Australia 2014

COMPREHENSIVE GROWTH STRATEGY:

ITALY

A. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Economic Objective

The government's key economic objectives are: (1) buttressing the recovery that has begun but remains fragile and jobless; and (2) raising Italy's potential growth rate which was modest pre-crisis and was further hit by the financial crisis, while (3) continuing to comply with European budgetary framework and maintain Italy's long-run fiscal sustainability.

As a member of the Euro Area and the European Union, Italy's monetary, fiscal and macro prudential policies are in line with those implied by the Area's policy framework and embedded in the EU system of budgetary rules as well as in the mandate and operating procedures of the European Central Bank. These policies are all geared to long-run stable growth, with Euro Area monetary policy still providing considerable stimulus to growth by virtue of historically low interest rates and direct liquidity injections through the ECB's programs.

In the case of fiscal policy, through the 2015 Stability Law, the government has put particular weight on measures to make consolidation growth- and employment-friendly, mainly via a sizeable cut of the tax burden on labor to boost business competitiveness and raise disposable income. Stronger growth is not only key for a successful fiscal adjustment that needs to be sustained over time, but it is also a necessary precondition to reap the full benefits of supply side policies. However, while this fiscal strategy is consistent with the European budgetary rules, the room of maneuver to stimulate aggregate demand through fiscal means under those rules is small. Against this background, the main discretionary tool to achieve the government's objectives is a rich and ambitious program of structural reforms designed in the context of a multi-year strategy pursuing clear and monitorable reform targets. The key reform measures, listed below, aim on one hand at enhancing economic and political stability, and on the other hand at improving the economic climate by facilitating business activities and employment opportunities through a reduction of the private sector's administrative and tax burden. In addition to these objectives, and by virtue of the fact that it is holding the presidency of the European Union since July 1 of this year for a semester, Italy is working with the European partners and institutions to put growth at the center of the European agenda.

The government reforms, combined with a growth- and employment-friendly fiscal consolidation, are expected to have important consequences for the dynamics of short and medium-term economic activity. In Italy, GDP has slowed significantly in the aftermath of the global financial crisis and has struggled to gain momentum during the recovery, contributing – together with other countries – to generate a phenomenon of multi-speed recovery in Europe. The reform agenda and the reforms already approved by Parliament but pending implementation are expected to steer the economy durably into a higher growth equilibrium by removing economic bottlenecks, fostering incentives to work and produce as well as by raising businesses and household expectations with respect not just to the current recovery but to Italy's economic potential more generally.

According to government estimates – upon full implementation – the reforms already undertaken between 2012 and 2014 will add to Italy's GDP 0.4 percentage points in 2015, 3.4 percentage points by 2020 and 8.1 percentage points in the longer run (see Table 1). These estimates are comparable to calculations by the IMF on the impact on Italian GDP of labor and product market reforms 5-10 years out. Stronger and more stable growth in Italy will in turn contribute to stronger, more sustainable and balanced growth in Europe and in the rest of the G20.

Key Commitments

The Italian government has launched a new policy agenda both domestically and at the European level, by virtue of its role of President of the European Council for the current semester. Italy's proposed agenda is based on three, mutually reinforcing pillars that include: (i) the review of the EU2020 strategy for growth and employment in order to refocus policy objectives and instruments on the true drivers of growth and on the investment and structural reforms that best serve this purpose; (ii) an array of direct initiatives aimed at financing growth to boost investment, thus complementing and reinforcing the impact of reforms; (iii) work on incentives to keep the reform momentum, notably to find ways to better align the costs and benefits of structural reforms in an environment of generalized tight budget constraints.

At the national level, these pillars have been translated into a vast and synergic set of concrete reform proposals. While these are all important, and have been designed to reinforce each other over time, it is possible to identify a subset of key commitments at the core of the government's national strategy that are expected to generate the most sizeable growth impact domestically and abroad. These have been planned specifically to address Italy's policy gaps and challenges, both near- and medium-term and include:

1. **Changes to the tax code to make it more transparent and growth-friendly**. Policy actions in this area aim at reducing the tax gap between Italian and foreign firms to enhance their competitiveness;

2. **The reform of the public administration and of the justice system**, through measures aimed at simplifying procedures, increasing efficiency and reducing costs. Restructuring the administrative apparatus, strengthening the conditions of legality – including through the promotion of a swift and affordable justice system – ensuring greater efficiency and transparency, without losing sight of the quality of services offered to citizens and businesses, are all preconditions for the proper functioning of the economic system and the resumption of investment, both by domestic and foreign companies;

3. **Measures to reduce labor costs and make the labor market more efficient.** The government is committed to increase labor market flexibility and security, as well as raising labor participation to bolster labor supply over the medium term. A number of specific commitments have been formulated in this direction aimed at making hiring and firing cheaper to reduce overall unit labor costs that remain elevated relative to international peers. Measures to strengthen women and youth participation shall boost Italy's long-run potential and reduce inequality. A reform of unemployment benefits will also enhance the efficiency of public spending;

4. **A better business environment.** The government is planning a thorough simplification of the relationship between businesses and the public administration. In addition to the reform of the civil, criminal and administrative justice systems already mentioned in item 1. above, key areas of the

reform include changes to the system of business authorizations and fostering the provision of alternative forms of financing to businesses, particularly for SMEs. These measures have the potential to lift durably capital accumulation at home, while stimulating FDIs;

5. **Measures to enhance the sustainability of public finances**. While, clearly, buttressing potential growth through the previously mentioned commitments is the best possible strategy to ensure long-run fiscal sustainability, the government is actively working to reshape discretionary and mandatory expenditure so as to free and/or redirect economic resources toward most productive uses. A more parsimonious and better targeted public expenditure allows private investment to be crowded in and exert a stimulative effect on domestic demand, strengthening overall economic growth. Here, the government's action includes primarily the introduction of a permanent spending review process involving a significant improvement in the allocation of public spending.

B. ECONOMIC OUTLOOK AND CHALLENGES TO GROWTH

Current and Future Growth Prospects

	Key Indicators					
	2013***	2014	2015	2016	2017	2018
Real GDP (percent yoy)	-1.9	-0.3	0.6	1.0	1.3	1.4
Nominal GDP (percent yoy)	-0.6	0.5	1.2	2.6	3.1	3.3
Output Gap (percent of GDP)*	-4.3	-4.3	-3.5	-2.6	-1.4	-0.4
Inflation (percent, yoy)	1.2	0.4	0.5	1.8	2.0	1.9
Fiscal Balance (percent of GDP)**	-0.7	-0.9	-0.6	-0.4	0.0	0.0
Unemployment (percent)	12.2	12.6	12.5	12.1	11.6	11.2
Savings (percent of GDP)	18.7	19.1	19.3	19.5	19.8	20.0
Investment (percent of GDP)	17.8	17.4	17.6	17.8	17.9	18.0
Current Account Balance (percent of GDP)	1.0	1.1	0.9	0.9	0.9	1.1

- *A positive (negative) gap indicates an economy above (below) its potential.
- **A positive (negative) balance indicates a fiscal surplus (deficit). The figures refer to the net structural fiscal balance under current policies.
- *** Calendar years.

Key Drivers

After nine consecutive quarters of economic contraction began in the second half of 2011, the Italian economy briefly returned to grow at the end of 2013, but seems to have now reentered a period of negative growth, albeit not severe. In 2013, GDP fell by 1.9 per cent as domestic demand continued to provide a negative contribution to growth reflecting the reduced access to credit by Italian companies and the weak labor market, which have depressed both consumption and investment. Real public consumption also fell as a result of discretionary fiscal policy aimed at curbing public spending. During 2013, however, investment in machinery and transport equipment has started to grow and capacity utilization increased. In particular, in the second half of the year there were signs of recovery in industrial activity, the drop in in industrial production was partly reversed, giving way to an expansion in the last quarter after ten straight quarters of contraction.

Over 2013, the contribution of net exports to GDP was positive but smaller than in 2012. Exports growth accelerated over the year supported by favorable global demand. In the second half of 2013 imports began to grow again as well after ten consecutive quarters of declines, albeit at a slower pace compared to exports. The trade surplus (+2.4 per cent of GDP) has brought the current account to a surplus (+1.0 per cent of GDP) after several years.

The outlook for the Italian economy is based on a gradual recovery of world trade and a strengthening of growth in advanced and emerging economies. Recent economic indicators foreshadow more weakness for the rest of 2014 followed in 2015 by a recovery of the expansionary phase of the cycle. Based on available information, in 2014 GDP is expected to fall moderately , with a yearly growth rate estimated at -0.3 percent. Growth is expected to recover and reach 0.6 percent in 2015 to then reach gradually a rate of around 1.2 percent on average over the period 2016-2018.

Growth will be broad-based, with private consumption closing most of the gap relative to trend; investment in machinery should increase significantly as a result of the favorable demand prospects, and the improved liquidity from the payment of debt arrears of the public administration already planned; and investment in construction will pick up slowly by the end of 2014, but strongly thereafter. Exports will be supported by the positive trend of global demand; the recovery of domestic demand will stop the contraction in imports, implying that the contribution of net foreign demand will be only marginally positive at the end of the forecast period. The current account will remain in surplus throughout the forecast period thanks to a strong trade surplus.

The recovery in employment will begin in 2015 and is expected to strengthen in 2016, although at a growth rate below GDP's. The unemployment rate will begin to fall more rapidly only by 2018, when it is expected to fall to 11.2 percent. Productivity growth, combined with the continuation of wage moderation will support a slowdown in unit labor costs. The increase in consumer prices should remain modest throughout the forecast period.

Assessment of Obstacles and Challenges to Growth

Italy's cyclical conditions in 2012 and 2013 triggered a sizeable negative output gap which should persist in 2014, despite the now evident signs of recovery. The table below presents the European Commission's Autumn Forecast estimates of the output gap, published in November 2014. The output gap for 2014 is estimated at around -4.5 per cent, and is thus well below the level considered representative, i.e. the value that should prevail during a recession of a 'normal economic cycle', based on the methodology agreed at a European level.

ITALY'S OUTPUT GAP							
2013	2014	2015	Average	Minimum	Maximum	Standard Deviation	Representative Output Gap (1)
-4.2	-4.5	-3.4	0.1	-4.4	3.3	2.0	-2.7

(1) Computed on the basis of the methodology agreed at a European level and described in *Public Finance in EMU 2013, European Economy No. 4/2013, Table II.3.1, Section 3.1.* The distribution statistics are calculated on Italy's data by considering the time interval from 1965 to 2018.

Source: European Commission, 2014 Autumn Forecast.

Apart from conjunctural gaps, Italy faces a series of other key challenges to growth clustered in the areas of investment, employment and competition. More specifically:

Investment. In order for Italy to return to grow there is an urgent need to raise total investment. During the crisis' years investment spending collapsed. The government's strategy to relaunch investment is based on four pillars: a) a better business environment, with a broad range of structural reforms; b) actions to facilitate financing to businesses, including by launching a new "Finance for Growth" initiative; c) measures to unlock the development of major public works through bureaucratic simplification, including digitalization; d) more and better infrastructure, also thanks to the launch of a framework for public-private partnerships (PPPs).

In particular, as far as public investment is concerned, both tangible and intangible (and a higher quality and effectiveness of expenditure) investment, higher productivity, more research and development and more innovation are needed. Consistent with European budgetary rules, it is thus necessary to open new areas of action for the local authorities by reforming the functioning of the Internal Stability Pact, making an intelligent and effective use of European structural funds, increase resources for infrastructure, continuing the interventions already decided in connection with EXPO 2015 and kick-starting small and medium-sized projects, with particular attention to the southern regions.

Both in 2013 and 2014, the use of European Structural Funds for the previous programming cycle has improved. Over the next seven years, the European Union and Italy will provide new resources amounting to more than 100 billion (using both EU funds and national co-financing). These resources are critical to the country's development, particularly to Southern Italy. The next few months are therefore crucial to quickly complete the definition of priorities and allocate resources to programming through the European Partnership Agreement and the Operational Programmes. The spending of EU funds will help boost the country's competitiveness, particularly through more innovation and internationalization for SMEs, and to support employment and alleviate the challenges posed by low growth to social cohesion.

Employment. As a result of the crisis, the employment rate in Italy dropped from 58.7 percent to 55.6 percent between 2007 and 2013. Among young people (i.e. the 15-34 age group), however, it plummeted from 50.8 percent to 40.2 percent. Accordingly, the overall unemployment rate doubled from 6.1 percent to 12.2 percent in the same period, bringing the total number of people without a job from 1.5 million to 3.1 million. Among the young, the unemployment rate almost doubled nearing 40 percent in 2013 (from 21.3 percent by end 2007), raising beyond that on latest data. This dramatic situation needs to be reversed rapidly, fostering the creation of new jobs, giving to all a better chance of employment, and improving welfare support for people who have lost their job and are actively seeking work.

Competition. The Italian business sector is burdened with particularly high tax and energy costs, as well as hiring and firing costs. Italy also lags relative to international peers when it comes to the more general business environment, in large part due to complex and time-consuming interactions between the public administrators and the private sector. To eliminate these lags and gaps Italy must remove the sources of cost misalignments by reducing the tax wedge on labor, corporate taxes and also, crucially, the cost imposed onto businesses and individuals for complying with the many regulatory systems in place. Progress must be made toward restructuring the public administration, strengthening the conditions of legality, and ensuring efficiency and transparency, without losing sight of the quality of services offered to citizens and businesses. In this context, the review of public spending has become an opportunity not only to cut unnecessary spending but also to have an impact on the country's competitiveness and on its attractiveness to foreign investors.

Trade. While export is one of the main engines of the Italian economy, the number of Italian companies operating abroad is still modest. The potential of international propensity of companies offers room for growth, even more so at this stage where the world trade presents favorable opportunities for our businesses. The decision of companies to enter international markets suffers also from excessive constraints as regards cross-border activities. In accordance with the EU law and legal guidelines issued under the Union itself, will therefore be necessary to review the rules of taxation on cross-border transactions.

C. POLICY RESPONSES TO LIFT GROWTH

New Macroeconomic Policy Responses (including Reforms to Frameworks)

Italy has taken unprecedented fiscal measures to face the crisis. While the exit from the EU Excessive Deficit Procedure is one of the most visible accomplishments in this regard, the overall reform effort is bringing Italy back onto a stable growth path. Italy continues to run sound fiscal policies and has the second highest primary surplus in the EU.

Largely as a result of its frontloaded and ambitious fiscal consolidation, Italy's output gap has been sizeably negative during 2012 and 2013 and should remain so in 2014, despite recent signs of recovery. The magnitude and persistence of economic slack post-crisis constitutes an exceptional circumstance for two reasons. First, it generates a very real risk that the weakness of economic activity becomes a permanent phenomenon. Second it makes frontloaded contractionary fiscal policy less effective if not counterproductive.

In light of such considerations, the government considered inappropriate to move ahead in 2015 with a structural balance adjustment of 0.7 percentage points of GDP (as required under European regulations and national legislation), and has opted instead to deviate temporarily from the path toward achievement of the MTO planning a more limited adjustment equivalent to a structural deficit reduction of 0.3 percentage points of GDP in 2015. The option of deviation is available to Member States under Article 5 of the EU Regulation no. 1175/2011 (ratified by Italy with Article 6 of Law no. 243/2012) and as such, Member States can temporarily diverge from the path of achieving the MTO during periods of serious economic recession, provided that the sustainability of their public finances is not compromised. The government remains committed to achieving the MTO during the EFD planning horizon.

A smoother adjustment toward the MTO now planned to be met by 2017 should facilitate the return of the economy to its potential path, by reducing the pro-cyclical nature of the fiscal adjustment under the EU budgetary rules. Taken together with the government reform agenda, this slight easing in the pace of fiscal adjustment should generate sufficient momentum for Italy to resume growth.

New Structural Policy Responses

Italy’s old and new macroeconomic policy responses have been complemented by a comprehensive and multiannual strategy in line with the specific recommendations made by the European Commission in June 2013 (and validated in its June 2014 assessment and endorsed by the Council of the European Union in July 2014) to restore Italy’s competitiveness and ensure strong, sustainable and job-rich growth. More specifically, the main reform avenues contemplated by Italy over the period 2012-2013 aimed at ensuring deficit and debt reduction, strengthening public finances structurally, including through an intensification of the fight against tax evasion and tax avoidance, modernizing the institutional framework; and by fostering a business environment more conducive to strong growth and employment.

Along these lines, the current government's economic strategy centres on interventions that will affect competitiveness so as to impart a strong impetus to growth, while taking account of budgetary constraints and the objective of a balanced budget in structural terms. The consolidation of public finances is evidenced by the good performance of the primary surplus, which in 2014 will rate among the highest in the European Union.

As part of an organic program of economic reforms the main new measures with a strong short-term and medium-term impact are listed below and include actions to buttress investment, employment, competition and trade (specific examples of these measures are detailed in Annex II together with their individual motivation and chronogram of implementation).

Investment and Infrastructure

Reforms in the area of investment and infrastructure have the primary objective of reducing the costs and uncertainties of investing in Italy, while raising the associated returns. Key ones are:

- **A better business environment.** The government is implementing a thorough simplification of the relationship between businesses and the public administration. Key areas of the reform include the reform of the public administration, changes to the system of business authorizations and the reform of the justice system. These measures have the potential to lift durably capital accumulation at home, while stimulating FDIs;
- **Promoting financing to businesses.** The government's objective is to facilitate the flow of financing to companies, particularly the SMEs, by promoting the role of institutional investors, broadening the range and scope of the different forms of corporate finance and strengthening corporates' capital base ("Finance for Growth Initiative"). Key measures include the development of credit funds, the expansion of bond issuance by SMEs, the enhancement of the Allowance for Corporate Equity in business taxation, and the increase of public funds earmarked to back and leverage private financing initiatives;
- **Infrastructure and the private sector.** The government's objective is to involve the private sector in large infrastructure projects, by developing an efficient and modern regulatory framework for PPPs. Key measures also include resources for projects planning, identification and preparation and a more effective and transparent flow of information to the private sector, as well as bureaucratic simplification of the processes leading to capital accumulation;
- **Sustainable public finances.** The government's objective is to build on the significant consolidation effort made over the past years to ensure sustainable and growth-friendly public finances. This involves: 1) a thorough spending review, which has become an integral part of the budgetary process, so as to allow crowding in of private investment and create room for public investment, thereby stimulating domestic demand and strengthening overall economic growth; 2) full payment of public commercial arrears, accompanied by the introduction of a new system of regulation and monitoring as required by the EU regulations, with beneficial effects on economic uncertainty for firms and, in turn, their investment decisions; 3) a comprehensive reform agenda, in order to enhance the competitiveness of the Italian economy and its long-term growth prospects.

Employment

Italy's employment policy responses are centered onto two pillars: giving workers more opportunities and streamlining red tape for businesses in the area of labor market regulation. Government action thus focuses on measures aimed at immediately facilitating the hiring of employees and reducing the administrative burden on businesses; and a series of action plans, to be implemented in the forthcoming months, to reorganize and strengthen the welfare benefit schemes, improve active labor policies, streamline the process for concluding and managing employment relationships, review and simplify the array of existing employment contracts, as well as better integrate work and family life. To this end the government's immediate key policy actions (all of which have begun their parliamentary course to become laws) are:

1) **Streamlining fixed-term employment contracts**, simplifying the rules governing the settling of disputes between employees and employers. Fixed-term contracts are, today, the most widespread form of employment contract entered into when hiring new employees;

2) **Simplification of the apprenticeship contract** which has also been made more attractive for employers. This is the form of contract primarily targeted at young people (it provides for periods of on-the-job training, also in partnership with schools), but, as it stands before reforms, it is not used much in practice due to its limitations and complexity;

3) **Simplification of employment contracts and duties**. This includes, for example the streamlining of the procedure to obtain a certificate of compliance with social security obligations by employers (DURC).

Key additional actions to be deployed over coming months are:

a) **Universal coverage**. This reform aims at overhauling, rationalizing and/or extending the coverage of social welfare benefit schemes to all workers, in the case of both temporary layoffs and involuntary unemployment. Today the differences between the various types of workers and businesses are deep. The government aims to reduce the amount of contributions paid by all enterprises and increase them for enterprises requesting the payment of benefits under the welfare schemes;

b) **Actions to improve the effectiveness of active labor policies** by rationalizing the employment incentive schemes, and reinforcing the partnership between public services and private agencies. To better coordinate the active policy projects the government wishes to establish a National Employment Agency, jointly with the regional governments, also involving the social partners;

c) **Simpler employment relations.** The government intends to make it easier to set up and manage employment relationships, cutting the associated red tape by half and making online transactions the norm;

d) **Rationalization of the number and typology of job contracts.** The government shall review the range of employment contracts, in order to adapt the system more closely to the present economic and employment situation. The idea is to develop a concise basic text governing all different types of work (the excessive amount of rules being one of the weak points of Italian labor law);

e) **Achieving effective gender equality at work**. This is one of the priority objectives of the Italian government. A key aspect of this policy is to increase the employment rate among women. Therefore, the government shall improve and strengthen the measures aimed at better integrating work and family life, by extending maternity allowances to all working women and improving access and affordability of childcare;

f) **Youth Guarantee Scheme** (YGS). In June 2013 the Mission Structure was set up for developing and monitoring the national Youth Guarantee Scheme. The central and regional governments have agreed to a single national scheme with a financial endowment of 1.513 bn euros. The EU scheme targets young people aged between 15 and 25, but the Italian government decided to extend the upper age limit to 29 years. A second step under the YGS provides the introduction of incentives for employment/apprenticeship contracts, civilian service contracts, training, self-employment and self-entrepreneurship.

Competition & Trade

Italy's competition and trade policies responses are multi-faceted, but aim fundamentally at restoring Italy's competitive advantage in specific sectors, while alleviating the cost of doing business in all goods and service sectors. The pillars of the policy response strategy rest on five key sets of actions:

a) **Changes to the tax code to make it more growth-friendly and reduction in labor and energy costs**. Policy actions in this area aim at reducing the tax gap between Italian and foreign firms to enhance competitiveness, levelling energy costs for firms as well as making hiring and firing cheaper to reduce overall unit labor costs that remain elevated relative to international peers;

b) **Direct measures to increase competition and further liberalize markets**. These measures include a process to foster the opening up of sectors involved in the provision of public utilities to private competition (waste, urban transport, and water) as a function of a greater market opening and aggregation of the same in larger geographical areas;

c) **Measures aimed at energizing the opening up and internationalization of Italian companies**. These policies have the intent to raise the share of firms involved in international trade, particularly those producing niche brands;

d) **Simplification**. Measures to simplify the regulatory framework, to reduce the burden of red tape will be deployed to facilitate the growth of the productive system and make it possible for smaller firms to access markets where large economies of scale have traditionally been a prerequisite to deal with regulatory requirements. These measures will also encourage the entry into the Italian market of foreign firms eliminating many of the disincentives of doing business in Italy related to red tape, regulatory lags and uncertainty more generally;

e) **Privatizations and dismissal of state-owned real estate**. These measures will, as a by-product, lead to a reduction of the country's stock of public debt, bring fresh private capital into state-companies, leading to greater efficiency and competitiveness in the productive system, and promote the development of the capital market, thereby strengthening equity markets and accelerating the internationalization of enterprises. Dismissal of state owned real estate will contribute to lowering costs to public administrations and to reducing public debt.

Table 1 below quantifies the economic impact of policy measures of previous governments (over the period 2012-2013) as well as new measures contained in the 2014 Budget. Estimates generated using a suite of macro and micro-econometric general equilibrium models (including QUEST III, IGEM, ITAC-SIM and ITEM), for example, show that – upon full implementation – the reforms undertaken by Italy in 2012 and 2013 *alone* will add to Italy's GDP some 0.8 percentage points in 2015, 2.7 percentage points in 2020 and 7.1 percentage points in the longer run (table 1).

The batch of additional reforms announced by the new government are expected to double these estimates (table 2). These estimates are on the lower side of calculations of the impact on Italian GDP of labor market and product market reforms 5-10 years out by the IMF. Stronger and more stable growth in Italy will in turn contribute stronger, more sustainable and balanced growth in Europe and in the G20.

The international spillovers of policies listed in Table 1 are hard to quantify given the constant evolution of trade shares and elasticities in the lengthy period of time over which the reforms will have an economic impact domestically. Based on the 2011 IMF Spillover Report for the EA estimates it can be inferred that if the EA was collectively to enact reforms as ambitious as Italy's (thereby raising the entire EA's GDP by 8 percent over the medium term; Italy's GDP is around 17 percent of the EA's GDP) real growth in the United States, Japan and Asia would increase by approximately 0.8, 1.5 and 3 percentage points, respectively, over that horizon. By themselves, Italy's reforms have the potential to raise the EA's GDP by over 1 percentage point in the long run, with positive ripple effects onto other G20 regions, and important benefits to Italy's largest trading partners within the EA.

Table 1: Macroeconomic effects of Italy's 2012-2014 Reforms (GDP deviations in percent from baseline)

	2015	2020	Long Run
Administrative Reforms	0.1	1.0	2.3
Competitiveness Reforms	0.1	1.1	3.2
Labor Market Reform	0.1	0.9	1.6
Reform of the Justice System	0.1	0.4	1.0
Total	**0.4**	**3.4**	**8.1**

Source: MEF analysis with ITEM, QUEST III-Italia (European Commission) and IGEM models.

ANNEX 1: ST. PETERSBURG FISCAL TEMPLATE — UPDATE

g) 1. Update on Fiscal Strategy

Italy's fiscal strategy for achieving a sustainable debt-to-GDP has not changed since the last submission. It continues to be governed by EU budgetary rules as contained in the Stability and Growth Pact.

With regard to projections for the debt-to-GDP ratio, changes have occurred however since the last submission. For the year 2013, the debt/GDP ratio reached 127.9 per cent, 1.2 percentage points below what expected in the Update to the 2013 Budget. The increase by 5.7 percentage points between 2012 and 2013 is due, as already explained in the Update, to high level of the *snowball* effect, in turn affected by the difference between the cost of servicing the debt and nominal income growth, as well as of the stock-flow adjustment. This grew during 2013 as a result of the need to repay part of the debt arrears accumulated by the (primary local) public administration because of the procyclical way in which the internal Stability and Growth Pact works during recessionary phases.

For 2014 the debt-to-GDP ratio is expected to grow further reaching 131.6 per cent, about 1.1 percentage points lower than what originally indicated in the previous submission (and the Update to the 2013 Budget). This decrease is explained by a recalculation of Italian GDP which more than makes up the more modest increase in nominal income than what previously anticipated but also to the expectation of a slightly higher debt stock. In turn this reflects the repayment of debt arrears, that was however in part compensated by favorable valuation effects on the debt as well as higher estimates of proceedings of privatizations .

2. Medium-term Fiscal Strategies

h) Not updated apart from a shift of the target date of a structural balance which is now scheduled for 2015 instead of 2014.

i)
j)
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3. Medium-term projections and changes since last submission[1]

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
Gross Debt	122.2	127.9	131.6	133.1	131.6	128.4	124.3
ppt change	*0*	*-1.2*	*+4.4*	*+6.1*	*+6.9*	*+7.6*	-
Net Debt*	N/A	N/A	N/A	N/A	N/A	N/A	N/A
ppt change	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	*N/A*	-
Deficit	-3.0	-2.8	-3.0	-2.6	-1.8	-0.8	-0.2
ppt change	*0*	*+0.1*	*-1.4*	*0.0*	*-0.9*	*-0.6*	-
Primary Balance	2.5	2.0	1.7	1.9	2.7	3.4	3.9
ppt change	*0*	*-0.4*	*-2.1*	*-2.4*	*-2.4*	*-2.7*	-
CAPB	3.7	4.2	4.1	3.8	4.1	4.2	4.1
ppt change	*-0.8*	*-1.0*	*-1.8*	*-1.9*	*-2.0*	*-1.9*	-

- (*) Data on net debt are available only for 2012 and remain very preliminary. While in fact intangible assets and public assets managed by the private sector are more easily evaluated, a comprehensive evaluation of Italy's tangible assets is complex due to the richness of Italy's archaeological and historical heritage on which work has begun but it is not readily available.

v)

4. Economic assumptions and changes since last submission

The debt-to-GDP ratio and deficit projections are contingent on the following assumptions for inflation and growth:

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
Real GDP growth	-2.4	-1.9	-0.3	0.6	1.0	1.3	1.4
ppt change	-	*-0.6*	*-1.6*	*-0.9*	*-0.3*	*-0.1*	-
Nom. GDP growth	-0.8	-0.6	0.5	1.2	2.6	3.1	3.3
ppt change	-	*-1.1*	*-2.7*	*-2.1*	*-0.6*	*-0.1*	-
ST interest rate	0.8	0,2	0,2	0,4	0,6	0,8	1,2
ppt change	-	*-1,0*	*-2,5*	*-3,3*	*-3,8*	*-4,1*	-

[1] Change shown is relative to Budget 2013 which was the base for the past submission.

		Estimate	Projections				
	2012	2013	2014	2015	2016	2017	2018
LT interest rate	5.7	4,4	3,0	2,7	3,7	4,7	5,7
ppt change	-	*-0,4*	*-2,3*	*-3,0*	*-2,3*	*-1,5*	-

ANNEX 2: NEW POLICY COMMITMENTS

1. Investment and Infrastructure
2. Employment
3. Trade and Competition

1.1. Investment and Infrastructure

The New policy action:	**Attraction of Foreign Investment**
Implementation path and expected date of implementation	*Measure*: Simplifying and improving governance to strengthen attraction of FDI. Reducing the administrative burden through the creation of a single access point to facilitate entry of foreign investors. Facilitating the dialogue with the public administration in the preparation of investment solutions. Guaranteeing the legality of investment-related regulatory practices at all stages of the investment process and the stability of contracts. A fast-paced justice system that is accessible and produces high-quality and reasonably foreseeable outcomes is a prerequisite for attracting FDIs. *Rationale*: To reduce the administrative burden to attract foreign investment. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Changes to business environment indicators (e.g. the World Bank's).
Explanation of additionality (where relevant)	This new commitment accelerates and improves on a past commitment in this area associated with the launch of Italy's Expo 2015. The government's objective is to reorganise this line of activity, also by establishing a dedicated unit in cooperation with the network of embassies and consulates.

1.2. Investment and Infrastructure

The New policy action:	Reform of the Public Administration
Implementation path and expected date of implementation	*Measure*: Progressive lowering of the mean working age of civil servants, through a generational exchange that allows to acquire new skills, raising the professionalism and reducing spending. Launch of a new system for public management that also allows a virtuous osmosis with the private sector. Launch of a national plan for workers' mobility to secure a more rational distribution of human resources in the various administrations. Containment of salaries and introduction of bonuses linked to obtained results, based on reliable assessment systems. Adoption of effective measures to enhance integrity in the public administration by strengthening the prevention of corruption and the powers of the Anti-Corruption Authority. *Rationale*: Enhancement and upgrading of skills. Efficient reorganization of office work. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Changes in public sector productivity and public expenditure for the provision of public services. Surveys of citizens' satisfaction.
Explanation of additionality (where relevant)	The government's objective is to build on the positive results already achieved in terms of efficiency as a consequence of the past reforms. The new measures that the government intends to implement are aimed at completing the reform process, so as to definitively address key bottlenecks to secure enhancements in public sector productivity and affordability of services.

1.3. Investment and Infrastructure

The New policy action:	Reform of the Justice System
Implementation path and expected date of implementation	*Measure*: Reviewing the administrative justice system to simplify the implementation of the decisions taken by the central and local public administration. Simplifying the public procurement process, and increasing its transparency, to reduce appeals to the administrative courts. Improving the efficiency of the civil justice system, including by strengthening the mechanism of alternative dispute resolution (other than mandatory mediation). Extending the implementation of Electronic Civil Trial (ECT) to all judicial offices, digitalizing all procedural phases of the civil justice trial, and introducing information technologies also in the field of criminal law. *Rationale*: To ensure a swift and affordable justice system as a precondition for the proper functioning of the economic system and the resumption of productive investment, both by domestic and foreign companies. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Changes to business environment indicators (e.g. the World Bank's).
Explanation of additionality (where relevant)	The government's objective is to build on the positive results already achieved in terms of efficiency as a consequence of the past reforms. The new measures that the government intends to implement are aimed at completing the reform process, so as to definitively address a key bottleneck to investment.

1.4. Investment and Infrastructure

The New policy action:	Boosting Investment and Promoting Financing to Businesses
Implementation path and expected date of implementation	*Measure*: Incentives to business investment, particularly in R&D and innovation, also by strengthening the tax credits for R&D expenditure and for hiring highly qualified researchers. Measures to facilitate the renewal of production equipment. Additional transfers to the Central Guarantee Fund for lending to small and medium-sized enterprises (SMEs) (equal to 670 million euro in 2014 and over 2 billion euro in the next three years) and a full implementation of the measures already approved to facilitate the access of SMEs to this instrument. *Rationale*: To boost investment, particularly in innovation, and promote financing to businesses. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Lending to firms (stocks and flows).
Explanation of additionality (where relevant)	These new measures will broaden the number of long-term professional investors operating in private debt markets and increase the resources channelled into it and are thus expected to exert a strongly positive impact on private investment and domestic demand more generally.

1.5. Investment and Infrastructure

The New policy action:	A New Finance for Growth Initiative
Implementation path and expected date of implementation	*Measure*: Promotion of the role of institutional investors in the financing of the corporate sector, also through the development of credit funds and the expansion of bond issuance by SMEs (*minibond*). Enhancement and refinancing of the Allowance for Corporate Equity (ACE) in business taxation, in order to reduce the bias for debt financing and strengthen corporations' capital base. Refinancing of the fund dedicated to the Enterprises' Network (200 million euro), increase in the limit of earmarkable profits and simplification of companies' financial statements. Incentives to invest in units or shares of listed SMEs or SMEs about to be listed and/or in investment vehicles specialized in listed SMEs. Other measures include simplification and are aimed at revitalizing the stock market and encourage Italian companies to be listed. Support for *seed* and *venture capital* and for start-ups. *Rationale*: To broaden the range and scope of the different forms of corporate finance, and strengthen corporates' capital base of businesses. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Stock and flow data on the financing of businesses, particularly SMEs. Net inflows into savings instruments, with a breakdown by main investment objective (e.g. money, bond, equity).
Explanation of additionality (where relevant)	This new initiative aims at developing non-bank financing, thereby addressing a key weakness of the corporate sector.

1.6. Investment and Infrastructure

The New policy action:	Faster Payment of Commercial Debts by the Public Administration
Implementation path and expected date of implementation	*Measure*: electronic invoicing; creditors and the public administrations will use the electronic platform on notifications to report data on invoices, so as to allow the monitoring of public sector commercial liabilities. Introduction of sanctions for lack of compliance with payment deadlines and terms. Provision of a state guarantee on debts related to current expenditure in order to facilitate the transfer of receivables. Provision of cash advances to local authorities. *Rationale*: To ensure a full implementation of the European Directive on payments by the public administration. To facilitate the transfer of receivables to the banking system. Appropriation of 13 billion euro to accelerate the payment of arrears, on top of 47 billion already appropriated for 2013/2014. *Implementation date*: this set of measures is under implementation .
What indicator(s) will be used to measure progress?	Timing of payment by the public administration (change in); cumulative commercial debt in arrears of the public administration (change in stock). Number of electronic invoices submitted through the dedicated system (*Sistema di Interscambio dell'Agenzia delle Entrate*).
Explanation of additionality (where relevant)	These new measures accelerate and improve on a past commitment in this area, by providing additional resources and instruments and improving the regulatory framework.

1.7. Investment and Infrastructure

The New policy action:	Involving the Private Sector in Large Infrastructure Projects
Implementation path and expected date of implementation	*Measure*: The reform aims to achieve the: i) development of a specific regulatory framework for Private-Public Partnerships (PPPs); ii) appropriation of resources to finance feasibility studies and definition of their requirements and key content; iii) definition of a single standard on tenders, procedures and contracts the basis of the international standards; iv) fostering the participation of foreign investors in on-going PPP projects; v) establishment of a national fund for PPPs' planning (equity fund for greenfield projects); vi) ensuring certainty of rules and time schedules in PPPs. *Rationale*: To involve the private sector in large infrastructure projects by developing an efficient and modern framework for PPPs. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Investment flows (changes in) including FDIs.
Explanation of additionality (where relevant)	These new measures aimed at filling the gap with the international best practices will allow to attract private investors and accelerate the implementation in Italy of the Italian portion of Europe's major network infrastructure programmes that have been underway in Italy for the past few years.

1.8. Investment and Infrastructure

The New policy action:	Improving the Effectiveness of Investment Spending
Implementation path and expected date of implementation	*Measure*: Completing the spending programs co-financed by the Structural Funds for 2007-2013. Adopting the Partnership Agreement for 2014-2020, to ensure the early start of the implementation phase. Implementing the National Strategy for the inland areas. Making the National Agency for Territorial Cohesion fully operational to better monitor the use of funds and assist the relevant administrations in implementing their programs. Improving the planning capacity of public administrations. Facilitating investment in small and medium-sized projects to promote the involvement of SMEs in municipal infrastructure financing. *Rationale*: To improve the effectiveness of investment spending. *Implementation date*: 2014-2017.
What indicator(s) will be used to measure progress?	Change in the use of the European Structural Funds.
Explanation of additionality (where relevant)	These measures are new aim primarily at ensuring a better management of EU funds, which are a key component of investment spending. Once implemented, they will have a remarkable impact on demand, growth and job creation. They support and complement other measures already adopted pre St. Petersburg, such as the creation of the National Agency for Territorial Cohesion.

1.9. Investment and Infrastructure

The New policy action:	Accelerating the completion of existing projects and the realization of new emergency projects
Implementation path and expected date of implementation	*Measure*: These measures aim to accelerate and simplify the realization of strategic investment and investment related to emergency needs that have been delayed or postponed due to bureaucratic hurdles. The measures also encourage the development of road and telecommunications networks and aim to improve the functionality of airports and ports. By the same token they are intended to foster progress in infrastructure projects meant to mitigate hydrogeological risks, protect ecosystems, adapt water infrastructure, and provide fast and simplified tools to overcome exceptional circumstances that may have come into being in relation to activities from waste management. The measures also deal with infrastructure necessary to ensure energy supply and promote the development of domestic energy resources. Finally, the measures provide further simplification to existing bureaucratic procedures so as to give new impetus to the construction and real estate sectors and to production in depressed areas. *Rationale*: To address emergency needs in infrastructure. *Implementation date*: a decree-law (so called "Unlock Italy") has been approved by the Government. Following its conversion into law by the Parliament, its provisions will be implemented during 2014-2017.
What indicator(s) will be used to measure progress?	Pace of capital accumulation (public).
Explanation of additionality (where relevant)	These measures are new. They focus on key investment projects that urgently need to be put in place or need to be completed but are being been delayed by bureaucratic obstacles.

2.1. Employment

The New policy action:	A New Time-Contract and Apprenticeship Contract
Implementation path and expected date of implementation	*Measure*: For fixed-term contracts lasting up to 3 years (instead of 1 year before the reform), employers will no longer be required to specify the reason of the termination of the contract. For businesses employing more than a certain number of employees, the maximum share of the total workforce that can be subject to this contract is 20 per cent; for businesses employing less than a certain number of employees there will be no limit to the use of this contract typology. It is also left to collective bargaining the ability to modify the quantitative limit of 20 per cent and the possibility of deviating from the 20 per cent threshold for reasons connected with replacement and seasonality. It is also extended from one to eight times the possibility to extend the duration of the contract period within the limit of 36 months. With respect to the apprenticeship contract, the obligation to specify a training plan for the apprentice will be eliminated. Apprenticeship will no longer imply a ratification of the job on more durable terms. Pay will also reflect hours spent in training. *Rationale*: To reduce labor market rigidities, and encourage the employment of young people. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	Part of these new measures were aimed at addressing some problem issues of the 2012 labour reform, in particular clarify the nature of contracts or simplify previous regulations. This is the case of the new apprenticeship contract, that before the reform involved burdensome procedures. From now on the trainee's compensation for the part related to the hours spent in training will be equal to 35 percent of the level of compensation envisaged in the national labour agreement.

2.2. Employment

The New policy action:	Reorganization of the Labor Contracts
Implementation path and expected date of implementation	*Measure*: The draft law on contractual forms aims at: a) identifying and analysing all existing forms of contract to assess the actual consistency with the national and international context, so as to better identify areas for reform; b) drafting a code of all labor contracts; c) exploring, in consultation with the social partners, the possibility of introducing the minimum wage; d) the provision, for newly-employed workers, of a contract entailing growing protections proportionally to the duration of the job itself. *Rationale*: To create job opportunities, particularly for the young, and to revise the institutional design of Italian contracts. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	The change in the labor contract and the introduction of a code of all contracts are new and will ensure that national and international labor frameworks are broadly consistent. Monitoring of firm-level contracts through mandatory registration with the local employment offices is aimed at strengthening transparency in the labor market.

2.3. Employment

The New policy action:	Labor Services and Active Labor Market Policies
Implementation path and expected date of implementation	*Measure*: The draft law on employment services and active policies aims at: a) rationalizing the existing recruitment incentives for self-employment and self-employment; b) establishing a National Labor Agency for the integrated management of active and passive labor policies; c) streamlining the institutions and structures that operate in the fields of social safety nets, active policies and employment services, in order to increase efficiency; d) strengthening and enhancing public-private partnerships; e) ensuring a proper division of labor between the national level, in charge of defining the basic level of assistance, and the local authorities, in charge of planning active labor market policies; f) encouraging the active involvement of job seekers; g) improving the IT system for managing and monitoring purposes. *Rationale*: To ensure the uniform provision of basic services throughout the country and a coordinated administrative action. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	The interventions planned in the management of active and passive labor policies are new and the reform of labor services will close a long overdue gap in the Italian system of recruitment. Moreover it will help to overcome the dispersion of competences between central and local administrative levels (State, Regions, Provinces), that has so far negatively impacted on the efficiency of the recruitment services. These measures will also contribute to improve the connection between education and the labor market.

2.4. Employment

The New policy action:	Flexible Employment Procedures and Requirements
Implementation path and expected date of implementation	*Measure*: The draft law on simplification of procedures and requirements aims at: a) streamlining and simplifying procedures and requirements associated with the establishment and management of the employment relationship, with the aim of halving the number of requested acts; b) eliminating and simplifying the regulations involved in interpretation or legal cases; c) streamlining and simplifying notification requirements to public administrations, also through ICT systems, and reviewing the regime of sanctions associated with violations of the regulation on employment . *Rationale*: To reduce the burden on citizens and businesses implied by current legislation when engaging in the labor market. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	The simplification of procedures is new and it is necessary to strengthen the coherence between the procedures and the legislative requirements to manage a labor contract and the current needs of productive sector.

2.5. Employment

The New policy action:	Unemployment-Related Social Safety Nets
Implementation path and expected date of implementation	*Measure*: The draft law in this area aims at: a) revising the criteria for granting wage subsidies; b) simplifying the related administrative procedures, also by introducing automatic mechanisms; c) reviewing the time limits for unemployment allowances and ensuring a cost-sharing with the companies; e) reducing social security contributions and ensuring a differentiation by sector on the basis of the actual use; f) reforming the Social Insurance for Employment (ASPI), also exploring the possibility to include some non-standard contracts in its scope of application; h) eliminating unemployment as a prerequisite for accessing social benefits; i) ensuring the participation of the beneficiaries of wage subsidies or unemployment assistance in activities that that are beneficial to local communities. *Rationale*: To establish a system of universal guarantee for all workers, ensuring, in case of involuntary unemployment, uniform protection linked to contributions, and to streamline the rules on wage subsidies. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	Structural changes in the productive chain and the labor market have affected the safety of workers in terms of job stability, requiring a revision of the safety nets to extend them to a greater number of workers. Moreover the high unemployment rate requires an increasing attention to income support for laid-off workers, while the previous approach of safety nets was essentially based on preserving the jobs. These new measures will address these challenges effectively.

2.6. Employment

The New policy action:	A Better Work-Life Balance for Working Parents
Implementation path and expected date of implementation	*Measure*: The draft law in this area aims at: a) introducing a universal maternity allowance; b) guaranteeing the right to mothers working under a non-standard contract to benefit from a maternity allowance even in the event of non-payment of contributions by the employer; c) introducing a tax credit to create job opportunities for mothers with minors and an income that is below a threshold to be determined and harmonizing the tax expenditures in this area; d) supporting collective agreements designed to facilitate flexible working conditions; e) facilitating an integrated provision of services to childhood by companies within the public-private system of personal care services. *Rationale*: To reconcile work and family life, in order to facilitate the participation of women in the labor market. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Employment flows and changes to the participation rate.
Explanation of additionality (where relevant)	In Italy, women's opportunities in the labor market are hampered by structural problems, something that these policy actions will address, by at the same time improving the productivity of public and private companies through the enhancement of workers' work-life balance. The measures in the pipeline aim at introducing new standards of protection, but also at giving practical effect to those already in existence.

2.7. Employment

The New policy action:	Creating Business and Labor-friendly Education and Research Systems
Implementation path and expected date of implementation	*Measure*: The reform aims at: a) supporting apprenticeships and internships in private companies and learning and working schemes, by sharing best practices, increasing the number of hours that young people spend working or training in companies during school and university years and by certifying the competences acquired during such time; b) as part of the Youth Guarantee Plan, implementing guidance programs for students; c) strengthening technical education and schools (ITS/Technical High Schools); d) promoting the employment of researchers in private companies and making Italy more attractive for foreign researchers; e) strengthening the tax credit to facilitate the employment of high-level human capital in private companies, the so called industrial doctorates; f) extending the tax credit for investments in R&D. *Rationale*: To provide the most effective response to NEETs, by offering students an opportunity to work during the school and university years, and to increase productivity through training, innovation and research. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	R&D investment, scores in tests assessing students skills, employment flows (change in)
Explanation of additionality (where relevant)	Implement effective information activities and guidance, in light of changes in society and the labor market, is essential to reduce school drop-put and the excessive duration of university studies. These new measures are expected to foster the achievement of these goals.

2.8. Employment

The New policy action:	Improving female labor force participation
Implementation path and expected date of implementation	*Measure*: As part of the reform of the labor market, the government plans measures aimed at fostering higher participation, particularly of women and young people, by reducing disincentives to work. The first main instrument to this end are measures to promote the use of open-ended contracts, in particular for young people and women, complemented with measures to increase labor security: a government's draft law, submitted in March 2014, reforms social welfare, services for work and active policies to provide better support by those out of, but willing to work. A second key instrument involves actions to enhance family support for women at work by increasing socio-educational facilities for children, particularly in the pre-school age band. In August 2013, an agreement was signed between the central and local governments to upgrade the existing range of educational services for small children, smoothen the transition between nursery and kindergarten, and complete the development of social and educational services dedicated to children of age 0-6 years. *Rationale:* Increase labor market participation and reduce inequality. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Labor participation with a breakdown on female and youth participation
Explanation of additionality (where relevant)	These measures are new.

3.1. Trade and Competition

The New policy action:	Reform of the tax system
Implementation path and expected date of implementation	*Measure*: the 2015 Stability Law will build on measures recently taken to further increase disposable income and reduce the tax wedge. In particular, the Stability Law will: a) make permanent the reduction of the personal income tax of permanent employees with a gross income lower than 26,000 euro (about 10 billion euro for 10 million people), which was originally approved before the Summer for the current year only; b) allow private sector employees to receive severance pay (so-called TFR) cash advances upon request; c) further reduce the tax wedge on labor, by allowing a full deduction of the labor component from the IRAP (the tax on productive activities) base (IRAP was reduced by 10 per cent before the Summer) and a full exemption for 36 months from pension contributions for new open-ended contracts entering into force or signed in 2015. In addition, the Government will implement a tax reform to define a more equitable, transparent, simplified and growth-oriented tax system, including by reforming the cadastre and taxation on corporate income, reviewing environmental taxation, simplifying taxation for individual firms and professional activities, strengthening regulations to curb tax abuse and increase tax compliance, enhancing tutoring and tax simplification, reforming the sanction, check and inspection system and reviewing local collection procedures,. *Rationale*: To increase the income of the lowest income groups and reduce the tax wedge, in order to boost consumption and enhance competitiveness. *Implementation date*: 2014/2015.
What indicator(s) will be used to measure progress?	Market entry indicators, concentration, PIL (changes in), share of tradables in total GVA.
Explanation of additionality (where relevant)	All these measures are new.

3.2. Trade and Competition

The New policy action:	Reduction of Energy Costs for Businesses
Implementation path and expected date of implementation	*Measure*: Reduction of at least 10 percent of the energy costs of SMEs through relative changes in the energy bill, greater diversification of supply and further liberalization of the electricity and gas markets, including by removing barriers to the development of regasification capacity. *Rationale*: To promote SMEs development by reducing energy costs. *Implementation date:* 2014.
What indicator(s) will be used to measure progress?	Productivity and utility costs indicators (change in).
Explanation of additionality (where relevant)	These new measures complement other measures aimed at opening network and other markets to competition. For the energy sector, Italy does not lag behind other European Countries. As a matter of fact, the market liberalization was completed with the ownership unbundling of the gas network operator (SNAM) from the incumbent gas operator (ENI). At present, liberalizing allocation and access to gas storage capacity for all operators is one of the main areas of policy intervention.

3.3. Trade and Competition

The New policy action:	Competition and Liberalization
Implementation path and expected date of implementation	*Measure*: Review of the legislation on local public services to ensure more open markets. Full implementation of the existing rules, including through the launch of a competition code and the annual law on competition. *Rationale*: Unleashing the potential of goods and services markets. *Implementation date*: 2014.
What indicator(s) will be used to measure progress?	Market concentration and mark up indicators (change in).
Explanation of additionality (where relevant)	The local public services sector has been the object of many changes in laws and regulations over the past few years, as well as recent judicial interventions. The new decree law 150/2013 ('Milleproroghe') underlying the measures described above dictates the termination by December 31, 2014 of any public service awarded without compliance with EU law.

3.4. Trade and Competition

The New policy action:	Internationalization of Italian Companies
Implementation path and expected date of implementation	*Measure*: The reform aims at promoting products branded '*Made in Italy'* through an extraordinary plan aimed at increasing the number of exporters, by strengthening the financial and non-financial instruments to support Italian companies abroad, particularly SMEs. The reform also aims at implementing the "Destination Italy" program to facilitate incoming FDIs. *Rationale*: To support the internationalization of Italian companies. *Implementation date*: 2015.
What indicator(s) will be used to measure progress?	Export flows (change in); FDIs incoming flows (changes in).
Explanation of additionality (where relevant)	The plan "*Destination Italy*" has been submitted to a public consultation which stressed the importance of 10 priorities, partially introduced by the *Destination Italy* decree law. This new reform complements measures already implemented to support SMEs activities (guarantee to credit, 'Sabatini law' etc.). Following the orientation of the Industrial Compact, this policy aims to propel the share of manufacturing to total GDP above 20 % by 2020.

3.5. Trade and Competition

The New policy action:	Open Data, Digitalization and Simplification
Implementation path and expected date of implementation	*Measure*: This reform aims to achieve a full interoperability and integration of databases as well as develop a national platform for open data. It also aims to complete the digitization of public administration beginning from the creation of the new national register of Italian citizens, digital identity and implementation of the rules on e-invoicing. The reform will also pursue a reduction of regulatory costs, particularly for the creation of new businesses. *Rationale*: To increase transparency and efficiency of public administrations, reduce costs for citizens and businesses, and enhance the quality of public services. *Implementation date*: 2015.
What indicator(s) will be used to measure progress?	Indicators of business environment, digitalization, IT usage.
Explanation of additionality (where relevant)	These new measures shall foster the implementation of the administrative simplification agenda adopted until now.

3.6. Trade and Competition

The New policy action:	Simplifications for Businesses
Implementation path and expected date of implementation	*Measure*: This reform launches a regulatory review to simplify the regulatory framework, particularly with regard to administrative requirements to carry out public works. It fosters a simpler and faster resolution process for commercial disputes, including through the strengthening of the conciliation process, and by creating a one-stop shop for companies within which to deal with all administrative requirements related to job regulation. *Rationale*: To simplify the regulatory framework to reduce the administrative burden on businesses. *Implementation date*: 2015.
What indicator(s) will be used to measure progress?	Market entry indicators, concentration, PIL (changes in), share of tradables in total GVA.
Explanation of additionality (where relevant)	These new measures shall foster the implementation of the administrative simplification agenda adopted until now.

3.7. Trade and Competition

The New policy action:	**Privatization**
Implementation path and expected date of implementation	*Measure*: This reform will involve the sale of shares in companies directly or indirectly controlled by the state for about 0.7 percent of GDP per year through annual privatization plans for the 2014-2017 period. Facilitation of the privatization process at the subnational level. *Rationale*: To pursue greater market efficiency and competitiveness, promote the development of the capital market with the strengthening of the equity markets and the internationalization of enterprises. To reduce public debt and recover unproductive expenditures. *Implementation date*: 2015-2017.
What indicator(s) will be used to measure progress?	Changes in debt-to-GDP ratio; changes in stock-flow adjustments.
Explanation of additionality (where relevant)	These new measures accelerate existing plans and increase them by a factor of about 2. On May, 16 2014 the Government approved two decrees setting the rules for the divestment of an initial tranche of ENAV (49 per cent) and Poste Italiane (40 per cent). The public offering is open to Italian savers, public employees of the same company, national and international institutional investors. For ENAV, the State maintains the control over the company (i.e., 51 per cent of shares). The new wave of privatizations will affect several other companies where the State still has a direct stake (i.e. ENI, STM), and companies where the State has a stake through CDP (i.e. SACE, Fincantieri, CDP Reti, TAG) or through FS (i.e.,Grandi Stazioni).

3.8. Trade and Competition

The New policy action:	Divesting State-owned Real Estate
Implementation path and expected date of implementation	*Measure*: This reform aims at strengthening the existing instruments, such as the National Agency and the state-owned company INVIMIT, to enhance the value of and/or partly divest state-owned real estate, making federalism fully effective, and facilitating the divestment process at subnational level. *Rationale:* To reduce public debt and unproductive expenditure. *Implementation date*: 2015-2016.
What indicator(s) will be used to measure progress?	Changes in debt-to-GDP ratio; changes in stock-flow adjustments.
Explanation of additionality (where relevant)	These new measures enhance the implementation of previously introduced measures aimed at facilitating the divestment of public physical assets.

3.9. Trade and Competition

The New policy action:	Improve competition within network industries
Implementation path and expected date of implementation	*Measure*: The government has announced measures to enhance competition in the context of network industries that should improve competitiveness and benefit consumers through lower retail prices. More specifically, the rules regarding the fees for access to the railway network have changed so as to guarantee to all competitors non-discriminatory access to the market. Fees for the purchase of natural gas have also been made more competitive, and the Electronic Markets Operator (GME) is developing a platform for the logistics market for oil and mineral oils to bolster competition in the oil industry. Finally, the Communications Authority (AGCOM) approved the break-up of the fixed telecommunications infrastructure owned by Telecom, in order to ensure to all operators access to the network at non-discriminatory rates. *Rationale*: Remove regulatory barriers in markets, with the aim of enhancing competition, encouraging new entrants, and lowering the cost of services. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Gas, oil and communication retail prices (trends).
Explanation of additionality (where relevant)	These measures are new and add on to measures launched in 2012-13.

3.10 Trade and Competition

The New policy action:	Fighting corruption and improving the business environment
Implementation path and expected date of implementation	*Measure:* After the implementation of anti-corruption law of 2012, the government has recently reorganized the institutions in charge of ensuring transparency and anti-corruption monitoring, as well as evaluating performance assessments in the public sector. After being granted greater powers, the National Anti-Corruption Authority (ANAC) has finally approved the Anti-Corruption National Plan (PNA) required for implementing the policies of prevention and exercising its supervisory activities. At the same time, the government committed to approve measures for the prevention and repression of corruption and other potential illegal conducts in the public administration, in particular by providing more severe penalties for crimes that may indirectly foster corruption, notably false accounting. *Rationale*: Fight corruption to improve the business environment and foster growth. *Implementation date*: 2014-2015.
What indicator(s) will be used to measure progress?	Changes to business environment indicators (e.g. the World Bank's).
Explanation of additionality (where relevant)	These measures are new and add on to measures launched in 2012-13.