COUNCIL OF THE EUROPEAN UNION

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from:	Permanent Representatives Committee
to:	Council
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Subject:	Recommendation for a COUNCIL RECOMMENDATION on Italy's 2013 national reform programme and delivering a Council opinion on Italy's stability programme for 2012-2017

Delegations will find attached the above mentioned draft Council Recommendation, as revised and agreed by various Council committees, based on the Commission proposal COM(2013) 362 final.

ANNEX

Recommendation for a

COUNCIL RECOMMENDATION

on Italy 2013 national reform programme

and delivering a Council opinion on Italy's 2013 stability programme for 2012-2017

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1], and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2] and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission[3],

Having regard to the resolutions of the European Parliament[4],

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

After consulting the Economic Policy Committee,

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1 OJ L 209, 2.8.1997, p. 1.

2 OJ L 306, 23.11.2011, p. 25.

3 COM(2013) 362 final.

4 P7_TA(2013)0052 and P7_TA(2013)0053.

Whereas:

(1) On 26 March 2010, the European Council agreed to the Commission's proposal to launch a new strategy for growth and jobs, Europe 2020, based on enhanced coordination of economic policies, which will focus on the key areas where action is needed to boost Europe's potential for sustainable growth and competitiveness.

(2) On 13 July 2010, on the basis of the Commission's proposals, the Council adopted a recommendation on the broad guidelines for the economic policies of the Member States and the Union (2010 to 2014) and, on 21 October 2010, adopted a decision on guidelines for the employment policies of the Member States[5], which together form the 'integrated guidelines'. Member States were invited to take the integrated guidelines into account in their national economic and employment policies.

(3) On 29 June 2012, the Heads of State or Government decided on a Compact for Growth and Jobs, providing a coherent framework for action at national, EU and euro area levels using all possible levers, instruments and policies. They decided on action to be taken at the level of the Member States, in particular expressing full commitment to achieving the objectives of the Europe 2020 Strategy and to implementing the country-specific recommendations.

(4) On 10 July 2012, the Council adopted a recommendation on Italy's national reform programme for 2012 and delivered its opinion on Italy's updated stability programme for 2011-2015.

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[5] Council Decision2013/208/EU of 22 April 2013.

(5) On 28 November 2012, the Commission adopted the Annual Growth Survey[6], marking the start of the 2013 European Semester of economic policy coordination. Also on 28 November 2012, the Commission, on the basis of Regulation (EU) No 1176/2011, adopted the Alert Mechanism Report[7], in which it identified Italy as one of the Member States for which an in-depth review would be carried out.

(6) On 14 March 2013, the European Council endorsed the priorities for ensuring financial stability, fiscal consolidation and action to foster growth. It underscored the need to pursue differentiated, growth-friendly fiscal consolidation, to restore normal lending conditions to the economy, to promote growth and competitiveness, to tackle unemployment and the social consequences of the crisis, and to modernise public administration.

(7) On 10 April 2013, the Commission published the results of its in-depth review[8] for Italy, under Article 5 of Regulation (EU) No 1176/2011. The Commission's analysis leads it to conclude that Italy is experiencing macroeconomic imbalances, which require determined policy action. In particular, the loss of external competitiveness as well as high public indebtedness in an environment of protracted subdued growth continue to be identified as Italy's main macroeconomic imbalances.

(8) On 11 April 2013, Italy submitted its 2013 stability programme covering the period 2012-2017 and its 2013 national reform programme. Following this submission, the new government appointed on 28 April indicated the intention to strengthen the structural reform agenda, while confirming the budgetary targets put forward in the stability programme. On 17 May, a decree law was adopted, containing new provisions on real estate taxation and the extension of the wage supplementation scheme for under-employed workers. In order to take account of their inter-linkages, the two programmes and the new measures taken by the government have been assessed at the same time.

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6 COM(2012) 750 final.
7 COM(2012) 751 final.
8 SWD(2013) 118 final.

(9) Based on the assessment of the 2013 stability programme 2012-2017 pursuant to Council Regulation (EC) No 1466/97, the Council is of the opinion that the macroeconomic scenario underpinning the budgetary projections in the programme is optimistic for 2014, when compared with the Commission 2013 spring forecast. It is plausible as from 2015, but this is under the assumption of the full implementation of the adopted structural reforms, which remains challenging. The budgetary strategy outlined in the programme was confirmed by the new government and endorsed by Parliament. It aims to maintain the deficit below 3% of GDP throughout the programme period, reach the medium-term objective (MTO) in 2013 and put the debt to GDP ratio on a declining path as from 2014. The programme confirms the MTO of a balanced budgetary position in structural terms, which is in line with the Stability and Growth Pact. The deficit was brought to 3% of GDP in 2012 and, according to the Commission 2013 spring forecast released on 3 May, is expected to remain below the reference value in 2013-14. The provisions adopted by the Italian government on 17 May are assessed to have no significant impact on the deficit, if consistently implemented. As described in the decision abrogating the excessive deficit procedure adopted by the Council on 21 June 2013, two safeguard clauses have been enacted in legislation to ensure the achievement of the budgetary targets. After improving by 2.7 percentage points of GDP in cumulative terms between 2009 and 2012, and assuming no further policy changes, the structural balance as a share of GDP is forecast to improve by a further percentage point in 2013, to -0.5%, and then deteriorate marginally in 2014. The structural primary balance would reach nearly 5% of GDP in 2014. The forecast structural adjustment for 2013 is appropriate, also based on an analysis of expenditure net of discretionary revenue measures, while, on the basis of the Commission 2013 spring forecast, for 2014 it shows a deviation from the adjustment path towards the MTO. The programme projects the government debt ratio to peak in 2013 and to start declining thereafter, also thanks to foreseen privatisation proceeds amounting to 1 percentage point of GDP per year. In the forecast however, the debt to GDP ratio continues increasing to 132.2% of GDP by 2014 on a no-policy change assumption, also due to the settlement of commercial debt, which adds around 2.5 percentage points over 2013-14, while no privatisation proceeds are included as the details have not yet been specified.

As from 2013, Italy is in a three-year transition period regarding compliance with the debt criterion and the debt trajectory in the stability programme ensures sufficient progress towards compliance with it. However, the deficit and debt projections in the programme are predicated upon full implementation of the budgetary measures and structural reforms adopted, which are essential to anchor market confidence and boost growth and jobs.

(10) While important reforms have been adopted to foster fiscal sustainability and to spur growth, their full implementation remains a challenge and there is scope for further action. A number of key measures proposed have not yet been approved or still require enacting legislation and there are risks that their concrete application is not consistently followed up through all levels of government. Despite the action undertaken, public-administration efficiency in terms of the regulatory and procedural framework, quality of governance and administrative capacity continue to suffer from weaknesses that affect implementation of reforms and the business environment.

(11) Completing the civil-justice reform by swiftly implementing the revision of courts' organisation and reducing the excessive duration of case-handling, court backlogs and high level of litigation is necessary to improve the business environment. Following the Constitutional court ruling in October 2012 on mediation, action is needed to promote the use of out-of-court dispute-settlement mechanisms. Corruption represents a serious concern implying costs estimated at 4 % of GDP, which severely hinders the potential for economic recovery. The Anti-Corruption Law of November 2012 requires follow-up action and the effectiveness of the repression of corruption could be further improved, in particular with regard to the statute of limitations currently characterised by short prescription terms.

(12) The ambitious fiscal consolidation strategy enacted so far has been accompanied by the introduction of a balanced budget rule in the Constitution in April 2012 and action to improve the efficiency and quality of public expenditure. However, gaps in implementation have hampered the full effectiveness of the action taken. Political stalemate has blocked the necessary reduction of the number of provinces. The Cohesion action plan made it possible to speed up the absorption of structural funds accounting for about EUR 11.9 billion in three consecutive phases. Nevertheless, the improvement of the overall management of funds continues to lack ambition especially in the South of Italy raising serious concerns in view of the 2014-2020 programming period. This leaves ample scope for enhancing the efficiency of public expenditure.

(13) Banks traditionally play a decisive role in supporting Italian economic activity, notably through lending to small firms, but their ability to take on this role has been weakened due to the prolonged economic recession. Increased credit risk, with a large and rising stock of non-performing loans, has contributed to a contraction in lending and exacerbates banks' low profitability. In response, the Bank of Italy is assessing the adequacy of provisioning for impaired loans with on-site inspections. Specific corporate governance features of some Italian banks may limit the effectiveness of their financial intermediation. Measures were adopted to encourage the use of non-bank financing channels, in particular equity financing and corporate bond financing and foster innovation capacity, but their scope remains limited. The transposition of the EU directive on late payments in commercial transactions and the planned settlement of the accumulated stock of commercial debt will contribute to improving the liquidity of firms.

(14) A wide-ranging labour-market reform was adopted in June 2012 addressing the rigidities and segmentation of the labour market. The reform needs to be completed by adopting pending implementing legislation and its concrete operationalisation on the ground carefully monitored. Moreover, the public employment services have yet to be integrated with the unemployment-benefit administration to support the implementation of efficient activation strategies. A new wage-setting framework was defined by social partners in successive agreements over 2011-2013. It is supported by tax incentives to foster better alignment of wages with productivity and with local labour-market conditions. This framework should be effectively implemented and progressively adjusted on the basis of the monitoring of results.

(15) Youth unemployment and the proportion of young people not in employment, education or training continued to increase, reaching 37% and 21.1% respectively by the end of 2012. Both the tertiary education attainment and the employment rate for young tertiary graduates are the lowest in the EU, which shows that the skills of young graduates are not properly aligned to job market requirements. Although moderately declining, early school leaving remains high. This raises concerns as regards the performance of the education system. One of the key elements is the teaching profession, which is currently characterised by a single career pathway and offers limited prospects in terms of professional development. The participation of women in the labour market remains weak and the employment gender gap is one of the highest in the EU. The risk of poverty and social exclusion, and notably severe material deprivation, are markedly on the rise, while the social protection system has increasing difficulties to cope with social needs since it is dominated by pension expenditure

(16) The structure of the tax system remains complex and weighs heavily on labour and capital. After the effort undertaken in 2010-2011, additional measures adopted to shift the tax burden from the productive factors onto consumption, property and the environment have been more limited. Action is still needed to simplify the tax system, streamline tax expenditures, align the property tax base with market values, enhance compliance and dissuade evasion. Pending a revision of cadastral values, the envisaged reform of real estate taxation will aim at improving its fairness, within the constraints of the budgetary strategy laid out in the stability programme. Reducing the shadow economy and undeclared work can benefit public finances and have positive implications for equity. The review of VAT exemptions or reduced rates and of direct tax expenditures may require some adjustment in social transfers to minimise its distributional impact.

(17) Notable efforts have been made towards liberalisation in the services sector. However, the reform of regulated professions should be taken further to address remaining restrictions and its key principles should be safeguarded against possible setbacks, particularly stemming from the reform of the legal profession. Following the ruling of the Constitutional Court in July 2012, action to open local public services to competition is also important. Following up on proposals from the Italian Competition Authority as foreseen by the Italian legislation will help address these issues.

(18) The reform of the network industries is on-going in terms of opening market access and improving infrastructure capacity but important challenges remain. The unbundling in the gas sector is nearly completed and the March 2013 national strategy for energy needs to be further pursued. Opening telecommunications to competition is a further potential field of action. The new transport authority responsible for highways, airports, ports and railways has not yet been set up. It should be independent, supplied with the resources it needs to function and have powers to sanction. There is also a serious problem of internal and cross-border infrastructure shortcomings, with North-South disparities, contributing to high energy prices, low broadband penetration and transport bottlenecks.

(19) In the context of the European Semester, the Commission has carried out a comprehensive analysis of Italy's economic policy. It has assessed the stability programme and national reform programme and presented an in-depth review. It has taken into account not only their relevance for sustainable fiscal and socio-economic policy in Italy but also their compliance with EU rules and guidance, given the need to reinforce the overall economic governance of the European Union by providing EU-level input into future national decisions. Its recommendations under the European Semester are reflected in recommendations (1) to (6) below.

(20) In the light of this assessment, the Council has examined Italy's stability programme, and its opinion[9] is reflected in particular in recommendation (1) below.

(21) In the light of the Commission's in-depth review and this assessment, the Council has examined the national reform programme and the stability programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 on the prevention and correction of macroeconomic imbalances are reflected in recommendations (1) to (6) below.

(22) In the context of the European Semester the Commission has also carried out an analysis of the economic policy of the euro area as a whole. On this basis the Council has issued specific recommendations addressed to the Member States whose currency is the euro. Italy also should ensure the full and timely implementation of these recommendations.

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9 Under Article 5(2) of Council Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Italy should take action within the period 2013-2014 to:

1. Ensure that the deficit remains below 3% of GDP in 2013, by fully implementing the adopted measures. Pursue the structural adjustment at an appropriate pace and through growth-friendly fiscal consolidation so as to achieve and maintain the MTO as from 2014. Achieve the planned structural primary surpluses in order to put the very high debt-to-GDP ratio on a steadily declining path. Continue pursuing a durable improvement of the efficiency and quality of public expenditure by fully implementing the measures adopted in 2012 and taking the effort forward through regular in depth spending reviews at all levels of government.

2. Ensure timely implementation of on-going reforms by swiftly adopting the necessary enacting legislation, following it up with concrete delivery at all levels of government and with all relevant stakeholders, and monitoring impact. Reinforce the efficiency of public administration and improve coordination between layers of government. Simplify the administrative and regulatory framework for citizens and business and reduce the duration of case-handling and the high levels of litigation in civil justice, including by fostering out-of-court settlement procedures. Strengthen the legal framework for the repression of corruption, including by revising the rules governing limitation periods. Adopt structural measures to improve the management of EU funds in the southern regions with regard to the 2014-2020 programming period.

3. Extend good corporate governance practices to the whole banking sector conducive to higher efficiency and profitability to support the flow of credit to productive activities. Take forward the on-going work as regards asset-quality screening across the banking sector and facilitate the resolution of non-performing loans on banks' balance sheets. Promote further the development of capital markets to diversify and enhance firms' access to finance, especially into equity, and in turn foster their innovation capacity and growth.

4. Ensure the effective implementation of the labour market and wage setting reforms to allow better alignment of wages to productivity. Take further action to foster labour market participation, especially of women and young people, for example through a Youth Guarantee. Strengthen vocational education and training, ensure more efficient public employment services and improve career and counselling services for tertiary students. Reduce financial disincentives for second earners to work and improve the provision of care, especially child- and long-term care, and out-of-school services. Step up efforts to prevent early school leaving. Improve school quality and outcomes, also by enhancing teachers' professional development and diversifying career development. Ensure effectiveness of social transfers, notably through better targeting of benefits, especially for low-income households with children.

5. Shift the tax burden from labour and capital to consumption, property and the environment in a budgetary neutral manner. To this purpose, review the scope of VAT exemptions and reduced rates and of direct tax expenditures, and reform the cadastral system to align the tax base of recurrent immovable property to market values. Pursue the fight against tax evasion, improve tax compliance and take decisive steps against the shadow economy and undeclared work.

6. Ensure the proper implementation of the measures aiming at market opening in the services sector. Remove remaining restrictions in professional services and foster market access for instance in the provision of local public services where the use of public procurement should be advanced (instead of direct concessions). Pursue deployment of the measures taken to improve market access conditions in network industries, in particular by setting- up the Transport Authority as a priority. Upgrade infrastructure capacity with focus on energy interconnections, intermodal transport and high-speed broadband in telecommunications, also with a view to tackling the North-South disparities.

Done at Brussels,

For the Council
The President