

Italy

1. Italy's GDP per capita in 2004 was 103% of the EU average. Between 1995 and 2004, Italian GDP grew by 1.6% per year on average, compared to 2% for the euro area. During that period the growth of productivity per person employed was also below the euro area average. In spite of low growth, robust job creation in recent years has contributed to a fall in the unemployment rate to 8% in 2004, below the EU average. At the same time, the employment rate, at 57.6% (2004) remains far below the Lisbon target. Italy has faced a reduction of its international competitiveness and has a very large public debt.

PART I: GENERAL ASSESSMENT

2. Italy's National Reform Programme (NRP) highlights five priorities to boost output growth and employment: extending the area of free choice for citizens and companies (by opening up energy and services markets); granting incentives for scientific research and technological innovation; strengthening education and training; upgrading infrastructure; protecting the environment. A sixth priority, long-term fiscal sustainability, is addressed in a separate document (see paragraphs 5 and 6 below). The Commission shares this analysis but also sees general enhancement of competition in all markets, including through deepening the internal market, as a major challenge for Italy. Furthermore, the Commission believes that the challenge of increasing employment rates and reducing regional employment disparities will indeed benefit from reforms to strengthen education and training, but additional initiatives should be considered as well. These measures were presented to the Commission in a separate document.
3. The Italian programme contains many realistic and valuable measures, most of which are already planned or on-going. However, the main steps for 2005-2008 are not always accompanied by timetables or information on monitoring and evaluation procedures. There is recognition in the NRP of the importance of integration between micro-economic, macro-economic and employment policies. The programme focuses largely on the micro-economic area, while macroeconomic and employment policies are largely covered in the annexes. The estimated total cost of the programme is €46.5 billion, most of which was already included in the 2005 budget. The remaining part (€13 billion) is conditional on expected revenues deriving from sales of public sector real assets in 2006-2008. Seventy per cent of the overall funding is allocated to infrastructure. The Programme is to some extent coordinated with other policies, partly covered by the annexed background material. No targets are set for R&D spending. Cohesion policy, expected to provide a large contribution to achieving the aims of the Programme, is discussed mainly in relation to the current implementing period. General references to the possible use of financial resources from the Structural Funds 2007-2013 are made.
4. Consultation and efforts to develop ownership of the Italian NRP at government, administrative and expert level have been substantial. A new internal governance structure (Comitato Tecnico) was charged of inter-ministerial co-ordination. The results of a survey of 120 economists were taken into account. Regional authorities

and social partners had the opportunity to express their views both formally and informally. The NRP was presented to the parliament after its adoption.

PART II: ASSESSMENT BY POLICY AREA

Macro-economic policies

5. The NRP's five priorities for action relate mainly micro rather than to macro-economic policies. However, the programme states that the consolidation of public finances according to the plans in the economic and financial planning document for the years 2006-2009 (DPEF)¹ is to be considered an integral part of the Programme.
6. Those plans identify long-term sustainability of public finance as a priority, to be achieved based on the recovery of economic growth, the budgetary effects of the 2004 pension reform and medium-term fiscal consolidation. The DPEF aims to reduce the general government deficit to below 3% of GDP by 2007 (from 4.3% in 2005) and to reduce the debt-to-GDP ratio from 108% in 2005 to 101% in 2009. This is primarily thanks to an increase in the primary surplus from 0.6% to 3% of GDP over the same period. However, the Commission's analysis is that long-term fiscal sustainability in Italy would require maintaining a minimum primary surplus of around 4% of GDP, underpinned by reforms to permanently restrain public spending. The Italian NRP does not cover pensions in detail but reforms since the early-1990s have sought to address long-term sustainability by reducing future pension liabilities. In particular, the 2004 reform, to take effect from 2008, raises the retirement age, and foresees the development of the "second pillar" (funded pensions). Full implementation of that reform together with raising employment rates, in particular of women and older workers, will be important for the pensions system to combine social adequacy and financial sustainability in future.
7. In the light of Italy's high public debt, low potential GDP growth rate and the expected increase in ageing-related expenditure, the macro-economic strategy and targets might not prove sufficiently ambitious. In particular, the planning document does not adequately address the continuing increases in health care expenditure. However, the approval of the 2006 "Legge Finanziaria" represents, if fully implemented a further step towards the goals of consolidation of public finances as stated in the DPEF.

Micro-economic policies

8. The Italian NRP highlights four micro-economic priorities: R&D, "free choice for citizens and companies", infrastructure and environment. It includes various initiatives to improve the business environment, including better regulation. However, the programme does not address in full challenges such as strengthening competition and deepening of the internal market.
9. The proposed action to boost R&D includes interesting elements, for example fiscal measures to make undertaking R&D more attractive for companies. The proposed

¹ Documento di Programmazione Economico-Finanziaria per gli anni 2006-2009 submitted by the government to parliament on 15 July 2005. The document is available in Italian at: http://www.tesoro.it/Documentazione/DPEF_2006-2009/DPEF_2006-2009.pdf

reorganisation of the national research system should also over time help to improve R&D performance, despite limited detail in the programme on cooperation between Ministries and the regions and on fostering links between SMEs and between business and the public sector. Research and innovation resources tend to be concentrated on specific sectoral projects rather than on structural measures with a potentially broader economic impact. The programme states that the combination of measures and projects in research and innovation should enable Italy to approach the 3% of GDP goal for R&D spending. A strong commitment to achieving that objective and the 66% target for the private contribution to R&D expenditure will be necessary. The programme tackles the most important issues in ICT but without prioritising fully the measures proposed.

10. Under the theme of “free choice for citizens and companies” the Italian NRP aims to increase competition, especially through more open utilities markets (including energy) and in services, but does not give full details on how these goals will be achieved. The removal of barriers restricting competition in professional services is envisaged, even though specific implementation measures are not mentioned in detail. The programme proposes a series of specific measures to improve the business environment by improving regulation and public sector efficiency, such as simplification of existing legislation, a project on the application of the Standard Cost Model for measuring administrative costs, guidelines for consultation exercises and increasing the use of impact assessments. These initiatives are likely to contribute to reducing the burden on businesses. The newly approved framework law reforming bankruptcy legislation should also encourage entrepreneurs. Provisions for speeding up and improving the implementation of EU legislation should be specified in the NRP.
11. The NRP sets out plans for investment in upgrading road, sea and rail infrastructure by completing major projects. There are also interesting initiatives to introduce or improve IT infrastructure in schools, healthcare, tourism and public administration. The programme would benefit largely from a detailed reference to the regional dimension. The Trans-European Transport Network projects are at the centre of the strategic framework for transport policy. Little reference is however made to the railway network outside TENs, which merits improvements especially in the Southern Italy.
12. The fairly strong emphasis on environmental protection in the NRP is not reflected in the budgetary allocation for 2006-2008. The proposed measures to promote research and innovation in renewable energy would need to be specified.
13. The micro-economic chapter of the Italian NRP contains important elements, notably on boosting research and making the business environment more attractive, which have the potential to contribute effectively to growth and jobs. The infrastructure investment set out in the programme should also help the economy to function better. Overall the aim of the measures proposed constitutes the type of micro-economic reforms which, in synergy with macro-economic stability and labour market reform, could reduce Italy’s dependence on traditional sectors, help SMEs to grow and new businesses to emerge and thus help to tackle the reduction of international competitiveness which Italy is facing. Their effective, full and timely implementation will be crucial to attain such goals.

Employment policies

14. The Italian programme cites strengthening of education and training as its main employment priority. Employment is considered as “endogenous” to all the other priorities in the NRP. Other significant employment-related challenges such as employment rates significantly below the EU averages and the sharpest regional employment disparities in the EU are addressed in the annex.
15. Most of the education and training measures mentioned are already in place. The NRP covers the 2003 education and training reform (operational as from 2007-2008) and university reform. There are useful initiatives to support higher education - particularly in scientific subjects – to ease the school-to-work transition, to reduce early school leaving and to train civil servants. Further substantial information on the evaluation and monitoring of reforms, on quality assurance mechanisms to ensure common standards across regions or on training measures for low-skilled and older workers should be provided. The overall funding included in the NRP for education and training is very limited. The key role in employment policy of regions and social partners could have been better highlighted.
16. Given its approach (with employment as an endogenous element) the Italian NRP does not address directly the issue of attracting and retaining more people in employment. The focus on youth employment, female participation, childcare, active ageing, integration into work of people with disabilities or active labour market policies is addressed in the annex, as are certain specific aspects important for Italy such as flexibility and security, wage developments, geographical productivity differentials, undeclared work and non-wage labour costs.
17. As far as employment policy is concerned, the Italian NRP devotes its attention to education and training. There is cause for optimism over some of the individual measures proposed, such as the reform in the educational system. However, significantly more efforts would be certainly needed to boost educational and training levels up to the EU average, despite some positive trends. As stated, more information on other employment policies is available in other documents but the provision of some details in the NRP itself would have allowed a more coherent analysis of the links and synergies with other policy areas.

PART III: CONCLUSIONS

18. In line with the Integrated Guidelines, the Italian National Reform Programme identifies and responds to many of the main challenges facing Italy, namely extending the area of free choice for citizens and companies (by opening up energy and services markets); granting incentives for scientific research and technological innovation; strengthening education and training; upgrading infrastructure; protecting the environment. A sixth priority, long- term fiscal sustainability, is addressed in a separate document. However, a wider coverage in the NRP of the approach to increasing employment rates and reducing regional employment disparities would have allowed it to present a clearer strategy covering all policy areas and the links between them. Competition and regional issues are major challenges for Italy but are addressed only in a limited way in the NRP.

19. Targets, timetables and details on monitoring and evaluation procedures are often not provided in the NRP. The distribution of implementing responsibilities between different Ministries and between central government and regional and local authorities is not always clear.
20. The programme's strengths include:
- measures to improve the regulatory environment for business, notably reducing administrative costs and reform of bankruptcy legislation;
 - certain measures aimed at improving educational performance, in particular in higher education.
21. Among the points requiring further attention are:
- further efforts to achieve fiscal sustainability;
 - stronger and more specific measures to boost competition, particularly in network industries and services;
 - increasing labour supply and raising employment rates, including tackling regional disparities.
22. Taking due account of the above, Italy is invited to implement its NRP with vigour. The 2006 progress report on the implementation of the NRP should cover in particular the way Italy has dealt with the issues mentioned in paragraph 21. In this context, the Commission looks forward to discussions with the Italian authorities as part of the new partnership for growth

PART IV : STATISTICAL GRAPHS AND DATA

ITALY

	IT							EU-25						
	1999	2000	2001	2002	2003	2004	2010 National target	1999	2000	2001	2002	2003	2004	2010 EU target
GDP per capita in PPS	111.0	110.0	109.7e	107.6e	105.5f	103.4f		100.0	100.0	100.0	100.0	100.0	100.0	
Labour productivity per person employed	119.8	118.4	115.5	111.7	108.9	107.0		100.0	100.0	100.0	100.0	100.0	100.0	
Employment rate	52.7	53.7	54.8	55.5	56.1	57.6b	:	61.9	62.4	62.8	62.8	62.9	63.3	70.0
Employment rate of older workers	27.6	27.7	28.0	28.9	30.3	30.5b		36.2	36.6	37.5	38.7	40.2	41.0	
Gross domestic expenditure on R&D	1.04	1.07	1.11	1.16	1.14	:	:	1.87e	1.89e	1.93e	1.93e	1.92e	1.90pe	3.0
Youth education attainment level	66.3	68.8	67.0	69.1	69.9	72.9		74.8	76.3	76.1	76.5	76.5	76.6	
Comparative price levels	94.6	94.0	95.5	97.9	102.3	102.7p		100.0	100.0	100.0	100.0	100.0	100.0p	
Business investment	16.6	17.4	17.3	17.9	16.6	16.9		17.9	18.3	17.7	17.1	16.7	16.9	
At-risk-of-poverty rate after social transfers	18.0	18.0	19.0	:	:	19.0b		:	16.0	15.0	15.0	15.0	16.0	
Dispersion of regional employment rates	17.4	17.5	17.1	16.7	17.0	15.6		13.3	13.4	13.5	13.3	12.9	12.2	
Long-term unemployment rate	6.7	6.3	5.7	5.1	4.9	4.0		4.1	3.9	3.8	3.9	4.0	4.1	
Total greenhouse gas emissions	106.5	108.0	109.0	108.7	111.6	:		90.6	90.5	91.4	90.7	92.0	:	
Energy intensity of the economy	190.9	186.9	184.0	184.1	192.6	:		214.9	208.8	209.7	206.5	209.5	:	
Volume of freight transport relative to GDP	100.9	102.1	100.9e	102.6e	93.4e	104.4be		100.7e	100.4e	99.4e	100.3e	99.7e	104.7e	

