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LIMITE

INTRODUCTION

Italy has always honoured its European commitments and intends to continue to do so. This summer the Italian Parliament approved economic measures totalling EUR 58 billion so as to achieve a balanced budget in 2013, a year earlier than requested by the European institutions. As from that year, thanks to the increased primary surplus, our debt will fall.

However, we are aware of the need to present a comprehensive and coherent reform plan.

The situation in Italy should be viewed with due consideration for the more general balances which involve the entire European area. Months of stress on the financial markets and speculative attacks against sovereign debt are indeed the unmistakable signs of a structural weakness of the euro.

As regards Italy, being aware that our government debt is too high and growth too limited, we have followed a careful and rigorous policy from the beginning of the crisis.

From 2008 until now our government debt has increased, in relation to GDP, less than that of other major European countries. Furthermore, the discipline we have adopted has led to a primary balance in surplus. This situation is not shared by other countries.

If earlier problems, such as that of our government debt, are now giving rise to further serious dangers, this is primarily a sign that the cause must be sought not in their existence alone, but in the new context in which they have to be dealt with.

A. THE ECONOMIC FUNDAMENTALS

The Italian Government has consolidated public finances and will attain the objective of balancing the budget in 2013. Government debt in relation to GDP has been brought back on track for gradual reduction.

In 2014 we will have a budget surplus (cyclically adjusted) equal to 0,5 % of GDP, a primary surplus equal to 5,7 % of GDP and government debt of 112,6 % of GDP. To achieve this objective two significant public finance measures were approved in record time in the summer, involving an adjustment of the underlying deficit in the four years from 2011 to 2014 equal respectively to 0,2 %, 1,7 %, 3,3 % and 3,5 % of GDP. In 2011 provision is made for a sizeable primary surplus equal to 0,9 % of GDP. Despite the increase in expenditure on servicing the debt, this will allow the debt/GDP ratio to be reduced as early as 2012. The figures for the first eight months of this year are consistent with these objectives.

It must be pointed out that the new set of national accounts indicates that in 2010 Italy's GDP rose by 1,5 % and not 1,3 % and, in the two years of crisis, GDP has fallen less than was first estimated (-1,2 % instead of -1,3 % in 2008 and -5,1 % instead of -5,2 % in 2009).

As a consequence of the audit carried out by Eurostat, the deficit/GDP ratio which was confirmed as 4,6 % for 2010 is virtually in line with that of Germany, revised from 3,3 % to 4,3 %. Furthermore, it should be noted that Eurostat has also corrected upwards the deficit/GDP ratio of France (from 7 % to 7,1 %), Spain (from 9,2 % to 9,3 %), Greece (from 10,5 % to 10,6 %) and Portugal (from 9,1 % to 9,8 %).

In conclusion, in 2010 Italy - together with Germany - demonstrated by far the most virtuous conduct in terms of net borrowing in relation to GDP.

B. CREATING STRUCTURAL CONDITIONS FAVOURABLE TO GROWTH

We are now committed to creating the structural conditions favourable to growth. The Government deems it necessary to act on the composition of the government budget to make it more favourable to growth.

With this objective the Government intends to act along four broad lines:

- removing of constraints and restrictions on competition and on economic activity, in order to allow, in services in particular, for higher levels of production and lower costs and prices;
- establishing an institutional, administrative and regulatory context enabling businesses to be more dynamic;
- adopting measures promoting the accumulation of physical and human capital and increasing its efficiency;
- completing labour market reforms, to overcome the dualism of the labour market and encourage greater participation.

It is in any case a priority resolutely to tackle the North-South division which historically characterises and penalises the Italian economy. This discrepancy is expressed in a potential growth rate of the Centre/North of Italy equalling the best levels in Europe, whereas that of Southern Italy is ranked at the bottom of the scale.

To this end, the government intends to make full use of the structural funds, committing itself to a full review thereof, including those for development of infrastructure, in order to make better use of them and redefine their priorities, in close collaboration with the European Commission. This review will result in a speeding-up, a re-thinking of the priorities of use of the funds and a reinforced regime in which Italy is prepared to request technical support from the European Commission in realising this ambitious aim. The special programme for the development of the Mezzogiorno is appropriately named "Eurosud", and is born of the conviction that the growth of the South is the growth of Italy as a whole.

The Government will therefore plan and implement the strategic review of the programmes co-financed from the 2007-2013 Structural Funds. This review complies with the Council's Recommendations of 12 July 2011 on Italy's National Reform Programme.

It is based on a closer concentration of these programmes on investments more capable of restoring the country's competitiveness and growth, in particular taking action on the unused growth potential of the South, and on more strictly results-based measures (education, broadband, railways, job creation). An element in the review may be a reduction of the rate of national co-financing of Community programmes.

The resources made available as a result of such a reduction will be put to use by a concertation procedure between the Minister for Cohesion Policies, the European Commissioner, Mr Hahn, and the regions concerned, on the basis of reinforced cooperation with the European Commission via a specific action group.

The creation of the structural conditions for the growth of the whole country will inevitably involve the review of policies on:

- a. promotion and optimisation of human capital;
- b. making the labour market more efficient;
- c. opening-up of markets to competition;
- d. support for entrepreneurship and innovation;

- e. legislative and administrative simplification;
- f. modernisation of public administration;
- g. making the administration of justice more efficient and streamlined;
- h. speeding up implementation of infrastructure and building projects.

a. Promotion and optimisation of human capital

The accountability of individual schools will be increased (on the basis of INVALSI tests), introducing a restructuring programme for the 2012-13 school year for those with unsatisfactory results; the role of teachers will be upgraded (increasing their teaching load and corresponding salary level over a five-year period); a new system of selection and recruitment will be introduced.

There will be more autonomy and competition among universities. The proportion of financing linked to the assessments introduced by the University System and Research Assessment Agency (ANVUR) will be increased and there will be greater room for manoeuvre in setting enrolment fees, with the obligation to allot a considerable part of additional funds for the benefit of less well-off students. A national scheme of study loans will be set up.

b. Making the labour market more efficient

By the end of 2011 we shall submit the following additional measures.

1. A reform of labour legislation (a) promoting greater readiness to take on employees and the efficiency requirements of business by means of, among other things, new rules governing dismissals for economic reasons in permanent employment contracts; (b) stricter conditions in the use of pseudo-sub contracting, given that such contracts are often used for workers formally classed as independent but essentially engaged as employees.

2. Measures aimed at favouring youth employment and women's employment by promoting (a) apprenticeship contracts to combat irregular forms of youth employment; (b) part-time working arrangements and contracts for bringing women in to the labour market; (c) a tax credit for businesses offering work in the most disadvantaged areas.

c. Opening-up of markets to competition

By 1 March 2012 the Competition Authority's instruments for intervention to prevent the inconsistencies between promotion of competition and regional or local-level provisions will be reinforced. Liberalisation of working hours for businesses will be made general in agreement with local authorities.

The gas distribution service in Italy has already been liberalised. The ministerial decrees identifying the 177 units into which the national territory has been divided have already been issued; by 31 October 2011 the regulation laying down the criteria for tendering and the award procedures will be adopted - earlier than in other countries of the European Union.

With regard to professional bodies, the government intends to abolish the mandatory minimum charges for professional services and wishes to regulate professional associations. In the measures enacted in August on the matter of access to the regulated professions it was laid down that professional bodies must ensure that professional activity will in all cases comply with the principles of free competition, the spread of professionals over the whole of Italy, differentiation and plurality of supply to guarantee the real possibility of choice for users in a context of the most extensive information in relation to the services on offer. Furthermore, as early as the time of conversion of the July measures (LD No 98/2011) it was decided that the Government, having taken advice from the High Commission for the Formulation of Proposals on Liberalising Services, will draw up proposals for the liberalisation of services and economic activities to be submitted to the categories concerned. Eight months after the conversion of the decree-law, services will be considered liberalised, unless subject to specific regulation.

The safeguards to protect competition in the area of local public services will be reinforced with the introduction at national level of systems for guaranteeing the quality of services in the sectors of water, waste, transport (local and national) and local-authority pharmacies.

As regards the reform of local public services which the Italian Government - taking up what was already provided for in Article 23a of Decree-Law No 112/2008 - approved in the measures adopted in August 2011 with the exclusion of the water sector following a public referendum: The measures it is planned to adopt strengthen the process of liberalisation and privatisation by stipulating that it is not possible to confer exclusive rights if the local body responsible for doing so has not first checked the feasibility of competition arrangements in the market or of a fully liberalised system. In addition, there is provision for increasing the powers of the Competition Authority (Autorità garante della concorrenza e del mercato) as well as a benchmarking system to ensure a gradual improvement in the quality of management and enable comparative assessments of management to be carried out.

d. Support for entrepreneurship and innovation

In order to promote the growth of undertakings, the Government plans to use taxation as a lever to assist the capitalisation of businesses with mechanisms to make risk-capital yield tax deductible. Venture-capital and private-equity public participation measures will be developed while maintaining competition in the sectors concerned.

The Government will turn crisis areas into development areas, simplifying and rendering more efficient the procedure for establishing recovery programmes, which may also be financed using community resources.

The executive will make a major commitment to SMEs by annually assigning to them 50 % of the unused resources of the Revolving Fund for supporting undertakings and for investment in research.

This assistance - together with the Development Contract already up and running - form an integral part of the general reorganisation of incentives involved in the Statute of Undertakings, which will become law in the coming weeks.

To guarantee the liquidity of undertakings, provision is being made for a system of certification of the debts to undertakings of local public administrations so that they may be discounted and subsequently paid by the banks.

e. Regulatory and administrative simplification

The Government is encouraging the establishment of a "zero bureaucracy zone" throughout national territory on an experimental basis for the whole of 2013, inter alia by creating the Local Office of Governments (ULP) as the sole administrative authority, which will include local levels of government that have in the past been excluded.

The Government aims to simplify the drawing up of limited liability companies' balance sheets, digitalise deposit of the act of transfer of company shares and streamline supervision of limited liability companies and control bodies.

Relations with the public administration will be facilitated by completely replacing certificates with self-certification, while forms of certification issued by the public administration will remain valid only in relations between private individuals.

Checks on undertakings will be governed by the criteria of simplicity and proportionality in order to avoid any duplication or overlapping, which could prove an obstacle to the normal exercise of entrepreneurial activities.

Finally, administrative simplification will be supplemented by a strategy of reviewing sectoral regulation, drawing up specific proposals for simplifying procedures and monitoring outcomes. Implementation of the programme for measuring and reducing the administrative burdens arising from information requirements imposed by State legislation - the Methodology for Reducing Administrative Burdens (MOA) - will be strengthened and speeded up. In addition, where rules originate at regional or local level there will be a stepping up and extension of the incentives provided by the measures adopted in the summer for administrative procedures connected with the launching and development of business activity. The aim is to improve Italy's position in the international "Doing Business" classification over the next three years.

f. Modernisation of public administration

Public administration is an essential growth vector. We are creating the conditions needed to ensure that the public administration is ready to keep step with recovery, serving development rather than forming a bureaucratic obstacle. This is why simplification, transparency and meritocracy are key. A keystone will be full implementation of the Brunetta reform of public administration, in particular the measures to strengthen the role of the Commission for the Evaluation, Transparency and Integrity of public administrations (set up in December 2009) whose powers will form part of the anti-corruption bill already approved by the Senate and currently being examined by the Chamber of Deputies. The bill represents an important step towards full implementation of the reform of public administration in that it lays down new governance for action to prevent and combat corruption, assigns functions to the Commission and specifies in considerable detail the means of increasing the level of transparency in public administration.

To render public administration more efficient, transparent, flexible and less costly (apart from the current block on staff turnover) we shall introduce the following mechanisms which will be binding and accompanied by sanctions: (a) compulsory staff mobility; (b) short-time working (Cassa Integrazione Guadagni) with consequent salary and staff reductions; (c) overhauling of staff numbers.

g. More efficient and streamlined administration of justice

In line with the measures decided on in the summer, a further effort will be made to combat litigiousness and prevent litigation (inter alia by the setting up at the Ministry of Justice of a technical group to pinpoint situations that are particularly prone to litigation and propose specific measures to counter them). By 30 April 2012, the current Ministry of Justice project to create a centralised database for civil and bankruptcy statistics will have seen completion. Mechanisms will be strengthened to encourage the "virtuous offices" referred to in Law n. 111/2011. The aim is to reduce the duration of civil disputes by at least 20 percent in three years.

h. Speeding up infrastructure work and the construction sector

In addition to carrying out investments agreed with companies which have already been awarded contracts, the government will call on private investors to take a greater share in infrastructure projects. By 31 December 2011 it will lay down standard contract terms to facilitate recourse to project financing, by allocating risk more clearly and efficiently between parties, providing greater certainty of profitability and preventing monopolistic behaviour when setting toll rates. The quality of public financial programming will be improved, by setting multiannual spending targets and concentrating resources on projects which are considered to be strategic.

The government is engaged in identifying some projects on which construction can start immediately, to be proposed by the Minister for Infrastructure and Transport, which will be eligible, by way of a financial contribution, for tax breaks (IRAP, IRES - corporation taxes) to benefit those who hold the contract for the actual works. In addition there are plans for a number of measures to simplify and speed up procedures for approval of projects by the CIPE (government infrastructure committee) and for subdividing contracts into lots on a functional basis, to allow easier access for SMEs.

There are plans to mobilise private investment by simplifying the procedures for programme contracts for major Italian airports. Lastly, rules are planned to optimise the management of port facilities and to simplify exceptional road transport.

Finally, preparations are under way for the state to provide "real" guarantees (through its own property assets, not through purely financial guarantees) for loans to help young couples without permanent jobs to buy their first home. This will give the property market a boost and help young families.

C. SUSTAINABLE PUBLIC FINANCES

Pensions

Welfare legislation has been amended repeatedly during the current legislative period, making the Italian pension system among the most sustainable in Europe and among the most able to absorb possible negative shocks. Bearing in mind the actual retirement age ("windows") the old-age pension age is already higher than that of our principal European partners. The government is committed to achieving the required pension age of 67 years for all workers (men and women) by 2026.

The requirements for obtaining an old-age pension have already been reviewed. These requirements will increase gradually, stabilising as from 2013.

These requirements are in any event linked to increasing life expectancy.

Law delegating tax and welfare reform

The government bill is already before Parliament and will be approved on a timescale compatible with enacting the provisions by 2012. However, in order, amongst other things, to increase investor confidence, and with due regard for the course of the planned restructuring, the government has provided information, by Law 148 of 14 September 2011, on the resources which will be found from reforming the tax and welfare systems on the basis of the current arrangements for fiscal incentives, the overlapping tax advantages and ensuing inefficiencies identified to date. These resources amount to at least EUR 4 billion in 2012, 16 billion in 2013 and 20 billion annually as from 2014. At the same time, a safeguard clause has been introduced to give a maximum guarantee that the budget will be balanced. The clause provides that if there is any delay in carrying out reforms beyond 30 September 2012, existing tax breaks will be reduced by 5 % in 2012 and by 20 % as from 2013. Alternatively, there is a limited possibility that the President of the Council can issue a decree, acting on a proposal from the Minister for Economic and Financial Affairs, changing rates of indirect taxation, including excise duties.

Asset sales

By 30 November 2011, the government will set out plans for the sale of state-owned assets, and maximising income from them, to provide revenue of at least EUR 5 billion per year over the next three years. Subject to agreement with the Conference between the State and the Regions, local authorities will have to draw up programmes for privatising the companies they control with the utmost urgency. The income will be used to reduce debt or carry out local investment projects.

Rationalisation of public expenditure

The Government confirms its commitment to set out, by 31 December 2011, the programme for the reorganisation of expenditure provided for by Law No 148 of 14 September 2011, in particular as regards: operational integration of the different fiscal agencies; rationalisation of all peripheral units of the State administration, and of social security bodies, to create synergies and optimise the use of resources; coordination of the activities of the law enforcement agencies; rationalisation of the judicial system as a whole, to accelerate civil law procedures; and reorganisation of the consular and diplomatic network. The Government will implement the first measures from 1 January 2012 and report on progress made at three-month intervals.

Public debt

By 31 December 2011, the Government will task a small committee of prestigious individuals, working together with the territorial authorities and with the principal national and international economic and financial institutions, with drawing up a comprehensive plan to reduce the debt, i.a. by means of divestments.

The cost of the institutional apparatus

The Government recognises the need for reinforced action to reduce the cost of the institutional apparatus. In particular, it will move swiftly to rationalise and abolish Provinces and reallocate functions from the Provinces to the Regions or Communes, significantly streamlining the bureaucratic apparatus and representative bodies. The rules forbidding the simultaneous holding of elective posts at different levels of government will be strengthened.

Balanced budget

A bill to reform the Constitution in order to ensure a balanced budget is currently being discussed in the Chamber of Deputies, with a view to its final adoption by mid-2012.

Defining further corrective measures which may be required

The Government will monitor budgetary developments continuously. Should a downturn in the economic cycle lead to a deterioration in the public finances, the Government will intervene swiftly. Use of the Emergency Fund will be combined with the establishment, in June 2012, of budgetary trends consistent with the net borrowing target for the following year.

A. CONCLUSIONS

We are certain that, with the commitment of us all, springing from the realisation that we are confronting problems which affect the Union as a whole and the resilience of the common currency itself - that is, problems which cannot be reduced to one or other country's weakness or strength, we will hand over to the young a stronger and more cohesive Europe.
