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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 second specific monitoring report under the Macroeconomic Imbalances Procedure (MIP) for countries with excessive macroeconomic imbalances. It reviews Italian macroeconomic and policy developments since the first report of October 2014 in view of the correction of the country's macroeconomic imbalances and takes into all documents which were made publicly available by the Ministry of Economy and Finance and which were subsequently endorsed by the Italian government on 20 February 2015.[1]

The Italian economy continues to struggle to exit from recession. In 2014, real GDP growth is expected to have contracted by another 0.5% with exports remaining the main growth engine and investment continuing to fall due to uncertain demand. In January 2015, yearly headline HICP inflation was -0.5% while core inflation was slightly positive at 0.4%. The unemployment rate increased further as the labour force expands, and the risk of hysteresis effects persists. The government's budget deficit is expected to be 3% of GDP in 2014 while the public debt-to-GDP ratio is set to peak at 133% of GDP in 2015.

Italy has maintained the reform momentum in recent months, but the adoption of some key measures is somewhat delayed and now expected in the coming weeks. Overall, Italy has continued to move forward in several policy domains. The so-called 'Jobs Act' for reforming the labour market has been passed. Two legislative decrees reforming dismissal regulation and the unemployment benefits system will become law in March 2015. Two additional legislative decrees have been tabled by the government in February 2015 and the remaining initiatives are expected in the coming months. On banks, a promising step was taken to tackle governance weaknesses in Italy's largest *banche popolari* which should now be swiftly and fully adopted by Parliament. Furthermore, additional measures to support firms' access to finance and investment have been introduced, and also the 2015-2017 Simplification Agenda was adopted. On taxation, a sizeable reduction in the labour tax wedge has been secured, but currently it is still in part being financed by an increase in indirect taxation as of 2016 to safeguard the respect of fiscal targets. With the Parliament freed up again after the swift presidential election, the government has announced to put forward a large package of measures by end-February 2015. The long-awaited draft annual law on competition has already been presented, while further legislative decrees under the enabling law on taxation (which will require a deadline extension to allow for a completion of the process) and a decree law entailing a far-reaching school reform for which additional funds have been earmarked are still expected. The legislative process on institutional reform is ongoing and will continue over the period 2015-2016, while the enabling law on public administration reform has just started its parliamentary adoption process. The important revision of tax expenditure will likely not start before September 2015 and the revision of environmental taxation is so far still missing. Recent provisions to improve the justice system's functioning have been converted into final law, while other measures are still

[1] http://www.governo.it/Governo/ConsiglioMinistri/dettaglio.asp?d=77929, http://www.mef.gov.it/inevidenza/article_0079.html, http://www.dt.tesoro.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/index.html

pending in Parliament. Also the legislative process on the long-awaited revision of the statute of limitations continues to be under preparation. On the spending review, a choice for more political ownership has been made but only some instruments are already fully operational and the integration in the yearly budgetary process lags behind. On privatisation, most of the envisaged sales are still under preparation.

Since the adoption of the 2014 country-specific recommendations, the Italian government has made progress with the implementation of an extensive reform agenda aiming at the transformation of the economy's productive structure in a still unfavourable economic environment. Italy has put forward several ambitious reform packages in parallel which – if thoroughly implemented – could represent a step-change compared to past policies. In addition, the Italian authorities are making further progress towards clearing the legislative backlog of the previous two governments. As regards Italy's macroeconomic imbalances, the public debt-to-GDP ratio is expected to peak in 2015 while the further deterioration of some external competitiveness indicators has slowed down or even stopped. There is however no evidence yet of a correction of Italy's macroeconomic imbalances which is still being held back by persisting low productivity growth. It is thus vital that Italy – exploiting the recent more accommodative market conditions – continues to deliver on its reform commitments by accelerating its efforts in domains where progress is lagging behind such as product market competition, the rationalisation of state-owned enterprises, business environment simplification and important aspects of taxation system reform and anticorruption policy. Regarding announced reforms which have not yet been adopted, it is essential that their scope and depth are commensurate to the challenge of boosting productivity and competitiveness. Ensuring reforms' swift, full and effective implementation – in line with all commitments made by the government[2] – is crucial. The Commission will continue to monitor closely Italy's reform progress.

In conclusion, as the measures enacted so far have not yet resulted in a correction of Italy's macroeconomic imbalances, continued commitment to structural reform adoption and full implementation is essential. Envisaged reforms should cover all country-specific recommendations which are all relevant for the correction of Italy's excessive macroeconomic imbalances.

[2] See footnote 1

1. Introduction

On 13 November 2013, the European Commission presented, as part of the Macroeconomic Imbalances Procedure (MIP), its third Alert Mechanism Report[3] to underpin the selection of Member States requiring an in-depth investigation into whether macroeconomic imbalances exist. The subsequent third In-Depth Review[4] 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 country-specific recommendations[5] (CSRs) on 2 June 2014 which were subsequently adopted[6] 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 and social protection, 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[7] 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 October 2014[8]. For this purpose, a specific monitoring mission to Italy was conducted on 26-28 January 2015. The present report is an update of the first specific monitoring report[9] – published on 7 November 2014 – which reviewed the policy measures taken by Italy over the period April-October 2014.

The present report reflects all documents made publicly available by the Ministry of Economy and Finance and subsequently endorsed by the Italian government on 20 February 2015.[10] The cut-off data for this report is 20 February 2015.

[3] http://ec.europa.eu/europe2020/pdf/2014/amr2014_en.pdf
[4] http://ec.europa.eu/economy_finance/publications/occasional_paper/2014/pdf/ocp182_en.pdf
[5] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_italy_en.pdf
[6] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_italy_en.pdf
[7] http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_euroarea_en.pdf
[8] Details on the measures taken can be found in the overview table in annex.
[9] http://ec.europa.eu/economy_finance/economic_governance/documents/2014-11-07_italy_mip_specific_monitoring_report_to_epc_en.pdf
[10] See footnote 1

2. Recent macroeconomic developments

The Italian economy is still struggling to exit recession. According to preliminary estimates, in the fourth quarter of 2014 Italy's real GDP stabilised quarter-on-quarter (Graph 1). The Commission's 2015 Winter Forecast[11] points to a further decline of GDP by 0.5% in 2014. Real GDP is forecast to expand by 0.6% in 2015, supported by exports and only mild improvements in domestic demand. The recovery is then projected to strengthen in 2016 on the back of a normalisation of financing conditions and stronger external demand which in turn are set to trigger an increase in investment. Italy's current account surplus has further increased as domestic demand remains weak. The ongoing increase in Italy's current account is driven by an expanding non-energy goods surplus in combination with a shrinking energy goods deficit, also in relation to falling oil prices. From a savings-investment point of view, the trend in Italy's current account is primarily due to households restoring their savings and the public and corporate sectors contracting investment as they deleverage. In this respect, bank lending to the Italian corporate sector – and small firms in particular – continued to contract by 2.3% year-on-year in December 2014, but the contraction decelerated over the course of the year. The Commission's 2015 Winter Forecast projects export dynamics to outpace those of imports, leading to a further improvement of the current account balance in 2015 to 2.6% of GDP.

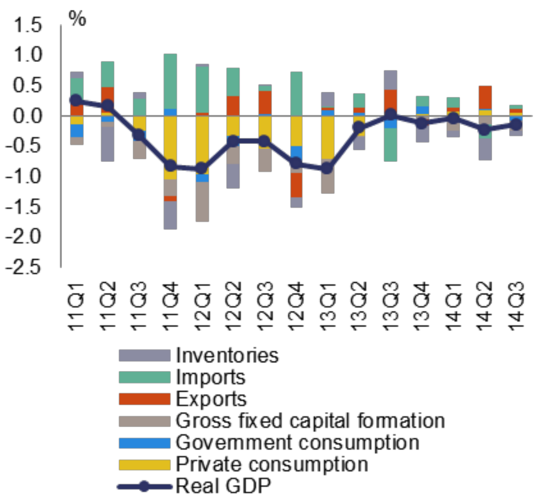
Recent price developments are largely driven by the significant fall in oil prices. Headline HICP[12] inflation averaged 0.2% in 2014, pointing to a level of prices broadly stable compared to the previous year, but below the euro-area average. In January 2015, yearly headline HICP inflation was -0.5% while core inflation was slightly positive at 0.4% (Graph 2). According to the Commission's 2015 Winter Forecast, the further fall of oil prices is only partially offset by the depreciation of the euro and is expected to feed quickly into lower headline HICP inflation. The latter is then projected to be negative on average over the year (at -0.3%) and to increase in 2016 (to 1.5%) as economic prospects improve and VAT rates increase as enshrined in the 2015 Stability Law[13].

The unemployment rate is not yet declining while more people have joined the labour force. In 2014, there have been positive signals on labour market adjustment: headcount employment broadly stabilized, firms' actual recourse to wage supplementation hours declined, and in the third quarter of 2014, the total number of hours worked returned to growth compared to the previous quarter. Nevertheless, the unemployment rate increased to 12.8% on average over 2014 and is expected to stabilize at that level in 2015. This increase is explained by the higher inflow of people in the labour force, especially youngsters and women. From a duration perspective, the overall increase in the unemployment rate has mainly involved the long-term unemployed, underlining the risk of hysteresis effects if weak economic conditions persist.

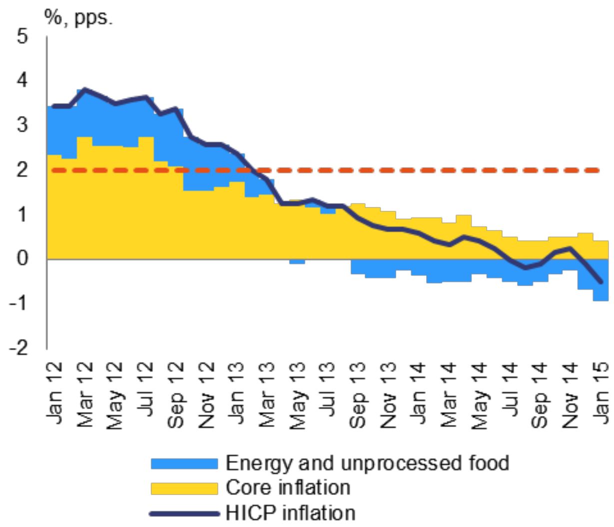
[11] http://ec.europa.eu/economy_finance/publications/european_economy/2015/pdf/ee1_en.pdf
[12] Harmonised index of consumer prices
[13] Law 190/2014 of 23 December 2014

The government's budget deficit is expected to be 3% of GDP in 2014 and to decline afterwards. The 2015 Stability Law projects a reduction of the headline deficit to 2.6% of GDP, in line with the Commission's 2015 Winter Forecast. The structural budget balance is forecast to remain broadly stable over 2014-2015, with a small deterioration in 2014 (-0.2 pps. of GDP) followed by a similar improvement in 2015 (+0.3 pps. of GDP). Negative economic conditions, reflected in an estimated negative potential growth and very low inflation, render the needed adjustment towards a balanced budgetary position in structural terms (i.e. Italy's medium-term objective (MTO)) more difficult. Negative economic conditions also weigh on public debt developments through their impact on the primary surplus and an unfavourable denominator effect which is only partially compensated by lower interest expenditure. On the basis of the Commission's 2015 Winter Forecast, the public debt-to-GDP ratio is expected to peak in 2015 at 133% of GDP and marginally decline afterwards. The recent inclusion of sovereign debt in the Eurosystem's asset purchase programme is expected to lead to positive inflation adjustment and possibly to a stabilisation of sovereign yields on longer maturities at low levels. The latter would support the lengthening of public debt duration while also reducing the risk of disanchored inflation expectations.

Graph 1: **Real GDP growth (quarter-on-quarter) and its components**



Graph 2: **HICP inflation and its components**



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

3.1. Measures related to public finances and public debt sustainability

The government has postponed the achievement of Italy's medium-term objective (MTO), while the very high government debt remains a heavy burden for the economy. Based on the Commission's 2015 Winter Forecast and in light of the Commission's new Flexibility Communication[14], the Commission will reassess Italy's compliance with the requirements of the Stability and Growth Pact (SGP) at end-February 2015. This reassessment will involve in particular the new structural adjustment of 0.25% of GDP required in 2015. In addition, Italy is in the transition period for the assessment of compliance with the more demanding debt criterion over the period 2013-2015. Based on the Commission's 2015 Winter Forecast, the required minimum linear structural adjustment (MLSA) under the expected unfavourable economic conditions (in particular negative potential growth and low inflation) would be 1.2 pps. of GDP in 2014 and 2.7 pps. of GDP in 2015, implying a structural surplus of more than 1.5% of GDP in 2015, well above Italy's MTO.

A durable and more systematic integration of the spending review within the yearly budgetary process is still not secured. The 2015 Stability Law introduced a new spending review approach by achieving targeted savings without recurring to linear expenditure cuts as in the past and by increasing ownership at political level through the direct involvement of ministers. However, the need to preserve growth-enhancing expenditure items and improve economic efficiency of the public administration would still require a more systematic approach with top-down coordination and monitoring (e.g. on the basis of expenditure ceilings and continuous monitoring during budgetary execution). In this context, the government is also mandated[15] to complete by end-2015 the reform of the budgetary process started in 2009 which could include expenditure planning more in line with a performance-budgeting approach over the medium term. The distribution of spending cuts foreseen in the 2015 Stability Law implementing the savings from regions (EUR 4 billion) to be decided in an official state-regions meeting has been delayed, putting at risk the achievement of the budgetary targets.[16] These savings are combined with the application of the constitutional balanced budget rule for regions already in 2015, i.e. one year earlier than initially planned. If well implemented, this may address some of the problems experienced under the previous Internal Stability Pact such as the strong influence of historical spending on central transfers to subnational governments. However, since a sound coordination mechanism of budgetary responsibilities across government levels is not yet in place, the outcome of the legislated cuts in terms of capital and current expenditure as well as local taxation remains uncertain. Among the initiatives to improve efficiency in public spending considered instrumental to achieve the planned savings at the central and local government levels, the wider use of

[14] http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/2015-01-13_communication_sgp_flexibility_guidelines_en.pdf

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

[16] http://www.statoregioni.it/Documenti/DOC_046295_odg%20csr%2012%20febbraio%202015.PDF

centralized public procurement foreseen by the Public Spending Rationalization Program[17] was partially implemented in January 2015.[18] More specifically, a restricted list of 'procurement aggregator bodies'[19] has been established together with a Technical Working Table coordinated by the Ministry of Economy and Finance (MEF). To become fully operational, a further governmental decree is needed to specify the product categories as well as the spending thresholds above which central and local administrations must use the centralised public procurement mechanism. Moreover, the government has not yet endorsed the reorganization plan of the national anti-corruption authority ANAC which is expected to play a role in the centralized public procurement process. In addition, spending centres would be supported to meet their saving objectives through the application of standard costs and needs to health and an increasing range of other expenditure benchmarking (as introduced by the 2013 spending review), as well as the development of an online database for public scrutiny of local administrations' expenditure.

The Parliamentary Budget Office (PBO), Italy's newly-established independent fiscal monitoring institution, is now operational and finalising the process of building up the capacities required to fulfil its role in the budgetary process. The macroeconomic scenarios underpinning Italy's 2015 Draft Budgetary Plan have been endorsed by the PBO. These endorsements took the form of two letters addressed to the Italian Minister of Economy and Finance, considering the forecast scenarios "within an acceptable interval given the information currently available". Staff recruitment and the building up of the necessary skills are still under way.

The privatisation programme of some state-owned enterprises (SOEs) and the sale of public real-estate should contribute to the debt reduction effort. After preparations in 2014, Italy's privatisation programme is expected to accelerate in 2015. The government foresees proceeds amounting to 0.7% of GDP on average per year over the period 2014-2017. More precisely, 2015 should see the privatisations of Poste Italiane (up to 40%), Ferrovie dello Stato (the national railway company) and ENAV (up to 49% through an initial public offering (IPO)) which are both under preparation, as well as the sale of Grandi Stazioni. The government also plans a possible slight reduction in its stake of ENEL (of which the MEF holds 31.2%). Another operation that is expected to be implemented in the short term is the sale by the MEF to Cassa Depositi e Prestiti (CDP)[20] of its stake in the holding STH which in turn controls STMicroelectronics. Indirect privatisations implemented in 2014 include the listing of RaiWay (controlled by the public broadcaster Rai) with a 30% stake sold through an IPO, and the sale by CDP of 35% in CDP Reti to China's State Grid Corporation. Regarding local public enterprises, the 2015 Stability Law foresees a rationalisation process based on plans to be submitted by subnational public authorities and entities by end-March 2015. Further measures are included in the draft enabling law on public administration reform

[17] Law 89/2014 of 23 June 2014 (Decree Law 66/2014 of 24 April 2014)
[18] Decree of the President of the Council of Ministers (DPCM) of 11 November 2014
[19] This list includes CONSIP as the national central purchasing body and a territorial procurement aggregator per region.
[20] The MEF holds a 80.1% stake in CDP.

which is however still under discussion in Parliament (see Section 3.3). Invimit and FIV (the latter controlled by CDP), both state-owned, are involved in the valorisation and sale of unused public real-estate assets. Sale of local real-estate assets generated some EUR 0.6 billion of proceeds in 2014 while FIV bought EUR 0.2 billion of central-government real estate. Going forward, the central government planned to sell EUR 1.5 billion (0.1% of GDP) of real-estate assets over the period 2013-2015 (of which EUR 0.7 billion has already been realised). These funds are directed to the Sinking Fund for the Redemption of Debt Securities to buy back public debt. Furthermore, local governments are expected to continue dismissing real-estate assets – also thanks to Invimit's support – but their sales are not expected to have a significant debt reduction impact.

3.2. Measures related to productivity growth and external competitiveness

In December 2014, the Italian Parliament approved the enabling law for the reform of the labour market ('Jobs Act'). The Jobs Act[21] follows the pattern and direction of previous reforms[22] but makes decisive changes to the employment protection legislation, unemployment benefits system, wage supplementation schemes and the governance and functioning of active and passive labour market policies. It also foresees interventions to reduce the administrative burden on firms, enhance the effectiveness of the labour inspectorate and promote the reconciliation of family and working life. Legislative decrees under the Jobs Act must be passed within six months from the enabling law's adoption in December 2014.

Following the adoption of the Jobs Act, two legislative decrees[23], implementing changes to dismissal regulation for open-ended contracts for new hires and reviewing the system of unemployment benefits, will become law in March 2015. The first legislative decree[24] revises for new hires Article 18 of the Workers' Statute that regulates unfair dismissals by reducing the scope for reinstatement following unfair dismissal, and by expanding – whenever the judge deems the dismissal unfair – the cases in which the sanction leads to a monetary compensation which rises with tenure. The new regulation, which applies to open-ended contracts signed as of 2015, reduces the uncertainty and costs associated with dismissal procedures, also by promoting pre-trial negotiations. According to the new regulation, the employer can make a conciliatory monetary offer to the worker with an amount established by law, also rising with tenure. These disbursements to the worker are exempted from payments of social security contributions and are tax-free as the worker's personal income taxation is concerned, hence encouraging conciliation over judicial proceedings. The reduction in the cost and uncertainty of the dismissal procedure could enhance labour reallocation across sectors, promote stable employment prospects (in particular for youngsters) and encourage job-specific training. Labour judges' interpretation of the new

[21] Law 183/2014 of 10 December 2014
[22] Notably Law 92/2012 of 28 June 2012
[23] In the case of a legislative decree in the context of an enabling law, both Chambers of the Parliament can deliver a non-binding opinion within 30 days from the submission of the legislative decree to Parliament. After these 30 days, the Italian government finalises the adoption of the legislative decree.
[24] *Atto del Governo sottoposto a parere parlamentare n. 134*

legislation will be important in determining the success of the reform. The government is accompanying the reform with a permanent full deduction of the labour cost of employees under open-ended contracts from IRAP and a 3-year exemption of private employers from paying social security contributions for new permanent contracts signed in 2015. Both measures should shift employers' incentives towards open-ended contracts, thereby reducing duality. The second legislative decree[25] develops a more integrated unemployment benefit system. With respect to the previous system, the new scheme provides for a longer duration of benefits (from 18 to 24 months) while broadly maintaining the level of benefits. On an experimental basis, the new provisions also extend coverage (although substantially reduced) to previously excluded categories of workers and the longer-term unemployed. Furthermore, the new scheme is conditional upon the participation of the worker in training and activation initiatives: laid-off workers will receive a voucher (*contratto di ricollocazione*) which will cover job search costs and necessary training.[26] The risk of unemployment traps stemming from more generous unemployment benefits for a longer unemployment duration – especially at low-income levels – has been mitigated by fixing a maximum annual benefit cap, but could be further avoided with cost-effective activation policies for which further implementing legislation is needed. Overall, these measures may address the rigidities of dismissal procedures, reduce labour market duality and secure workers' transition between different jobs. Monitoring implementation on the ground will therefore be crucial. The financing of the measures is ensured by the 2015 Stability Law.

In February 2015, the government presented two further legislative decrees concerning the rationalisation of labour contract types and the improvement of the work-life balance which are now subject to a non-binding opinion of the Parliament. The first legislative decree[27] intends to rationalise the existing types of labour contracts in view of limiting the use of temporary atypical contracts and turning the permanent contract subject to new dismissal rules into the standard, as such reducing labour market duality. The text provides a clear definition of dependent employment under which all existing atypical contract types will have to be brought back from January 2016. Furthermore, it proposes to reduce the cost to employers of apprenticeship contracts and enhance the scope of formal education to encourage the use of apprenticeships. The legislative decree increases flexibility in the allocation of labour within firms by allowing workers to be assigned to different tasks during periods of restructuring. The second legislative decree[28] contains measures to foster a better balance between work and private life and achieve higher labour market participation among women, *inter alia* by making the take-up of parental leave more flexible and encouraging the provision of teleworking opportunities.

[25] *Atto del Governo sottoposto a parere parlamentare n. 135*

[26] The services will be able to claim the amount of the voucher (proportional to the difficulty of placement of the worker) only if they successfully supported the worker to achieve his/her aim. A fund has been created for this purpose, accounting at present for EUR 55 million in 2015 and EUR 20 million in 2016.

[27] http://www.governo.it/backoffice/allegati/77945-10033.pdf

[28] http://www.governo.it/backoffice/allegati/77946-10032.pdf

The impact of the Jobs Act will depend on the ambition of pending legislative decrees expected in spring 2015, including the review of current wage supplementation schemes and the reform of active labour market policies (ALMPs). Additional legislative decrees are expected in spring 2015 and in any case due by June 2015 when the enabling law expires. These decrees would deal with: (i) the rationalisation of existing wage supplementation schemes (*Cassa Integrazione Guadagni Ordinaria*, *Straordinaria* and *In Deroga*) *inter alia* by reducing their duration, limiting the cases for their valid use and by enhancing the insurance components (i.e. firms using the schemes more frequently will have to contribute more to their financing) to avoid that a prolonged use of short-time working schemes delays labour reallocation and restructuring; (ii) the simplification of employers' administrative obligations; (iii) the rationalisation of enforcement activities concerning health, security and labour regulation at the workplace; (iv) the reform of the governance of active labour market policies (ALMPs) and their interplay with passive policies which is crucial for the shift towards a flexicurity approach and for which better functioning employment services are a long-awaited precondition.

Important steps have been made to reform the tax system and shift the tax burden away from labour. The 2015 Stability Law foresees a reduction of the tax burden on labour through: (i) a permanent full deduction of the labour cost of employees under open-ended contracts from the taxable base of the regional tax on businesses (IRAP) of which the reduced rate legislated in April 2014 was abrogated; (ii) the 3-year exemption of private employers (apart from those in the agricultural sector and household services) from paying social security contributions for new personnel hired under open-ended contracts in 2015; (iii) a permanent tax credit to low-wage employees (first enacted in April 2014 and financed only for 2014). The measures are financed by spending cuts and a gradual increase in the standard and reduced VAT rates as of 2016 and in fuel excise duties as of 2017 that guarantee the achievement of planned fiscal targets over the period.[29] The latter measures may however be replaced by spending cuts, lower tax expenditure or other measures with an equivalent budgetary impact.

The implementation of the enabling law on taxation[30] is progressing slowly, but a large package of further legislative decrees[31] is expected to be adopted by the government by end-February 2015. A first set of three legislative decrees has been published in the *Gazzetta Ufficiale*.[32] A further package – announced by the government for end-February 2015 – would relate to: (i) the reform of cadastral values to be finalised within 5 years; (ii)

[29] In particular, the VAT standard rate is set to increase from 22% to 25.5% (+2 pps. from 2016, +1 pp. from 2017 and +0.5 pps. from 2018. The VAT reduced rate of 10% is set to increase to 13% (+2 pps. from 2016 and +1 pp. from 2017).

[30] Law 23/2014 of 11 March 2014

[31] Three legislative decrees on the simplification of the tax system, the revision of taxation on tobacco production and consumption, and the revision of cadastral committees were already adopted and published in the *Gazzetta Ufficiale*.

[32] Legislative Decree 175/2014, 188/2014 and 198/2014, respectively including measures simplifying tax declaration (pre-filled tax returns), reviewing taxation of tobacco and setting out rules for the composition, competences and functioning of cadastral committees – have been published in the *Gazzetta Ufficiale*.

increasing the certainty of tax law; (iii) the revision of taxation of individual entrepreneurs; (iv) the reduction of tax evasion and elusion and its monitoring; (v) VAT e-invoicing and other ways to enhance the traceability of payments; (vi) the revision of tax collection procedures; (vii) the simplification of taxation of international businesses; (viii) the revision of taxation of the gambling sector. It is crucial for Italy to deliver on these commitments, which could also help finance further reductions in the labour tax wedge. Given that the Parliament needs 30 days to adopt its (non-binding) opinion on the forthcoming legislative decrees, the expiry date of the enabling law will likely have to be extended by Parliament. Anticipating this extension, the government now foresees the adoption of the legislative decree on the revision of tax expenditure by September 2015. In particular, it envisages the establishment of a specific parliamentary session reviewing tax expenditures during the annual budget session. On the revision of environmental taxation, there is no legislative initiative so far.

The 2015 Stability Law includes some initiatives to fight tax evasion and improve tax compliance. The 2015 Stability Law modified the simplified tax regime for self-employed, now applied to sector-specific revenue thresholds between EUR 15,000 and EUR 40,000 and featuring a 15% flat tax rate replacing personal income tax (and local surcharges), IRAP and the VAT ordinary regimes. Measures in the Stability Law on tax evasion and compliance include the broadened application of the VAT reverse-charge mechanism, the split-payment system for public administrations and the so-called *spesometro* and *adempimento volontario* which is however still in a start-up phase. Another measure that could have a positive impact on tax revenues in 2015 (mostly one-off) is the possibility of voluntary disclosure for activities occurring and assets held abroad and to facilitate the regularisation of domestic taxpayers (see Section 3.3).[33] In October 2014, the government also published the first annual report on tax evasion with tax gap estimates.[34] The signing of the FATCA[35] agreement with the United States, a multilateral agreement to exchange automatically financial information based on OECD global standards (as of early 2017) and the February 2015 agreement with Switzerland on cooperation in tax matters should facilitate the regularisation of capital held abroad.

In February 2015, the government tabled the long-awaited draft annual law on competition addressing competition barriers in several sectors, albeit with varying degrees of scope and depth. Since 2009, the government is required by law to present every year to Parliament a draft law taking into account the proposals of the Italian Competition Authority (*legge annuale per il mercato e la concorrenza*). Initially foreseen for September 2014, the draft annual competition law (for the year 2014)[36] was presented by the government in February 2015 and constitutes an important step in systematically tackling barriers to competition. Promising competition-enhancing interventions are *inter alia* foreseen in the insurance, telecom, postal services, electricity and gas, fuel distribution and

[33] Law 292/2014 of 17 December 2014
[34] http://www.mef.gov.it/documenti-allegati/2014/Rapporto_art6_dl66_13_luglio.pdf
[35] Foreign Account Tax Compliance Act
[36] http://www.governo.it/backoffice/allegati/77938-10029.pdf

banking sectors. However, with regard to some liberal professions such as notaries, lawyers and pharmacists, the draft text could have been more ambitious. Moreover, a number of important sectors for which the Competition Authority had identified restrictions to competition[37] are not covered by the draft competition law (e.g. healthcare, taxis, ports, airports, radio frequency allocation). The draft annual competition law will now go to Parliament. Besides the provisions of the latter draft law, some other competition-enhancing measures have been taken, for instance regarding the portability of check accounts in the banking sector[38] and the liberalisation of the large non-residential rental market[39]. In the area of local public services, the 2015 Stability Law includes some positive but piecemeal provisions in view of reinforcing the transparency of in-house awards and fostering the rationalisation of local SOEs (see Section 3.1). However, the rectification of contracts not complying with EU requirements on in-house awards has been postponed to 31 December 2015.[40] An encompassing reform of local public services and SOEs is foreseen by the draft enabling law on the reform of the public administration which was tabled by the government in July 2014 and is still being discussed in Parliament (see Section 3.3).[41]

The Italian authorities have made a promising first step towards tackling governance weaknesses of the country's largest *banche popolari* which should swiftly and fully be converted into final law by Parliament. In January 2015, the Italian government adopted a decree law[42] requiring Italy's 10 largest cooperative banks (*banche popolari*) – i.e. those with total assets exceeding EUR 8 billion – to transform themselves into joint-stock companies. As such, the decree law addresses long-standing concerns regarding the vulnerability of Italy's largest *banche popolari*. In particular, the removal of the most rigid cooperative features in their governance framework is expected to: (i) enhance effective oversight, influence and control of shareholders over the banks' management; (ii) raise the banks' banks attractiveness to potential new and institutional investors and as such facilitate capital increases; (iii) trigger consolidation within the segment, creating scope for cost synergies and to some extent improved impaired-loan work-out capacities. Concretely, the involved banks' shareholder assemblies are expected to decide under relaxed majority rules on the abolishment of the so-called 'one-head-one-vote' principle (whereby every shareholder holds one vote irrespective of the size of his shareholding) and the 1% ceiling on the stake of individual shareholders. If the assemblies fail to do so within 18 months after the necessary (forthcoming) implementing measures of the Bank of Italy entered into force, supervisory action may be taken, including the revocation of bank licenses.[43] Furthermore, the decree law relaxes the voting rules applicable to mergers and acquisitions and decisions on a change of legal form, while also

[37] Autorità Garante della Concorrenza e del Mercato, Segnalazione AS1137
[38] Decree Law 3/2015 of 24 January 2015
[39] Law 164/2014 of 11 November 2014 (Decree Law 133/2014 of 12 September 2014)
[40] The initial deadline was 31 December 2013, set by Law 221/2012 of 17 December 2012 (Decree Law 179/2012 of 18 October 2012). The deadline was then changed to 31 December 2014 by Law 15/2014 of 17 February 2014 (Decree Law 150/2013 of 31 December 2013) and subsequently to 31 December 2015 by Decree Law 192/2014 of 31 December 2014 (to be converted into final law by Parliament within 60 days).
[41] Atto Senato n. 1577
[42] Decree Law 3/2015 of 24 January 2015
[43] However, the concerned banks have the option to reduce total assets below the threshold of EUR 8 billion.

relaxing rules on proxy votes. Since the reform implies a marked erosion of vested interests, there is a risk that it may be watered down during the 60-day period[44] in which the Italian Parliament may amend the decree law before converting it into final law by end-March 2015. It is crucial that the final text maintains the spirit of the reform.

Italy has taken further measures to ease firms' access to finance and facilitate investment, but efforts to enhance coordination and awareness should be strengthened. To support firms' investment in machinery, equipment, hardware, software and digital technologies, the *Nuova Sabatini* framework was reinforced: available resources were doubled to EUR 5 billion, an extra EUR 217 million was earmarked for loan interest payment contributions up to 2021, and the procedure was simplified by no longer requiring participating banks to have recourse to CDP.[45] Regarding the diversification of firms' funding channels, insurance-sector supervisor IVASS adopted prudential guidelines for insurance firms wishing to engage in direct lending to firms[46] and leveraged credit funds extending direct credit to firms were also exempted from paying withholding taxes on their revenues[47]. Also, provisions allowing the Central Guarantee Fund for SMEs (CGF) to guarantee mini-bonds and portfolios thereof entered into force[48], and mid-cap firms (up to 499 employees) were made eligible to access the Fund. Furthermore, a service company for the capitalisation and restructuring of promising Italian industrial firms in temporary financial difficulties will be created, but further implementation details are still under preparation.[49] ABI (the Italian association of banks) has prolonged a number of its finance support programmes up to end-March 2015.[50] Regarding the fostering of R&D investment, the existing tax credit framework enhanced and extended over the period 2015-2019 for a total budget of EUR 2.34 billion.[51] To support Italian firms' exports and internationalisation, the 'Export Banca' initiative was extended by one year, EUR 220 million were made available for the period 2015-2017 in the context of the 'Made in Italy' initiative[52], and export insurance agency SACE was allowed to grant direct credit to firms (in accordance with EU law), pending authorisation by Bank of Italy.[53] Finally, in the context of the Sustainable Growth Fund, EUR 400 million was made available to foster firms' investment projects relating to digitalisation and sustainable industry.[54] In sum, Italy has taken numerous steps to improve and diversify firms' access to

[44] A decree law enters into force when it is adopted by the government, but as of that moment the Parliament has 60 days to insert amendments and convert the (amended) decree law into final law.
[45] Law 190/2014 of 23 December 2014, Decree Law 3/2015 of 24 January 2015
[46] Provvedimento n. 22 of 21 October 2014 of IVASS
[47] Decree Law 3/2015 of 24 January 2015
[48] Circolare n. 674 of 23 October 2014 of the Ministry of Economic Development
[49] Decree Law 3/2015 of 24 January 2015
[50] 'Accordo per il Credito 2013', 'Plafond Crediti PA' and 'Plafond Progetti Investimenti Italia'
[51] Law 190/2014 of 23 December 2014
[52] Law 190/2014 of 23 December 2014
[53] Decree Law 3/2015 of 24 January 2015
[54] Ministerial Decrees of 15 October 2014 of the Ministry of Economic Development

finance, but the measures' collective effectiveness may be hampered on the demand side by their fragmentation, low awareness among potential users[55], as well as the weak economy.

After allocating new resources to education expenditure, a far-reaching school reform is expected to be tabled by the government by end-February 2015. After several years of cuts, the 2015 Stability Law prioritised expenditure on education by setting aside EUR 1 billion in 2015 and EUR 3 billion from 2016 onwards in a fund to finance a planned school reform. The public consultation on the draft reform ended on 15 November 2014 and benefitted from a high participation rate. A decree law is now foreseen by end-February 2015 which is expected to: (i) improve the school-to-work transition; (ii) modernise the curricula; (iii) enhance the evaluation of schools and teachers; (iv) reform the career progression of teachers; (v) as of 2016, move to an open competition system as the only way to access the teacher profession.

The progress in addressing infrastructure bottlenecks is slow. The *Sblocca Italia* decree law – converted into law in November 2014[56] – contains measures to address infrastructure bottlenecks in the electricity, gas, transport and telecommunication sectors. For the energy sector, it identified the categories of infrastructures to be considered as 'strategic' which will benefit from a facilitated authorisation process, but the detailed identification of strategic infrastructures is only expected in the course of 2015. *Sblocca Italia* also mentioned the adoption of a National Strategic Plan for Ports and Logistics, but this project is still in the preparatory phase. With regard to interconnections, only limited progress has been made.[57] Works on the improved accessibility of other core network ports to core network corridors as part of the Trans-European Transport Network (TEN-T) are lagging behind. Foreseen tax credits for fast broadband contained as well as other measures described in Italy's Strategy for Ultra-fast Broadband (*Piano Banda Ultra Larga*) are a modest step in the right direction to reach the EU Digital Agenda 2020 targets for high-speed broadband. Finally, the 2015 Stability Law has increased the resources available for public and private investment, mainly infrastructure-related. More specifically, additional EUR 4.3 billion have been earmarked for direct investment by the government and state-controlled companies over the period 2015-2017.

3.3. Measures related to the institutional capacity to implement reforms

Despite the increased emphasis on implementation, bottlenecks of institutional nature still represent major impediments to the materialisation of reforms' beneficial effects on the economy. Reform momentum and emphasis on implementation at government level has picked up in recent months, but the effective operationalisation[58] of policy measures adopted

[55] See for instance Ministero dello Sviluppo Economico (MISE) (2014), *Indagine sulle micro, piccole e medie imprese: sintesi dei principali resultati*, July 2014.
[56] Law 164/2014 of 11 November 2014 (Decree Law 133/2014 of 12 September 2014)
[57] E.g. the new Venice-Mestre access to the North-Sea Baltic and Mediterranean Corridor, and the accessibility of the port of Civitavecchia by rail and road from the Scandinavian-Mediterranean Corridor
[58] According to the government, 348 implementing measures (32.3%) stemming from legislation adopted under the Monti and Letta administrations still need to be adopted (status at mid-February 2015). Furthermore, 401

recently or in previous years remains one of Italy's major weaknesses. The challenges in the field of Italy's institutional capacity to implement reforms as identified in the first specific monitoring report remain valid.

A major effort to enhance Italy's institutional efficiency and streamline its legislative processes is underway. The approval in the Lower Chamber[59] of an ambitious draft constitutional bill has been postponed until after the vote on the 2015 Stability Law and the presidential elections. A major amendment introduced during the discussion at the Lower Chamber would further change the allocation of competences among different levels of government, namely by giving exclusive competence for active labour market policies to the state. Final parliamentary approval is still envisaged by end-2015. The reorganisation and rationalisation of provinces initiated in April 2014[60] was stepped up by an agreement in September 2014[61] on the reallocation of functions to the regional level and by the 2015 Stability Law which foresees a mobility fund for the relocation of half of provinces' staff as of April 2015, ideally towards regions and municipalities. The process however still needs further enacting measures to fully implement compulsory and voluntary mobility in the public administration. A draft electoral law aimed at fostering a more stable majority in Parliament and reducing political party fragmentation was approved by the Senate[62] with some amendments in January 2015. The final approval by the Lower Chamber is now expected by April 2015.

The implementation of recent measures to modernise Italy's public administration and streamline its business environment continues to be challenging, and an all-encompassing reform is still awaited. The full implementation of different provisions aimed at reforming and modernising Italy's public administration is proving difficult. Examples include the August 2014[63] norms on compulsory and voluntary mobility in the public administration (for which an implementing decree is still missing) and the rationalisation of public bodies and procedures[64] in line with spending review objectives, such as the rationalisation of administrative courts and the centralisation of public procurement with a limited number of central purchasing bodies (see also Section 3.1). Furthermore, significant implementation gaps continue to undermine the potential benefits of the numerous (but piecemeal) simplification measures[65] adopted by the Italian government over the past years

implementing measures stemming from legislation under the Renzi administration are needed overall. The latter figure only includes implementing measures foreseen by legislation already published in the *Gazzetta Ufficiale*. Source: http://www.governo.it/Presidenza/UPG/monitoraggio/Report_12_Febbraio_2015.pdf

[59] Atto Camera n. 2613

[60] Law 56/2014 of 7 April 2014

[61] *Accordo sancito in sede di Conferenza unificata dell'11 settembre 2014, repertorio atti n. 106/CU*

[62] Atto Senato n. 1385

[63] Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014)

[64] 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.

[65] 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

but never implemented. The 2015-2017 Simplification Agenda adopted in December 2014 could help to remedy this situation to the extent that it involves all levels of government in establishing a more coherent and time-bound framework to monitor progress in terms of simplification reforms and report on it, although a strong incentive-system to ensure proper enforcement would be appropriate.[66] For instance, among the targets with January 2015 as deadline, a single format for simplified environmental authorisations and building procedure modules has been approved, although regional implementation is still mixed. The whole simplification process is expected to be completed only by end-2016. A more comprehensive reform of public administration is foreseen by a draft enabling law adopted by the government in July 2014 and still under discussion in the Senate.[67] Once approved, the law will enable the government to enact implementing legislative decrees within 18 months to *inter alia* reorganise state administrations, review public employment rules and introduce performance evaluation for managers, simplify the regulatory environment for businesses and citizens, and review the discipline of SOEs and local public services (see Section 3.2). The adoption of all legislative decrees is unlikely to be completed before the end of 2015. Furthermore, the enabling law will also restrict the possibilities of the public administration to change decisions taken previously (*potere di autotutela*), thus enhancing the stability and predictability of the regulatory environment, particularly for businesses. The latter provision would enter into force immediately, i.e. without the need of further legislative decrees.

Recent reforms of the management of EU funds may imply some improvement in Italy's performance which so far remains weak. The use of EU funds over the 2007-2013 programming period continued to rank low with an absorption rate for all structural funds of 70.7% of total planned resources at end-2014, still substantially below the EU average. This dismal performance is mainly due to bottlenecks and administrative weaknesses, in particular in southern Italy. Recent steps may however improve this situation. The 2014-2020 Partnership Agreement was approved by the Commission at end-October 2014. It foresees plans of administrative reinforcement to accompany all EU co-funded operational programmes and includes measures to strengthen public administration at large. Ownership and support of the process by all regional and national administrations involved will be crucial. Furthermore, after long delays, the Agency for Territorial Cohesion is about to become operational: the director has been nominated, part of the personnel from the existing *Dipartimento per lo Sviluppo e la Coesione Sociale* (DPS) is being transferred to the Agency, and open competitions for the recruitment of additional staff are ongoing. The attention and the bulk of the Agency's resources will be targeted at the implementation of support programmes in less developed regions in southern Italy. Finally, the Prime Minister was granted direct monitoring and intervention powers to ensure the timely use of funds, which should in particular have a positive effect on regions with a lower absorption rate.[68]

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).

[66] A dedicated website is expected to be operational by February 2015.

[67] Atto Senato n. 1577

[68] Law 164/2014 of 11 November 2014 (Decree Law 133/2014 of 12 September 2014)

Italy is making significant efforts to improve the functioning of civil justice, and further reforms have been announced, but full operationalisation should be ensured and the impact on the efficiency of the judicial system systematically recorded. In November 2014, the Italian Parliament converted into law[69] provisions which aim at reducing high litigation as well as lowering the large number of pending cases and thus alleviating the Italian civil courts' workload through measures enhancing out-of-court proceedings: e.g. ‘dejudicialized’ consensual divorces and legal separations, the possibility to transfer pending cases to arbitration, and the introduction of alternative dispute resolution (ADR) procedures[70] which will be compulsory in specific cases as of February 2015. The same law also increases the opportunity cost of unjustified litigation through new regimes of legal expenses and overdue interests. Pursuant to the norms on the ‘digital civil trial’[71], digital submission of pleadings became compulsory as of 2015 for all first-instance courts (including for already pending cases), and an extension to appeal courts is foreseen as of June 2015. November 2014 data from the Italian Ministry of Justice on the uptake of these measures in five judicial districts already indicate a reduction in disposition time between 19% and 60%, as well as estimated savings of around EUR 43 million. Following their announcement by the Italian government at the end of August 2014, a number of announced measures regarding the civil justice system are still pending. These include: (i) a draft enabling law concerning honorary magistrates and judges of peace[72]; (ii) a draft enabling law adopted by the government in February 2015 to reform of civil proceedings and reduce their length, extend the competences of 'business courts' specialised in company-law cases[73] and create tribunals specialised in family-law disputes and human rights; (iii) a reform of the judicial council. Overall, while these measures reflect a genuine effort to tackle long-lasting weaknesses of the Italian judicial system, their take-up as well as impact on efficiency – first and foremost disposition time – will have to be carefully monitored (including verifying the success rate of ADR[74]) and ensure that they would not end up increasing the overall length and costs of civil trials. Also, these laudable efforts are not yet fully reflected in the latest available data on the efficiency of the judicial system which indicate that despite a decrease of close to 5% in pending litigious civil and commercial cases between 2012 and 2013[75], the Italian backlog[76] remains among the highest in the EU while the disposition time[77] for litigious civil and

[69] Law 162/2014 of 10 November 2014 (Decree Law 132/2014 of 12 September 2014)
[70] It is worth noting that this reform also captures disputes arising in bankruptcy cases, which is relevant for speeding up ongoing corporate restructuring efforts.
[71] Law 114/2014 of 11 August 2014 (Decree Law 90/2014 of 24 June 2014)
[72] The draft enabling law was presented to Parliament in January 2015 but the text is not yet available.
[73] Introduced by Law 27/2012 of 24 March 2012 (Decree Law 1/2012 of 24 January 2012)
[74] For instance, the latest evidence by the Italian government concerning compulsory mediation shows that the respondent attended the mediation meeting only in around 39% of the cases, with a success rate of around 36%.
[75] In 2013 the clearance rate was 106.6% for first-instance courts and 127.2% for second-instance courts (sources: 2015 EU Justice Scoreboard; Study on the functioning of judicial systems in the EU Member States: Facts and figures from the CEPEJ 2012-2014 evaluation exercise).
[76] According to the Ministry of Justice, the total number of all pending civil cases in all instances was 5,159,466 on 31 December 2013, as compared to 5,385,781 at the end of 2012 and to 5,922,673 in 2009.
[77] Disposition time is an indicator of average trial length, comparing the number of resolved cases during the observed period and the number of unresolved cases at the end. It provides a measure of the average number of days necessary for a pending case to be solved in court in a certain year.

commercial cases increased by some 3% year-on-year and remained the third highest in the EU.

Italy has made efforts to step up the prevention and repression of corruption, but the legislative process to revise the statute of limitations is still in the preparatory phase. The new national anti-corruption authority ANAC has launched a number of programming acts to prevent corruption in the context of public procurement, such as memoranda of understanding with the *Guardia di Finanza* and Sogei S.p.A., the public administration's information technology provider under the umbrella of the MEF. In addition, it has promulgated regulatory and interpretative platforms (e.g. on whistleblowing, conflicts of interest and money laundering), while its reorganisation in light of the new mission to supervise public contracts is still to be approved by the government on the basis of the plan presented by the Authority's President in December 2014. New rules on voluntary disclosure in taxation entered into force in January 2015[78] as part of a strategy to collect more taxes from emerging Italian capitals deposited abroad by September 2015 and to prevent the use of resources from tax evasion or slush funds through the newly introduced offence of self-laundering. On the other hand, the reform of the Italian statute of limitations, including the stepping up of repression of corruption offences[79], is still pending in Parliament.[80] Overall, it is crucial to speed up this process and ensure that the proposed reforms jointly tackle the intrinsic problems of Italy's statute of limitations, such as scarce incentives to resort to optional expedited procedures (*patteggiamento*).

The settlement of trade debt arrears has progressed, while a structural reform to tackle the late payments by the Italian public administration is being implemented. At end-January 2015, EUR 36.5 billion (2.3% of GDP) of trade debt arrears accumulated up to end-2013 had been paid out to suppliers. By March 2015, all public administrations – including local ones – will have to regularly update the new electronic platform for reporting existing liabilities towards suppliers of goods and services and only accept electronic invoicing (sanctions apply in case of non-compliance). Electronic invoicing was already implemented for central-government entities in 2014. This reform, if fully implemented also at local level, will make the stock of trade debt transparent, significantly lower the costs faced by firms acting as suppliers to the public administrations, reduce payment delays, and gradually bring Italian practices in line with the requirements of the EU's Late Payments Directive by 2015.

[78] Law 292/2014 of 17 December 2014

[79] This includes raising maximum penalties for corruption offences from eight to ten years, thereby extending also prescription terms by two years.

[80] Atto Senato n. 19, Atto Camera n. 1174, Atto Camera n. 2798

Annex: Overview of MIP-relevant reforms

2014 country-specific recommendations (MIP-relevant)		Action taken		
		Announced measures	***Adopted measures***	***Implemented measures***
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. Thereafter, ensure that the general government debt is on a sufficiently downward path; carry out the ambitious privatisation plan; 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. 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.	• The privatisations of Poste Italiane, Ferrovie dello Stato (the national railway company) and ENAV , as well as the sale of *Grandi Stazioni* are foreseen for 2015. The government also plans a possible slight reduction in its stake of ENEL and the sale to Cassa Depositi e Prestiti of the stake in the holding STH.	• **December 2014:** Law 190/2014 (2015 Stability Law) directly involves ministers in selecting areas of savings within their own budgets in order to achieve targeted savings without recurring to linear expenditure cuts. It also envisages additional substantial savings from regions (EUR 4 billion) of which the distribution should be decided by an official state-regions meeting in February 2015. The law also brings forward to 2015 the balanced budget rule for regions. If well implemented, this may address some problems experienced under the previous Internal Stability Pact. • **December 2014:** The 2015 Stability Law increases the resources available for public investment, earmarking an additional EUR 4.3 billion for direct investment – mainly infrastructure-related – by the government and state-controlled companies over the period 2015-2017. • **December 2014:** The 2015 Stability Law foresees a rationalisation process of local public enterprises to be completed by end-2015, based on rationalisation plans to be submitted by subnational public authorities and entities by end-March 2015.	• **November 2014**: Decree of the President of the Council of Ministers (DPCM) of 11 November 2014 partially implements the Public Spending Rationalization Program (pursuant to Law 89/2014), creating a restricted list of 'procurement aggregator bodies' together with a Technical Working Table coordinated by the Ministry of Economy and Finance (MEF). A further implementation decree is needed to make centralised procurement operational. • **January 2015:** The Parliamentary Budget Office (PBO) is fully operational since September 2014. It is finalising the process of building up the capacities required to fulfil its role in the budgetary process. The selection procedure of three directors and eight senior experts, which resulted in 568 applications, ended in January 2015. • **2014:** Proceeds from public real-estate sales amounted to some EUR 0.8 billion. Indirect privatisations implemented in 2014 include the listing of RaiWay and the sale of CDP Reti to China's State Grid Corporation.
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. Ensure more effective environmental taxation,	• At end-February 2015, legislative decrees implementing the provisions under enabling Law 23/2014 (enabling law on taxation) are expected to be announced. The legislative decrees would concern: (i) the reform of cadastral values to be finalised within 5 years; (ii) increasing the certainty of tax law; (iii) the revision of taxation of individual entrepreneurs; (iv) the reduction of tax evasion and elusion and its monitoring; (v) VAT e-invoicing and other ways to enhance the traceability of	• **December 2014:** The 2015 Stability Law includes measures to simplify tax declarations for citizens and businesses, fight tax evasion and improve compliance. • **November-December 2014:** Legislative Decree 175/2014, 188/2014 and 198/2014 (all under Law 23/2014) – respectively including measures simplifying tax declaration (pre-filled tax returns), reviewing taxation of tobacco and setting out rules for the composition,	• **December 2014:** The 2015 Stability Law includes measures to reduce the tax burden on labour financed by spending cuts as well as a gradual increase in the standard and reduced VAT rates as of 2016 and in fuel excise duties as of 2017 that safeguard the achievement of the planned fiscal targets over the period.

2014 country-specific recommendations (MIP-relevant)		Action taken		
		Announced measures	*Adopted measures*	*Implemented measures*
	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.	payments; (vi) the revision of tax collection procedures; (vii) the simplification of taxation of international businesses; (viii) the revision of taxation of the gambling sector.	competences and functioning of cadastral committees – have been published in the *Gazzetta Ufficiale*. • **February 2015:** An agreement with Switzerland on cooperation in tax matters which should facilitate the regularisation of capital held abroad was signed.	
3	As part of a wider effort to improve the efficiency of public administration, clarify competences at all levels of Government. 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. 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. Monitor in a timely manner the impact of the reforms adopted to increase the efficiency of civil justice with a view to securing their effectiveness and adopting complementary action if needed.	• The approval by the Lower Chamber of the constitutional reform (Atto Camera n. 2613) was postponed until after the voting related to the 2015 Stability Law and the presidential elections. A proposed major amendment gives the exclusive competence for active labour market policies to the state. Adoption of the constitutional reform is expected by end-2015. • The Senate voted on the electoral law (Atto Senato n. 1385) in January 2015. Final adoption by the Lower Chamber is now expected by April 2015. • The enabling law on the comprehensive reform of the public administration is still under discussion in the Senate (Atto Senato n. 1577). Once approved, it will enable the government to enact within 18 months legislative decrees to *inter alia* reorganise state administrations, review public employment rules and introduce performance evaluation for managers, simplify the regulatory environment for businesses and citizens, and review the discipline of state-owned enterprises and local public services. Some other measures like the revision of the 'self-remedy' discipline which would enhance regulatory stability and predictability will be	• **December 2014:** The reorganisation plan of the national anti-corruption authority ANAC following its merge with the public procurement supervisor AVCP was presented to the government. Endorsement is foreseen by February 2015. • **December 2014**: The 2015 Stability Law steps up the process of reorganisation and rationalisation of provinces initiated in April 2014, following an agreement in September 2014 on the reallocation of functions to the regional level. However, the relocation of half of the provinces' staff as of April 2015 – ideally towards regions and municipalities – still needs further enacting measures.	• **October 2014:** The 2014-2020 Partnership Agreement approved by the Commission foresees that all EU co-funded operational programmes have to be accompanied by plans of administrative reinforcement and include measures to strengthen public administration at large. • **November 2014**: Law 164/2014 entrusts the Prime Minister with direct monitoring and intervention powers to ensure the timely use of EU funds. • **November 2014**: Law 162/2014 aims to enhance out-of-court proceedings through: i) ‘dejudicialized’ consensual divorces and legal separations without the assistance of a legal counsel; ii) possibility to transfer pending cases to arbitration committees; iii) introduction of an alternative dispute resolution procedure managed by the parties’ lawyers (so-called ‘assisted negotiation’), normally voluntary but procedurally compulsory in specific cases (e.g. those involving small payments) as of February 2015. • **December 2014**: Law 292/2014 on new rules on voluntary disclosure introduces the offence

2014 country-specific recommendations (MIP-relevant)		Action taken		
		Announced measures	***Adopted measures***	***Implemented measures***
		operational immediately. • Following its announcement by the Italian government at end-August 2014, a draft enabling law concerning honorary magistrates and judges of peace was presented to Parliament in January 2015 (but the text is not yet available), while a draft enabling law on the reform of civil proceedings in view of reducing their length was adopted by the government in February 2015 and can thus be forwarded to Parliament as well. The reform of the judicial council is also pending. • The reform of the Italian statute of limitations, including the stepping up of repression of corruption offences is still pending in Parliament (Atto Senato n. 19, Atto Camera n. 1174, Atto Camera n. 2798). • By March 2015, all public administrations – including local – will have to regularly update the new electronic platform, reporting existing liabilities towards suppliers of goods and services and accept only electronic invoicing (sanctions apply in case of non-compliance).		of self-laundering in the Italian criminal law system. • **January 2015**: Pursuant to Law 114/2014, digital submission of pleadings became compulsory for all first-instance courts (including for already pending cases). The extension to appeal courts will apply as of June 2015. • **January 2015**: The Agency for Territorial Cohesion is about to become operational: the director has been nominated, part of the personnel from the existing *Dipartimento per lo Sviluppo e la Coesione Sociale* (DPS) is being transferred to the Agency, and open competitions for the recruitment of additional staff are ongoing.
4	Reinforce the resilience of the banking sector and ensure its capacity to manage and dispose of impaired assets to revive lending to the real economy. Foster non-bank access to finance for firms, especially small and medium-sized businesses. Continue to promote and monitor efficient corporate governance practices in the whole banking sector, with particular attention to large cooperative banks (*banche popolari*) and the role of foundations, with a view to improving the effectiveness of financial intermediation.		• **October 2014:** Ministerial Decrees of the Ministry of Economic Development made available EUR 400 million to foster firms' investment projects relating to digitalisation and sustainable industry in the context of the Sustainable Growth Fund. • **December 2014:** The 2015 Stability Law increased total funds for the *Nuova Sabatini* framework to foster firms' investment in machinery and equipment by EUR 2.5 billion, while an extra EUR 217 million was earmarked for loan interest payment contributions up to 2021. • **December 2014:** The 2015 Stability Law made the Central Guarantee Fund for SMEs accessible to mid-cap firms (up to 499	• **October 2014:** Insurance-sector supervisor IVASS adopted prudential guidelines for insurance firms wishing to engage in direct lending to firms. • **October 2014:** The Ministry of Economic Development adopted Circolare n. 674 so that provisions allowing the Central Guarantee Fund for SMEs to guarantee mini-bonds and portfolios thereof entered into force. • **December 2014:** The Italian banking association ABI prolonged a number of its finance support programmes (i.e. *Accordo per il Credito 2013, Plafond Crediti PA* and *Plafond Progetti Investimenti Italia*) up to end-March 2015. • **December 2014:** The 'Export Banca' initiative

2014 country-specific recommendations (MIP-relevant)	Action taken		
	Announced measures	***Adopted measures***	***Implemented measures***
		employees). • **December 2014:** The 2015 Stability Law enhanced and extended the existing R&D tax credit framework for the period 2015-2019 for a total budget of EUR 2.34 billion. • **December 2014:** The 2015 Stability Law made available EUR 220 million for the period 2015-2017 in the context of the 'Made in Italy' initiative. • **January 2015:** Decree Law 3/2015 stipulates that banks wishing to participate in the *Nuova Sabatini* framework are no longer required to have recourse to Cassa Depositi e Prestiti, speeding up to allocation of funds. • **January 2015:** Decree Law 3/2015 exempted leverage credit funds extending direct credit to firms from paying withholding taxes on their revenues. • **January 2015:** Following Decree Law 3/2015, a service company for the capitalisation and restructuring of promising Italian industrial firms in temporary financial difficulties will be created, but implementation details are still lacking. • **January 2015:** Decree Law 3/2015 allowed export insurance agency SACE to grant direct credit to firms, pending authorisation by Bank of Italy and in accordance with EU law. • **January 2015:** Decree Law 3/2015 requires Italy's 10 largest cooperative banks *(banche popolari*) with total assets exceeding EUR 8 billion to transform themselves into joint-stock companies. Concretely, the involved banks' shareholder assemblies are expected to decide under relaxed majority rules on the abolishment of the so-called 'one-head-one-vote' principle and the 1% ceiling on the stake of individual shareholders, and this within 18 months after the entry into force of Bank of Italy's	to support firms' exports and internationalisation was extended by one year.

2014 country-specific recommendations (MIP-relevant)		Action taken		
		Announced measures	*Adopted measures*	*Implemented measures*
			(forthcoming) implementing measures. The Italian Parliament may still amend the decree before converting it into law by end-March 2015.	
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. Work towards a more comprehensive social protection for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation. 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. 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. 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. 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.	• Legislative decrees implementing other parts of the Jobs Act, including the reform of active labour market policies and the rationalisation of wage supplementation schemes, are expected in the course of spring 2015.	• **December 2014:** Law 183/2014 ('Jobs Act') enables the government to enact within 6 months legislative decrees to: (i) introduce a new permanent contract with progressive entitlements for new hires; (ii) further rationalise existing contracts; (iii) introduce the possibility for employers to redefine workers' tasks and remuneration in the context of firm restructuring in crisis situations; (iv) extend 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 supplementation schemes; (v) reform the governance of active labour market policies and their interplay with passive measures; (vi) better manage the supervision of the application of safety and security, fiscal and labour regulations at the workplace; (vii) introduce a statutory minimum wage for workers not covered by collective contracts; (viii) simplify administrative obligations for employers; (ix) streamline all existing hiring subsidies; (x) reduce tax disincentives to female (second-earner) employment, foster a better work-life balance and extend maternity benefits to categories not yet covered. • **December 2014:** A legislative decree (*Atto del governo sottoposto a parere parlamentare n. 134*) in the context of the Jobs Act reforms dismissal regulation for open-ended contracts for new hires. It will become law in March 2015. • **December 2014:** A legislative decree (*Atto del governo sottoposto a parere parlamentare n. 135)* in the context of the Jobs Act reforms the unemployment benefits system. It will become	

2014 country-specific recommendations (MIP-relevant)		Action taken		
		Announced measures	*Adopted measures*	*Implemented measures*
			law in March 2015. • **February 2014:** A legislative decree tabled by the government intends to rationalise the existing types of labour contracts in view of limiting the use of temporary atypical contracts and turning the permanent contract subject to new dismissal rules into the standard, as such reducing labour market duality. It will enter into force after the non-binding opinion of the Parliament. • **February 2014:** A legislative decree tabled by the government features measures to foster a better balance between work and private life and achieve higher labour market participation among women. It will enter into force after the non-binding opinion of the Parliament.	
6	Implement the National System for Evaluation of Schools to improve school outcomes in turn and reduce rates of early school leaving. Increase the use of work-based learning in upper secondary vocational education and training and strengthen vocationally-oriented tertiary education. 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.	• A decree law on school reform is expected by end-February 2015. The decree law is intended to improve the school-to-work transition, to modernise the curricula, to enhance the evaluation of schools and teachers, to reform the career progression of teachers, and to move as of 2016 to an open competition system as the only way to access the teacher profession.	• **December 2014:** The 2015 Stability Law set aside EUR 1 billion in 2015 and EUR 3 billion from 2016 onwards to finance the planned school reform. Most of the resources available will be used to hire on a permanent basis from September 2015 around 150,000 teachers that have so far worked under short-term contracts.	• **November 2014:** The public consultation on the draft school reform plan ended on 15 November 2014 and benefitted from a high participation rate.
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. 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. Enhance the efficiency of public procurement, especially by streamlining procedures	• The draft enabling law for the reform of public administration (Atto Senato n. 1577) – still in Parliament – foresees a comprehensive reform of local public services.	• **November 2014:** The Parliament converted Decree Law 133/2014 into Law 164/2014, which includes simplification provisions, particularly with regard to authorization and permit procedures relating to construction and infrastructure investment. • **December 2014:** The 2015-2017 Simplification Agenda was adopted. It establishes a time-bound framework to monitor simplification reforms and report on progress, involving all levels of government. The whole process is expected to be completed only by	• **December 2014:** Decree Law 192/2014 postponed by one year (to 31 December 2015) the deadline for the rectification of in-house contracts not complying with EU rules.

2014 country-specific recommendations (MIP-relevant)		Action taken		
		Announced measures	*Adopted measures*	*Implemented measures*
	including through the better use of e-procurement, rationalising the central purchasing bodies and securing the proper application of pre- and post-award rules. 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.		end-2016. The targets for January 2015 on a single format for simplified environmental authorisations and building procedure modules was approved, although regional implementation is needed. • **December 2014:** The 2015 Stability Law includes provisions to enhance the transparency of in-house awards. • **February 2014:** The government presented its draft annual competition law (for the year 2014) which intends to tackle obstacles to competition in a wide range of sectors (e.g. insurance, telecom, postal services, electricity and gas, fuel distribution and banking) as well as liberal professions (e.g. notaries, lawyers, pharmacists).	
8	Ensure swift and full operationalisation of the Transport Authority by September 2014. Approve the list of strategic infrastructure in the energy sector and enhance port management and connections with the hinterland.		• **November 2014:** The Parliament converted Decree Law 133/2014 into Law 164/2014, which contains measures to speed up infrastructure projects. It also identifies the categories of energy infrastructure considered strategic and mentions the adoption of a National Strategic Plan for Ports and Logistics.	