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ITALY – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

This report is the first specific monitoring report under the Macroeconomic Imbalances Procedure (MIP) for countries experiencing excessive macroeconomic imbalances. It reviews the latest macroeconomic and policy developments in Italy since the July 2014 Council endorsement of the country-specific recommendations (CSRs), targeted at the correction of the imbalances identified (high public debt and weak external competitiveness).

After shrinking by 1.9% in 2013, Italy's real GDP growth is set to remain negative in 2014, and a slower and uncertain recovery is expected afterwards. Exports remain the main engine of growth. Furthermore, inflation has fallen to a very low level due to external factors but also subdued domestic aggregate demand. There are no signs of a recovery in employment, and the unemployment rate exceeds 12% in 2014. Credit conditions are slowly improving but remain tight overall. The recently released update of the Economic and Financial Document (DEF) postpones the achievement of a balanced budget in structural terms to 2017 and slows down the reduction of the public debt-to-GDP ratio.

Reform momentum at government level has picked up but progress is uneven. Several ambitious reform packages that could represent a step-change still await full adoption or further implementing decrees and outcomes thus remain uncertain. Significant uncertainty surrounds the spending review, which is key for financing important measures in the coming years. The programme is lagging behind initial plans announced in 2013 and a recent change in approach may lower the quality of the cuts, while the implementation of the privatisation plan in 2014 has incurred a delay. After the recent completion of the Senate's first reading, the labour market reform enabling law ('Jobs Act') – which contains promising measures to address segmentation, increase exit flexibility and foster participation – is expected to be adopted by end-2014. A first step in reducing the tax wedge has been made and the implementation of the enabling law to reform the tax system is progressing, but progress in the important areas of tax expenditure revision and environmental taxation is still limited. An ambitious education system reform has been tabled (currently under consultation) with legislative follow-up expected for early 2015. Further progress in market opening and simplification for firms has been piecemeal, often owing to institutional barriers. A draft 2014 law on competition is being awaited. Steps have been taken to address energy, transport and telecom infrastructure bottlenecks. A broad set of measures to ease/diversify firms' access to finance has been implemented. Important efforts have been made to improve the functioning of the judicial system and a further ambitious package has been initiated, but full operationalisation has to be ensured. Last but not least, initiatives are being taken to modernise public administration and the proposed constitutional and institutional reforms are undergoing the legislative process.

While reform efforts are ongoing and several CSR deadlines are scheduled for end-2014 and early-2015, progress in the coming months will be crucial to evaluate Italy's success in implementing measures to address its imbalances. The beneficial effects of structural reforms will be delayed and reduced if the many institutional bottlenecks, implementation barriers and the weak enforcement capacity are not tackled as a matter of priority.

1. Introduction

On 13 November 2013, the European Commission presented, as part of the Macroeconomic Imbalances Procedure (MIP), its third Alert Mechanism Report[1] to underpin the selection of Member States requiring an in-depth investigation into whether macroeconomic imbalances exist. The subsequent third In-Depth Review[2] for Italy – published on 5 March 2014 – examined the nature, origin and severity of macroeconomic imbalances and risks in Italy. The Commission concluded that "Italy is experiencing excessive macroeconomic imbalances which require specific monitoring and strong policy action". In particular, the Commission emphasized risks related to Italy's very high public indebtedness and weak external competitiveness, both rooted in very low productivity growth.

In April 2014, Italy submitted its Stability Programme and National Reform Programme (NRP), respectively outlining updated fiscal targets and planned policy measures to restore economic growth and help unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of eight CSRs[3] on 2 June 2014 which were subsequently adopted[4] by the Council on 8 July 2014. The CSRs addressed to Italy concerned a wide range of policy domains: public finances, taxation, the public administration, justice and corruption, the financial sector, the labour market, education, business environment and competition, and network industries. All CSRs were considered to be relevant to address the imbalances identified in the context of the MIP.

Moreover, the first CSR addressed to euro-area Member States[5] called for an assessment of progress in delivering on reform commitments by euro-area Member States with excessive imbalances. The Commission therefore put in motion a specific monitoring of policy measures that could contribute to the unwinding of imbalances. The present report assesses the main policy measures taken by Italy since April 2014.[6] For this purpose, a first specific monitoring mission to Italy was conducted on 15-17 September 2014. An update of the present report is planned for early-2015 based on the findings of a second mission.

The present report reflects the content of the update of Italy's 2014 DEF, published on 1 October 2014, and the subsequent amendments that were made to it at end-October 2014. In order to avoid an overlap of surveillance processes, it does not provide an assessment of the revised fiscal targets (though clearly MIP-relevant). The latter assessment will be published in November 2014 at the latest on the basis of the more detailed 2015 Draft Budgetary Plan (DBP)[7], taking into account the outcome of the (forthcoming) Commission's 2014 Autumn Forecast.

[1] http://ec.europa.eu/europe2020/pdf/2014/amr2014_en.pdf
[2] http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp182_en.pdf
[3] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_italy_en.pdf
[4] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_italy_en.pdf
[5] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_euroarea_en.pdf
[6] Details on the measures taken can be found in the overview table in annex 2.
[7] Also known in Italy as the 2015 Stability Law

2. Recent macroeconomic developments

After shrinking by 1.9% in 2013, GDP growth is expected to remain negative in 2014. At the end of 2013, Italian real GDP was more than 8.5% lower than its pre-crisis peak in 2008. The crisis exacerbated Italy's already declining potential growth (Graphs 1 and 2[8]). Over the first half of 2014, real GDP continued to contract (by 0.3% on a yearly basis). With global trade unexpectedly losing momentum in the first half of 2014, Italy's exports stabilised and did not trigger the expected recovery in equipment investment, while private consumption was broadly flat. The softening in business confidence over the summer points to a weak performance for the rest of 2014. Overall, the Commission's forthcoming 2014 Autumn Forecast is likely to significantly revise downward growth rates for 2014 and to project a subsequent slower and uncertain recovery. Sustained external demand, further euro depreciation and improving financing conditions could provide some support to the growth outlook. In the DEF update published on 1 October 2014, the Italian authorities lowered significantly their GDP projections, mainly owing to a less favourable external environment and a lower and more gradual positive impact on growth of the repayment of public trade debt arrears which has incurred some delay. Under the updated DEF's unchanged-legislation scenario, real GDP growth is forecast at -0.3% in 2014 and gradually recovering as of 2015, but significantly less than projected in the 2014 Stability Programme.

The positive and rising current account mirrors public- and private-sector deleveraging. On the external side, the 12-month cumulative balance recorded a surplus of around 1.5% of GDP in July 2014, significantly higher than the 0.5% of GDP surplus recorded in July 2013. This is mainly driven by the strong decline in imports which may have a non-cyclical component, the fall in investment as both the corporate and the public sector continue to follow debt-reduction strategies, and households restoring their savings. In this context, bank lending to the corporate sector has continued contracting (-3.8% in August 2014 on an annual basis), increasingly driven by weak credit demand owing to: i) low aggregate demand expectations; ii) relatively high real interest rates driven by high credit risk, low inflation and continuing fragmentation in euro-area financial markets; iii) substantial deleveraging needs; (iv) increasing bond issuance by medium-sized and large enterprises. Credit supply constraints have decreased somewhat in recent months, though starting from a very tight position. Together with the expected end of the uncertainty related to the ECB's comprehensive assessment, Italian banks may restore credit to the economy. The evolution of corporate credit demand and supply will however ultimately be driven by economic recovery expectations.

Italy's recent price developments reflect external factors but also weak aggregate demand. HICP inflation has gradually fallen since the last quarter of 2012 and turned negative in August and stood at -0.1% (year-on-year) in September 2014, driven by lower domestic demand and energy prices (Graph 3). Core inflation (i.e. excluding unprocessed food and energy) also declined but was still slightly positive in September 2014 (+0.4% year-on-year). The recent euro depreciation may generate some imported inflationary pressure that

[8] All graphs can be found in annex 1.

– if combined with a gradual recovery in demand – could eventually sustain prices. On the other hand, the increase in unemployment has led to a slowdown of annual growth in contractual wages in recent months, easing labour cost pressures (Graph 4). Total and youth unemployment rates averaged 12.5% and 43.2% respectively over the first eight months of 2014, higher than in 2013 as a whole. There are no signs of a recovery in employment.

According to the updated DEF, the 2014 public deficit would remain within 3% of GDP. In the first eight months of the year, the state-sector cash borrowing requirement improved by around EUR 10 billion (0.6% of GDP) relative to the same period in 2013. Lower-than-forecast growth is affecting tax revenues, but lower interest expenditure helps public finances to partially counter negative macroeconomic developments as the spread between 10-year Italian and German sovereign bonds has fallen to below 150 basis points. In addition, the netting out of swaps implies a 0.2 pp. of GDP reduction in interest expenditure, compensated by a 0.2 pp. of GDP increase in capital expenditure related to the recording of deferred tax assets in accrual instead of cash terms under ESA 2010. According to Italy's 2014 updated DEF, public debt is set to reach 133.1% of GDP in 2015 and planned to decline as of 2016, also thanks to privatisation revenues amounting to 0.7% of GDP (see Section 3.1).

3. State-of-play of MIP-relevant reforms

3.1. Measures related to public finances and public debt sustainability

Italy's very high government debt is an important burden for the economy and a serious source of vulnerability, in particular in the current low growth and inflation context. Italy's public debt – consistently very high during recent decennia (Graph 5) – holds back growth through the high present and expected level of taxation needed to service it, the elevated interest bill limiting the room for productive public expenditure and the constrained ability to respond to economic shocks. Furthermore, the large stock of public debt implies substantial refinancing risk and makes the country vulnerable to sudden rises in sovereign yields and financial-market volatility in periods of increased risk aversion, with potential spill-over effects towards other countries. At this juncture, the correction of Italy's public debt imbalance is not facilitated by the protracted negative growth and low inflation. In particular, despite the large decline in Italy's sovereign risk premium in recent months, low inflation raises the real implicit interest rate on outstanding government debt, thereby deteriorating debt dynamics and increasing the real cost of financing to the economy.

The updated DEF postpones the achievement of Italy's medium-term objective (MTO) and slows down the reduction of the debt-to-GDP ratio in the coming years. Italy's 2014 Stability Programme foresaw a decline in the budgetary deficit from -2.6% of GDP in 2014 to -1.8% in 2015 and a (recalculated) structural budgetary adjustment of 0.2 pp. of GDP in 2014 and 0.4 pp. in 2015. The public debt-to-GDP ratio was projected to peak in 2014, after which the ratio would start a gradual decline. In the updated DEF published on 1 October 2014, subsequently amended at end-October 2014[9], the Italian authorities revised their targeted headline deficit to -2.6% of GDP. The updated DEF also postpones the planned achievement of Italy's medium-term objective (MTO) of a balanced budget in structural terms to 2017, while the public debt-to-GDP ratio is expected to peak only in 2015 at 133.1% (in ESA 2010 terms[10]) and to start declining as of 2016, albeit at a slower pace than foreseen in the 2014 Stability Programme. In its Staff Working Document[11] underlying the 2014 CSRs, the Commission considered – on the basis of its 2014 Spring Forecast – that in 2014 a minimum linear structural adjustment (MLSA) of 0.7 pp. of GDP (on an annual basis) would be needed to comply with the debt reduction benchmark over the transition period 2013-15. In the updated DEF, the authorities calculate that compliance with the MLSA – given the worse-than-expected economic conditions – would require an improvement of the structural balance of 0.9 pp. of GDP.

[9] The amendments are described in the 'Relazione di variazione alla Nota di Aggiornamento del Documento di Economia e Finanza 2014' of 28 October 2014

[10] Deficit- and debt-to-GDP ratios have been revised downward due to the introduction of ESA 2010 as compared to the figures in the 2014 Stability Programme which were still expressed in ESA 95 terms. Italy's 2013 public debt-to-GDP ratio has been revised from 132.6% under ESA 95 to 127.9% under ESA 2010 due to the upward revision of GDP under ESA 2010.

[11] http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_italy_en.pdf

There is significant uncertainty around the spending review which is expected to finance several key reforms in the coming years. Italy's new spending review phase[12] has already led to the legislating of 0.3% of GDP savings[13] and identified further potential sizeable savings. In addition, standard costs for the purchase of goods and services by all public administrations have been issued, with non-respect leading to penalization.[14] Further measures and amounts[15] which the government intends to realize under the spending review framework will be announced in the forthcoming 2015 DBP. The integration of spending reviews into the multi-annual budgetary process through performance budgeting also remains to be developed. In order to ensure full ownership of the expenditure savings to be accomplished, but in contrast with the spending review's initial approach, all Ministries have recently been asked to propose short-term spending cuts themselves. This approach may however negatively affect the quality of the spending cuts and jeopardize the objective of preserving growth-enhancing items and improving economic efficiency. The uncertainty around the spending review raises concerns given that the expected savings are supposed to finance several measures, including the extension of reduction in the labour tax wedge to 2015 and other growth-enhancing measures.

Italy's privatisation programme is incurring implementation delays. Besides the announcement of proceeds amounting to 0.7% of GDP per year over the period 2014-17 in the 2014 Stability Programme – confirmed in the updated DEF which extends the annual target to 2018 – limited concrete information is available on the amounts of shares to be sold, for which companies and according to which timeline. The recently published DEF update confirms the shortfall in 2014, with proceeds amounting to 0.4% GDP, including the reimbursement of EUR 3 billion of Monti bonds by Banca Monte dei Paschi di Siena. Other operations that could be implemented in the short term are the sale of the Ministry of Economy and Finance's (MEF) stake in the holding STH which controls STMicroelectronics and possibly 5% of ENEL shares (out of the 31.24% owned by the MEF). The privatisations of Poste Italiane (up to 40%) and ENAV (up to 49%) have been postponed and could take place in 2015. Other announced sales are those of SACE and CDP Reti, but the two companies are only under indirect control of the state through Cassa Depositi e Prestiti (CDP) and the amount distributed to the MEF in the form of super-dividends is not expected to be significant. Looking ahead, the rationalisation programme for local public enterprises[16] presented by the spending review commissioner in August 2014 and the revision[17] of Title V of the Constitution (governing the distribution of competences between state and regions) may facilitate the privatisation of companies owned by local authorities. Additional proceeds

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[12] Law 98/2013 of 9 August 2013 (Decree Law 69/2013 of 21 June 2013); an overview can be found at: http://revisionedellaspesa.gov.it/documenti/Revisione_spesa_-_Programma_di_lavoro_Nov_2013.pdf

[13] Law 64/2013 of 6 June 2013 (Decree Law 35/2013 of 8 April 2013), Law 147/2013 of 27 December 2013, Law 50/2014 of 28 March 2014 (Decree Law 4/2014 of 28 January 2014), Law 89/2014 of 23 June 2014 (Decree Law 66/2014 of 24 April 2014)

[14] Law 89/2014 of 23 June 2014 (Decree Law 66/2014 of 24 April 2014)

[15] Italy's 2014 DEF foresaw maximum gross savings of EUR 4.5 billion in 2014 (0.2% of GDP), EUR 17 billion in 2015 (1.1% of GDP) and EUR 32 billion in 2016 (2% of GDP).

[16] http://revisionedellaspesa.gov.it/documenti/Programma_partecipate_locali_master_copy.pdf

[17] Atto Senato no. 1429 and Atto Camera no. 2613

may come from the sale of real estate assets through newly established property investment funds; targeted proceeds amount to EUR 1.5 billion (0.1% of GDP) over the 2014-16 period.

The Fiscal Council[18] has recently become operational and is now building up the capacities required to fulfil its role in the budgetary process. The three board members of the Fiscal Council have been appointed and a memorandum of understanding on information exchange[19] was signed between the Fiscal Council and the MEF in September 2014. At the staff level, the 30-40 available positions have only been partially filled with personnel temporarily seconded from other public administrations, but staff recruitment is under way and the necessary skills are being built up. The Fiscal Council is mandated to publish independent assessments of the government's macroeconomic and budgetary projections and of the compliance with numerical fiscal rules. Regarding the current budgetary cycle, it is expected to assess by mid-October 2014 the government's macroeconomic forecasts underlying the 2015 DBP under the two different macroeconomic scenarios which the government has already published in the updated DEF (i.e. a trend scenario and a policy scenario, which incorporates the impact of the measures in the 2015 DBP on the economy). The macroeconomic assumptions included in the recent DEF update have already been assessed positively.[20]

3.2. Measures related to productivity growth and external competitiveness

Persistently sluggish productivity growth – rooted in structural weaknesses – negatively affects Italy's external competitiveness and public debt sustainability. Since the mid-1990s, Italy's overall and productivity growth have underperformed that of other euro-area Member States. Low productivity growth hampers competitiveness through both the cost and non-cost channel, and makes it more difficult to put the high public debt-to-GDP ratio on a sufficiently declining path. Italy's chronically weak productivity growth is rooted in numerous structural weaknesses.

Whether the envisaged reform of the labour market will improve the functioning of the labour market will depend on the design of the needed implementing decrees. Following the measures[21] in spring 2014 to relax some constraints on apprenticeship and temporary contracts, the Parliament[22] is now discussing an enabling law ('Jobs Act') which would allow the government to take action by decree within 6 months after parliamentary adoption (foreseen for end-2014) on a wide range of fronts: in view of: (i) introducing a new permanent contract with progressive entitlements for the new hires; (ii) further rationalising existing contracts; (iii) introducing the possibility for employers to redefine workers' tasks and remuneration in the context of firm restructuring during crisis situations; (iv) extending the coverage of unemployment benefits (possibly also to individuals in poverty, following a pilot project in 2014), while reducing the scope of application and duration of wage

[18] Also 'Ufficio Parlamentare di Bilancio' (UPB)
[19] Available at http://www.tesoro.it/documenti-allegati/2014/MEF-PBO_Memorandum_of_Understanding.pdf
[20] http://www.parlamento.it/1128?contenuto=226
[21] Law 78/2014 of 16 May 2014 (Decree Law 34/2014 of 20 March 2014)
[22] The Senate concluded its first reading on 8 October 2014 (Atto Senato no. 1428); the law is now in the Chamber of Deputies.

supplementation schemes; (v) reforming the governance of active labour market policies and their interplay with passive measures; (vi) better managing the supervision of the application of safety and security, fiscal and labour regulations at the workplace; (vii) introducing a statutory minimum wage for workers not covered by collective contracts; (viii) simplifying administrative obligations for employers; (ix) streamlining all existing hiring subsidies; (x) reducing tax disincentives to female (second-earners) employment, reorganising measures work-life and extending maternity benefits to categories not yet covered. The direction of the reform is broadly consistent with that of the 2012 reform[23], in particular as it also aims to address labour market segmentation, increase exit flexibility (at least for workers with lower seniority) and move further towards an integrated social safety net, with a strong emphasis on governance reforms and administrative simplification.[24] The potential gains in the area of active and passive labour market policies seem particularly promising, but the improved functioning of the public employment services is a long-awaited precondition.[25] The proposed new permanent contract for new entrants with progressive entitlements could improve labour market prospects for young people. A contentious issue is the extent to which it should entail reduced room for reinstatement in case of dismissals judged unfair.[26] Overall, the proposed actions, if adopted as a coherent and comprehensive package, appear adequate to address Italy's labour market challenges, notably with regard to facilitating the reallocation of labour towards growing sectors and firms, reducing segmentation and fostering labour market participation, particularly of women. The effectiveness of the reform will depend much on the design of the constituent measures and their subsequent implementation on the ground. Furthermore, the implementation of the agreement[27] signed in January 2014 to define trade unions' representativeness in collective bargaining at sectoral and firm level could help extend the reliance on second-level bargaining and thus induce greater responsiveness of wages to productivity developments and local labour market conditions. It is important that the government continues to monitor labour market developments, particularly with regard to job creation, labour market duality and labour cost developments.

The government has taken some steps to reform the taxation system and reduce the tax wedge, but the recommended revision of tax expenditure and environmental taxation which could finance a further reduction in labour taxes is not considered at this stage. The labour tax wedge on low-income workers was cut in April 2014 for 2014 and this measure is due to be financed also in 2015 through spending cuts (EUR 10 billion or 0.6% of GDP).[28] The implementation of the enabling law on taxation[29] – adopted by Parliament in

[23] Law 92/2012 of 28 June 2012
[24] Evidence on entry flexibility due to the simplification of apprenticeship contracts may come from observed hiring trends relating to the first half of 2014 (apprenticeship contracts: +16.1%; new fixed term contracts: +13%).
[25] The importance of well-functioning public employment services also became clear from the implementation of the Youth Guarantee launched in May 2014.
[26] Currently regulated by article 18 of Law 300/1970 of 20 May 1970 ('Statuto dei Lavoratori'), as revised by Law 92/2012 of 28 June 2012
[27] http://www.cisl.it/sito.nsf/Documenti/1150AACD1BCDDAEBC1257C5C0060D48A/$File/defiTesto-Unico-Rappresentanza11012014.pdf
[28] Law 89/2014 of 23 June 2014 (Decree Law 66/2014 of 24 April 2014)
[29] Law 23/2014 of 11 March 2014

February 2014 and which is a right step towards improving the efficiency in taxation – is progressing. Three enacting decrees[30] have been adopted by the government: a first one on the reform of cadastral committees (as a precondition for the reform of cadastral values), a second one on the simplification of the tax system, including through the introduction of pre-filled tax forms, and a third one on the revision of taxation on tobacco production and consumption. On cadastral values, the entire revision process is planned to be completed by 2018. Afterwards, regular updates of cadastral values will be carried out. Further enacting decrees are expected to be adopted before the expiry of the enabling law in March 2015. These relate in particular to fiscal tutoring and cooperative compliance for large firms, and the reduction in tax-related red tape for small businesses. The implementation of other important elements under the enabling law is taking longer than expected, putting at risk the fulfilment of the March 2015 deadline (set by the enabling law and reflected in the CSR) for important provisions, notably: (i) the revision of tax expenditure[31], where the government is currently updating the list of tax expenditure items[32] and analysing which ones could be reduced or eliminated but no enacting decree is in sight yet; (ii) environmental taxation[33], where further action should be taken. Both measures could however finance a further reduction of taxes on labour, in line with Italy's CSRs.

The ideas to reform the education system are promising but their implementation will require an enduring commitment. The government has recently launched a public consultation[34] for the reform of the education system. The main feature of the reform of the teaching profession is the replacement of the current seniority-based teacher career system with a merit-based system, which would be a major innovation in Italy's education system. Meanwhile, the government also proposes to recruit on a permanent basis as of September 2015 almost 150 000 teachers now working with temporary contracts (estimated cost: ca. EUR 3 billion in 2015-16); from 2016 onwards access to the profession would only be possible via open competitions. In the area of work-based learning, the government plans to make traineeships compulsory for pupils in the last three years of upper secondary vocational education. The public consultation will be closed on 15 November 2014 and a legislative follow-up is expected in early-2015. Other measures are ongoing: (i) the implementation of the National System for Evaluation of schools has started since the 2014-15 school year[35]; (ii) the share of performance-related public funding to universities will increase from 13.5% in 2013 to 18% in 2014 and standard costs will be defined and gradually introduced over 2014-18 as criteria for allocating the remaining share of public funding; (iii) a quality-rewarding financing model for the Higher Technical Institutes will be introduced in 2015; (iv) the national register of qualifications is planned to be ready by November 2014 and will consist of a single database containing existing regional skill qualification systems. Overall, if all the

[30] Atto del Governo no. 99, 99 bis, 100 and 106; as these enacting decrees have been issued under an enabling law, the Parliament only has the right to express a non-binding opinion on them.
[31] Law 90/2013 of 3 August 2013 (Decree Law 63/2013 of 4 June 2013) already reduced somewhat the scope of application of reduced VAT rates.
[32] To be published in the forthcoming 2015-18 Stability Law
[33] Decree of the President of the Council of Ministers (DPCM) of 20 February 2014, tax expenditure related to the consumption of diesel in the freight transport sector was reduced.
[34] Consultation open at https://labuonascuola.gov.it
[35] Decreto del Presidente della Republica 80/2013 of 28 March 2013

measures are adopted and swiftly implemented as expected by mid-2015, Italy would substantially address its CSR in the field of education.

Market opening in services and network industries needs to be taken up again, after the standstill following the measures taken in 2012. Since the measures of 2012, limited action has been taken. Since 2009, the government is required by law[36] to present to Parliament each year a draft law on competition ('legge annuale per il mercato e la concorrenza') taking into account recommendations by the Italian Competition Authority. No such law has yet been adopted, although some elements were included in other laws[37]. In its latest report of July 2014[38], the Competition Authority identified important barriers to competition in several sectors of the economy: insurance, banking, telecommunication, fuel distribution, pharmaceutical products, professional services (e.g. lawyers and notaries), local transport services (including railways), waste, postal services, health services, electricity and gas, ports and airports. In addition, Italy's retail sector requires close monitoring of the effectiveness of its regulatory framework, notably at local level given low productivity. The adoption by the government and subsequent swift approval by the Parliament of an ambitious draft law on competition (foreseen for September 2014 by Italy's 2014 National Reform Programme) could prove Italy's determination to pursue market opening and effectively tackle established rent-seeking positions. A milestone would be the reform of local public services, in particular local public transport. At present, an observatory on local public services has been established and a draft enabling law on the public administration (now being discussed in Parliament[39]) provides a mandate to the government to reform the sector. As to the rectification of contracts not complying with EU requirements on in-house awards – as required by end-2014 in Italy's CSR and Italian legislation – there is no assessment yet on the number and size of such contracts. Finally, the Transport Authority is now operational (the CSR deadline was September 2014) and counts 40 staff (out of the 140 initially foreseen). It has started to take some regulatory actions that may help opening the transport sector and ensure the smooth functioning of the market (e.g. as to access to railway infrastructures, passenger rights, airport tariffs and tender criteria for highways and local public transport).

Business environment simplification measures have been numerous but piecemeal, while significant implementation gaps reduce the potential benefits. Several simplification packages[40] were adopted since 2012, but important implementation gaps persist and ambition appears to remain limited. For example, the government has still not yet adopted most of the secondary legislation required by the 2012 'Semplifica Italia' law[41] and

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[36] Law 99/2009 of 23 July 2009
[37] Law 116/2014 of 11 August 2014 (Decree Law 91/2014 of 24 June 2014), Decree Law 133/2014 of 12 September 2014
[38] Segnalazione AS1137 ('Proposte di riforma concorrenziale ai fini della legge annuale per il mercato e la concorrenza')
[39] Atto Senato no. 1577
[40] The main simplification packages are included in Law 27/2012 of 24 March 2012 (Decree Law 1/2012 of 24 January 2012), Law 35/2012 of 4 April 2012 (Decree Law 5/2012 of 9 February 2012), Law 98/2013 of 9 August 2013 (Decree Law 69/2013 of 21 June 2013) and Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014).
[41] Law 35/2012 of 4 April 2012 (Decree Law 5/2012 of 9 February 2012); for the state of its implementation, see the February 2014 hearing of G. Squinzi, Chairman of Confindustria, in the Italian Parliament.

by the 'blanket' article 1 of Law 27/2012 (Decree Law 1/2012 of January 2012), which aimed at eliminating all administrative requirements (e.g. permits, authorisations, planning provisions) that impose restrictions on economic activity and are not justified by the public interest. If adopted, these measures would however have a strong market opening potential, but their correct and swift implementation at local level would have to be scrutinised given the risk of uneven implementation of new rules across the country. In addition, the frequent piecemeal legislative approach increases further the risk of inconsistencies and hampers the stability and clarity of the legal environment for economic actors.[42] The planned institutional reforms and the planned 2015-17 Simplification Agenda to be adopted by end-October 2014 could improve this situation in the medium term (see Section 3.3). In the field of energy costs, SMEs will benefit as of 2015 from a 10% reduction in the cost of electricity through the elimination of rents and fossil fuel subsidies and a change in renewable energy incentives.[43]

Some steps have been taken to address the infrastructure bottlenecks in the electricity, gas, transport and telecommunication sectors. The government has identified 'strategic' infrastructures in the energy sector[44] which will benefit from a facilitated authorisation process (infrastructures include those listed under the European Commission's 'Projects of Common Interest'); a selected number of these infrastructures could also receive public support in the form of a return guarantee on the basis of criteria to be defined by end-2014.[45] It has also been decided that for as long as the new interconnection capacity with Sicily will not be operational (foreseen for mid-2015), the island’s electricity generators' remuneration will be determined by the energy regulator and not be based on market dynamics. Furthermore, provisions[46] have recently been set out to accelerate the implementation of transport infrastructure projects already financed (e.g. motorways, railways and airports) for a total value of EUR 27.1 billion. Additional funding for projects financed only in part and that are ready to start within 10 months is foreseen. Furthermore, a national plan for the logistical developments of ports and related transport infrastructure needs to be detailed and implemented. With regard to fixed high-speed broadband, for which coverage and penetration in Italy are among the lowest in the EU, incentives have been legislated[47] targeted at private operators investing in areas where investment would otherwise not be profitable (so-called ‘white areas’). While these measures may be a welcome step to address infrastructure bottlenecks, it is crucial that the impact on public finances, also in terms of contingent liabilities, is monitored.

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[42] For example, over the last two years, the regulatory framework for the regeneration of brownfield was changed by Law 35/2012 of 4 April 2012 (Decree Law 5/2012 of 9 February 2012), Law 134/2012 of 7 August 2012) (Decree Law 89/2012 of 22 June 2012), Law 27/2012 of 24 March 2012 (Decree Law 1/2012 of 24 January 2012), Law 98/2013 of 9 August 2013 (Decree Law 69/2013 of 21 June 2013), Law 9/2014 of 21 February 2014 (Decree Law 145/2013 of 23 December 2013), Law 116/2014 of 11 August 2014 (Decree Law 91/2014 of 24 June 2014) and Decree Law 133/2014 of 12 September 2014.

[43] Law 116/2014 (Decree Law 91/2014)

[44] Decree Law 133/2014 of 12 September 2014

[45] The infrastructures identified include those listed under the European Commission's 'Projects of Common Interest', which are available at http://ec.europa.eu/energy/infrastructure/pci/doc/com_2013_0711_en.pdf.

[46] Decree Law 133/2014 of 12 September 2014

[47] Decree Law 133/2014 of 12 September 2014

Italy has implemented a broad set of measures to ease and diversify firms' access to finance. Over the past year, Italy has made significant progress in enabling and incentivizing firms to diversify their external funding sources. The measures in question include *inter alia* the strengthening of the allowance for corporate equity (ACE[48]) framework[49], the enhancing of the mini-bond framework[50], the encouraging of SMEs to list themselves on the stock market[51], the incentivizing of foreign and institutional investors such as insurers to finance the real economy (including through direct lending)[52] and the setting up of private-debt and venture-capital funds-of-funds by Cassa Depositi e Prestiti. Most measures are fully implemented, except for 'super-ACE' which requires prior approval from the European Commission[53] and the establishment of prudential rules governing direct lending activity by institutional investors which are in the pipeline. Recent signals on the take-up of some of the above-mentioned measures are encouraging. Ultimately however, awareness among market participants, the appetite of institutional investors and the extent to which bank credit will recover will determine whether these measures will collectively be able to gradually reshape the Italian financing landscape in the direction of more non-bank financial intermediation and make SMEs' balance sheets more resilient. Finally, to mitigate SMEs' difficult access to credit, measures such as the enhancing of the Central Guarantee Fund for SMEs and easing its access criteria[54], the successive loan moratoriums and the financing support by CDP through the banking sector (e.g. 'Nuova Sabatini'[55] and 'Piattaforma Imprese'[56]) have been taken.

3.3. Measures related to the institutional capacity to implement reforms

Bottlenecks of institutional nature represent major impediments to the materialisation of reforms' beneficial effects on the economy. Reform momentum at government level has picked up in recent months, but the effective implementation of policy measures adopted recently and in previous years remains the country's Achilles' heel. Important institutional challenges still exist at least at three levels. First, law-making processes are often lengthy and cumbersome. The fragmentation of measures over different legal instruments leading to piecemeal legislation, the frequent use of speedy decree laws favouring a wide range of

[48] ACE stands for 'aiuto alla crescità economica' and in this context refers to an 'allowance for corporate equity' to help overcome firms' debt bias in external funding and as such strengthen corporate balance sheets.

[49] Law 147/2013 of 27 December 2014, Law 116/2014 of 11 August 2014 (Decree Law 91/2014 of 24 June 2014)

[50] Law 134/2012 of 7 August 2012 (Decree Law 83/2012 of 22 June 2014), Law 221/2012 of 17 December 2012 (Decree Law 179 of 18 October 2012), Law 9/2014 of 21 February 2014 (Decree Law 145/2013 of 23 December 2013), Law 116/2014 of 11 August 2014 (Decree Law 91/2014 of 24 June 2014)

[51] Law 116/2014 of 11 August 2014 (Decree Law 91/2014 of 24 June 2014)

[52] Law 116/2014 of 11 August 2014 (Decree Law 91/2014 of 24 June 2014)

[53] 'Super-ACE' increases by 40% the amount of equity capital raised by SMEs deciding to list themselves on a stock exchange to determine the tax-deductible allowance during the first three years of being quoted. To take effect, the measure requires prior authorisation on the basis of article 108 TFEU to ensure the compatibility of state aid and the functioning of the internal market.

[54] Law 98/2013 of 9 August 2013 (Decree Law 69/2013 of 21 June 2013), Law 147/2013 of 27 December 2014

[55] Law 98/2013 of 9 August 2013 (Decree Law 69/2013 of 21 June 2013); more information available at http://www.abi.it/Pagine/Mercati/Crediti/Credito-alle-imprese/ConvenzioniABI-Cdp-per-lePmi/Beni-strumentali-Nuova-Sabatini.aspx.

[56] More information available at http://www.abi.it/Pagine/Mercati/Crediti/Credito-alle-imprese/ConvenzioniABI-Cdp-per-lePmi/Plafond-Piattaforma-imprese.aspx.

partial measures over more profound structural reforms, and lags in the adoption of required implementing legislation[57] tend to create legal uncertainty for all actors involved. Second, in the field of implementation, the overlapping of competences between state and regions, the lack of coordination in the division of responsibilities between central and local public administrations and the continued existence of bureaucratic rules and procedures at local level hamper measures from reaching their full potential, especially in competition and business environment simplification. Sometimes, the lack of adequate capabilities and capacity within local public administrations impair the efficient execution of public tasks. Third, the actual enforcement of new policy measures is being hampered and discouraged by Italy's ineffective judicial system characterised by a large backlog of cases and very long duration of court proceedings. Also corruption continues to undermine the application of rules on the ground. For Italy's current and future reform agenda to truly take root, the above-mentioned institutional weaknesses must be addressed as a matter of priority.[58] Only then will the expected positive effects of reforms on the business environment, productivity, growth and competitiveness be able to materialise.

Italy has embarked on comprehensive institutional reforms which could significantly enhance Italy's institutional capacity to adopt and implement legislation. In April 2014, a law[59] entered into force reorganising and rationalising local administrations, in particular provinces which were redefined and for which the competences were limited. The implementation process is still ongoing. A draft new electoral law which aims to foster a more stable majority in Parliament and reduce political party fragmentation has been approved by the Chamber in March 2014 and is still to be discussed by the Senate[60], while the 2014 NRP foresaw its final parliamentary approval for September 2014. In March 2014, the government tabled an ambitious draft constitutional bill that intends to accelerate the parliamentary approval of legislation, reduce the cost of politics and increase political and regulatory certainty and efficiency through a reduction of the size and a reform of the role of the Senate, the abolition of provinces as constitutionally recognised authorities and a clarified distribution of competences between state and regions (as governed by Title V of the Constitution). The draft constitutional bill needs to undergo at least four readings with final parliamentary approval envisaged by end-2015 (mid-2016 if less than two thirds of the Parliament approves the final text and therefore a referendum is needed). The Senate[61] completed the first reading in August 2014, and the bill is now in the Chamber[62] which is

[57] According to the government, 473 implementing measures (41% of the total) stemming from legislation adopted under the Monti and Letta administrations still need to be adopted (status at end-September 2014). The Government Programme Office ('Ufficio per il Programma di Governo') monitors and reports on the implementation of adopted legislation. Since July 2014, the government has introduced extra steps to strengthen the monitoring of implementation.

[58] According to the World Economic Forum's 2014-2015 Global Competitiveness Report, Italy ranks near the bottom of all 144 countries in the domains of transparency of government policymaking, burden of government regulation, efficiency of the legal framework in settling disputes and challenging regulations, favouritism in decisions of government officials and public trust in politicians (Graph 6). It should be noted that the rankings are mainly based on respondents' perceptions.

[59] Law 56/2014 of 7 April 2014

[60] Atto Senato no. 1385

[61] Atto Senato no. 1429

[62] Atto Camera no. 2613

expected to vote by end-2014. If not weakened during the parliamentary adoption process and well implemented, the constitutional reform could contribute to smoother processes of adoption and implementation of reforms.

Measures have recently been taken to reform and modernise Italy's public administration, but there is still a long way to go. Following the June 2013 law[63], a law of August 2014[64] contained provisions to: (i) ease staff turnover to reduce the average age; (ii) enhance mobility – both voluntary and compulsory – to make the allocation of staff more efficient; (iii) contain the compensation of top officials in local administrations and of state attorneys; (iv) prevent conflicts of interest. Though welcome, the more ambitious steps are foreseen in a draft law currently considered by the Senate[65] which – when approved – will enable the government within 18 months after adoption to further reorganise the public administration, *inter alia* with regard to local public services, the state's administration, the performance evaluation of managers and corruption prevention. In August 2014, some measures[66] were also enacted to streamline public bodies and procedures and save costs (in line with spending review objectives): public procurement will be rationalised and professionalised through CONSIP and a limited number of central purchasing bodies[67], some public bodies are to be abolished, the recruitment and procurement of independent authorities will be rationalised and the monitoring of publicly-owned enterprises will be strengthened. The same law also foresees the adoption of a 'Simplification Agenda for 2015-17' by end-October 2014 to establish a more coherent framework for simplification by fostering more effective cooperation between the central and regional government levels. The initiative would also include a programme for the measurement and monitoring of administrative burden.

Italy has undertaken important reform efforts to improve the functioning of civil, commercial, and administrative justice, and a more ambitious package has been launched, but operationalisation should be ensured and its impact on judicial efficiency systematically recorded. Italy's judicial system has in recent years undergone several reforms, both on the supply and demand side. On the demand side, following the introduction of compulsory mediation in 2013[68], a Decree Law[69] of end-August 2014 introduced further measures to reduce high litigation and the case backlog, including by: i) fostering ex-ante out-of-court settlement by voluntary conciliation; ii) resorting to lawyers as arbitrators to solve pending cases; iii) increasing the opportunity cost of unjustified litigation by new

[63] Law 98/2013 of 9 August 2013 (Decree Law 69/2013 of 21 June 2013); this law introduced financial penalties for administrations responsible for delays in administrative procedures and single dates for the entry into force of new administrative obligations for citizens and firms, and fostered the digitalisation of administrative acts.
[64] Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014)
[65] Atto Senato no. 1577
[66] Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014)
[67] Further measures on public procurement are included in Law 89/2014 of 23 June 2014 (Decree Law 66/2014 of 24 April 2014), Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014) and a draft enabling law for the transposition of recent EU Directives on public procurement as part of the 'Sblocca Italia' package announced at end-August 2014.
[68] Law 98/2013 of 9 August 2013 (Decree Law 69/2013 of 21 June 2013)
[69] Decree Law 132/2014 of 12 September 2014

regimes of legal expenses and overdue interests. Concerning compulsory mediation, evidence shows that the respondent attended the mediation meeting only in one third of cases, with a success rate of around 44% (plus additional 5-6% of cases in which a positive agreement was found outside the formal mediation process).[70] On the supply side, Italy completed a broad reorganisation of its judicial geography which was initiated in 2012[71], decreasing the number of first instance courts significantly, yet beneficial impacts on judicial efficiency are not yet evident from available data. Recent provisions[72] also enhance the digitalisation of civil, administrative and tax-related procedures and aim to reduce trial times and case backlogs. Despite having decreased by 14.9% since end-2009, the backlog of court cases in Italy still amounted to over 5 million at end-2013, the highest number in Europe.[73] Furthermore, following a set of 12 guidelines for the future judicial system reform submitted for public consultation in summer several draft laws were announced at end-August 2014, including one enabling the government to adopt within 12 months after parliamentary approval further measures to increase judicial efficiency (for example by strengthening courts specialised in businesses and family cases). It is important that the full operationalisation of all reforms is ensured and that their impact on judicial efficiency is systematically recorded, in particular with regard to disposition time.

Italy has made first efforts to step up the prevention and repression of corruption, and the legislative process on the revision of the statute of limitations is being initialised. In terms of corruption prevention, the Italian national anti-corruption authority (ANA) was endowed with broader powers in public procurement[74], by merging it with the former supervisor of public works AVCP (in turn dissolved), also absorbing its personnel. The president of ANA is due to present by end-2014 a reorganisation plan to ensure the fulfilment of the main functions of AVCP. Other enacted provisions broadened rules on transparency and conflict of interest among members of independent authorities and public administrations contracting out studies and consulting activities. In terms of corruption repression, the reform of the statute of limitations is contained in a draft law announced by the government at end-August (the CSR set end-2014 as deadline). Additional announced measures that are due to be presented to Parliament soon aim at broadening the repression framework to accounting fraud and self-laundering.

If implemented timely and rigorously, the strategy to tackle the late-payment tendency of the Italian public administration looks promising. In June 2014, the Commission opened an infringement procedure by sending a letter of formal notice to the authorities, following its conclusion that Italy is still not respecting the Late Payments Directive, in particular the 30-calendar-day period within which public authorities have to pay their creditors. Since April 2013 and through various laws[75], the Italian public administration has

[70] Source: DEF update (p. 94) and 2014 EU Justice Scoreboard
[71] Law 148/2011 of 14 September 2014 (Decree Law 138/2011 of 13 August 2011)
[72] Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014)
[73] Source: DEF update (p. 94)
[74] Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014)
[75] Law 64/2013 of 6 June 2013 (Decree Law 35/2013 of 8 April 2014), Law 124/2013 of 28 October 2013 (Decree Law 102/2013 of 31 August 2014), Law 147/2013 of 27 December 2014, Law 89/2014 of 23 June 2014 (Decree Law 66/2014 of 24 April 2014)

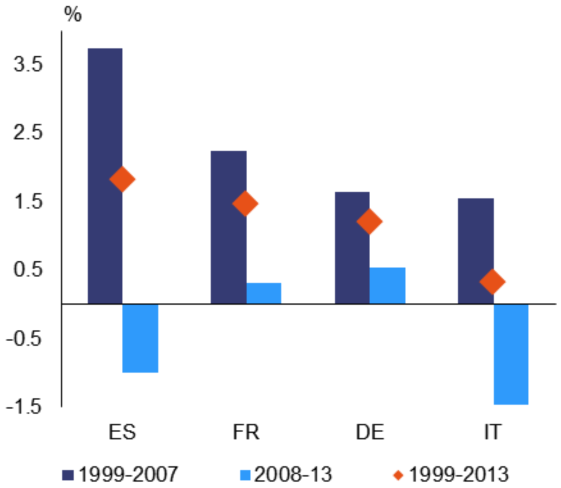
made available almost EUR 57 billion to clear its trade debt arrears.[76] At end-September 2014, EUR 31.3 billion had been paid out. Electronic platforms have been set up where creditors can register (up to end-October 2014) electronically trade debt in arrears that originated before 2014 to obtain a government guarantee or sell them to financial intermediaries. By March 2015, all public administrations – including local – will have to regularly update debt incurred since 2014 and accept only electronic invoicing by suppliers of goods and services (sanctions apply in case of non-compliance). If the timeline set out is strictly adhered to, the strategy will make the outstanding stock of trade debt transparent, significantly lower the cost for firms serving public administrations, and clarify and reduce actual payment delays, while gradually bringing Italian practices in line with the requirements of the EU's Late Payments Directive by 2015.

Italy has taken steps to strengthen its management of EU structural funds, but implementation is slow and some concerns remain. The Italian management of EU structural funds – especially in the south – has been characterised by fragmentation, delayed project implementation and low absorption of funds[77]. The operationalisation of the Territorial Cohesion Agency[78] set up in 2013 is slowly progressing: a Director has been recruited in July 2014 and the Agency's statute was approved in August 2014, but its staff is not yet complete. Whether the Agency will be able to bring positive change will mainly depend on its relation with local administrations and the latter's capacity. Each region is required to prepare an administrative reinforcement plan to be endorsed at the highest political level as a precondition to receiving funds. This is just a first step towards tackling local bottlenecks. Finally, a recent decree law[79] – not yet approved by Parliament – grants the Prime Minister direct monitoring and intervention powers to ensure the timely use of funds.

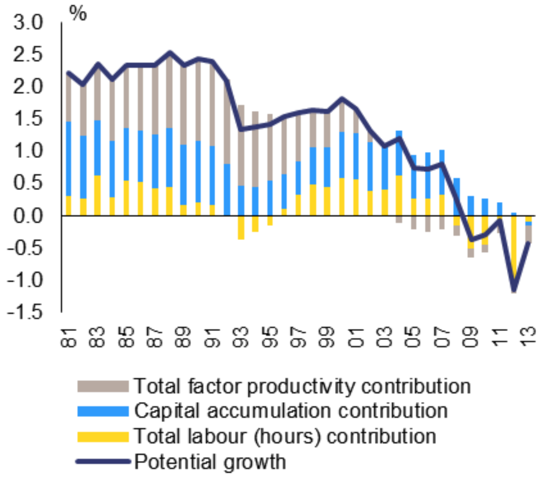
[76] In its 2013 Annual Report, the Bank of Italy estimated that at end-2013, around EUR 75 billion of commercial debt owed by the public administration was still outstanding (incl. the part still within contractual deadlines).
[77] At mid-September 2014, 58% of the EUR 28 billion EU resources for the period 2007-2013 had been spent, one of the lowest shares across EU Member States.
[78] This agency was set up by Law 125/2013 of 30 October 2013 (Decree Law 101/2013 of 31 August 2013) and will monitor and support central and regional administrations receiving EU structural funds. It will also be able to take over the management of funds in case of irregularities or unjustified delays.
[79] Decree Law 133/2014 of 12 September 2014

Annex 1: Graphs

Graph 1: **Average real GDP growth in selected euro-area countries**

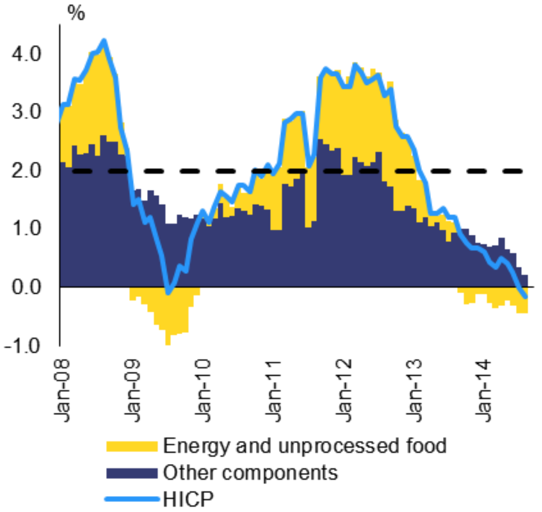


Graph 2: **Potential growth and components**

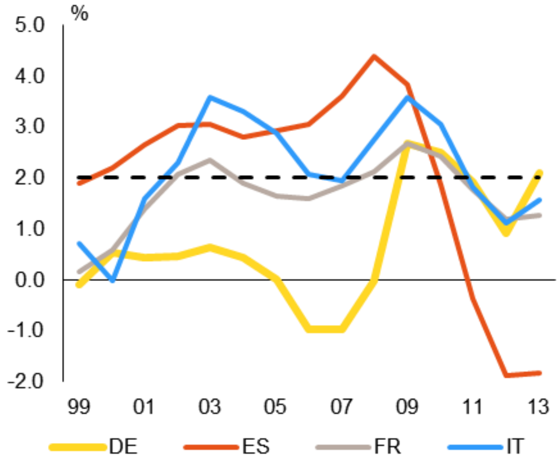


Note: Data are based on ESA 2010.

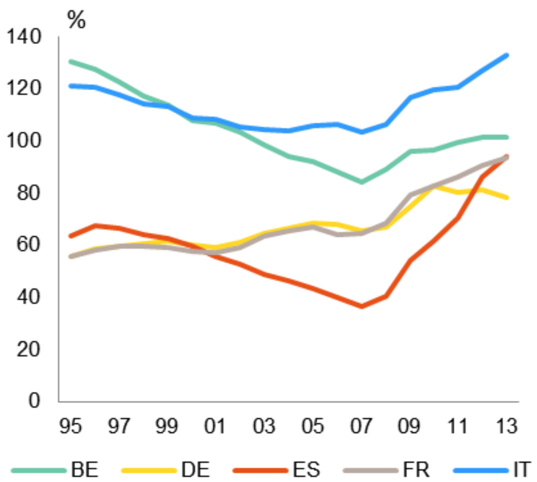
Graph 3: **HICP and its components**



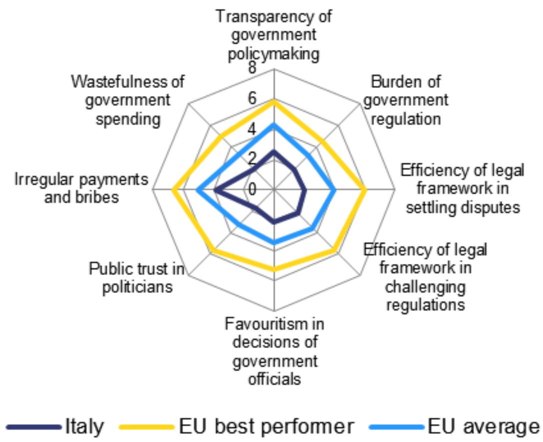
Graph 4: **Annual growth in nominal unit labour costs in selected euro-area countries (3-year moving average)**



Graph 5: **Public debt-to-GDP ratio in selected euro-area countries**



Graph 6: **Selected perception indicators regarding institutional environment**



Source: World Economic Forum 2014-15 Global Competitiveness Report

Annex 2: Overview of MIP-relevant reforms

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
Measures related to public finances and public debt sustainability			
[CSR 1] Reinforce the budgetary measures for 2014 in the light of the emerging gap relative to the Stability and Growth Pact requirements, namely the debt reduction rule, based on the Commission services 2014 spring forecast and ensure progress towards the MTO. In 2015, significantly strengthen the budgetary strategy to ensure compliance with the debt reduction requirement and thus reaching the MTO.	• Compliance with EU budgetary rules will be ensured, but flexibility is required to allow reforms to work through in the medium and long term, to mitigate any short-term negative impact, and allow the full use of structural funds for investment and the Youth Guarantee. The strategy for the settlement of all public administration payables in arrears shall be pursued according to the arrangements agreed with the EU. • Ensuring that the deficit does not exceed 3% of GDP. Identifying the best strategy, consistent with the reform agenda, to comply with the debt and structural balanced budget criteria.	July 2014	• **October 2014:** The updated DEF announces an expansionary budget in 2015 and postpones the planned achievement of Italy's MTOof a balanced budget in structural terms to 2017. In particular, the updated DEF's policy scenario foresees a very small decline in the headline deficit of -3% of GDP in 2014 to -2.9% in 2015.
[CSR 1] Ensure that the general government debt is on a sufficiently downward path; carry out the ambitious privatisation plan.	• Divestment of stakes in companies directly or indirectly owned by the state through annual privatisation plans over the 2014-2017 period. Introducing instruments to conduct effective privatisation processes at local level. • Privatising state-owned companies for approximately 0.7 pp. of GDP per year over the 2014-17 period. Reducing public debt and trimming unproductive expenditures.	2014-17	• **October 2014:** Italy's public debt-to-GDP ratio is expected to peak in 2015 at 133.4% (in ESA 2010 terms) and to start declining only as of 2016, albeit at a slower pace than foreseen in the 2014 Stability Programme. The updated DEF indicates that the privatisation programme is falling behind in 2014 with proceeds amounting to around 0.4% GDP, including the reimbursement of EUR 3 billion of Monti bonds by Banca Monte dei Paschi di Siena. In the updated DEF, the government confirmed its commitments to deliver 0.7% of GDP worth of privatisations per year and extended this target also to 2018.
[CSR 1] Implement a growth-friendly fiscal adjustment based on the announced significant savings coming from a durable improvement of the efficiency and quality of public expenditure at all levels of government, while preserving growth-enhancing spending like R&D, innovation, education and essential infrastructure projects.	• Realising maximum gross savings of EUR 4.5 billion to be achieved in 2014, EUR 17 billion in 2015 and EUR 32 billion in 2016 (with all measures in place). • Increasing public expenditure efficiency by eliminating the wasteful use of resources and structural inefficiencies, and use freed-up resources for productive purposes and social programs.	2014, 2015, 2016	• **2013-14:** 0.3% of GDP savings for 2014 have been legislated so far (Law 64/2013 of 6 June 2013, Law 147/2013 of 27 December 2013, Law 50/2014 of 28 March 2014, Law 89/2014 of 23 June 2014), but some of the savings are the result of linear expenditure cuts. The framework for spending cuts in 2015 – including amounts and measures – will be presented in the forthcoming 2015 Stability Law. • **June 2014:** Under Law 89/2014, standard costs for the purchase of goods and services by all public administrations have been issued, with non-respect leading to penalization. • **July 2014:** The 2014-16 National Health Pact was agreed between state and regions to improve the quality of health expenditure, in particular by implementing a new governance model for the national health system and introducing standard costs. • **August 2014:** Law 114/2014 grants anti-corruption agency ANA

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
			supervisory powers in the field of public procurement. The public procurement framework is also enhanced and professionalised through CONSIP and a limited number of central purchasing bodies. • **June 2014:** Law 89/2014 of 23 June 2014 made electronic invoicing by the public administration mandatory, first at central level and then at sub-central level. By end-March 2015, all public administrations should use e-invoicing.
[CSR 1] Guarantee the independence and full operationalisation of the Fiscal Council as soon as possible and no later than September 2014, in time for the assessment of the 2015 Draft Budgetary Plan.	• N/A	N/A	• **Q3 2014:** The Fiscal Council has recently become operational. Board members have been appointed and a memorandum of understanding on information exchange has been signed between the Fiscal Council and the MEF. Staff recruitment is under way and the capacities required to fulfil its role in the budgetary process are being built up. It has already endorsed the trend scenario included in the updated DEF.
Measures related to productivity growth and external competitiveness			
[CSR 2] Further shift the tax burden from productive factors to consumption, property and the environment, in compliance with the budgetary targets. To this end, evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure its financing for 2015, review the scope of direct tax expenditures and broaden the tax base, in particular on consumption.	• Cutting personal income tax (IRPEF) by approximately EUR 10 billion annually using funds freed up by the spending review. Employees earning less than EUR 25 000 before taxes (ca. 10 million people) will each receive approximately EUR 1 000 per year in additional take-home pay. Furthermore, cutting by 10% the regional business tax (IRAP) levied on companies, to be funded through a simultaneous increase in the financial activities tax.	May 2014	• **June 2014:** Law 89/2014 introduced the reduction in the labour tax wedge (EUR 10 billion or 0.6% of GDP per year) for low-income earners and a reduction of 10% in the regional business tax (IRAP). The latter measure is financed through the increase of taxation of financial asset returns from 20% to 26% (except returns on postal savings and government bonds). • **October 2014:** The updated DEF states that further IRAP cuts will be included in the 2015 Stability Law. It also announces the financing of the IRPEF tax cut in 2015 through spending cuts.
[CSR 2] Ensure more effective environmental taxation, including in the area of excise duties, and remove environmentally harmful subsidies. Implement the enabling law for tax reform by March 2015, including by adopting the decrees leading to the reform of the cadastral system to ensure the effectiveness of the reform of immovable property taxation. Further improve tax compliance by enhancing the predictability of the tax system, simplifying procedures, improving tax debt recovery and modernising tax administration. Pursue the fight against tax evasion and take additional steps against the shadow economy and undeclared work.	• Full implementation of enabling law for tax reform, notably: i) revising tax expenditures; ii) improving tax compliance also by simplifying procedures and cooperative compliance; iii) reforming cadastral values; iv) enhancing environmental protection through new fuel and environmental taxes, also to reduce income taxation.	March 2015 (except for the complete revision of cadastral system: by 2018)	• **March 2014:** Enabling law on taxation adopted by Parliament in February 2014 enters into force (Law 23/2014). • **July 2014:** Draft legislative decree (Atto del Governo no. 99 and 99 bis) on tax simplification and compliance (including the introduction of pre-filled tax forms), currently submitted to the (non-binding) opinion of the Parliament (under enabling law). • **July 2014:** Draft legislative decree (Atto del Governo no. 100) on the reform of cadastral committees (precondition for the revision of cadastral values), currently submitted to the (non-binding) opinion of the Parliament (under enabling law). • **September 2014:** Draft legislative decree (Atto del Governo no. 106) on the revision of taxation of tobacco production and consumption, currently submitted to the (non-binding) opinion of the Parliament (under enabling law). • **June 2014:** Law 89/2014 mandates the government to report on and fight tax evasion. The report was approved in October 2014

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
[CSR 4] Foster non-bank access to finance for firms, especially small and medium-sized businesses.	• Boosting corporate lending, especially for investment in research, development and innovation, *inter alia* through tax benefits for firms that upgrade their production sites. Making available an additional EUR 670 million for the Central Guarantee Fund for SMEs in 2014 and a total of EUR 2 billion over the period 2014-16	September 2014	• **August 2014:** CDP and the Italian Banking Association (ABI) signed the 'Piattaforma Imprese' convention, freeing up EUR 5 billion to support financing to firms (the programme is further divided in four compartments). • **April 2014:** 'Nuova Sabatini' provisions enter into force. Under this programme, firms can apply to CDP's EUR 2.5 billion 'Plafond Beni Strumentali' to obtain financing through banks for investment in machinery and equipment, hard – and software and digital technology (until end-2016). The measure is further complemented by contributions from the Ministry of Economic Development to the interest on the loans in question.
	• More extensive contributions by institutional investors to Italian companies by channelling savings towards mini-bonds and loan funds	September 2014	• **August 2014:** Law 116/2014 extended the favourable withholding tax regime already applicable to interest paid by listed bonds to interest paid by unlisted (corporate) bonds (thus including mini-bonds), as such aligning tax incentives for investment in both types of instruments. To foster investment by institutional investors, the latter were exempted from paying withholding taxes. Also foreign investors were exempted from the withholding tax regime applicable to their medium- and long-term financing to the Italian economy. Furthermore, Law 116/2014 allowed insurance companies, securitisation firms and collective investment funds to provide direct lending to firms (banks will however remain responsible for the selection of creditors). Prudential rules governing such direct lending are in the process of being drafted.
	• Strengthening and refinancing the allowance for corporate equity (ACE)	September 2014	• **August 2014:** Law 116/2014 strengthened ACE by extending the benefit to firms without income tax liabilities through the provision of a regional tax (IRAP) credit instead (to be split in five equal yearly amounts). Second, firms deciding to list themselves on a stock exchange would benefit from a 40% increase of the amount of equity capital raised to determine the allowance during the first three years of being quoted ('super-ACE'). The latter measures is still subject to Commission approval.
	• Incentives for investment in shares or stakes of SMEs that have gone or are about to go public and/or in vehicles specialised in equity investment in publicly-traded SMEs and additional measures, including streamlining measures, aimed at boosting the stock market and encouraging Italian companies to go public. Supporting seed and venture capital and new innovative firms	September 2014	• **August 2014:** Law 116/2014 introduced measures to foster the stock-market listing of SMEs (apart from super-ACE (see above)). These included a reduction in required minimum capital, an increase in the threshold for disclosure of ownership and the introduction of multiple-voting shares to allow family-run SMEs to retain some control. • **May 2014:** CDP announced to invest EUR 250 million in a fund targeted at private debt and EUR 100 million targeted at venture capital. Further funds would be attracted from private partners to activate EUR 3-4 billion in private-debt investment and EUR 200-300 million in private-equity investment. Both funds are expected to be operational by end-2014. • **September 2014:** Decree Law 133/2014 expands the role of CDP in

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
			supporting financing to firms.
[CSR 5] Evaluate, by the end of 2014, the impact of the labour market and wage-setting reforms on job creation, dismissals' procedures, labour market duality and cost competitiveness, and assess the need for additional action.	• Streamlining and optimising the use of fixed-term employment contracts and apprenticeships	March 2014	• **May 2014:** Law 78/2014 is adopted and implementing legislation has been put in place. It relaxes some constraints on apprenticeship and temporary contracts.
	• Streamlining contracts to make them more consistent with the current needs of the domestic and international business and industrial context (via enabling law 'Jobs Act')	July 2014	• **April 2014:** The government presented an enabling law ('Jobs Act') to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months *inter alia* in view of: (i) introducing a new permanent contract with progressive entitlements for the new hires; (ii) further rationalising existing contracts; (iii) introducing the possibility for employers to redefine workers' tasks and remuneration in the context of firm restructuring during crisis situations; (iv) simplifying administrative obligations for employers.
[CSR 5] Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation.	• Extending the coverage of unemployment benefits, while reducing the scope of application and duration of wage supplementation schemes (via enabling law 'Jobs Act')	July 2014	• **April 2014:** The government presented an enabling law ('Jobs Act') to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months *inter alia* in view of extending the coverage of unemployment benefits, while reducing the scope of application and duration of wage supplementation schemes. • **August 2014:** A monitoring report on wage supplementation schemes has been published. • **August 2014:** Interministerial decree no. 83473 introduces more restrictive criteria to access wage supplementation schemes ('Cassa Integrazione Guadagni in Deroga'). • **Ongoing:** Residual and bilateral solidarity funds – foreseen by the 2012 labour market reform – are progressively being established.
[CSR 5] Strengthen the link between active and passive labour market policies, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country.	• Streamlining existing incentives for hiring workers; establishing a National Employment Agency for the integrated management of active and passive labour policies; strengthening and upgrading public/private partnerships to improve matching of employment demand with supply; coordinating the action at the various level of government; facilitating the active involvement of job seekers; upgrading the information system for managing the labour market and monitoring the provision of	September 2014	• **April 2014:** The government presented an enabling law ('Jobs Act') to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months *inter alia* in view of reforming the governance of active labour market policies and their interplay with passive measures.

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
	services (via enabling law 'Jobs Act').		
[CSR 5] Adopt effective action to promote female employment, by adopting measures to reduce fiscal disincentives for second earners by March 2015 and providing adequate care services.	• Reducing tax disincentives to female (second-earners) employment, reorganising measures work-life and extending maternity benefits to categories not yet covered (via enabling law 'Jobs Act').	September 2014	• **April 2014:** The government presented an enabling law (‘Jobs Act’) to Parliament, where the law is currently still under discussion (first Senate reading completed (Atto Senato no. 1428); law now in Chamber of Deputies). The enabling law would allow the government to take action by decree within 6 months *inter alia* in view of reducing tax disincentives to female (second-earners) employment, reorganising measures work-life and extending maternity benefits to categories not yet covered.
[CSR 5] Provide adequate services across the country to non-registered young people and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee.	• Implementing the European Youth Guarantee by ensuring that all young people receive an offer of good-quality employment, apprenticeship or training within four months of leaving formal education or becoming unemployed	May 2014	• **July 2014:** The European Commission has approved the operational programme submitted by the Italian authorities for using additional the EU funds in the context of the Youth Employment Initiative which can contribute to implementing the Youth Guarantee national plan established by the government in December 2013. • **May 2014:** Implementation on the ground started in May and monitoring activities are conducted on a regularly basis.
[CSR 5] To address exposure to poverty and social exclusion, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children.	• Launching a programme to fight absolute poverty, combining passive and active measures so as to gradually bridge the gap and eventually achieve universal coverage and designed for all people living in poverty.	Pilot project on minimum income scheme (‘SIA’) to be extended to the entire country by end-2014	• **April 2014:** Programme implementation on the ground in 12 metropolitan cities started. Resources for its extension to southern regions have already been set apart.
[CSR 6] Implement the National System for Evaluation of Schools to improve school outcomes in turn and reduce rates of early school leaving.	• Full implementation of the Regulation on the use of the National System for Evaluation of Schools as from the start of the next school year (2014-15) • To reward merit, teachers’ contracts and the hiring system for teachers and school principals must be revised to ensure a faster and more effective administrative process that is capable of selecting the best skills	September 2014 (National System for Evaluation of Schools)	• **September 2014:** The implementation of the National System for Evaluation of schools has started in the 2014-15 school year. • **September 2014:** The government has launched a public consultation for the reform of the education system. The main aim is to replace the current seniority-based teacher career system with a merit-based system and to make access to the teacher profession possible via open competitions only as of 2016. Further measures proposed include the making compulsory of traineeships for pupils in the last three years of upper secondary vocational education. The public consultation will be closed on 15 November 2014.
[CSR 6] Increase the use of work-based learning in upper secondary vocational education and training and strengthen vocationally-oriented tertiary education.	• Supporting apprenticeships, traineeships with companies, alternating education and work, turning experimental projects into widespread practice, increasing the number of hours that young people spend working for a business during the academic years, and certifying the	2014-15	• **September 2014:** The government has launched a public consultation for the reform of the education system. In the area of work-based learning, the government plans to make traineeships compulsory for pupils in the last three years of upper secondary vocational education. The public consultation will be closed on 15 November 2014.

MIP-relevant recommendation	Measures announced in NRP	Deadline NRP	Progress
	skills they acquire. Technical education will be strengthened (e.g. the Higher Technical Institutions) and positive experience will be rewarded.		
[CSR 6] Create a national register of qualifications to ensure wide recognition of skills. Ensure that public funding better rewards the quality of higher education and research.	• Assessing universities and providing incentives for the best ones (ANVUR)	N/A	• **November 2014:** The national register of qualifications is planned to be ready by November 2014 and will consist of a single database containing existing regional skill qualification systems. • **2014 and beyond:** The share of performance-related public funding to universities will increase from 13.5% in 2013 to 18% in 2014 and standard costs will be defined and gradually introduced over 2014-18 as criteria for allocating the remaining share of public funding. • (**2015:** A quality-rewarding financing model for the Higher Technical Institutes will be introduced.)
[CSR 7] Approve the pending legislation or other equivalent measures aimed at simplifying the regulatory environment for businesses and citizens and address implementation gaps in existing legislation.	• Launching a regulatory review to simplify the legal framework, by defining a codification process and drafting consolidated texts and (after the adoption of a relevant enabling legislation) proceeding with the drafting official codes • Simplifying planning permission procedures and standardising forms for applying for planning permission • Merging obligatory communications with relevant authorities into a single notice and establishing a one-stop shop to handle administrative procedures related to hiring and employment • Consolidating and simplifying regulation on joint and several liabilities in contracts	October 2014	• **August 2014:** Law 116/2014 simplifies some provisions related to environmental protection. • **August 2014:** Law 114/2014 mandates the government to adopt a 'Simplification Agenda for 2014-17' by October 2014. • **August 2014:** Law 116/2014 foresees a reduction in SMEs' energy costs by 10%. • **September 2014:** Decree Law 133/2014 proposes measures to simplify authorization/permit procedures for construction and infrastructure investments.
[CSR 7] Foster market opening and remove remaining barriers to, and restrictions on, competition in the professional and local public services, insurance, fuel distribution, retail and postal services sectors.	• Reorganising regulations governing local public services and considering mechanisms to upgrade municipal companies and local utilities • Adopting the annual competition law	September 2014	• **July 2014:** A draft enabling law (Atto Senato no. 1577) for the reform of the public administration was presented to Parliament and including a mandate for the government to reform the regulatory framework on local public services and local municipal companies and utilities within one year of the adopting of the enabling law by Parliament.
[CSR 7] Enhance the efficiency of public procurement, especially by streamlining procedures including through the better use of e-procurement, rationalising the central purchasing bodies and securing the proper application of pre- and post-award rules.	• Rationalise public procurement through CONSIP and a limited number of central purchasing bodies	N/A	• **August 2014:** Law 114/2014 contains measures to rationalise public procurement (e.g. rationalisation and professionalization of public procurement through CONSIP and a limited number of central purchasing bodies). Further measures on public procurement are included in Law 89/2014 and a draft enabling law for the transposition of recent EU Directives on public procurement as part of the 'Sblocca Italia' package announced at end-August 2014.

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			• **August 2014**. A draft enabling law for the transposition of recent EU Directives on public procurement was announced.
[CSR 7] In local public services, rigorously implement the legislation providing for the rectification of contracts that do not comply with the requirements on in-house awards by 31 December 2014.	• Reorganising regulations governing local public services and considering mechanisms to upgrade municipal companies and local utilities	September 2014	• **July 2014:** A draft enabling law (Atto Senato no. 1577) for the reform of the public administration was presented to Parliament. • There is no assessment yet of the number and size of in-house contracts not complying with EU requirements on in-house awards.
[CSR 8] Ensure swift and full operationalisation of the Transport Authority by September 2014.	• N/A	N/A	• **September 2014:** The Transport Authority is operational, counts 40 staff (out of the 140 initially foreseen) and has started to take some regulatory actions (e.g. access to railway infrastructure, passenger rights, airport tariffs, tender criteria for highways and local public transport).
[CSR 8] Approve the list of strategic infrastructure in the energy sector and enhance port management and connections with the hinterland	• Planning the logistical developments of ports and related infrastructures	May 2014	• **September 2014:** Decree Law 133/2014 identifies the categories of infrastructure to be considered strategic. The identification of strategic infrastructures is expected to be completed by end-2014. It also mandates the government to draft a plan for the developments of ports and related transport infrastructure. Finally, private investment is encouraged *inter alia* through the simplification of the framework for project bonds.
Measures related to institutional capacity to implement reforms			
[CSR 3] As part of a wider effort to improve the efficiency of public administration, clarify competences at all levels of Government.	• Constitutional reform: reforming the two-chamber system with an elective Chamber of Deputies and a Senate of local-government representatives; reducing the number of senators; reducing the operating cost of institutions; reforming Title V of the Constitution to clarify the division of competences between state and regions; abolishing the provinces; abolishing CNEL	December 2015 (mid-2016 if a referendum is needed)	• **August 2014:** The Senate completed its first reading of the draft constitutional bill (Atto Senato no. 1429) tabled by the government in March 2014. The bill is now in the Chamber where a vote is expected by end-2014 (Atto Camera no. 2613). In total, the bill needs to undergo at least four readings in order to be approved.

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	• Reforming the public administration; increasing general government accountability; reducing costs, administrative procedures and waiting times for citizens and businesses; improving public services; cutting general government operating costs	2014-2016	• **April 2014:** Law 56/2014 reorganised and rationalised public administrations; in particular provinces were redefined and their competences were limited. Implementation is ongoing. • **August 2014:** Law 114/2014 introduces provisions to ease staff turnover and reduce the average age, enhance mobility to make the allocation of staff more efficient, contain the compensation of top local officials and state attorneys and prevent conflicts of interest. It also introduced the digitalisation of administrative procedures and further simplification for citizens and businesses. • **July 2014:** The government proposed a draft law which would enable it within 18 months after adoption to further reorganise the public administration, *inter alia* with regard to local public services, the state's administration, the performance evaluation of managers and corruption prevention. The draft law is currently being considered by the Senate (Atto Senato no. 1577).
	• Reforming the electoral law for the Chamber of Deputies, including a proportional system with a majority bonus of 15% and the definition of exclusion thresholds	September 2014	• **March 2014:** The Chamber approves the draft new electoral law; the law is currently still under discussion in the Senate (Atto Senato no. 1385).
[CSR 3] Ensure better management of EU funds by taking decisive action to improve administrative capacity, transparency, evaluation and quality control both at national and regional level, especially in southern regions.	• Completing the projects co-financed by 2007-13 EU structural funds • Adopting the 2014-20 Partnership Agreement to ensuring a timely launch of the new national and regional operational programmes • Making the Territorial Cohesion Agency operational to improve real-time monitoring of the use of funds and take action in case of delays or obstacles	2015-17	• **April 2014:** Italy submitted its 2014-20 Partnership Agreement. The Partnership Agreement is expected to be adopted by the European Commission before end-October 2014. • **August-September 2014**. Italy submitted its national and operational programmes, with the exception of Campania, Sicilia (ERDF), Calabria (ERDF/ESF) and Bolzano (ESF). • **July-August 2014:** The statute of the Territorial Cohesion Agency was approved and its Director was nominated. Its staff is however not yet complete. • **September 2014:** Decree Law 133/2014 (not yet approved in Parliament) grants the Prime Minister direct monitoring and intervention powers to ensure the timely use of EU funds.
[CSR 3] Further enhance the effectiveness of anti-corruption measures, including by revising the statute of limitations by the end of 2014, and strengthening the powers of the national anti-corruption authority.	• Reviewing regulations on criminal proceedings with special reference to the statute of limitations. Introducing the crimes of self-money-laundering or own-proceeds laundering	June 2014	• **August 2014:** Three draft enabling law were announced, including the revision of the statute of limitations, measures on self-money-laundering and accounting frauds, and on extradition. • **August 2014:** Law 114/2014 enhanced the powers of anti-corruption authority ANA, in particular with regard to public procurement. Other provisions aim at increasing transparency and reducing the risk of conflicts of interest.
[CSR 3] Monitor in a timely manner the impact of the reforms adopted to increase the efficiency of	• Reforming administrative justice to streamline decision-making at central and local level;	2014-2015	• **August 2014:** Law 114/2014 promotes digitalisation in civil administrative and tax elated trials and establishes the ‘office of

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civil justice with a view to securing their effectiveness and adopting complementary action if needed.	reviewing regulations in view of improving the efficiency of civil proceedings, reducing the case backlog, reorganising property guarantees and accelerating the process for obtaining a writ of execution; accelerating the digitalisation of justice proceedings; establishing the 'office of proceedings' through traineeships; fostering out-of-court settlement		proceedings'. • **September 2014:** Decree Law 132/2014 introduces new forms of out-of-court settlement ('arbitrato' and ' negoziazione assistita'), in addition to the compulsory mediation reintroduced in September 2013, and strengthened the provisions for ensuring more effective enforcement. • **August 2014:** A legislative package consisting of several draft laws and draft enabling laws in the fields of civil and criminal justice was announced. The laws aim *inter alia* to make the civil justice process more efficient, reform the honorary magistracy and justice of the peace and change the code of criminal procedure regarding extradition abroad.. • **September 2014:** A draft law (Atto Senato no. 1626) on the revision of the civil liability of judges was presented to Parliament. • **September 2014:** A draft law (Atto Senato no. 1642) on accounting fraud and self-money-laundering was presented to Parliament.