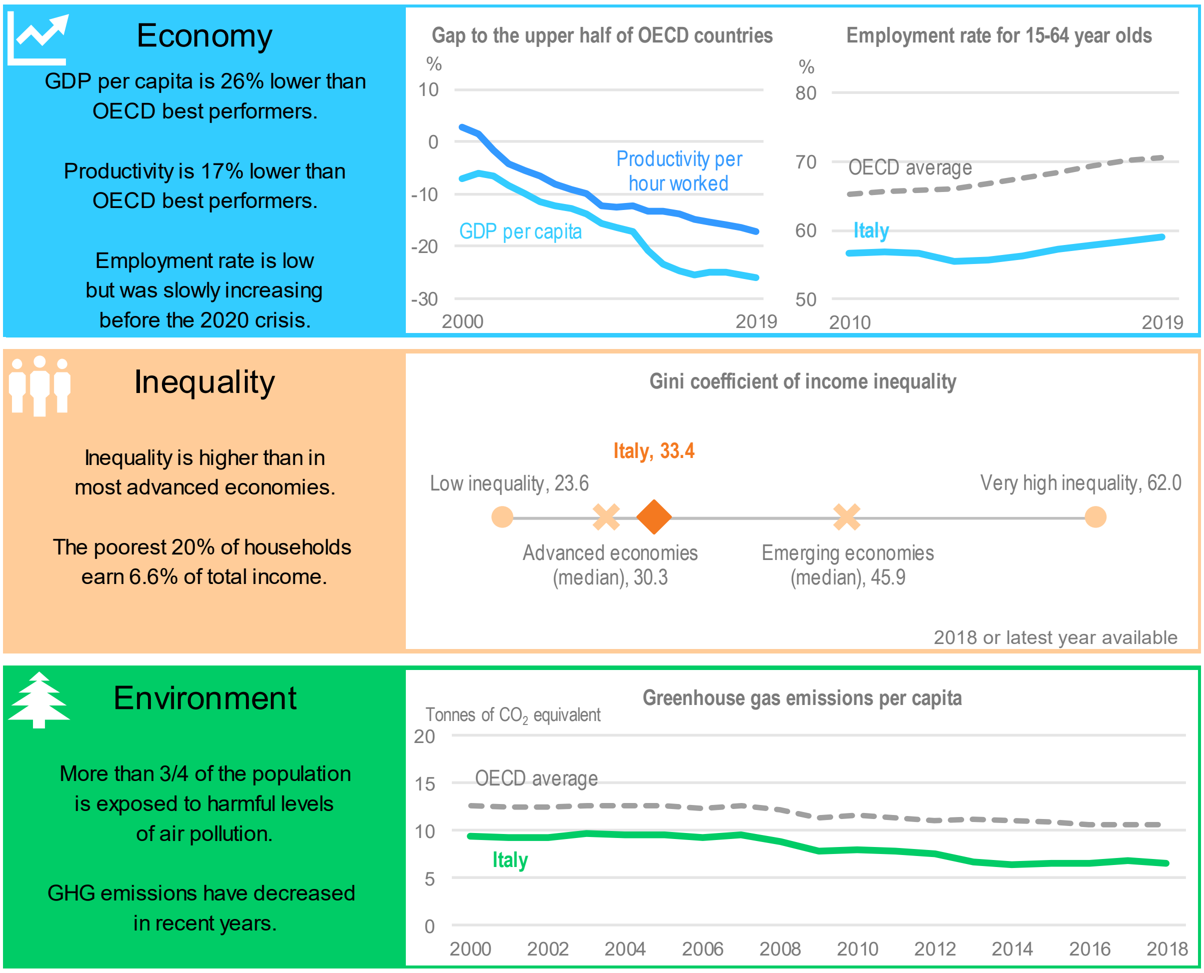
Italy

Many of Italy's structural challenges - the significant divides across regions, age, gender and productivity, as well as high levels of public debt - have been compounded by the COVID-19 crisis. The key priority for the recovery is to enhance the public administration's effectiveness. This should include, in particular, public investment governance and improved co-ordination and implementation across different levels of government. This will be essential to effective utilisation of the funds available from the European Recovery and Resilience Facility (RRF) and realising the benefits of structural reforms.

Performance prior to the COVID-19 crisis



Economy: Percentage gap with respect to the population-weighted average of the highest 18 OECD countries in terms of GDP per capita (in constant 2015 PPPs).
Inequality: The Gini coefficient for disposable income measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality. The latest available data for Italy is 2017.
Environment: Greenhouse gas (GHG) emissions include emissions or removals from land-use, land-use change and forestry (LULUCF). A high exposure to air pollution refers to above 10 µg/m3 of PM2.5.
Source: Economy: OECD, National Accounts, Productivity and Labour Force Statistics Databases; Inequality: OECD, Income Distribution Database and World Bank, World Development Indicators Database; Environment: OECD, Environment Database and United Nations Framework Convention on Climate Change (UNFCCC) Database.

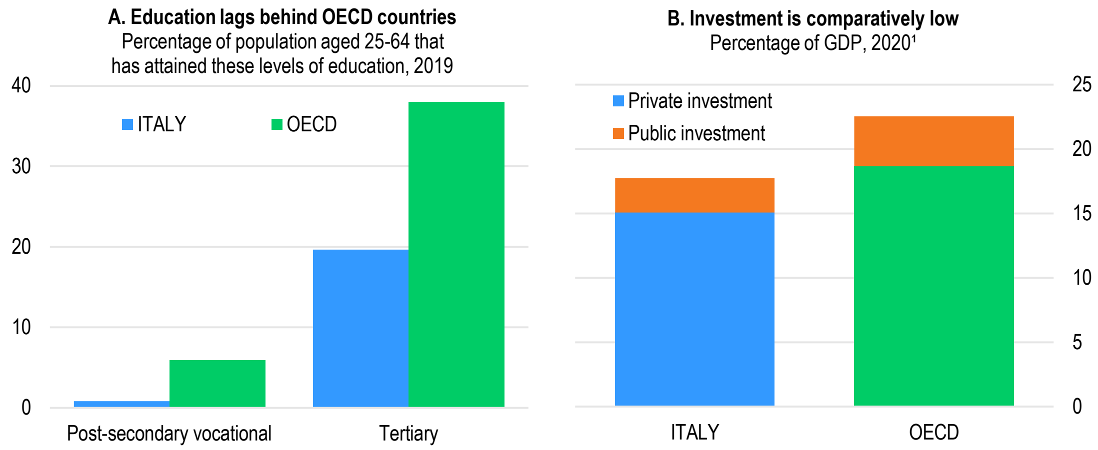
StatLink https://stat.link/n9vtap

An efficient public administration key for policy implementation

A central pillar of the recovery strategy is how to maximise the effect of the Next Generation EU Funds, especially for investment, which have the potential to boost long-term growth and employment. Success will depend on the ability to **improve the implementation, management and prioritisation of quality public investment**. An institutionalised framework for managing infrastructure spending – including maintenance budgets and project management – will enhance fiscal sustainability and planning and sustain public investment. Variations in regional implementation and the disincentives for coordination across levels of government must be overcome. Clarity on long-term core infrastructure priorities, based on their ability to raise growth and lower the cost of living and doing business, evaluated using cost-benefit analysis, could help crowd-in private investment (Panel A).

Improving the efficiency of the public administration would strengthen the impact of such reforms, and amplify the response from the private sector to recovery measures. Judicial reforms to improve administrative processes and greater use of alternative dispute resolution mechanisms would lead to a fairer application of the law. Increased digitalisation can reduce informality, broaden the tax base and improve targeting of social benefits. Efforts to introduce user-friendly digital interfaces should be combined with a commitment to simplify administrative procedures across all levels of government. A clear timetable to streamline regulatory processes, prioritised based on their cost to businesses, and a clear delineation of responsibilities would facilitate implementation, lower uncertainty and costs. More uniform regulations across regions would reduce the costs to investing for local and foreign firms.

Vulnerabilities and areas for reform



1. 2020 or latest year available.
Source: Panel A: OECD, Education at a Glance Database. Panel B: OECD, Economic Outlook Database.

StatLink https://stat.link/edhwcx

The crisis risks compounding already low employment rates and further increasing inequality, particularly in the context of low skills and lifelong learning levels. Effective provision of **education, public employment and labour market activation services** can help mitigate skills and job-search mismatches, especially for youth and other vulnerable workers (Panel B). This requires overcoming obstacles to coordination across various levels and agencies of government, and consideration of funding priorities. At the same time, reducing the complexity of the tax system, broadening its base and continuing efforts to enhance tax administration would **improve the efficiency and equity of the tax structure** to better support employment and growth.

Small and medium-sized firms need to raise productivity and innovation to emulate top-performers. In 2020, a new package of generous incentives to support investment in digital technologies and R&D extended past measures of support. Nevertheless, a National Productivity Board could prioritise and drive policy action and accountability, strengthening the impact of innovation incentives and reduction of red tape.

Italy: Summary of *Going for Growth* priorities and recommendations

2019-2020 Reforms	Recommendations
Infrastructure: Improve implementation, management and prioritisation of quality public investment	
☑ Public investment increased in 2019 and 2020. ☑ So-called simplification decree introduced interventions and simplified processes for certain types of investment in 2020. ☑ The simplification decree eased public procurement procedures, including raising thresholds for competitive bids.	☐ Strengthen budgeting framework for public investment – including effective prioritisation of infrastructure projects, using cost-benefit analyses of individual projects and their additivity to existing infrastructure plans. ☐ Incorporate maintenance budgets and improved monitoring into the budgeting framework for public investment. ☐ Monitor impact of procurement reforms to support investment and make additional changes as necessary. ☐ Institutionalise improvements in utilities performance, including continuing the rationalisation of local utilities and opening up local public services to competition as planned.
Governance and rule of law: Improve the efficiency and effectiveness of the public administration	
☑ The simplification decree requires public services to be available on smart phones by 28 February 2021. The system, based on a unique digital identity for citizens, allows self-certifications, applications and payments, as well as digital notifications from multiple state agencies. ☑ The simplification decree reformed the penalties for abuse of office to ensure fear of prosecution even without wrongdoing does not hamper decision making. ☑ Law no. 3 of 2019 introduced additional measures to strengthen the fight against corruption.	☐ Improve administrative processes in the judicial system, including specialised courts to consider capital markets issues, and promote alternative dispute resolution mechanisms. ☐ Accelerate use of digital tools and services for firms and citizens, and use the opportunity to streamline administrative processes according to a clear schedule. ☐ Better align incentives of civil servants with improved outcomes, in line with legislated changes. ☐ Reduce regulatory complexity, procedures and time to undertake private investment, with announced strategy, responsibilities and timelines.
Labour market: Ready the workforce with improved education, public employment and labour market activation services	
☑ Tax incentives introduced in 2019 to encourage new hiring of youth and women, were bolstered with additional measures in the 2021 Budget law. ☑ The 2019 Citizen's income has legislated a link to the outcomes of job search functionality. ☑ The post-secondary vocational education and training system (ITS) was expanded in 2019.	☐ Improve design and take-up of lifelong learning courses. ☐ Increase the relevance of vocational and other training to businesses, including in STEM and digital training, and set and enforce quality standards. ☐ Enhance job-search and training programmes and enforce minimum levels of services in the whole country, driven by ANPAL, through increasing staff to jobseeker ratio and specialisation of counsellors. ☐ Support increased access to early childhood development and child care for 0-3 year olds. ☐ Ensure social protection supports beneficiaries' entry into the labour market and access to employment income.

2019-2020 Reforms	Recommendations
Tax system: Improve the efficiency and equity of the tax structure	
☑ Compulsory digital invoicing extended and advanced taxpayer profiling to raise compliance introduced in 2019 ☑ A tax rebate lowering labour tax wedge raised from 80 to EUR 100 in 2020. ☑ Re-introduction of allowance for corporate equity in 2020 Budget, to improve fairness in corporate structures proposed in adjusted budget. ☑ Introduction of more generous child allowance from 2022 to replace tax deductions, to improve fairness. ☑ Pre-filled tax returns and early communications are being expanded to raise compliance. ☑ Introduction of the Cashless Plan in late 2020 to incentivise move away from cash to digital payments.	☐ Reduce exemptions and complexity of tax system - rationalise tax expenditures based on effectiveness; simplify VAT bands. ☐ Expedite an update of land-registry values and re-establish taxation on primary residence with exemptions for low-income households. ☐ Improve coordination across tax agencies and other regulatory agencies, to facilitate a holistic risk-based approach to investigations. ☐ Consolidate all hiring incentives into a permanent cut in social security contributions for the first 3 years to all new permanent contracts.
Competition and regulation: Raise productivity and innovation	
*New priority *	☐ Remove obstacles to allow more rapid telecommunications infrastructure rollout. ☐ Remove legal obstacles to teleworking. ☐ Raise awareness and skills of managers to support technological diffusion, innovation and best use of workforce. ☐ Complete cooperative and mutual banking reforms. ☐ Complete insolvency regime reforms, including implementation of postponed new insolvency codes.

Recent progress on structural reforms

The social safety net has been radically improved with the citizen's income scheme, which introduces higher benefits for households alongside stricter conditionality. The government enacted important reforms to improve tax compliance and in 2020 reduced the labour tax wedge. Support to R&D and digital investment was also extended. Past banking sector reforms and efforts to develop the secondary market for non-performing loans improved the state of the banking sector that is now better prepared to extend liquidity than during the Global Financial Crisis. Administrative and legislative reforms to the judicial process have been passed to reduce inefficiencies and improve the system's resilience to an increase in bankruptcies.