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**TESORO**

# Italy's Strategy for Growth and Fiscal Consolidation

February 7, 2013

Italian Ministry of Economy and Finance, Treasury Department

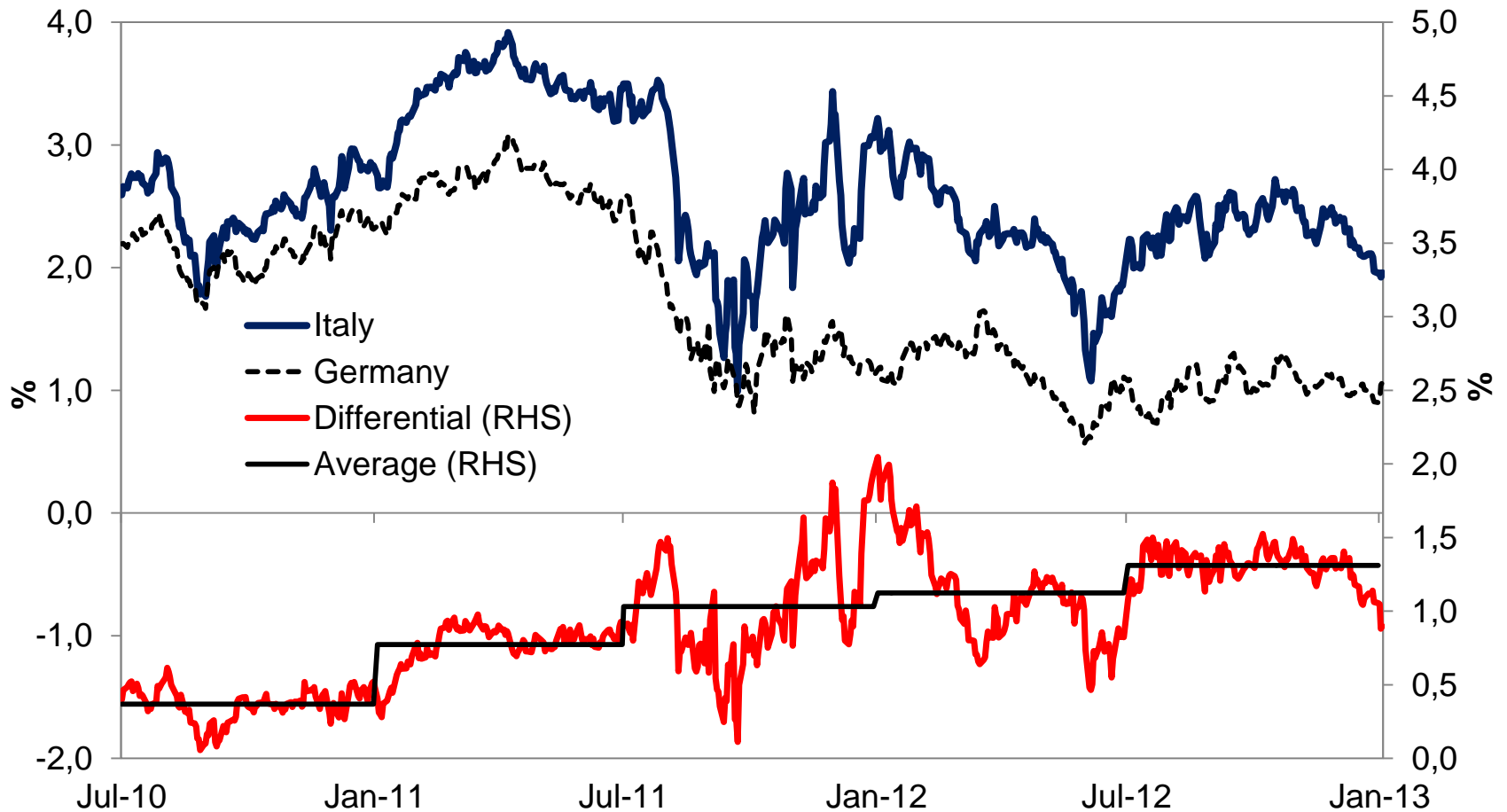
MINISTERO DELL'ECONOMIA E DELLE FINANZE

## Why is Italy's economy expected to turn around in 2013?

- **Monetary and credit conditions:** interest rate spreads narrowing and credit growth likely to start improving.
- **Fiscal multiplier effect:** 2.8pp fiscal correction in structural terms in 2012, but 'only' 0.9pp in 2013 on current projections.
- Stabilisation of **business and consumer confidence.**
- Some strengthening in **global demand.**
- No major structural imbalances (aside from high debt/GDP) means that **growth can rapidly go back to potential.**



# Differentials between gov't bond yields and sovereign CDS



Source: Thomson Reuters

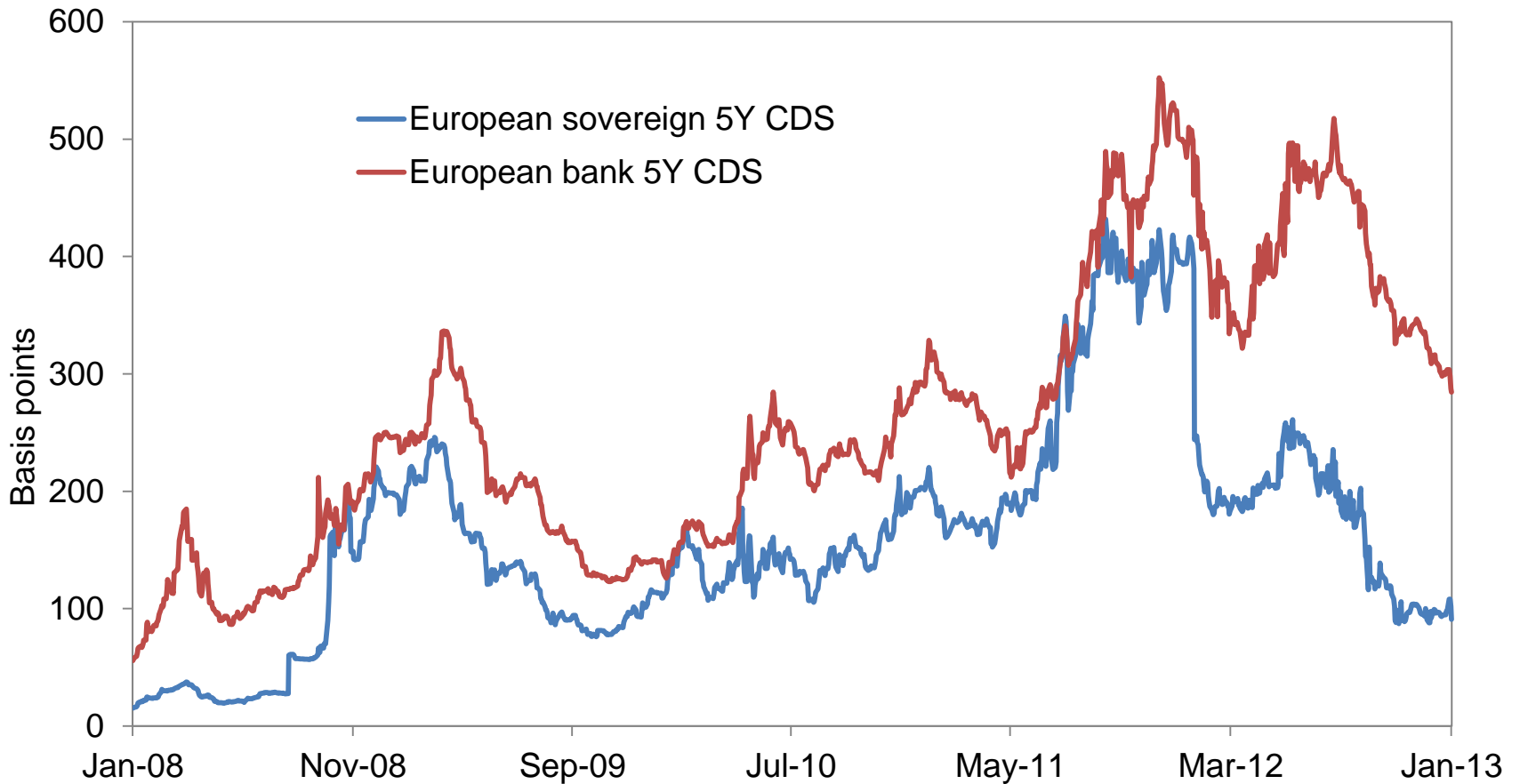


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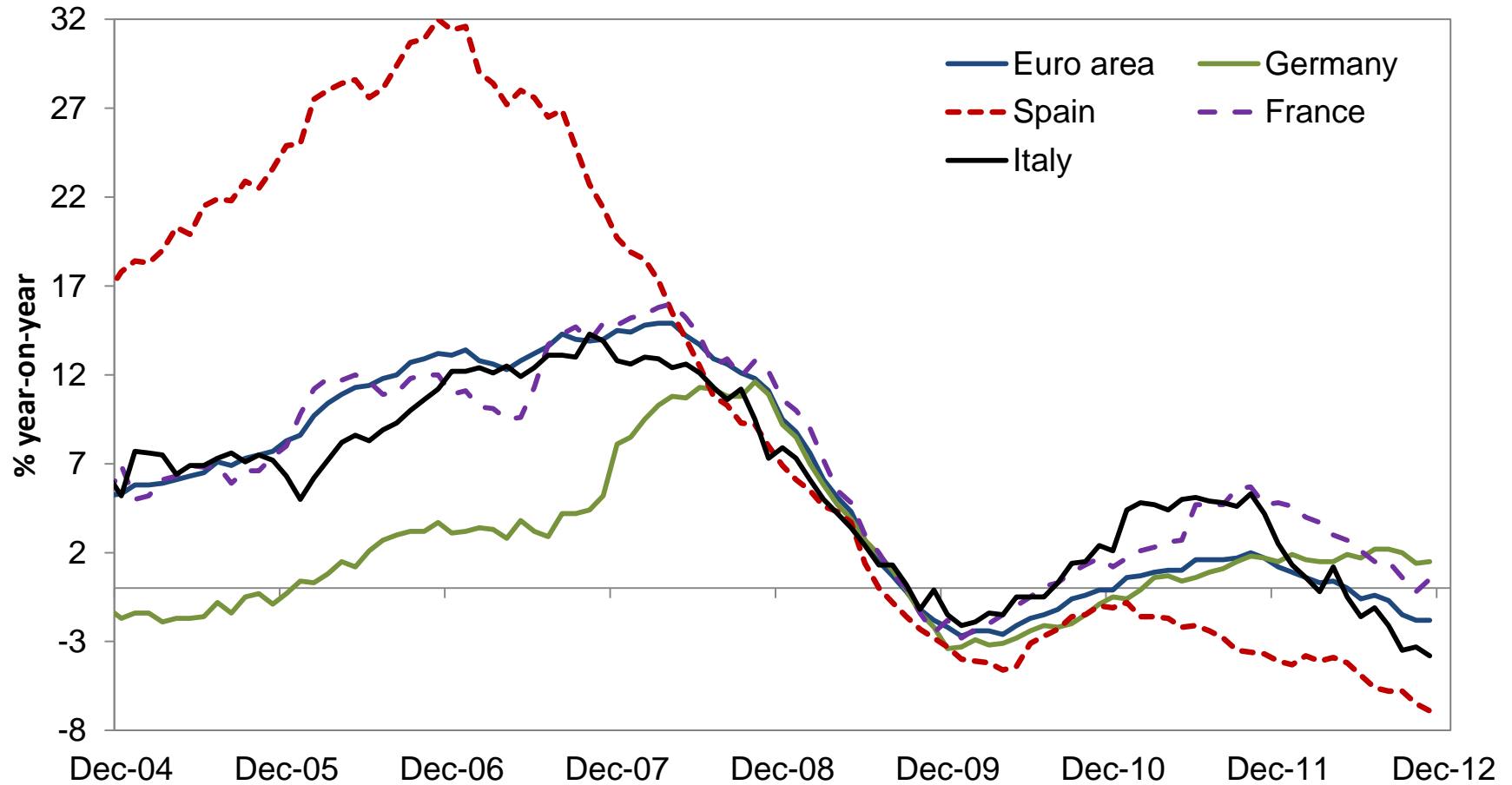
# European sovereign and bank CDSs are closely linked



Source: Thomson Reuters Datastream



# Rapid slowdown in credit growth: how soon will it turn?



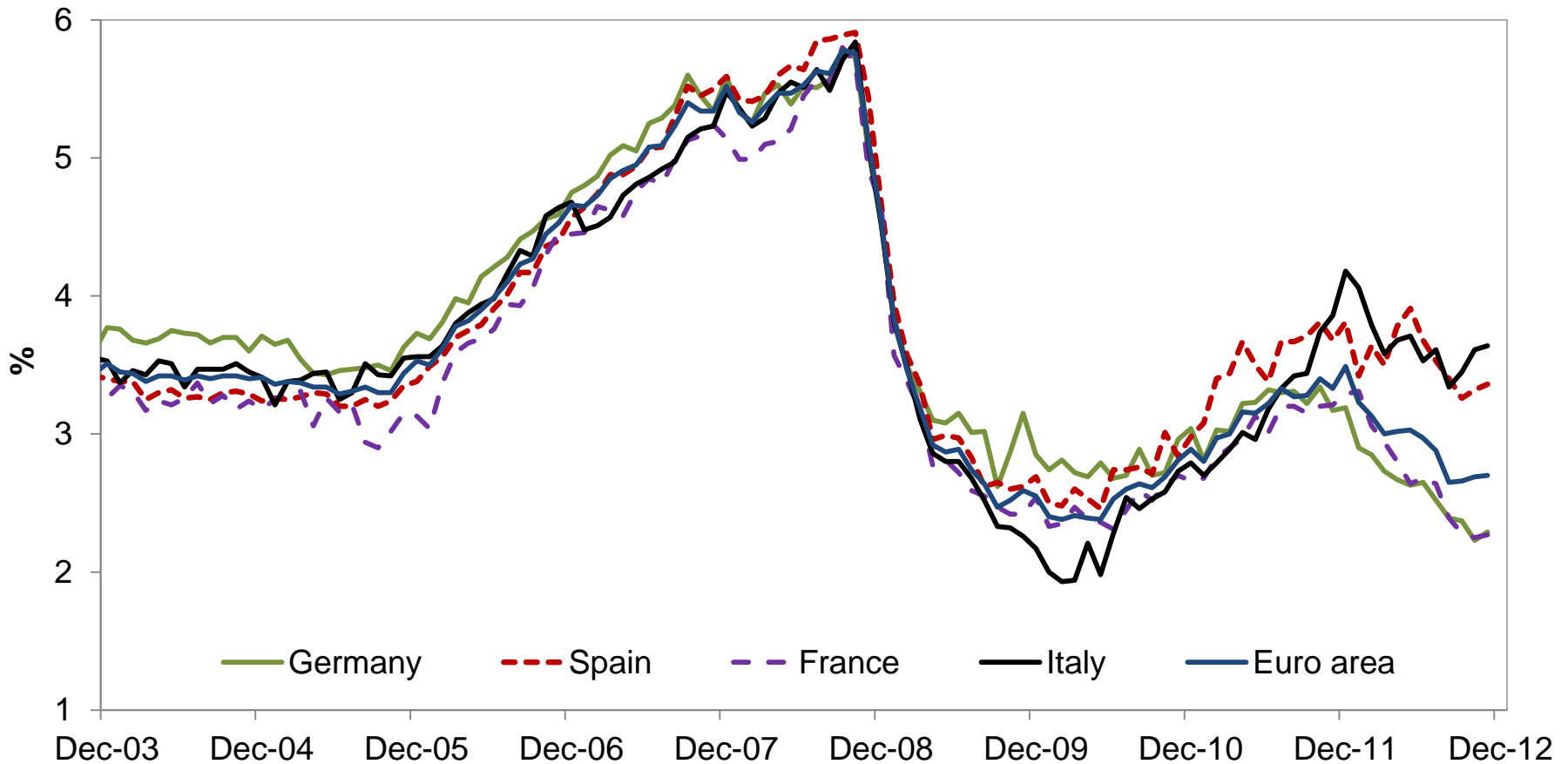
Source: ECB



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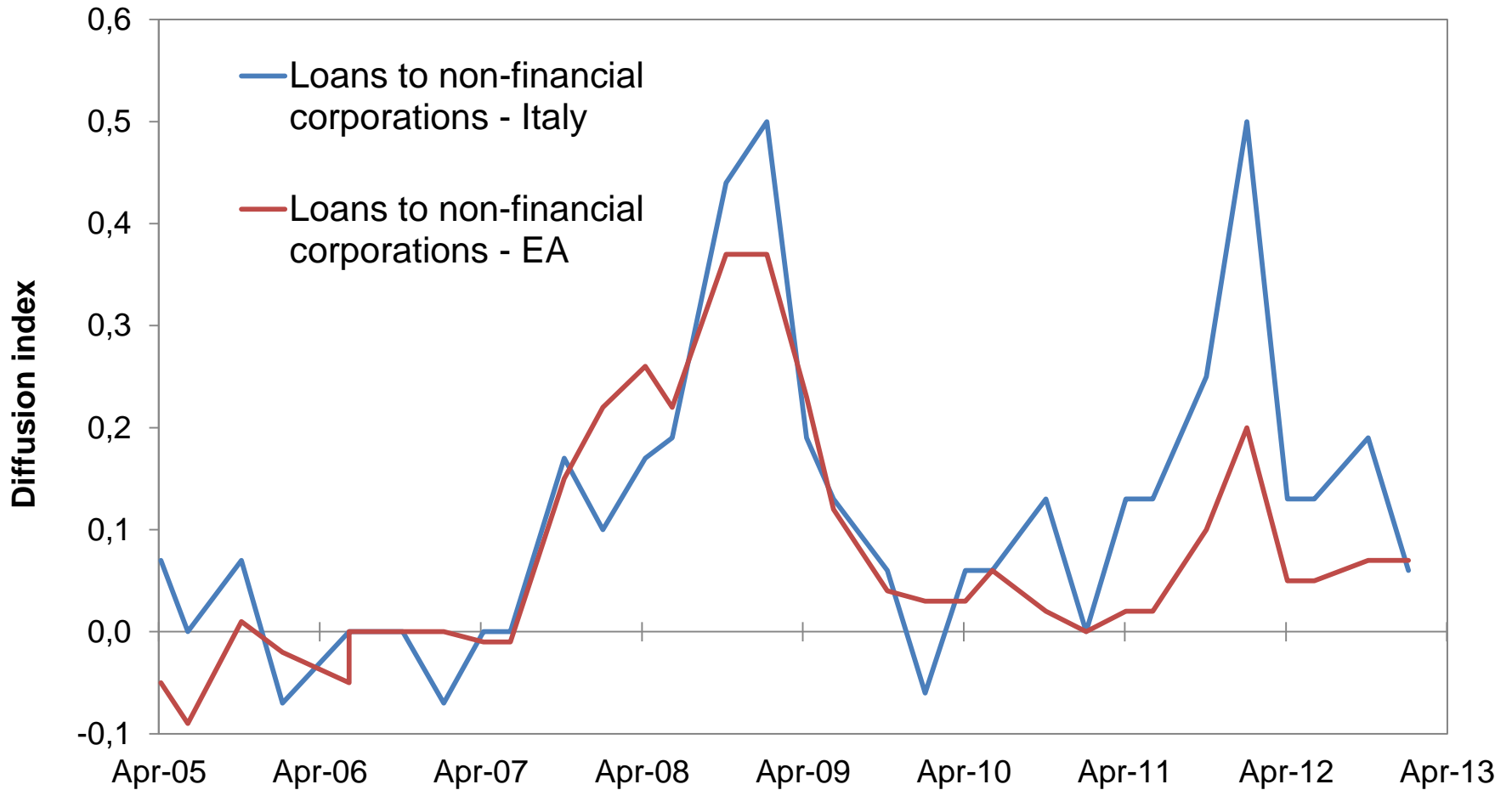
# Interest rates on loans: is the gap about to narrow?



Source: ECB



# Credit standards are back in line with the EA



Source: Bank of Italy, ECB

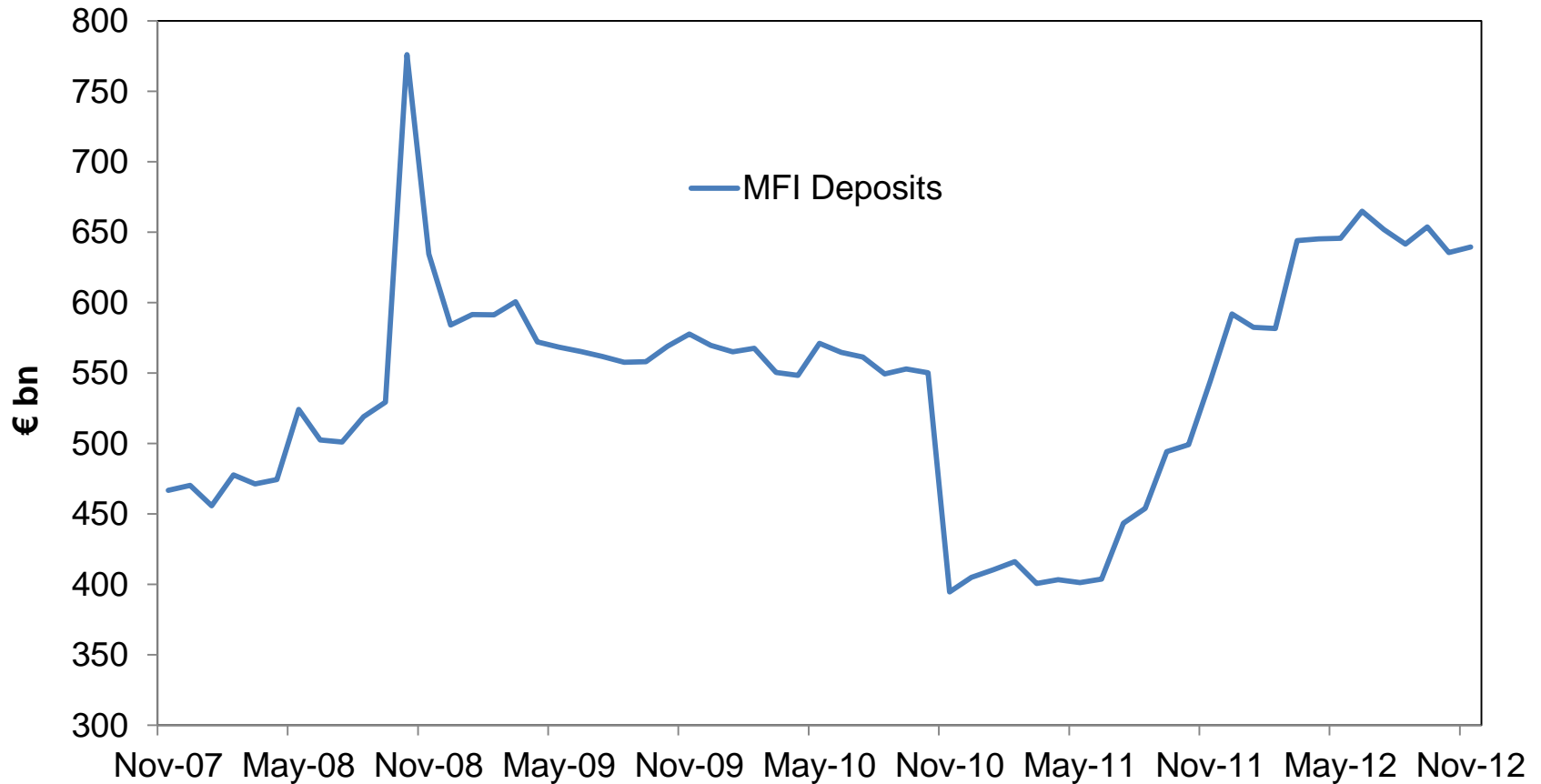


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# Rise in deposits has reduced the bank funding gap



Source: Bank of Italy

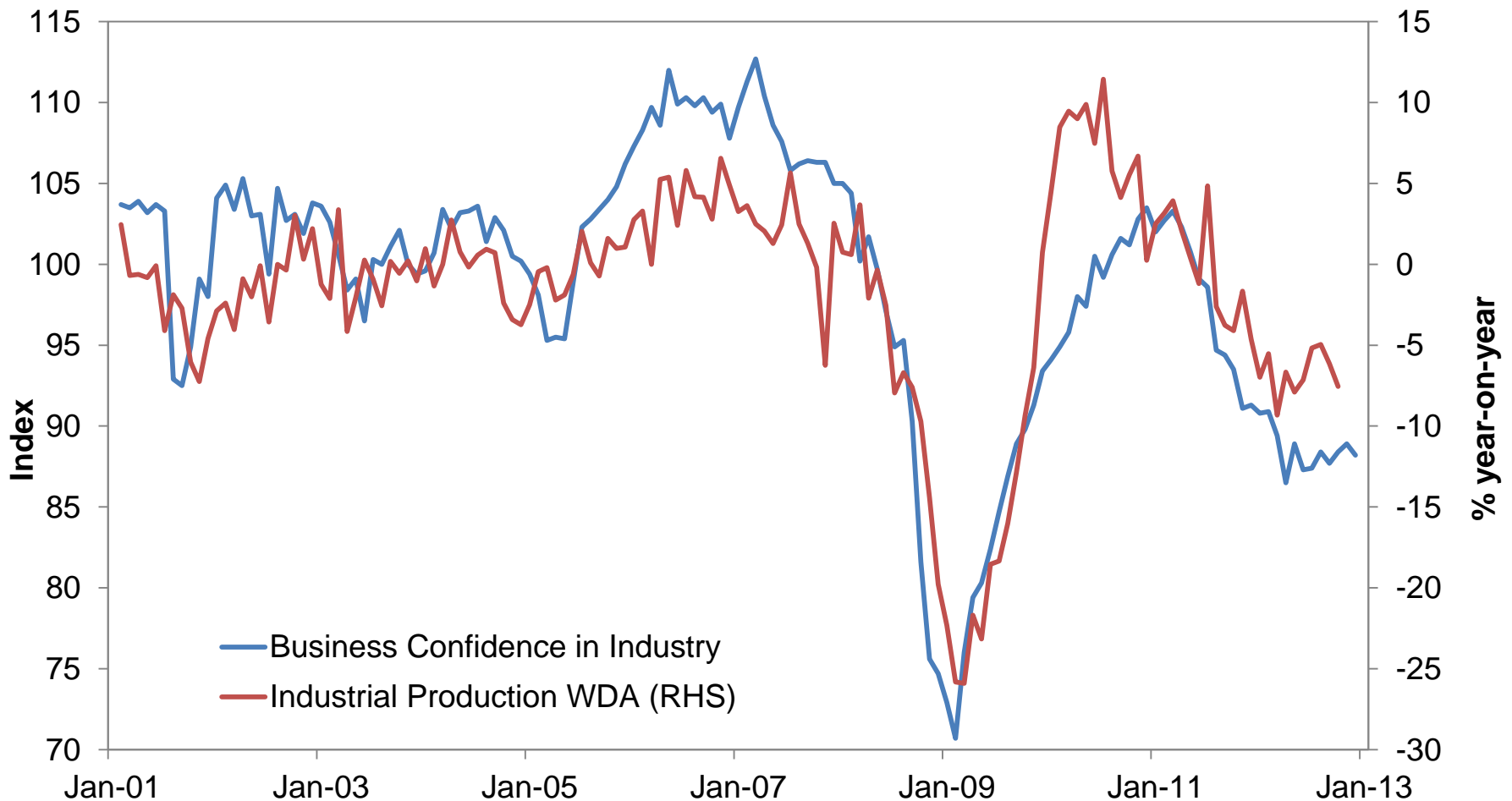


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# Industrial production: stabilisation and then recovery?



Source: ISTAT

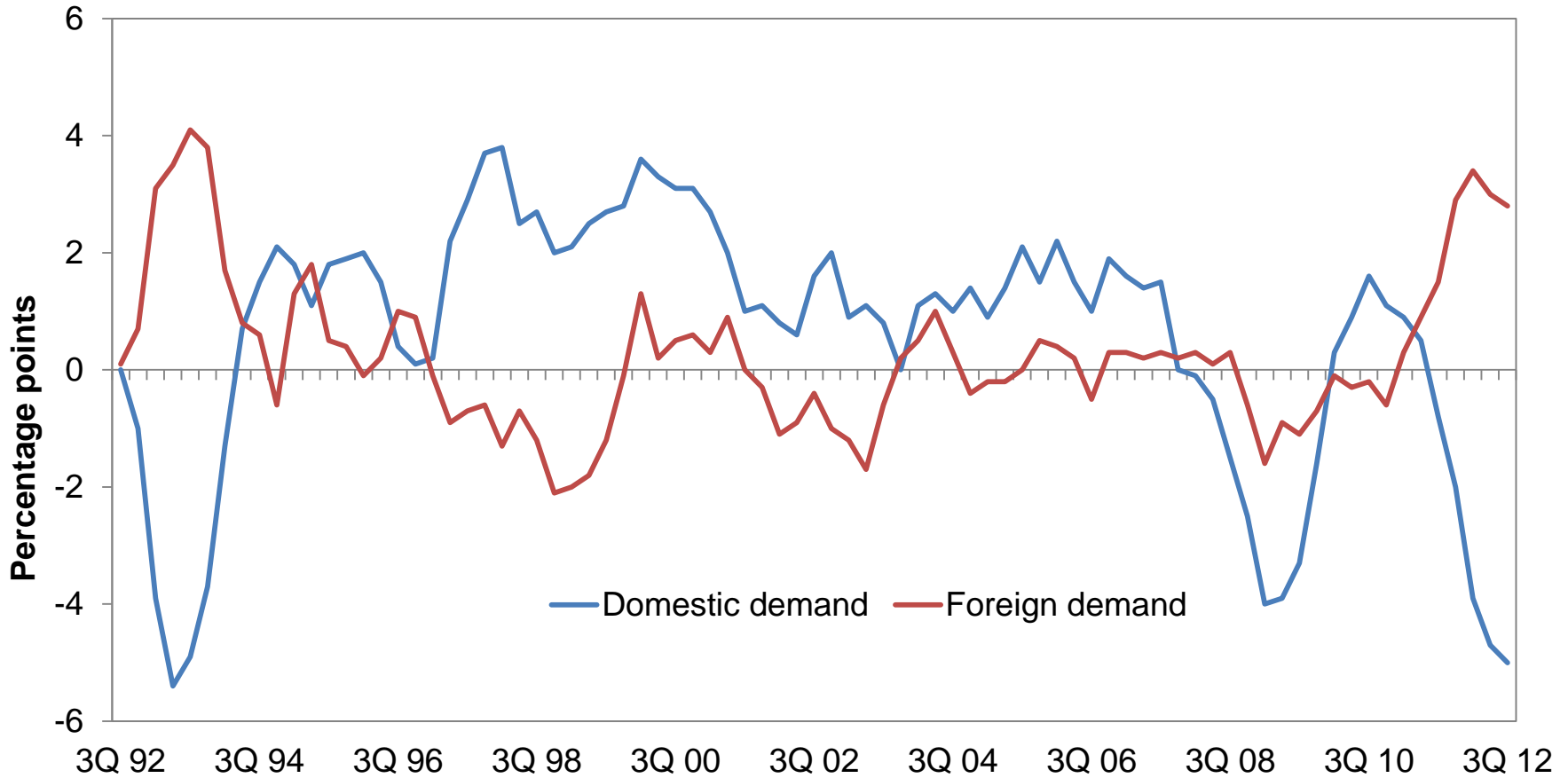


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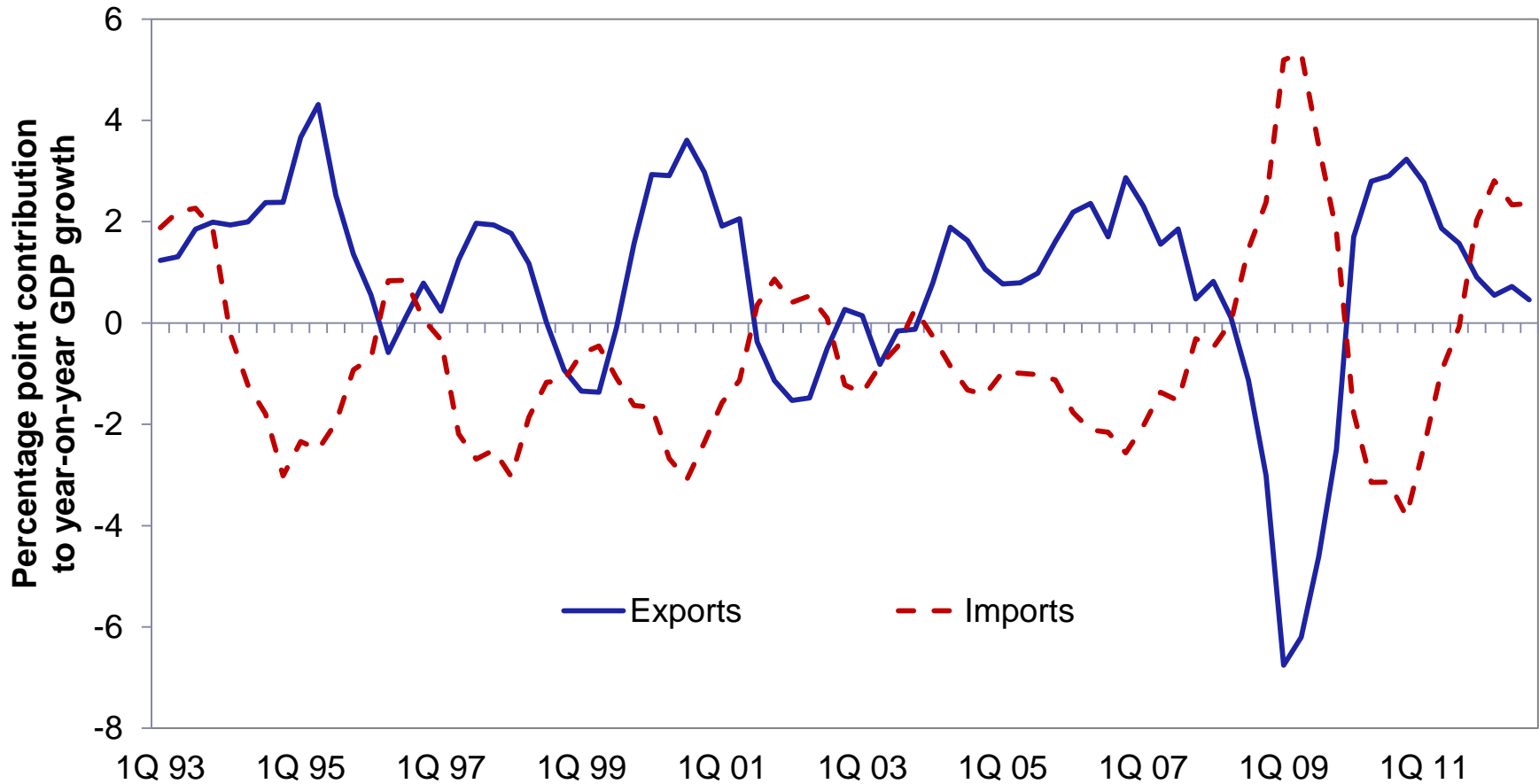
# Demand is deeply split



Source: ISTAT



## Contribution of variation in imports turned positive



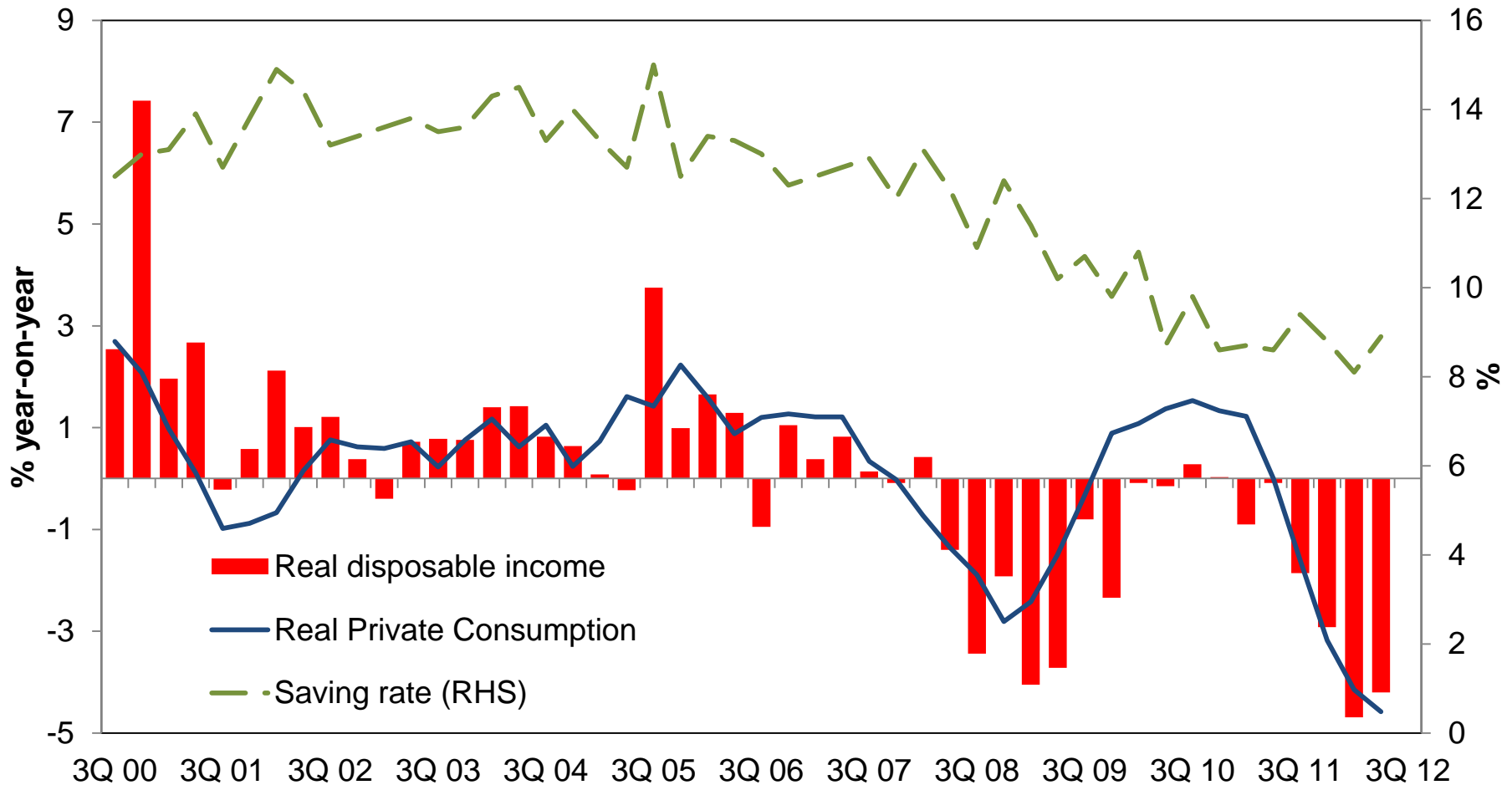
Source: ISTAT



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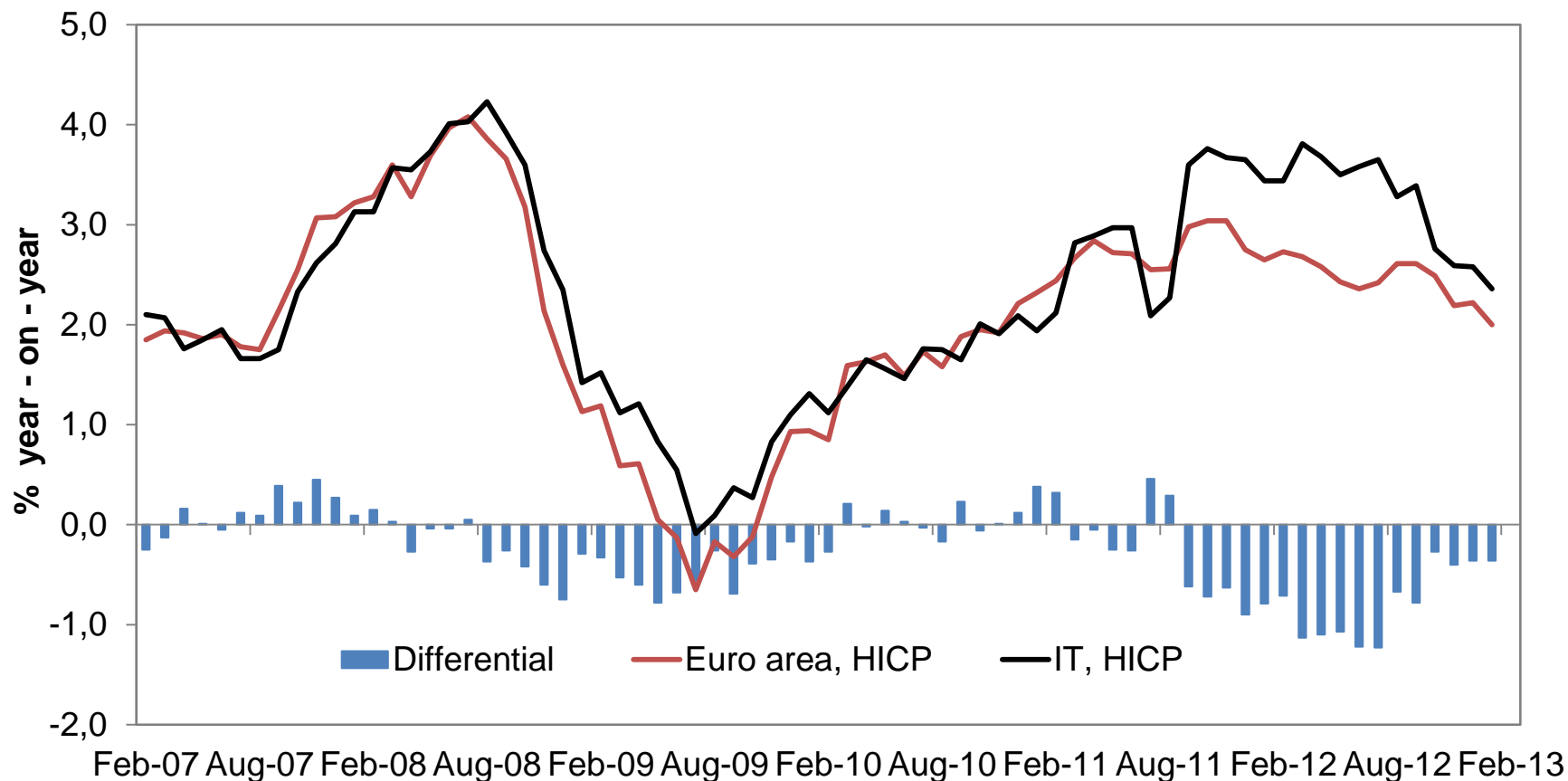
# Household income and consumption to recover gradually



Source: ISTAT



# Energy and VAT-induced inflation on the mend



source: Eurostat, Istat



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## Official macroeconomic projections (September 2012)

(% change yoy)	2011	2012	2013	2014	2015
<b>Real GDP</b>	<b>0.4</b>	<b>-2.4</b>	<b>-0.2</b>	<b>1.1</b>	<b>1.3</b>
<i>Domestic demand net of inventories</i>	-0.5	-3.6	-0.6	0.7	1.0
<i>Inventories</i>	-0.5	-0.9	0.1	0.1	0.0
<i>Net export</i>	1.4	2.3	0.2	0.2	0.2
<b>Nominal GDP</b>	<b>1.7</b>	<b>-1.0</b>	<b>1.2</b>	<b>3.0</b>	<b>3.2</b>
<b>GDP deflator</b>	<b>1.3</b>	<b>1.4</b>	<b>1.4</b>	<b>1.9</b>	<b>1.9</b>
<b>Labour cost</b>	<b>1.2</b>	<b>1.1</b>	<b>0.9</b>	<b>1.2</b>	<b>1.2</b>
<b>Productivity (on GDP)</b>	<b>0.3</b>	<b>-1.2</b>	<b>0.1</b>	<b>0.6</b>	<b>0.7</b>
<b>Unit labour cost (on GDP)</b>	<b>0.9</b>	<b>2.3</b>	<b>0.8</b>	<b>0.5</b>	<b>0.5</b>
<b>Employment (FTE)</b>	<b>0.1</b>	<b>-1.2</b>	<b>-0.3</b>	<b>0.4</b>	<b>0.6</b>
<b>Unemployment rate</b>	<b>8.4</b>	<b>10.8</b>	<b>11.4</b>	<b>11.3</b>	<b>10.9</b>
<b>Current account balance</b>	<b>-3.1</b>	<b>-1.4</b>	<b>-1.3</b>	<b>-1.1</b>	<b>-1.0</b>

Source: Update of 2012 Economic and Financial Document, September 20, 2012

Note: National account data for 2011 take into account revisions according to ISTAT's release on October 4.



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## No major imbalances (apart from high public debt)

- **No major macroeconomic imbalances:** 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:** prudent fiscal policy; automatic stabilisers allowed to work.
- **Competitiveness issues** are contained; although admittedly high **public debt/GDP** is a major hurdle.



## MACROECONOMIC IMBALANCES AND COMPETITIVENESS

# No major macroeconomic imbalances

	External imbalances					Internal imbalances					
	Current account	Net international investment position	REER	Export market share	Nominal ULC	House price index	Private credit flow	Private debt	Public Debt	Unemployment rate	Financial sector total non-consolidated liabilities
	3 year variation		on CPI	5 year variation	3 year variation	Year/year Variation				3 year level	Year/year variation
	% GDP	% GDP	% GDP				% GDP	% GDP	% GDP		
	-4/+6%	-35%	+/-5 (EA); +/-11% (Non EA)	-6%	+9 (EA); +12% (Non EA)	6%	15%	160%	60%	10%	16.5%
BE	-0.3	65.7	-0.5	-10.2	6.2	-0.1	11.6	236.0	98.0	7.8	4.7
DE	5.9	32.6	-3.9	-8.4	5.9	1.4	4.8	128.0	81.0	6.9	2.1
IE	0.0	-96.0	-9.1	-12.2	-12.8	-15.2	4.0	310.0	106.0	13.3	-0.6
EL	-10.4	-86.1	3.1	-18.7	4.1	-5.1	-5.5	125.0	171.0	13.2	-3.4
ES	-4.3	-91.7	-1.3	-7.6	-2.1	-10.0	-4.1	218.0	69.0	19.9	3.7
FR	-1.6	-15.9	-3.2	-11.2	6.0	3.8	4.0	160.0	86.0	9.6	7.3
IT	-2.9	-20.6	-2.1	-18.4	4.4	-2.0	2.6	129.0	121.0	8.2	3.8
LU	7.5	107.8	0.8	-10.1	12.5	1.5	2.5	326.0	18.0	4.8	11.3
NL	7.5	35.5	-1.6	-8.2	5.8	-4.0	0.7	225.0	66.0	4.2	7.2
AT	2.2	-2.3	-1.0	-12.7	5.9	-8.0	4.1	161.0	72.0	4.4	-0.3
PT	-9.1	-105.0	-1.9	-9.5	0.9	-3.6	-3.2	249.0	108.0	11.9	-0.7
FI	0.6	13.1	-1.3	-22.9	9.1	-0.3	4.6	179.0	49.0	8.1	30.8
DK	5.0	24.5	-1.7	-16.9	4.7	-4.9	-2.2	238.0	47.0	7.0	4.7
SE	6.6	-8.3	3.9	-11.6	1.2	1.0	6.3	232.0	38.0	8.1	3.6
UK	-2.2	-17.3	-7.1	-24.2	8.1	-5.4	1.0	205.0	85.0	7.8	8.5

Source: MEF elaboration on Alert Mechanism Report 2013 (European Commission, November 2012)



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## MACROECONOMIC IMBALANCES AND COMPETITIVENESS

# Modest deterioration in competitiveness over time

	Current account	Net international investment position	REER	Export market share	ULC	House price index	Private credit flow	Private debt	Public debt	Unemployment rate	Financial sector liabilities
2001	0.4	-5.8	-5.7	-18.5	4.8	5.4	8.4	87.0	108.0	10.0	-3.0
2002	-0.1	-12.4	-2.0	-14.2	7.0	6.5	6.4	90.0	105.0	9.2	3.9
2003	-0.3	-13.6	8.8	-13.4	10.7	7.4	7.0	93.0	104.0	8.6	11.6
2004	-0.5	-15.8	9.9	-7.4	9.8	7.1	8.3	98.0	103.0	8.3	7.2
2005	-0.7	-16.8	6.9	-5.2	8.7	5.2	9.4	104.0	106.0	8.1	12.1
2006	-0.9	-22.2	1.1	-12.5	6.5	3.2	10.9	110.0	106.0	7.5	10.5
2007	-1.2	-24.5	0.7	-9.3	6.1	2.6	13.1	118.0	103.0	6.9	0.5
2008	-1.9	-24.1	3.2	-16.3	8.3	-0.4	6.7	122.0	106.0	6.5	-2.7
2009	-2.0	-25.3	3.9	-17.9	10.5	-0.3	1.3	128.0	116.0	6.9	5.7
2010	-2.8	-24.0	-0.9	-19.2	8.1	-1.5	3.8	129.0	119.0	7.6	1.7
2011	-2.9	-20.6	-2.1	-18.4	4.4	-2.0	2.6	129.0	121.0	8.2	3.8
Threshold	+6 %/ -4 %	-35%	+/-5 %euro area; +/-11 % non euro area	-6%	+/-9 % euro area; +/-12 % non euro area	6%	15%	160%	60%	10%	16.5%

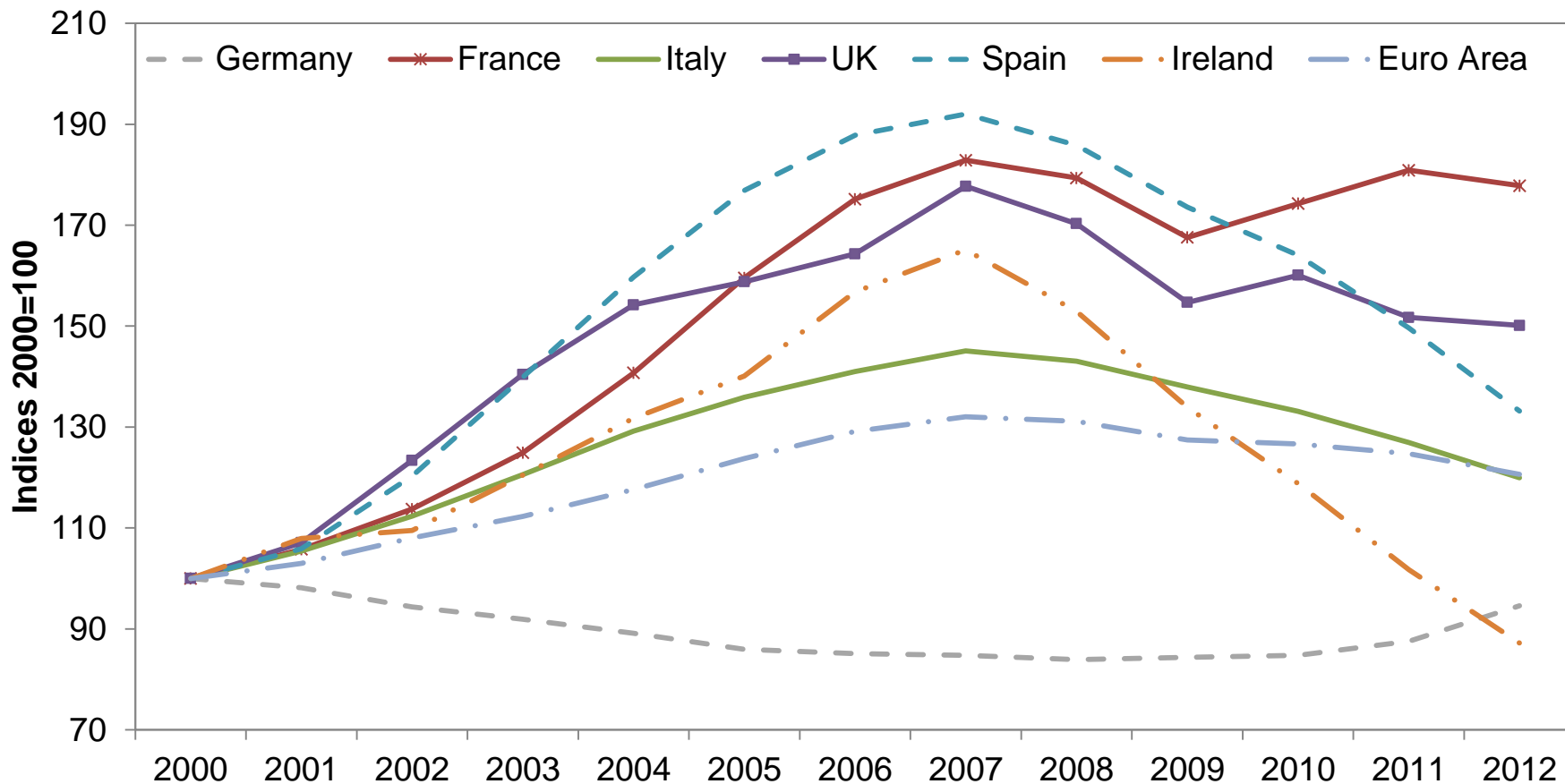
Source: MEF elaboration on Alert Mechanism Report 2013 (European Commission, November 2012)



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## Real house price: no need for further correction



Note: Data for Germany, France, Italy, UK and the Euro area are available for the first 3 quarters of 2012.

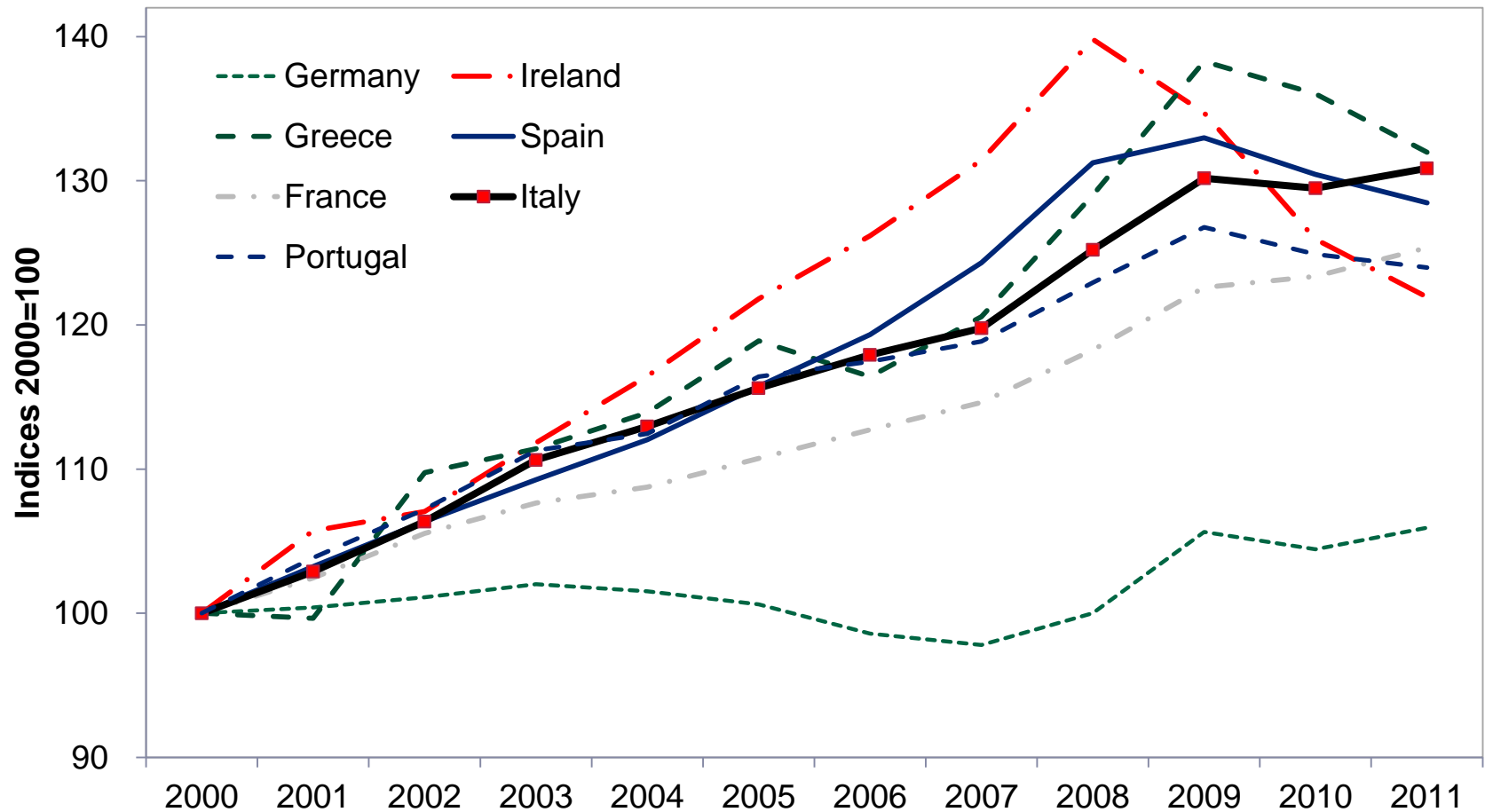
Source: OECD



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# Is competitiveness really deteriorating in line with ULC?



Source: Italian Ministry of Economy and Finance calculation on Eurostat data

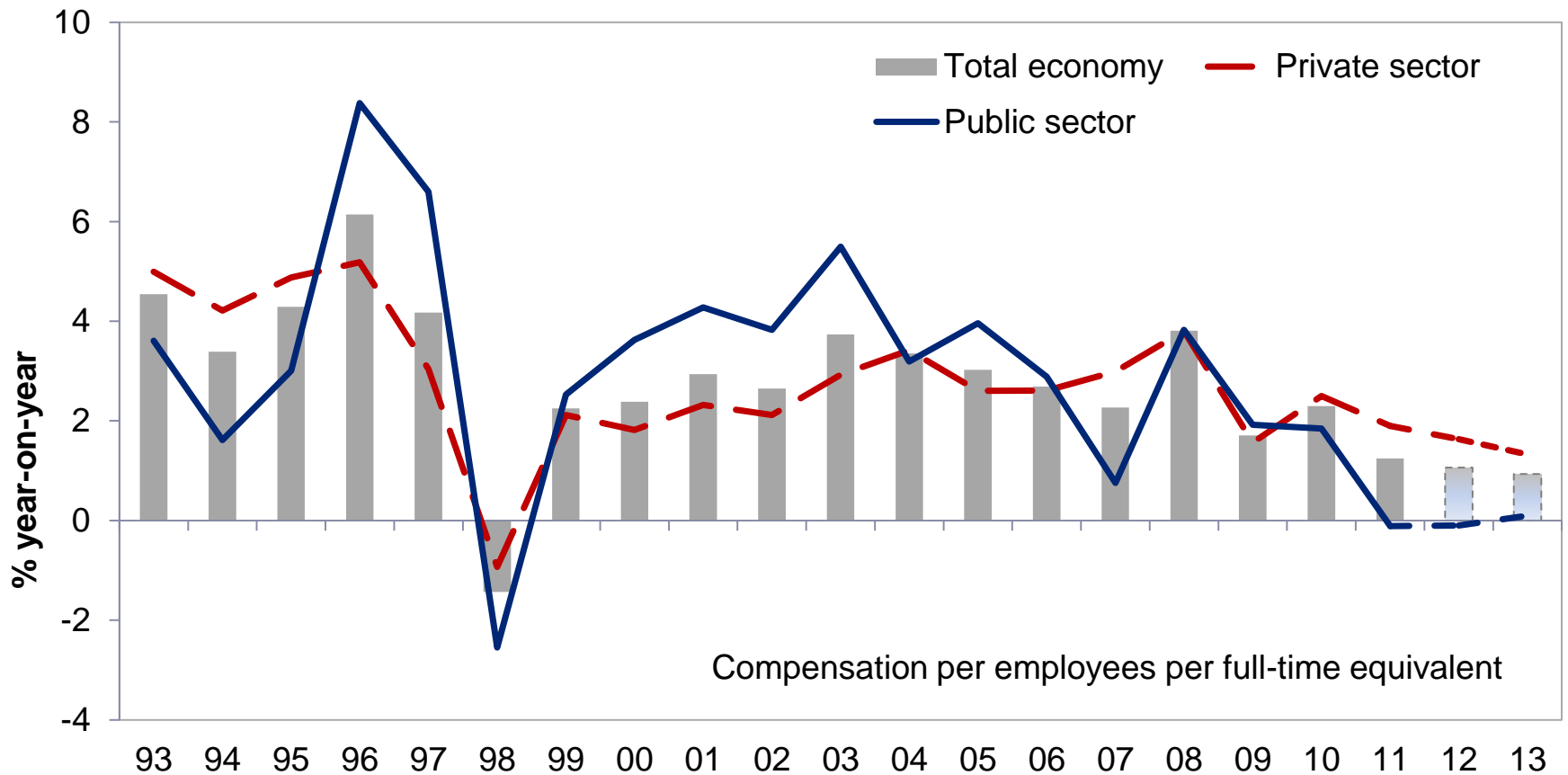


### Unit labour costs: key Italian features versus EU partners

- Excessive growth in ULC: mainly due to **unfavourable developments in labour productivity**.
- **Limited downward adjustment in wages**: not enough to compensate for poor productivity growth and to address unemployment challenges.
- Wage dynamics: (a) **changing composition** of employment, (b) **severance payments** included in labour costs, (c) **time lag** in renewing collective agreements, (d) extended working life of higher-paid older workers due to pension reforms.



# Private wage growth likely to ease further



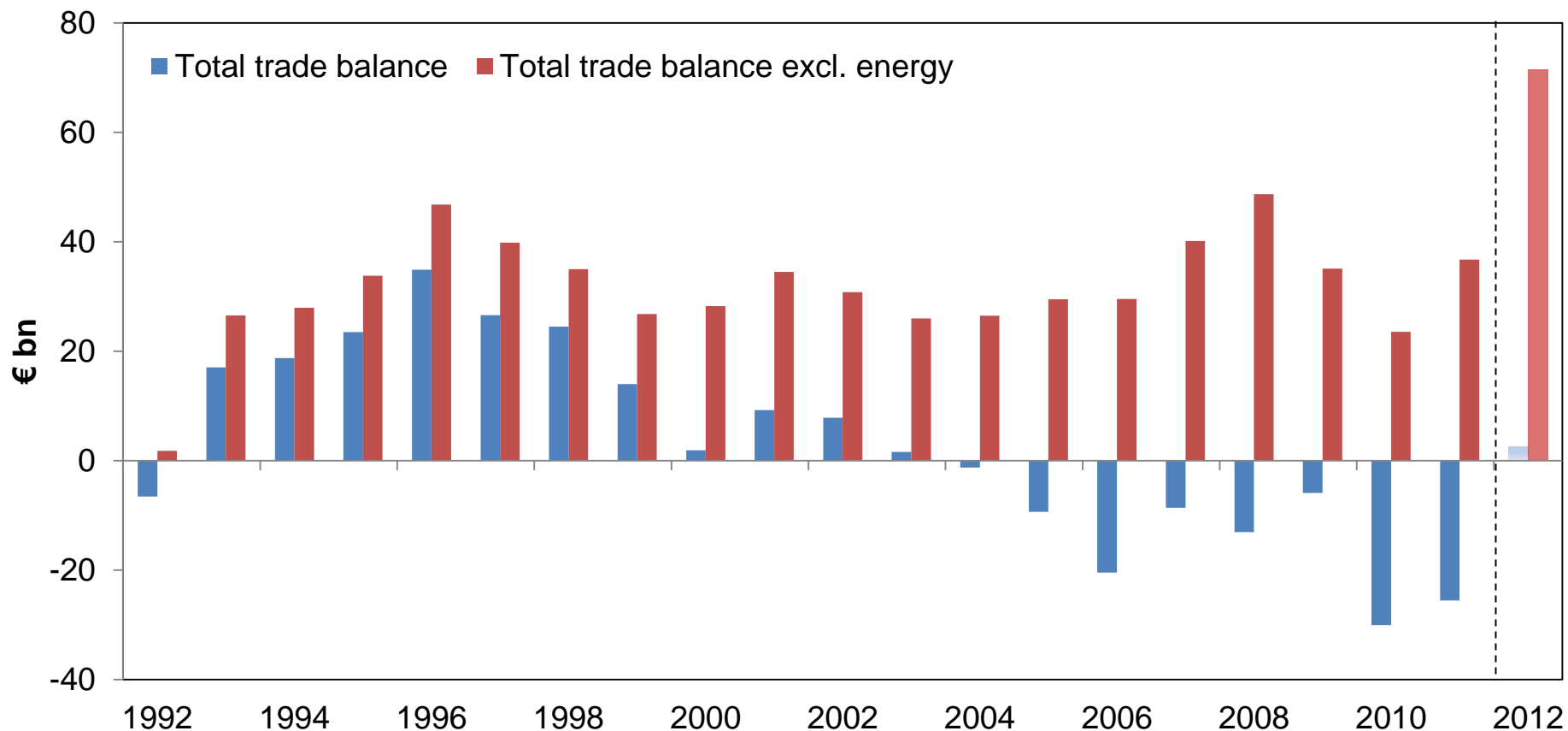
Source: ISTAT

Note: MEF calculation on 2012 and 2013 data



## MACROECONOMIC IMBALANCES AND COMPETITIVENESS

# Sharp improvement in Italy's trade balance



Source: ISTAT. MEF calculation on 2012 total trade balance.

Note: Energy includes oil and natural gas. Total trade balance excl. energy refers to the period January-November 2012.

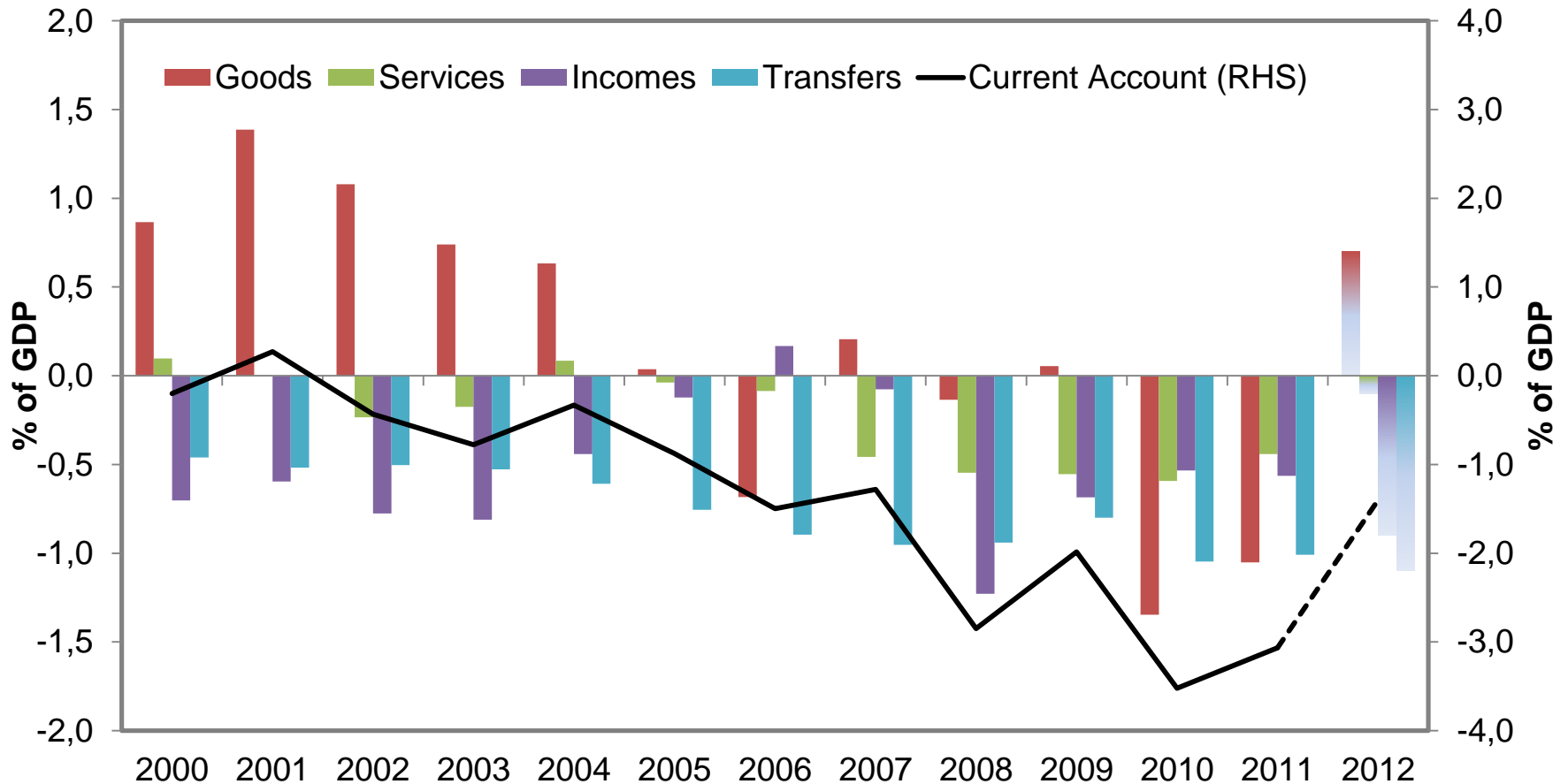


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## MACROECONOMIC IMBALANCES AND COMPETITIVENESS

# Current account deficit narrowing fast



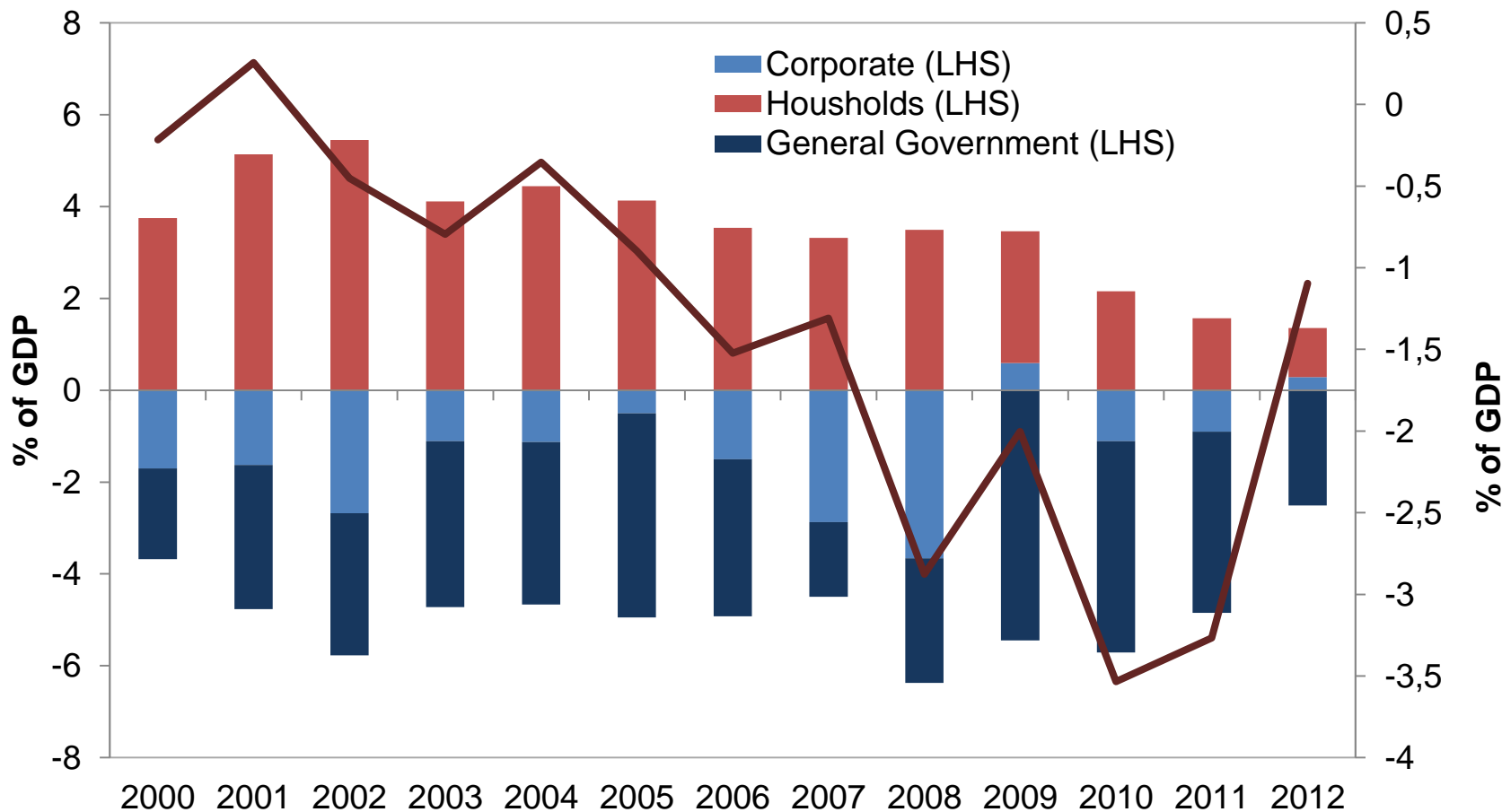
Source: Bank of Italy Note: 2012 data are estimates as reported in the Update of 2012 Economic and Financial Document, September 20, 2012.



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# Current account and savings by sector

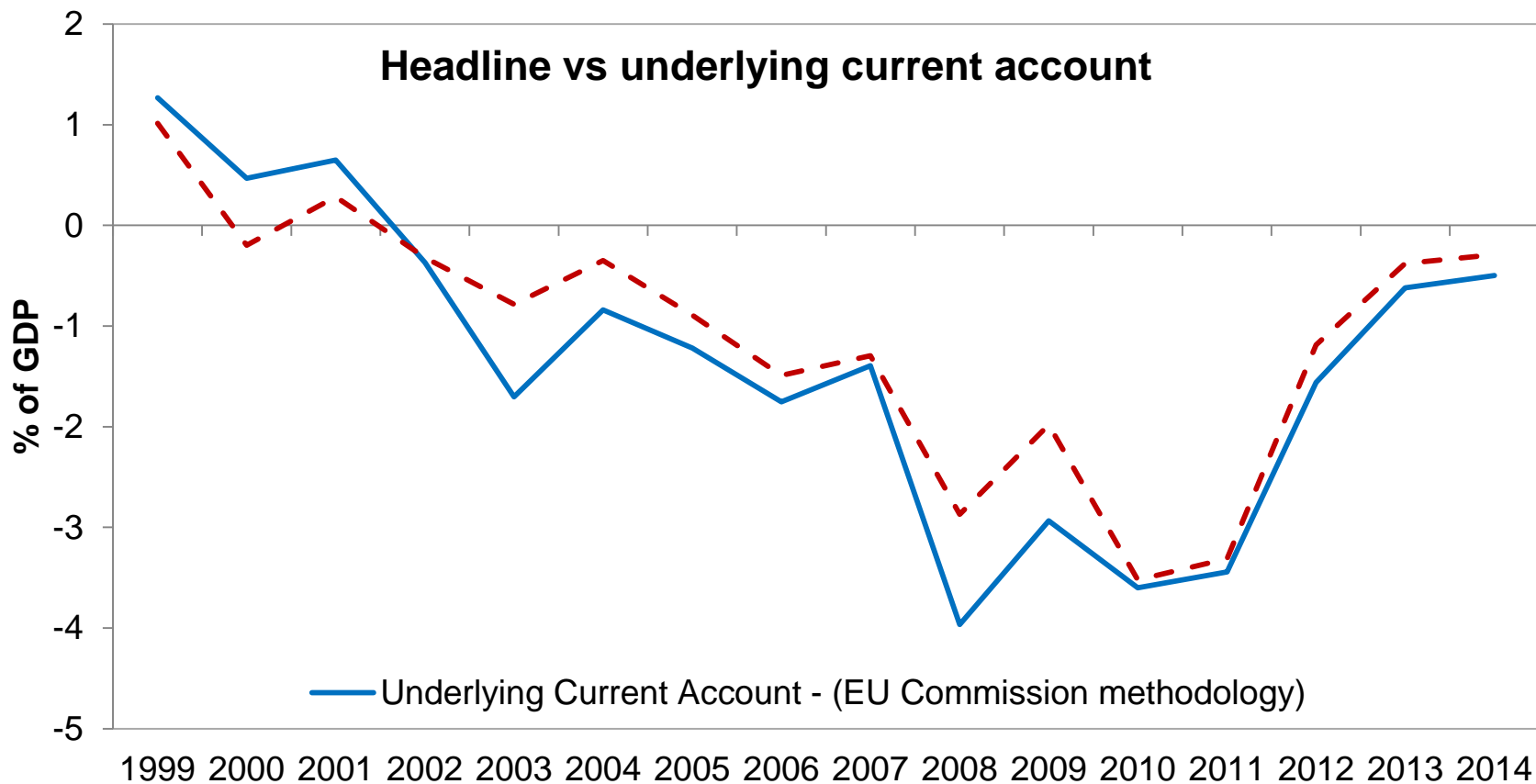


Source: ISTAT and Bank of Italy





# How much of the adjustment is structural?



Note: The underlying current account is derived according to the methodology described in: Salto M., A. Turrini, 2010, Comparing alternative methodologies for real exchange rate assessment, European Economy, Economic Papers, n. 427.

Source: EU Commission, AMECO DATABASE, 2012 Autumn Forecast.



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## FISCAL CONSOLIDATION

# Key public finance projections (September 2012)

<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>-2.6</b>	<b>-1.8</b>	<b>-1.5</b>	<b>-1.3</b>
<i>Cyclically-adjusted NBR</i>	<i>-3.6</i>	<i>-3.6</i>	<i>-0.9</i>	<i>0.0</i>	<i>-0.2</i>	<i>-0.4</i>
<i>Change in Cyclically-adjusted NBR</i>	<i>-0.4</i>	<i>0.0</i>	<i>-2.8</i>	<i>-0.9</i>	<i>0.3</i>	<i>0.2</i>
<b>Primary Balance</b>	<b>0.1</b>	<b>1.0</b>	<b>2.9</b>	<b>3.8</b>	<b>4.4</b>	<b>4.8</b>
<b>Public Debt</b>	<b>119.2</b>	<b>120.7</b>	<b>126.4</b>	<b>126.1</b>	<b>123.1</b>	<b>119.9</b>
<b>Public Debt (net support to Euro Zone)</b>	<b>118.9</b>	<b>119.9</b>	<b>123.3</b>	<b>122.3</b>	<b>119.3</b>	<b>116.1</b>

Source: Update of 2012 Economic and Financial Document, September 20, 2012

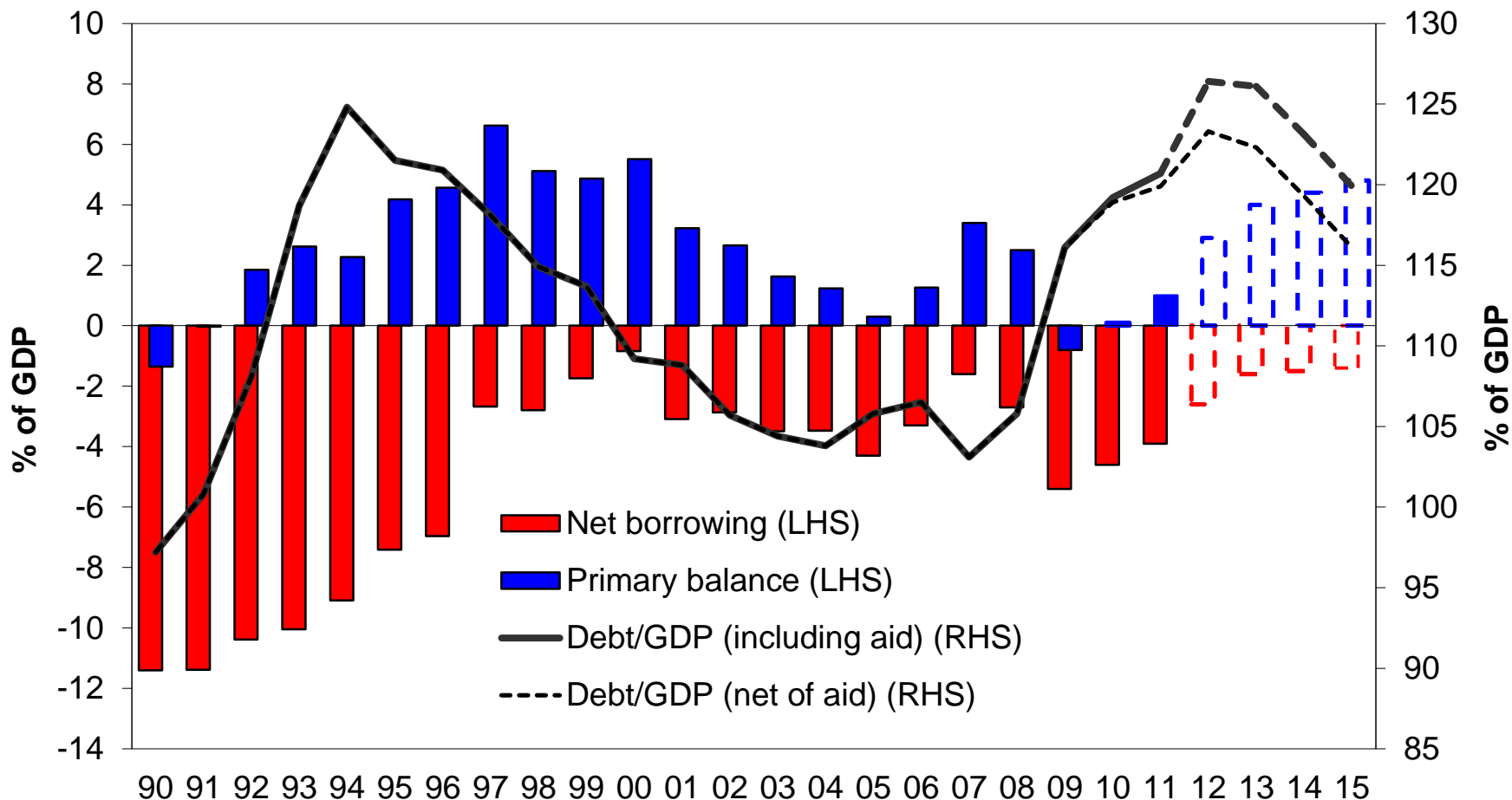


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## FISCAL CONSOLIDATION

# Primary surplus close to 5% of GDP in 2015



Source: Update of 2012 Economic and Financial Document, September 20, 2012



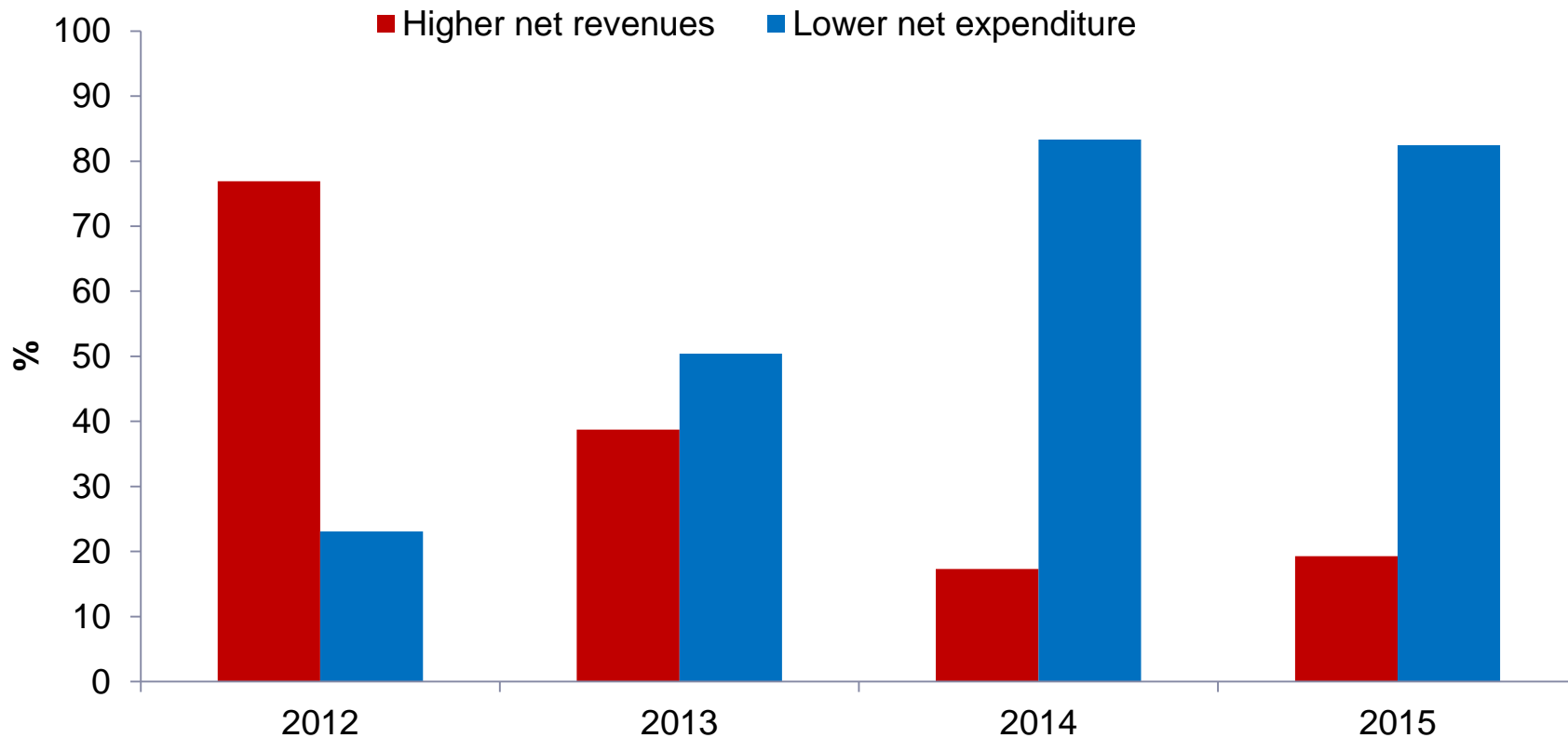
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## FISCAL CONSOLIDATION

# 2011-2012 measures: a rebalancing over time



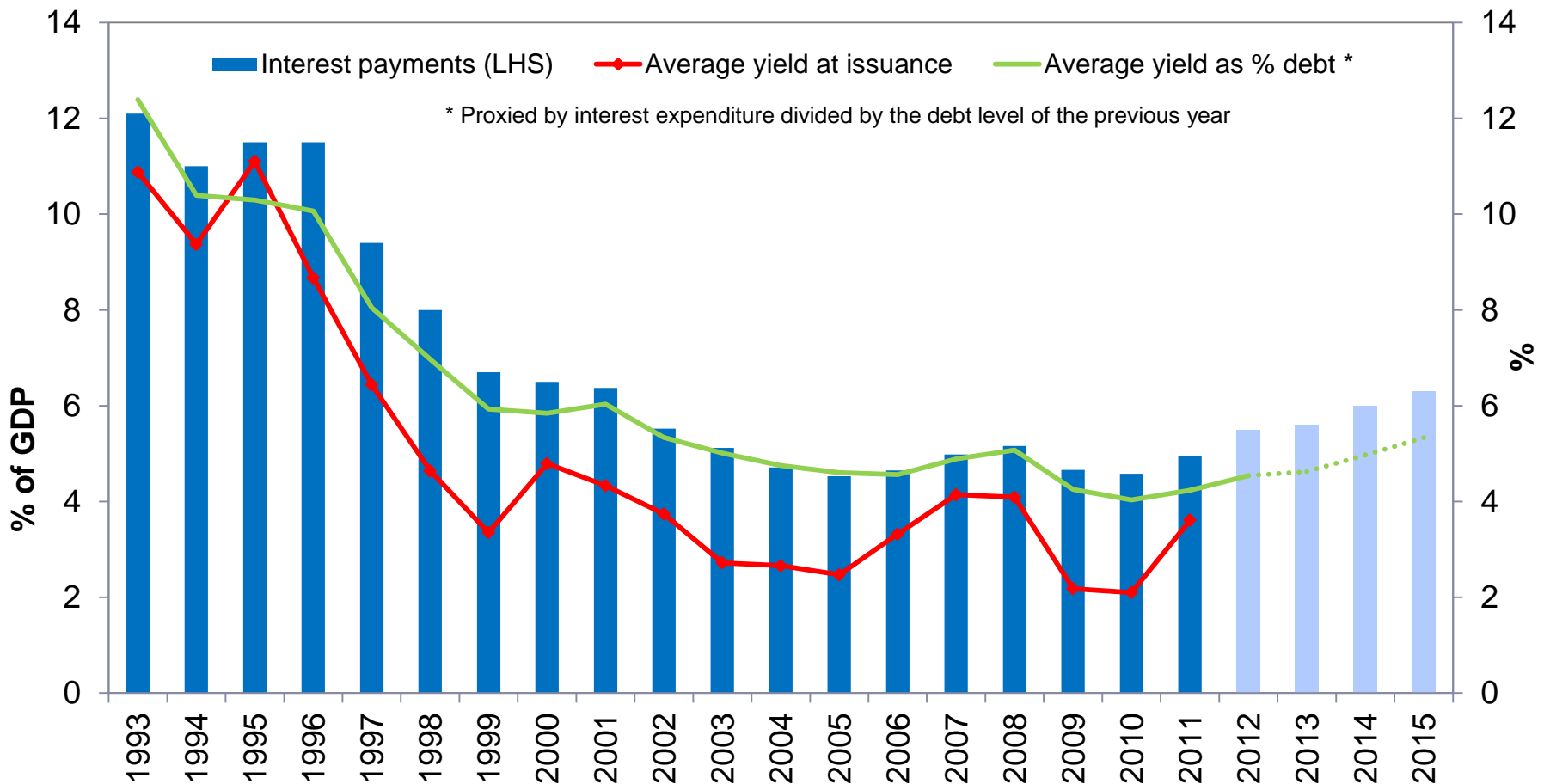
Source: MEF estimates



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# Moderate increase in interest payments (forward rates)



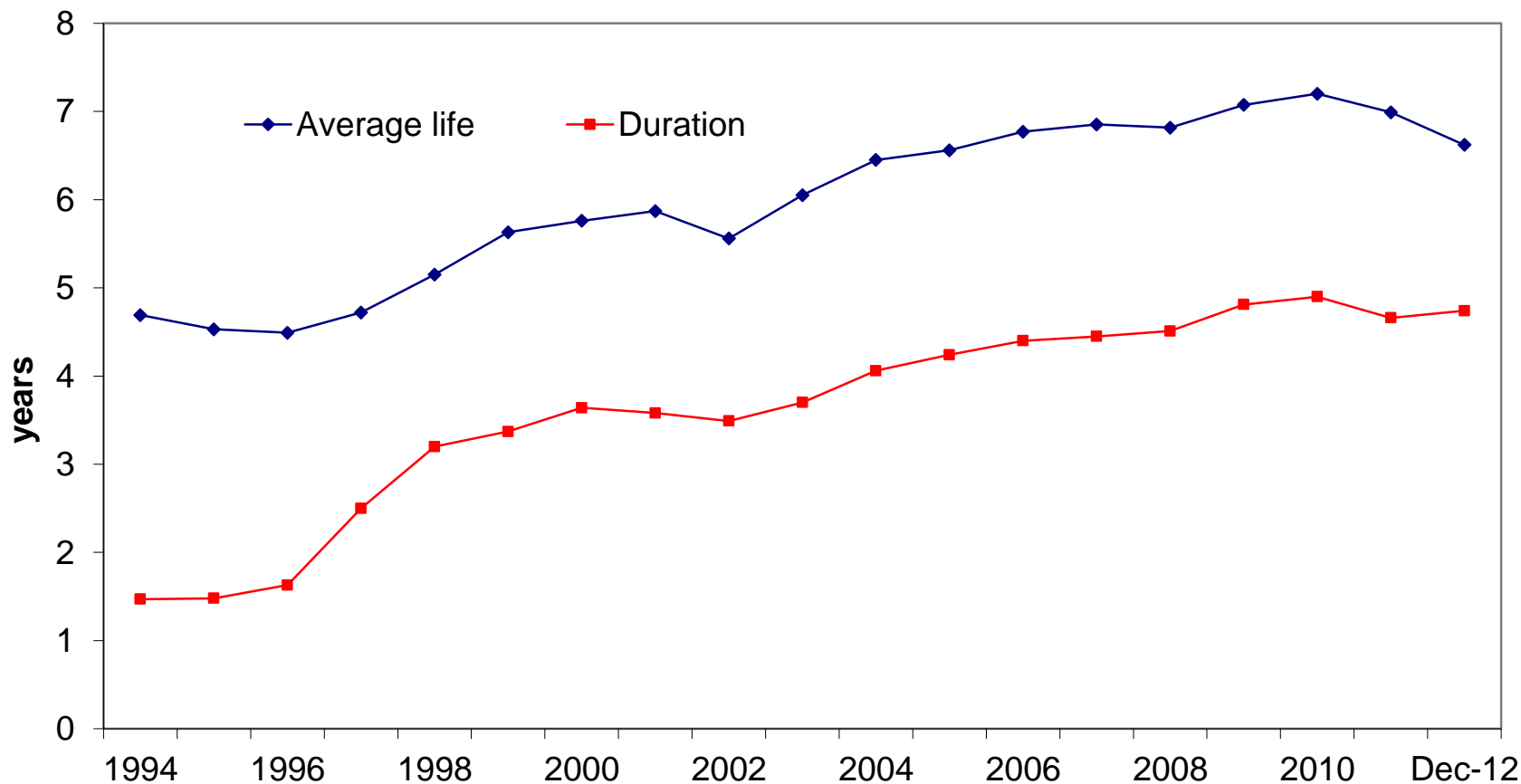
Source: Ministry of Economy and Finance. Figures for interest payments in 2012-2015 are official estimates (Update 2012 DEF)



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# Lengthened maturity of public debt reduces risks

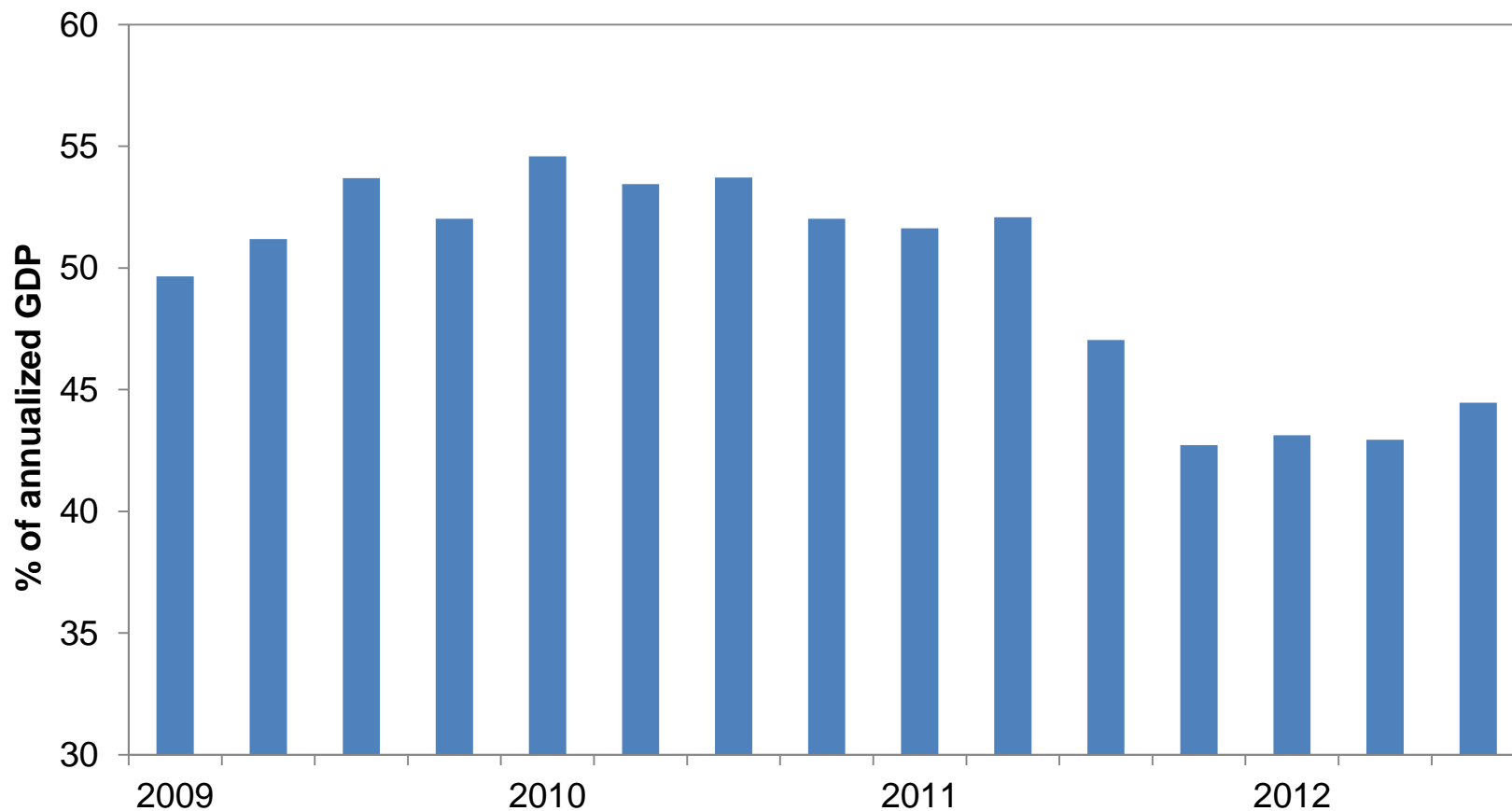


Source: Update of 2012 Economic and Financial Document, September 20, 2012



## FISCAL CONSOLIDATION

# Italian public debt held by foreign investors



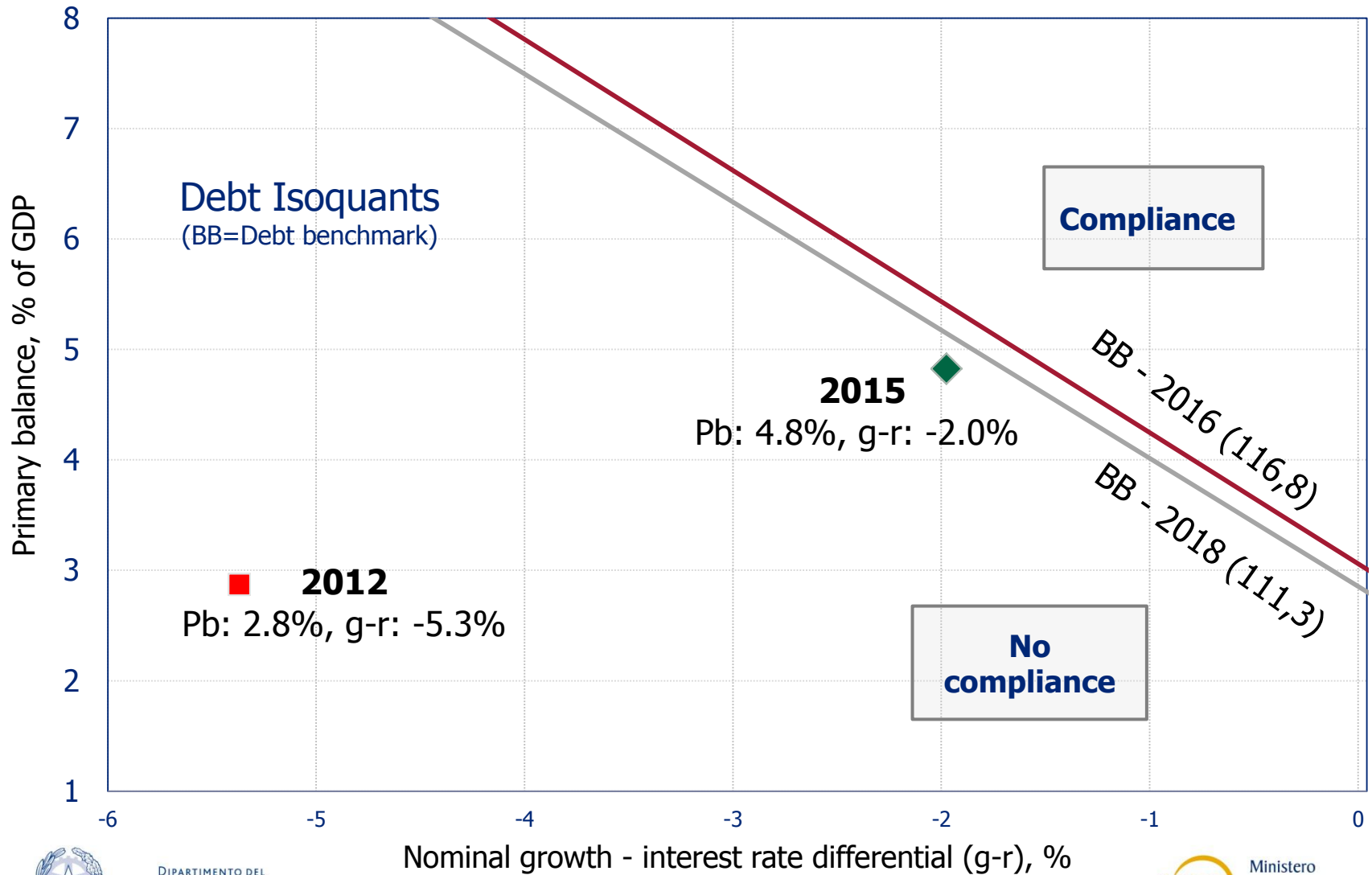
Source: Bank of Italy



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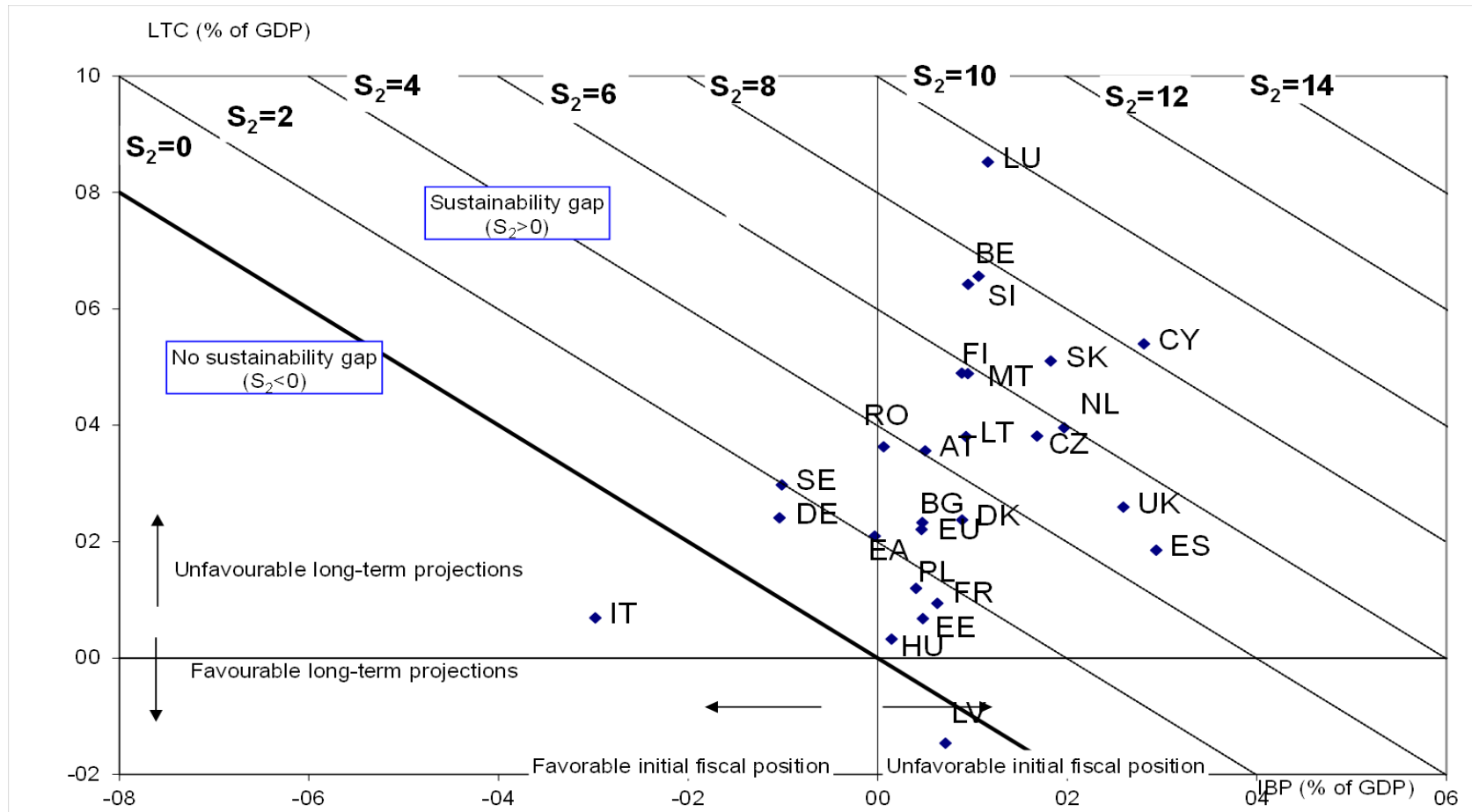
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# Compliance with EU debt rule: not far away





# According to the EU Commission, no sustainability gap



Source: European Commission, Fiscal Sustainability Report 2012, EUROPEAN ECONOMY, 08/2012



# Reduction in the stock of public debt: mapping public assets

- Local government debt is only 6% of GDP. However, **54% of real estate assets and stockholdings are at local level.**
- Very difficult to get a reliable, complete and updated valuation: **1/3 of GDP**= tentative estimate of value of recorded assets.
- **Buildings:** Only 53% of administrations have provided detailed information about their assets. 530,000 real estate units for 222mn sqm of which 70% is for institutional use and 9% for residential use (47% in terms of units). 80% of units are owned by local government. Market value is estimated at about 340bn (21.7% of GDP).



# Reduction of the stock of public debt: few marketable assets

- **Land:** 760,000 plots of land for a total of more than 1.3mn ha, 98% held by local government (82% municipalities). Market value is estimated at about 30bn (1.9% of GDP).
- **Stockholdings:** About 7,000 companies of which 80% owned by local government. Market value estimated at about 150bn (9.6% of GDP) of which 85.8bn owned by the Ministry of Economy and Finance (1/2 is National Railways). The three major quoted companies (about 12bn) are perceived as strategic; for others there is no market appetite; moreover quoted companies have far off-peak values.



### Reduction in the stock of public debt: coming soon

- **€8.0bn from sale to CDP of SACE, SIMEST and Fintecna.**  
Further payments are expected by early 2013. Proceeds go to the Public Debt Sinking Fund or to pay off commercial debt.
- Real estate assets will be transferred from central and local government to **real estate funds**, which have mandates to create value and/or dismiss assets.
- The Government expects proceeds from dismissals to reduce public debt by at least **1pp of GDP** per year. 3-5bn of state-owned assets ready for 2013; the rest requires strong cooperation with local government.



## RECENT BUDGET MEASURES

# Going for growth and fiscal consolidation

- Freeing up resources of about **€10bn** in 2013, **€10.7bn** in 2014 and **€10.1bn** in 2015 respectively.
- Use of resources for about **€12.3bn** in 2013, **€10.6bn** in 2014 and **€9.7bn** in 2015.
- Rebalancing revenues/expenditure to favour growth and fiscal consolidation.
- Reduction in taxes on labour.



## RECENT BUDGET MEASURES

# Key measures for fiscal consolidation

- Cut in **NHS spending** for goods and services and medical devices.
- Further cuts in **transfers to local governments** in 2013-2015.
- Introduction of the **Tobin Tax** on transactions involving equities with a proportional tax rate of 0.1% (0.2% for OTC financial transactions) paid by buyers, to be aligned with European legislation once it is decided; different treatment on derivatives (lump sum with a maximum fee of €200 for transactions above €1Mn) for both buyers and sellers.



### Key measures to support growth (1)

- **Increase in the ordinary VAT rate** from 21 to 22% as of July 2013, while the lower VAT rate remains at 10%.
- **Higher tax allowances for families with children:** From 2013 the tax credit is €1,220 (currently €900) for each child under the age of 3 and €950 (€800) for those older than 3.
- **Reduction in taxes on labour:** effective 2013, tax deductions for employers on IRAP to increase from €4,600 to €7,500. Even higher deductions for women, workers under 35, and firms located in 'disadvantaged' Regions.



## RECENT BUDGET MEASURES

### Key measures to support growth (2)

- **Small enterprises and self-employed entrepreneurs** can rely on a new fund for IRAP tax exemptions.
- A **special fund** is designed to favour investments in **R&D** by SMEs, using resources previously allocated on a generic basis to firms. The fund also finances a reduction in the tax wedge.
- A **new fund**, financed with proceeds from the fight against tax evasion, to reduce the **tax burden on households and firms**.
- **Infrastructure projects**: additional financing of the Lyon-Turin high-speed train line and 'MOSE', the dam system for Venice.





## Constitutional reform: a new fiscal framework

- **Balanced budget rule included in the Constitution:** it will enter into force in FY 2014.
- **In December 2012**, Parliament approved the ‘reinforced’ law defining the mechanism by which the balanced budget will be achieved and clarifying the functions of the **independent body** (established by Constitutional amendment) within the Parliament in charge of monitoring public finances and checking compliance with fiscal rules.



# The Government proposal for a reform of the tax system

- Reform of **cadastral rents**: adequacy between official and actual real estate values.
- Fight against tax **elusion and avoidance**: reshuffling of tax expenditures for small businesses and low income tax payers.
- **Tax framework for enterprises**: changes in the IRAP tax base and a single, combined payment of IRAP, IRES and IVA for small firms.
- **Sanctions proportional to gravity of violation**: more room for judicial settlement procedures, reorganisation in tax collection.



### Reduction in the cost of doing politics

- Reduced financing of **political parties** as well as appointees at regional level; reduction in the number of regional counselors.
- Increased **financial controls and sanctions for Regions** that do not respect the rules (80% cut in central Government financing, excluding health care and transport funding).
- **Greater transparency** in balance sheets of local political groups and regional politicians' income and personal wealth. Stricter criteria regarding politicians' compensation and pension.
- Plan to achieve a balance budget within 5 years in case of excessive deficit in provinces and municipalities.



## Public sector shrinking since 2007

- Since 2007 the **number of public employees** and their **compensation** has declined by 4.3% and 2.3%, respectively.
- Related cost of labour has decreased by 3.3%.
- This is the result of 2010 and 2011 policy changes: extension of freeze in turnover and suspension of national wage bargaining.



## Lower tax wedge on labour

- **Higher tax allowances for families with children:** From 2013 the tax credit is €1,220 (currently €900) for each child under the age of 3 and €950 (€800) for those older than 3.
- **Reduction in taxes on labour:** effective 2013, tax deduction for employers on IRAP to increase from €4,600 to €7,500. Even higher deductions for women, workers under 35, and firms located in 'disadvantaged' Regions.



## **Key achievements of the pension reform**

- **Enhances the medium and long-term sustainability** of Italy's pension system.
- **Guarantees fairness** across and intra generations.
- **Increases the minimum retirement age and contribution period required** to be entitled to pension benefits.
- Links retirement age and contributory periods to **changes in life expectancy**.
- **Improves transparency** by merging entities providing pensions (INPDAP and ENPALS into INPS).



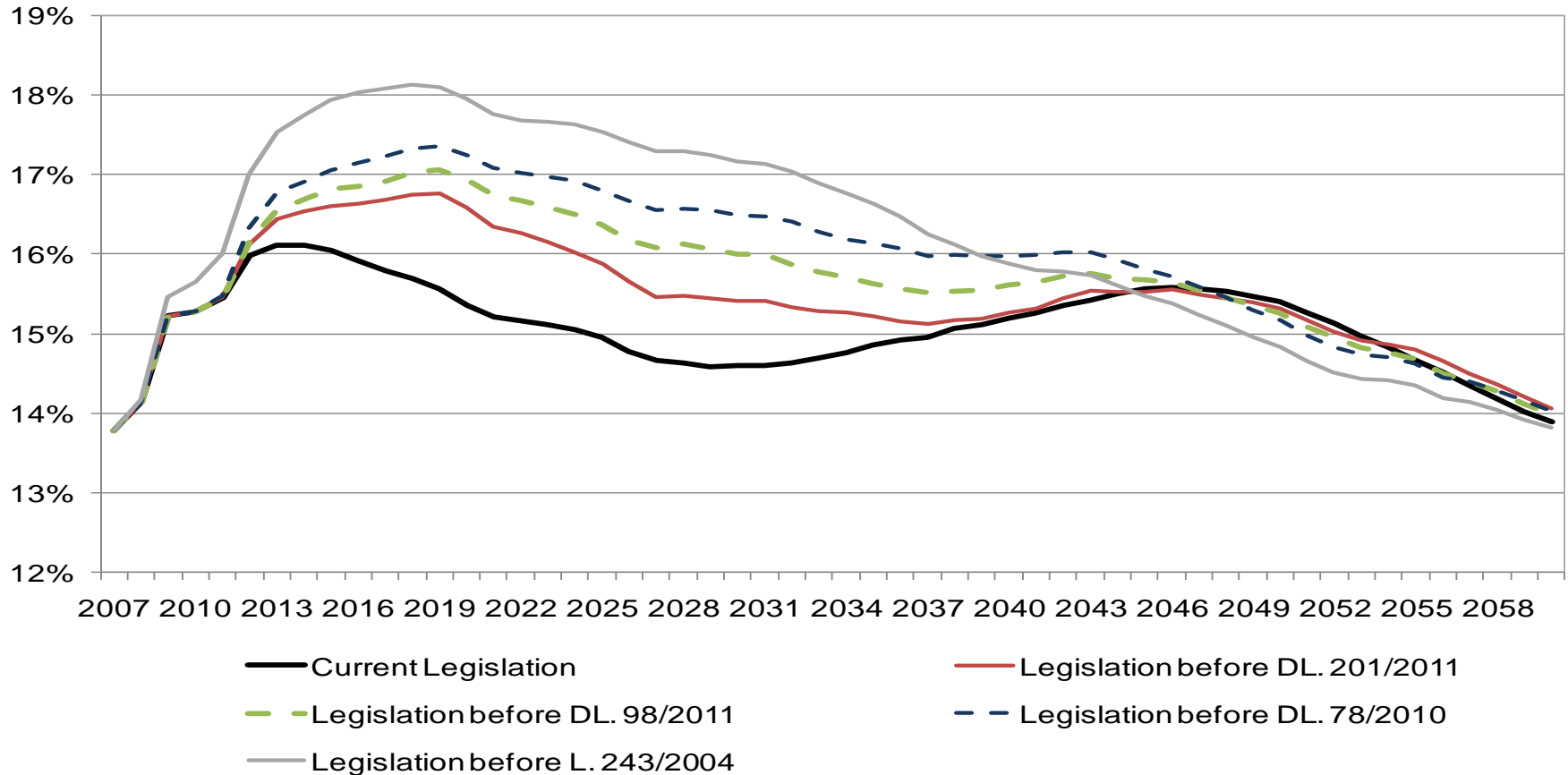
## Major structural savings

- About **€7.6bn** total cumulative savings (net of taxation) in 2014, increasing to almost **€22bn** in 2020.
- In 2012-13, **indexation freeze** of 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).



## PENSION REFORM

# Sizeable effect on pension spending as % of GDP



Source: Update of 2012 Economic and Financial Document, September 20, 2012. Demographic projections from ISTAT, central demographic scenario 2012



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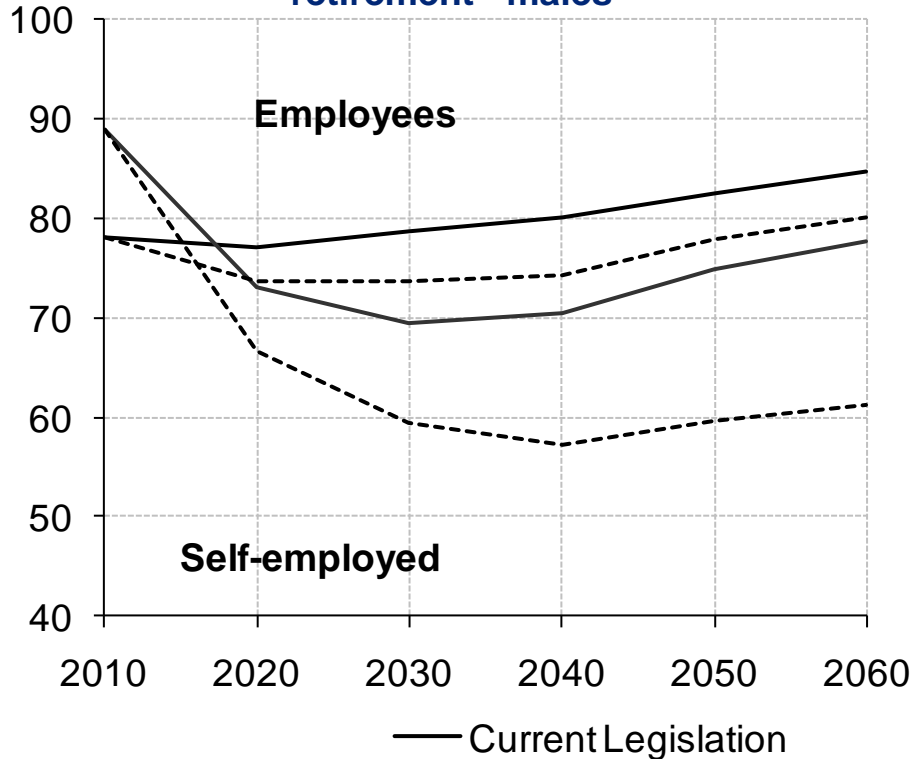
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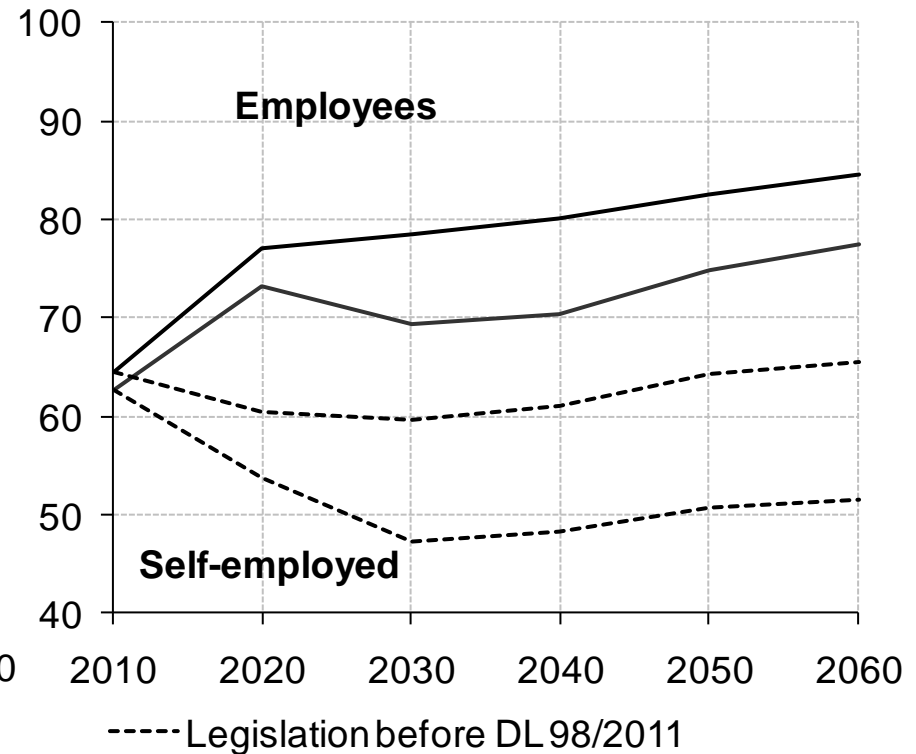
## PENSION REFORM

# Social adequacy assured

Net replacement rate for old age retirement - males\*



Net replacement rate for old age retirement - females\*

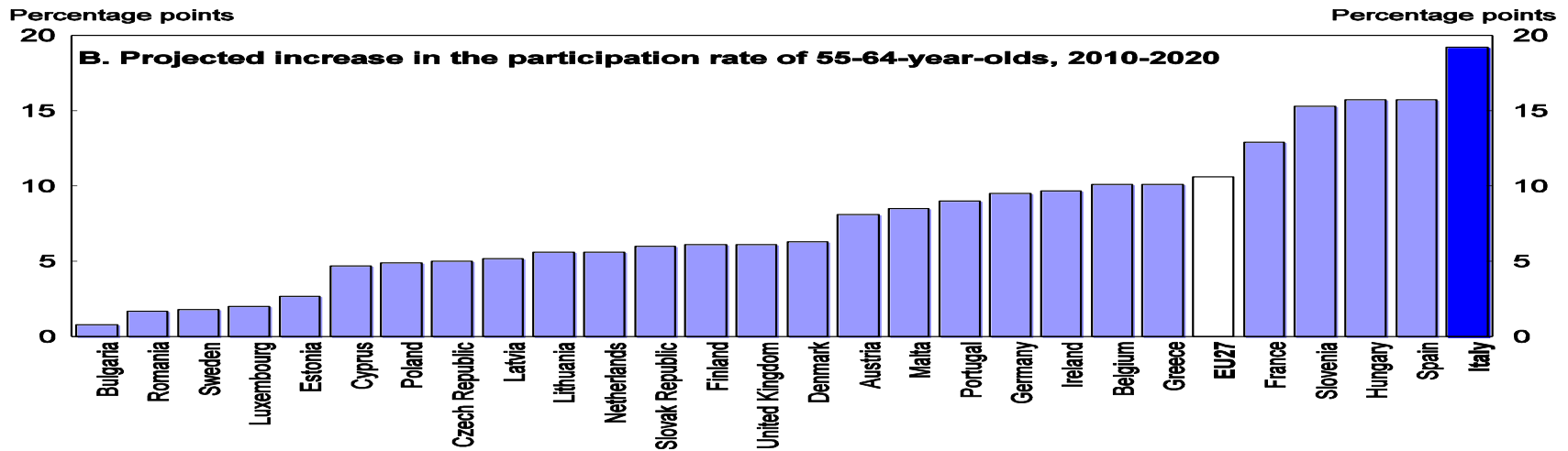
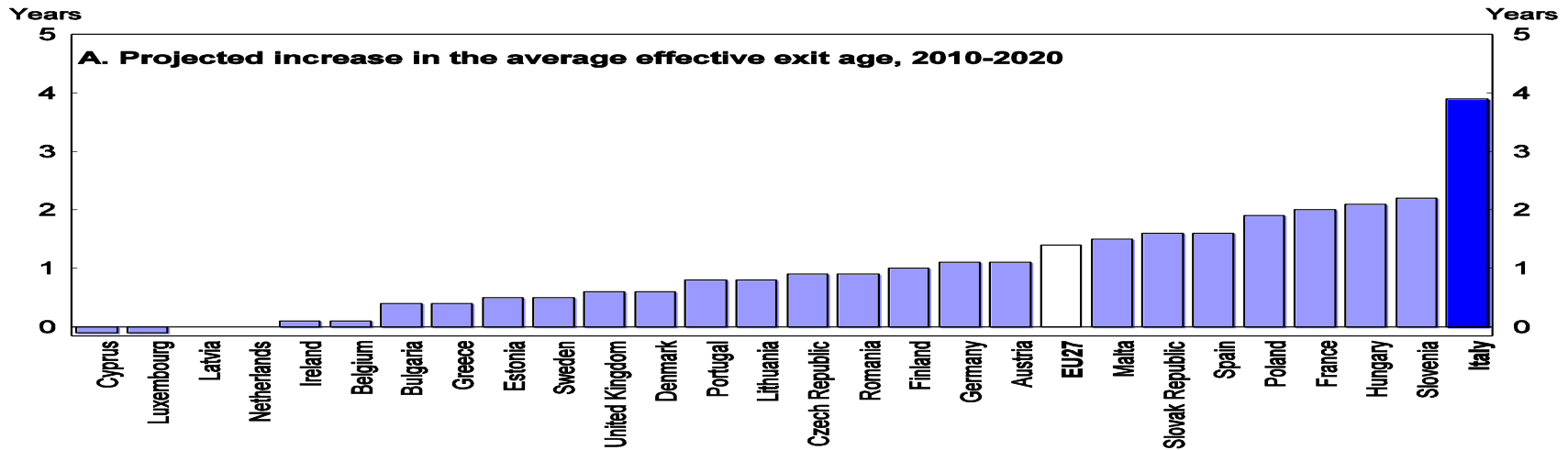


Source: “Medium-long term trends for pension, health and long-term care”, Report no.13, 2012, State Accounting Office  
 (\*) Net replacement rates are net of tax and contributions. Assumption on minimum pension requirement: age/contributory years proportional to age of entry in the labour market. For further information please refer to Box 6.1 in “Medium-long term trends for pension, health and long-term care”, Report no.13, 2012, State Accounting Office.



## PENSION REFORM

# A significant lengthening of the retirement age (OECD)



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Source: OECD



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## **Towards a leaner and more efficient public administration**

- In July, the Government adopted measures with savings estimated at **€4.6bn** in 2012, **€10.8bn** in 2013, **€11.6bn** in 2014 and **€12.1bn** in 2015.
- Public procurement will be managed by Consip or regional centralised-purchasing agencies only.
- Number of **civil servants** will decrease by 10% (20% at managerial level).
- **The majority of rents** paid by the Public Administration are frozen until end-2014 and are to be renegotiated with a 15% discount.



## **Rule of law strengthened**

- **Ban from public office** for people convicted in final judgment or subjected to judicial measures.
- **Revision of norms against corruption** and introduction of two new legal offenses to contrast acts of preferential treatment by public officials.
- **Increase in penalties** for managers or other corporate stakeholders for doing or omitting acts in contrast with their obligations or loyal duties entailing damages to their company.
- **More severe penalties**, especially in cases of judicial corruption.



## **Rule of law: stricter procedures and more control**

- The Commission for the evaluation, transparency and integrity of the Public Administration (**CIVIT**) becomes the **National Anti-Corruption Authority**.
- Creation of a **National Anti-Corruption Plan and Anti-mafia list** for businesses to prevent and fight corruption at national and international level.
- **Incompatibility of public employment** with external assignment; **code of conduct for public employees**.
- Stricter individuation of **eligibility** criteria for public positions at central, regional and local level.



## FIGHT AGAINST TAX EVASION

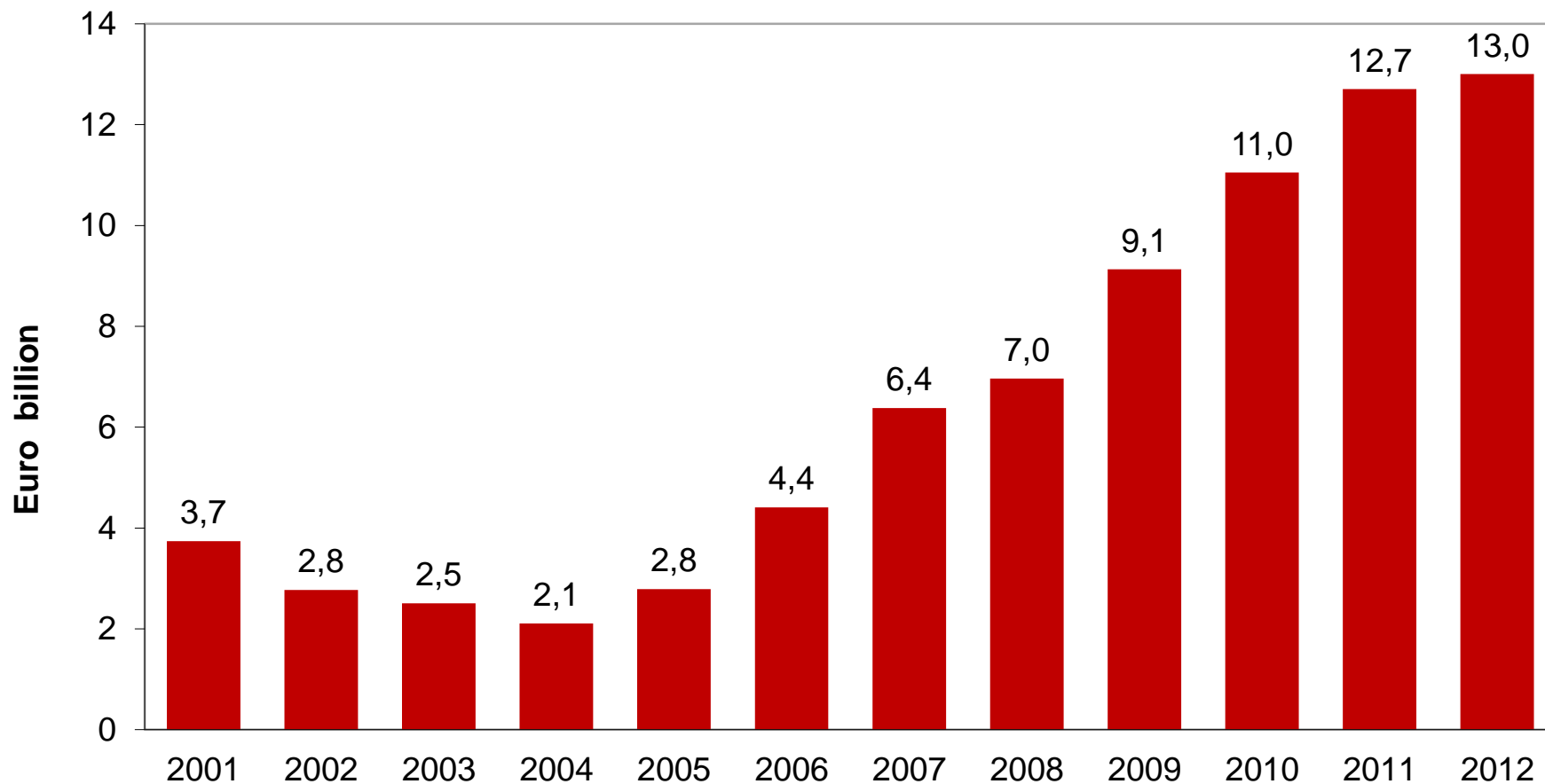
# An aggressive stance in fighting tax evasion

- The legal threshold for **cash payments** is lowered to € 1,000.
- **A softer regime for controls** will apply to tax payers who are compliant with so-called sectoral studies.
- **Cheating** on the Revenue Agency is now a criminal offence.
- Focus on **large tax payers** and **VAT frauds**.
- Synergies with the **Social Security Institute (INPS)** in order to crack down on undeclared economic activity.



## FIGHT AGAINST TAX EVASION

# Increasing success in the fight against tax evasion



Source: Ministry of Economy and Finance - Revenue Agency

Note: 2012 data are provisional



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## Greater consumer protection

- 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.
- Protection from deceptive and aggressive trade practices extended to **businesses with less than 10 employees**.





## Lighter administrative burden and PA payments

- Reduction in the **administrative burden** for firms: elimination of ex-ante controls, limits, permits, licenses for start-ups. Substantial simplification for SMEs.
- Possibility of setting up a limited liability company with **reduced capital stock** and a **simplified framework** for people under 35.
- **Commercial payments** by the public administration within 30 days (60 days only in exceptional cases). Interest rate on arrears is 8% over the rate set by ECB for lending operations.

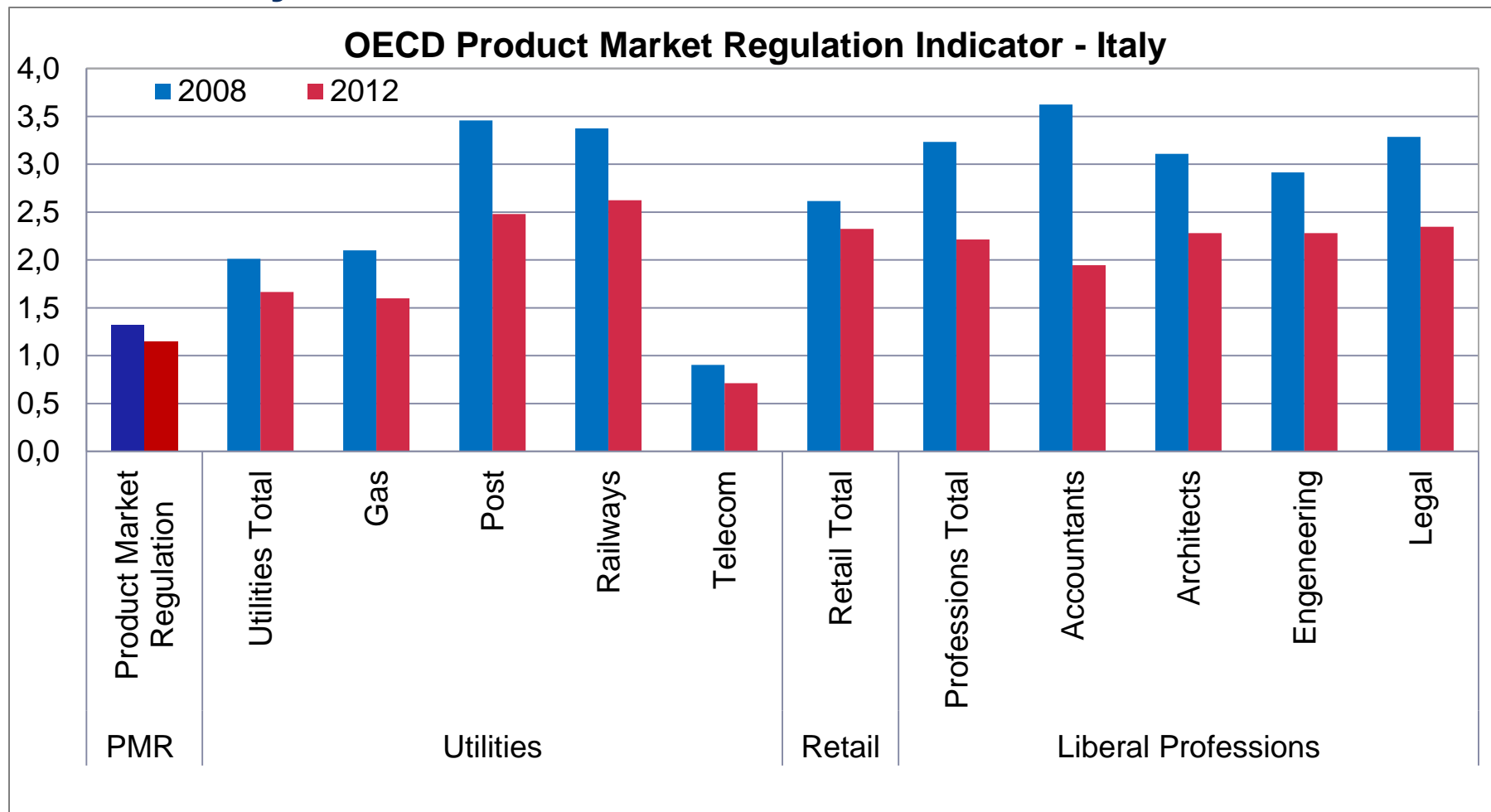


## **Enhanced competition**

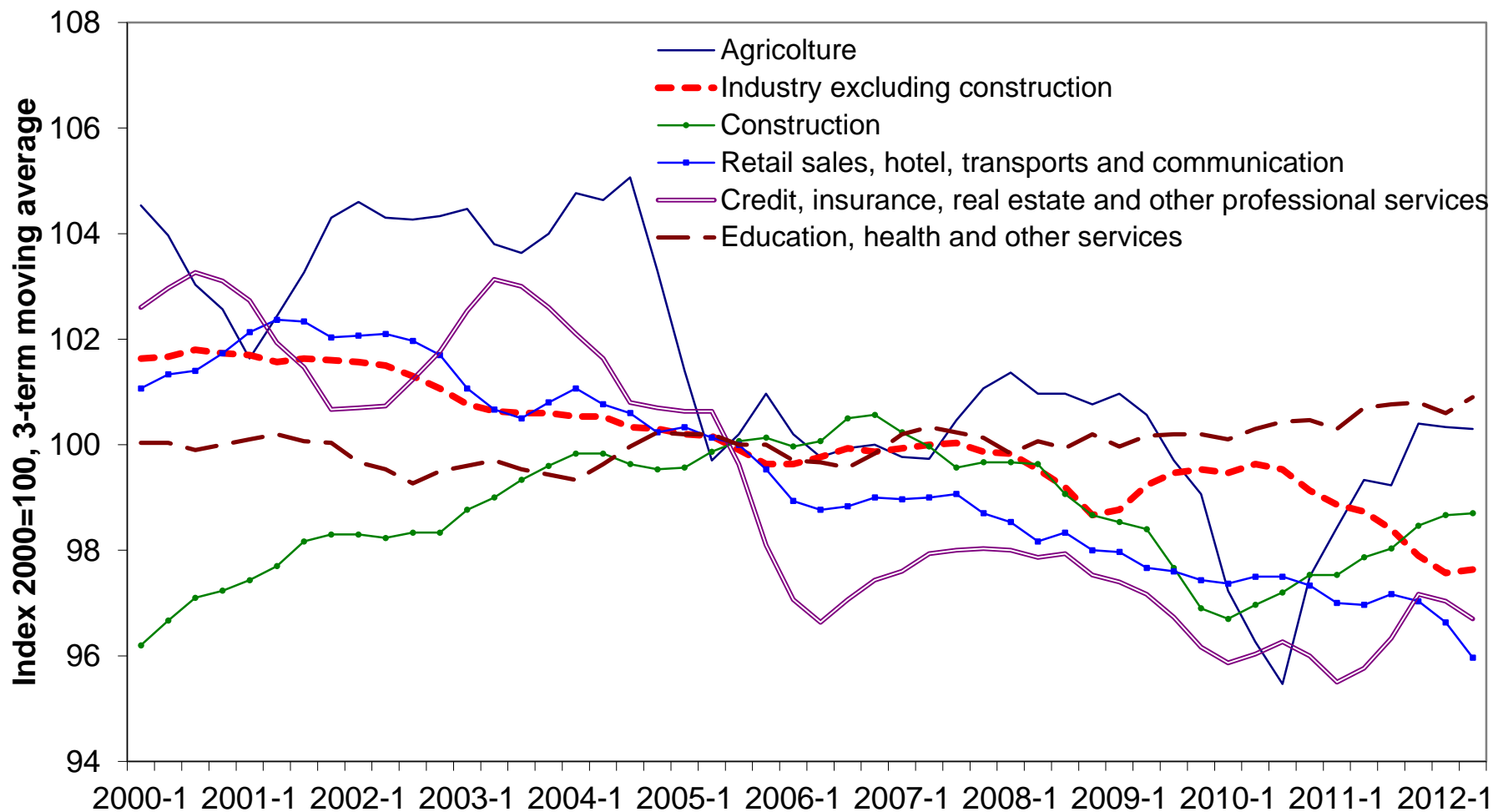
- **Local public services:** strengthened role of the Antitrust Authority for local public services.
- **Gas and electricity sector:** gradual delinking of prices from the oil market and unbundling of the gas network.
- **Transport sector:** strengthened competition; liberalisation of **fuel and non-oil distribution** in petrol stations.
- **Professional services:** abolition of minimum fees, easier access to professions with reduction in compulsory traineeship, increase in the number of pharmacies and notaries.



## Reforms by sectors



# Mark-up by sector



## Growth Decree 2.0: the Digital Agenda

- **Digital Agenda** for the development of digital services for citizens especially in sectors of education and health care.
- Mandatory transmission of documents in electronic form within the Public Administration (PA) and between the PA and private citizens (also for civil justice).
- Enhanced powers of the **Agency for Digital Italy** to promote major strategic projects. The Agency will prepare the **National Plan for Smart cities** on an annual basis.
- Research projects and innovation linked to strategic issues in line with European **'Horizon 2020'**.

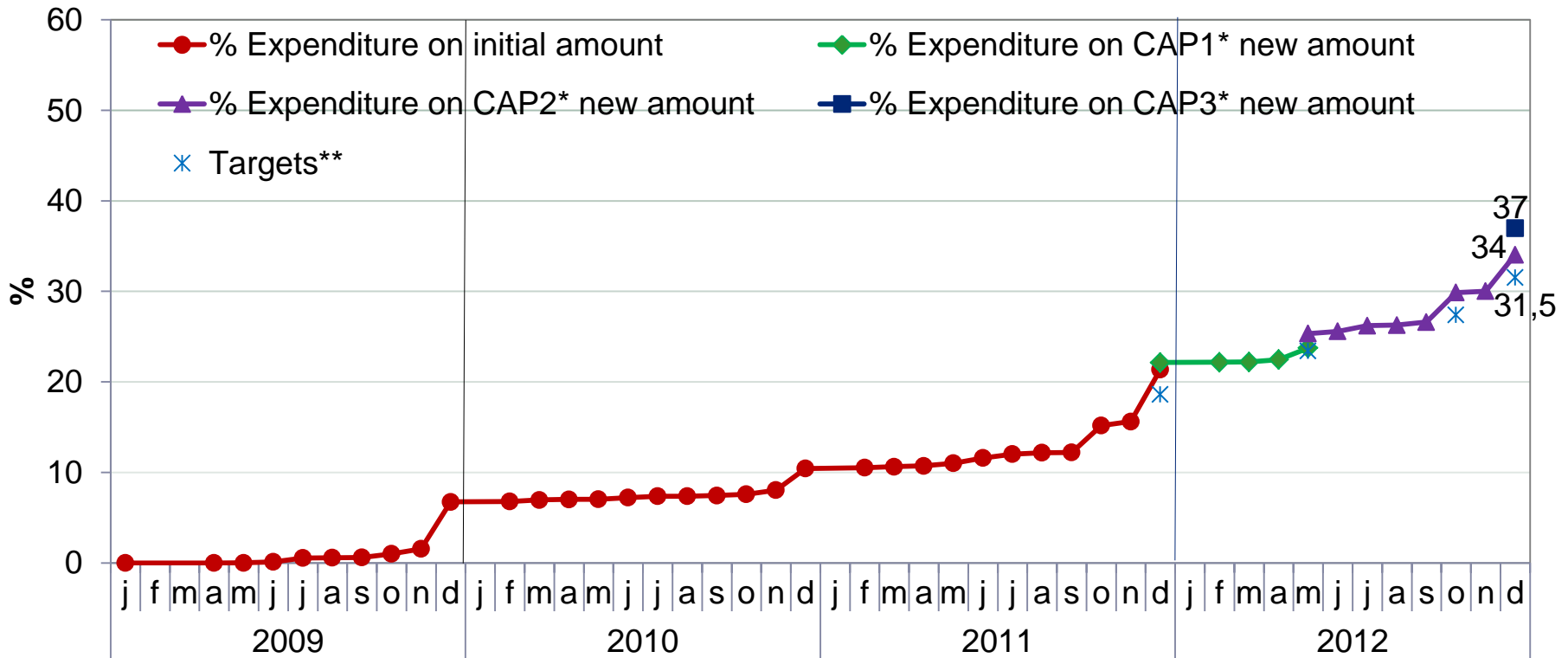


## Growth Decree 2.0: innovative start-ups

- **Start-ups** must invest at least 30% in R&D, researchers must constitute no less than 1/3 of total employees, or hold a patent to be considered 'innovative'.
- **Tax deductions** for investors (private and institutional) in innovative start-ups.
- Start-ups can hire workers with a fixed-term contract for a period between 6 months and 3 years.
- Start-ups operating in Italy can use services provided by '**ICE**' and '**Desk Italia**' free of charge .



# Cohesion funds: 37% used, 5.5pp above target



•Implementation is measured as % share of certified expenditure at a certain date by the responsible authorities of programmes for the available financial funds.  
 •The new amount results from the reduction in national co-financing during the three phases of the Cohesion Action Plan (interventions described in "[http://www.dps.tesoro.it/pac\\_2012.asp](http://www.dps.tesoro.it/pac_2012.asp)" and in "<http://www.coesioneterritoriale.gov.it/fondi/piano-di-azione-coesione/>").  
 \*\* Targets December 31 fixed by the European Regulation. Targets May 31 and October 31 defined at national level "to speed up and improve the effectiveness of measures". QSN Committee, 02/27/2012.



Source: MISE  
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## Towards more efficient public expenditure

- Introduction of 24 hour **primary healthcare support units** digitally connected with hospitals and other health structures.
- Doctors employed in public hospitals can pursue **private professional activity** only if digitally connected to NHS administrative units. This connection is also used to record payments.
- **Obsolete drugs** will be eliminated from the official NHS list and unnecessary medical examinations reduced.





# Making bankruptcy procedure easier

- **Bankruptcy procedure:** adaptation of existing procedures to a system similar to “Chapter 11” in the US. Increasing protection of the entrepreneur under strains (*‘concordato preventivo’*); payment of creditors due for the entire amount and before other creditors; maturity of credits, covered with collateral on assets, can be extended by one year.
- **Trial length:** trials can last no more than 6 years, of which 3 in the first stage, 2 in Appeal Court and 1 in Supreme Court. Every additional year triggers a compensation between €500 and €1,500.



## **Reform of Civil Justice**

- Reorganisation of **judicial districts** to close small courts and reduce public expenditure.
- Introduction of sanctions for non-acceptable appeals to **reduce the backlog** of cases brought to court.
- Administrative communications by **certified electronic mailing** to speed up procedures.
- **Digitalisation** of civil justice proceedings.



### A more dynamic and inclusive labour market

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



## Access to the labour market: apprenticeships

- **Apprenticeship becomes** the preferential channel for young people (up to 29 years old) to enter the labour market.
- Employers benefit from **fiscal incentives for a 3-year** period. In order to hire new apprentices, at least 30% of apprenticeship contracts signed over the previous 3 years must have been transformed into open-ended ones.



## A brand new safety net: ASPI

- **Eligibility:** all workers with  $\geq 2$ -year social security contributions and 52 working weeks over the past 2 years.
- **Duration** (effective Jan 2016): 12 months for workers younger than 55 and 18 months for those  $\geq 55$ .
- **Amount:** replacement rate is 75% of gross earnings up to €1,180 (annually increased with CPI) +25% on the remaining income up to a cap; 15% reduction after six and twelve months.
- **Funding:** ASPI is partly funded by the State budget and partly through increased contributions paid by employers for non-regular contracts, which can be reimbursed in case of conversion of fixed-term contracts into regular ones.



## Employment protection legislation: big revision

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

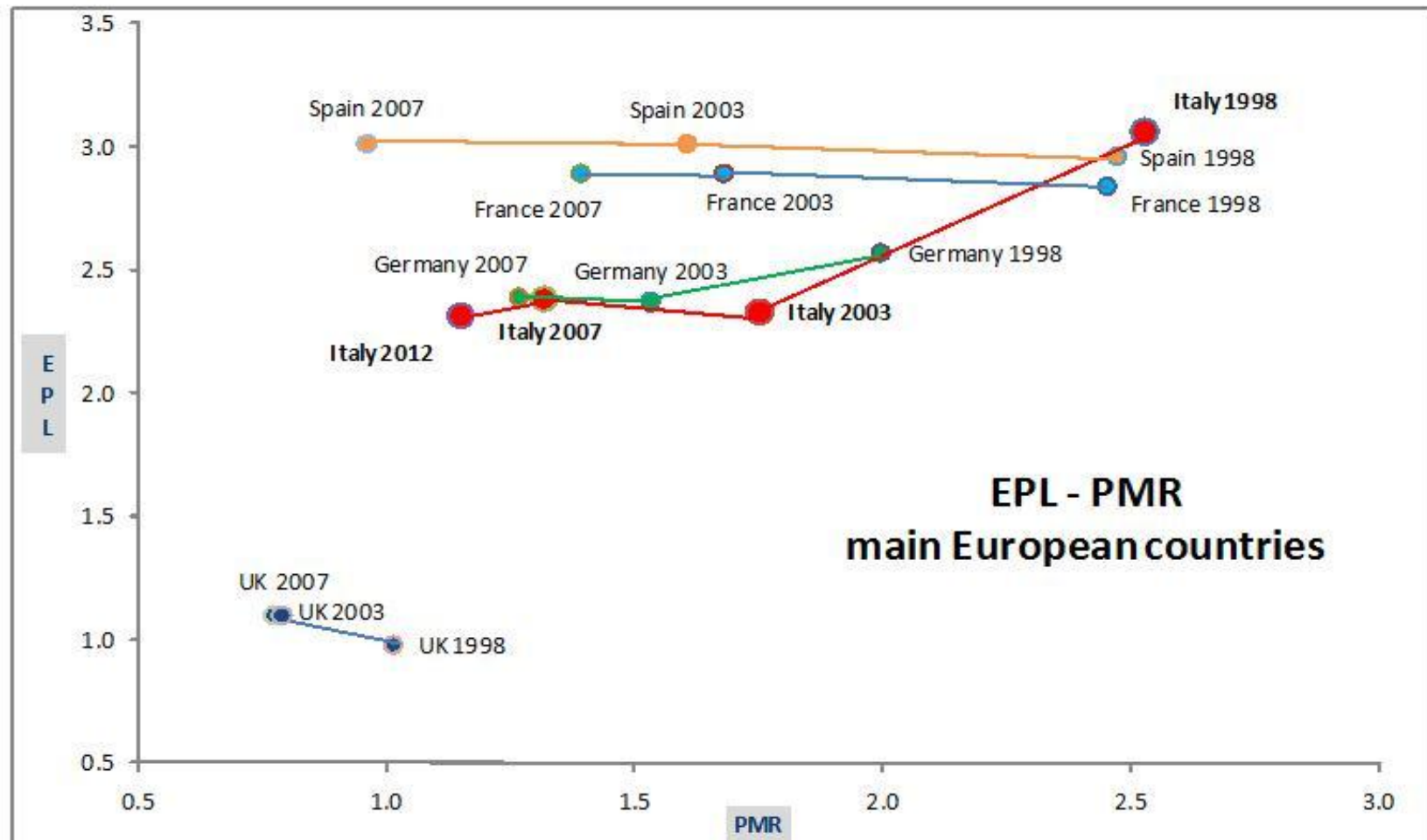


## National agreement to help boost labour productivity

- Shared **agreement among Italian trade unions and employers' associations** to help boost labour productivity by providing for labour contracts that better reflect the needs of individual companies.
- A **special fund** is designed to cover the reduction in taxes on productivity-linked wage increases set at local level.
- A **pact between generations** is introduced, allowing for senior workers to stay at work longer by smoothing the retirement transition and increasing the employment of young workers.



## 1998-2012 progress: Italy outperforms other EU countries



Source: OECD and MEF



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**The current presentation as well as a note on reforms are updated regularly. You can find them at:**

**[http://www.dt.mef.gov.it/en/analisi\\_programmazione\\_economico\\_finanziaria/strategia\\_crescita/](http://www.dt.mef.gov.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/)**



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