



R.ETE.  
IMPRES E ITALIA

MINISTERO DELL'ECONOMIA E DELLE FINANZE

DIPARTIMENTO DEL TESORO

Direzione I – Analisi Economico-Finanziaria

**OECD ECONOMIC SURVEY MISSION TO ITALY**

**18-22 JUNE 2012**

**QUESTIONNAIRE(\*)**



*(\*) Il lavoro è stato coordinato da Mariano Bella e Fabio Fulvio di Confcommercio-Imprese per l'Italia. L'audizione si è tenuta presso il MEF il 22 giugno 2012.*

## Macroeconomic policy

### Fiscal sustainability

*1. Are the latest macroeconomic and fiscal developments in line with projections? What explains the widening of the general government deficit in early 2012 and jump in the debt/GDP ratio of 4% in 2012 Q1? Does the government intend to implement new measures if targets become difficult to attain?*

In the latest document of the Italian government, Economic and Financial Document 2012, the forecast about GDP growth in 2012 is -1,2%, compatible with the general government deficit/GDP ratio of -1,7% and with the debt/GDP ratio at 120,3. According to the Istat figures of the first quarter 2012, it is more likely that at the end of 2012, the change in GDP will be close to -1,5%. The pressure of financial markets on Italian sovereign debt, together with slower growth, causes a deterioration in the debt/GDP ratio. In fact, the latest Italian treasury bonds auctions show that the Italian government must undergo a higher interest burden to replace the maturing bonds. Of course, if this trend were to remain unchanged, the Italian government might be forced to new measures on public finances, preferably, in our opinion, on the side of spending cuts, because further escalation of the tax burden would have depressive effects even more dangerous than those we are facing in 2012.

*2. Are there circumstances in which leaving the euro area, and/or unilaterally restructuring maturing public debt, could be the least bad option? Has the government or the central bank assessed the likely costs of such an eventuality? What other contingency plans exist to face serious downside risks, such as e.g. adverse sentiment toward sovereign bonds, delayed resolution of euro area turmoil, geopolitical events leading to oil price spike, etc...?*

The exit from the euro area cannot be considered as the least bad option. The decision to leave the euro would lead to the end of the idea of Europe as was intended in the last 50 years. To face global competition, Europe must progress in the field of economic and political integration. Nowadays, at the best of our knowledge, we have no official documents from the government or central bank, in relation to the likely costs of the euro break up. At the same time we are not aware of any alternative plans. Rete Imprese Italia feels the only plan to work on is toward more European political integration.

*3. Why has the government chosen to rely primarily on revenue increases (as opposed to spending cuts) for fiscal adjustment? If additional spending cuts of €4.2 billion are achieved,*

*will the planned VAT increase automatically be annulled? Is the fight against tax evasion producing the expected results?*

Revenue increases are preferred because the sacrifice is distributed on a much larger number of subjects. This does not ensure a fair distribution of the costs of the measures but it is politically more viable. It is politically easier to finance a deficit of 20 billion euros by increasing the overall tax burden, rather than firing some hundred thousands of general government employees. It is very likely that the goal of cutting the costs identified by the spending review will not prevent the planned VAT increase. The results of fight against tax evasion are consistent with the minimum goals that the Italian Revenue Agency intends to achieve every year. Recovering several billion of euros through targeted inspections ensures a good media coverage, but it has a little impact on the public budget. To increase compliance incisive reforms that improve the efficiency and quality of services offered by government are needed. Above all, the reduction of the legal tax rate and the fight against unfair fiscal behaviour are both tools to compress the area of the underground economy. In other words, we should move from the simple fight against tax evasion to the creation of whole conditions for a massive emersion of the tax base.

*4. Which spending areas are seeing the biggest cuts? Are any areas shielded from cuts (apart from debt service)? Have public wages been cut? What is the trend of public employment? What has been the outcome of the spending review (to be concluded by the end of May)?*

In recent years the spending area that has suffered the highest cuts is education (€ 1 billion over the past two years). The spending on social protection has decreased more moderately, but significantly. The health spending, after a sharp increase until 2010 (over 44 billion euros over the last 10 years), showed a moderate decline in 2011. The salaries of public employees have not been cut but in recent years the government's action has led to stop their increase. At the same time, the turnover of public employees was blocked. This measure has led to a reduction of about 182.000 public workers since 2007.

The government has not yet presented the new guidelines regards the definitions of both costs and borrowing requirements of expenditure programs of Central government office in headquarters and branches. The spending review should lead between June 1 and December 31 2012, to an expenditure cut of about €4.2 billion, equivalent to 7.2 billion in a year (9% of the expenditure considered reviewable). On June 15 the Council of Ministers decided to cut by 20% the number of managers and by 10% the number of employees of the Presidency of the Council of Ministers and of the Ministry of Economy, and planned the consolidation of some



government agencies. At the same time they decided some interventions designed to improve the management and disposal of public assets. The implementation and impact of these measures of public finance have not yet been set.

*5. What has been the relative importance of government policy and ECB intervention for the development of bond yields since the beginning of the Monti government?*

From November 2011, the action of the Monti government has been geared to defuse the Italian sovereign debt crisis, by adopting fiscal consolidation based on a strong fiscal tightening in order to convince the financial markets of the Italian ability to support the debt in the medium-long term. In the short run, however, the ECB has fielded two operations to provide liquidity to the market between December 2011 and March 2012, for a total of 1.100 billion euros, at a fixed rate of 1% and repayable in three years. These transactions were decided with the intention of countering the ongoing credit crunch in the euro area, mainly in the peripheral countries. The funds provided to the Italian banks have been used primarily to buy government bonds rather than to finance productive enterprises. Italy is the only country with Portugal to show growth in the incidence of portfolio securities on the bank assets, equal to about 6,4% over the past two years, while in the whole euro area banks have reduced the weight for about 1,5%. This is the reason why the European Banking Authority (EBA) has asked the Italian banks to recapitalize, to avert the growing market risk connected to the potential default of sovereign debt bonds held in the Italian bank portfolios.

*6. What lies behind the declining average maturity of government bonds over the last two years? Do the authorities intend to reverse/continue this trend? How much progress has been made in taking stock and liquidating overdue payments at the central and subnational government levels?*

As highlighted by the Bank of Italy in the last Annual Report, the Italian Treasury has been able to sell the securities needed to cope with the volume of repayments and funding needs while avoiding an excessive shortening of the life of the debt that would have made the Italian securities market more vulnerable to liquidity crises. The issuance has become easier since last January. The relationship between the amount requested and tenders (cover ratio) was maintained for all auctions high, well above unity; for ten-year BTPs, between October and April, it was on average greater than 1.4. The average duration of the bonds remains high, indeed. As to the problem of overdue payments of the government towards the

suppliers, the government has adopted some measures to unlock substantial sums, but not yet effective.

*7. What are the characteristics (e.g. composition, funding, mandate) of the fiscal council the government is planning to set up?*

By the end of February 2013, by mean of an ordinary law will be instituted the Italian fiscal council, following the prescription of the Constitutional law which introduce the zero-deficit rule in our Constitution. Other rules and regulations should determine composition and funding of the council. With respect to the mandate, the Italian fiscal council will be set up according to the proposal of regulation of the European Commission (2011, 0386). The fiscal council, independent from the government, must ensure the coherence of the National budget policy with the fiscal compact and the other European fiscal agreements, following closely the suggestions of the already mentioned proposal of regulation of the European Commission (analysis and check of macroeconomic forecasts, effectiveness of the budget rule and fiscal policies and so on).

*8. Which factors, at both the European and national level, will determine the path of fiscal policy beyond 2014? Please explain how the newly-adopted constitutional fiscal rule will be operationalised?*

The fiscal compact was signed by 25 countries (all except the Czech Republic and the United Kingdom). It regards the economic pillar of the European Union with respect to the stability, the coordination of policies and the governance. It will be effective by 1-1-2013.

The stability issue is addressed by imposing two constraints to the contracting parties in terms of conduct and performance. The first constraint is a balanced budget, with minimal exceptions. The second constraint concerns the path of reducing the ratio of debt to gross domestic product. The difference between this ratio and 60% must be reduced each year by one-twentieth, with reference to the current value of the ratio of debt to GDP.

This scheme has a lot of implications for the stance of fiscal policy.

First, the real constraint is just that of the zero-deficit rule. Assuming that we can achieve a balanced budget, the debt cannot grow in absolute value. It could even fall in case of surplus or if public asset were sold. So, if the debt remains constant in absolute value, thanks to a balanced budget, and admitting that starting with a debt-to-GDP ratio of 120%, for the first year it would be sufficient a nominal GDP growth of 2,6% to meet the fiscal compact relative to the issue of debt. But nominal GDP growth of 2,6% means 0,6 to 0,8% real growth and



inflation at historically low levels, around 1,8 to 2%. The goal seems therefore to be rather reachable.

Moreover, since the debt-to-GDP ratio is decreasing over the years, the objective on debt, given that the zero-deficit rule is working, is easier to fulfil. Thus, even under normal conditions of our depressed economy, Italy would be able to reach the goal of a progressive annual reduction in the debt-to-GDP ratio around the twentieth of the distance between the current value of the relationship and the target of 60%.

The problem is that, in this process, there is no room neither for endogenous growth nor for growth-friendly public investments. So, some modification of the fiscal compact is needed, e.g. to allow that a part of public investment will not enter in the calculation of the deficit, at least for a couple of years.

#### *9. How much are subnational governments contributing to fiscal consolidation?*

The subnational governments contribute to the fiscal consolidation following the rules indicated in the "Domestic Stability Pact". The latest Economic and Financial Document indicates an expenditure cut by subnational governments of €7 billion in 2012 and €9.2 billion in 2013. The expenditure in the health sector, with the State-Regions Understanding, needs to be cut of €2.5 billion in 2013 and €5.0 billion in 2014.

#### *10. What is the scope for privatization and other operations involving the mobilization of public assets, to reduce debt?*

The aim of debt reduction, through public asset selling, is twofold. The first goal is the reduction of the interests on the outstanding debt. This could help to get the deficit-to-Gdp ratio target as the fiscal compact suggests. More importantly, the second goal is relative to the insufficient return of public assets. It does not make much sense to hold more than 590 billion euro of public dwellings, shares on public companies and infrastructures under concession, yielding a total gross return rate of 0,9 per cent compared with a market gross rate of about 6 per cent (E. Reviglio, MEF, 2011). Italy was not able to improve the governance of the public assets, which are, as a whole, badly managed. Possibly, this implies external costs in terms of bureaucracy, corruption and misallocation of resources.

#### *11. Is there scope for limited growth-oriented measures (e.g. well-targeted increase in public infrastructure investment) within the fiscal consolidation package?*

Given the public finance constraints implied by the fiscal compact and the negative outlook on the growth of the Italian economy, it seems quite necessary that a share of public investments should be excluded from the deficit-to-GDP ratio, i.e. that the fiscal compact should be lightly modified. Moreover, this could not be enough, because more public expenditure on investment would translate in a growth of the gross debt-to-GDP ratio. So, for matching the constraint on the debt, Italy should implement an effective strategy of selling public assets to reduce the debt before increasing public expenditure on investment.

There is a great scope for well-targeted increase in public infrastructure investment, indeed. In real terms, i.e. at constant 2010 prices, the per capita public investment went down from 693 euros in 2003 to 513 euros in 2012. Some public investments should be done right now.

*12. Please provide information on the key assumptions behind long-term projections of public finances, including the influence of the latest modifications to the pension system.*

The fiscal consolidation measures adopted are expected to allow Italy to achieve a structural zero-deficit budget by 2013 and put the debt-to-GDP ratio on a steadily declining path after the peak in 2012. The measures are primarily focused on revenue, representing, in 2012, over 80% of operations for the consolidation of public finances. In the same year the tax burden will peak at 45% of GDP. In 2013 and 2014 the contribution of spending to fiscal consolidation, due to the spending review and the pension system reform, should be more significant. The modification of the pension system should lead to a cost reduction for €7 billion in 2014. In 2020, the cut should exceed euro 22 billion.

## **Banking system**

*13. What explains the recent downgrade of several large banks? Is it justified that Italian banks receive the lowest average rating among their European peers? What are the relative roles of the macroeconomic environment, bank asset quality developments and funding challenges?*

In our opinion, the recent downgrade of several large Italian banks primarily depended on the downgrading of Italian sovereign debt and it determined the lowest average rating among their European peers.

About the macroeconomic environment, it is essential to maintain adequate conditions for stability and continuity for enterprises, primarily for small and medium enterprises which represent in Italy about 99% of the total number of enterprises.



The difficulties in founding and the worsening of the quality of the bank's assets caused by the deepening of the European economic crisis have negative effects on the credit quantity and its cost granted to the enterprises. SMEs are the ones that suffers more in this moment because they rely largely on banking loans for financing. It is therefore crucial to strenghten specific tools to respond properly to small enterprises needs: developing guarantee systems (both public and private) and alternative financing measures "small business tailor made".

*14. Does Italian banks' increased use of ECB funds demonstrate funding pressures and vulnerability to further market disruption? How much funding have they called on? Was this entirely through LTROs? To what use have these funds been put?*

With refinancing operations (the first conducted on December 21st of last year, the second on February 29th), the Eurosystem has provided liquidity to Italian banks for 140 billion euros. Funds received from the Eurosystem helped banks to buy mainly government bonds and repay a part of their own bonds. Only in part, they had been allocated to the real economy.

Over the last months of the past year several surveys emphasized a credit crunch to small enterprises consisting in a growing cost and in a sudden reduction in the amounts lent.

The worsening of the credit access conditions is confirmed also by surveys being carried among the enterprises. The LTROs operated by the ECB did not have a significant impact on this trend. Forecasts from the Bank of Italy assumes that the credit to enterprises will keep slowing throughout 2012.

*15. How much scope is there for easier financial conditions to offset fiscal consolidation? Can the authorities encourage banks to meet their capital needs by raising equity and retaining earnings, rather than cutting back loans? Can steps help maintain the flow of credit to the economy, especially to SMEs? Are specific measures for SMEs warranted? Can fast resolution of non-performing loans help borrowers regain access to the credit market?*

Maintaining an adequate level of financing to SMEs is essential to ensure support to the production of income and for preserving jobs. The Authorities has to encourage banks to meet their capital needs by raising equity and retaining earnings. Instrumental to this goal is the availability of a guarantee scheme to facilitate access to credit for small and medium enterprises. In the Italian guarantee scheme, mutual guarantee societies (confidi) play an essential role and it is important to sustain continuously the activity of confidi's system with public contributions to their mutual funds.



For the time being there are few possibilities that better access conditions to credit will be able to balance fiscal consolidation measures: indeed, banks are suffering the most because they hold a huge amounts of government bonds. In this step, banks are acting in a pro-cyclic way and the reduced flow of financial resources to the real economy enhances the crisis effects.

Specific measures for small business are justified because their size reduce their access to credit when compared to the big ones. Small business are economic entities difficult to understand by the rating system traditionally used by banks to assess the credit risk.

*16. How has Italian bank exposure to domestic sovereign debt evolved since the last EBA stress test exercise? What are the consequences of Italian banks' high exposure to Italian government securities for macroeconomic stability?*

On one hand, Italian banks have bought Italian government bonds to counter speculation, but on the other hand, banks have now in their portfolio securities with attractive returns. For balancing their risk is now important that Italian banks diversify their assets increasing loans to companies and families.

The risk for macroeconomic stability depending on Italian banks' high exposure to Italian government securities is high but it is strictly connected to the development of the European crisis and to the decisions that will be adopted by political leaders.

It is necessary to break that vicious circle that, because of the growing risk of the bank's portfolio, prevents small business from receiving credit and does not allow the real economy to start again.

*17. What is the current law on bank resolution? How much of the burden would fall on creditors and taxpayers? Do bank supervisors have the authority to require the conversion of bonds into equity as part of bank resolution processes? What explains the leniency of bank regulators towards the resetting of risk-weight asset models, as reported by Moodys?*

In case of bank resolution the burden that would fall on creditors and taxpayers risks to be very high. As a protection for depositors, the Italian interbank protection guarantee fund (Fondo interbancario per la tutela dei depositi) guarantees deposits up to 100.000 euros.

*18. What are the driving factors for the high and rising number of non-performing loans, and have measures been taken to facilitate their write-down?*

In the Italian economic system, we note a general increase in late payments, a decrease in consumers' disposable income and an increase in some prices charged by suppliers. These three driving factors determine for companies a situation of reduced cash flow and relevant problems to financing working capital. All of those driving factors adversely affect the current activity of enterprises, especially the smaller ones. This situation, in our opinion, contributes strongly to the high number of non-performing loans. To fix this problem, it becomes crucial to provide as soon as possible more liquidity throughout the economic system.

The macroeconomic environment and the austerity measures adopted by the Government, though necessary in some cases, have a deep influence on the real economy and in some occasions the capacity of enterprises to fulfill their financial obligations. As long as effective measures to boost growth will not be adopted small business will continue to suffer because they are strongly dependent from the domestic demand.

*19. What is expected to be the evolution of bad loans in coming years? What are the implications for bank capital and public finance?*

We stress the issue that most of the causes of non-performing loans are due to lack of liquidity inside of the national economic system.

We believe that a first important action to be undertaken is the quick payment of debts of State and Local governments to SMEs suppliers of goods and services. Through this action we will not give cash only to companies, but we will help them to pay their workers and their suppliers too. In this way the action would help the entire economic system.

*20. Are banks on track to attain the capital ratio targets mandated by the European Banking Authority? Which vulnerabilities arise from small- and mid-sized banks not supervised by the EBA? Will stress tests be extended to mid-size banks?*

In recent months, some Italian banks have made a significant capital increase through operations of capitalization. This has mainly affected the larger banks.

Smaller Italian banks traditionally have been characterized by an adequate level of capitalization. They have historically played a supporting role to real economy, mainly to SMEs. So their future is strictly linked on the real economy quick recovery.

*21. Are there indications that Italian banks are losing retail or wholesale deposits to foreign banks? What can be done to minimise the risk of capital flight to abroad?*



From our point of view, there haven't occurred structural changes in the composition of retail banking deposits. As to this point, it is important to maintain conditions of high confidence of depositors in the strength of Italian banking system and in its capability to withstand the rigors.

### **Rebalancing of the economy**

*22. What can the government do to facilitate an adjustment in unit labour costs vis-à-vis other euro area countries? Are there signs that such an adjustment has begun? How big an adjustment is needed?*

The Italian tax burden is among the highest in the world and, conversely, the average Italian salary is among the lowest in the developed economies. Any adjustment in unit labour costs with respect to the partner of the euro area and of the emerging markets, should go towards reducing the tax burden on labour input, in order to broaden the employment base and increase the potential output. For now, the Monti government has launched a further pension reform aimed at ensuring the financial sustainability of pension expenditure over time. However, a comprehensive reform of the labour market, at the moment, is very far from the bill presented by the Minister Fornero and currently under discussion in Parliament, considering the strong opposition among government, trade unions and business organizations on "art. 18" and freedom of dismissal.

*23. Average levels of leveraging in the private sector rose more in Italy during the recent recession than in other countries (though remaining relatively low in absolute terms). Does this suggest substantial deleveraging to come? Can the government mitigate the impact of this on employment?*

The leverage rose in 2011 for the total of non-financial corporations at 48%, about three percentage points more than in the previous year, mainly reflecting the reduction in market value of assets. It is, however, a problem that poses no particular alarm, given the shape of the national productive structure, divided into a multitude of micro and small enterprises. Among small firms is high, for example, the incidence of medium-and long-term loans granted by members and shareholders (15 percent of debt in 2010). The presence of such funding tends to offset the risks of high indebtedness and to give greater stability to the financial structure: by their nature, in fact, those debts do not carry significant risks of refinancing and any missed repayments do not necessarily determine the company insolvency.



*24. Will the structural reforms of the Monti government contribute to increased cost competitiveness?*

The impact of structural reforms of the Monti government to increase the cost competitiveness is nowadays not easy to estimate. The implicit tax rate (ITR) on labour is the highest in euro area. The measures adopted have reduced somewhat the tax burden on labour, mainly by increasing deductibility of labour costs from firms' tax bases, in particular as regards women and young workers. Additional measures in this direction are needed to help recover competitiveness.

The "Labour market reform" is in the process to be approved by the Parliament. An accurate in-depth of the effects on the labour market productivity and competitiveness will be done after his approval.

*25. What explains the comparatively low level of inward foreign direct investment? Which policies could help promote FDI?*

Italy is a country that has a poor ability to attract foreign investors for various reasons. To an outside observer, our country is too much complicated, with an excess of normative regulation, a high tax burden, a congenital inefficiency of general government and, in particular, of the administration of justice, evidenced by the number of procedures for obtaining enforcement of a contract - 41 in Italy, compared to about 30 of Austria, Belgium, France, Finland, Germany, Holland, Sweden, United Kingdom and the United States, to mention the main - or the number of days to obtain a final judgment concerning contractual obligations, in Italy 1210 days, compared to approximately 12 months in Austria, France, Germany, Norway, United Kingdom and the United States. To this, it must be added the too high number of levels of government from central government to local authorities, that makes difficult for a foreign company to understand which institution to refer to obtain an administrative measure. This is why the amount of foreign direct investment in Italy is lower than the average of other advanced countries of the OECD area. If Italy fails to quickly remove these causes, it cannot count on a flow of FDI, which is vital to restore growth. For organised crime, see questions 45-46.



## Structural reforms

### General

*26. Please provide a short description of the key elements of the "Salva Italia", "Liberalizzazione" and "Semplificazione" laws and any other important measures that have been taken in addition?*

In order to get the "close-to-balance" condition by the end of 2013, the Berlusconi government launched a variety of fiscal measures since August 2011. The Monti government extended and reinforced those actions along three directions: rigour in the stance of fiscal policy, fairness in the personal distribution of actual costs and expected benefits of the measures, stimulus for economic growth.

As to the fiscal actions, the Monti government undertook the pension reform, to complete the path which started in 1995 with the so called Dini reform. The pay-as-you-go system has been extended to all workers. More importantly, the government in office started the spending review process, to get rid off large part of the inefficiency in public spending. To reach the zero-deficit goal, the total average tax rate has been increased by more than 2.5 percentage points, moving from 42.5% in 2011 to 45,1% in 2012.

We must mention that we are very worried about the recessive consequences of the increase of the tax burden, in particular about the effects of the increase in legal VAT rate planned by October First 2012.

Among the growth-friendly actions, there are the financial tools for favour credit access mainly for SMEs, the incentives for hiring young workers and women, the fund for unlock part of public payments due to private enterprises, the increase of the deductibility of labour costs from firms' tax base, various general and sector-specific measures to facilitate doing business. Moreover, the government launched the so called "firm courts" to get more efficient trials on economic matters. In our opinion, another important new regulation concerns the incentives for public subnational administrations which auctions public services, thus limiting the in-house management.

In the intention of the government, these measures as a whole, coupled with the tax burden increase, should be fair with respect to the personal distribution of costs and expected benefits. However, the government did not provide neither a specific aggregate evaluation of this issue nor micro-simulation exercises on the impact of these measures on household disposable income and consumption.



*27. How do you explain the fact that Italy ranks moderately well on OECD indicators of competition and product market regulation, including openness to FDI, while it shows very poorly on the World Bank's Doing Business indicator and the volume of FDI?*

The explanation is that "ranking moderately well" on international comparison about product market regulation is not enough to ensure a favourable environment for doing business. Over the past ten years Italy has liberalised both product and service markets. Despite these improvements, excess of bureaucracy and efficiency gap in civil justice prevent foreign investments to flock in our country.

*28. Has the influence of interest groups weakened some of the reforms? Significantly? Which interest groups are the most effective at getting laws or regulations adapted in their own interest at the expense of the rest of society?*

Interest groups and lobbyists are present in all economic systems. In Italy there are still some service sectors, such as those of the liberal professions, which are less open to competition. These groups, unlike the sectors of trade, tourism and artisanship who face international competition - just think of the big foreign chains of retail distribution, or the tour operator or the difficulties for small businesses in the manufacturing facing the competition from the emerging countries - are resistant to reform programs in the sense of a liberalization of markets, maybe reducing the overall efficiency of the country system and its multi-factor productivity.

*29. What are the key changes expected as a result of the strengthening of sector regulation, in transport and water and energy? Is any kind of privatisation definitively ruled out by the referendum on water?*

In the Italian energy sector the strengthening of regulation will impact especially these items:

1. ownership unbundling process of the natural gas transmission systems and transmission system operators applying the DIRECTIVE 2009/73/EC (SNAM/ENI);
2. integration of low-carbon technologies (renewables) within energy system.

In the first case, the expected key changes are very important and can be summarised in the following way:

- increase of transparency in terms of efficient use of infrastructures and in terms of more competition;
- increase of investments in storage and infrastructures;

- lower price.

In the second case (renewables), the expected key changes are different. Rete Imprese Italia expects positive results concerning the increase of “green jobs” and, in particular for Italy, reduction of energy dependence and more sustainability. But, at the same time, critical aspects concern the impact of feed-in tariff on the electricity prices and security of energy system. That’s why large scale penetration of intermittent renewables is expected to have profound implications on many aspects of power systems planning, operation and control, as well as on the corresponding regulation. In Italy the renewable energy production brought price reduction in the peak hours but in the other off-peak hours the prices rose-up to cover fixed costs of combined cycle power generation plants. Merit order regulation, capacity payment and battery storage of electricity should be more developed.

In the Italian integrated water services sector, great changes are expected in terms of reduction of territorial tariff gaps and in terms of implementing a new model for the organization of the service. Thanks to the law n. 214 adopted in November 2011, the Regulatory Authority for Electricity and Gas has now competences also in regulating, controlling and monitoring water services. The new Regulator is going to reform, with a [Public consultation](#), methodology to define the tariffs.

In this contest Rete Imprese Italia expects that the quality of the integrated water services should increase thanks to the measures that the Regulator will adopt.

Concerning privatisation, the referendum on water removed the obligation to call for mandatory public tender but nowadays public bodies can still merger with private enterprises (i.e. ACEA, the municipal utility of Rome). In our opinion the real problem is not linked to the adoption of a public model or partnership with a private enterprise but to the introduction of a real efficient management of integrated water services and tariffs uniformity. In the current economic situation Rete Imprese Italia believes that private model can support the public body in order to invest in the infrastructures to obtain a quality service for citizens and enterprises with tariffs adequate to the cost supported by the operator.

In the transport sector, the new Independent Authority will strengthen competition especially in the railway field, where the new entrant operators still face heavy limits to their activities. More fair competition between railway companies will generate wider choice of services and lower prices for clients.

In the local public transport, the new rules that have been recently approved will encourage the quality and efficiency of services, through mandatory calls for tender for the grant of public service contracts.





*30. What will the impact of the package of reforms be on income inequality and poverty? Has the burden of adjustment been fairly distributed?*

During the initial phase, the Monti government has dealt with the stabilization of the public finance. The other two principles of the reforms plan, fairness and growth, have not yet been fully defined. Some proposed measures (reduction of the gender wage gap, etc.) will produce effects in the medium term. A more accurate assessment can be made only after the definition of the overall plan of measures.

*31. How long will it take for the reforms to pay off, e.g. in terms of higher growth or productivity? Are there already signs of an impact?*

The reforms of the Monti government will produce effects in medium long terms. According with the National Reform Program 2012, the undertaken actions will positively impact the rate of change of GDP, at least for a 2,4% on cumulative basis by 2020. The effect on the growth rate of consumption is 0,1 percentage point per year in 2012-2014; 0,2% in 2015-2017 and in 2018-2020. The effect on investment is equal to a yearly average of 0,5 percentage point in 2012-2014; 0,4% until 2020. The positive effect on employment rate is a slight reshaping: 0,1 percentage point per year in 2012-2014.

The effects of these measures will be reinforced by the reforms adopted in 2011.

*32. What are the most important channels through which the reforms should promote growth? What quantitative estimates of the likely growth impact exist, and how reliable are they?*

In the Economic and Financial Document 2012, The Italian government provided quantitative estimates of the likely growth impact deriving from measures contained in laws named "Semplificazioni" and "Liberalizzazioni". Between 2012 and 2020 the rate of change of GDP is forecast to grow by 2.4 percentage points with respect to the baseline scenario. The channels through which these reforms should promote growth are: reduction of barriers to entry, reduction of mark-up in service sector, reduction of time spent in administrative burden. The main contribution should come from the reduction of mark-up which should produce a positive cumulative impact on GDP by 1,2 percentage points in the nine years examined.

*33. What should the priorities be for the next steps in the reform process? What are the priorities of the political parties for the next steps in the reform process?*

Italy needs structural reforms to reorganize the whole organization of the State, drastically reducing the number of elected representatives in legislative assemblies at any level and weakening the political parties control on all public and semi-public bodies, from foundations and banks to hospitals, from so called "independent authorities" to corporations participated, directly and indirectly by the State/Region/Province/City, etc., fostering open selection by merit rather than affiliation.

### **Public administration, role of sub-national government**

*34. The Taglia Legge procedure has reportedly removed a large amount of redundant legislation. Has this contributed concretely to more efficient regulation or public administration?*

Partially. It has been made a formal "cleaning" of legislative order but most of the removed legislation was since a long time no more enforced and it had no impact on the citizens and businesses life.

*35. What effects have the Brunetta reforms had? Are the reforms being followed through under this government? Where do the Ministry of Public Administration's plans to follow up policy measures with evaluation mechanisms based on performance indicators? What baseline information and preliminary results have been collected?*

Not implemented. The key point of the reform - compulsory distribution of public employees into three levels of performance indicators - was actually stopped by the agreement of Berlusconi government with CISL-UIL trade unions (February 4, 2011), which imposes to protect public employees wages, including the part of wages linked to productivity evaluation. The reform never started but it is still "ongoing" the expensive evaluation system. The Monti government doesn't seem interested in this subject.

*36. Have the planned communication campaigns to engage business and citizens been launched? What is the level of awareness of the new administrative measures, in particular on the of substitutive power mechanism when administrative procedures and timings are not respected?*

No communication campaign has been launched. The level of awareness remains low due to the fact that a lot of dispositions - like the ones related to substitutional powers - are just "on paper" and not actually implemented.

*37. Which of the recent reforms still require subsidiary national-level legislation or publication of specific rules or procedures before becoming enforceable? Which ones require action at sub-national level? Is sub-national action a serious difficulty for implementation?*

The definitive identification of procedures which will remain subject to authorization, from SCIA (starting economic activity declaration), to a simple communication, and the ones totally free (Article 1 Decree 1/2012) to be enforced within 31 December 2012, requires Regions involvement. To this aim, and more generally to reach a complete simplification process, an agreement between State-Regions-Local Authorities was subscribed on the 10th of May. The MOA (measuring of administrative burdens) requires the involvement of regional and local authorities. This process cannot be erased because it derives from 2001 constitution amendment, but it for sure slows down a great deal the implementation of the reforms.

*38. Were sub-national governments consulted in planning spending changes? What amendments did they suggest?*

Regions are consulted but not enough listened to. The main points of conflict are related to the distribution of resources for public health, for income support and for local public transport. More recently new conflicts are registered with regards to the definition of roles and resources for the "Piano città" (city plan) which should be included in the forthcoming steps for government growth.

*39. The "public spending review" is currently associated with the effort under Enrico Bondi to find €4.2 billion of additional spending cuts this year. Are the longer term reviews of policy efficiency such as those undertaken by the Commissione tecnica per la finanza pubblica, and published in its preliminary report "La revisione della spesa pubblica, Rapporto 2008", continuing?*

The Green Paper on Italian public expenditure, written in 2007 during the Prodi government by his Minister of Economy Padoa-Schioppa, had identified the main areas of intervention to keep public spending in a growth horizon compatible with the general economic performance. For example, it had been identified the need for the unification of the courts, resulting in even 72% of these undersized, with the aim of increasing the degree of specialization of judges in a judicial office and to use more efficient human resources and material support (administrative staff). One other area of intervention is the central public administration, characterized by the renewal of contracts with increases in wages and salaries well beyond the inflation rate, by delays in the renewal of expired contracts with the recognition of



additional prize money as compensation for the delay and gradual rises in the average age of employees. A third area of intervention concerned the local government expenditure, with results that put in evidence that the expense of regions with special statute were higher than those of ordinary statute and that the ratio of expenditure for personnel on current total expenditure in the southern regions was very higher than in other areas of the country. They are far-reaching reforms, which need long time for their implementation and enforcement. In fact, the spending review (with positive outcomes in other countries) stems from the need to overcome a purely incremental approach in budget allocation decisions, reviewing on a regular and systematic set of spending programs, evaluating their match with the original goals and new priorities in the action of government, with improving of organizational efficiency and quality of services offered by the state. That means it is a method for modernization of the entire system of public budget.

The action of the Commissioner Bondi seems, instead, dictated more by emergency needs, designed to make spending cuts for about 4-5 billion euros.

## **Labour market**

*40. What is expected to be the impact of the labour market reform on wage costs? Are there aspects of the wage bargaining system itself that keep labour costs "too high"?*

The recent Italian Labour Market Reform has introduced new labour additional costs for enterprises. In particular, for examples, an additional contribution of about 1.4% for companies using fixed term contracts for employees. In our view this provision penalizes employment opportunities without obtaining the parallel purpose of a rising use of open-ended contracts. There are also additional costs due to the new social safety net system. In the end we can't forget the rise of direct and indirect costs due to bureaucratic overregulation.

As to the aspects related to collective bargaining it would be necessary to review the mechanisms that provide wage increases linked to length of service and also the reward systems (especially on the second level of negotiations) that actually provide fixed premiums. And they should be reviewed following the productivity principle.

*41. Can the planned changes to the social safety net be financed? Which kind of active labour market policies are most effective in Italy? How will training and other sub-national competences be coordinated with the centrally financed social safety net? Are there specific measures to minimise fraud? Who will be responsible for these?*

Actually all the costs linked to the labour market social safety net are paid by companies. Italy must rethink the public function, purely focused on the administrative controls, moving the axis on the connection between the companies, the education system and the placement channels, both public and private. The school system should be more oriented towards the labour market professional needs. The same idea should be implemented for the vocational training systems that are managed in our country at regional level. They should be coordinated with the national education level in order to define studies pathways that will provide more job opportunities.

*42. What explains the low employment rates for youth and women, and what can the government do to raise them? Why has the participation rate risen so dramatically since mid-2011?*

Youth and women employment rates are primarily influenced by a labour market geographically split between north and south. In particular, the south of Italy suffers a mismatch in the labour market. This means that a young worker has very low possibilities to find a job so he usually moves to north Italy. It is clear that the economic crisis that has struck all the categories causing the unemployment rates rising, has been higher for that categories considered weaker (like young people and women).

The economic crisis has forced more people to look for a job, thus increasing the participation rate.

### **Statistics, well-being**

*43. Is the quality and transparency of high-frequency fiscal data considered satisfactory? To what extent are government overdue payments clearly identified in published fiscal data? Are swap transactions and other financial derivatives fully reported in fiscal accounts? Why do the general government debt data published by Banca d'Italia differ from both the national accounts and Maastricht criteria?*

Data on tax revenue are made public through a monthly bulletin of tax revenue and contribution, in which the flows of revenues calculated in accordance with the accrual and cash are analyzed. The reported data are those of the central government budget and social security funds, which cover about 96% of general government revenue as a whole. The monthly revenue separately for tax revenues and contributions, acquired in the course of the month ahead, can be analyzed: separately for cash and accrual basis, comparing them with data for the corresponding period of last year, by making the necessary adjustments and/or

additions to make consistent comparisons of revenues; to evaluate the revenue performance against the objectives of revenue programmed with reference to the estimates contained in the final document of public finance; with reference to a monthly breakdown of the underlying components of the two aggregates subject to monitoring. With regard to transactions on swaps and derivative financial instruments, flows are recorded in the consolidated general government account drawn up by Istat according to the criteria of the European System of Accounts 95 (ESA95). These rules also explain the differences in evaluations of the outstanding gross debt of general government, depending on whether the calculation is used for the definition that meets the criteria of the Maastricht Treaty.

*44. Though relatively high in many indicators of well-being, Italians' self-reported life satisfaction is relatively low. Self-reported health status is also relatively low, despite relatively high life-expectancy. Are there plausible objective explanations for this? Do they have any implications for policy?*

In 2011, with a life expectancy from birth of 79,4 years of men and 84,5 years of women, Italy ranks at the second place in the world list of UNs. Italy is a top score country also in the ranking for healthy life expectancy, with 71 years. From 2009 to 2011, following the official survey held by the Istat, the percentage of Italians which rates "good" or "very good" their own health, raises from 69,1 per cent to 71,1 per cent, a very high score in the international comparison.

Moreover, apart from the dramatic differences between North and South of Italy, the Italian health care system can be considered effective though not very efficient: in any case, it determined the increase in the average life expectancy in the last twenty years.

However, self-assessment about general satisfaction appears quite poor for the Italian citizens. This is due, in our opinion, to the prolonged economic stagnation dating from the early nineties, which became progressive reduction of income and consumption from 2008. Italians are afraid about the possibility that the actual well-being and life style are not sustainable without an upturn in the dynamic of production and income. Without growth, very early we will not be able to pay for the actual welfare state.

A pessimistic mood underestimate the benefit from the own life condition and overestimate the potential threat to the well-being. Furthermore, this sentiment reduces the positive announcement-effect linked to any potentially effective public policy.

*45. Please summarise the key areas in which estimates of unrecorded or illegal activity are included in the national accounts estimates of employment, output and incomes. How is smuggling taken account of in trade and other statistics?*

The criteria currently used by Istat for exhaustive estimates of GDP, according to the ESA95 rules that bind all the countries of the European Union, state the inclusion of the only part of "non-observed economy" coinciding with the underground economy. The underground economy consists essentially of three parts: the evasion of social security (non-regular employment), the sub-statement of revenue and/or the over seizing of costs of production and a remedial component for the balance of the estimates from the demand side and supply side. In the estimation of GDP, however, are not included illegal activities and informal activities that, for the reduced size of the volume of business or production unit, are not identifiable according to the criteria of statistical observation. With regard to the smuggling and counterfeiting of branded products, especially in the field of clothing, leather goods, but also of consumer electronics, toys, as well as drugs, that can also be purchased on B2B and B2C web sites, partial data, relative to the value of goods seized by the Guardia di Finanza, are disclosed, but, at the time, it is not possible a correct quantification of the impact of these phenomena in the value of trade and national accounts estimates.

*46. What is known, or can plausibly be estimated, about the incomes or wealth of people (we refer to 'typical' people, not specific individuals) involved in organised crime? Do many such people have both legitimate and illicit incomes?*

Estimates about the incomes or wealth of the people involved in criminal activities are largely incomplete. The "Report on the first working session of the Commission, with particular regard to the conditioning of the mafia economy, society and institutions of the South (Parliamentary Commission of Inquiry on the Mafia and other criminal organizations, including foreign, January 2012) provides some indication about the size of the phenomenon. Police authorities indicate 150 billion in annual revenue, net of proceeds of corruption, gambling and betting. In 2009, according to the Guardia di Finanza, criminal organizations earned more than 50 billion euros a year only on games and betting activities. These data are consistent with the recent estimates provided by the Bank of Italy which indicates that the activity of recycling now exceeds 10% of GDP (over 160 billion euros). These figures point out that the organized crime needs to involve some economic agents working in legal economy to launder the money. The size of this so-called gray zone is unclear, but, especially in some regions of the country, it is definitely relevant.



## **Tax policy**

*47. What are the government's plans for tax reform? Do you agree with the EU Commission that there been insufficient progress in tackling tax evasion? In announcements such as "additional revenue due to action against tax evasion is xx billion", how is xx calculated?*

The government Monti has enacted an impressive fiscal package to improve the primary surplus. Among the measures, there is a more aggressive action against tax evasion. Regarding the unsatisfactory results in the fight against tax evasion, we have already shown, in other parts of the questionnaire, the structural changes in the tax system and administration that can enhance compliance and reduce significantly the area of the underground economy. The quantification of the recovery of revenue is made by the Italian Revenue Agency by performing a control of some parameters with respect to whom the data reported by companies are not appropriate. We think there is great confusion about the calculus of the incremental revenue yearly obtained by the contrast to tax evasion and elusion. A special multi-institutional committee will be soon set up to fill this important gap in the fiscal policy.

*48. Is a so-called "fiscal devaluation" strategy appropriate or feasible in Italy?*

The so-called fiscal devaluation is a form of competitive devaluation, which is of doubtful effectiveness compared to the traditional devaluation practiced through the exchange rate. Moreover, in Italy the manoeuvre on taxes has led only to an increase in indirect taxation on consumption through VAT, which was not accompanied by a reduction in the tax burden on labour. So, for now, no one can speak of restoring competition by a fiscal devaluation.

In particular, when tourism is concerned, the increase of VAT, being paid by foreign tourists, would have negative effects on the competitiveness of Italy compared to other destinations, largely reducing the supposed positive impact on Italian exports of goods.

*49. Which policy objectives are served by the several hundred tax expenditures (reduced tax rates or exemptions, partial or total, for specific activities, regions or taxpayers)? Improving growth? Improving equity? Other? Which of these have been assessed for their cost-effectiveness in meeting their objectives?*

The objectives of tax expenditures in the Italian tax system are numerous: support for families; incentives to productivity; reduce labour costs to promote employment; compatibility with Community law or the respect of international agreements; welfare





policies; ensure the competitiveness with respect to third countries; reduce the disadvantages of the economically disadvantaged; support activities or social consumption; policies aimed to support specific industries; third party reporting favoring the tax compliance; environmental protection and heritage; landscape and culture; encourage research and development; promote new initiatives; reorganization and capitalization of companies. In total, more than 700 measures. More than one third of the total expenditures is actually due to deductions and allowances to ensure fairness and progressivity of the tax system. It has never been undertaken in a systematic cost-effectiveness analysis of every single measure. Only in 2011 a committee was formed to recognize the effectiveness of all the tax expenditures.

*50. What is the status of the planned October VAT rise? Is it already legislated so that it will go ahead unless the government takes specific action to prevent it?*

The measures in August 2011 and the "Decreto Salva Italia", currently in force, provided a couple of increases in VAT rates. Moreover, the rates will be further increased from January 1 2014. However, the rate increases planned for 2012 and 2014 do not apply if, within the "September 30, 2012", (will) "enter into force" implementation of tax reform measures such as preserving the objectives of public debt. So to "prevent" the expected increase in VAT rates it will be necessary to find additional resources, for example by using the "spending review".

#### **Civil justice; the rule of law**

*51. To what extent are more efficient civil justice procedures a pre-requisite for effective reform implementation? What are the chances of achieving a significant acceleration of procedures in civil courts?*

The average length of civil proceedings (e. g. to recover a claim) is not consistent with the economy and companies constraints. The feasibility of changing things in a short period of time is not encouraging. Again, the few reforms made (e. g. the reorganization of the courts) have significant delays in their implementation. Even the establishment of specialized sections for business is still not operative and in this regard the expected time of implementation is not short.

*52. To what extent are procedures, in regulation or in the courts, cumbersome because of the need to minimise the influence of corruption or organised crime? To what extent do they, on the contrary, encourage it? Are there cases where badly-designed legislation or poor*

*implementation of regulations may be deliberate, in order to facilitate corruption or the action of criminal groups?*

The need to assure that the companies participating in public calls for bids are not controlled by organized crime, requires, for example, the submission of specific documents ("antimafia" certificates) or the use of certain conditions imposed by law (specific and dedicated accounts for transactions related to each specific contract). When these procedures become too complex, the risk of encouraging unlawfulness arises. In general, when deadlines in the definition of certain procedures are lacking and the checks are scarce, the risk of public officials' unlawful behaviour increases.

*53. Is "more transparency" a useful recommendation for minimising corruption? In which policy areas can it be most useful?*

Absolutely yes, in all areas.

*54. Is there evidence that Italians tolerate low-level corruption, e.g. an assumption that small ex-post side-payments to suppliers of public services help to secure normal treatment in the future, more than other cultures? If so, would this have implications for anti-corruption policy?*

Italy ranks very bad in the World Economic Forum international comparison on bribes and the diffusion of irregular payments. This scenario seems to worsen from 2000 to 2010. The main implication of the supposed high corruption in Italy is the urgent need to reform public administration, reduce the intervention of the State and Local Institutions in the economy, simplify procedures and laws, cut overregulation and bureaucracy, restraint the gray area ever surrounding each economic relation in our country. The so-called anti-corruption decree, which is on debate in the Italian Parliament these days, is a first step in this direction.

*55. Is it true that, in certain areas, organised crime has some of the characteristics of an alternative state apparatus? If true, does this have implications for economic policy, e.g. for infrastructure spending, the social safety net? Can policy aim only at eliminating organised crime or are there ways in which it could be co-opted to improve economic efficiency?*

There is a rich literature witnessing the high level of territorial control exercised by organized crime in large regional areas of Italy, which involves a circuit of criminal economy. It is a complex and detailed circuit, which also uses some form of collusion with pieces of political power, that integrates extortion rackets and management of the "market" of usury, money



laundering and gradual assumption of control of legal activities, management of contracts and subcontracts, "capture" of subsidized funds allocated to areas that show a big gap in terms of growth and development. The dismantling of the criminal circuit of the economy involves: (a) fielding a strong antidote to the infiltration of politics and public administration by the crime, (b) strengthening the processes of seizure, confiscation and exploitation for purposes of public utility assets of the mafia and criminal organizations in general. In any case, and in all cases, we must keep faith with the principle that accepting the crime is never a justifiable choice, even to improve economic efficiency.

*56. The port of Naples has the reputation of being a major centre for both smuggling and related activities. Is it really very different from other major ports? If so, what are the key factors that explain its enduring reputation?*

Italy is not just a consumption market for drugs. For its geographical position, it became a transit hub for illicit trading. Beyond the Naples port, there are many other ports intruded by criminal organizations: in the Adriatic Sea, Trieste, Venezia, Brindisi; in the Tirrenian Sea Genova, Cagliari and Gioia Tauro; in the Ionian Sea Taranto. The Naples territory and its economic system are largely infiltrated by criminal organizations. So, the situation is more worrying. This justify the very bad reputation of the Naples port.

#### **Education, other**

*57. What progress has been made in implementing the reforms in secondary and higher education? Which elements of the reforms require further action? Has the annual budget for education followed the path set out in 2009 when large cuts were first planned?*

We believe that the recent university reform leaves wide space to the public universities in the definition of courses of study, with particular reference to the specialized courses. This situation is creating difficulties in the definition of the competences acquired by the university that brings to a very weak link between universities and employers, so between academic world and labour market. The placement and the orientation courses should be prescribed obligatory because just few universities are implementing this important tools.

*58. What effects have the new INVALSI tests and procedures had on school performance. Has there been any change in the geographical pattern of student performance?*

This question could be answered only by schools, because the data requested are related to their own management and at this moment we do not have any information because we are

waiting for a Ministry of education statement. It is too early to assess any possible pattern due to INVALSI tests and procedures. There is no doubt, however, that the evaluation procedures are necessary tool to improve the effectiveness of the education system.

*59. Have new measures of performance been introduced in determining the performance-rated part of the allocation of funds to universities? Has the share of total funding allocated on this basis risen as was intended?*

In our opinion, ANVUR, i.e. the National Agency for the Evaluation of Universities and Research Institutes, is working well, although the timing of implementation of new assessment methods appear to be even longer. In November 2011 the ANVUR has published the call for participation for the evaluation of research results in scientific research facilities for the period 2004-2010. The results of the evaluation will be a benchmark for the allocation of state funding. According to the latest provisions, launched in the early months of this year, the Fund's ongoing financing for universities will be equipped with about 7 billion euros. It was enlarged the share rewarding, coming to represent 13% of total funding (i. e. 910 million euros, about 80 million more than 830 million in 2011) assigned to the most productive universities in research, training and teaching. The factor that will weigh more in the evaluation will be the ability of universities to produce qualified scientific research.

*60. Is any action being taken to increase the importance of vocational/technical education at secondary, post-secondary or tertiary level? Are any measures being taken to support the increased emphasis on apprenticeships in labour market policy?*

Italy has recently reformed the apprenticeship through a legislation reorganization. With regard to the "professionalizing" apprenticeship (vocational), the new law assigns the competence in the definition of professional profiles to the collective bargaining. As regards the first level of apprenticeship (educational) the regulatory jurisdiction is on the regions. The collective agreements on vocational apprenticeship have been signed recently. The companies interest level is very high and this is demonstrated by their participation to seminars and by the number of hires made with this type of contract.

*61. What has been the impact of changes in the method and level of support for renewable energy production?*

Italy made many mistakes in terms of support for renewable energy production. One of this is due to the lack of a target strategy linked to different technologies (wind, solar, thermal



renewable). In particular, the photovoltaic subsidies mechanism called "Secondo Conto Energia" was responsible for speculative phenomena and for the unexpected number of projects. Photovoltaic power installed capacity grew from 3200 MW in 2010 to 12880 MW in 2011.

Benefits on wholesale market are compromised by the fact that incentive mechanism are linked to electric bills. The annual amount of incentive - around 7 billion - is covered by a fiscal tariff called "A3" that is about the 45% of the electricity price (commodity). This tariff reached the worrying value of 49 €/MWh for a SME during the second quarter of 2012.

