Italy Sets Plan to Cut Public Costs

'If this government lasts until the end of the EU presidency, it will be able to complete all of the reforms it has planned.'

By Deborah Ball
and Giada Zampano

ROME—With Italy pulling out of a two-year recession, the government now seeks to eke out further growth by lightening the tax burden on the country's struggling companies and creating a new body tasked with reducing public-sector waste, the country's economy minister, Fabrizio Saccomanni, said in an interview.

But the minister acknowledged that these efforts could fall prey to a new round of political instability in the fall, with tensions high due to the judicial woes of Silvio Berlusconi, former prime minister and a key partner of the governing coalition.

In the interview, Mr. Saccomanni, a former deputy governor of the Bank of Italy, said that fresh investments by companies, receding euro zone tensions and export demand have helped bolster economic activity this summer. Other factors, such as rising tax revenue, suggest that the economy could begin growing by the last quarter after eight consecutive quarters of decline, but the minister acknowledged growth would be low.

"It isn't a rate of growth that brings us back to precrisis levels," Mr. Saccomanni told The Wall Street Journal. "But there are a number of indications—from tax payments to surveys of business confidence—that are improving."

While a spate of economic data in the euro zone lately has suggested that Europe's protracted decline is coming to an end, concerns have lingered over Italy, the bloc's third-largest economy. On Tuesday, national statistics institute Istat reported that Italy's economy shrank a less-than-expected 0.2% in the second quarter from the previous quarter.

The Italian economy has been one of Europe's worst performers, having shrunk 7% between 2007 and 2012, under pressure of the global economic downturn, the euro-zone crisis and a series of austerity measures aimed at keeping Italy's huge state debt in check.

The government of Prime Minister Enrico Letta, which was cobbled together in April following inconclusive elections two months earlier, has struggled to pass overhauls that Italy badly needs to reignite growth and begin to reduce a government debt load that is about 130% of gross domestic product.

The Letta government has been buffeted by squabbling among his coalition partners, which include his own Democratic Party and the People of Freedom party, which is led by Mr. Berlusconi.

Conflict among the partners has risen in the wake of last week's decision by Italy's Supreme Court to uphold a tax fraud conviction against Mr. Berlusconi.

Some supporters of Mr. Berlusconi, who has long accused magistrates of conducting a political campaign against him, have called for the three-time premier to pull his support of the government in protest. Meanwhile, many members of the Democratic Party are increasingly uncomfortable at governing alongside Mr. Berlusconi due to his judicial woes.

Mr. Berlusconi has so far pledged to continue to support the government, but tensions may rise in the fall, when a parliamentary committee will consider whether to expel him from Italy's Senate, where he now sits. Some fear that the government could fall early next year, leading to new elections.

In the interview, Mr. Saccomanni acknowledged that political tensions could complicate the government's plans to push a new round of reforms in the autumn.

"If we go to early elections without any more progress on these reforms, this will be very damaging," he said.

However, the Italian government takes up the six-month presidency of the European Union next July. Historically, the political parties have been reluctant to bring down the coalition when the international spotlight is on Italy.

That could give Mr. Letta more breathing room. "If this government lasts until the end of the EU presidency, it will be able to complete all of the reforms it has planned," Mr. Saccomanni said.

Meanwhile, the minister said he was working on new initiatives aimed at cutting government waste and expanding efforts to ease the tax burden and create incentives for Italian companies to encourage them to invest more and create new jobs.

The government has already used a state fund to guarantee bank loans to small- and medium-size companies.

Italy's corporate tax rate—among the highest in Europe—is about 31%, although Italy's industrial association Confindustria says the rate can easily exceed 50% when a series of other levies, including local business taxes, are considered.

Over the last two years, governments of Mr. Letta and his predecessor, Mario Monti, have cut fat from the government budget. For instance, Mr. Saccomanni said that annual health expenditures are rising just 1% now, compared with 7% historically, largely due to efforts to cut out waste.

The government will look to cut more waste by naming in the fall a special commissioner and a permanent committee made up of members


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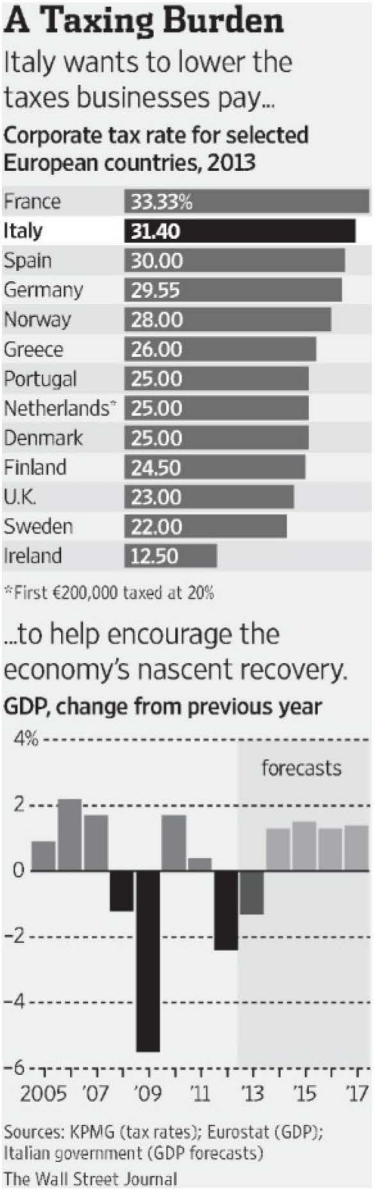
of the Bank of Italy, Istat and other ministries and tasked with finding more cuts from the government's €810 billion ($1.1 billion) budget.

Mr. Saccomanni is also pushing ahead with Italy's fight against tax evasion and expects the state to recover about €12 billion in unpaid taxes this year.

Elsewhere, Mr. Saccomanni was optimistic on the future of European negotiations on banking union—which would put Europe's banks under the overall supervision of the European Central Bank—saying they would likely speed up after September's German elections.

German efforts to strengthen the European Union's crisis-management framework—including the surveillance of large cross-border banks—and to reduce the fragmentation of the region's banking system have stalled somewhat ahead of general election due Sept. 22, as politicians focus on domestic issues.

"I believe that all European countries are now convinced that the banking-union process needs to move forward," he said. "Everybody knows that if it blocks or falls back this is a really bad sign for the credibility of Europe and its banking system."



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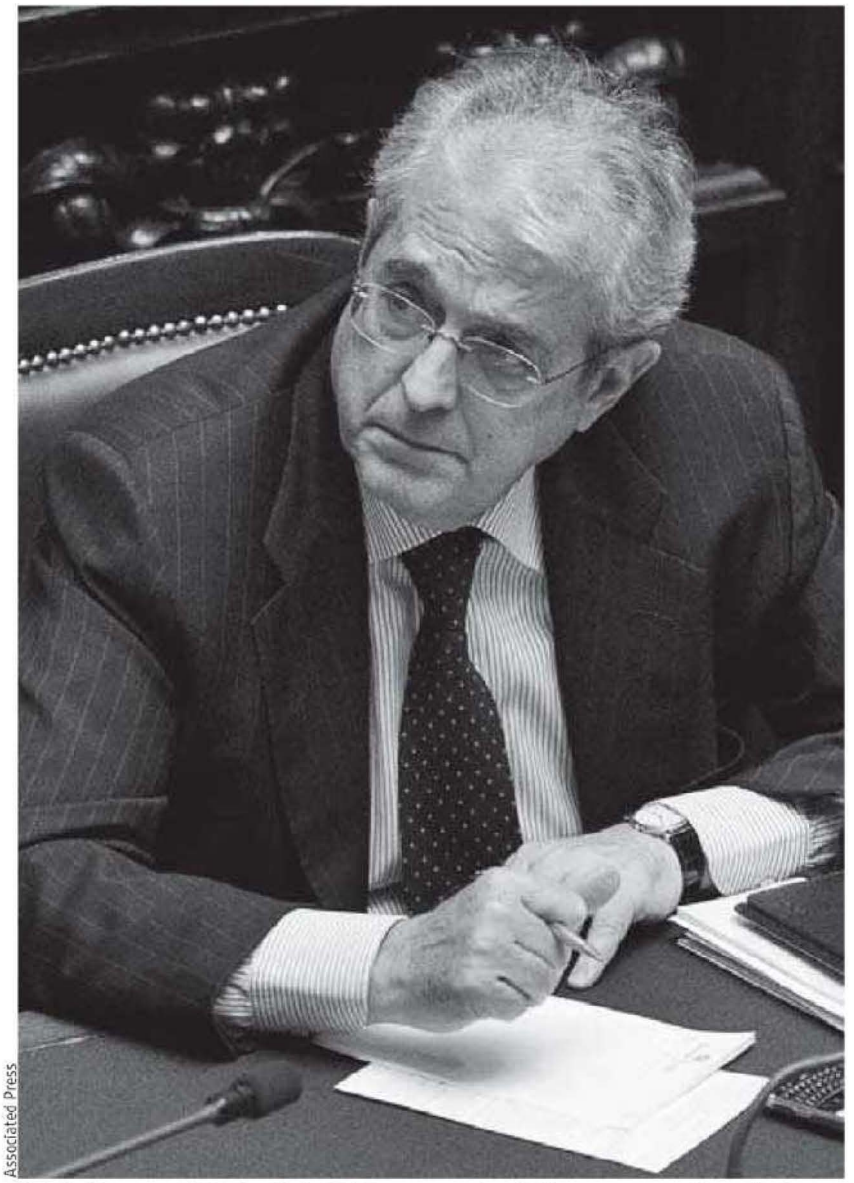

Associated Press

Italy's Economy Minister Fabrizio Saccomanni said the government wants to create a new body that will reduce waste in the public sector.