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Addressing Italy's high-debt/low-growth challenge

Report for the attention of the Eurogroup

ADRESSING ITALY'S HIGH-DEBT/LOW-GROWTH CHALLENGE[1]

(REPORT FOR THE ATTENTION OF THE EUROGROUP)

SOVEREIGN DEBT CRISIS EXACERBATES EXISTING WEAKNESSES

1. **The sovereign debt crisis has now moved from the periphery to Italy and other core euro area countries.** Pressures on Italian sovereign bond yields is particularly acute, reflecting investors' mounting concerns with the sustainability of Italy's large public debt, especially against the background of a lacklustre growth performance and funding problems of the banking sector. Subdued growth adversely affects investors' confidence by: (i) increasing the debt burden relative to the country's capacity to pay; (ii) undermining the credibility of fiscal targets; and (iii) calling into question the feasibility of the politically difficult structural reforms.

2. **Italy's twin challenges of high public debt and low growth pre-date the global financial crisis, rather than follow from it, and explain Italy's vulnerability despite many strengths.** Compared to other euro area countries, Italy entered the global crisis with strong private sector balance sheets and a sound and robust banking sector, and maintained a more prudent fiscal stance during the crisis. Yet it remained vulnerable to a loss of investor's confidence mainly because of its failure to introduce much needed ambitious fiscal and structural reforms in the past decade—when economic conditions were more supportive.

3. **While Italy can weather through a short-lived debt market turbulence, the risks of a full-blown sovereign liquidity crisis can increase rapidly in the absence of a determined policy response.** Thanks to the relatively long average maturity of Italy's public debt (over 7 years) a short-run increase in borrowing costs has a limited impact on its overall interest bill. But persistently high interest rates increase the risk of a self-fulfilling "run" from Italy's sovereign debt. A liquidity crisis could then turn into a solvency crisis, whose repercussions for other large euro area countries would be very acute, given their exposure to the Italian economy.

POLICY AGENDA: INCREASING GROWTH POTENTIAL AND RESTORING SOUND PUBLIC FINANCES IN A SOCIALLY FAIR WAY

4. **While a euro area solution to the now systemic crisis is necessary, Italy's predicament won't subside unless Italy addresses the root causes of its own vulnerabilities heads-on**. While the current crisis has forced a fundamental reorientation of policies in other countries, it does not change the policy priorities for Italy. The necessary reforms to unleash Italy's growth potential are widely known, having for example been highlighted by the European Commission, the Council, and the European Central Bank on several occasions in the past, most recently in the recommendations and messages addressed to Italy in July and August 2011. With the crisis, their implementation has, however, become even more urgent.

[1] This assessment report, prepared in liaison with the European Central Bank, represents the first step in an enhanced surveillance of the implementation of Italy's reform agenda, in line with the mandate received from the HoSG at the October 2011 Euro area summit.

5. **Public debt should be put on a firmly declining path.** Italy's primary fiscal balance compares favourably with many other euro area member states, but a further strong adjustment is required. This should be supported by a fiscal framework that enshrines in the constitution a strong and efficient fiscal rule and promotes expenditure restraint to avoid pressure for excessive tax burden.

6. **Fiscal reforms should also make fiscal policy more growth-friendly.** The tax burden in Italy is very high and not fairly distributed, because of widespread tax evasion. At the same time public expenditure is inflexible reflecting in particular a large share on pensions, where recent reforms—while essential to buttress the system's long term actuarial balance—have very limited payoff in the short-to-medium term. Therefore, in designing the adjustment, expenditure restraint should receive highest priority, while the tax burden should be shifted from labour to consumption and immovable property. The budgetary gains from the reform of the pension system should be further consolidated to allow for savings also in the short-to-medium term. Tax evasion and the cost of tax compliance should be reduced.

7. **All obstacles and bottlenecks limiting the economy's dynamism should be removed.** Italy's dismal growth performance in the past decade is explained by a steady decline in productivity growth. This reflects a host of factors, including inefficient (and in some cases unfair) labour market legislation and arrangements, a business environment which does not foster innovation, the burden of rents and inefficiencies in key sectors shielded from competition, slow and often unreliable enforcement of contracts, low investment in research and development, tax and regulatory obstacles to firms' expansion, etc.

8. **Labour markets should be more effective and responsive to changing economic conditions.** Relative to EU averages, participation and employment rates are low, while long-term unemployment is high among young workers, especially in the South. The creation of new permanent jobs is chronically weak. Past reforms tackled only partially the sources of labour market rigidity, and raised employment rates but at the costs of increased segmentation. Labour legislation continues to offer high protection to insiders, while many outsiders (notably young and female workers) suffer from both precarious jobs and lack of entitlement to unemployment benefits, as a result of an inadequate and fragmented benefit system. Conversely, government-sponsored short-term working schemes to induce firms to retain workers at risk of redundancy are sometimes protracted for years, thereby hampering the necessary job reallocation. Wage setting is not yet sufficiently decentralised to enable an adequate response of wages to local labour market conditions and productivity developments, thereby leading to a gradual erosion of price competitiveness. A breakthrough in this key area requires a reform of labour market legislation to reduce segmentation, greater scope for firm-level wage bargaining, and a reduction of the high labour tax burden.

9. **The education system should better promote human capital formation.** Education is lagging behind, as evidenced by a relatively high rate of early school leavers, low tertiary education attainment levels, and poor scores on the OECD Programme for International Student Assessment (PISA), although here also performance varies between the Centre/Northern regions—which are in line with or above the euro area average—and the Southern ones—which lag substantially behind. Measures in this area should aim at increasing efficiency and improving governance and accountability of schools and universities through more consistent use of thorough performance evaluations and closer links of teachers' career progression and funding to measures of performance and results. At the same time, the capacity of the economy to absorb a high-skilled labour force should be raised, for example by removing existing obstacles to the growth of firms' size.

10. **Product markets should be further liberalised and opened to greater competition,** to ensure better and cheaper inputs to all sectors of the economy, thus increasing the competitiveness of Italian firms and benefiting the final consumer. There is significant scope for greater competition in service markets, professional services, the retail sector, and—under strong and independent regulators—in key network industries. Local public services should be deregulated in compliance with the principle of privatised and open-to-competition provision.

11. **The cost of doing business should also be reduced**, including by ensuring more timely and effective enforcement of contracts through a more efficient judicial system and lighter administrative burdens.

12. **Financial stability needs to be preserved and the financial sector should be enabled to continue to provide the necessary credit to the economy.** Italian banks need to further strengthen their capital base along the lines agreed by the Council in November. Italian banks are confronted with significant funding requirements in 2012 and 2013. Against the backdrop of the increase in funding costs, the access to market funding going forward will largely depend on the availability of term-funding guarantees. The likely re-opening of *national* guarantee schemes is helpful but constitutes a suboptimal solution for Italy, given the value of guarantees of the Italian government in the current circumstances.

13. **Social equity should be improved to ensure broad support for the necessary reforms.** Italy's society is divided along many dimensions: the rich North and the poor South, the highly protected workers on "permanent" contracts and the vulnerable workers on "atypical" contracts, the old with jobs and solid pensions and the young facing high unemployment and the prospects of a much less generous pension system, the law-abiding taxpayers and the tax evaders, etc. All these dimensions of inequality have important costs in terms of efficiency (by impacting, for example, the decisions to invest in human and physical capital, to save, to relocate, etc.) but they also threaten social cohesion, which is necessary to implement the wide-ranging reforms needed to turn the situation around.

THE RESPONSE OF THE ITALIAN GOVERNMENT SO FAR

14. **Since last summer, several steps have been taken by the Italian government in response to the crisis.** These include the anticipation of the balanced budget goal to 2013 from 2014, the approval of two packages yielding around 3½ % of GDP improvement on the trend primary balance by 2014, the tabling of a constitutional amendment proposal to introduce a balanced budget rule by mid-2012, a letter of reform commitments addressed to the euro area leaders on 26 October, and the approval on 12 November of the 2012-14 Stability Law (3-year budget law), enacting several of the measures underpinning these commitments.[2] A key task of the new Italian government is to ensure that all these measures are fully and timely implemented.

15. **The actions in the fiscal area represent an important step in the right direction.** The new policy goal of balanced budget by 2013, a year earlier than recommended by the Council in the European Semester, implies a target for the primary surplus of more than 5% of GDP. If achieved and maintained, this will put public debt on a firmly declining path—a result that is robust to stress tests and represents a key pre-requisite for regaining credibility and improving medium-term growth prospects. The proposed balanced-budget constitutional amendment, if properly designed and implemented, would enhance the signalling value of the actions on the fiscal front.

[2] See the Annex for an overview of the various measures taken.

16. **Progress has also been made in the labour market reform agenda.** Specifically, building on a new social partners' agreement signed in June 2011, Parliament approved in September a provision allowing firm-level bargaining to derogate from labour law on several key aspects of the employment relationship, including dismissal procedures and types of contracts to be used in the firm. Some additional measures have been taken in the context of the 2012-14 Stability Law, including to facilitate labour market entry of youth and unemployed women and to introduce compulsory public sector staff mobility. Competition, efficiency, and accountability in the education system are being promoted through greater use of evaluations and performance-based funding.

17. **The government has also made efforts to improve the business environment**. Measures focused on reducing the regulatory burden (e.g., by eliminating the compulsory authorization to start up a company and by expanding the use of self-certification), modernizing the public administration (e.g., by establishing a Commission to introduce greater reliance on merit and evaluation in career progressions and an e-Gov plan for digitalization), and increasing the efficiency of the judicial system (e.g., by discouraging futile litigation through increased fees for unjustified appeals, expanding the use of electronic means of communication, and launching a reorganization of judicial offices to achieve savings and greater efficiency, in particular by reducing case-handling times).

18. **Important advances have been set in motion with regard to opening up professional services and local public services to greater competition**. For professional services, recent measures include the elimination of minimum tariffs, the possibility for professionals to constitute limited liability companies active in multiple sectors, and the forthcoming revision of the legislation on professional orders. For local public services, measures have been adopted to ensure more competitive procurement procedures (e.g., the possibility to entrust multiple services simultaneously through appropriate competitive tendering, the prohibition of the split of a service procurement into multiple bids so as to fall below the threshold under which direct assignment is allowed). Furthermore, incentives have been put in place for municipalities to divest their shareholdings in local service providers. A new benchmarking system was introduced, requiring service managers to publish data on quality of service, average price, and investments to allow a comparison of their performance with that of other firms.

19. **A prioritization of the existing EU structural funds was also launched, to reduce regional disparities.** An action plan was designed, in close cooperation with the European Commission, to increase the absorption rate of EU funds especially in the South and improve the procedures for selecting projects.

Assessment of the Response so Far

20. **The recent progress represents a good basis to build on for the more ambitious reform programme that is needed to boost growth and reduce vulnerabilities.** The policy agenda needs to be ambitious in content and timing, detailed, and anchored to a binding roadmap for implementation. The agenda's key measures should be frontloaded. To maximize domestic support and thus the chances of its successful implementation, the reform agenda needs to be informed by the principles of social equity and fairness.

21. **Additional steps are necessary to secure the announced deficit targets while raising the equity and efficiency of fiscal policy.**

- **The two fiscal adjustment packages of last summer should be fully implemented.** In particular, the "safeguard clause"—envisaging the scaling back of tax expenditures or increases in indirect taxes if the tax and social assistance reform fails to be implemented on time and/or does not yield the anticipated savings—should be fully specified upfront, by detailing the precise measures and the triggers for their activation.

- **Buffers should be created to safeguard the announced fiscal objectives against headwinds from weaker growth in Italy and elsewhere.** Meeting the 2012 deficit target of 1.6% of GDP is an essential step towards a balanced budget in 2013. In order to copper-fasten the Italian government's deficit objective for 2012, buffers need to be created, as shown by the Commission services' Autumn forecast, which project a deficit of 2.3 % of GDP. These buffers should be built on advancing the fiscal structural reforms which are needed in their own right (see below).

- **The large pension bill should be more quickly reduced** by: (i) accelerating the entry into force of legislated changes to key parameters of the pension system (e.g., by reducing the gender gap in the legal retirement age in the private sector); (ii) tightening the eligibility for, penalising, or altogether eliminating early retirement pensions; (iii) reviewing the most generous special pension regimes; and (iv) introducing an automatic suspension of price-indexation, except for the lowest pensions, in case of negative real GDP growth.

- **The tax burden should be reoriented away from labour and onto consumption and property**, to curb unit labour costs, enhance competitiveness, and support labour market participation (especially of women). In doing so, the relative weight of transaction versus recurrent real estate taxation should be reviewed in favour of the latter, and real estate cadastre values should be updated.

- **The fight against tax evasion should be decisively enhanced,** building on progress made so far, including by drastically lowering the threshold for electronic payments, increasing reliance on indirect indicators of undeclared income, and improving the cooperation between different levels of government on tax administration issues.

- **The proposed budget balance amendment should be adopted with clear guarantees about the associated monitoring and enforcement mechanisms**. Particular attention should be given to having in place a comprehensive expenditure rule and ensuring strong coordination across levels of government in line with the advances in fiscal federalism. In addition, the scope for activating the escape clause should be clearly circumscribed.

22. **Additional measures are also required to rekindle growth, including:**

- **Further increasing the effectiveness and efficiency of the labour market**. This could be achieved by addressing the existing rigidities of employment protection regulation. In particular, the employment protection legislation for permanent contracts could be revised with a view to harmonising dismissal rules according to the firm size, for example replacing protection via compulsory reinstatement (currently in place for firms with more than 15 employees) with moderate tenure-related severance payments. The procedures and definition for collective dismissals could be also simplified and broadened. Labour contracts could also be rationalised, in line with the government's existing commitment to reducing the use of atypical contracts. At the same time, the currently fragmented unemployment benefit system should be made more comprehensive, conditional upon finding compensating financing measures.

- **Increasing competition and accountability in the education system,** including by strengthening the role of the evaluation agency (INVALSI), publishing the results of the INVALSI and OECD-PISA standardized tests, establishing entry selection mechanisms for all fields of university studies, and improving counselling services on the choice of curricula. Competition among universities for research funds and students should be promoted, including by subjecting their performance to regular assessment by the national agency ANVUR, so as to facilitate the emergence of centres of excellence.

- **Modernizing the Public Administration**, by fully applying the "Brunetta reform" (including the enforcement of an independent agency to evaluate productivity and performance and fight corruption in the public administration), pursuing further streamlining, digitalization, and reduction of the administrative burden at all levels of government, and carrying out regular spending reviews to ensure that scarce public resources are at all times efficiently allocated to the identified priorities.

- **Further improving the business environment**, mainly by reducing the uncertainties and costs associated with contract enforcement through the courts, ensuring systematic reduction of administrative burdens on companies (particularly SMEs), and encouraging free economic initiative and market entry. Important steps would include further reforms to reduce courts' backload and case-handling time, a swift implementation of the Directive to harmonise the PA's payment deadlines to businesses, and a fully functional and better advertised point of single contact for all the sectors covered by the Services Directive.

- **Securing a lasting improvement in the absorption rates of EU funds for the South.** Efforts should focus on reforming the public procurement framework, reducing preparation and implementation delays for public works, increasing administrative capacity, and further simplifying the administrative law.

- **Enhancing competition in key network industries.** For example, greater competition in gas production and imports, and the elimination of bottlenecks in the electricity grid are necessary to lower the cost of electricity to industrial users, which are significantly higher than in the euro area on average. Other sectors, such as telecommunications, postal services, water and transport, are also significantly shielded from full competition pressures. The special rights ("golden shares") held by the State in private companies, in particular in the energy and telecommunications sectors, will have to be revised to contribute to a more transparent and market-led functioning of these sectors.

- **Fully implementing the Services Directive, and liberalizing professional services**. In particular, the role of professional associations ("ordini professionali") should be overhauled to ensure that it is limited to monitoring the quality of the services provided by their affiliates and do not create or perpetuate hidden barriers to entry.

- **Strengthening the enforcement of competition rules.** The effectiveness of the Competition Authority and of sectoral regulators should be raised, including by enhancing the means and human resources of the Competition Authority and implementing best practices in terms of independence of sectoral regulators. The annual competition law, now long delayed, should be approved as soon as possible. The Competition Authority should be empowered to effectively contest administrative and regional acts in contrast with market competition, and be more actively involved in regulatory impact assessment. Concerning local public services, a more efficient liberalization enforcement mechanism could be encouraged, by empowering the Competition Authority to make binding recommendations.

CONCLUSIONS

23. **Italy must quickly step up to the formidable challenge it is facing.** The new government has the know-how to design a comprehensive and coherent reform package, one that can kick-start growth and restore confidence. In formulating its reform agenda, it can build on the numerous steps taken so far. To be credible, the agenda should be ambitious, overarching, but also detailed and time-bound. To help reverse market mood, the key reforms should be frontloaded. The Commission, in liaison with the European Central Bank, stands ready to engage with, and support, the Italian government in this important venture. While it is first of all up to Italy to convince markets about its determination to address its challenges, the euro area as a whole also needs to find credible systemic solutions to ward off further contagion and dispel any doubts about the future of the euro and the euro area.

24. **As Prime Minister Monti has underscored, it is essential that the overall reform agenda be informed by the principle of social equity.** Restoring confidence of financial markets in Italy's ability to forge ahead with the necessary reforms will crucially depend on the support of political parties, social partners, and ordinary citizens. To secure a broad and lasting support, the government needs to clearly and convincingly explain the unbearably high costs of failure, pit the benefits to the society as a whole against the unavoidable resistance from vocal interest groups' loath to lose their special privileges, and ensure that everybody contributes to the adjustment efforts with fairness principles.

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
Pensions 1) General objective of raising the retirement age for all to 67 years in 2026, for men and women	1) Provision to make the achievement of standard retirement age at 67 years by 2026 binding, independently from the evolution of life expectancy	1) Necessity to tackle the wide discrepancies across generations and categories of workers, and need to look into remaining unjustified privileges	The agenda of the new government shows more ambition than the LoI and the stability law
Taxation 2) The deadline indicated for the specification of the tax and assistance reform through enacting decrees remains end-September 2012 3) -	2) - 3) -	2) Need to specify the tax and assistance reform and to assess its potential impact 3) Necessity to revise the particularly low recurrent taxation on property, especially the tax exemption for the main dwellings	The agenda of the new government goes a step further than the LoI , especially regarding property taxation
Sale of state-owned assets 4) A plan for the sale of state-owned assets will be elaborated by 30 November 2011. An estimate revenue of EUR 5 bn per year over 2012-2014 is foreseen	4) Transfers of state-owned property to investment funds or ad-hoc companies and sales of agricultural land owned by central and local authorities are envisaged. The resulting revenues will be used to reduce the debt, but there is no quantification of the expected revenues.	4) Identification of the first series of concerned state-owned property by 30 April 2012 and definition of a timetable for the successive plans of sales. Restates the letter's estimation of expected revenue	The agenda of the new government is in line with the LoI and the stability law

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
Labour market 5) Reform of the rules governing dismissals for economic reasons in permanent employment contracts: will be approved by the government by May 2012 6) More stringent conditions for the use of pseudo-subcontracting contracts: will be approved by the government by May 2012 7) - 8) Promotion of apprenticeship contracts for young people: will be approved by the government by end-2011 9) Promotion of women's employment through tailored working arrangements and contracts: will be approved by the government by end-2011 10) Tax credit for firms hiring people in the most disadvantaged areas: will be approved by the government by end-2011 11) - 12) -	5) - 6) increase by 1% in the social security contribution rate on pseudo-subcontracting contracts 7) - 8) Fiscal incentives for firms hiring apprentices 9) Insertion contracts encouraging the hiring of unemployed women in areas characterized by a gender gap in terms of employment /unemployment 10) - 11) More flexibility in terms of working time schedules, notably regarding part-time work 12) Regions may allow tax deductions from IRAP to encourage performance-related pay	5), 6) Broad ambition to reduce labour market segmentation by reforming the labour market institutions in consensus with the social partners. A new system of protection will be applied to new working relationships 7) Encouragement of further decentralisation of bargaining, with a coherent system of support for unemployed people to encourage their mobility and employability 8), 9) Support for the inclusion of women and young people in the labour market 10) - 11) - 12) -	Whereas the stability law mainly reinforced and extended existing measures, the agenda of the new government is more ambitious, especially regarding new working relationships for new entrants on the labour market and the proposed reform of support for jobless people

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
Competition 13) Partial adoption of the annual law on competition through other legislative provisions 14) - 15) Reference to further liberalisation of local public services, but no concrete timeline 16) Strengthening of the Antitrust Authority's power by 1 March 2012, without defining precise objectives nor a concrete action plan 17) Reintroduction of the full liberalisation of opening hours for retail shops in agreement with local authorities by 1 March 2012	13) - 14) Professional services: - Reform of the professional orders by August 2012 - Introduction of the possibility to create limited liability companies for the exercise of the activity - Abolition of the reference to minimum tariffs 15) Further liberalisation of local public services (feasibility studies are envisaged), limitation of "in-house" provision of services and introduction of benchmarking to improve the quality of local public services 16) - 17) -	13) - 14) Reform of the rules governing regulated professions and abolition of minimum tariffs as envisaged in the stability law 15) Need to increase the quality of public services through enhanced competition 16) Ambition to strengthen the intervention tools of the Antitrust Authority 17) -	Compared with the letter, the stability law goes a step further for the professional services. The agenda of the new government confirms higher ambition in this area, and also with the strengthening of the Antitrust Authority's intervention tools
Structural funds 18) Elaboration of an action plan for reviewing the use of structural funds by 15 November 2011, along with a reduction of the rate of national co-financing to be quantified by 15 December 2011 19) Start of the work of a technical group and presentation of the Eurosud programme on 15 November 2011	18) Resources coming from a potential reduction of the rate of national co-financing can be allocated to socio-economic development programmes 19) -	18) Necessity to achieve a better use of the structural funds 19) -	All these commitments are consistent with the Italian challenge of better using structural funds. Yet, no concrete information on the Eurosud plan has been provided

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
Civil justice 20) General reference to the ambition to increase the efficiency of the judicial system (notably by avoiding excessive litigation) and creation of a database by the Ministry of Justice by 30 April 2012	20) Measures avoiding excessive litigation and accelerating appeal procedures	20) Need to reduce the length of procedures and the delays of civil justice	Initiatives and commitments are consistent with the need for Italy to enhance the efficiency of its judicial system. Nevertheless, the precise envisaged measures should be better clarified and not limited to appeal procedures
Modernisation of public administration 21) The full implementation of the Brunetta reform will notably be achieved through a strengthening of the role of the Commission for the Evaluation, Transparency and Integrity of public administrations: this measure is included in the "Anti-Corruption" draft bill currently under discussion in the Parliament 22) Programme for the reorganisation of expenditure, to be specified by 31 December 2011 and need to reduce the cost of the institutional apparatus 23) A more efficient public administration at all government levels will be achieved through binding mechanisms: compulsory staff mobility, short-time working and overhauling of staff numbers 24) Mention of the constitutional law on the abolition of provinces 25) In terms of mobility of public employees, a plan to transfer the provinces' staff to regions and municipalities is envisaged	21) - 22) All Ministries are required to perform a spending review in order to establish standard financing needs 23) - 24) Reference to the transfer of employees from the provinces to the regions and municipalities, which will be defined after the approval of the Constitutional Law for the suppression of provinces (currently before the Senate) 25) Compulsory mobility for misallocated or redundant staff, followed by suspension of activity if they cannot be relocated within 90 days	21) - 22) Commitment to carrying out spending reviews (both the ongoing ones and the envisaged programme for the reorganisation of expenditures) and focus on the need to reduce the cost of politics and downsize the government 23) Broad objective of reducing uncertainty 24) The reform can be achieved by adopting ordinary legislation anticipating Constitutional reforms 25) -	Whereas the stability law was somewhat less ambitious than the LoI in terms of the foreseen measures (implementation of the Brunetta reform, administrative simplification for government levels), the agenda of the new government goes further in the field of institutional reform

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
<u>Administrative simplification</u> 26a) An institutional, administrative and regulatory environment that is more conducive to the dynamism of firms and innovation is advocated, for instance by streamlining the relations with the PA. 26b) In 2013, Italy will introduce an experimental "zero bureaucracy" zone and a review of sectoral regulations will be carried out within the next six months 26c) Within April 2012 the project for "measuring and reducing administrative burden" (MOA) shd be fully implemented through sector specific measures in order to foster simplification. 26d) Imminent simplification of the budgetary and audit rules for Limited Liability Companies (LLCs) is anticipated	26a) Official certificates are valid in private transactions, but are replaced by self-certifications in the relations with the PA. This measure is enforced by introducing the provision of offices for data retrieval and transmission in each administration 26b) Extension to the entire national territory, on an experimental basis, of "zero-bureaucracy" zones. This implies the creation of a Local Office of Government per province in order to carry out such deregulation, without any additional burden on the public budget, and excluding fiscal, environmental, health, and public security regulation. 26d) The LLCs are admitted to a simplified audit mechanism. In addition, the tasks of the "surveillance body" ("Organismo di Vigilanza") for the joint-stock companies can be carried out by their auditing committee. 26e) Acceleration of public administrations' payments to private suppliers	26) Reduction of uncertainty in terms of administrative procedures	All these initiatives and commitments are in line with the need for Italy to rationalise administrative procedures, even if the agenda of the new government is for the moment less precise than the LoI and the stability law on the envisaged measures. No reference is made in the stability Law to the implementation of the MOA programme; for the other simplification provisions, their effectiveness should be ensured by adequate implementation and consistent further measures.

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
Education 27) Increase in the accountability of individual schools on the basis of the INVALSI tests and restructuring programmes in 2012-2013 for those with unsatisfactory results 28) Valorisation of the role of teachers 29) On the promotion of vocational trainings and apprenticeships for young people, see section on labour market 30) University reform: a new program of research quality assessment for universities has been introduced and will be conducted by the National Agency for the Evaluation of University and Research (ANVUR), increased autonomy and competition among universities is encouraged and the reform of universities is based on 38 decrees (among them, 16 are already published). Implementation by 31 December 2011	27) - 28) - 29) - 30) -	Accent on the need to valorise human capital through: 27) Interventions targeting under-performing schools and areas on the basis of the INVALSI tests 28) Review of the system of selection, allocation and valorisation of teachers 29) - 30) Once adopted all the enacting decrees for the reform of universities, it is necessary to implement incentive mechanisms based on performance	The stability law does not include measures on education and human capital. As for the LoI and the agenda of the new government, the proposed measures relevantly aim at valorising human capital, but there remains room for further reform
Entrepreneurship and innovation 31) Support through tax incentives (lowering the tax burden on corporate capital)	31) -	31) The question of innovation is mentioned as one of the issues of the South. Ambition to remove obstacles to the growth of firms, notably SMEs (including through fiscal measures)	The agenda of the new government is in line with the LoI in terms of objectives, but remains unspecified

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
Infrastructure works 32) The participation of private investors is encouraged, as well as the recourse to project financing (standard contract terms should be laid down by 31 December 2011)	32) -	32) Support for the involvement of private investors in the development of infrastructures, not only through fiscal incentives but also by improving the regulation on project financing and ambition to reach the objectives of the Digital Agenda. One single Ministry will be in charge of economic development, infrastructure and transport, which demonstrates that the same attention is given to financial stability and growth	The agenda of the new government is fully in line with the LoI regarding the ambition to better involve private investors in the development of infrastructures and goes even further
Balanced budget rule 33) Balanced budget objective, taking into account the cycle (for the State) or in nominal terms (for the subnational government aggregate), inserted in the Constitution. Mechanisms of verification, monitoring and enforcement, including in terms of coordination between levels of government, left to secondary legislation.	33) -	33) Commitment to swiftly (spring 2012) adopt the balanced budget constitutional amendment; constitutional law to explicitly refer to ex ante and ex post verification to be carried out independently, monitoring by independent body and enforcement mechanism (control account).	The agenda of the new government is in line with the LoI.

ITALIAN LETTER OF INTENTS 26 OCTOBER (LoI)	STABILITY LAW	AGENDA OF THE NEW GOVERNMENT[1]	COMMENTS
<u>Local administrations' debt</u> 34) -	34) As from 2013, subnational governments will have to contribute to the general government debt reduction	34) -	34), 35), 36), 37) All these measures are mentioned in one of the documents only and are not referred to in the others. Further details on whether and how the new government intends to implement them should be provided
<u>Tax evasion</u> 35) -	35) -	35) Step up fight against tax evasion (currently amounting to 1/5 of GDP) and illegal practices	
<u>Constitutional reforms</u> 36) Reform of the state (electorate/political institutions) 37) Reform to achieve stricter discipline on markets	36) - 37) -	36) - 37) -	

[1] As per Prime Minister Monti's speeches in the Senate and Lower House of the Italian Parliament on 17 and 18 November, respectively. A fuller assessment of the agenda of the new government will only be possible once its specific content will be laid out by the new government.