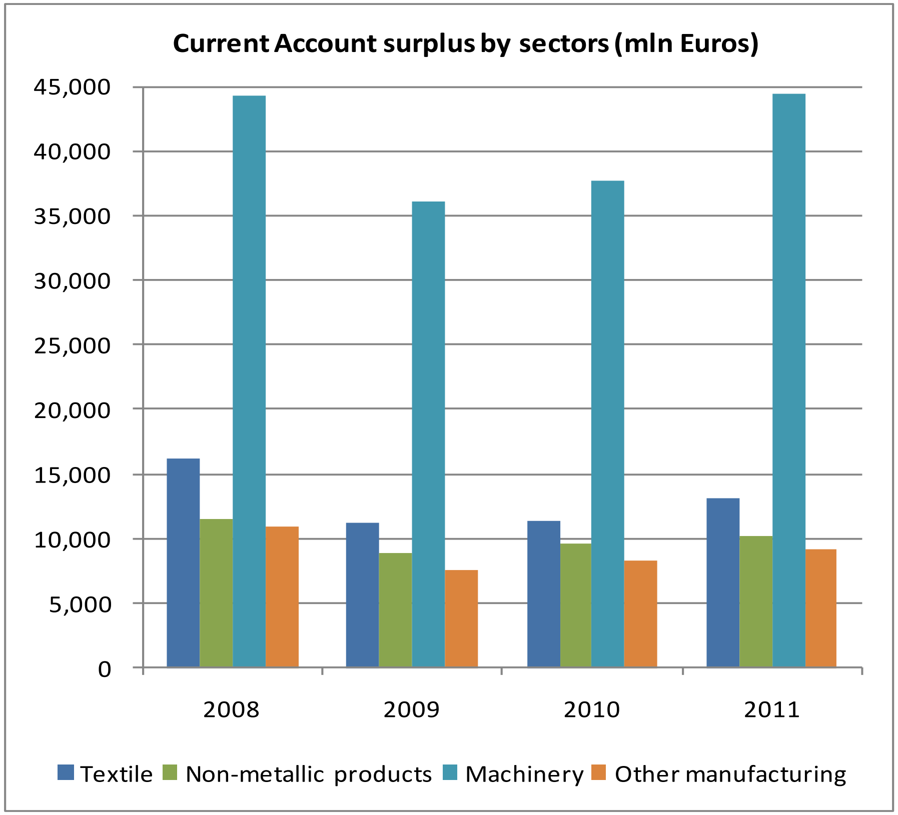
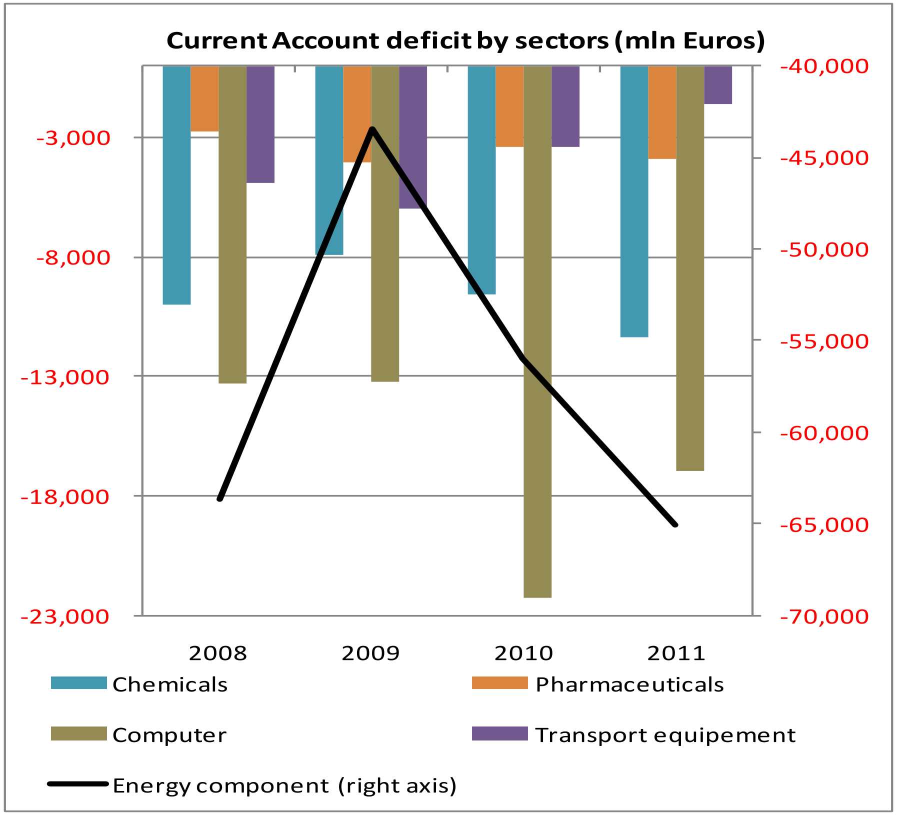
Trade and competitiveness: some sectors are in good shape





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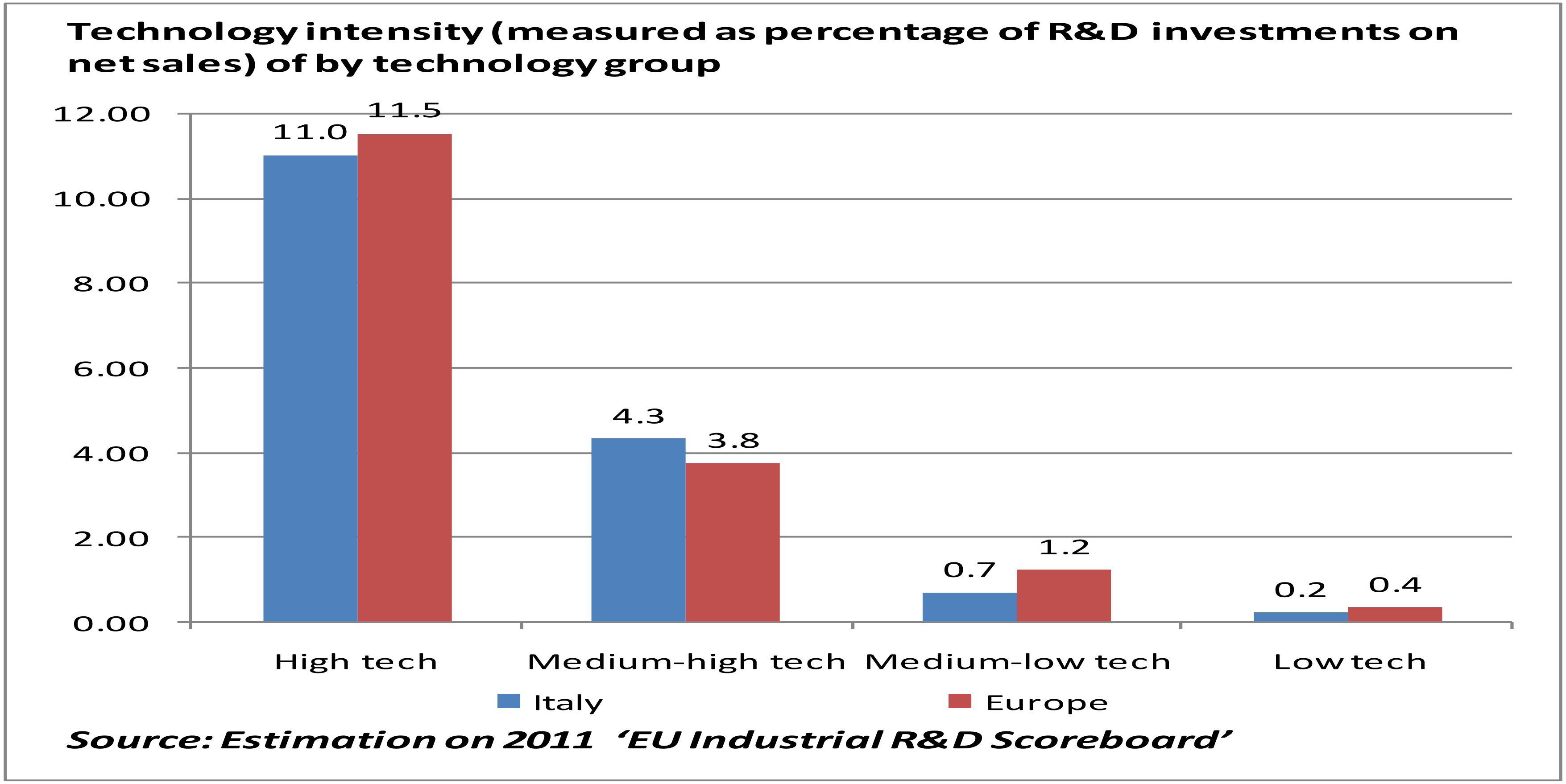
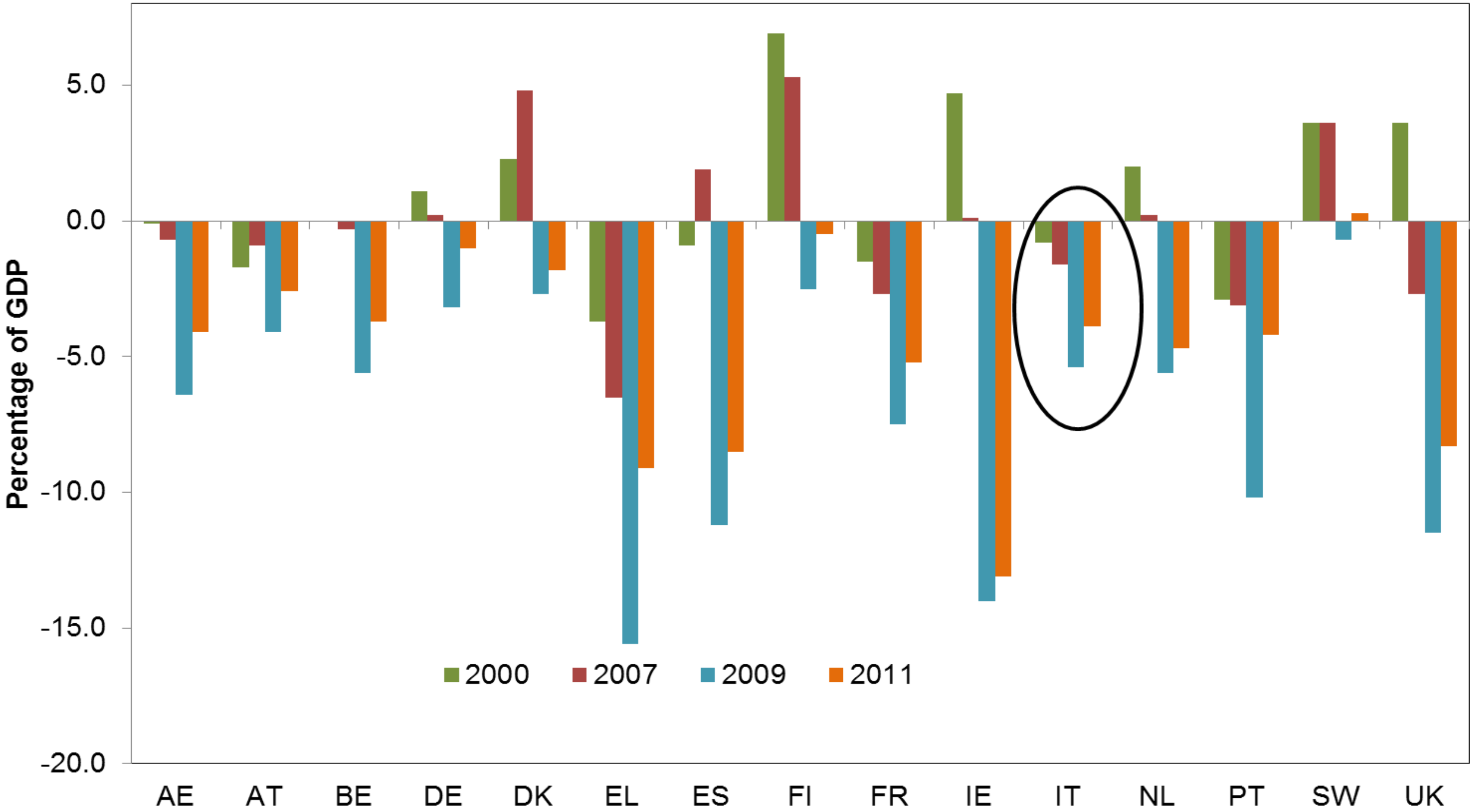
R&D and innovation: the role of Italy's industrial structure



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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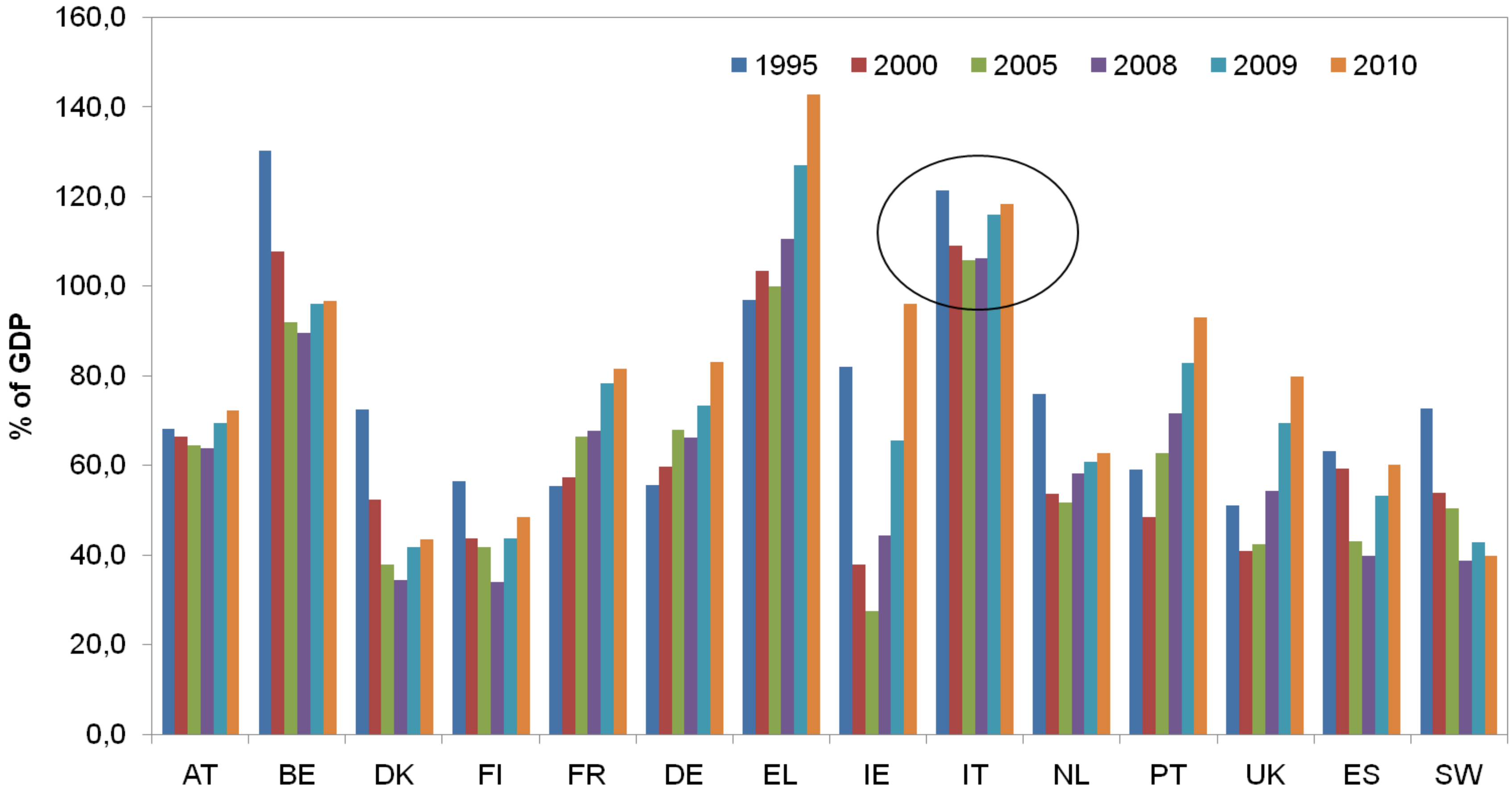
Debt-to-GDP increased mainly due to the denominator



source: Eurostat

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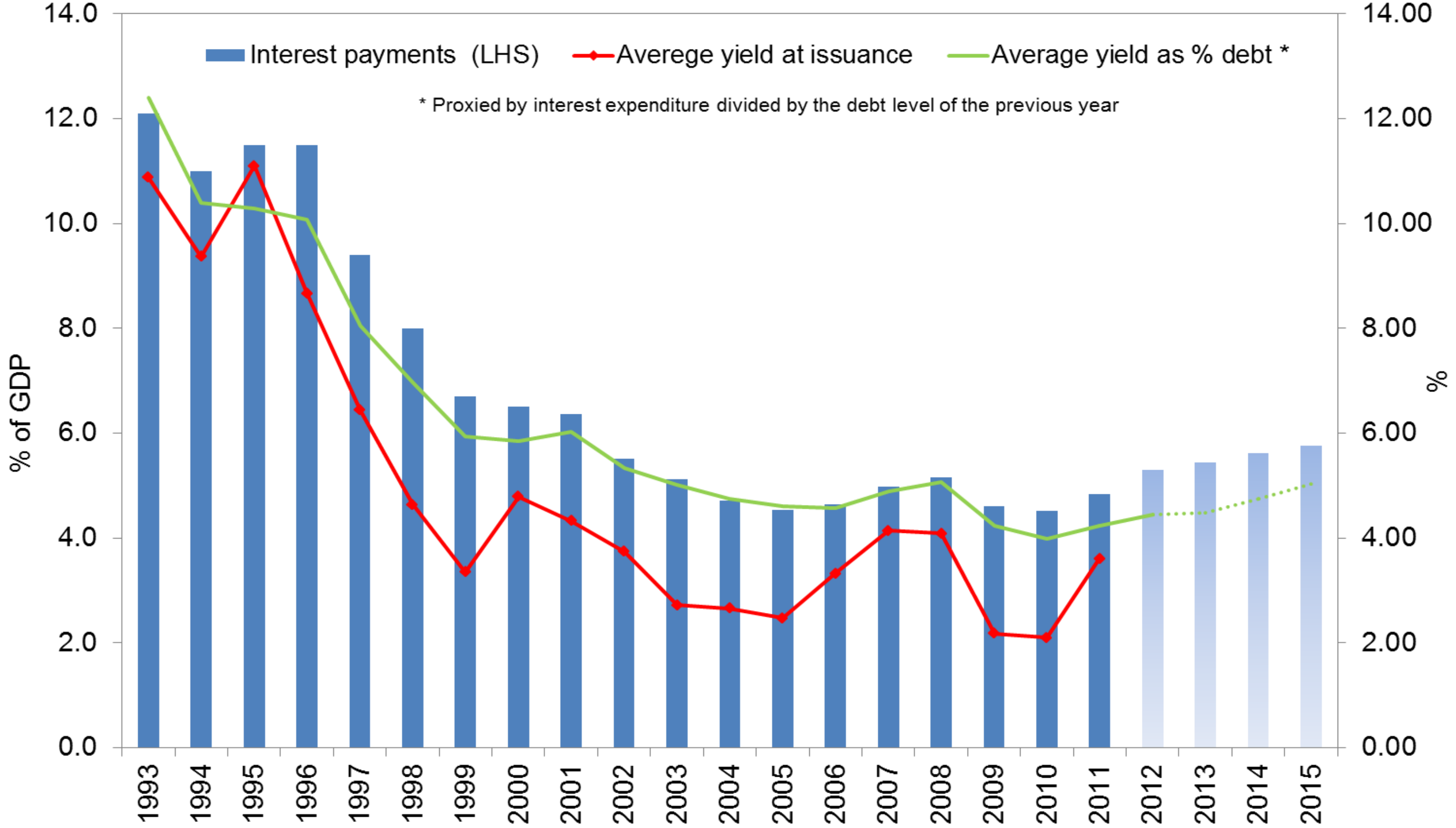
Moderate increase in interest payments on public debt



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

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Source: 2012 DEF

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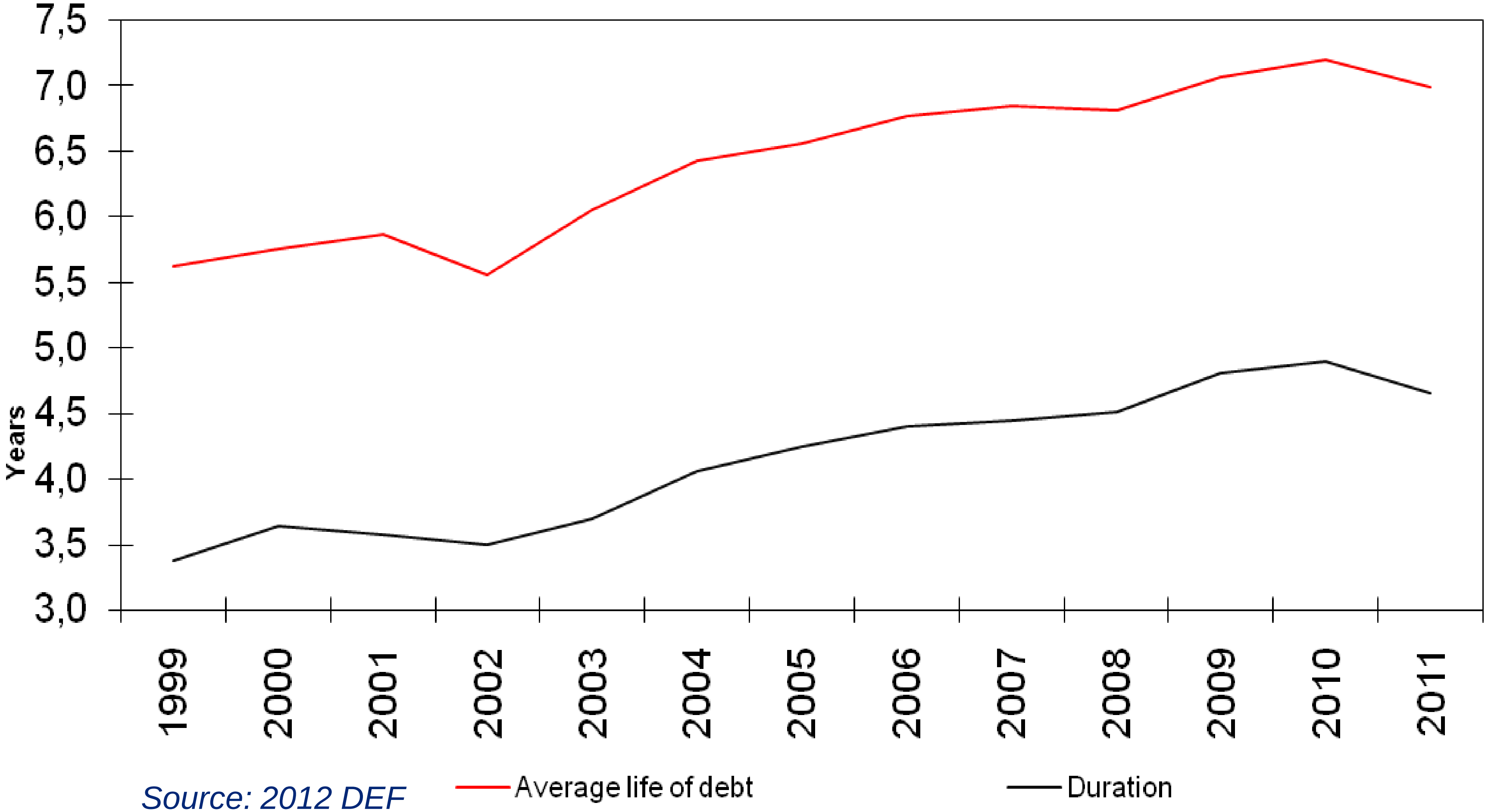
Lengthened maturity of public debt reduces risks



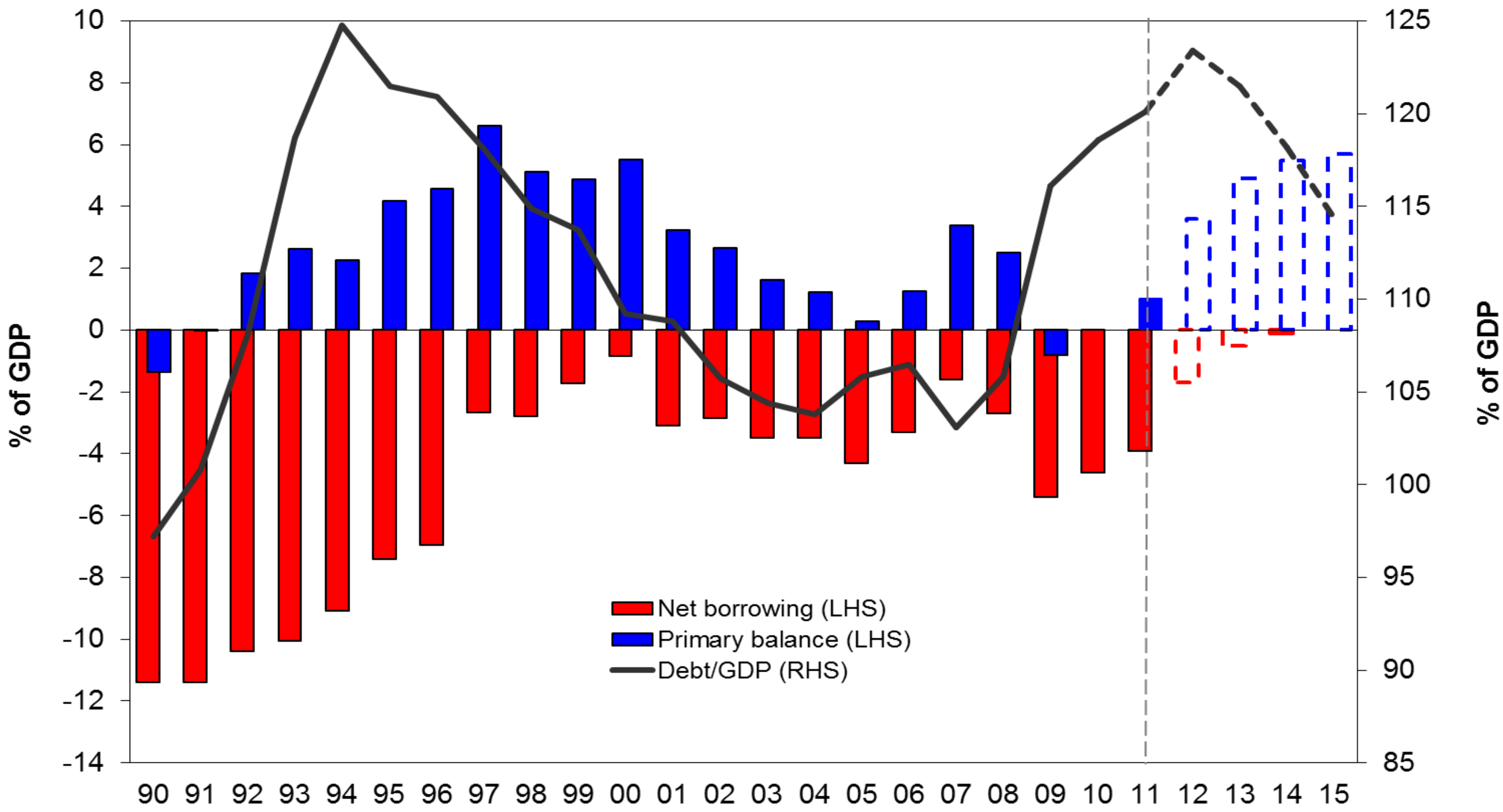
Source: 2012 DEF

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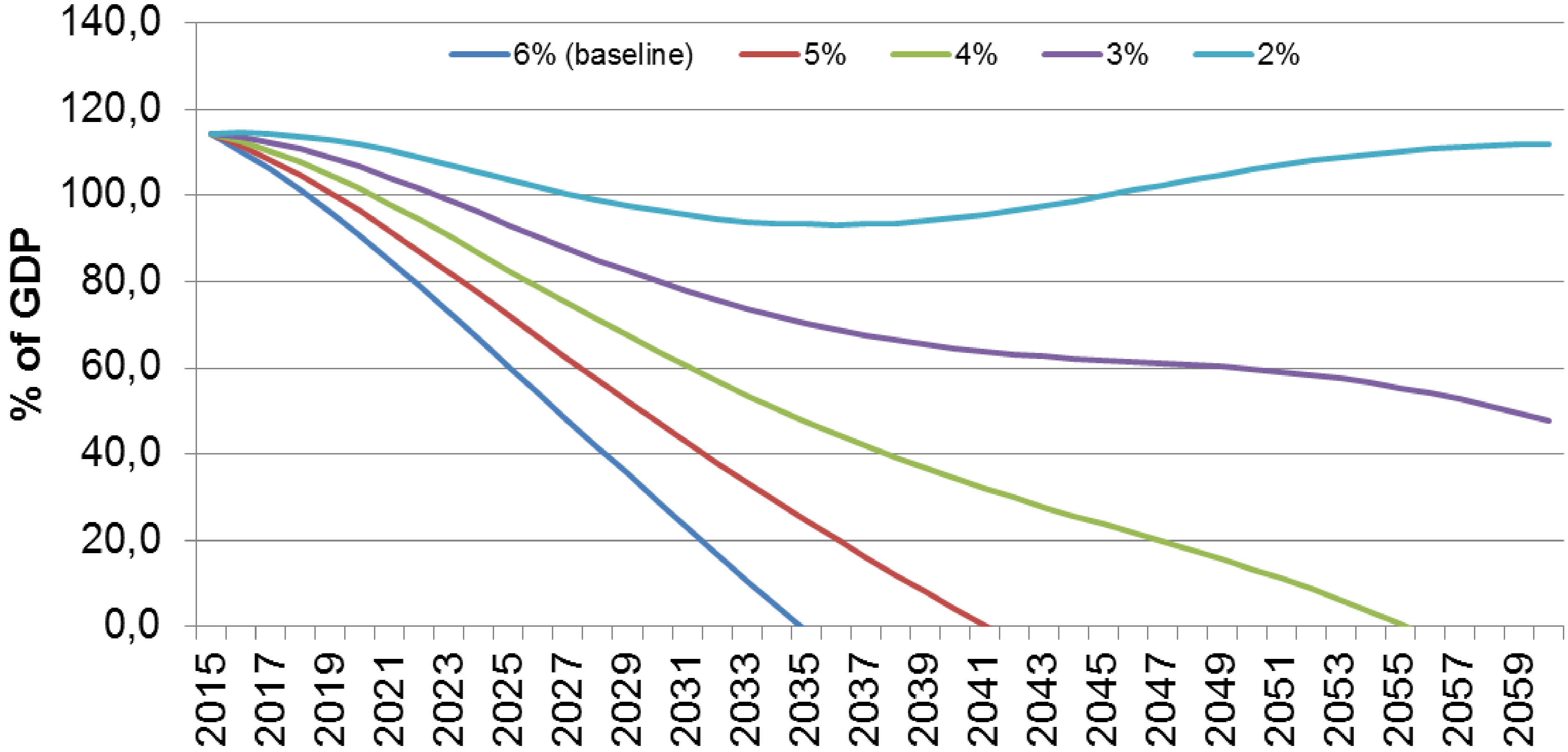
Steady decline of debt/GDP with primary surplus at 5-6%



Source: 2012 DEF

Note: The baseline scenario is based on the DEF 2012 macroeconomic outlook for the period 2012-2015. For the years 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, respectively, 5 and 10 years. TFP growth reaches 1% whereas labour productivity converges to 1.5% as of 2030. GDP growth is on average equal to 1.4 %. Real interest rate and inflation are assumed to be constant and equal, respectively, to 3% and 2%.

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.

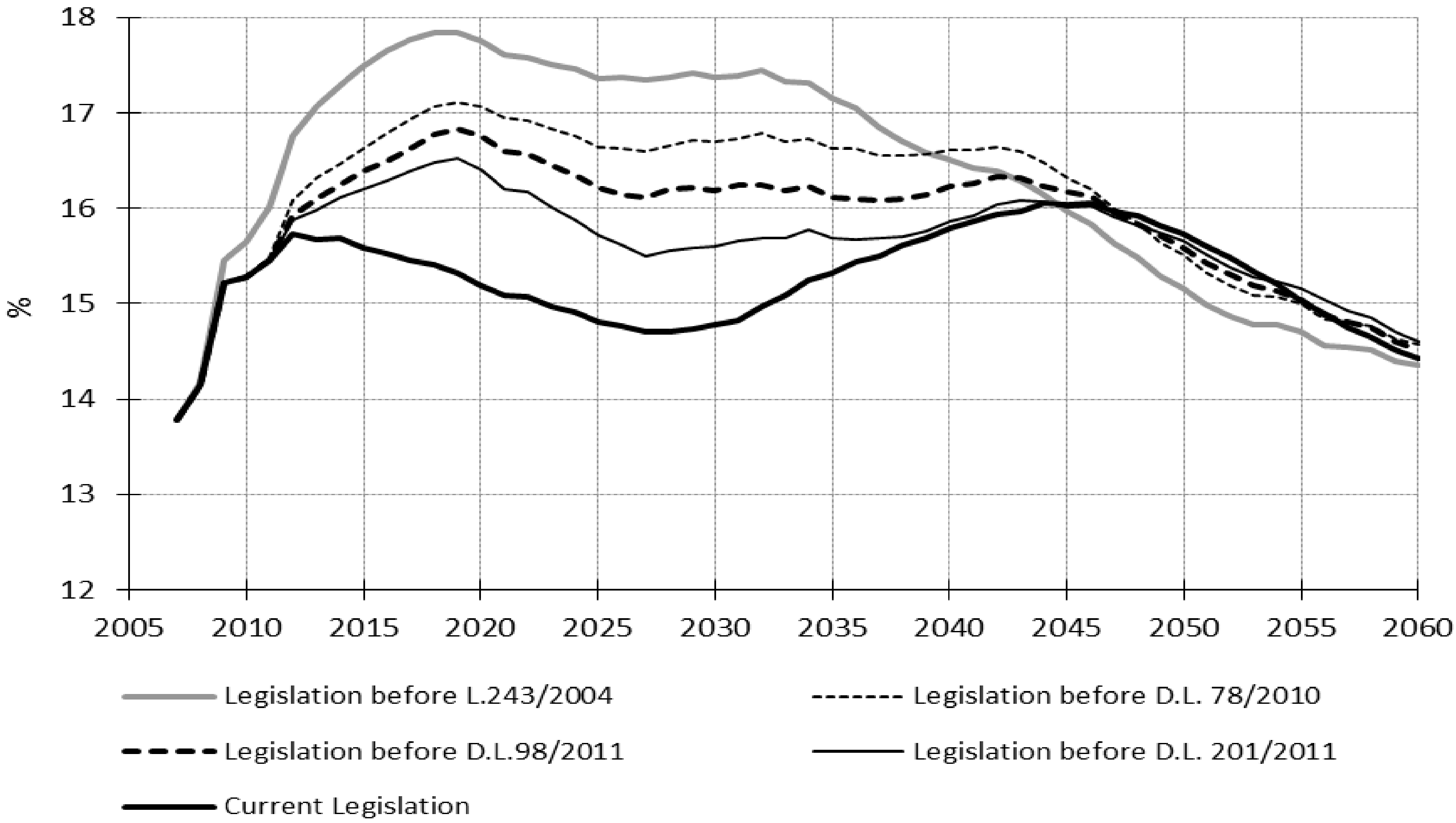
Pension reform: key achievements

- **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



Source: 2012 DEF

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).

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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).

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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.

Dipartimento del TESORO

MEF Ministero dell'Economia e delle Finanze

Spending Review (1)

- **Main goals**: public expenditure flows revision; overhauling of public services with inefficiencies reduction; 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 amount of expenditures of about **€295bn** can be reviewed, while in the short term about **€80bn.**

Spending Review (2)

- Based on the Report, the Cabinet decided a cuts in general government public expenditures for **€4.2bn** to be accomplished from June to December 2012 (**€7.2bn** on yearly basis).
- If successful, these cuts **might avoid** the scheduled VAT increase in October 2012.
- **Selective cuts**: thresholds on public managers' salaries, reductions in staff and consultants, reforms of provinces, closure of public bodies, reduction in expenditure for official state cars and flights.

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.

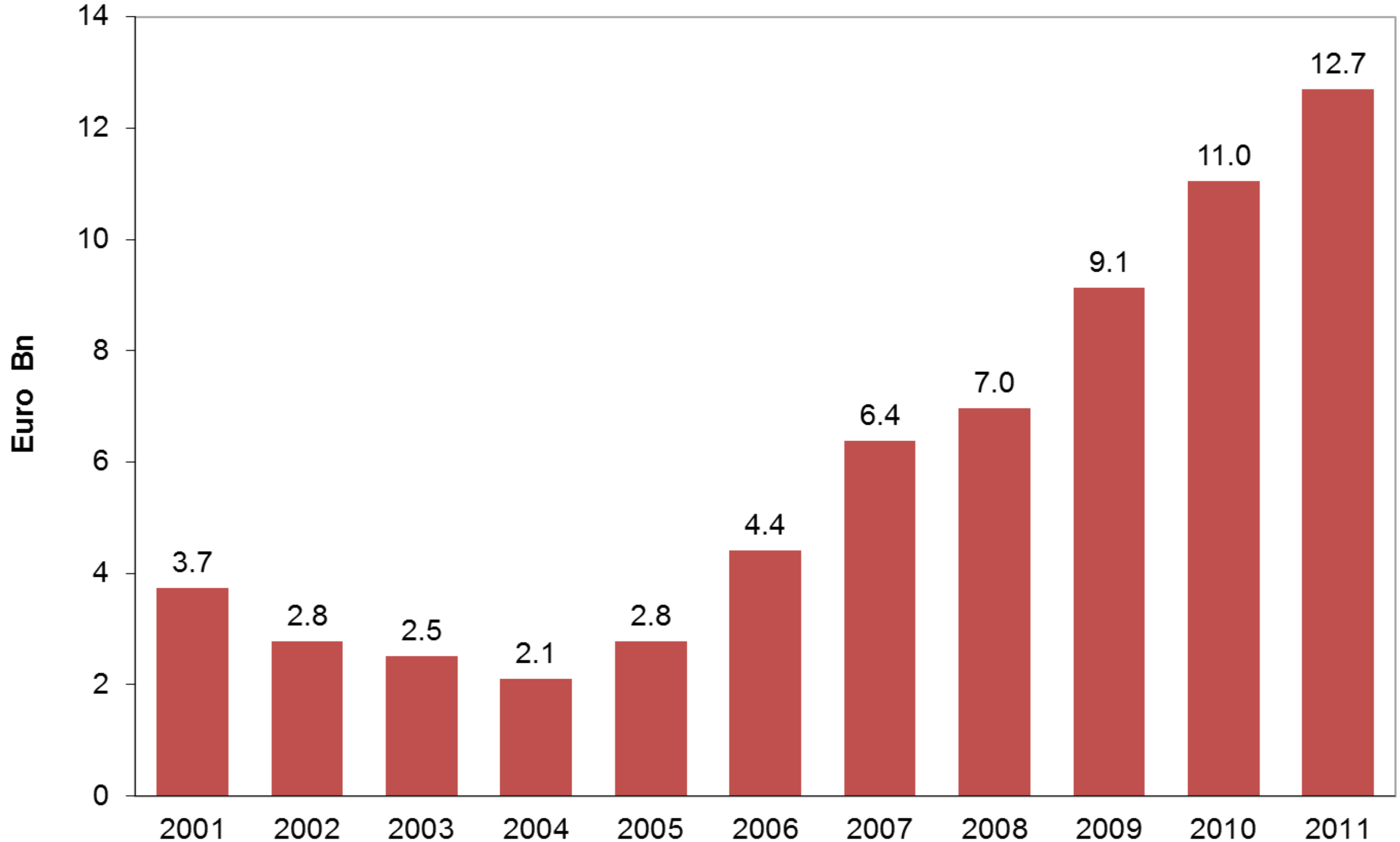
Fight against tax evasion (2)

- 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.

Fighting against tax evasion: incresingly effective



Source: Ministry of Economy and Finance- Revenue Agency.

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Macroeconomic impact of 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

- 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.

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Government guarantees and EA financial support

% of GDP	2010	2011	2012	2013	2014	2015
Government guarantees	0.8	3.6				
of which: Financial sector		*2.8*				
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).

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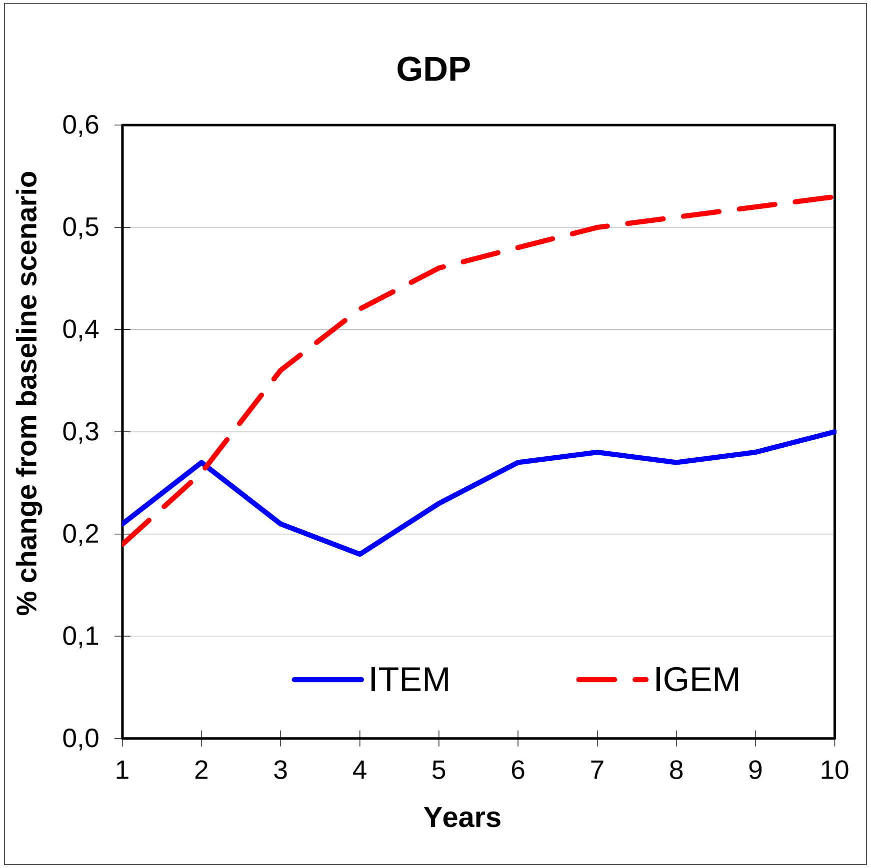
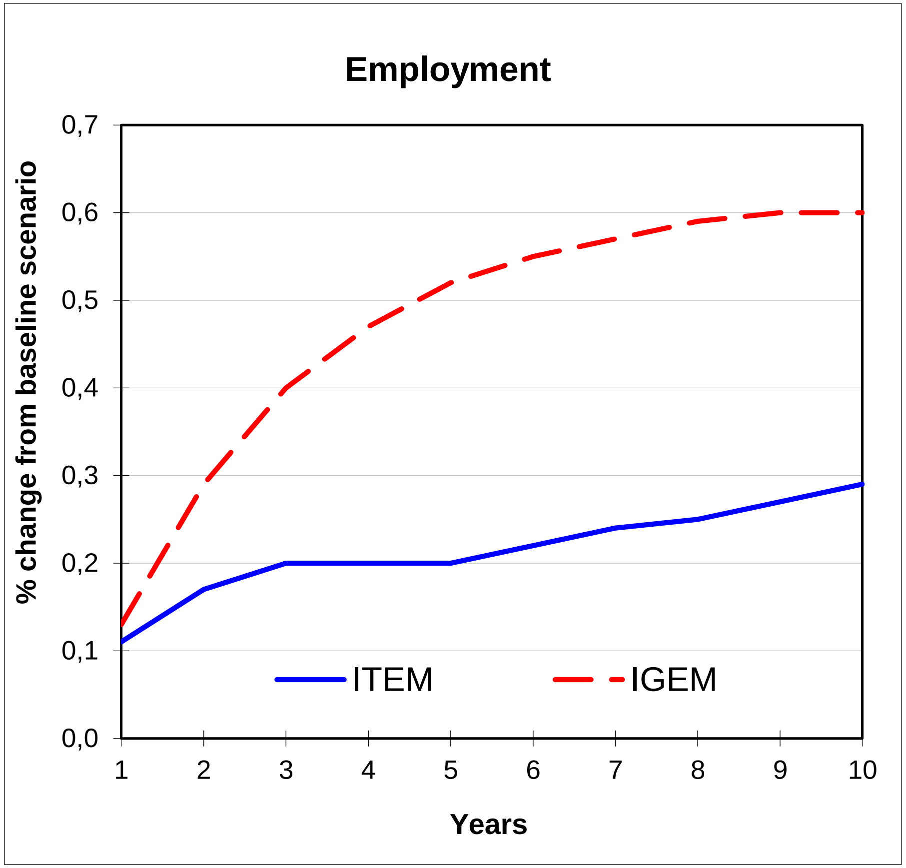
Measures for growth and social fairness

- **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.

Potential impact from 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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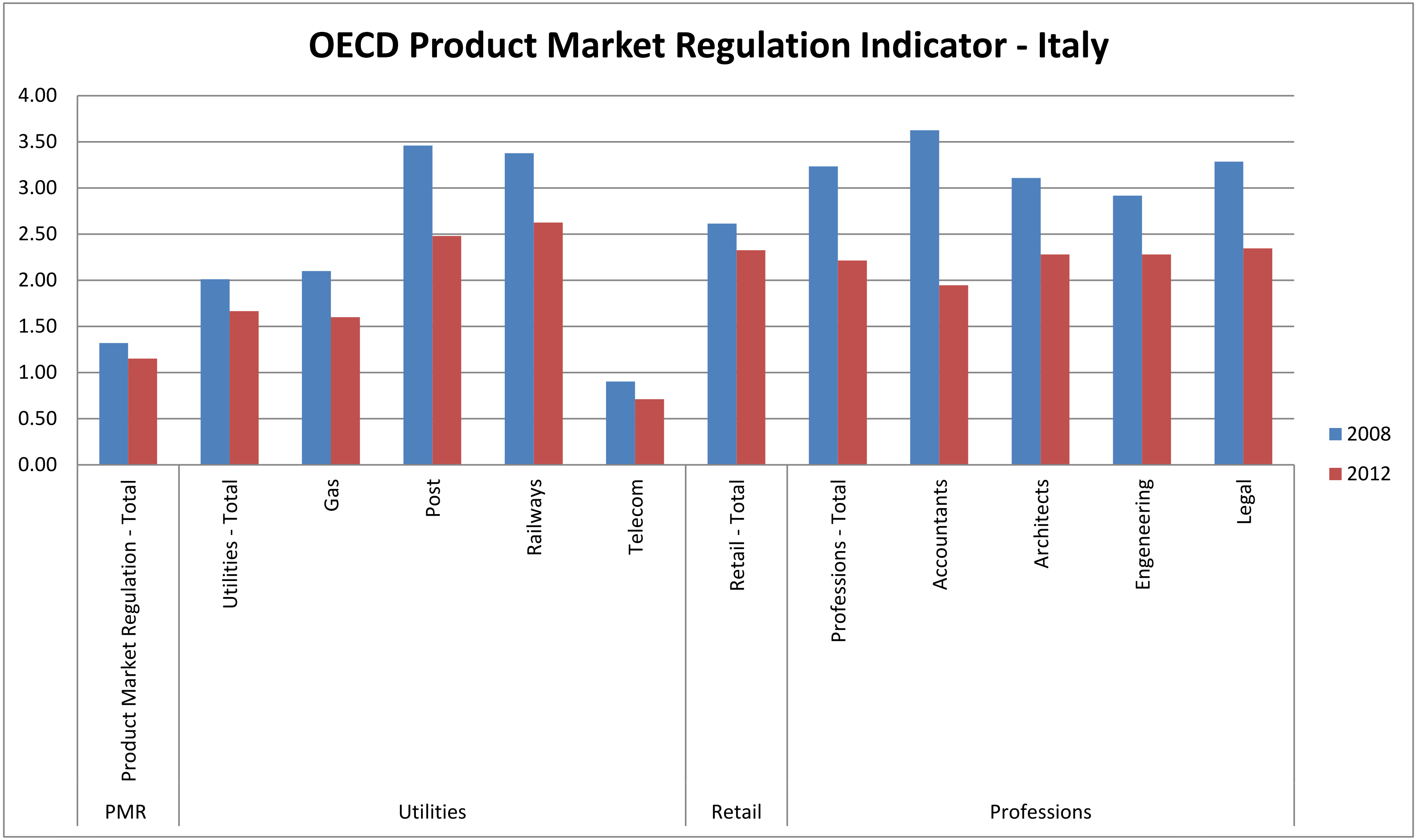
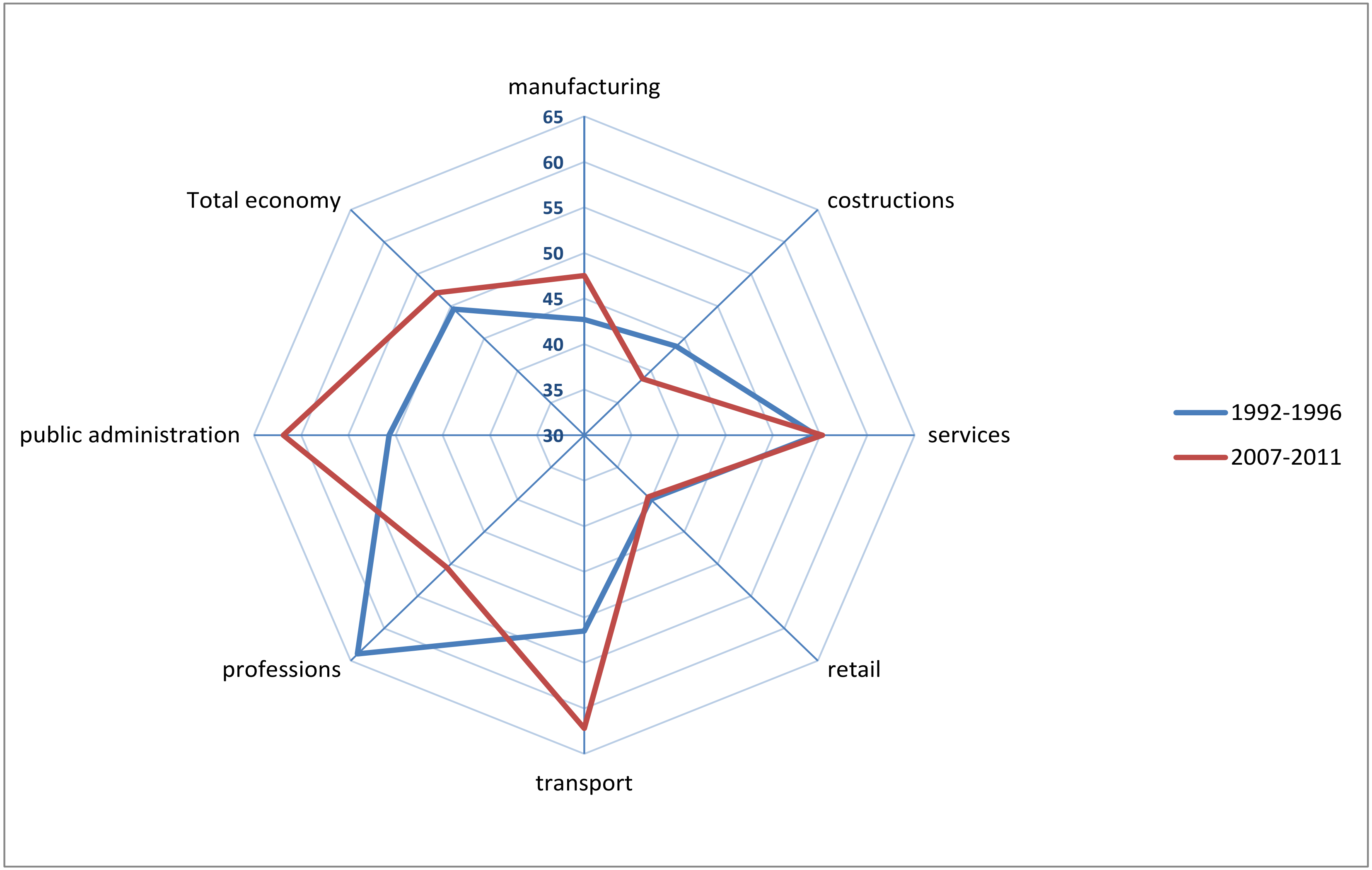
Infrastructure

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

Liberalizations and simplifications – reforms by sectors



Productivity by sectors: how has it evolved?



DIPARTIMENTO DEL TESORO

MEF Ministero dell'Economia e delle Finanze

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.

Dipartimento del Tesoro

Ministero dell'Economia e delle Finanze

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)

- Revision of 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 dei Servizi". **
- Enhanced competition in **local public services**
- Strengthened role of the Antitrust Authority for local public services.

Dipartimento del TESORO

Ministero dell'Economia e delle Finanze

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 ATMs.
- For **insurance services,** measures to enhance competition and reduce frauds.

Liberalisation, competition and competitiveness (5)

- **Gas and electricity:** new regulated indexation of gas prices for household and SMEs, unbundling in the gas sector.
- Further liberalisation measures for **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 taxis and railway services.
- Creation of an independent **Authority for** regulation in the **transport** sectors.
- **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 through the reduction of the 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 to the **charges on 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).

Simplification (1)

- Possibility for citizens to obtain **most certificates online.**
- All identification documents will expiry in the date of birth of the proprietor; 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-ups.
- 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 independence 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 macroeconomic impact of the 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).

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Getting more out of 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 have been extended.
- For the **local public services**, the possibility to exclude the tender and manage the service ‘in house’ is subject to the **compulsory advice of the Antitrust**.

Strengthening the fiscal framework

- Fiscal consolidation efforts are accompanied by the **Constitutional balanced budget rule**, approved by the Parliament on April 17, in line with the Euro Plus Pact commitments.
- **Independent body** to establish within the Parliament in order to monitor **fiscal developments**.

DIPARTIMENTO DEL TESORO

Ministero dell'Economia e delle Finanze

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 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 the abuse of temporary contracts and making indefinite 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.

Access to the labour market: apprendiceships

- **Apprenticeship becomes** the preferential channel for young people (up to 29 years old) to enter the labour market permanently.
- Employers benefit of **fiscal incentives for a 3-year** period. In order to hire new apprentices, at least 30% of their apprenticeship contracts signed over the previous 3 years has to be converted into indefinite 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 last 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 indefinite ones (so-called ‘stabilisation bonus’).

Changes to existing schemes

- **Ordinary wage supplementation** will not change for the industrial sector.
- 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 of 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 reinstatement (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 the reinstatement of the employee in case of lack of the claimed reasons for dismissal.

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.**