**Fiscal Strategy (CSR 1)**

*"Ensure that the general* ***government debt*** *is on a sufficiently downward path; carry out the ambitious* ***privatization plan****; implement a* ***growth-friendly fiscal adjustment*** *based on the announced significant savings coming from a durable improvement of the efficiency and quality of public expenditure at all levels of government, while preserving growth-enhancing spending like R&D, innovation, education and essential infrastructure projects. Guarantee the independence and full operationalization of the* ***fiscal council*** *as soon as possible and no later than in September 2014, in time for the assessment of the 2015 Draft Budgetary Plan."*

Public debt

- After twenty years of high primary surpluses, Italy will maintain its sound fiscal stance for the coming years;
- Long-run sustainability is among the most robust in the EU also thanks to past pension reforms;
- Structural reforms and growth-friendly fiscal consolidation are crucial elements of the strategy to reinforce debt sustainability;

Privatization plan

- Over the course of 2014 the following companies were open up to private capital: Fincantieri, a world leader in ship-building, was introduced in June through IPO on the Italian Stock Exchange; CDP Reti, a holding company controlling the national electricity and gas network operator was partially sold through trade sale to a foreign investor; and in November 2014 RAI Way which owns and manages the broadcasting network was listed through IPO. Other operations are possible in the remaining weeks;
- In spite of current markets, the Government confirms the planned target of proceeds from privatizations and asset sales for an amount of 0.7% of GDP per year on average in 2015-2017;
- In 2015 and beyond the privatization plan encompasses Poste Italiane (the national postal operator and retail banking network) and ENAV (the Italian flight control operator), Ferrovie dello Stato (the railway company), and ANAS (motor-ways and national road concessions);
- In addition to the above disposals and in order to achieve the privatization targets in terms of both timing and amount, the Government will promote a review and subsequent sale of real estate assets owned by the State and by local governments.
- The Government has introduced powerful incentives for local authorities to dispose relevant stakes in companies they directly owned, such as local utilities. These incentives will display their effects in the upcoming months;

Growth-friendly fiscal adjustment

- The budget will move a significant amount of resources from less growth-friendly to more growth-friendly policies (as of 1 January 2015);
- Reduction of the tax wedge for employees: uts in personal income tax for permanent employees earning less than 26,000 Euros before taxes (effective since May 2014); possibility for

employees in the private sector to perceive in their salary quotas from the severance payment (so called 'TFR') with a State guarantee on bank loans to companies (as of 1 January 2015);

- Reduction in the cost of labor for employers: i) Deduction of permanent labor costs from the taxable base of the local business tax; ii) 36-month full exemption from social security contributions for new hiring on open-ended contracts (as of 1 January 2015);
- 25% tax credit for incremental investment in R&D respect to the 2012-2014 average, up to a threshold of €5bn for beneficiary and for investments exceeding €30,000 euro (as of 1 January 2015);
- The Spending Review will be increasingly integrated within the annual budget process. It applies to national, regional and local spending. The DBP sets cumulative savings targets up to 11.3 billion in 2015, 12.4 billion in 2016, 13.4 billion in 2017 and 15. 6 billion in 2018.

Parliamentary Budget Office

- Italy's Parliamentary Budget Office (UPB) is now operational and it validated the macroeconomic forecasts of the 2014 of Draft Budgetary Plan.
- In September 2014, operational guidelines were detailed in a memorandum of understanding signed by the Ministry of Economy and Finance and the UPB in order to ensure the arrangements necessary for the Council

**Tax Reforms (CSR 2)**

*"Further* ***shift the tax burden*** *from productive factors to consumption, property and the environment, in compliance with the budgetary targets. To this end, evaluate the effectiveness of the recent reduction in the labour tax wedge and ensure its financing for 2015, review the scope of direct tax expenditures and broaden the tax base, notably on consumption. Consider the alignment of excise duties on diesel to those on petrol and their indexation on inflation, and remove environmentally harmful subsidies. Implement the enabling law for tax reform by March 2015, including by adopting the decrees leading to the* ***reform of the cadastral system*** *to ensure the effectiveness of the reform of immovable property taxation. Further improve* ***tax compliance*** *by enhancing the predictability of the tax system, simplifying procedures, improving tax debt recovery and modernising tax administration. Pursue the fight against tax evasion and take additional steps against the shadow economy and undeclared work."*

Shifting the tax burden

- Increased taxation of returns on financial assets from 20 to 26 percent, excluding Government bonds and postal savings (as of 1 January 2015);
- Reduction in the cost of labor for employers (as of 1 January 2015); (See sheet about CS3 1)
- Reduction of the tax wedge for employees (effective since May 2014); (See sheet about CS3 1)

Implementing the tax reform, including the tax system cadastral system

- By March 2015 the tax system will be reformed with the aim to: i) update cadastral values; ii) enhance tutoring and tax simplification; iii) establish new general anti-abuse rules; iv) revise the system of administrative and penal sanctions; v) establish a system of "cooperative compliance" for companies; vi) facilitate compliance for smaller taxpayers; vii) modernize corporate income tax; viii) reform personal income tax of individual firms; ix) review tax collection procedures; x) establish new procedures for monitoring tax evasion and tax expenditures; xi) reform taxes on gambling and lotteries.

Tax compliance

- Strengthen the fight against tax evasion also through split VAT payment, with a target of 2bn increase in tax revenues by 2015;
- In 2013, 300mn of unpaid taxes recovered and used to reduce the tax burden.
- Further steps currently before the Parliament: i) voluntary disclosure of financial information to repatriate undeclared taxable revenue or income held abroad (by end 2014); ii) Foreign Account Tax Compliance Act between US and Italy;
- On October 2014, Italy signed a multilateral agreement to exchange automatically financial information based on OECD standards (early 2017).

**Efficiency of Public Administration (CSR 3)**

*"As part of a wider effort to improve* ***the efficiency of public administration****, clarify competences at all levels of Government. Ensure better management of* ***EU funds*** *by taking decisive action to improve administrative capacity, transparency, evaluation and quality control at regional level, especially in southern regions. Further enhance the effectiveness of* ***anti-corruption*** *measures, including by revising the statute of limitations by the end of 2014, and strengthening the powers of the national anticorruption authority. Timely monitor the impact of the reforms adopted to increase the efficiency of* ***civil justice*** *with a view to securing their effectiveness and adopting complementary action if needed."*

Modernizing the Public Administration

- Managerial accountability rules: bill before Parliament (presented by Government in July 2014)
- Mobility rules: reform approved in June 2014.
- Modernization: widespread digitalization on going

Reform of local government

- Reorganizing the competences of local entities (Municipalities and Provinces) in order to: i) contain costs, ii) achieve economies of scale in public services; iii) improve the quality of services provided to citizens (Reform approved in April 2014)
- Reorganizing the competences of regions implies a review of the Constitution. A bill is before the Parliament, approved in August 2014 by the Senate, at the moment under discussion before the Lower House.

Better management of EU funds

- The Partnership Agreement 2014–2020, adopted at the end of October, identifies expected results and specific actions for the use of 43bn of EU funding plus 20bn of national co-funding. As of November 2014, certified expenditure of EU Funds for 2007–2014 reached 62.2% of total planned resources;
- The new Territorial Cohesion Agency to become operational as of November 2014. Its statute was approved in August 2014;

Anti-corruption

- The new Anti-Corruption Authority has been reinforced: it acquired all the competences in anticorruption and transparency, which previously were in the Ministry for Public Administration and Simplification as well as the supervision of public contracts; the President can propose to local prefects to grant extraordinary and temporary contractual management of a company/line of business, limited to the complete execution of the contract subject to criminal proceedings; supervisory powers to guarantee fairness and transparency of procedures at Expo 2015; (done June 2014)
- All the legislative measures approved over the last two years will be collected in a code, in order to systematize them and rise the degree of simplification and clarity by the end of 2015;

Increasing the efficiency of civil justice

- Improving the judicial machinery via increasing the productivity of courts revising territorial distribution of courts and exploiting larger courts return of scale (done February 2014) and pursuing the use of ICT in civil proceedings (mandatory for ordinary courts by end of 2014, for appellate courts by 30 June 2015); set up of a proceeding office;
- Key incentives for arbitration and out of court settlements, adopted in November 2014; revision of lawyer fees (done April 2014).

**Access to Finance and Capital Markets (CSR 4)**

*"Reinforce the resilience of the* ***banking sector*** *and ensure its capacity to manage and dispose of impaired assets to revive lending to the real economy. Foster* ***non-bank access to finance*** *for firms, especially small and medium-sized businesses. Continue to promote and monitor efficient* ***corporate governance practices*** *in the whole banking sector, with particular attention to large cooperative banks ('banche popolari') and foundations, with a view to improving the effectiveness of financial intermediation."*

Reinforcing the resilience of the banking sector

- Sale of NPLs is now easier due to: i) improved tax treatment of write-downs and credit losses; ii) time saving judicial reforms for bankruptcy procedures and credit recovery;

Non-bank access to finance

- Access to finance improved by fostering bonds issued by unlisted companies and opening the credit market to new players: non-bank credit channels, i.e. insurance companies, and foreign investors (done August 2014);
- Guarantees and tax credits to support investment activity (several measures already taken, others to be implemented as of 1 January 2015);
- Access to capital markets and strengthening of business capital structure further facilitated (done August 2014);

Corporate governance

- Introduction of the possibility of issuing loyalty shares for listed companies and of multiple share for companies to be listed (done in August 2014);
- In July 2014, a reinforced corporate governance regulation became effective. General principles of governance and accountability of banks' boards and directors were set so to strengthen risk management capacity;

**The Labour Market (CSR 5)**

*"**Evaluate**, by the end of 2014, **the impact of the labour market and wage-setting reforms** on job creation, dismissals procedures, labour market duality and cost competitiveness, and assess the need for additional action. Work towards a **more comprehensive social protection** for the unemployed, while limiting the use of wage supplementation schemes to facilitate labour re-allocation. **Strengthen the link between active and passive labour market policies**, starting with a detailed roadmap for action by December 2014, and reinforce the coordination and performance of public employment services across the country. Adopt effective action to promote female employment, by adopting measures to **reduce fiscal disincentives for second earners** by March 2015 and providing **adequate care services**. Provide adequate services across the country to non-registered **young people** and ensure stronger private sector commitment to offering quality apprenticeships and traineeships by the end of 2014, in line with the objectives of a youth guarantee. To address exposure to **poverty and social exclusion**, scale-up the new pilot social assistance scheme, in compliance with budgetary targets, guaranteeing appropriate targeting, strict conditionality and territorial uniformity, and strengthening the link with activation measures. Improve the effectiveness of family support schemes and quality services favouring low-income households with children."*

Labor market reforms

- A general reform of the labor market is ongoing to simplify hiring rules and to introduce predictable rules for firing (Jobs Act approved by the Senate in October 2014 – approval procedure to be completed by the end of 2014);

- New flexibility on entry already introduced (done March 2014);

- Evaluation of past reforms for better targeting the new one: August 2014 the Ministry of Labor published the second report of evaluation of the effect of the 2012 labor market reform. An official data set and several indicators are built for a continuous monitoring;

A more comprehensive protection for the unemployed

- Extending coverage for a wider range of recipients and building more job-oriented subsidies (Jobs Act approved by the Senate in October 2014 – approval procedure to be completed by the end of 2014);
- Strengthen the link between active and passive labor market policies;
- Setting up a national integrated technological platform for registration and work placement, strengthening education and vocational services and a National work agency for more effective placement of unemployed (Jobs Act approved by the Senate in October 2014 – approval procedure to be completed by the end of 2014)

Reduce fiscal disincentives for second earners and provide adequate care services

- Reducing marginal rate of personal income taxation modifying the slope of fiscal detraction for low incomes (by January 2014);
- New rules for reconciliation of work and family life (Jobs Act approved by the Senate in October 2014);

Strengthen policies for the young

- The Youth Guarantee National Plan launched in May 2014, contains 9 initiatives centered on vocational training and apprenticeships;

- Reinforcing training contract with new rules for apprenticeships and traineeships (done May 2014).

**Education (CSR 6)**

*"Implement the* ***National System for Evaluation of Schools*** *to improve school outcomes in turn and reduce rates of early school leaving. Increase the use of work-based learning in upper secondary* ***vocational education and training*** *and strengthen vocationally-oriented tertiary education. Create a* ***national register of qualifications*** *to ensure wide recognition of skills. Ensure that public funding* ***better rewards the quality of higher education and research****."*

The National System for Evaluation of Schools

- The National Assessment System is already operative and will be reinforced in a more transparent way for citizen (as of early 2015)
- Strengthening of the link between education and work in upper secondary schools: alternation of education and work compulsory for students in the last three years of Technical Schools and highly encouraged in all high schools. More funds for school-to-work alternation initiatives by December 2014;
- Reforming the school system improving teachers' skills also with compulsory continuing education linked to the possibility of career enhancement. Teachers' wages linked to performance (by February 2015);
- Strengthening in the teaching of foreign languages and digital competencies. Improvement in digitalization of schools (broadband and Wi-Fi), including for administrative services (by February 2015).

**Liberalisations and Simplification (CSR 7)**

*"Approve the pending legislation aimed at* ***simplifying the regulatory environment for businesses and citizens*** *and* ***address implementation gaps*** *in existing legislation. Foster market opening and* ***remove remaining barriers*** *to, and restrictions on competition in the professional and local public services, insurance, fuel distribution, retail and postal services sectors. Enhance the efficiency of* ***public procurement****, especially by streamlining procedures including through the use of e-procurement, rationalising the central purchasing bodies and securing the proper application of pre-and post-award rules. In local public services, rigorously implement the legislation providing for the rectification of contracts that do not comply with the requirements on in-house awards by 31 December 2014"*

Simplifying the regulatory environment and address implementation gaps

- Several measures approved in November 2014: i) unified and standardised application forms for citizens and firms (e.g. in the construction sector); ii) speeding up of e-invoicing for commercial transactions between the PA and suppliers; iii) simplification of procedures for oil and gas exploration, the construction sector, etc.;
- Completion of public works is facilitated through: i) refinancing of Fund for Infrastructure by 3,9bn up to 2020; ii) procedural simplification, through the appointment of a Commissioner for railways infrastructure; iii) rationalization of highway concessions; iv) removal to limitations to the use of project bonds (done November 2014);
- Exclusion of 'unfinished works' from the Internal Stability Pact, up to a limit of 250mn;

Removing remaining barriers to competition

- Adoption, within 2014, of the Annual Law on Competition (insurance, professional services, postal service).

Public procurement

- Single public procurement company (CONSIP) and few other purchasing centers responsible for Regions and large cities; public list of reference prices for purchases of goods and services to be updated yearly, in October; national/local public tenders to be published on line (done May 2014);
- Setting standard expenditure needs for local entities in a benchmarking perspective for spending review purposes (done in July 2014)
- Code for public contracts: enabling law on reforming infrastructure and construction tenders under discussion;
- Litigations: heavy sanctions apply to unfounded litigations and hearings, sentences to be held within 30 days (done June 2014);
- Mandatory E-Invoicing by suppliers to Public Administration (to Central Government as of June 2014, to territorial entities as of March 2015).

Local public services

- As of early 2015, the Government will enforce the legislation providing for the rectification of contracts that do not comply with the requirements on in-house awards;

**Network Industries (CSR 8)**

*"Ensure swift and full operationalisation of the* ***Transport Authority*** *by September 2014. Approve the* ***list of strategic infrastructure in the energy sector*** *and enhance* ***port management and connections*** *with the hinterland."*

The Transport Regulation Authority

- The Transport Regulation Authority (ART) is operational as of January 2014. ART is independent from the Government, accountable to the Parliament and subject to judicial control. ART's competences range from regulation of access to infrastructures to tariffs and setting of quality standards. The authority has the power of sanctioning transport operators and to carry out investigations;

Strategic infrastructures

- The Government has identified strategic energy infrastructures (gas pipelines to import gas from abroad; terminals for the regasification of LNG; storage facilities for natural gas). The procedure for identifying the energy infrastructures will be concluded by end 2014;

- The national strategic plan for ports and logistics is in the process of being adopted.