

European Semester

2012/2677(RSP) - 30/05/2012 - Follow-up document

PURPOSE: draft Recommendation for a COUNCIL RECOMMENDATION on Italy's 2012 national reform programme and delivering a Council opinion on Italy's stability programme for 2012-2015.

BACKGROUND: the European Commission has adopted a **package of recommendations for budgetary measures and economic reforms** to enhance financial stability, boost growth and create employment across the EU.

The recommendations are **country-specific**, taking account of the individual situation of each Member State. The Commission has also issued recommendations for the euro area as a whole. The country-specific recommendations put forward by the Commission give operational guidance for Member States while preparing their budgetary policies and for economic reforms that should be enacted over the coming twelve months to boost competitiveness and facilitate job creation.

The adoption of the recommendations marks the **concluding of the second phase of the European Semester** of economic policy coordination, which was launched with the Commission's [Annual Growth Survey](#) on 23 November 2011.

The basis for these recommendations is a thorough assessment of the implementation of those adopted in 2011, combined with a detailed analysis of the national reform programmes and stability or convergence programmes that Member States submitted by 30 April 2012. The analysis underpinning the recommendations is presented in 28 Commission staff working documents.

CONTENT: on 30 April 2012, **Italy** submitted its stability programme covering the period 2012-2015 and its 2012 national reform programme. In order to take account of their interlinkages, the two programmes have been assessed at the same time.

Based on the assessment of the stability programme, the Council is of the opinion that the **macroeconomic scenario** underlying the programme **is plausible, under the assumption of no further worsening in financial market conditions**. In line with the Commission's spring 2012 forecast, it expects real GDP to contract sharply this year and recover gradually in 2013.

The objective of the budgetary strategy outlined in the programme is to bring the general government deficit below the 3% of GDP reference value by 2012, based on further expenditure restraint and additional revenues.

The programme projects the **government debt ratio** to peak in 2012 and to start declining at an increasing pace thereafter, as the primary surplus increases. In 2013-14 Italy will be in transition period. According to plans, the debt reduction benchmark will be met at the end of the transition period (2015).

Reaching the above deficit and debt outcomes will require **strict and full budgetary implementation** of the corrective measures adopted in 2010-11.

According to the Commission, the **main policy challenges** for the country are as follows:

- As regards the fiscal framework, the Italian Parliament approved a bill introducing a balanced budget rule in the Italian Constitution. Implementing legislation will be needed to specify key features of the rule.
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- The government committed to pursue a durable improvement of the efficiency and quality of public expenditure through in-depth spending reviews at all levels of government. With the same aim, a reorientation of the use of structural funds is underway. However, important deficiencies in terms of administrative capacity continue to hamper absorption and hence the implementation of the Plan, notably in the convergence regions.
- The structure of the tax system and the high level of tax evasion and undeclared work have adversely affected the economic performance of the country. Tax compliance and governance are also affected by wide-ranging tax expenditures and complex and burdensome administrative procedures.
- The wage-bargaining system should be reformed further by allowing more flexible arrangements also at the national sectoral level. In April 2012, the government proposed an ambitious labour market reform addressing long-standing challenges in the Italian labour market, including its segmentation. This reform needs to be adopted as a matter of urgency, ensuring that its objective and level of ambition remains commensurate to the challenge of the Italian labour market. The scale and effectiveness of the liberalisation of employment services should be closely monitored.
- Despite efforts made to improve the employability of women, mainly through targeted fiscal incentives, the employment rate of Italian women is significantly lower (46.5% in 2011) than the EU 27 average (58.5% in 2011). Further action on childcare and elderly care facilities is needed.
- Youth unemployment in Italy reached 29.1% on average in 2011 and rose further in the first months of 2012. In particular, the unemployment rate among tertiary graduates is high and there is mismatch between the acquired skills and those that are needed in the labour market.
- The early school leaving rate of 18.8% at national level, with strong regional variations, has adverse effects on youth unemployment.
- Italy has adopted important measures to liberalise services, in particular professional services, and improve competition in the network industries. However, multiple challenges remain in the energy and transport sectors, in particular railways and ports, where infrastructure and market bottlenecks remain significant.
- Although some measures have already been adopted to encourage administrative simplification, the business environment in Italy remains complex.
- Access to financing by SME is difficult and venture capital intensity is weak. While some measures have been taken to foster private R&D, notably the refinancing of the tax credit for business investment in research, the intensity remains low and implementation of projects of an innovative nature is weak.

Recommendations proposed for Italy for the period 2012-2013:

Budgetary measures:

- implement the budgetary strategy as planned, and ensure that the excessive deficit is corrected in 2012;
- ensure the planned structural primary surpluses so as to put the debt-to-GDP ratio on a declining path by 2013;
- ensure adequate progress towards the medium-term budgetary objective, while meeting the expenditure benchmark and making sufficient progress towards compliance with the debt reduction benchmark.

Budgetary framework:

- ensure that the specification of the key features of the Constitutional balanced budget rule, including appropriate coordination across levels of government, is consistent with the EU framework;
- pursue a durable improvement of the efficiency and quality of public expenditure through the planned spending review and the implementation of the 2011 Cohesion Action Plan leading to improving the absorption and management of EU funds, in particular in the South of Italy.

Education, employment:

- take further action to address youth unemployment, including by improving the labour-market relevance of education and facilitating transition to work, also through incentives for business start-ups and for hiring employees;
- enforce nation-wide recognition of skills and qualifications to promote labour mobility;
- take measures to reduce tertiary-education dropout rates and fight early school leaving.

Labour market:

- adopt the labour market reform as a priority to tackle the segmentation of the labour market and establish an integrated unemployment benefit scheme;
- take further action to incentivise labour market participation of women, in particular through the provision of child and elderly care;
- to boost cost competitiveness, strengthen the link between wages set at sectoral level and productivity through further improvements to the wage setting framework, in consultation with social partners and in line with national practices.

Tax:

- pursue the fight against tax evasion;
- pursue the shadow economy and undeclared work, for instance by stepping up checks and controls;
- take measures to reduce the scope of tax exemptions, allowances and VAT reduced rates and simplify the tax code;
- take further action to shift the tax burden away from capital and labour to property and consumption as well as environment.

Services:

- implement the adopted liberalisation and simplification measures in the services sector;
- take further measures to improve market access in network industries, as well as infrastructure capacity and interconnections.

Business environment:

- simplify further the regulatory framework for businesses and enhance administrative capacity;
- improve access to financial instruments, in particular equity, to finance growing businesses and innovation;
- implement the planned reorganisation of the civil justice system, and promote the use of alternative dispute settlement mechanisms.

These recommendations should be endorsed by the European Council on 28-29 June 2012 and formally adopted by the Council in July 2012.