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**OVERVIEW**



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This Survey is published on the responsibility of the Economic and Development Review Committee of the OECD, which is charged with the examination of the economic situation of member countries. The economic situation and policies of Italy were reviewed by the Committee on 6 July 2021. The draft report was then revised in the light of the discussions and given final approval as the agreed report of the whole Committee on 22 July 2021. The Secretariat's draft report was prepared for the Committee by Catherine Macleod (Senior Economist) and Tim Bulman (Economist), under the supervision of Isabelle Joumard (Head of Division). Statistical research assistance was provided by Béatrice Guérard and editorial assistance by Heloise Wickramanayake and Gemma Martinez. The previous Survey of Italy was issued in April 2019. Information about the latest as well as previous Surveys and more information about how Surveys are prepared is available at [www.oecd.org/eco/surveys](http://www.oecd.org/eco/surveys)

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**BASIC STATISTICS OF ITALY, 2019<sup>1</sup>**  
(Numbers in parentheses refer to the OECD average)<sup>2</sup>

<b>LAND, PEOPLE AND ELECTORAL CYCLE</b>					
Population (million)	60.3		Population density per km <sup>2</sup> (2018)	202.9	(38.1)
Under 15 (%)	13.2	(17.9)	Life expectancy at birth (years, 2018)	83.3	(80.1)
Over 65 (%)	23.0	(17.1)	Men (2018)	81.2	(77.5)
International migrant stock (% of population)	10.4	(13.2)	Women (2018)	85.6	(82.8)
Latest 5-year average growth (%)	-0.2	(0.6)	Latest general election	March-2018	
<b>ECONOMY</b>					
Gross domestic product (GDP)			Value added shares (%)		
In current prices (billion USD)	2 004.7		Agriculture, forestry and fishing	2.1	(2.7)
In current prices (billion EUR)	1 790.7		Industry including construction	23.9	(26.6)
Latest 5-year average real growth (%)	1.0	(2.2)	Services	74.0	(70.8)
Per capita (000 USD PPP)	44.4	(47.6)			
<b>GENERAL GOVERNMENT</b>					
Per cent of GDP					
Expenditure	48.6	(40.6)	Gross financial debt (OECD: 2018)	156.1	(107.6)
Revenue	47.1	(37.5)	Net financial debt (OECD: 2018)	126.7	(67.9)
<b>EXTERNAL ACCOUNTS</b>					
Exchange rate (EUR per USD)	0.89		Main exports (% of total merchandise exports)		
PPP exchange rate (USA = 1)	0.67		Machinery and transport equipment	33.4	
In per cent of GDP			Miscellaneous manufactured articles	19.1	
Exports of goods and services	31.8	(53.6)	Manufactured goods	16.8	
Imports of goods and services	28.4	(50.1)	Main imports (% of total merchandise imports)		
Current account balance	3.3	(0.3)	Machinery and transport equipment	28.1	
Net international investment position	-1.7		Chemicals and related products, n.e.s.	16.5	
			Manufactured goods	14.9	
<b>LABOUR MARKET, SKILLS AND INNOVATION</b>					
Employment rate (aged 15 and over, %)	44.9	(57.5)	Unemployment rate, Labour Force Survey (aged 15 and over, %)	10.0	(5.4)
Men	53.8	(65.6)	Youth (aged 15-24, %)	29.2	(11.8)
Women	36.7	(49.9)	Long-term unemployed (1 year and over, %)	5.6	(1.4)
Participation rate (aged 15 and over, %)	49.9	(61.1)	Tertiary educational attainment (aged 25-64, %)	19.6	(38.0)
Average hours worked per year	1,718	(1,726)	Gross domestic expenditure on R&D (% of GDP, 2018)	1.4	(2.6)
<b>ENVIRONMENT</b>					
Total primary energy supply per capita (toe)	2.4	(3.9)	CO <sub>2</sub> emissions from fuel combustion per capita (tonnes)	5.0	(8.3)
Renewables (%)	18.2	(10.8)	Water abstractions per capita (1 000 m <sup>3</sup> , 1998)	0.7	
Exposure to air pollution (more than 10 µg/m <sup>3</sup> of PM 2.5, % of population)	91.4	(61.7)	Municipal waste per capita (tonnes)	0.5	(0.5)
<b>SOCIETY</b>					
Income inequality (Gini coefficient, 2017, OECD: 2016)	0.334	(0.315)	Education outcomes (PISA score, 2018)		
Relative poverty rate (% , 2017, OECD: 2016)	13.9	(11.7)	Reading	476	(487)
Median disposable household income (000 USD PPP, 2017, OECD: 2016)	24.2	(22.8)	Mathematics	487	(489)
Public and private spending (% of GDP)			Science	468	(489)
Health care	8.7	(8.8)	Share of women in parliament (%)	35.7	(30.7)
Pensions (2017)	16.4	(8.6)	Net official development assistance (% of GNI, 2017)	0.3	(0.4)
Education (% of GNI, 2018)	3.7	(4.5)			

1. The year is indicated in parenthesis if it deviates from the year in the main title of this table.

2. Where the OECD aggregate is not provided in the source database, a simple OECD average of latest available data is calculated where data exist for at least 80% of member countries.  
Source: Calculations based on data extracted from databases of the following organisations: OECD, International Energy Agency, International Labour Organisation, International Monetary Fund, United Nations, World Bank.

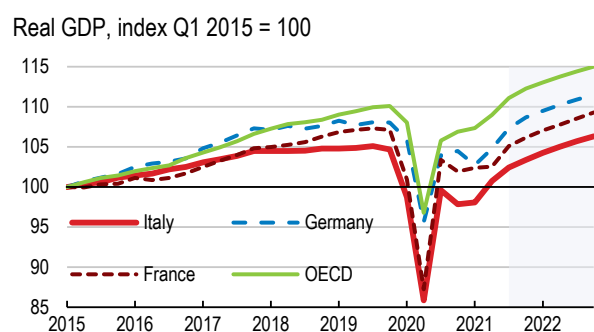
# Executive summary



## The economy is emerging from the COVID-19 pandemic

The pandemic's early onset and high fatality rates necessitated intensive lockdowns, resulting in a severe contraction in the Italian economy (Figure 1). Regionalised lockdowns and new modes of working have reduced the impact of restrictions on activity since then. The vaccine campaign, which first prioritised the most vulnerable to reduce pressure on hospitals, has been extended to all over 12.

Figure 1. The economic contraction was severe



Note: Shaded area indicates projections.

Source: OECD (2021), OECD Economic Outlook 109 (database) and provisional projections.

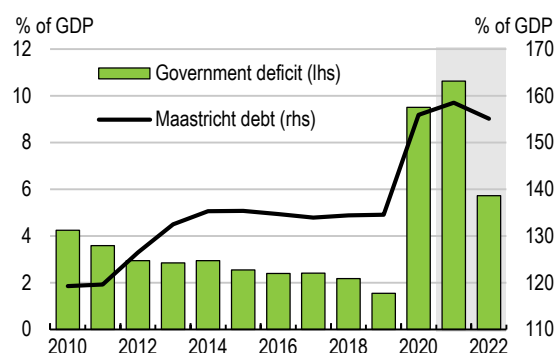
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**Generous government support mitigated job losses and hardship and preserved productive capacity** (Figure 2). Loan guarantees and moratoria on debt repayments supported firm liquidity and limited bankruptcies. Short-time work schemes and a ban on firing were supplemented with income support for those falling out of existing safety nets, as well as tax payment deferrals. School attendance and educational outcomes worsened for the most disadvantaged, whilst the lockdown has been associated with higher domestic violence.

**Significant fiscal support in 2021 will buoy the near-term recovery** as vaccination rates accelerate and restrictions ease. Higher public investment, including from Next Generation EU funds, will support private sector investment, alongside higher confidence and demand (Table 1). GDP will reach 2019 levels by the first

half of 2022. Consumption is expected to rise as households are able to consume part of their savings and employment recovers.

Figure 2. The government responded swiftly to the COVID-19 crisis



Source: OECD (2021), OECD Economic Outlook 109 (database) and provisional projections.

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Table 1. Exports and investment lead the recovery

(annual growth rates, unless specified)	2019	2020	2021	2022
Gross domestic product	0.3	-8.9	5.9	4.1
Private consumption	0.3	-10.7	4.7	4.5
Government consumption	-0.8	1.6	0.9	-0.6
Gross fixed capital formation	1.1	-9.2	15.9	8.7
Exports of goods & services	1.9	-14.5	12.0	7.1
Imports of goods & services	-0.5	-13.1	12.3	7.5
Unemployment rate (%)	10.0	9.3	10.4	10.1
Consumer price index	0.6	-0.1	1.5	1.3
Current account balance (% of GDP)	3.2	3.5	3.3	3.3
General government fiscal balance (% of GDP)	-1.6	-9.5	-10.6	-5.7
General government gross debt (% of GDP, Maastricht definition)	134.6	155.9	158.6	155.1

Source: OECD (2021), OECD Economic Outlook (database) and provisional projections.

**Fiscal policy should continue to support households and firms until the recovery is firmly underway, and become increasingly targeted.** Withdrawing liquidity support too early could force otherwise viable firms into bankruptcy. It would also raise unemployment and poverty, which were already high before COVID, affecting youth and women particularly. New labour market

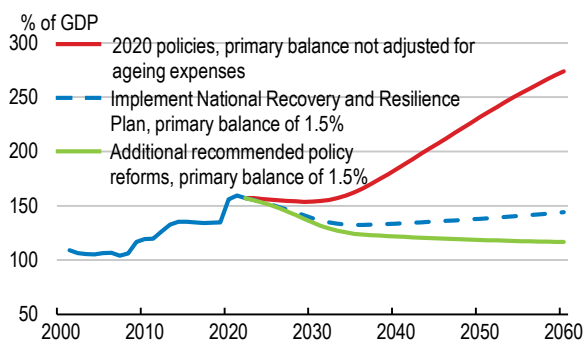
incentives seek to encourage hiring as the economy improves. Italy has a wide range of instruments to support firms in raising equity and loans as they emerge from the crisis.

**For unviable firms, swift resolution processes should be put in place.** Addressing lengthy court proceedings and ineffective case management will lower uncertainty and raise recovery rates. The planned bankruptcy code could facilitate earlier, more successful restructuring of firms. However, the expected rise in bankruptcies due to COVID will require procedural adaptations to prevent system overload. The non-performing loans market has developed rapidly. Reducing information asymmetries between banks and possible buyers of loan assets, which are higher in times of crisis, would help reduce the costs of bankruptcies.

**After the pandemic subsidies, fiscal policy must reorient to support higher growth and job creation.** Prior to the COVID crisis, Italy ran consistent primary surpluses, but public debt to GDP did not fall due to weak growth. Ageing-related expenses crowd out investment in infrastructure, education and training. Reallocating public spending and tax can raise growth and improve the bias against the young, many of whom are out of employment and at risk of poverty. Faster trend growth can help reduce debt (Figure 3).

**Figure 3. Faster growth is needed to improve the debt-to-GDP ratio**

Debt-to-GDP ratio scenarios



Source: Ministry of Finance and Economy; OECD (2021), OECD Economic Outlook (database); D. Turner and Y. Guillemette (2021) and OECD calculations.

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## Supporting a greener, job-rich recovery is the priority

**Addressing Italy's weak economic growth and ageing demographics requires tackling long-standing structural challenges.** These include low levels of investment, productivity and employment, ineffective public administration, high regulatory burdens and sharp regional divides (Figure 4). Addressing these challenges would improve the economy's resilience to shocks and reverse the trend of stagnating GDP per capita.

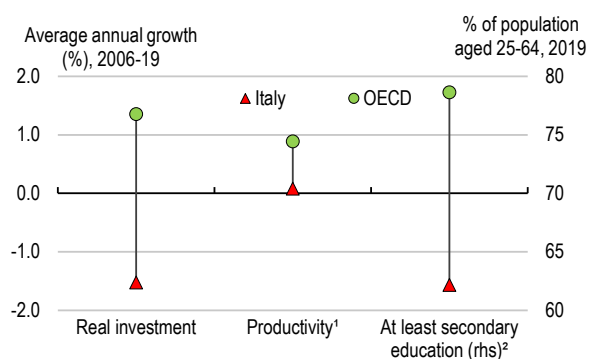
**The National Recovery and Resilience Plan combines an ambitious structural reform agenda and large investments, offering a unique opportunity to transition to higher productivity and decarbonised growth.** Structural reforms prioritise improving public administration effectiveness, civil justice and competition. These are complemented with EUR 235 billion in spending, utilising Next Generation EU grants and loans and increased national resources. Key priorities for investment are to support greener energy and transport and faster digitalisation. Human capital investment prioritises education, health and research and development. The South receives about 40% of resources to combat regional inequalities. The planned introduction of a longer term strategy to reform tax policy could further raise compliance, employment and firm dynamism.

**Chances of successful implementation of structural reforms and public investment projects are greater than in the past.** Clear milestones and targets have been set for the disbursement of Next Generation EU grants and loans. Governance innovations have been introduced to accelerate problem identification and spending, alongside enhanced monitoring for compliance. The legislative agenda to achieve the reforms will be challenging, but recently passed legislation to simplify green investments and support decision-making is a positive start. Public administration reforms will raise implementing capacity.

**Significant green investment plans should be supported with lean regulations, green taxes and carbon pricing changes.** A clear, long-term path for harmonising and gradually raising carbon pricing would guide decision-making. An explicit

strategy to manage the potential revenue gains and the costs of the transition, particularly for industries facing competitive pressures and lower income households, would provide certainty to investors and improve social buy-in. Well-designed regulations, standards and norms could further reinforce behaviour change.

**Figure 4. More physical and social capital is key to raise growth**



Note 1: USD per hour worked, constant 2015 prices and PPPs.

Note 2: Share of population aged 25-64 having attained at least upper secondary education.

Source: OECD (2021), OECD Economic Outlook 109 (database); OECD Productivity (database); and OECD Education at a Glance (database).

StatLink  <https://stat.link/ugzwp2>

**Investment rates are amongst the lowest in the OECD, held back by uncertainty, high leverage and a lack of access to equity finance.** Higher public investment funded by Next Generation EU and generous fiscal incentives can crowd in private investment, provided leverage levels do not reduce firm risk-taking. Improving the quality of public administration and actions to reduce perceptions of corruption would lower the need for fiscal incentives and also support investment. Faster roll-out of broadband would support private sector digitisation and greater take-up of the expanding range of public services available online.

**Stagnant productivity growth over the last two decades** has been due to lagging services sector productivity. Productivity in the manufacturing sector has risen due to higher investment and the exit of less productive firms. Conversely, regulatory barriers, including those which conflict with recommendations from the competition authority, create high barriers to entry in retail sales as well

as professional services. This in turn depresses competition and innovation.

**Creating more and better jobs will require adjusting labour taxes.** Short-time work and the ban on firing have limited redundancies. But youth and women, and those in the South, who tend to be hired on temporary and fixed term contracts, have been less protected. Temporary cuts in social security contributions will help as the economy recovers, but the high labour tax wedge remains a key obstacle. Female labour force participation remains very low, exacerbated by limited public support for childcare and high marginal effective tax rates for second income earners.

**The quantity and quality of skills must rise to counteract low levels of digital literacy and ongoing adult learning.** Support for employment is focused on hiring incentives. Despite the skills shortage, take up of existing worker training funds is low, especially for small businesses. Challenges remain in the delivery of public employment services, although the government is introducing a new approach to training the unemployed.

**Tax reforms can improve growth and equity outcomes given Italy's high tax take and evasion rates.** The number of tax expenditures is high and contributes to complexity. Labour taxes are a larger share of revenue, and consumption and inheritance taxes a smaller share than the OECD average. The low VAT share is partly due to poor compliance. The VAT exemption threshold is high. Greater use of technology and card payments should improve compliance and monitoring. Efforts to improve income tax equity should take into account the incidence of tax expenditures as well as property taxes, including on inheritance and immovable property.

**Improving public sector effectiveness is key to sustaining the recovery**

**Raising the effectiveness of Italy's public sector is more urgent than ever.** It will be key to achieving the planned boost to public investment, improving the business environment and ensuring quality public services can be accessed across Italy. The quality of public goods and services is variable, and a large stock of regulations and onerous and uncoordinated enforcement

processes drag firms' dynamism. Trust in public institutions is one of the lowest across OECD countries. In the coming years, Italy will have an unprecedented opportunity to improve the effectiveness of its public sector, through the Resilience and Recovery Plan's resources and policy goals, the renewal of the public service and the contributions from digitalisation and innovation.

**There is scope to better prioritise public spending.** Lack of fiscal space limits funding for the most growth-supporting public activities (Figure 5). Information about activities' performance or contribution to the government's priorities has limited influence on budget allocation decisions. Developing good indicators and analysis capacity in line ministries and further strengthening regular spending reviews would improve public spending allocations.

**Regulatory burdens remain high, despite significant improvements in the process for preparing new regulations.** A review of Italy's large stock of existing regulations, with a focus on reducing the number and improving the quality of regulations, would help simplify the regulatory environment. Improving coordination among agencies that implement regulations, and shifting their focus from enforcement to supporting compliance would support the business environment.

**The public administration could become stronger and more agile.** Staff with the necessary skills are lacking across the public administration. The accelerating retirement of public servants over the coming decade will allow renewal, if recruitment is more agile and anticipates skill needs and if retiring public servants can transmit their experience to new recruits. Stronger skills will also be essential to further leverage the benefits of

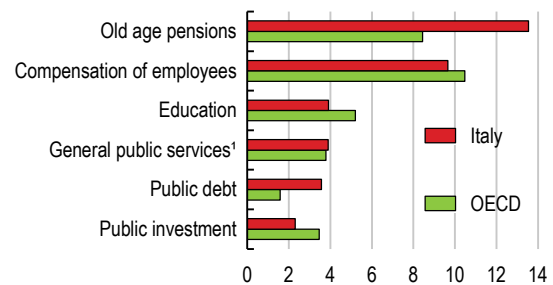
digitalisation. Regulatory requirements and the threat of judicial sanctions lead decision makers to take defensive positions, rather than proactively supporting service delivery. Public servants' effectiveness could increase if performance was better recognised and rewarded.

**Strengthening coordination, support and incentives across Italy's multi-layered government would improve its effectiveness.**

This is especially the case for public procurement, where many small agencies have thin capacity to design and implement projects effectively. The public sector also intervenes across the economy through thousands of public enterprises, mostly owned by subnational governments. The benefits and costs of this public ownership should be regularly assessed, the governance of public enterprises improved, and those that do not support core public service delivery divested once the economic situation stabilises.

**Figure 5. Pension and debt costs leave little space for pro-growth and inclusive spending**

Public expenditure in % of GDP, 2019 or latest



Note: Excludes public debt costs.

Source: OECD (2021), National Accounts Statistics (database).

StatLink  <https://stat.link/3nudma>

MAIN FINDINGS	KEY RECOMMENDATIONS
<b>Policies for a stronger and more resilient recovery from COVID-19</b>	
The economy is expected to recover to 2019 levels by the first half of 2022. Withdrawing support for individuals and companies too early would lead to more bankruptcies, lower employment and higher poverty. Government debt rose to near 160% of GDP in 2021 and population ageing will put pressure on public finance.	Continue to provide fiscal support until the economic and employment recovery is well underway and make it increasingly targeted. Announce in advance a medium-term fiscal plan to be implemented once the recovery is self-sustained to reduce the public debt ratio, taking into account the effects of an ageing population.
Higher post-COVID insolvencies raise bank balance sheets risks. Although banking sector resilience has improved, non-performing loans remain high by OECD standards. The well-developed non-performing loans market can play a key role in reallocating credit in the post-COVID recovery. The court and early warning system risk being overwhelmed as the economy emerges from the crisis. Reforms to continue to improve the efficiency of the civil justice system are being considered by Parliament.	Introduce market-wide standards for valuing unlikely-to-pay loans. Increase resources for courts to better manage backlogs and improve speed and efficiency of civil justice court procedures.
<b>Public finance reforms are needed to support faster growth and more and better jobs</b>	
Despite relatively high public spending, spending that can best support growth and well-being is low and has been falling. Next Generation EU grant funds are significant at 13.5% of 2020 GDP. Slow historic absorption of EU funds is due to hurdles in designing, approving and implementing programmes. Procurement is slow, competition limited and capacity varies widely.	Improve the composition of public spending to promote growth and job creation. Consolidate smaller agencies' public procurement activities into higher capacity bodies.
Ageing- and interest-related expenditure pressures are high and set to rise in the longer term. The government has committed to returning to pre-COVID debt levels.	Contain pension spending by allowing the early retirement scheme (Quota 100) and the so-called women's option to expire in December 2021, and immediately re-establish the link between life expectancy and retirement age.
Tax revenue shares from labour are higher and VAT and inheritance lower than OECD peers. The tax wedge on labour is high, but has been lowered with income tax relief, family allowance reforms and temporary social security contribution cuts. The government intends to reform the tax system. Labour force participation fell sharply in 2020 and remains particularly low for women, especially those with children.	Implement a holistic tax reform that reduces complexity and tax expenditures and permanently lowers taxes on labour, financed through improved compliance and higher taxes on immovable property and inheritance. Improve access to quality childcare across all regions .
The recovery plan allocates 6.5% of GDP for green projects. Carbon tax pricing continues to favour diesel and industry.	Set a long-term plan to harmonise and gradually raise carbon prices, with policies and time to ease social and competitiveness transition costs.
SMEs do not access training funds enough. Current resources and structures will not reverse low adult learning rates and digital skills levels.	Increase access to adult skills attainment, with improved Training Fund application processes and better coordinated public employment services.
<b>Raise investment and productivity</b>	
Government incentives, including the recent temporary increase in the allowance for corporate equity, only partially offset regulatory obstacles to higher investment. Services productivity lags manufacturing, and firm growth levels lag OECD peers. Regulations are often anti-competitive.	Reduce regulatory barriers to entering professional services, including replacing licensing systems with less distortive certification schemes
Penalties for engaging in corrupt activities increased in 2019.	Improve oversight and accountability of elected officials and magistrates to improve the quality of policies and build public trust.
<b>Enhance public sector effectiveness</b>	
Budget processes do not support reallocations to more effective spending.	Improve the allocation of resources and the effectiveness of spending through strengthened expenditure reviews also taking into account a succinct set of policy performance indicators.
Processes for preparing regulations have improved, but regulations and their enforcement remain burdensome.	Undertake stocktake reviews of regulations, starting with sectors that will be priorities for the post-COVID crisis recovery.
A shrinking and ageing workforce, shortages of relevant skills hold back the public sector's ability to deliver.	Rejuvenate the public sector workforce, through more agile recruiting, training and career management, with a particular focus on filling skill needs such as those for the digitalisation of the public sector.
Italy's hybrid decentralisation and overlapping policy competencies allows for innovation but can inhibit implementing policies or providing quality public goods and services.	Clarify competencies of different levels of government, supported by bodies that identify, disseminate and support effective practices.

# 1 Key policy insights

The COVID-19 pandemic hit Italy hard, triggering the deepest recession since the Second World War. The government has prioritised bringing the health situation under control, and generously supporting livelihoods and firms. The economy is recovering as the vaccination campaign has expanded. Growth has broadened from manufacturing and investment to include services and consumption. The banking and non-financial corporate sectors are stronger than the start of the sovereign debt crisis. Together with the efforts to preserve economic capacity, this has helped the economy rebound.

To reverse the trend of stagnant real per capita GDP, the economic recovery must address the obstacles to higher rates of investment, productivity and employment. Too few firms are created and once they exist, they grow too slowly. Skills levels are low and emigration is high. Despite numerous legislative reforms, implementation tends to lag, with large gaps in public sector effectiveness affecting spending outcomes. Lengthy court disputes, investment approvals and other business processes reduce investment, as does regulatory uncertainty in critical areas such as green investment. With an ageing and fast-shrinking working age population, future growth will be very dependent on lifting investment, developing skills and raising the productivity of firms to the levels of Italy's top performers.

The National Plan for Recovery and Resilience outlines a set of structural reforms in public administration, civil justice and competition that will remove obstacles to growth and facilitate the financing of investments in faster, greener and more digitised growth. The scale of spending (EUR 235 billion), the broad scope of reforms, and the tight link between reforms and spending could amplify the potential growth and confidence impacts of reforms and investments. Implementation requires a more effective public administration, the focus of the special chapter of this Survey. Public finance reforms can allow more growth- and equity-enhancing spending, and lower the drag of the tax system on job creation.

Against this background, the main messages of the Survey are the following:

- Policy should remain supportive and increasingly targeted until the recovery is well underway. Faster growth will help to lower the public debt-to-GDP ratio. A medium-term fiscal plan needs to be established to reduce the public debt ratio, taking into account the future impact of an ageing population.
- The National Recovery and Resilience Plan requires implementing a demanding legislative and administrative reform agenda. Acting now to make the public administration more effective should include: revising budget allocations and regulations based on outcomes; a more agile public workforce; and, better leveraging the roles of different levels of government and private providers.
- There is considerable room to improve the composition of spending and taxation to support higher skills, employment and investment, whilst reforms to civil justice and competition, especially in services, can further be enhanced.

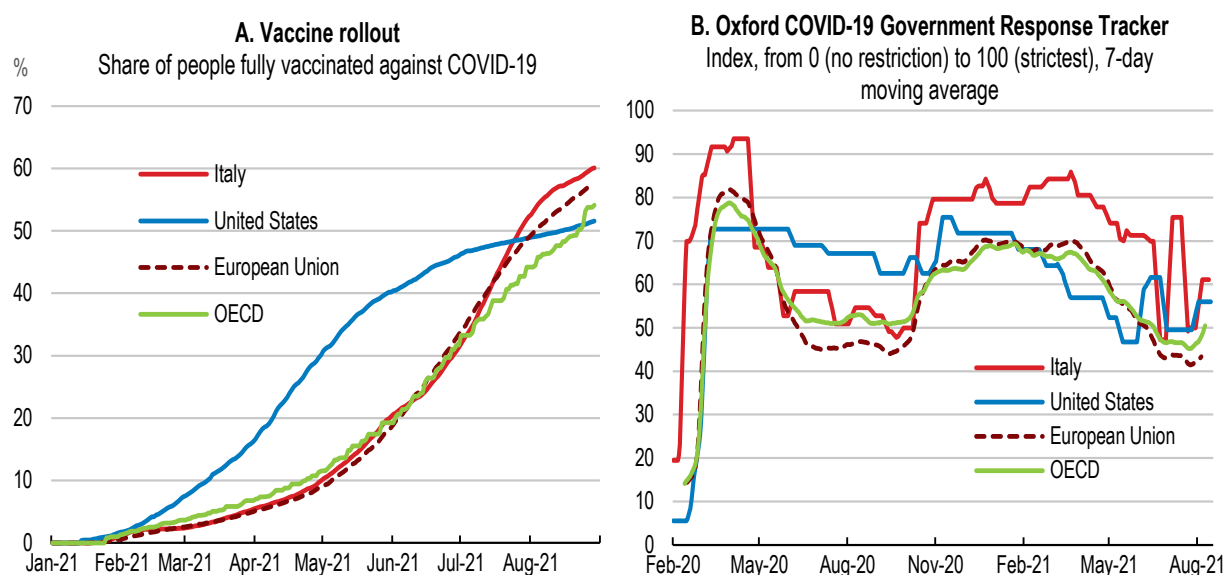
## The COVID-19 crisis hit a weakening economy

COVID struck as economic momentum had been slowing in 2019, following a modest expansion that began in 2015. Employment and investment levels had still not recovered from the successive shocks of the global financial crisis and the sovereign debt crisis. Per capita incomes, having grown modestly until 2008, have remained below 2 000 levels for the last 11 years. The government's priorities are to bring the health situation under control and create the conditions to raise Italy's growth – by preserving productive capacity and livelihoods, and then creating the environment to facilitate faster growth.

### Successive COVID waves necessitated extensive mobility restrictions

Italy was the first OECD country to impose a strict national lockdown in March 2020 in response to an early and sharp rise in fatalities. Subsequently, restrictions have primarily been applied regionally according to threat level. Vaccine rollout has improved alongside more secure supply and greater certainty about vaccine efficacy. The government plans to vaccinate 80% of the population by September 2021 (Presidenza del Consiglio dei Ministri, 2021<sup>[1]</sup>). Since the most vulnerable groups have been prioritised for vaccination, pressure on intensive care units should remain moderate. The government has updated its regionally based colour coded risk alert protocols, and has clear, published benchmarks for moving between risk levels, based on infection and hospitalisation rates. A green passport for those vaccinated, immune or tested against COVID has been introduced from 15 June 2021, in order to facilitate the safe re-opening of contact-intensive tourism and entertainment sectors. However, as for other countries, the potential spread of more infectious and deadly variants remains a risk.

Figure 1.1. Improving vaccination rollout has allowed a gradual easing of activity restrictions



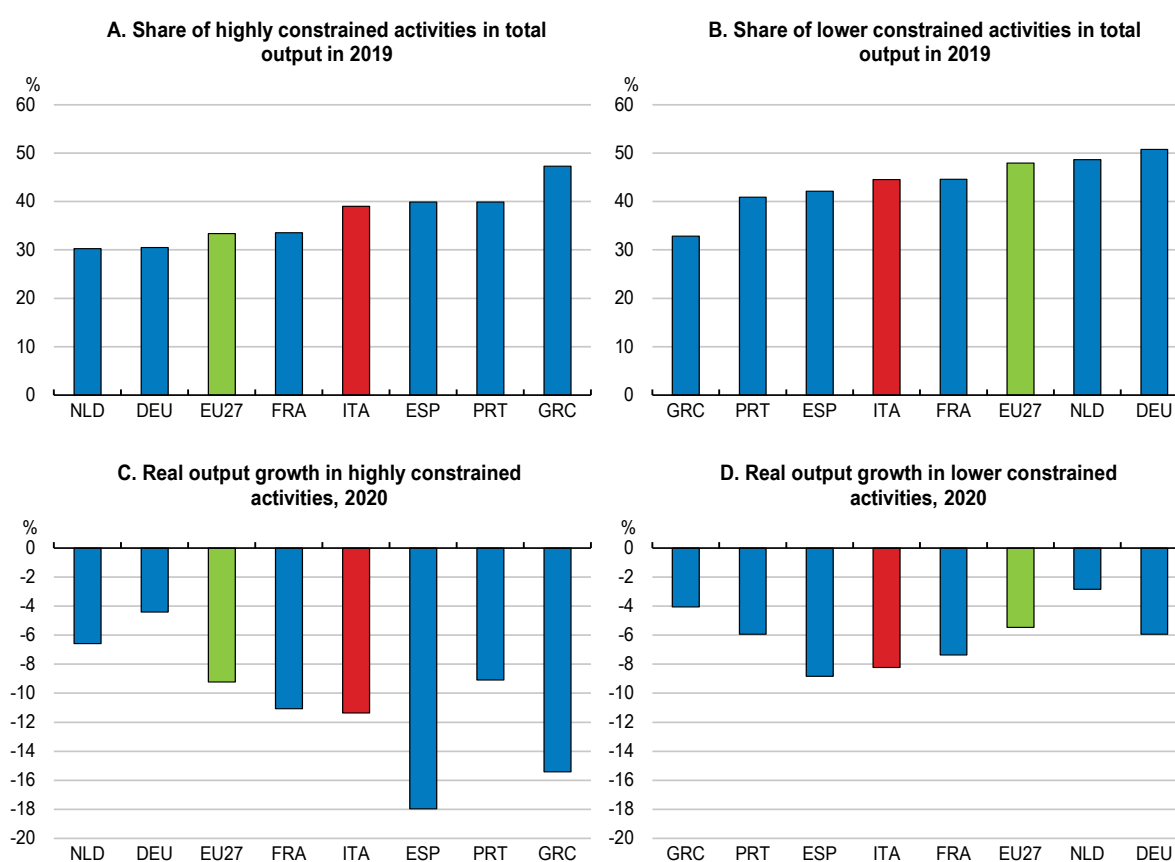
Note: The OECD unweighted average covers all OECD countries where data are available for all components. Panel A: Share of the total population that have received all doses prescribed by the vaccination protocol. Panel B: The Oxford COVID-19 Government Response Tracker index is a composite measure based on nine response indicators including school closures, workplace closures, and travel bans, and is scaled from 0 (no restrictions) to 100 (highest category of restrictions).

Source: Our World in Data, <https://ourworldindata.org/covid-vaccinations>; and Oxford University.

### The economic and social impact of the pandemic has been severe

The intensity of the first and subsequent lockdowns (Figure 1.1) was reflected in an abrupt drop in GDP in April 2020, resulting in a GDP contraction of 8.9% in 2020, one of the steepest in the OECD. In part, this was the result of the composition of Italian GDP: contact-intensive services make up a relatively large proportion of the economy compared to other large European countries (Figure 1.2, Panel A and B). Tourism accounts directly for about 6% of GDP and indirectly 13% of GDP. Foreign tourism accounts for 42% of in-country activity, similar to most OECD members. Activity fell both in sectors that were severely constrained by COVID-related restrictions, as well as in those that were less so (Figure 1.2, Panel C and D).

Figure 1.2. The high share of severely restricted sectors amplified economic contraction



Note: Highly constrained activities include wholesale and retail trade, real estate and other services; lower constrained activities include industry (including manufacturing and construction), agriculture, ICT, finance and insurance, and professional, scientific and administrative support services. Public administration, health and education are not included in the analysis.

Source: OECD (2021), Quarterly National Accounts (database); OECD calculations.

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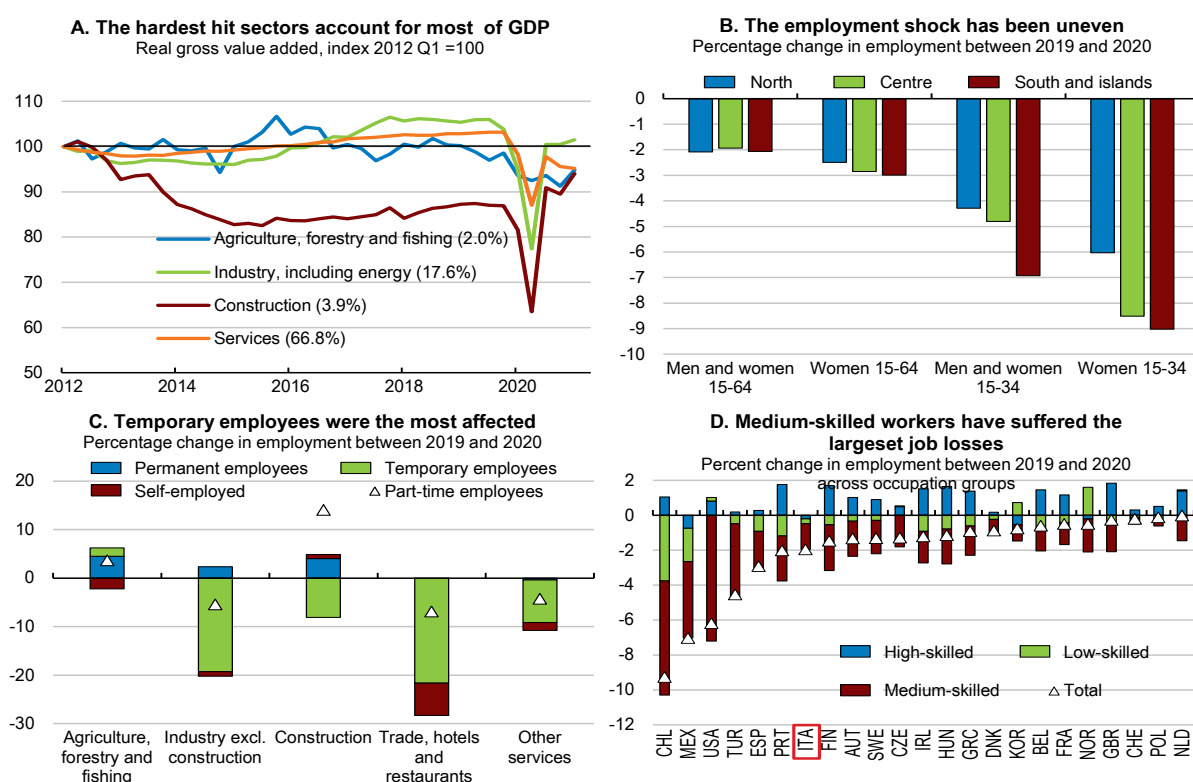
Manufacturing and construction activity has exceeded 2019 levels, as productive processes adapted relatively quickly to subsequent restrictions. The services sector by contrast, with a larger proportion of high-contact activities, has recovered less quickly (Figure 1.3.). Gross household savings rose sharply to 17.5% of GDP in 2020, due to precautionary motives and restrictions on activity limiting spending. Savings rates have fallen as restrictions on activity and consumption eased. The savings rate will, however, likely



remain elevated for some time - the wealthiest 20% of households, which have a lower propensity to consume additional income, hold 60% of savings (Rondinelli and Zanichelli, 2021<sup>[2]</sup>). As savings rose and investment fell, the current account surplus increased to 3.7% of GDP in 2020. The net international investment position became positive in the second half of 2020.

The slowdown in activity prompted a decline in hours worked, which fell by almost 13% in 2020. The participation rate fell in 2020 from 2019, as COVID-19 restrictions limited job search. The ban on firing and access to short-time work schemes limited job losses in 2020 to 2.8%. The unemployment rate fell to 9.3%, from 10% in 2019 as COVID restrictions and the weak job market reduced the labour force by 3.4% in 2020. Job losses fell disproportionately on youth and women, and in particular on young women resident in the South (Figure 1.3). These individuals are over-represented in less secure forms of work: temporary contracts fell by 11.8% in 2020 and permanent positions fell by 0.4%. Whilst the firing ban covered all employees in 2020, temporary contracts that expired were allowed to lapse. The number of self-employed fell by 4.1%. Medium-skilled workers were most affected.

**Figure 1.3. COVID impact has been broad – but the most vulnerable have suffered more**



Note: Panel A: Figures in brackets indicate the share of the sector's value-added in GDP. Panel B and Panel C are based on 2020 ISTAT's data and do not yet reflect methodological changes relating to the implementation of Regulation (EU) 2019/1700 of the European Parliament and of the Council. Panel D: Skill classification is based on the International Standard Classification of Occupation (ISCO). Low-skilled occupations cover elementary occupations (ISCO-08 category 9). High-skilled occupations include ISCO-08 categories 1 to 3 (managers, professionals and technicians). Medium-skilled occupations include ISCO-08 categories 4 to 8 (clerical support workers, service and sales workers, skilled agricultural, craft and related trades workers, plant and machine operators).

Source: OECD (2021), Quarterly National Accounts (database); ISTAT; ILO short-term labour market statistics; and OECD calculations.

### ***The policy response cushioned the crisis' impact on firms and households – but the vulnerable remained heavily affected***

The initial policy response to COVID sought to limit hardship and maintain productive capacity by supporting cash flow and limiting bankruptcies and job losses (Box 1.1). The government provided wide-ranging direct budget support to households and firms. In order to preserve jobs, short-time work schemes were adapted to cover COVID-shutdowns and, in conjunction, a temporary ban on firing was put in place. Government guarantees, loan moratoria and macro-prudential regulations supported increased lending by banks, whilst monetary policy supported financial market liquidity.

The reach of these measures has been substantial. Over 7.2 million workers had benefitted from the wage supplementation scheme between March 2020 and February 2021 (INPS, 2021<sup>[3]</sup>). By November 2020, just under 2 in 5 firms with three or more employees requested liquidity and credit support (ISTAT, 2020<sup>[4]</sup>). State guarantees underwrote EUR 173.5 billion in new loans to small, medium and exporting firms (Banca d'Italia, 2021<sup>[5]</sup>). By mid-May 2021, debt moratoria covered EUR 144 billion in SME loans and EUR 23 billion in home loans.

Whilst poverty increased, public transfers limited the fall in households' disposable income in 2020 to 2.6% in real terms. Italy's social safety net, deepened in 2019 with the introduction of the Citizen's Income scheme, increased the size of transfers to the poorest households. As a result, poverty in the poorest households did not increase (ISTAT, 2020<sup>[4]</sup>). Workers with temporary or seasonal contracts (particularly in tourism), as well as the self-employed, were assisted with cash grants, as many were not covered by short-time work schemes, nor Citizen's Income. The relatively small size of these grants meant they likely had a proportionately larger cushioning impact on lower income households (Cantó Sánchez et al., 2021<sup>[6]</sup>). Access to social safety nets in the short term will need to take into account the nature of the employment recovery. Italy's social safety nets are targeted to the poorest individuals and households, and many more may remain at risk if the recovery in employment is slow.

Schools were fully closed for 13 weeks, similar to the OECD average, whilst partial closures affected schools for 24 weeks, 5 weeks more than the OECD average (UNESCO, 2021<sup>[7]</sup>). Children from less advantaged homes will find it harder to regain this lost time with online teaching, since they tend to have less space and less access to technological equipment (European Commission, 2020<sup>[8]</sup>). The lockdown worsened conditions for those living with domestic abuse. Between March and October 2020, calls for help from victims of violence and reports of violent cases doubled. The sharpest increases in the use of helplines have been among those over 65 and under 17 (ISTAT, 2020<sup>[9]</sup>). Migrants are likely to have seen hardship increase as many are excluded from social safety nets such as the Citizens' Income and are overrepresented in informal work.

#### **Past OECD recommendations on reducing poverty and vulnerability**

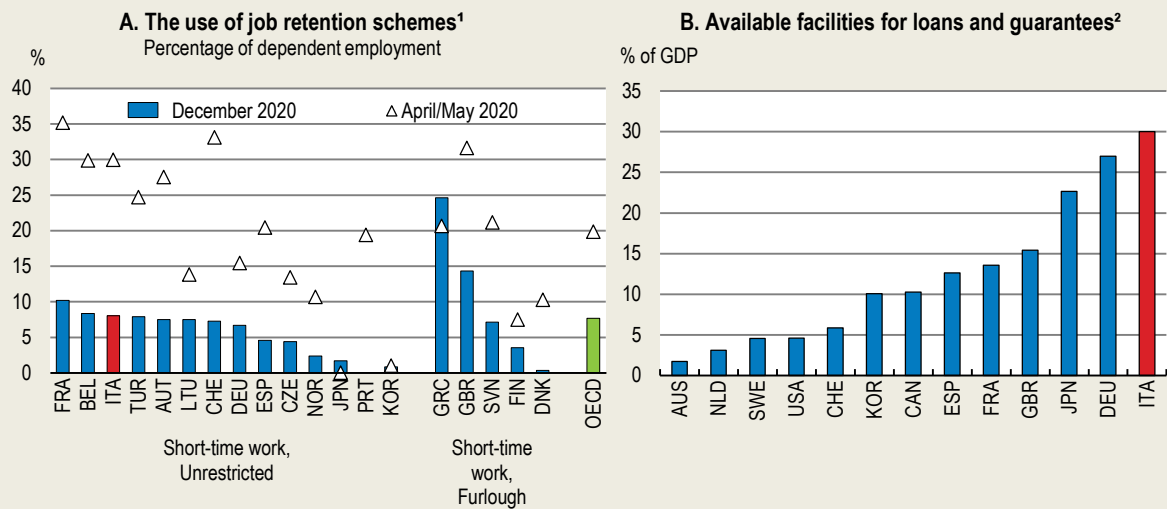
<b>Past recommendations</b>	<b>Actions taken since 2019</b>
Fully legislate and implement the already planned nationwide anti-poverty programme, target it towards the young and children and ensure it is sufficiently funded.	The Citizen's Income scheme, introduced in 2019, has helped to reduce the depth of poverty for the poorest. The incidence of working poor, however, has not been affected, given it is targeted to the poorest. Many migrants fall outside of the safety net.
<b>Ensure capacity to administer the Citizen's Income by building on and strengthening, where necessary, municipalities' social assistance services and establishing strong collaboration between them and public employment services.</b>	Social assistance services are provided to support the functioning of the Citizen's Income. The number of beneficiaries who have subsequently found employment has been low; authorities attribute this to beneficiaries' distance from the labour market.
<b>Lower and taper off Citizen's Income benefits to encourage beneficiaries to seek employment in the formal sector and introduce an in-work benefit for low-income earners</b>	The EUR 100 a month tax credit, which was expanded in terms of eligibility and made permanent in the 2021 budget, will benefit many low-income families.

### Box 1.1. Italy's main fiscal policy responses to cushion the impact of the COVID-19 crisis

The Italian government approved a wide range of measures to cushion firms, jobs and households from the COVID-19 shock and to kick-start the recovery. The government estimates these measures' total value at EUR 108 billion in 2020 (6.6% of 2020 GDP) and EUR 72 billion in 2021 (4.1% of GDP). They were enacted through seven extensive decrees plus the 2021 budget. Major measures include:

- **Direct cash grants for firms:** Firms received cash grants based on the size of their loss in turnover. Initial measures targeted firms in the most affected regions and sectors, but these were expanded as they did not account for the impact of restrictions on value chain activities. Sector-specific funds are also available for some of the hardest hit sectors, such as tourism.
- **Loan guarantees for firms:** Over EUR 500 billion in loan guarantees was made available. The public guarantee schemes for small, medium and large firms were expanded, and a fee-free guarantee for new SMEs loans was introduced. SMEs in the most affected sectors received a moratorium to December 2021 on repaying loans.
- **Short-time work and measures to support employment:** Italy's existing short-time work scheme was enlarged, its coverage expanded to all sectors and firms, and the costs of accessing the funds was reduced.
- **Postponed tax and social contribution payments:** Tax and social security contribution payments were deferred for all firms in the most affected sectors, and for all firms in all sectors with revenues below EUR 2 million. VAT payments were deferred for all firms and self-employed working in the most affected provinces.
- **Household income support:** Several one-off payments have been made for those that did not benefit from short-time work schemes, including: cash payments to various categories of self-employed and seasonal workers; and supplementary monthly emergency income support of EUR 400 to EUR 800 for at-risk, low-income households. Childcare costs or costs to support carers obliged to take leave were funded. Unemployment benefits will not be affected by the duration of unemployment until 31 December 2021.
- **Supporting public authorities suffering revenue losses:** Fiscal transfers have been made to subnational governments, public authorities and state-owned enterprises.

**Figure 1.4. Italy has relied heavily on short-time work schemes and made provision for generous loan facilities**



1. Data are provisional. Short-time work - unrestricted: no significant limits on the reduction in working time; short-time work - furlough: no partial reductions in working time allowed. Portugal: data for December unavailable; Japan: ended scheme; Slovenia: scheme no longer operational. Due to data unavailability the OECD average excludes Colombia, Costa Rica, Iceland, Israel, Latvia, Luxembourg and Mexico.

2. Data on guarantees are estimates consolidated from various national sources, and may not fully control for definitional differences and double counting.

Source: OECD (2021), OECD Employment Outlook 2021, Chapter 2 "Job retention schemes during the COVID-19 crisis: Promoting job retention while supporting job creation"; OECD COVID-19 Policy Response Tracker; OECD calculations and compilation of estimates by national authorities.

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### Support is evolving as the recovery takes hold

Most of the 2021 response package continues to support cash flow for a broad group of firms and households, targeting in particular those that have been most affected by the crisis. The risks from prematurely withdrawing support are asymmetric, given the size of the shock, its heavy toll on part-time and fixed term contracts, as well as women and the youth, and Italian firms with low cash levels. Guarantees and loan moratoria applications for SMEs and first-time buyers have been extended to the end of 2021. This balances the normalisation in bank lending standards and the gradual withdrawal of extraordinary access to short-time work schemes for all but the most heavily affected firms. As the recovery from the crisis continues, support will need to become increasingly targeted.

A number of measures are intended to offset the potential impact of the end to the ban on firing by large firms from 30 June 2021 and by smaller firms from 31 October 2021. Firms that do not reduce their workforce receive free access to short-time work schemes until the end of 2021. The solidarity contract allows firms that have experienced sharp losses in revenue to reduce wages by 70% if the workforce is maintained and the shift is agreed by unions. In addition, to support hiring in the short term, the government has introduced a new re-employment contract that waives social security contributions for 6 months for temporary contracts offered between July and October 2021, provided they are converted into permanent contracts at the end of the probation period. The expansion contract, which allows workers to retire early and thereby create space for new hires, can now be used by all firms with more than 100 employees. Fixed-term contracts can be renewed until the end of 2021 without limits on the number of extensions or providing reasons for the extension. Active labour market policies, necessary to support re-skilling of the

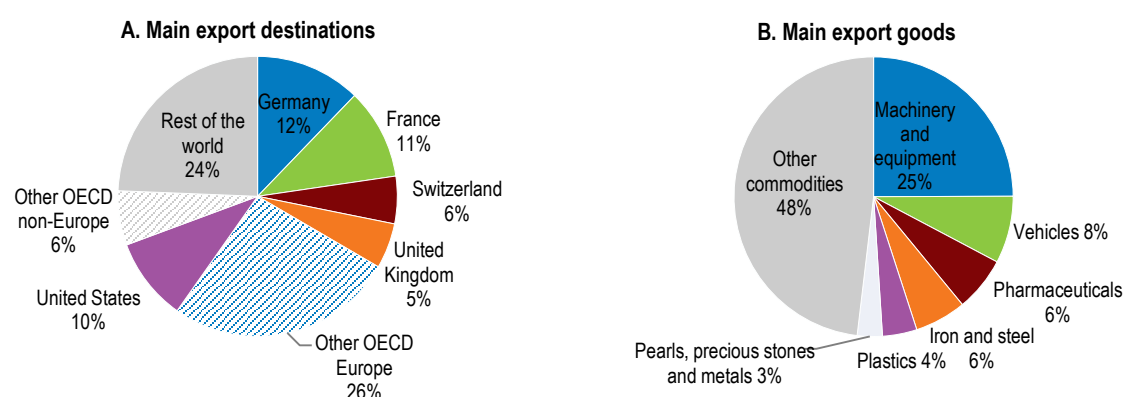
workforce and the unemployed, are proving more difficult to implement. In the longer term, reducing non-wage labour costs should remain a priority rather than continuing rigidity in firing policies (see below).

Reducing the risk of debt overhang is critical to safeguard investment for firms that remain solvent after the crisis (Demmou et al., 2021<sup>[10]</sup>). Measures to support faster investment and deleveraging include expanding tax credits for equity investments in SMEs, start-ups and non-listed companies, as well as a temporary increase in the generosity of the allowance for corporate equity in 2021. The Patrimonio Rilancio fund set up under Cassa Depositi e Prestiti is able to undertake equity-like investments, such as convertible bonds, particularly for medium and larger firms. Further policies to encourage the use of equity financing, such as the allowance on corporate equity, and measures to reduce bankruptcy costs are discussed below.

The United Kingdom is an important trading partner. It receives 5% of Italy's merchandise exports (Figure 1.5). The full effects of Brexit will be clearer over time. Initial estimates of the impact of Brexit in Italy are relatively low compared to other EU countries (Arriola et al., 2020<sup>[11]</sup>). Trade data in 2020 and 2021 suggest the worst direct effects of Brexit on Italian goods exports were mitigated by avoiding a no-deal scenario. The value of the United Kingdom's imports from Italy have fallen far less than imports from the EU, and are more in line with changes in the United Kingdom's imports from the rest of the world. Italy's supply chains have also not experienced severe disruptions, with just 2.2% of Italian imports coming from the United Kingdom in 2020. The knock-on impact of restricted movement of people and services restrictions is estimated to be relatively low in Italy (Arriola et al., 2020<sup>[11]</sup>).

**Figure 1.5. Exports by main destinations and main goods**

Share of total exports of goods, 2019



Source: OECD (2021), International Trade by Commodity Statistics database.

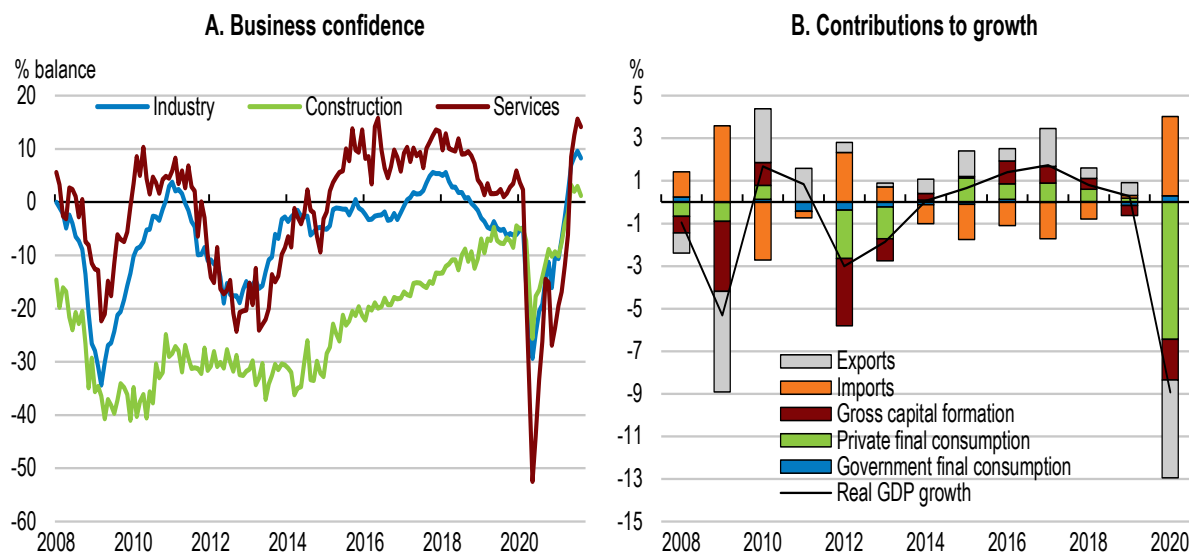
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## The recovery will be gradual but subject to risks


The economy is projected to recover steadily from the COVID shock, reaching 2019 levels in the first half of 2022. Higher public investment, including from Next Generation EU funds, will help to crowd in private investment in 2022. Consumption is expected to recover as jobs return and lower uncertainty encourages households to reduce precautionary saving. Recent data show a significant increase in business and consumer confidence, which is encouraging for activity and employment (Figure 1.6). Price pressures will rise in the near term due to higher commodity and construction prices, but will remain contained over the medium term. The manufacturing sector will benefit from the recovery in export demand in key markets, as well as positive spillovers from the construction sector. The services sector has recovered quickly in

response to the government's vaccination programme and green card system. Low entry barriers in tourism and entertainment sectors should allow a relatively rapid rebuilding of productive capacity.

**Figure 1.6. Confidence has recovered, and investment is expected to lead the rebound**



Source: EUROSTAT; and OECD Economic Outlook (database).

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Risks to the forecast are significant in both directions. The largest uncertainty lies in the evolution of the virus and the pace of vaccination in Italy and globally. Other downside risks include a reversal in the confidence recovery, higher or more rapid rates of bankruptcies and deeper-than-forecast scarring from the loss of business capacity or employment. This would likely worsen bank profitability and slow lending, although the systemic risk for the banking sector is lower than during the sovereign debt crisis. Upside risks include a sharper recovery in confidence, a more rapid drawdown of households' accumulated savings, faster-than-expected investment spending via the Next Generation EU funds, and more rapid implementation of structural reforms.

**Table 1.1. Low-probability events that could lead to major changes in the outlook**

Shock	Possible impact
Higher global interest rates not matched with higher growth or a significant and disorderly re-pricing of global risk premium	A rise in interest rates, if not accompanied by a commensurate increase in growth, would reinforce pressure on public finances and the domestic banking system. Italy would be particularly affected as its public debt-to-GDP ratio is high.
Significant delays in meeting conditionality of the Next Generation EU programme	Delayed or reduced support from the Next Generation EU package reduces growth and confidence, sharply raises risk premia and borrowing constraints. The required adjustment to spending and growth will be influenced by the response of monetary policy.
Disorderly domestic political changes slow down the pace of reform	Reduced political resolve to pass legislative package to implement structural reforms required for the release of Next Generation EU funds. Confidence falls, and investor uncertainty and spreads increase.
Bankruptcies increase sharply	High court caseload lengthens settlement times sharply, raises uncertainty in pricing non-performing loans, worsens bank balance sheets, raises risk premia and reduces bank lending.

**Table 1.2. Macroeconomic indicators and projections**

Annual percentage change, volume (2015 prices)

	2017	2018	2019	2020	2021	2022
	Current prices (EUR billion)	Percentage change, volume (2015 prices)				
<b>Gross domestic product (GDP)</b>	1 739	0.8	0.3	-8.9	5.9	4.1
Private consumption	1 046	1.0	0.3	-10.7	4.7	4.5
Government consumption	327	0.1	-0.8	1.6	0.9	-0.6
Gross fixed capital formation	304	2.9	1.1	-9.2	15.9	8.7
Housing	71	0.7	1.6	-8.8	19.0	5.7
Final domestic demand	1 677	1.2	0.2	-8.1	5.9	4.3
Stockbuilding <sup>1,2</sup>	12	0.0	-0.7	-0.3	-0.3	0.1
Total domestic demand	1 689	1.1	-0.5	-8.3	5.6	4.2
Exports of goods and services	536	1.6	1.9	-14.5	12.0	7.1
Imports of goods and services	486	2.8	-0.5	-13.1	12.3	7.5
Net exports <sup>1</sup>	50	-0.3	0.7	-0.9	0.4	0.1
<b>Other indicators (growth rates, unless specified)</b>						
Employment <sup>3</sup>		0.9	0.6	-2.8	1.4	1.8
Unemployment rate (% of labour force) <sup>3</sup>		10.7	10.0	9.3	10.4	10.1
GDP deflator		1.1	0.8	1.2	1.3	1.6
Harmonised consumer price index		1.2	0.6	-0.1	1.5	1.3
Harmonised core consumer price index		0.6	0.5	0.5	0.7	0.8
Terms of trade		-0.6	0.7	3.7	-1.9	0.0
Household saving ratio, net (% of disposable income)		2.5	2.5	10.3	6.5	2.8
Trade balance (% of GDP)		2.4	3.3	3.6	3.2	3.2
Current account balance (% of GDP)		2.5	3.2	3.5	3.3	3.3
General government fiscal balance (% of GDP)		-2.2	-1.6	-9.5	-10.6	-5.7
General government gross debt (Maastricht, % of GDP)		134.4	134.6	155.9	158.6	155.1
Three-month money market rate, average		-0.3	-0.4	-0.4	-0.5	-0.5
Ten-year government bond yield, average		2.6	1.9	1.2	0.8	0.9

1. Contributions to changes in real GDP, actual amount in the first column.

2. Including statistical discrepancy.

3. Using provisional ISTAT data.

Source: OECD (2021), OECD Economic Outlook (database) and provisional forecast.

## The COVID-19 crisis has exacerbated some macro-financial vulnerabilities

### **Bankruptcy risks have increased but banks are better equipped to manage them**

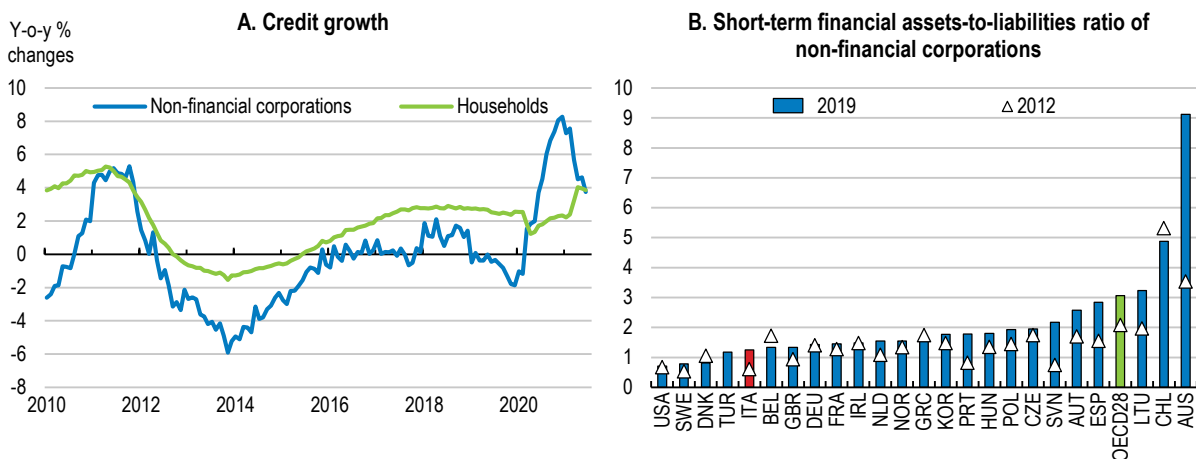
The government's liquidity support, alongside counter-cyclical bank regulations, resulted in credit constraints for firms that were the same or lower in late 2020 compared to late 2019. The rise in credit growth was a critical lifeline for Italian firms whose cash levels are relatively low compared to OECD peers (Figure 1.7). Although higher credit growth raised firms' leverage, many firms increased cash holdings and, on average, debt became longer-term, thanks to government guarantees (Banca d'Italia, 2021<sup>[12]</sup>). A moratorium on bankruptcy filings between March and June 2020 and reduced court activity due to the pandemic further assisted. As a result, bankruptcies fell by 22.7% in Italy in 2020 compared to a 58.1% rise during the global financial crisis (OECD, 2021<sup>[13]</sup>). By preserving otherwise-viable firms, these policies minimise the risk of lasting damage to the economy's productive capacity.

As support measures are gradually withdrawn, bankruptcies are likely to rise - although the average default rate is expected to remain below that of the global financial crisis (Banca d'Italia, 2021<sup>[12]</sup>). The share of the highest-risk firms (with a probability of default above 5%) rose from 10% before the COVID crisis to 14% by the end of 2020 (Banca d'Italia, 2021<sup>[12]</sup>). The performance of loans qualifying for moratoria suggests

that the aggregate rise in borrower vulnerability is concentrated amongst borrowers linked to pandemic-hit sectors (Banca d'Italia, 2021<sub>[12]</sub>).

Higher bankruptcies will weigh on banks in the context of relatively low profits and still high non-performing loans compared to other OECD countries (Figure 1.8). Nonetheless, the banking system is on a firmer footing than at the time of the sovereign debt crisis in 2012 (Box 1.2). Banks have raised capital adequacy and improved the identification, valuation and sale of non-performing loans. Sensitivity to short-term funding pressures has remained low. Liquidity levels are double the regulatory minima thanks to higher retail deposits and the European Central Bank's policies on bank holdings. Guidance to withhold the distribution of dividends has improved resilience in the short term. Furthermore, balance sheets are less sensitive to fluctuations in the market price of government bonds as the share of bonds valued at amortised costs has risen (European Commission, 2020<sub>[14]</sub>); (Banca d'Italia, 2021<sub>[12]</sub>).

**Figure 1.7. Swift policy responses have been a vital lifeline for access to finance given low cash holdings**



Note: Panel B: Unweighted OECD average of available countries. Due to data unavailability the OECD average excludes Canada and Switzerland.

Source: Bank of Italy, OECD (2021), National Accounts: Financial Indicators (database).

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Continued efforts are required to monitor and actively manage the risks to bank balance sheets from the impact of the COVID-pandemic. In the last crisis, weak banks in Italy, as elsewhere, channelled loans to “zombie” firms, worsening the reallocation of credit (Acharya et al., 2019<sub>[15]</sub>). Current estimates suggest the number and credit needs of zombies are low (Schivardi and Romano, 2020<sub>[16]</sub>), reflecting improved bank risk management. However, the debt moratorium reduces the ability of banks to distinguish good and bad credit risks in real time (Bruno and Carletti, 2021<sub>[17]</sub>). To ensure that loans to non-viable firms are appropriately identified and removed from banks' balance sheets, a combination of strong regulatory oversight (particularly for smaller banks) and the continuation of incentives, such as tax credits for disposal of non-performing loans and guarantees for securitised loan tranches, is required.

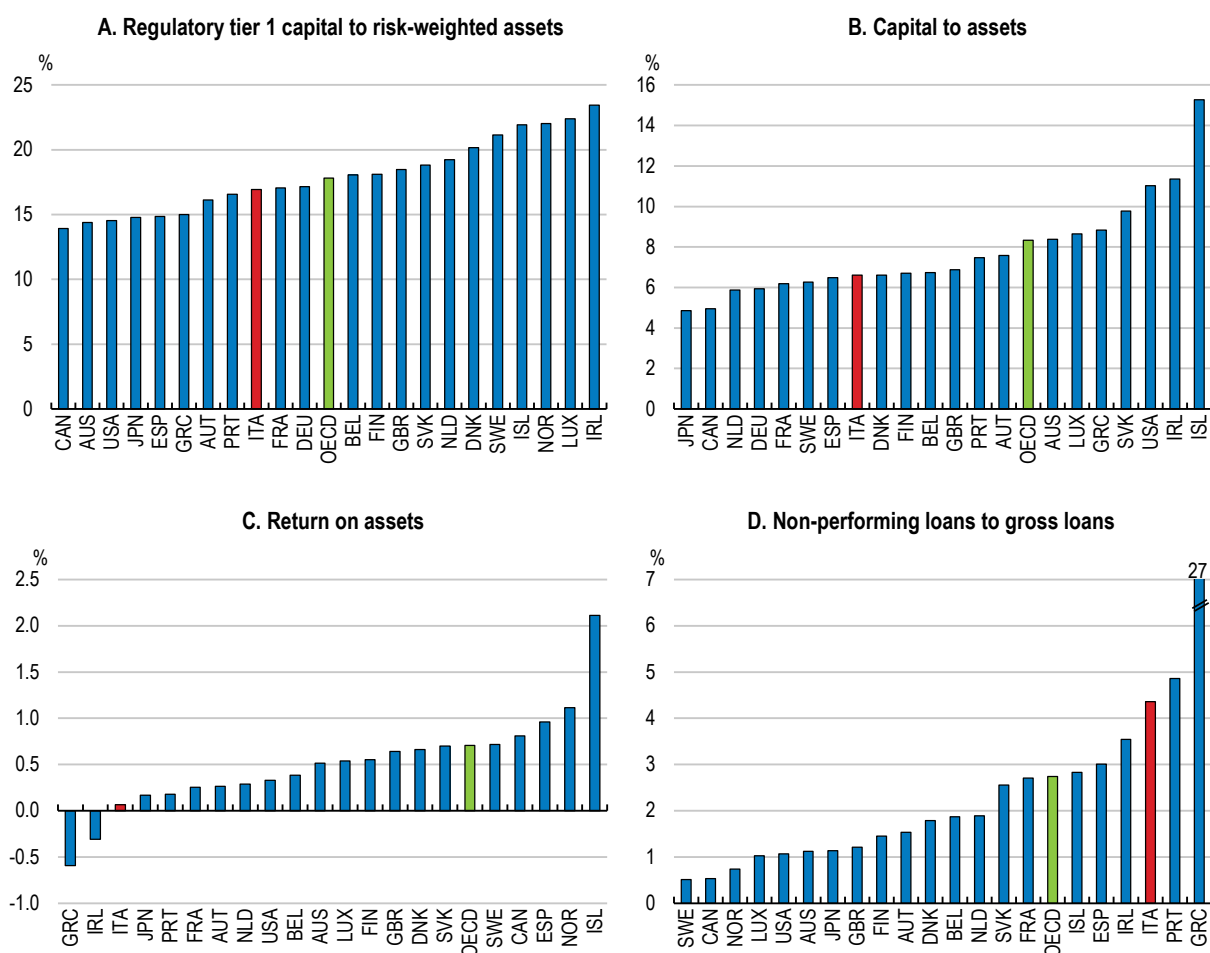
The non-performing loans market has grown dramatically in Italy, but there is further room for development. Correct pricing is critical to support both the entry of investors willing to buy non-performing exposures and the sale of these loans by banks. More efficient court procedures would raise recovery rates and reduce uncertainty and risk. Guidance from the regulator as to standards on identifying at-risk loans would help establish market-wide standards, particularly in the more difficult to value “unlikely-to-pay” segment.



Common standards would reduce information asymmetries between banks and would-be purchasers of bank loans, and improve price-finding.

**Figure 1.8. Vulnerabilities remain in the banking sector**

2020 Q4 or latest



Note: Each panel contains unweighted OECD average of available countries. Due to data unavailability the OECD average excludes New Zealand and Switzerland for any panels.

Source: IMF (2021), IMF Financial Soundness Indicators Database; and Bank of Italy.

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Obstacles to faster cost-reduction by banks should be removed to support longer-term profitability in the banking sector. Whilst there has been some progress in branch reductions, banks should be further encouraged to undertake cost savings. Foreign investment in the banking sector is very low, and allowing it to increase, for example with the sale of smaller, non-systemic banks, would avoid the risk of weakening domestic banks and may help to strengthen competitive pressures.

### Box 1.2. The Italian experience in strengthening banks and the market for non-performing loans

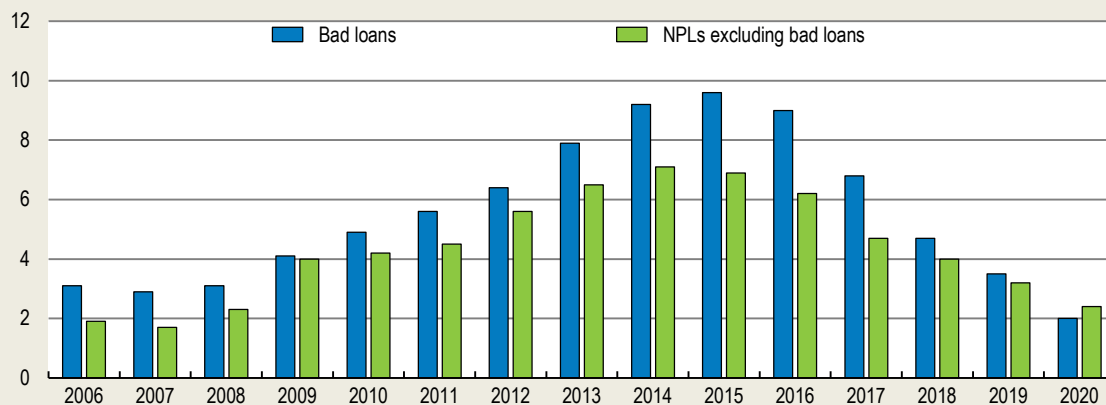
Following the sovereign debt crisis in the early 2010s, bank capital buffers have been raised and governance improved. Reforms to mutual and cooperative credit banks have accelerated the consolidation of banks in the sector. The crisis management framework for non-financial firms has been strengthened with the introduction of the new business crisis and insolvency code, which are due to enter into force in September 2021.

The reforms were complemented with efforts to help banks manage their non-performing loans (NPLs) (Figure 1.9). Stricter supervision improved provisioning for NPLs. Provisioning was also supported by transitional arrangements to the IFRS9 accounting standard, which do not require capital ratio increases with these provisioning increases. The government supports the sale of NPLs by offering tax credits for banks to make the sales, and incentivising firms to buy the loans by guaranteeing senior securitised loan tranches (the GACS “Garanzia sulla cartolarizzazione delle sofferenze”). The GACS scheme has underwritten EUR 14.4 billion in senior loans as part of EUR 17.7 billion in total securitisations (Banca d’Italia, 2021<sup>[12]</sup>).


In response to the COVID crisis, the government further incentivised banks to continue to sell NPLs in 2020 by offering generous tax credits. As a result, despite the fall in bankruptcies and low levels of activity, banks were able to sell around EUR 30 billion in 2020. The state-owned AMCO was a major purchaser of non-performing exposures in 2020 (Canino et al., 2020<sup>[18]</sup>). Market participants forecast a period of consolidation in the market for the purchasers of loans, as well as a shift towards increased use of securitised NPL products to attract more investors into the market. This will require improvements in how to value the unlikely-to-pay segment, a difficult category to assess in Italy as elsewhere – especially in loan exposures that are not securitised with real estate.

Figure 1.9. Non performing and bad loans have been progressively reduced

Share of gross non-performing loans in gross total loans, %



Source: Bank of Italy.

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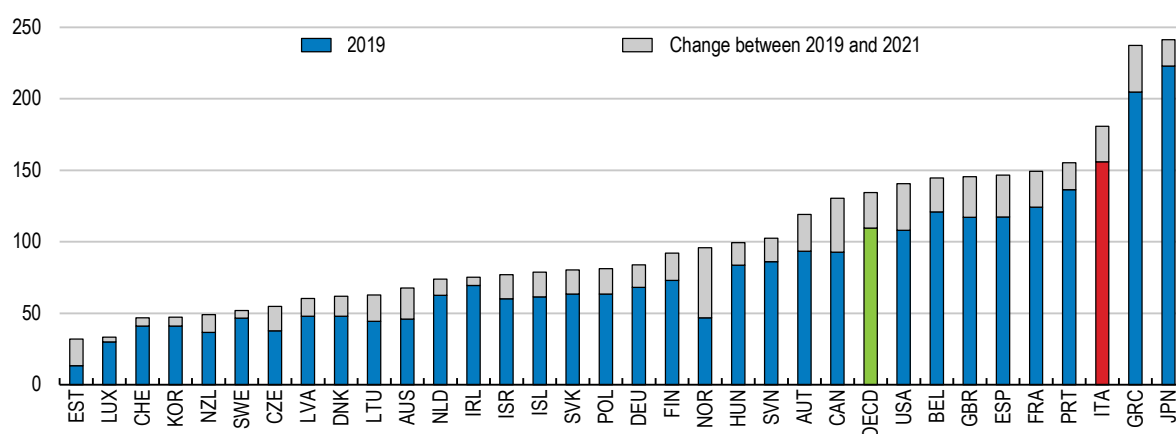
### Risks to public finance sustainability

The government’s decision to strongly increase support given the prolonged fight against COVID-19 has resulted in a sharp increase in the public debt-to-GDP ratio in the OECD, adding to already high debt levels (Figure 1.10). Before this, the primary budget surplus averaged 1.5% of GDP between 2012 and 2019.

Even as COVID-related support spending is withdrawn, the government intends to increase investment spending between 2022 and 2024, delaying a reduction in the budget deficit to under 3% of GDP until 2025. A sustained increase in growth and continued low interest rates are required to achieve the government's target of reducing the debt to GDP ratio to 2019 levels (134% of GDP under the Maastricht definition) by 2030.

**Figure 1.10. Public debt levels have risen sharply and will remain elevated**

General government gross debt, % of GDP



Note: Due to data unavailability the OECD average excludes Chile, Colombia, Costa Rica, Mexico and Turkey.

Source: OECD (2021), OECD Economic Outlook (database).

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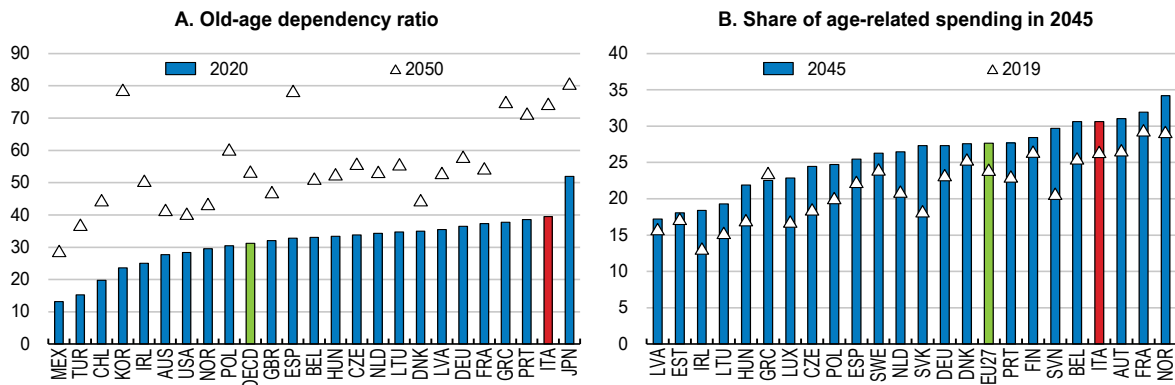
The relatively high public debt-to-GDP ratio increases Italy's sensitivity to interest rates changes. Interest payments are forecast to rise from EUR 57.3 billion in 2020 to EUR 61 billion in 2021 (3.7% of 2020 GDP), and gradually decline as a proportion of GDP as nominal growth increases (Ministero dell'Economia e delle Finanze, 2021<sup>[19]</sup>). Proactive debt management by the Treasury has lengthened the average residual life of issued debt to 6.9 years in March 2021 from 6.3 years in March 2014, helping reduce this pressure (Department of Treasury, 2021<sup>[20]</sup>). Going forward, the "snowball" effect (the difference between nominal growth and interest rates) is forecast to help reduce the debt to GDP ratio for the next 10 years (European Commission, 2021<sup>[21]</sup>). A rise in interest rates would, however, negatively affect Italy if not matched by a rise in the growth rate.

A series of comprehensive pension reforms since 2011, helped to contain the impact of ageing-related spending pressures (Ministero dell'economia e delle finanze, 2020<sup>[22]</sup>); (European Commission, 2021<sup>[21]</sup>). This is thanks in part to the rise in the retirement age which has been linked to life expectancy (OECD, 2019<sup>[23]</sup>).

Nonetheless, age-related spending will continue to rise over the next 25 years, due to health care and long-term care spending (European Commission, 2021<sup>[21]</sup>). With poor demographics, the old age dependency ratio will remain amongst the highest in the OECD (Figure 1.11). In the very long-term, as sustainable pension rules affect more of the workforce, pension spending will decline from 2045 to fall below 2019 levels by 2070 (European Commission, 2021<sup>[24]</sup>). In 2019, measures were introduced to delay the link between retirement age and life expectancy until 2026. The Quota 100 scheme, also introduced in 2019 and due to expire in December 2021, allows early retirement from age 62 with 38 years of contributions. If Quota 100 was permanently adopted, spending on pensions would lead to cumulatively higher spending of 11 percentage points of GDP between 2020 and 2045 (Ministero dell'economia e delle finanze, 2020<sup>[22]</sup>). It should be allowed to expire in December 2021. To further contain costs, permanent survivor pensions – which cost 2.4% of GDP compared to the OECD average of 1% – should not be available to those much younger than the standard the retirement age (OECD, 2019<sup>[23]</sup>).

Currently, the typical Italian pensioner enjoys higher incomes and lower poverty rates than their European counterparts – in contrast with those in work (Figure 1.12). In the long term, in spite of the projected reduction in pension expenditures to GDP, Italian pensioners will enjoy relatively high replacements rates vis-à-vis other EU workers. The “Citizen’s Pension” introduced in 2019 substantially improved social protection for the aged (OECD, 2019<sup>[23]</sup>). However, some pensioners are at risk of poverty. The so-called “women’s option”, which allows early retirement on a notional defined contribution basis until December 2021, should not be renewed as it increases old-age poverty risks (OECD, 2019<sup>[23]</sup>).

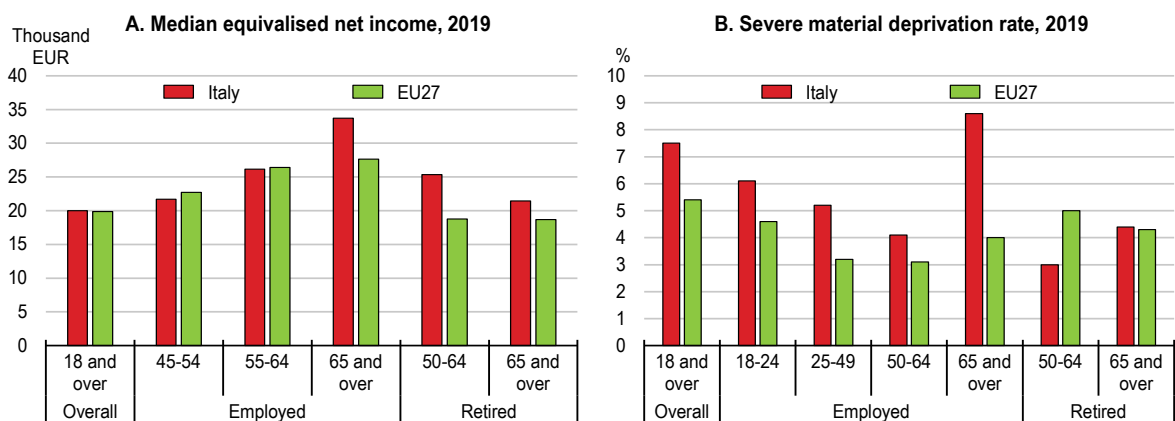
Figure 1.11. Spending on pensions is set to rise from already high levels – even with reforms



Note: Panel A: Number of individuals aged 65 and over per 100 people of working age (those aged between 20 and 64). Due to data unavailability the OECD average excludes Colombia and Costa Rica. Panel B: Age-related spending is based on the European Commission’s 2021 Ageing Report and is based on the reference scenario for the Ageing Working Group. Source: OECD (2019), Pensions at a Glance (database); and European Commission (2021), The 2021 Ageing Report: Economic and Budgetary Projections for the EU Member States (2019-2070), Institutional Paper 148.

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Figure 1.12. Older Italians are relatively well off compared to counterparts in Europe



Notes: Panel A: The median household disposable income includes all income from work (employee wages and self-employment earnings), private income from investment and property, transfers between households, all social transfers received in cash including old-age pensions. To take into account the impact of differences in household size and composition, the total disposable household income is “equivalised”. Panel B: The severe material deprivation rate is the share of respondents living in households unable to afford at least four of the following items: unexpected expenses, a one-week annual holiday away from home, a meal involving meat, chicken or fish every second day, the adequate heating of a dwelling, durable goods like a washing machine, colour television, telephone or car, or are confronted with payment arrears. Source: Eurostat (2020), Income and living conditions (database).

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Contingent liabilities increased to 13% of 2020 GDP, a rise of EUR 129.7 billion from 2019, as the government relied heavily on loan guarantees as a mechanism to improve liquidity during the COVID-19 crisis. The loans disbursed have been lower than the announced guarantee ceilings (Table 1.3). Contingent liabilities related to the COVID crisis stood at EUR 196.4 billion in July 2021 (7.1% of 2020 GDP). Any call on the guarantees will raise the overall public debt stock. Guarantees from the central guarantee fund cover loans issued for between 6 and 8 years. Loans issued by SACE tend to be asset backed and dominated by larger firms. Although debt moratoria cover a substantial EUR 193 billion in loans, the fiscal risks of this scheme are expected to be low, as the guarantee covers only 33% of payments due, after the banks have made a recovery effort. Approximately 22.9% of the stock of bank loans is high risk, with a greater-than 5% default probability (Banca d'Italia, 2021<sup>[12]</sup>).

**Table 1.3. Disbursements of COVID-related guaranteed loans are below the announced ceilings**

	Loan ceiling EUR billion	Stock of total amount disbursed		Collateral provision EUR billion
		EUR billion	% 2020 GDP	
Central Guarantee Fund <sup>1</sup>	n.a	168	10.2	15.2
SACE Guarantee Fund <sup>2</sup>	200	26.4	1.6	29.3
SACE trade credit insurance fund <sup>3</sup>	2	2	0.1	1.7
<b>Total<sup>4</sup></b>		<b>196.4</b>	<b>11.9</b>	<b>46.2</b>
<b>Other notable instruments</b>				
Guarantees of debt moratoria for SMEs <sup>5</sup>		15.1	0.9	
SACE export insurance <sup>6</sup>		50.9	3.1	30

Note: Data as of 2 July 2021. 1. *Fondo centrale di garanzia per le piccole e medie imprese*. These are primarily 100% loans to SMEs (up to 499 employees) distributed by the Central Guarantee Fund, available to finance amounts for up to 15 years for the 100% guaranteed loans or up to 8 years for 90% guaranteed loans. The guarantees can be granted until 31 December 2021. 2. *Garanzia Italia*. The government, through the export credit agency SACE, provides 90% guarantee for loans to firms with a turnover of less than EUR 1.5 billion; 80% for those between EUR 1.5 billion and EUR 5 billion and 70% for those with a turnover of greater than EUR 5 billion. The collateral provision is not an increase in SACE's share capital, but is instead a pre-authorization of spend up to the ceiling should there be calls on the guarantees. This collateral provision is also intended to cover a second guarantee fund, which was provided for in the same legislation as the Fondo Garanzia Italia, with a EUR 200 billion loan ceiling, but this fund is not yet operational. 3. *Assicurazioni crediti commerciali*. Insures 90% of the risk of trade guarantees, up until 30 June 2021. 4. Does not include public guarantees in favour of Cassa Depositi e Prestiti (CDP S.p.A.) that were intended to guarantee up to 80% of loans to large firms experiencing a drop in turnover related to the pandemic emergency. The measure were not enacted as eligibility criteria and conditions for the access to the guarantee should be defined by a ministerial decree. 5. Guarantee covers just 33% of payments to be made under the moratorium, and is payable only after the banks have made a recovery effort. The moratoria on debt have been extended to the end of 2021. 6. The government does not include the export insurance guarantee as part of its calculation of COVID liabilities, even though the measure was introduced in response to COVID. The figure reported is the amount of the Fund devoted to the export insurance guarantee as of end 2020: EUR 30.2 billion of the Fund has gained the direct backing of the State in 2020 as the share of these guarantees backed by the State increased from 10% to 90% in 2020.

Source: (Ministero dell'Economia e delle Finanze, 2021<sup>[19]</sup>); (European Systemic Risk Board, 2021<sup>[25]</sup>); (Banca d'Italia et al., 2021<sup>[26]</sup>)

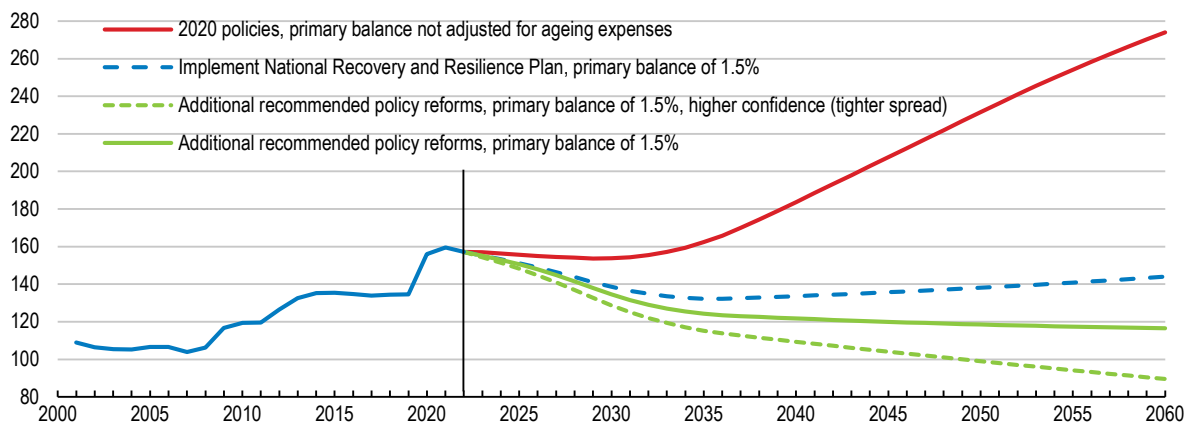
To place public debt ratios on a sustained downward path, Italy will need to grow faster and better allocate public resources and taxation. The reforms embodied in the National Recovery and Resilience Plan will help to raise growth if well implemented. However, even with a primary budget surplus of 1.5% of GDP, this will be insufficient to reduce the public debt-to-GDP ratio over the very long term (Figure 1.13). Signalling a clear, effective and sustainable fiscal framework will be put in place is a key condition to maintain investor confidence. Rebuilding fiscal space will help to absorb future shocks. Medium-term fiscal plans should be developed, even if implementation will be dependent on the pace of recovery. These fiscal plans should recognise the potential risks from higher interest rates or lower growth and set out strategies to address them.

Over the medium term, the fiscal framework must support faster growth whilst meeting the high and rising cost of ageing. Raising already high tax revenues or lowering levels of public investment in education and physical infrastructure would adversely affect economic growth. This will weigh on younger generations

who are now more at risk of poverty than older generations. Reallocating public spending and adjusting the tax mix are thus key priorities. Spending plans should be informed by a succinct set of policy performance indicators and public spending reviews to ensure allocations reflect spending effectiveness in achieving priorities and meeting citizens' needs. These measures are discussed in Chapter 2. Tax reforms should ensure a fair, efficient and progressive tax system. To boost growth, public finance management reform should be complemented with additional structural reforms as discussed below.

**Figure 1.13. Putting public debt on a downward path requires additional structural reforms**

Gross public debt, % of GDP



Note: Policy scenarios are described in Table 1.5. **Error! Reference source not found.** In the baseline and recommended policy reform scenarios, the primary budget surplus is assumed to reach 1.5% of GDP from 2029. In the scenario with no adjustment for ageing expenses, the difference in ageing costs between 2020 and the relevant year as projected by the 2021 Ageing Report (European Commission, 2021<sup>[24]</sup>) are subtracted from the primary balance. Interest rates are assumed to rise to 4.3% by 2037, except in the 'tighter spread scenario where they rise to 3.75% from 2037. Real annual GDP growth is projected to stabilise at 0.5% in the baseline scenario from 2025; in the recommended policy reforms scenario, it is projected to rise to 1.4% by 2030 and then gradually slow to 1.0% by 2060. Source: Calculations based on several OECD Economics Department Working Papers: (Guillemette and Turner, 2018<sup>[27]</sup>); (Guillemette et al., 2017<sup>[28]</sup>); (Cavalleri and Guillemette, 2017<sup>[29]</sup>) (Guillemette, De Mauro and Turner, 2018<sup>[30]</sup>); and Eurostat population projection scenarios.

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## Past OECD recommendation to reduce medium-term fiscal risks

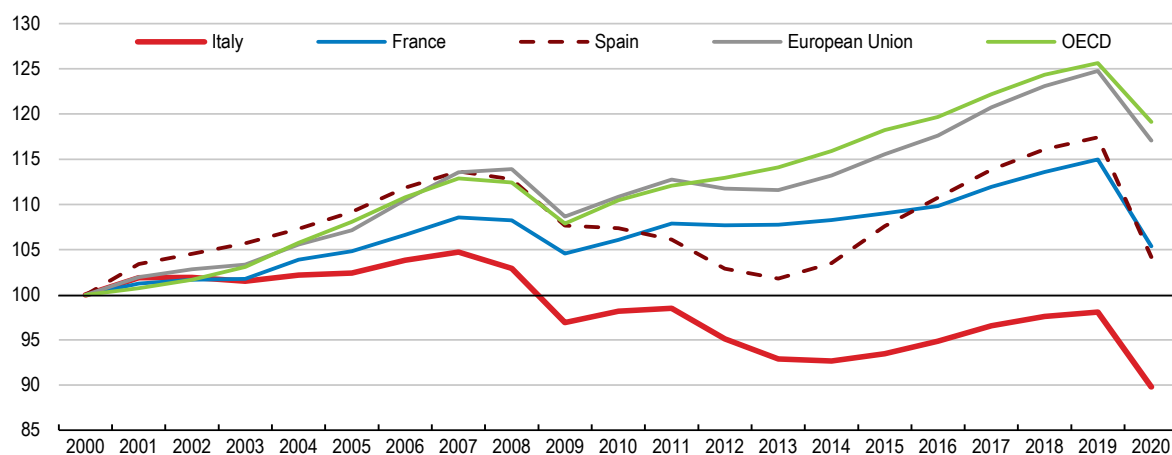
Past recommendations	Actions taken since 2019
Boost fiscal credibility by setting out a medium-term fiscal plan within the EU Growth and Stability Pact, aiming to steadily raise the primary surplus. Stick to the planned fiscal strategy to bring the debt-to-GDP ratio onto a declining path.	The fiscal strategy has been dominated by the COVID response. The government is correctly focused on raising growth, has committed to return to medium-term fiscal sustainability, and is investigating comprehensive tax reform proposals.
Reverse the changes in early retirement rules introduced in 2019 and preserve the link between retirement age and life expectancy.	No change. The Quota 100 system is due to expire in December 2021; retirement age and life expectancy will be re-linked in 2026.
Continue to assess the magnitude of budgetary contingent liabilities, including the vulnerability of public finances to risks associated with the financial sector.	Contingent liabilities have risen to EUR 215.5 billion in 2020 (EUR 85 billion in 2019), due to COVID-policy related guarantees on loans.

## A structural reform package for a sustained, green and inclusive recovery


Italy's per capita income is now below its level 20 years ago while most other OECD countries have seen an increase (Figure 1.14). Investment, productivity and job creation have all lagged behind peers. To overturn decades of low per capita income growth, Italy must implement structural reforms that will boost employment, investment and productivity (Figure 1.15).

**Figure 1.14. Per capita income has stagnated**

Real GDP per capita, index 2000 = 100

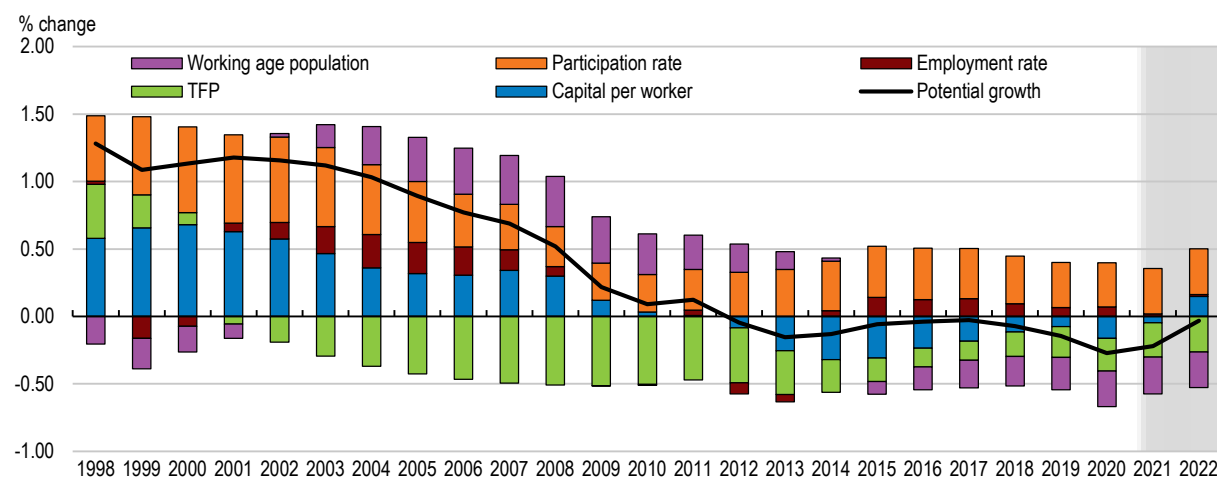


Source: OECD (2021), National Accounts (database).

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**Figure 1.15. Sluggish investment and productivity have weighed on growth**

Breakdown of potential growth



Note: The potential growth decomposition calculates total factor productivity as a residual. Since the calculation of labour inputs does not adjust for working hours, fluctuations in hours worked are reflected in the total factor productivity component.

Source: OECD (2021), OECD Economic Outlook (database).

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### ***The National Recovery and Resilience Plan prioritises investment and structural reforms***

The government intends to support growth in the near-term through providing substantial support for households and firms to preserve productive capacity in 2021 and to a lesser extent in 2022. The transition to faster growth post-COVID is primarily driven by implementing structural reforms and increased public investment (Box 1.3). Public investment spending, focused on green and digital and technology investments, will remain above 3% of GDP from 2022, up from an average of 2.5% between 2010 and 2020.

### Box 1.3. Spending priorities of the National Recovery and Resilience Plan

The National Recovery and Resilience Plan outlines structural reforms and spending plans of EUR 235 billion to raise Italy's growth. Funding includes EUR 205 billion Next Generation EU funds. Italy intends to utilise the full EUR 68.9 billion in grants and EUR 122.6 billion in loans from the Recovery and Resilience Fund, as well as EUR 13.5 billion in REACT-EU funds. National resources of EUR 30 billion will be held in a complimentary investment fund.

Spending is spread along 6 core priority areas (Table 1.4). Greener energy, transport (in particular high-speed rail) and the efficiency of buildings are prioritised alongside broadening Italy's use of technology including through faster broadband connectivity. New projects account for just over 70% of the total spend. Public investment and research and development make up over EUR 90 billion in new investments, combined with almost EUR 30 billion in new incentives to encourage investment in the private sector (Figure 1.16).

Table 1.4. Estimated allocations for the National Recovery and Resilience Plan

Total amounts to be utilised over 2021 – 2026

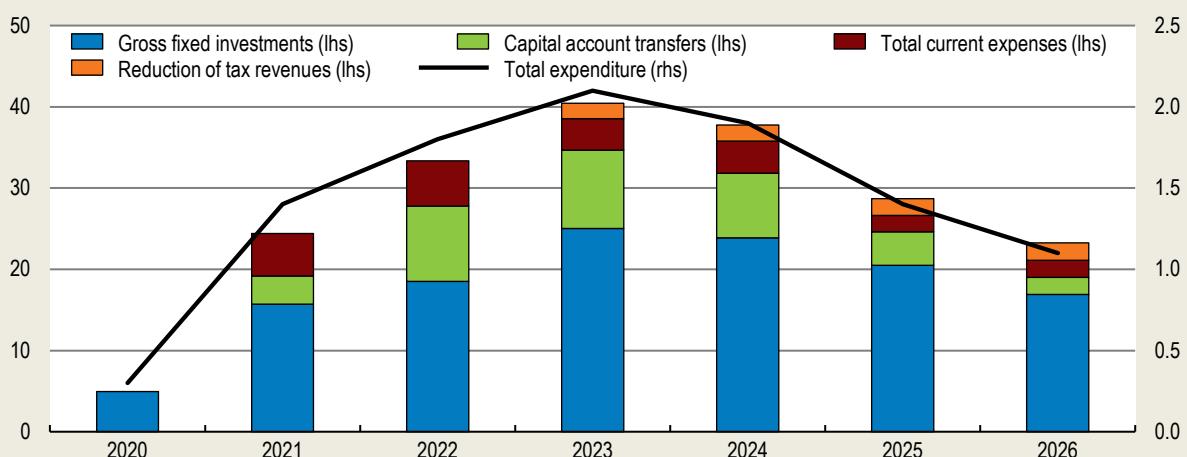
Focal Area	EUR billion <sup>1</sup>	% of total	% of GDP <sup>2</sup>
Green revolution and ecological transition	69.9	29.7	4.0
Digitisation, innovation, competitiveness & culture	49.9	21.2	2.9
Infrastructure for sustainable mobility	31.5	13.4	1.8
Education and research	33.8	14.4	1.9
Inclusion and cohesion	29.8	12.7	1.7
Health	20.2	8.6	1.2
Total	235.1	100.0	13.5

Note: 1. Includes funds from Next Generation EU (Recovery and Resilience funds and REACT-EU) and the complimentary investment fund, made up of budget and EU Structural Fund allocations. 2. Using forecast 2021 GDP.

Source: (Consiglio dei Ministri, 2021<sub>[31]</sub>); OECD estimates.

Figure 1.16. Investment dominates spending plans

Spending type, % of GDP



Note: Only includes the Recovery and Resilience Funds grants and loans.

Source: (Ministero dell'Economia e delle Finanze, 2021<sub>[19]</sub>) and OECD calculations.

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The Plan uses a number of successful existing incentive programmes to stimulate higher private investment. A number of projects can be deployed rapidly and are likely to raise growth in the near term - in particular, projects to support railways, private investment and R&D tailored to businesses make up a third of total spending. Plans for renewable energy, electric vehicle infrastructure and broadband could quickly crowd in higher private investment beyond the amount directly budgeted if there is clarity about the long-term vision for the market in the respective sectors.

Transversally, spending on the South accounts for about 40% of all investments with a specific geographic focus, although the proportion varies across the different thematic areas. In order to translate into a sustained improvement in regional growth and employment outcomes, it will be necessary for public administration effectiveness to rise. (Papagni et al., 2021<sup>[32]</sup>) find differing investment outcomes based on the quality of institutions. (Albanese, Blasio and Locatelli, 2021<sup>[33]</sup>) find that European Reconstruction and Development Fund investments tend to raise total factor productivity growth where institutions are better.

Total direct spending dedicated to women is estimated at EUR 7.5 billion, including the plan's EUR 4.5 billion to expand early childhood care infrastructure and access, which is an obstacle to female labour force participation. Other efforts also seek to raise participation in science, technology, engineering and maths, women's entrepreneurship and a gender equality certification system. Women will also benefit from a temporary hiring incentive for employers.

Source: (Servizio del Bilancio del Senato, 2021<sup>[34]</sup>) ; (L'Ufficio parlamentare di bilancio (UPB), 2021<sup>[35]</sup>); (Consiglio dei Ministri, 2021<sup>[31]</sup>).

The National Recovery and Resilience Plan places a central role for a series of structural reforms, which will be critical to secure long-term growth gains from higher spending. The key themes are to raise the effectiveness of the public administration and reduce regulatory burdens, improve the efficiency of civil justice and foster competition. Some of these reforms have begun (Box 1.4 and Box 2.1). Chances of successful implementation of structural reforms are greater than in the past as clear milestones and targets have been set and are linked to the disbursement of Next Generation EU grants and loans.

The identified areas are all in line with the priorities identified by the OECD (see below). Chapter 2 outlines the priorities for reforming the public administration to improve the implementation of the National Recovery and Resilience Plan. The potential impact of the Plan's structural reforms and investment plans, assuming historic absorption rates, are modelled in Table 1.5, together with a series of already-legislated reforms. These include the introduction of a EUR 100 monthly tax credit for workers, the introduction of legislated bankruptcy reforms and temporary support for disadvantaged workers.

The results highlight that the substantial increases in spending alongside structural reforms envisaged by the National Recovery and Resilience Plan can have an important impact on growth. Permanent increases in public investment in physical capital and education and skills, when accompanied by improvements in spending quality, would complement and reinforce these gains.

This Survey's recommended reforms are intended to deepen the substantial reform programme the government has outlined in the National Recovery and Resilience Plan. Higher absorption rates of investment funds are possible with reforms to public investment processes as described in Chapter 2. Over the longer term, raising the quality of and access to adult learning and early childhood education and care, as well as lowering non-wage labour costs, would ensure that the gains from growth are more evenly spread. Productivity growth can be increased through reducing regulatory burdens and improving competition – particularly in the services sector. (Table 1.5) presents estimates of the impact of a selection of reforms discussed in this Survey on growth and Table 1. the impact on the fiscal balance.

### Box 1.4. Structural reform priorities in the National Recovery and Resilience Plan

The structural reforms agenda addresses some of the most important obstacles to raising Italy's long-term growth potential. A timetable of reforms has been agreed with the European Commission. Since many reforms will take time to implement, the disbursement of Next Generation EU funds is contingent on reaching a series of milestones. The structural reform agenda is ambitious and demanding. Improvements in the public administration's effectiveness will facilitate rapid implementation. The monitoring and accountability mechanisms established will be crucial for successful implementation, alongside a clear, agreed program with the legislature.

Structural reform priorities		
Reform area	Core objectives	Selected actions taken or planned
Reform of public administration	<ul style="list-style-type: none"> <li>• Improve recruitment, training and performance evaluation of civil servants, including use of more flexible contracts to better match skills with needs</li> <li>• Increase digital tools for public to interface with government</li> <li>• Increase digitisation of procurement systems and undertake necessary training</li> <li>• Simplify and rationalise processes for procurement and environmental impact assessments, investments for telecommunications, renewables and urban regeneration, and those qualifying for incentives in the South, by 2021</li> <li>• Create a digital application process and repository of government procedures, alongside technical support, to streamline processes by 2026</li> <li>• Reform the Independent Assessment Bodies and benchmarking to improve performance incentives</li> </ul>	<p>Simplification decree of 2020 passed</p> <p>Pact on the innovation of public employment and social cohesion signed between government and unions in March 2021</p> <p>New rules about hiring procedures and criteria, contracts and career of public employees hired to implement the National Recovery and Resilience Plan in June 2021</p> <p>May decree passed with procurement and investment process reforms for National Recovery and Resilience Plan projects</p> <p>A bill on the South will be presented by 30 September 2021</p>
Reform of civil justice	<ul style="list-style-type: none"> <li>• Increase the number of staff to deal with backlogs</li> <li>• Improve time management of trials through performance management reforms for magistrates and managers</li> <li>• Increase digital submission of documents and written arguments</li> <li>• Support alternative dispute mechanism with economic and fiscal incentives</li> <li>• Speed up bankruptcy execution with new deadlines and simplified procedures and forms for creditors.</li> <li>• Reducing the tax appeals backlog through increased resources and consolidated tax guidelines</li> </ul>	<p>Bill before parliament on legal reform, which will significantly enhance use of digital tools and procedures and management of caseloads</p> <p>A commission will propose amendments to the so-called crisis and insolvency code</p> <p>A commission report on tax appeals was completed 5 July 2021</p> <p>A commission submitted proposals on trials in April 2021</p>
	<ul style="list-style-type: none"> <li>• Single platform to publish information to control corruption</li> </ul>	<p>Enabling bill to be presented to Parliament by September 2021</p>
Greater competition	<ul style="list-style-type: none"> <li>• Annual competition law review to be implemented</li> <li>• Reform of concessions for key network industries to lower entry barriers and raise competition, in conjunction with more guidelines for when the state uses in-house provision</li> <li>• Increased competition in renewable energy, electric vehicles and increased transparency clarity with respect to public awarding of concessions.</li> <li>• Consolidate competition oversight bodies and simplify and digitise supervisory regime</li> </ul>	<p>Annual competition law of 2021 to ensure more competition for concessions at ports and measures to stimulate broadband demand and reduce administrative burdens for installation.</p> <p>Concessions at hydroelectric plants and natural gas distribution, and regulations on electricity grid connections to be implemented by 2022</p> <p>Motorway concessions to be addressed by 2024</p>
Tax <sup>1</sup>	<ul style="list-style-type: none"> <li>• Collect and rationalise tax code</li> <li>• Better use of data analysis to direct risk based compliance checks and increased use of automated form filling. Fiscal federalism will be considered by Q1 2026.</li> </ul>	<p>A comprehensive tax reform proposal will be put forward in the second half of 2021.</p>

Note: The list of reforms are not exhaustive, but a summary of major reforms the government has outlined. 1. Although tax reform is not officially part of the National Recovery and Resilience Plan it will strengthen the aims and objectives.

Source: (Consiglio dei Ministri, 2021<sup>[31]</sup>) OECD.

### Box 1.5. The impact of the National Recovery and Resilience Plan and additional structural reforms on growth and fiscal sustainability

The tables below present the growth and fiscal impacts of some key structural reforms proposed in this Survey. These estimates are illustrative. There are high levels of uncertainty in determining the growth impact of reforms. The timing and quality of investment spending will also affect estimates. The government has estimated that depending on the efficiency and quality of investment, the impact on growth can vary between 1.8 and 3.6 percentage points (Consiglio dei Ministri, 2021<sup>[31]</sup>). The Banca d'Italia estimates that the investments outlined in the National Recovery and Resilience Plan could raise GDP by almost 2.5% in 2024 (Banca d'Italia, 2021<sup>[36]</sup>), assuming that investments are spent promptly. If the investments are successful at crowding in private investment, the number could rise to 3.5% in 2026. The Banca d'Italia estimates an additional 3 to 6 percentage points of growth could be achieved with structural reforms over a ten year time horizon. The European Commission estimates that the impact of the investments on growth by 2025 could vary between 1.4% and 2.3% depending on the productivity of the investments (European Commission, 2021<sup>[37]</sup>).

Table 1.5. A policy reform package to boost income into the long term

Scenario	Policy actions	Cumulative effect on real GDP %	
		2025	2030
National Recovery and Resilience Plan and other 2021 announced policies <i>Additional contribution to GDP compared to 2020 policies and projections</i>	Structural reforms and spending EUR 235 billion, using Next Generation EU funds, Development and Cohesion Funds and own resources, as well as earmarked fiscal resources for 2021-2026 of over EUR 30 billion to support employment and education <ul style="list-style-type: none"> <li>i. Implementation of current and planned reforms to bankruptcy processes, court operations, administrative simplification and public administration</li> <li>ii. Higher public investment</li> <li>iii. Higher levels of R&amp;D spending</li> <li>iv. Increased competition in network industries (broadband, ports, electricity, natural gas, toll roads)</li> <li>v. Permanently maintain the EUR 100 monthly tax credit</li> <li>vi. Temporary reduction in employers' social security contributions</li> <li>vii. Active labour market spending doubles to reach the OECD per unemployed by 2030, primarily due to hiring incentives;</li> <li>viii. Increased spending on early childhood and other education facilities to expand access</li> <li>ix. Social welfare spending benefits continue (Citizen's Income and unified child allowance)</li> <li>x. Higher permanent increase in early childhood education and care and other in-kind family support</li> </ul>	2.1	5.9
Recommended additional reforms <i>Additional contribution to GDP compared to National Recovery and Resilience Plan and other announced 2021 policies</i>		0.3	2.9
<i>Of which:</i> Spending reforms to support employment	<ul style="list-style-type: none"> <li>xi. Further improve absorption rate of public investment funds by broadening institutional changes by consolidating procurement agencies, introducing a maintenance framework and expanding the scope of technical assistance to regions and municipalities</li> <li>xii. Permanent cut in labour income tax wedge for all workers</li> <li>xiii. Improved access to early childhood education and higher quality of services through better information dissemination of facilities' performance</li> <li>xiv. Improved quality of and access to adult education and life-long learning through reforms to Training Funds and increase in active labour market policy spending more oriented towards skills development improve education outcomes</li> <li>xv. Moderate pension reform.</li> </ul>	0.3	2.2

**Table 1.5. A policy reform package to boost income into the long term (continued)**

Scenario		Policy actions	Cumulative effect on real GDP %	
			2025	2030
Of which:	Investment climate reforms	xvi. Improve effectiveness of public administration more clarity on roles of different layers of government beyond the National Recovery and Resilience Plan and the dissemination of best practice, as well as measures to improve the accountability of elected officials and magistrates	0	0.7
		xvii. Increase competition in services sectors, including reform regulation of professional services and retail trade		
		xviii. Undertake regulatory reviews for priority sectors		

Note: The projections for the National Recovery and Resilience Plan assume that i) improvement in functioning of civil justice and public administration allow the perceptions of rule of law to return to the level of 2004 from 2025; ii) that new planned investment spending accelerates over time, consistent with historic grant spending patterns, with recent governance innovations allowing a faster-than-historic increase in absorption so that by 2026 is equivalent to Italy's 2014 absorption rate of the 2007-2013 European structural support programme (63% by 2026), before returning to an annual level 0.15% points above the level sufficient to maintain the existing public capital stock from 2029; iii) R&D spend rises to 2.0% GDP by 2030; iv) increased competition in network industries supports a 10% reduction in the electricity, communications and transport index by 2025; v) the EUR 100 monthly tax credit remains in place permanently; vi) employers' social security rebate for women, younger workers and workers in the south are phased out completely by 2030; vii) that active labour market spending doubles to reach the OECD average per unemployed by 2030, primarily due to hiring incentives; viii) that the roll-out of the Citizen's Income guaranteed minimum income and other announced tax and benefit measures (such as the unified child allowance) lower the Gini coefficient on income inequality from 35.9 to 35.1; ix) that increases in early childhood education and care and other in-kind family support permanently raise spending to the OECD average of 0.9% of GDP by 2025; and x) that the early retirement scheme (Quota 100) expires after 2021 and retirement ages are re-linked to life expectancy in 2026. The direct impact of incentives on private investment was not modelled, but is in part captured through estimates of higher R&D spending and lower network competition.

Note: Policy scenarios presented in the table correspond to: xi) Improve the use of Next Generation EU funds to equal the top 3 spenders of historic EU funds (93% by 2026); xii) permanently reduce the tax wedge for all workers equivalent to 0.9% of GDP; xiii) improvements to access in early childhood education and higher spending on early childhood education and care and other in-kind family support to the top 25% of OECD spending countries (1.12% of GDP by 2030); xiv) active labour market spending rises to the third decile of OECD countries by 2030, focused on training, and with quality improvements to Training Funds raises average years of schooling by 0.3 by 2060 relative to the baseline; xv) allow retirement age with life expectancy from 2023; xvi) rule of law index rises to the levels of 2000 from 2030; xvii) and xviii) combined impact equivalent to reducing the product market regulation index by 0.15 by 2025.

Source: Calculations based on several OECD Economics Department Working Papers: (Guillemette and Turner, 2021<sup>[38]</sup>); (Guillemette et al., 2017<sup>[28]</sup>); (Cavalleri and Guillemette, 2017<sup>[29]</sup>); (Guillemette, De Mauro and Turner, 2018<sup>[30]</sup>); and Eurostat population projection scenarios

### Table Fiscal impact of selected proposed reforms

Fiscal impact (savings (+)/ costs (-)), % of GDP

Measures undertaken	% GDP
i. Increase tax compliance and lower tax expenditures	2.1
ii. Reduce tax wedge by extending reduction in social security contributions to all workers	-0.9
iii. Increase access to adult skills attainment, with improved Training Fund application processes and better coordinated public employment services and raise active labour market policy spending	-0.8
iv. Improve access to quality early childhood education and care across all regions and then raise spending)	-0.5
Direct impact of suggested reforms on government spending	-0.2
Revenue gain from higher growth following recommended reform package	0.5
Overall budget impact of specific measures of recommended reform package	0.3

Note: i) VAT gap drops to 10% of GDP (close to EU average of 9.6% in 2019) and self-employed tax gap drops to 35%; ii) Extension of social security contribution reduction extended to all workers from current projected annual expenditure of EUR 4.3 billion on workers in the South, which makes up 24% of total employment; iii) ALMP increase would entail active labour market spending rising three times from 2018 levels (0.42% GDP); and iv) In-kind family benefits rise from 0.65% to 1.12% GDP.

Source: OECD calculations.

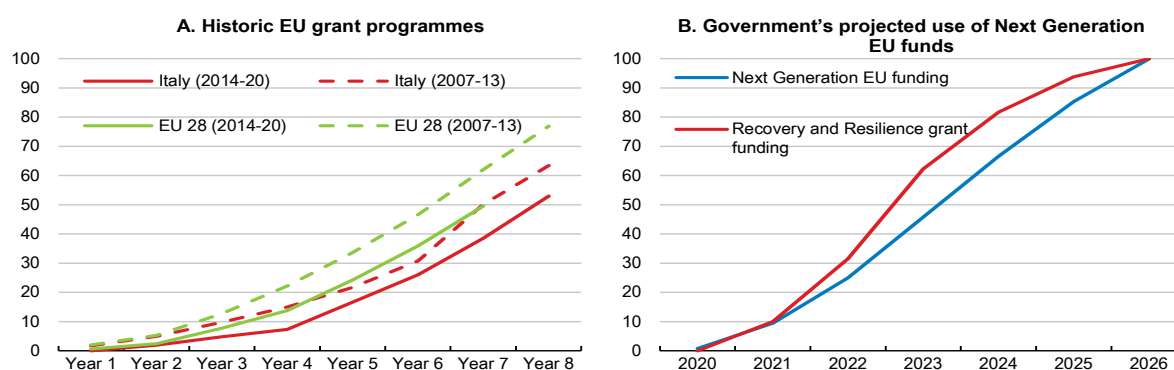
## Supporting more effective public investment spending

Italy plans to disburse the Recovery and Resilience funds more swiftly and effectively than it has disbursed its European investment budgets in the past (Figure 1.17). Stakeholders have highlighted governance, administrative capacity and procedures as core elements in slowing down past disbursement rates. (Crescenzi, Giua and Sonzogno, 2021<sup>[39]</sup>) find that past EU projects structured similarly to Next Generation EU funds are spent in a timely fashion if there is a strong role for the national government, wide consultation with local stakeholders (beyond regional and local authorities) and limited intermediate governance layers. Italy has undertaken a number of innovations to improve disbursement rates. Centralised monitoring of progress in implementing investments and structural reforms, and a separate team to monitor financial compliance, will improve accountability. Simplified procedures, tighter deadlines for government authorisations and deadlock breaking mechanisms in the event of non-performance have been legislated. This also includes intervening in local authorities' powers in certain circumstances, such as delayed project implementation. Procurement processes have been adjusted, including consolidating all required authorisations and opinions into a single feasibility document, and restricting which bodies can issue tenders for investments linked to the National Plan. This could lead to improved project planning, prioritisation and implementation (Chapter 2).

Nonetheless, addressing the underlying constraints to public investments would reduce Italy's need to turn to exceptional arrangements such as special commissioners to implement urgent or high-profile projects. Delays in starting projects could be reduced further by consolidating procurement into regional and central governments' specialised procurement agencies (Chapter 2). These have deeper capacity, are better able to prepare and cost projects, have experience in assessing procurement against broad economic effectiveness and other policy criteria, and are better able to manage disputes with tenderers. Better coordinating and collaborating across the different government agencies involved in investment projects would smooth implementation and help navigate differences in capacity. If it were to be fully developed and resourced, Investitalia – the new agency that helps different government bodies prepare public investment projects, obtain approvals and implement projects – may be a model that merits expanding. Ensuring sufficient funding for ongoing maintenance would help avoid further cases of assets degrading to the point where they require costly emergency reconstruction. Other suggestions to strengthen the Plan include efforts to improve public administration efficiencies, digitisation and green energy, as discussed below.

**Figure 1.17. There is room to improve utilisation of EU investment funds**

Cumulative spending (disbursement) as a percentage of allocated funds



Note: 2007-2013 includes grants for Cohesion Fund, European Regional Development Fund and European Social Fund programmes; 2014 – 2020 includes Cohesion Fund and European Regional Development Fund programmes.

Source: (Darvas, 2020<sup>[40]</sup>); (L'Ufficio parlamentare di bilancio (UPB), 2021<sup>[35]</sup>); (Ministero dell'Economia e delle Finanze, 2021<sup>[19]</sup>)

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## Past OECD recommendations on public investment policy

Past recommendations	Actions taken since 2019
<b>Develop a comprehensive public investment and spatial plan linking infrastructure developments with land use management</b>	The National Recovery and Resilience Plan has built on the previous infrastructure plan released by government. Land use management has not been integrated into the plan.
<b>Create, as planned, a technical support unit for public investment using existing administrative structures and ensure it is well staffed.</b> Strengthen the coordinating role of the central government to set and enforce minimum standards in project preparation and execution and to enhance the administrative capacity of all agencies using national and European funds for investment.	The government has introduced special commissioners as well as centralising the focus of the Next Generation EU within the Ministry of Finance. The recently established agency Investitalia has started supporting sub-national governments' investment.
<b>Promote greater use of centralised procurement, cost information systems and benchmarking.</b>	Reforms to procurement in 2019-2020 have not included actions to encourage greater use of centralised procurement. Certain measures reduced the availability of cost information or of benchmarking.
<b>Simplify the most complex aspects of the public procurement code but protect the powers of the anticorruption authority.</b>	In 2019, procurement was re-codified, including the instructions and guidelines prepared by the anti-corruption authority. The requirement to award tenders above a prescribed value to the 'most economically advantageous' bid became an optional alternative to awarding to the lowest cost bidder. The 2020 Simplification Decree eased public procurement procedures, including raising thresholds for competitive bids and accelerating processes, allowing greater use of direct award or negotiated procedures for purchases in priority areas.
Re-assign and clarify competences between the central and sub-national governments. Rationalise and improve coordination in regional development policies by strengthening the role and expertise of central government bodies	No significant progress.

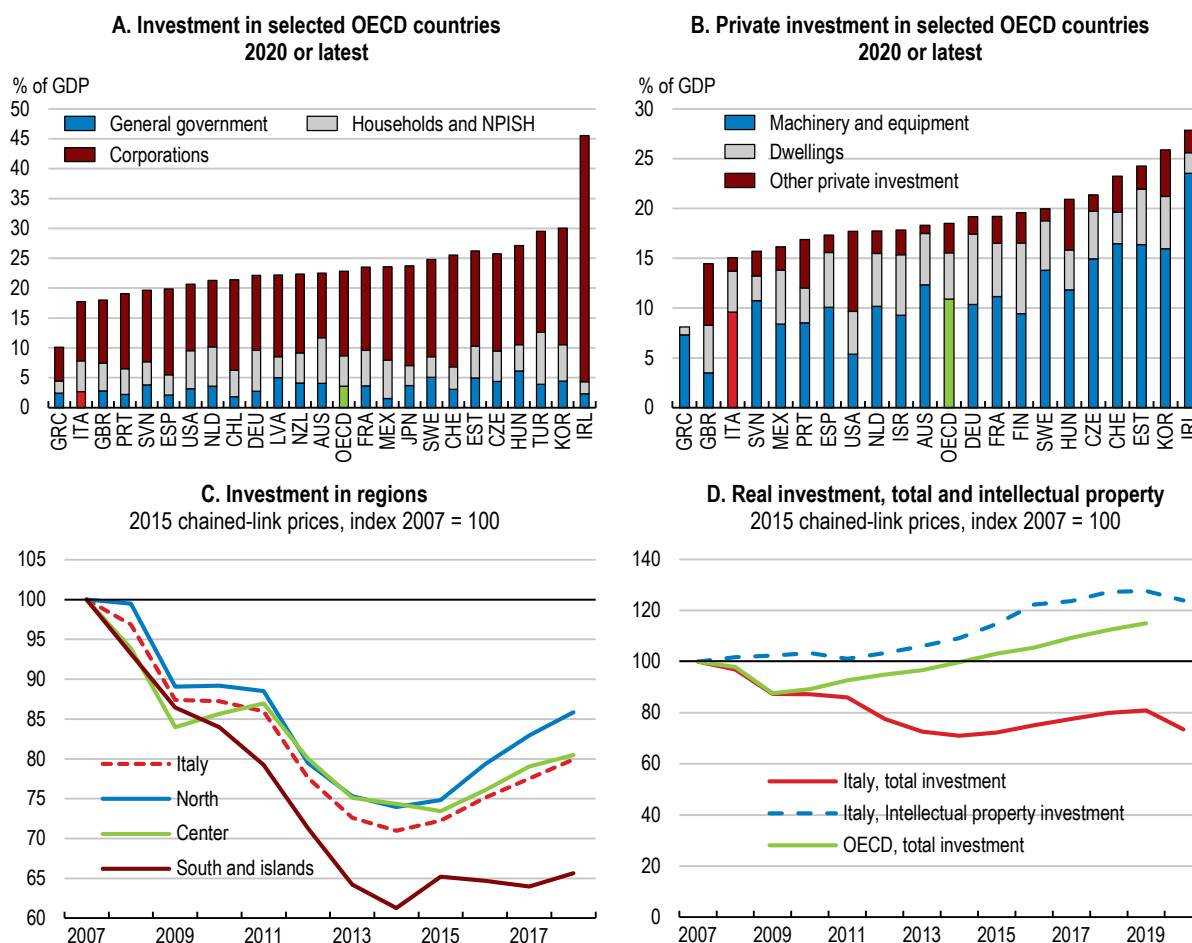
### **Efforts to raise private investment must reach the services sector**

Business investment in Italy is much lower than in OECD peers (Figure 1.18). The global financial crisis and the sovereign debt crisis both lowered investment. The recovery has been slow due to weak demand, low profitability and firms' difficulties in accessing finance; high taxes and burdensome regulations also played a role (Briguglio et al., 2019<sup>[41]</sup>). Services firms, which are more numerous in the South, account for 71% of total investment, but their recovery was much slower than manufacturers' (Figure 1.19).

To promote business investment, the government instated a generous set of incentive schemes under the banner Impresa 4.0 and most recently Transizione 4.0, to offset the high regulatory burdens and levels of uncertainty faced by firms. Investment in assets favoured by the incentives, such as R&D and computer software, have grown very quickly (Figure 1.19). The incentives have worked particularly well in supporting investment in manufacturing firms (Ciapanna, Mocetti and Notarpietro, 2020<sup>[42]</sup>); (Briguglio et al., 2019<sup>[41]</sup>); (Bratta, Romano and Acciari, 2020<sup>[43]</sup>); (ISTAT, 2018<sup>[44]</sup>).

The incentives do not reach all firms, and take-up by the service sector, where productivity and investment lag, has been low. The already large productivity gaps between firms that invest and those that do not risk widening further following the pandemic (OECD, 2021<sup>[45]</sup>). The impact of competence centres, established to assist firms to train, plan and execute investments, must be assessed. A dedicated focus on services sectors may be required. In an effort to better target SMEs, the government has limited access to the incentives to smaller firms by limiting claims as well as the size of potential investments. The impact of this shift should be monitored, as it could have unintended consequences – excluding larger investments may lower the aggregate investment rate (Zangari, 2020<sup>[46]</sup>). In addition, it may create incentives to stay small for firms that take up the incentive.

Figure 1.18. Investment has recovered slowly from the global financial crisis and lags peers

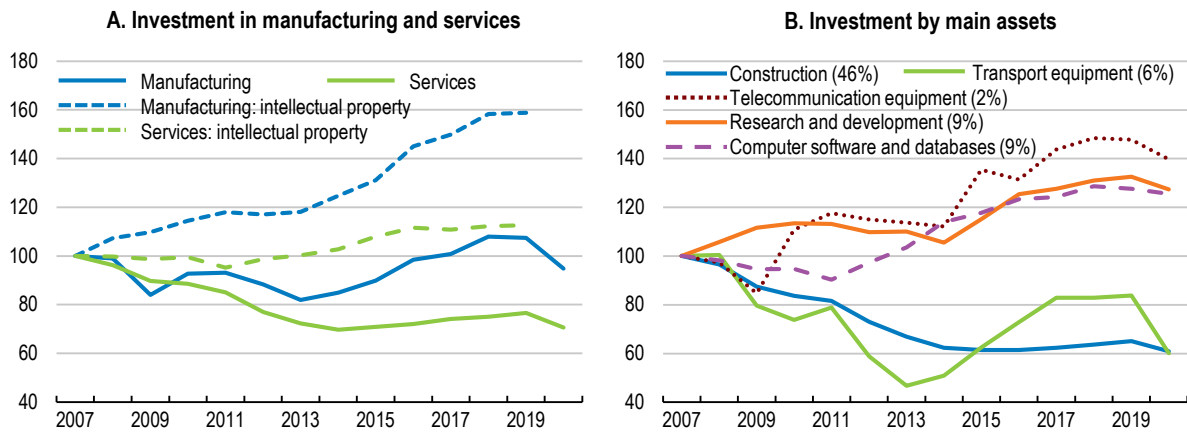


Note: Panels A and B: OECD unweighted average is computed using the available OECD countries. For Estonia, Hungary, Italy and Slovenia, private investment is the difference between total investment and government gross fixed capital formation. Panel D: Public services, education and health refer to public administration and defence, compulsory social security, education, human health and social work activities. Numbers in bracket show the 2018 share of the sector in total investment for the region.  
 Source: OECD National Accounts Statistics database; and OECD Economic Outlook database; and ISTAT.

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**Figure 1.19. Investments rose fastest in manufacturing sectors and intellectual property assets**

Real investment, 2015 chain-linked prices, indices, 2007 = 100



Note: Panel B: The percentages in brackets indicate the share of each assets in 2020.

Source: ISTAT and OECD calculations.

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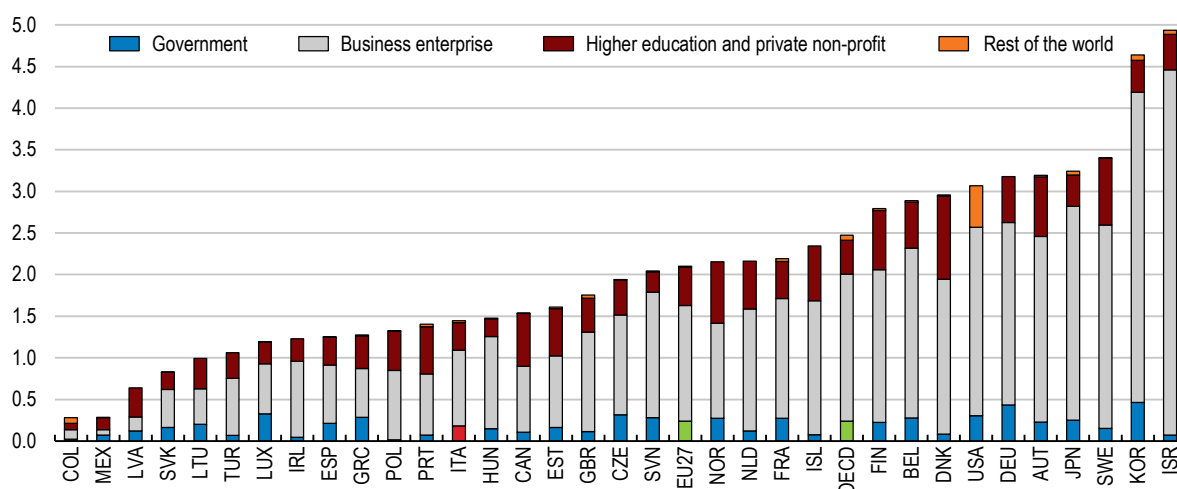
Italy's total research and development spending (1.4% GDP) lags peers, particularly in government and higher education institutions (Figure 1.20). Increasing budget allocations to basic research, channelled through universities, would raise long-term innovation. The National Recovery and Resilience Plan importantly raises support for research and development, with EUR 9.4 billion spending on new initiatives, including direct public grants for R&D, technology transfer and innovation, and green innovation. Existing innovation hubs, which increase the links between business and universities, could amplify the impact of this spending.

Progress in improving the business climate remains slow. Key issues include: the number of permits required to undertake an investment; the lack of clarity about the different regulatory processes in different regions; and overlapping mandates and approval processes from different regional entities. The government plans to collate all regulatory requirements for EU funded investments into one place. A better business environment would reduce the need to rely on financial incentives to support investment.



**Figure 1.20. R&D spending is particularly low by the government and higher education institutions**

Gross domestic expenditure on research and development, 2019, % of GDP



Note: Due to data unavailability the OECD average excludes Australia, Chile, Costa Rica, New Zealand and Switzerland.

Source: OECD (2021), Main Science and Technology Indicators (database) <http://oe.cd/msti>.

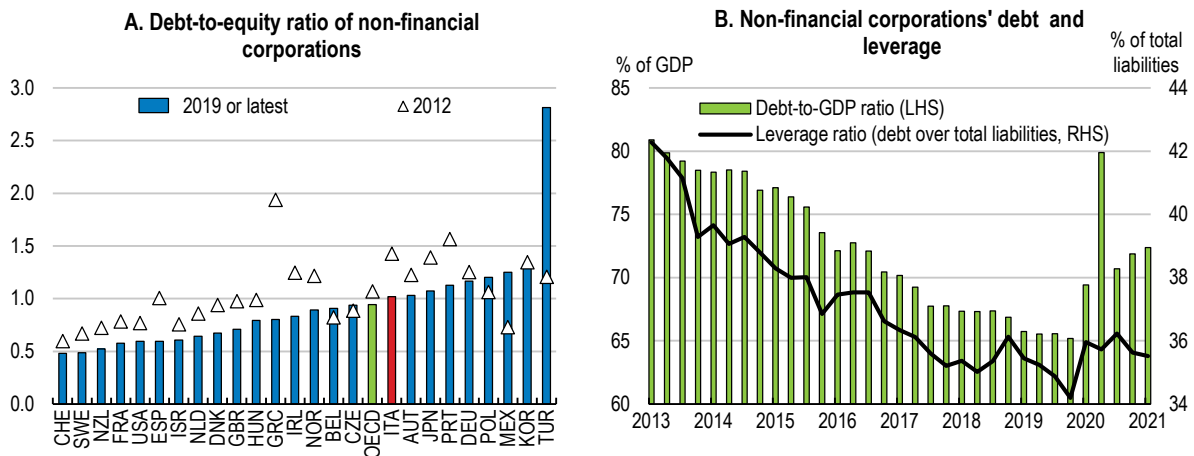
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### *Improving access to equity financing could boost business investment*

Italy's firms tend to rely heavily on bank loans rather than equity as a source of finance. A strong negative relationship between leverage and investment exists in Italy as elsewhere (Briguglio et al., 2019<sup>[41]</sup>). The bias for debt over equity financing is likely to impede innovative, fast-growing firms, because these firms may invest more heavily in intangible property which makes them more reliant on equity financing (Andrews, Adalet McGowan and Millot, 2017<sup>[47]</sup>). The government has taken a number of steps to encourage the development of non-bank channels of finance, both equity and debt (Box 1.6). Leverage has fallen since the sovereign debt crisis (Figure 1.21) due to lower levels of debt - the debt bias remains (OECD, 2020<sup>[48]</sup>).


Removing or reducing tax-related incentives for debt financing could foster increased productivity diffusion. Italy's tax allowance for corporate equity (ACE) was considered by many to be international best practice in supporting firms' use of equity (Box 1.7). The current regime is much less generous than previously, which has helped to contain its fiscal cost but also probably reduced its impact. In 2021, the government temporarily increased the scheme's generosity to accelerate de-leveraging following the COVID-19 crisis, particularly among smaller firms. Stabilising the ACE regime would improve investors' certainty in the costs of different sources of finance, which may improve the scheme's support for deleveraging and investment. To better target The ACE and reduce its fiscal costs, a notional rate for firms that face higher barriers to accessing equity finance (e.g. smaller firms) could be raised (Zangari, 2020<sup>[46]</sup>).

Figure 1.21. Non-financial corporates have reduced leverage but are still vulnerable



Note: Panel A: Due to data unavailability the unweighted OECD average excludes Costa Rica.

Source: OECD (2021), National Accounts: Financial Indicators (database); and ECB.

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### Box 1.6. Developing non-bank financing channels

Italy has introduced several incentives to promote the use of market-based financing, with a particular emphasis on improving access for SMEs. These include:

- **Supporting equity listings, including for SMEs.** Less onerous equity market listing requirements were encouraged through the Alternative Investment Market (AIM Italia), initially established in 2009. The bourse has now more listings than the main bourse. Elite was introduced as a platform to facilitate private fundraising placement. From 2018, firms are incentivised to list on a stock exchange with a tax credit equal to 50% of their advisory costs.
- **Increasing access to corporate bond financing.** The mini-bond market framework established in 2012 provides a simplified process where unlisted companies (other than micro enterprises and banks) can issue bonds with less stringent disclosure requirements, within certain issuance limits. These bonds can only be bought by qualified investors. They can also be securitised, potentially increasing their appeal to institutional investors.
- **Incentivising investments in venture capital funds and in SMEs.** Government-supported venture capital funds include Italia Venture I, II and III to incentivise investment in SMEs, the South and larger corporates respectively. The *piani individuali di risparmio* (PIR) introduced in 2017 exempts investors in SMEs from capital gains and inheritance taxes if funds remain in the PIR for at least 5 years. 2019 amendments, which raised risks and lowered liquidity, were subsequently over-taken by reforms to broaden the scope of investments (including bond issuances) and doubled the maximum annual investment to EUR 300 000. A 5 year tax credit for losses is available for investments undertaken in 2021.

Source: (OECD, 2020<sup>[48]</sup>)

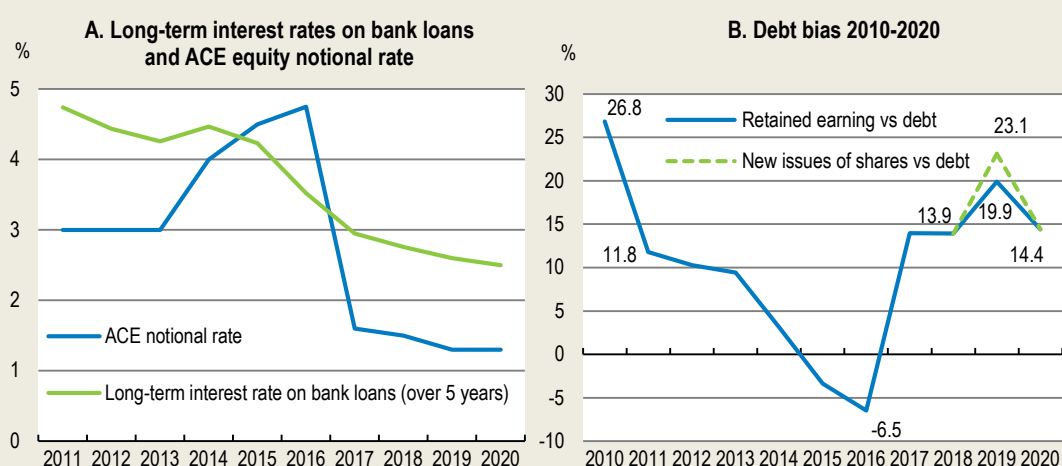
### Box 1.7. Italy's experience with the tax allowance for corporate equity (ACE)

An Allowance for Corporate Equity reduces the tax bias favouring debt over equity by introducing tax deductions based on a company's equity, at a policy-determined notional interest rate. By reducing leverage, it can potentially increase investment. The instrument complements efforts to raise the availability of equity capital and may help overcome a potential aversion from firm owners to using equity in light of the potential loss of control.

Italy introduced an allowance for corporate equity in 2011 ("*Aiuto alla Crescita Economica*" - ACE). The deduction only applied to new equity accumulated from 2011, which limited initial costs. The regime underwent a number of iterations: its generosity was increased substantially with the notional rate peaking at 4.75% in 2016. The cost of the scheme rose as generosity increased and the cumulative amount of equity subject to the ACE grew. In 2017, the notional rate was reduced to 1.6% and its application was limited to certain investments. The ACE was then repealed in 2019, to be replaced with deductions on regional tax rates. It was reintroduced in 2020 given the difficulties in implementing the replacement regime. The notional rate currently stands at 1.3%.


Studies of the efficacy of the ACE in Italy show that it helped correct the debt bias. (Branzoli and Caiumi, 2020[49]) estimate that it reduced the leverage ratio by around 9 percentage points in solvent manufacturing firms with a leverage ratio of around 50%, with effects largest for smaller and older firms. Since then, a steady reduction in the notional rate has likely reduced its impact on corporate leverage. (Zangari, 2020[46]) estimates the reduced generosity increased the cost of capital by 1.4 percentage points between 2016 and 2018, and by even more for firms facing structurally higher financing costs. Nonetheless, it still helps to correct the debt bias (Figure 1.22). Substantial policy uncertainty on the structure and rate of ACE may reduce its future impact on investment.

Figure 1.22. The generosity of ACE reduces the debt bias



Note: The debt bias is reduced within a forward-looking framework for effective tax rates. The debt bias is defined as the difference between the effective marginal tax rate (EMTR) for an investment funded with equity (retained earnings or new issues of shares) and the EMTR for an investment funded with debt. The debt bias for 2019 is computed assuming the temporary abrogation of ACE and a Mini-Ires regime with a rate cut of 1.5%. The EMTRs are computed from the average cost of capital across assets with tax depreciation rates (assumed equal to the economic depreciation rates) equal to 0%, 5%, 10%, 20% and 30%.  $\beta = 0.98$ . No super-depreciation (2016-2019) and tax credit in 2020. For the other assumptions and tax parameters, see par. 6.1 and table 2 of the working paper.

Source: (Zangari, 2020[46])

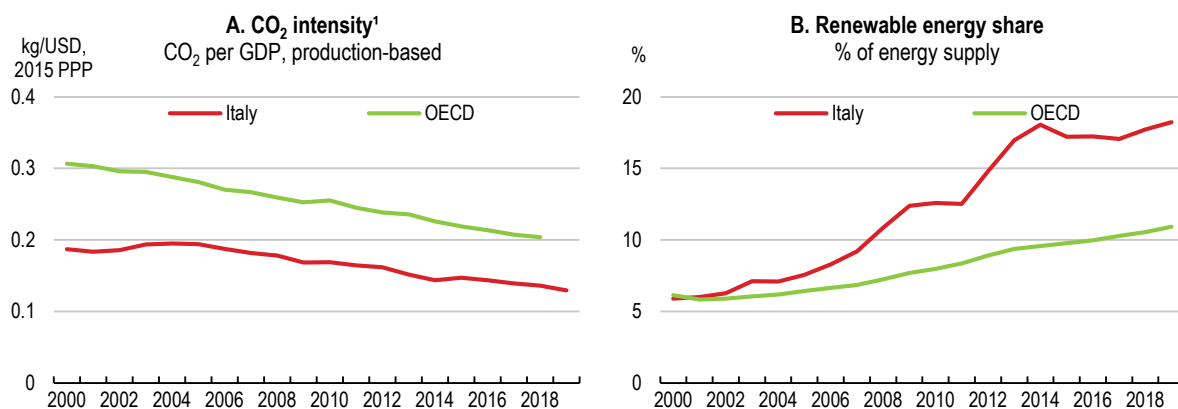
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### The green transition requires credible, long term commitments to carbon pricing

Italy performs relatively well compared with other EU and OECD countries in its progress towards reducing carbon emissions, its high share of renewables in energy (Figure 1.23) and high recycling rates (European Environment Agency, 2019<sup>[50]</sup>). In March 2021, the country issued its first Green Bond for EUR 8.5 billion, becoming the fifth largest issuer in Europe (Banca d'Italia, 2021<sup>[12]</sup>). Electricity, heating and transport remain the major sources of greenhouse gas emissions (Figure 1.24). Oil and coal reliance have been steadily substituted for biodiesel and natural gas, reducing overall emissions. Nonetheless, oil and coal constitute almost 40% of total energy supply. The country has one of the highest shares of passenger vehicles per inhabitant in Europe (European Automobile Manufacturers' Association, 2021<sup>[51]</sup>) but just over 0.1% of the stock is in electric vehicles (Anfia, 2020<sup>[52]</sup>). Over 60% of the country's building stock is over 45 years old, and highly energy inefficient.

Although Italy's carbon tax rates are higher than many peers (Figure 1.25), it lags the best performers. In addition, carbon pricing is uneven: industrial consumers pay less than households; and diesel is taxed less than petrol, despite its higher health costs (Figure 1.25) (OECD, 2019<sup>[53]</sup>); (G20 peer review teams, 2019<sup>[54]</sup>). For example, the effective carbon price for petrol in road transport exceed EUR 300 per tonne of CO<sub>2</sub>, whilst the effective carbon price on natural gas for commercial users is below EUR 8 per tonne of CO<sub>2</sub>. This means commercial users face few incentives to reduce emissions and are likely to forego abatement opportunities, even if their abatement costs are considerably less than the EUR 300 per tonne of CO<sub>2</sub> price of carbon in road transport Current energy use, as well as geographic factors, result in elevated exposure to particulates (Figure 1.25), especially in the North.

Figure 1.23. Italy has progressed in reducing carbon emissions



1. Includes CO<sub>2</sub> emissions from combustion of coal, oil, natural gas and other fuels. Gross domestic product (GDP) expressed at constant USD using purchasing power parity.

Source: OECD (2021), Green Growth Indicators (database).

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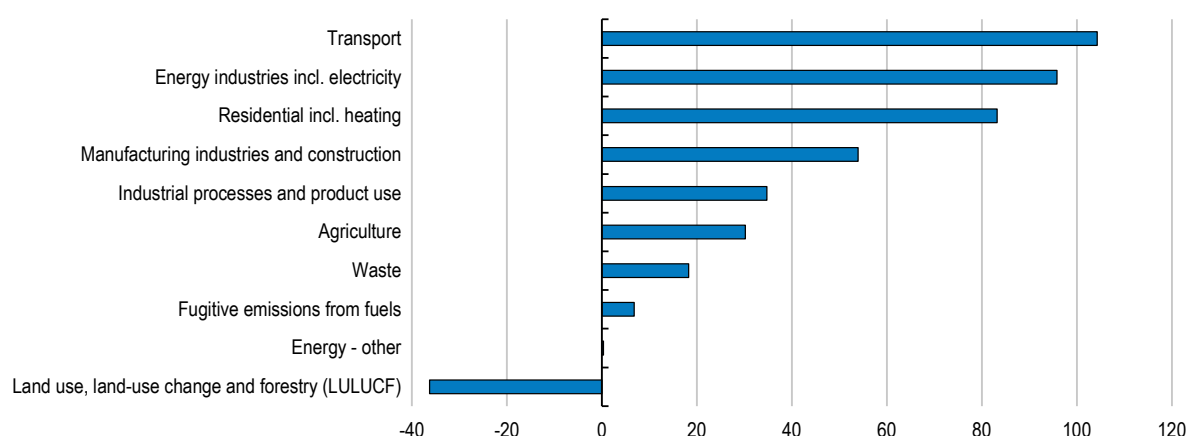
The government has responded to the EU's new target to reduce emissions by 55% by 2030 by targeting the main sources of greenhouse gas emissions in its National Recovery and Resilience Plan.

- **Raising renewable energy capacity**, including wind, green hydrogen and biomass, as well as recently legislated reforms to reduce regulatory obstacles to faster renewable investment. The Ministry has announced the country will install an additional 65-70 GW of renewable energy over the next decade, raising the targets set out in the 2019 Integrated National Plan for Energy and Climate. Electricity storage capacity and interconnections are also forecast to rise to support increased renewable energy generation.

- **Tackling transport emissions.** High-speed rail investments are substantial, at almost EUR 24 billion. Electric vehicle subsidies are augmented by introducing EUR 0.74 billion support for charging stations infrastructure. This more holistic approach would benefit from encouraging closer, city-based collaboration on regulation, as done in Norway and Austria, as well as with energy providers, such as in Stockholm, Sweden, to reduce the costs of providing charging infrastructure and meet the capacity of local grids (Hall and Lutsey, 2020<sup>[55]</sup>). The impact on behaviour could be strengthened if, at the local level, investment plans for electric vehicles, high-speed rail and incentives to support alternative transport are coordinated. Toll pricing strategies should also be considered. Together, these could help mitigate the impact of air pollution in some of the most crowded cities.
- **Improving building energy efficiency.** Incentives of EUR 18.5 billion have been introduced, including EUR 4.6 billion in spending by the Complimentary Fund. This is accompanied by legislated reforms to make building renovation approvals faster and simpler than in the past. These could be more explicitly linked with efforts to reduce reliance on domestic diesel heating systems, which are responsible for up to 40% of PM10 emissions in the most affected regions. This would help address the very high levels of particulate emissions Italians are exposed to, and which drives the elevated levels of premature deaths due to air pollution (G20, 2019).
- **Supporting the circular economy.** Italy has one of the highest recycling rates in Europe, supported by effective regulations such as the four stream waste collection system, the ban on micro plastics and the financial levy paid by plastic packagers (Ghisellini and Ulgiati, 2020<sup>[56]</sup>); (WWF, 2019<sup>[57]</sup>). There are, however, stark divergences between top and poor performing municipalities across Italy, as illustrated by the large gap in separate collection rates between Veneto (73.7%) and Sicily (21.7%) in 2017 (Cialani and Mortazavi, 2020<sup>[58]</sup>). The National Recovery and Resilience Plan allocates EUR 5.3 billion to support the circular economy, of which EUR 2.1 billion is focused on supporting improved waste management, with a particular focus on infrastructure. This is in line with past Survey recommendations. A focus on infrastructure could help municipalities take advantage of the increasing returns to scale in waste management (Cialani and Mortazavi, 2020<sup>[58]</sup>).


**Figure 1.24. Transport, electricity and domestic heating are the main sources of greenhouse gas emissions**

Greenhouse gas emissions by source, 2018, million tonnes of CO<sub>2</sub> equivalent

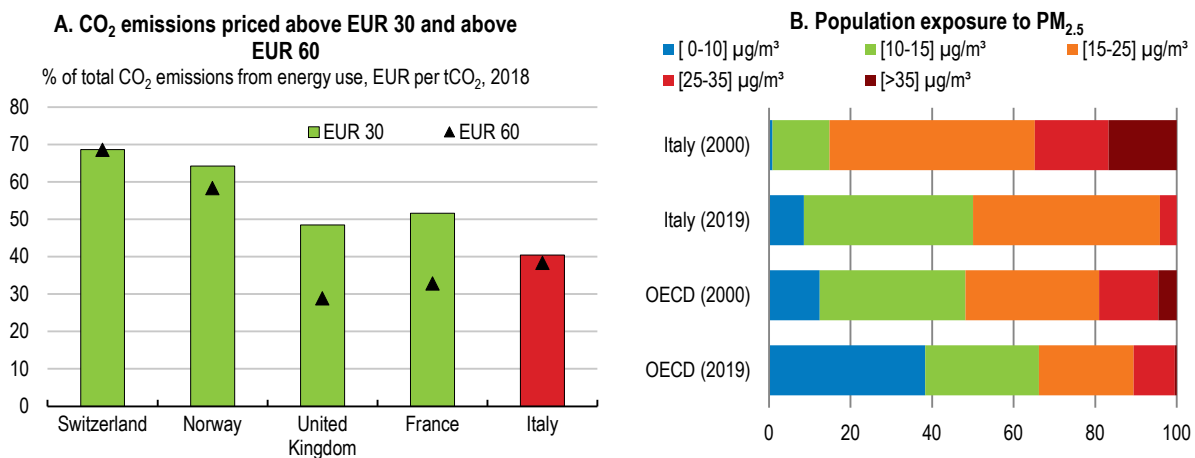


Note: Energy industries primarily refers to greenhouse gas emissions from power plants for electricity. Residential and other uses captures primarily the impact of domestic heating in greenhouse gas emissions.

Source: OECD (2021), Greenhouse gas emissions, Environment (database).

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**Figure 1.25. Carbon pricing is not yet widely applied and exposure to particulate emissions remains high**



Source: OECD (2021), Effective Carbon Rates 2021 (forthcoming); OECD (2021), Exposure to air pollution, OECD Environment Statistics (database).

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At a national level, a clear, time-bound carbon price target would signal the need for behaviour change whilst providing time for households and firms to adapt. Germany has provided a carbon price path from EUR 25 per tonne to EUR 55-65 per tonne between 2021 and 2026 for those sectors not covered by the European Union's Emission Trading System (EU ETS). The Netherlands has imposed a floor price for the EU ETS price that rises steadily from EUR 30 per tonne to EUR 125-150 per tonne between 2021 to 2030 (OECD, 2020<sup>[59]</sup>). Setting regulations, standards and norms and clearly communicating them will raise certainty and reinforce behaviour change.

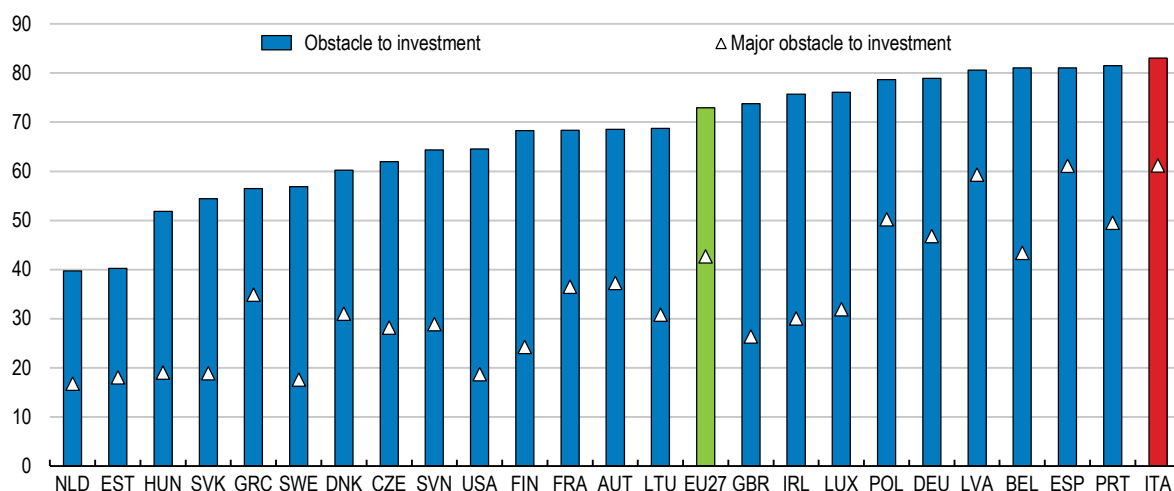
To be credible over the long-term, the transition to a higher carbon price must explicitly manage the associated distributional and competitiveness costs. This could help reduce the very high levels of uncertainty that inhibit climate-mitigating investment (Figure 1.26). A higher carbon tax would likely reduce demand for carbon and raise revenue, but also affect the poorest households most (Faiella and Lavecchia, 2021<sup>[60]</sup>). These households would need to be compensated.

- Sweden explicitly announced in advance that subsidies and taxes would be gradually adjusted over time to reflect a higher carbon price, but coupled this with explicit transfers to benefit lower income households in particular. The green tax increases of 2001 to 2006 were matched with cuts in income taxes focused on low-income households, and the increases of 2007 to 2013 were matched with sharp reductions in labour taxes (Ministry of Finance, 2018<sup>[61]</sup>).
- In Switzerland, to compensate for the introduction of a carbon tax on heating fuels, two thirds of the revenue from the tax were earmarked to reduced labour taxes, and one third to energy efficiency and retrofitting investments (Office fédéral de l'environnement (Suisse), 2020<sup>[62]</sup>).

A revenue neutral switch to carbon taxes in the medium term could be considered. Firms currently receiving fuel subsidies could continue to receive the same amount of support – but decoupled from their use of carbon-intensive technologies. The subsidies could then be gradually phased out over time. The newly formed Ministry for Ecological Transition, which is similar to ministries in place in France, Spain and Switzerland, could coordinate such a strategy.

**Figure 1.26. Uncertainty about regulations and taxes is a major obstacle to green investment**

2019, % of all firms



Note: Share of firms citing uncertainty about the regulatory environment and taxation as an obstacle to investing in activities to tackle the impacts of weather events and emissions reduction.

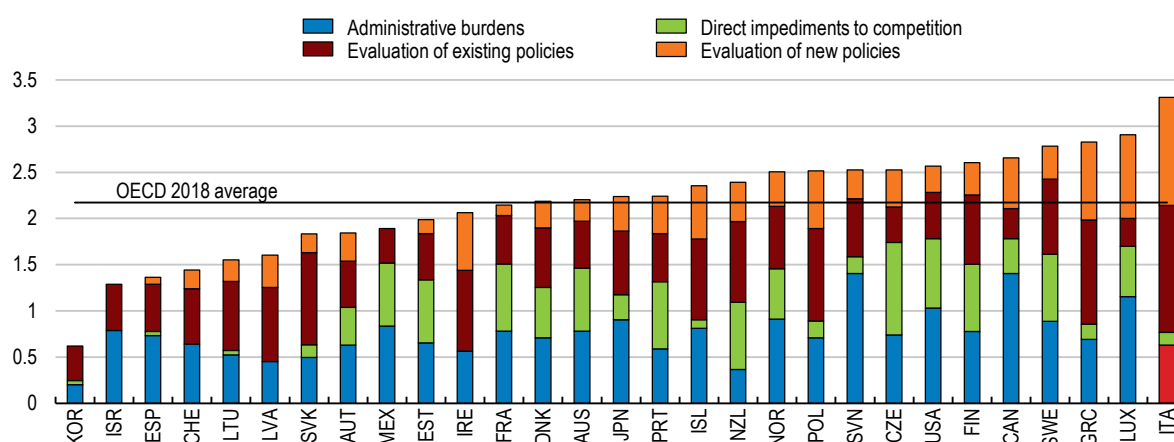
Source: European Investment Bank (2020), EIB investment survey.

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Sustained behaviour change also requires supportive regulations, standards and norms. Technology and performance standards or bans on certain products are necessary to complement carbon pricing. It is critical, however, that these regulations are designed without increasing the overall regulatory burden facing firms (Berestycki and Dechezleprêtre, 2020<sup>[63]</sup>). Italy's current environmental regulations impose relatively high burdens (Figure 1.27). Recent reforms as outlined above are a step in the right direction to streamline and improve environmental regulations.

**Figure 1.27. Regulations can be better designed to achieve objectives**

Design and evaluation of environmental policies, index scale from 0 to 6, from lowest to highest environmental stringency, 2018



Source: (Berestycki and Dechezleprêtre, 2020<sup>[63]</sup>).

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## Past OECD recommendations on climate change

Past recommendations	Actions taken since 2019
Make taxation more environmentally friendly by reducing the gap between duties on diesel and petrol.	No progress
Shift the tax burden from electricity to the energy products used to generate it, with the respective rates set to reflect the carbon emissions and other pollutants associated with each fuel	No progress, although authorities have committed to consider the carbon pricing and environmentally harmful subsidies regimes will be considered in the context of general tax reform and the European legislative framework.

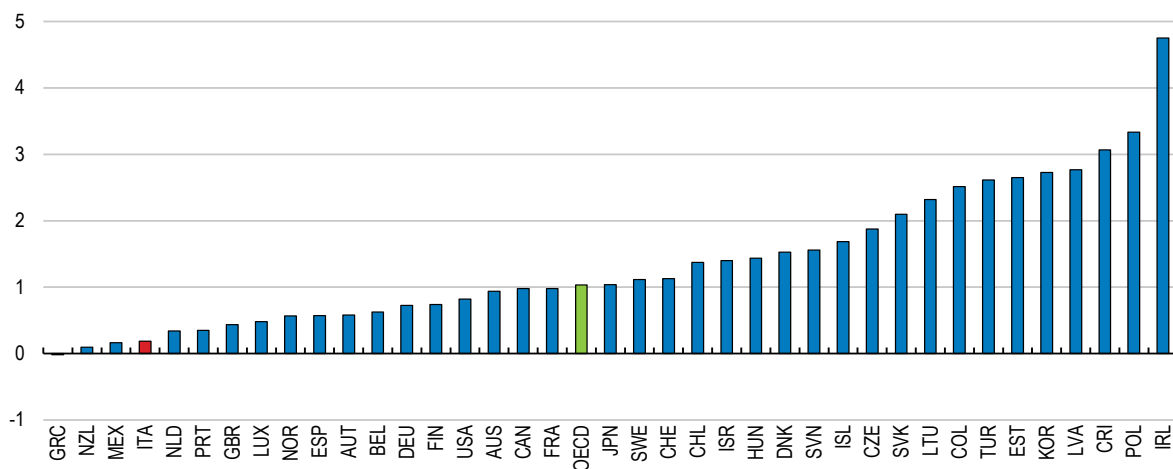
### **Boosting productivity requires addressing regulatory obstacles and more concerted digital skill development**

*Weak productivity is concentrated in the services sector and seems linked to excessive regulation*

Italy's weak aggregate productivity performance (Figure 1.28) compounds the growth-inhibiting effects of an ageing society and low employment rates. Productivity is the main driver of growth and well-being over the long run, allowing resources to be combined in new ways, rather than relying simply on increased accumulation of capital and labour which are subject to decreasing returns to scale (OECD, 2015<sup>[64]</sup>). Large differences in income per capita observed across countries reflect in large part differences in labour productivity. Lagging productivity translates into relatively low wages and higher inequality when productivity dispersion is high (Andrews, Criscuolo and Gal, 2016<sup>[65]</sup>).

### Figure 1.28. Italy's productivity growth has lagged its peers for the last two decades

Average annual growth rates between 2012 and 2019, USD per hour worked, constant 2015 prices and PPP



Source: Calculations based on data from OECD Productivity database.

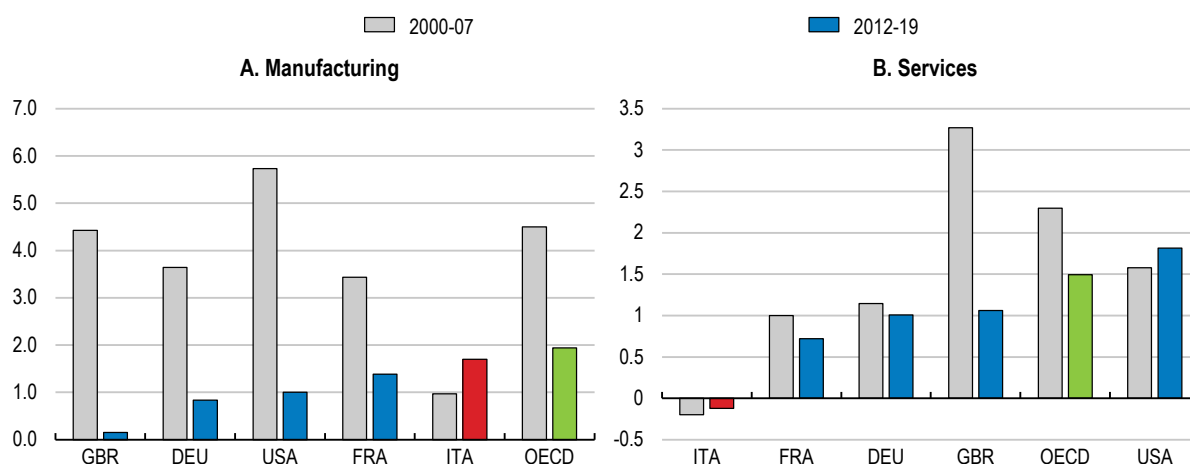
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Weak aggregate performance masks significant divergences between industries, firms and regions. Productivity gains in manufacturing since the early 2010s have outstripped many peers in Europe (Figure 1.29). The exit of lower productivity growth firms, the entry and growth of more productive firms as well as increases in R&D have underpinned the improvement (Bugamelli et al., 2018<sup>[66]</sup>). Most of the productivity gains were driven by improvements in manufacturing firms with average productivity, rather than the top performers (Lotti and Sette, 2019<sup>[67]</sup>). In contrast, service sector productivity growth has remained negative since the sovereign debt crisis (Figure 1.29), weighing on aggregate productivity growth (Giordano, Toniolo and Zollino, 2017<sup>[68]</sup>); (Bugamelli et al., 2018<sup>[66]</sup>). In the services sector, productivity growth has slowed in both the top performers as well as in the least productive firms.



**Figure 1.29. A recovery in manufacturing productivity, but services sector productivity lags**

Gross value added per person employed in constant prices, average annual growth rates



Note: Each panel contains unweighted OECD average of available countries. Due to data unavailability the OECD average excludes Colombia, Mexico and Turkey for any panels.

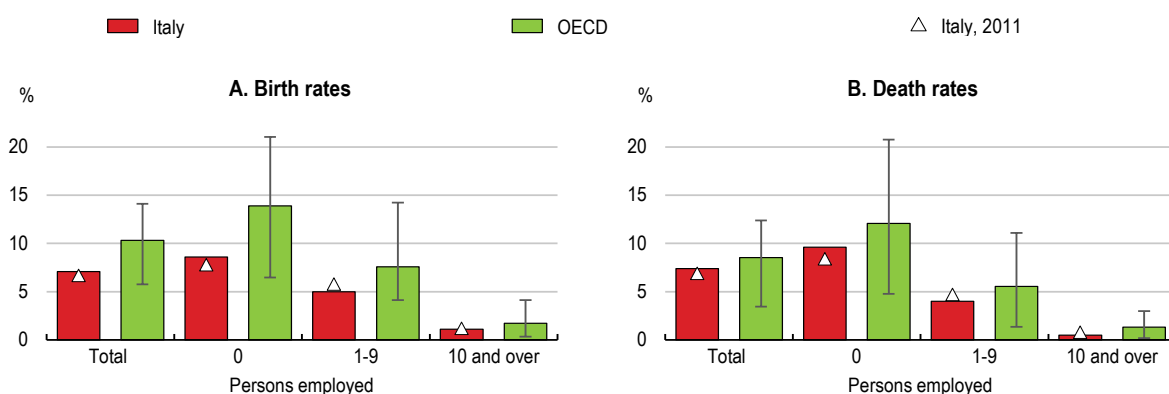
Source: Calculations based on data from OECD Productivity database.

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Dynamism in the Italian corporate sector is low. There are fewer firms created in Italy than the OECD average (Figure 1.30). Once created, firms survive for longer than the OECD average – but they also tend to stay small and grow very slowly (OECD, 2020<sub>[69]</sub>); the share of high-growth firms in Italy remains low (OECD, 2020<sub>[48]</sub>). The tendency for firms to stay small in Italy is interrelated with the ability to raise managerial skills, adopt new technology and invest in human capital (Visco, 2020<sub>[70]</sub>). Low rates of exit limit the pace of capital reallocation across firms, lowering overall productivity. These low exit rates and potentially high sunk costs in the event of closure can in turn impact on the rate of entry of new firms, as well as their subsequent growth rates (OECD, 2020<sub>[69]</sub>).

**Figure 1.30. Firms' entry and exit rates lag other countries**

Birth and death rates of all enterprises, 2018 or latest



Note: Birth (death) rate is the number of enterprise births (deaths) divided by the number of active enterprises in the reference period. Each panel contains unweighted OECD average of available countries. Due to data unavailability the OECD average excludes Chile, Costa Rica and the United States for any panels. Whiskers indicate range of OECD countries between the first and the last decile.

Source: OECD (2021), OECD Structural and Demographic Business Statistics (database).

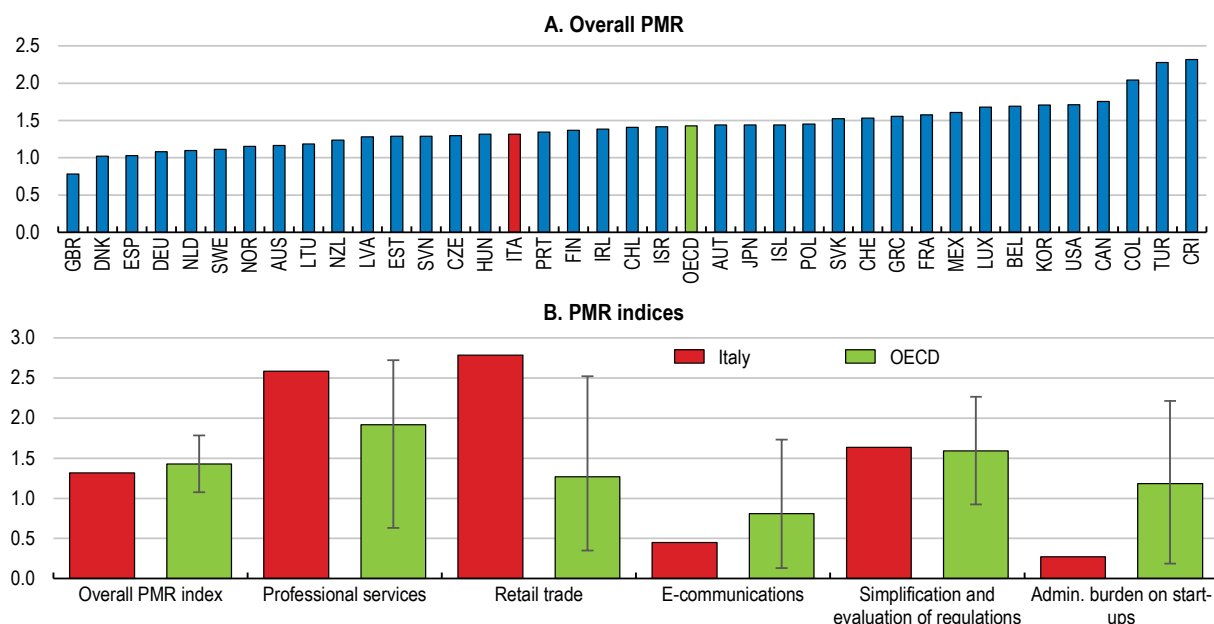
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Dynamism is negatively affected by excessive regulations, which reduce competition, efficiency and workers' mobility between firms (Bambalaite, Nicoletti and von Rueden, 2020<sup>[71]</sup>). They increase the productivity gap between leading and lagging firms (Andrews, Criscuolo and Gal, 2016<sup>[65]</sup>) as well as mark-ups (Thum-Thyssen and Canton, 2017<sup>[72]</sup>). Lower entry barriers and more effective exit processes can boost productivity by allowing a reallocation of resources to the most promising firms and sectors (OECD, 2019<sup>[73]</sup>). Numerous efforts to simplify new regulations have been undertaken, although the reforms have not always prioritised the highest impact areas, nor simplified the existing stock of regulations or how they are implemented, as discussed in Chapter 2. The National Recovery and Resilience Plan's near-term competition focus is on key network industries, which should support faster investment. Competition in services sectors also requires attention.

Italy scores relatively well on the OECD's product market regulations index, and has made significant improvements to the regime for start-ups (Figure 1.31). However, regulations are high for retail, limiting sales promotions as well as store openings. Entry restrictions for professional services are very high (Figure 1.32) and associated with both quantitative restrictions, as well as regulated fees. The impetus for dynamism and competition from online services such as Airbnb or Uber is often limited by regulations – for example, forcing drivers to return to a specific point or for homeowners to comply with complicated procedures. Entry into Italian services subsectors is between 30% and 50% lower than the international benchmark (OECD, 2020<sup>[69]</sup>). The entry rate in regulated professions is lower than in other occupations and wages about 9% higher (Mocetti, Rizzica and Roma, 2019<sup>[74]</sup>). This has a depressing impact on productivity: (Ciapanna, Mocetti and Notarpietro, 2020<sup>[42]</sup>) estimate service sector liberalisation in Italy could induce a permanent increase in the service sector TFP of 4.3% and a permanent reduction in the services sector mark-ups of 0.7 percentage points. (Bambalaite, Nicoletti and von Rueden, 2020<sup>[71]</sup>) estimate an almost 0.3 percentage point increase in the efficiency of labour allocation if Italy moved its occupational entry regulations to the stringency of Sweden.


**Figure 1.31. Product market regulation in Italy's services sector lags other areas**

Product market regulation (PMR), Index scale from 0 to 6, from most to least competition-friendly regulations, 2018



Note: Administrative burden on start-ups includes licenses and permits. Whiskers indicate range of OECD countries between the first and the last decile.

Source: OECD (2020), OECD Product Market Regulation Database.

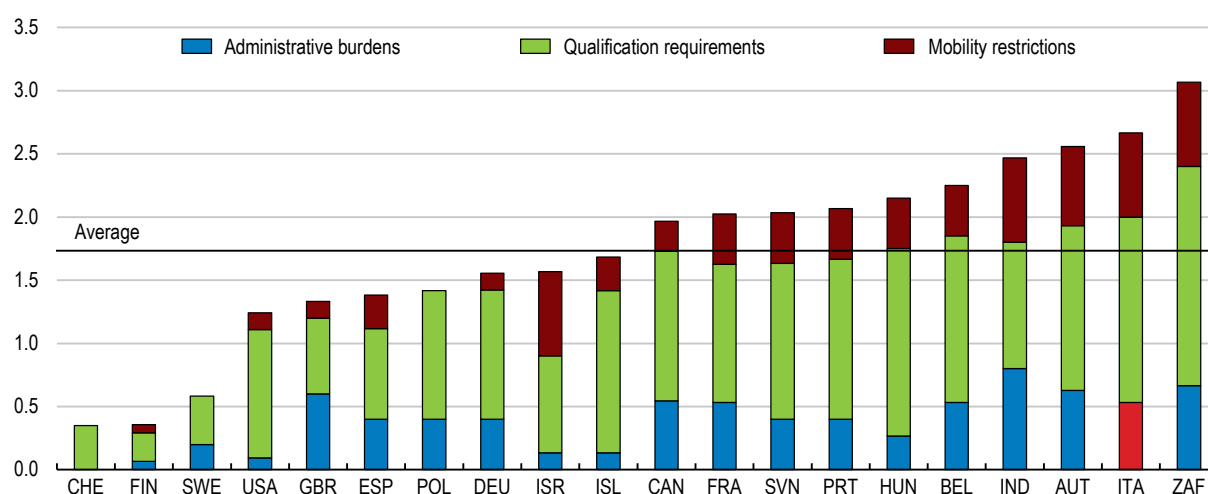
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Authorities could support better information flow and sanctions regarding the quality standards for goods and services, rather than reserving activities or setting standards for the professionals providing them. This could include replacing licensing systems with less distortionary certification schemes and leverage digital platforms (Bambalaite, Nicoletti and von Rueden, 2020<sup>[71]</sup>).

A productivity board (see Box 1.8) could be particularly helpful in identifying and communicating the benefits of regulatory, competition and other policy reforms that can best support productivity and other policy goals. In Italy, the board could inform the design and implementation of reforms and assess the benefits for productivity of the reforms included in the National Recovery and Resilience Plan. It may also help ensure more consistent implementation of the annual law for competition. Provided for in 2009 legislation, the intention was to annually remove obstacles or develop competition based on advice from the Competition Authority, but implementation was limited. The 2015 draft was watered down and passed in 2017 (European Commission, 2017<sup>[75]</sup>). In 2021, the Competition Authority's annual submission focused on network industries and investment, many of which were included in the National Recovery and Resilience Plan.

**Figure 1.32. Professional services restrictions are very high**

Occupational entry regulations (OER) indicator for professional services



Note: An indicator value of 0 indicates the absence of regulations, 6 reflects a fully regulated market. Regulations for Canada and US represent the unweighted average of province/state level regulations.

Source: Von Rueden, C. and I. Bambalaite (2020), "Measuring occupational entry regulations: A new OECD approach", OECD Economics Department Working Papers, No. 1606, OECD Publishing, Paris, <https://doi.org/10.1787/296dae6b-en>

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### *Digitisation needs to be supported to boost productivity*

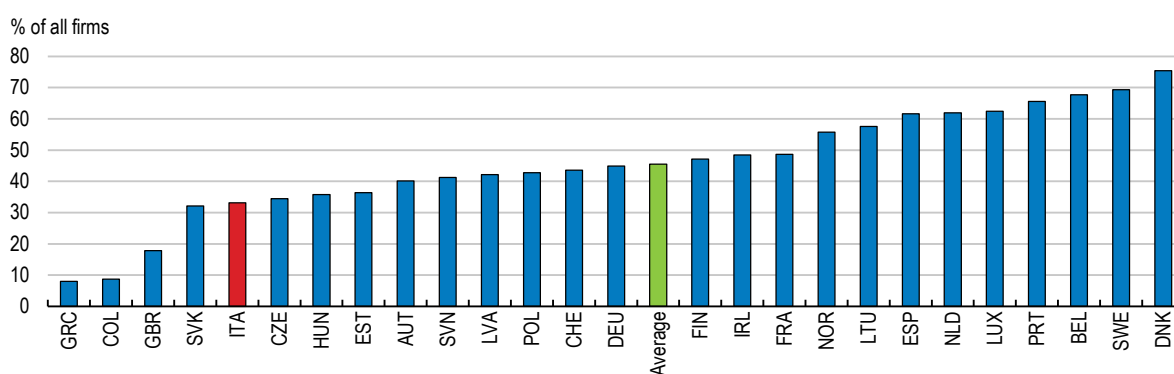
Digital literacy and the take-up of digital services is low relative to the rest of the OECD. Only 44% of people aged 16-74 years possess basic digital skills vs 57% in the EU. Supporting quicker rollout of fast broadband, which is currently very low (Figure 1.33), could accelerate digitisation (Andrews, Nicoletti and Timiliotis, 2018<sup>[76]</sup>); (Gal et al., 2019<sup>[77]</sup>). The National Recovery and Resilience Plan allocates EUR 6.7 billion to broadband infrastructure. The new broadband strategy aims to give access to 1 gigabit per second connections across the whole country by 2026, ahead of the European targets for 2030 (Ministro per l'Innovazione Tecnologica e la Transizione Digitale and Ministero delle Sviluppo Economico, 2021<sup>[78]</sup>). Importantly, the plan targets simplified authorisation processes for infrastructure and seeks to

designate fixed and mobile ultra-high-speed infrastructures as strategic. Vouchers, initially for low-income households and thereafter other families and SMEs, will support the migration of users from copper to faster fibre networks.

It is also necessary to invest in complementary intangible assets such as technical and managerial skills, since low management skills reduce the take-up of digital technologies (Andrews, Nicoletti and Timiliotis, 2018<sup>[76]</sup>). A number of countries have encouraged increased digital uptake by SMEs through encouraging digital platforms. Australia, Korea, Japan and France all provide support to SMEs to transition to online sales. In addition, the current push to raise the use of e-Government services, alongside behavioural shifts underway due to COVID, will help to increase familiarity with e-services (Figure 1.34 and Box 2.10). The broader shift to digitalising public services and processes forms part of efforts to improve the effectiveness of the public administration (see Chapter 2).

**Figure 1.33. Access to high-speed broadband is low**

Percentage of businesses with a high-speed broadband connection, 2020 or latest year



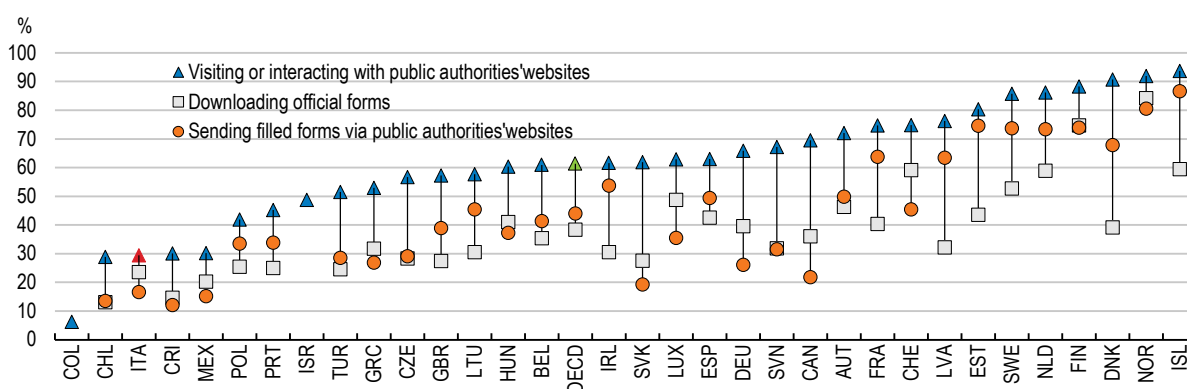
Note: High-speed broadband refers to a broadband connection of at least 100 Mbit/sec speed. The average is the unweighted average of the OECD countries shown in the graph.

Source: OECD (2021), ICT Access and Usage by Businesses (database).

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**Figure 1.34. There is scope to increase the use of government e-services**

Use of digital government services by individuals, % of individuals aged 16-74, 2020 or latest



Note: Due to data unavailability the unweighted OECD average excludes Australia, Japan, Korea, New Zealand and the United States.

Source: OECD (2021), ICT Access and Usage by Households and Individuals (database).

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### Box 1.8. OECD countries' experience in using productivity boards to promote public sector reforms

A growing number of OECD countries have found that establishing well-resourced, permanent bodies dedicated to developing policies and communicating their benefits can accelerate reforms. Although they are often called “Productivity Boards” or Commissions”, governments frequently set a wider mandate that can include green growth and social issues, as well as the public sector’s role and effectiveness. These bodies evaluate government policies and regulations in specific areas that are identified as priorities, and recommend reforms. They can identify trends, produce robust evidence, collect data and consult with stakeholders. In the process, they make the case for reforms by clearly presenting their benefits, which are often diffuse or uncertain. They support a “whole-of-government” approach, helping overcome fragmentation in policy-making across different public agencies or layers of government. They can serve as a platform to share ideas and help forge a common view, deepening national ownership of reforms, including in government bodies responsible for implementation.

These bodies fall into three broad types:

1. Stand-alone inquiry bodies, such as the Productivity Commissions in Australia, Chile and New Zealand. These are generally well-resourced with strong analytical skills, are independent and have inquiry and consultative mandates.
2. Advisory councils, such as the French Conseil National de Productivité, the US Council of Economic Advisers, and the Belgian Conseil National de la Productivité. These may tap into the existing knowledge of several well-established, high quality institutions without necessarily building their own capacity.
3. Ad hoc task forces, such as the Norwegian Productivity Commissions. These may be formed with temporary mandates to assess particular issues.

Countries’ experience suggests that these bodies are generally most effective when they can work autonomously and have strong internal analytical, consultative and communication skills. Occasional external audits or reviews can help ensure these bodies produce robust, relevant analysis. Institutions located outside government can better promote reforms that challenge vested interests and work towards longer-term policy goals. For example, in reviewing regulations in a priority policy area, such bodies operate at ‘arm’s length’ from regulators. They bring experience in consulting with different groups, in quantifying the benefits and costs of policies and regulations aimed at supporting productivity, competitiveness and sustainable growth, as well as in identifying alternative approaches.

Italy has committed to establishing a productivity board. Recent Economic Surveys of Italy (OECD, 2015<sup>[79]</sup>); (OECD, 2017<sup>[80]</sup>); (OECD, 2019<sup>[53]</sup>) have recommended that the board have the mandate to provide advice to the government on matters related to productivity, promote public understanding of reforms, and engage in a dialogue with stakeholders. Similarly, the European Council recommended in 2016 that all Euro-area countries establish national productivity boards (European Council, 2016<sup>[81]</sup>)

Italy’s complex, multi-layered government suggests that an autonomous body with an inquiry capacity, sufficient research capacity and strength, and independence in communicating its analysis and recommendations may be most effective. A board of core experts who are able to commission and supervise research, utilising existing resources and institutions, would avoid creating an additional institution. This approach is similar to other EU countries. It could strengthen capabilities to monitor trends, assess the potential impacts of policy options, build a consensus for reform, and encourage policies that better support productivity, competitiveness, sustainability and inclusiveness.

Source: (Banks, 2015<sup>[82]</sup>); (Renda and Dougherty, 2017<sup>[83]</sup>); (European Commission, 2019<sup>[84]</sup>).

## Past OECD recommendations on raising productivity, competition and regulatory processes

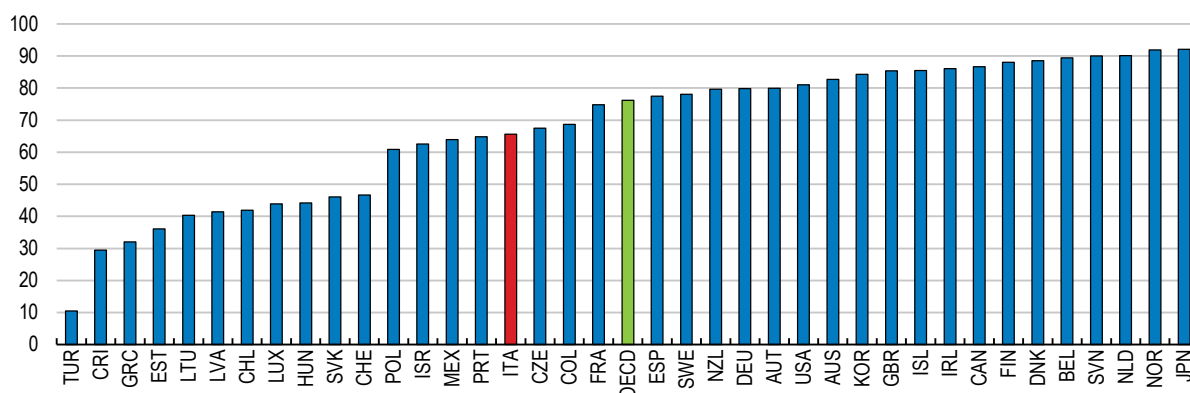
Past recommendations	Actions taken since 2019
Consider establishing a Productivity Commission with the mandate to provide advice to the government on matters related to productivity, promote public understanding of reforms, and engage in a dialogue with stakeholders.	No progress
Reduce public ownership, especially in TV media, transport and energy utilities, and local public services.	Privatisation programme has made little progress.
Privatise and liberalise energy and transport sectors.	The price liberalisation for gas and electricity has been postponed
Approve and fully implement the public administration reform to open up to competition local public services	Legislation has been passed although competition is often limited. The reform of local state owned enterprises is ongoing but has been delayed.
Ensure that legislation is clear, unambiguous and supported by improved public administration, including through reduced use of emergency decrees.	The “Golden Power” rule has been expanded in terms of the scope of sectors it applies to.
Make more extensive and better use of regulatory impact analyses, especially by engaging with stakeholders in ex-ante consultative processes	No change.
Complete framework for regulation of water and other local public services, ensuring regulatory independence.	These competencies now fall under a specific regulator.
Introduce national oversight of regional regulatory competences (e.g. retailing, land use planning).	No change.

*The planned insolvency code should be implemented alongside measures to improve their efficiency*

Italy legislated far-reaching bankruptcy reforms in 2019. These reforms include enhanced governance procedures for firm directors, simpler procedures favouring out of court settlement, and the use of a specialised pool of bankruptcy experts to help resolve court cases (CERVED, 2020<sup>[85]</sup>). The early warning system prioritises early detection of bankruptcy problems based on firms’ capitalisation rates and financial performance, the thresholds of which vary according to firm size and legal status (Orlando and Rodano, 2020<sup>[86]</sup>). Assessments are undertaken at the firm’s request or due to compulsory referrals from institutional creditors or supervisory bodies such as auditors. The need for action is assessed by the local chamber of commerce’s crisis management committee (OCRI - Organismo di Composizione della Crisi d’Impresa). Incentives have been introduced for entrepreneurs to declare problems earlier. The reforms should help to reduce the time spent in courts, and the early warning mechanisms should help increase the speed with which corrective action is taken for firms in difficulty. These changes could potentially improve recovery rates for insolvency procedures, which are low in Italy (Figure 1.35). The initial 2020 implementation date was postponed to September 2021 in light of the COVID crisis.

Figure 1.35. Low recovery rates can stymie firm creation and raise the costs of recessions

Recovery rate, cents per dollar



Note: The recovery rate is recorded as cents on the dollar recovered by secured creditors through reorganization, liquidation or debt enforcement (foreclosure or receivership) proceedings. OECD is the median of OECD countries.

Source: World Bank (2020), Resolving Insolvency, Doing Business 2020.

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Streamlining and digitising some of the early warning processes would help avoid the system becoming overwhelmed. (Orlando and Rodano, 2020<sup>[86]</sup>) estimate that 13 000 firms may be flagged by the early warning system, a fourfold increase in the number of firms that would normally be assessed for insolvency risk. Automating the prioritisation of cases to be considered by groups of business experts would allow the system to become operational without being overwhelmed. The Netherlands implemented bankruptcy reforms despite the pandemic, which has provided time for the system to adapt prior to the expected increase in bankruptcies following the COVID crisis. Sending standardised, non-binding guidelines and information about the options available to firms that are flagged on the early warning system before they need to be assessed formally by the local chamber of commerce could improve managers' responses before requiring more costly and complex interventions.

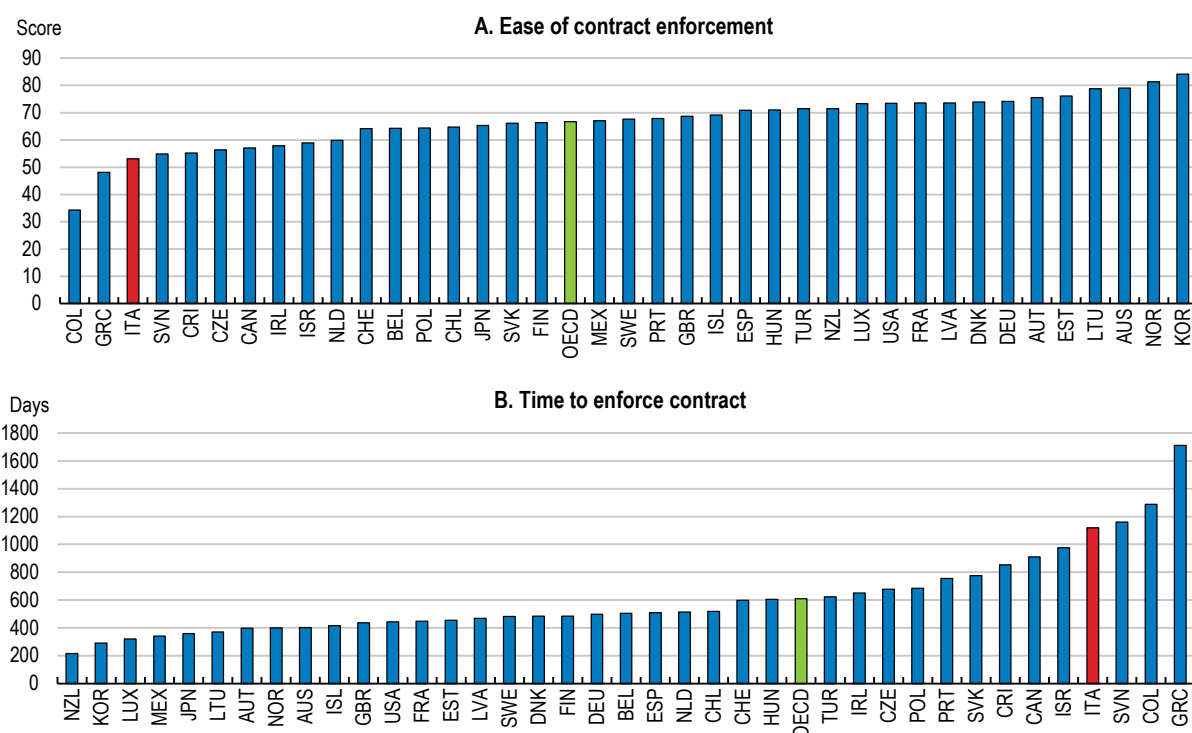
### *Civil justice efficiency needs to improve*

Reforms to the civil justice system helped reduce the time to complete civil cases at trial from 13 to 11 months between 2014 and 2019, and pending proceedings at civil courts fell by 23.7% over the same period. Backlogs in the court of appeals and tribunals have fallen 50% and 43% over the same period (Ministero della Giustizia, 2020<sup>[87]</sup>). Nonetheless, the system continues to struggle with a high backlog of cases (Council of Europe, 2020<sup>[88]</sup>). Civil and commercial litigious cases remain characterised by lengthy delays and high levels of uncertainty (Figure 1.36). Proceedings at Italy's highest court lasted 1 293 days in 2019, the highest in Europe, where the average is 207 days (Ministero della Giustizia, 2020<sup>[87]</sup>). Improving the efficiency of the judicial system is critical to raise productivity (OECD, 2019<sup>[53]</sup>); (OECD, 2017<sup>[80]</sup>); (Ciapanna, Mocetti and Notarpietro, 2020<sup>[42]</sup>).

Authorities propose temporarily raising the number of staff in the civil justice system to tackle backlogs. The EUR 2.3 billion allocated by the National Recovery and Resilience Plan seems small considering the impact of court backlogs in raising uncertainty, reducing returns and lowering productivity. The amount will average EUR 0.5 billion per annum to support 8 000 fixed-term contracts and 1 000 honorary magistrates, who assist judges in drafting sentences, for two consecutive 2.5 year cycles (Relazione del Ministro sull'amministrazione della giustizia, 2020<sup>[89]</sup>). The total annual justice system budget is EUR 5.5 billion on personnel.


The number of personnel also needs to be accompanied by more effective ways of working. Parliament is currently considering a range of reform proposals for the civil justice system that should be swiftly approved to minimise the likely surge in cases from postponed legal disputes as well as the likely increase in court cases related to the COVID crisis. The bill before parliament includes proposals to reduce time spent in appeals, the procedure for forced execution (which will speed up bankruptcy cases) and rules on alternative dispute resolution, which have been raised in past surveys (OECD, 2019<sup>[53]</sup>); (OECD, 2017<sup>[80]</sup>). The bill includes facilitating exclusive online filing and payment in civil courts, reduced instances requiring multiple judges and greater administrative management oversight of judges, which will include their management of timeframes for procedures (European Commission, 2020<sup>[90]</sup>). A Commission has been established to report on tax justice and the backlog in tax cases. Specialised courts could reduce the likelihood of appeal. Greater promotion of the large number of existing alternative dispute mechanisms in Italy could also contribute to reducing court workloads and backlogs.

Figure 1.36. Italy's justice system in practice reduces the efficacy of its property rights framework



Note: The enforcing contracts indicator measures the time and cost for resolving a commercial dispute through a local first-instance court, and the quality of judicial processes index, evaluating whether each economy has adopted a series of good practices that promote quality and efficiency in the court system. A low score indicates contracts are harder to enforce. The indices refer to surveys of experts in specific cities; in Italy's case, this is Rome. Data refer to 2018/19. The most recent round of data collection was completed in May 2019.

Source: World Bank (2020), Resolving Insolvency, Doing Business 2020.

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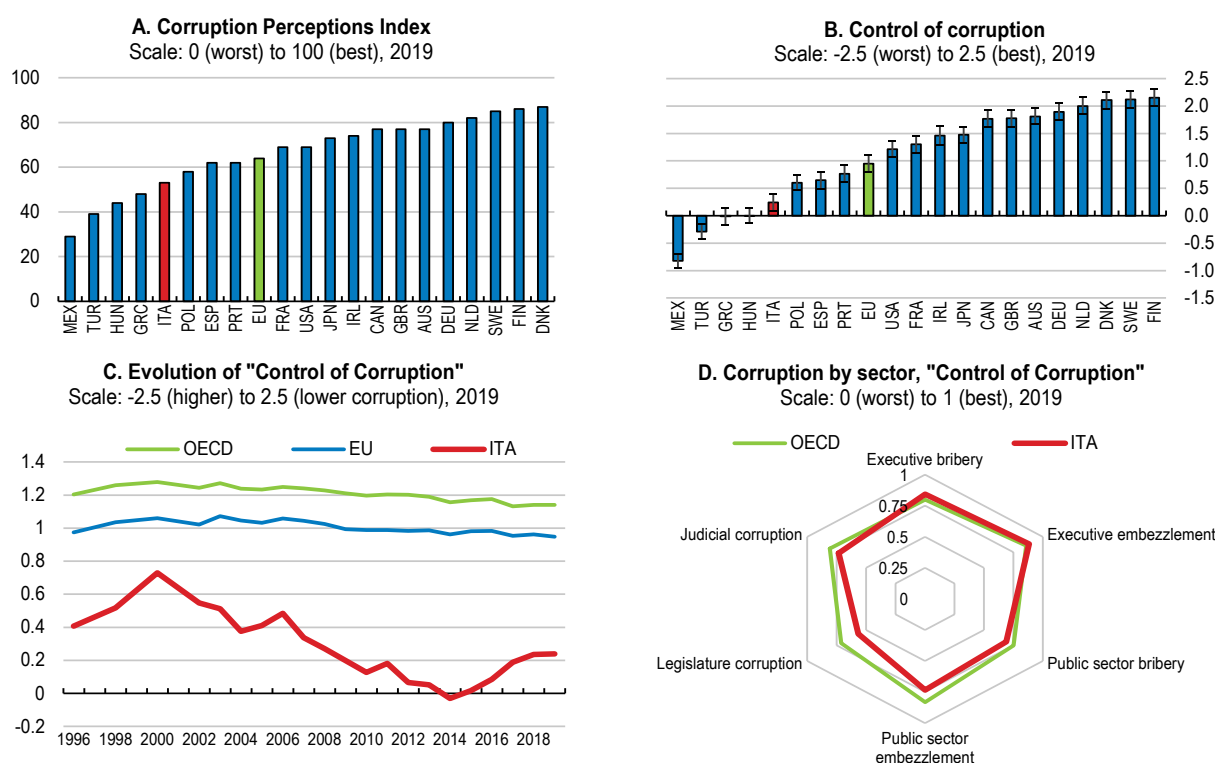
## Past OECD recommendations on civil justice and bankruptcy reforms

Past recommendations	Actions taken since 2019
Further streamline the court system, with more specialisation where appropriate; increase the use of mediation; enhance monitoring of court performance	Digital systems introduced in certain civil cases. Mediation has been encouraged but take-up remains low. New judges have been appointed and can be flexibly deployed where needs are greatest. Regular recruitment of 300 judges and magistrates annually.
Complete the reform of the insolvency regime.	The insolvency regime will be implemented from September 2021.

### Tackling corruption could help improve confidence

Italy's anti-corruption regime, which was mostly recently augmented in January 2019 with the so-called bribe-destroyer law, includes a stringent legal regime to discourage offenders, with lengthy prison sentences, a revised regime for undercover operations and witness cooperation incentives, as well as tougher sanctions for corruption in the private sector (Maggio, 2020<sup>[91]</sup>); (European Commission, 2020<sup>[90]</sup>); (United Nations, 2018<sup>[92]</sup>). Despite these efforts, perceptions of corruption remain high and trust in institutions low (Figure 1.37). Greater emphasis on simpler regulations that are implemented more effectively, as outlined in Chapter 2, could reduce the complexity of the business environment, lower the demands on civil servants and reduce the scope for corruption.

Figure 1.37. Perceptions of corruption are still high compared to other OECD countries

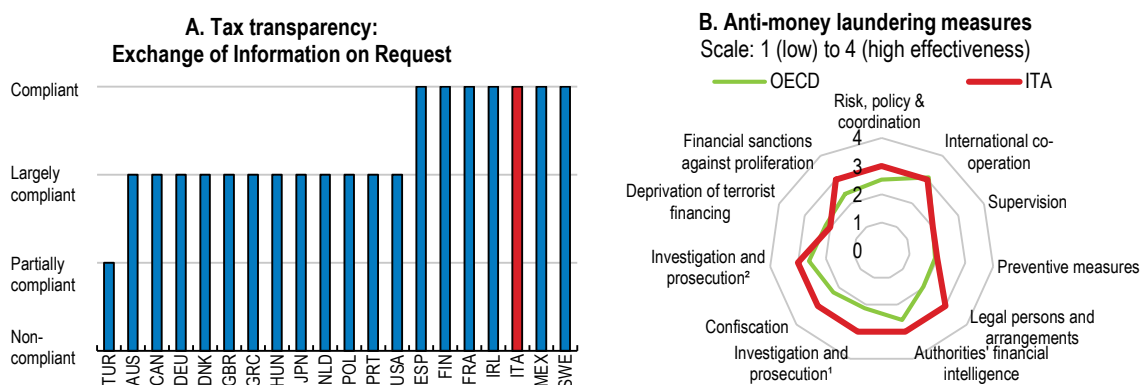


Note: Panel B shows the point estimate and the margin of error. Panel D shows sector-based subcomponents of the "Control of Corruption" indicator by the Varieties of Democracy Project.

Source: Panel A: Transparency International; Panels B & C: World Bank, Worldwide Governance Indicators; Panel D: Varieties of Democracy Institute; University of Gothenburg; and University of Notre Dame.

To improve perceptions of corruption, oversight of the integrity and accountability of high-ranking powerful public officials such as politicians and magistrates must increase (Cantone and Caringella, 2017<sup>[93]</sup>); (Carelli, 2019<sup>[94]</sup>). The legal framework on lobbying is fragmented, opaque and unable to address conflict of interest risks associated with the move to private party funding. The limits to self-regulation of magistrates was demonstrated in 2019; efforts are needed to enhance integrity standards and safeguards within their governing body. Stricter regulation on political participation of magistrates would contribute to safeguard the real and perceived independence and impartiality of the judiciary (European Commission, 2020<sup>[90]</sup>); (Carelli, 2019<sup>[94]</sup>). Enforceable asset declaration and verification systems for senior public officials need to be established (United Nations, 2018<sup>[92]</sup>).

**Figure 1.38. Italy has been effective in fighting money laundering**



Note: Panel A summarises the overall assessment on the exchange of information in practice from peer reviews by the Global Forum on Transparency and Exchange of Information for Tax Purposes. Peer reviews assess member jurisdictions' ability to ensure the transparency of their legal entities and arrangements and to co-operate with other tax administrations in accordance with the internationally agreed standard. The figure shows first round results; a second round is ongoing. Panel B shows ratings from the FATF peer reviews of each member to assess levels of implementation of the FATF Recommendations. The ratings reflect the extent to which a country's measures are effective against 11 immediate outcomes. "Investigation and prosecution" refers to money laundering. "Investigation and prosecution<sup>2</sup>" refers to terrorist financing.

Source: OECD Secretariat's own calculation based on the materials from the Global Forum on Transparency and Exchange of Information for Tax Purposes; and OECD, Financial Action Task Force (FATF).

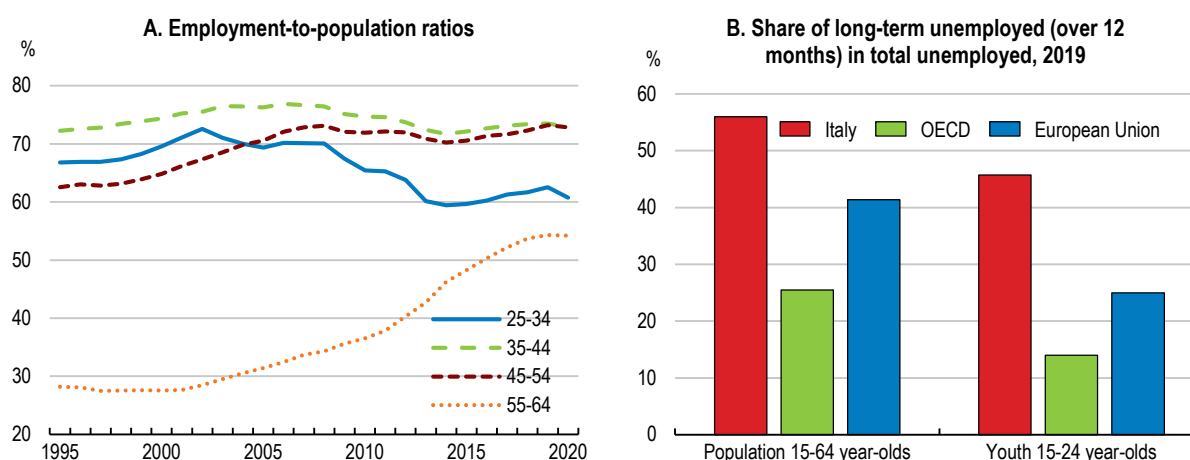
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The establishment of a broad-based Anticorruption Alliance in early 2021 is welcome. Its efficacy will depend on the ability to convert its recommendations into actions. Chaired by the Judiciary and the Governor of the Banca d'Italia, a team of academic experts from a range of disciplines will consider issues raised in the National Recovery and Resilience Plan such as: i) the quality of regulation of public contracts; ii) the simplification of rules and procedures; iii) the quality of administrative and accounting controls; iv) the use of digital technologies to reduce the scope of corruption; v) regulatory shortcomings concerning lobbying; and vi) conflicts of interest (Relazione del Ministro sull'amministrazione della giustizia, 2020<sup>[89]</sup>).

### **Raising employment, in particular for women and youth**

The employment intensity of growth must rise to sustainably address low levels of employment and high rates of long-term unemployment (Figure 1.39). The government's primary employment strategy has been to temporarily reduce firms' cost of labour. To support the National Recovery and Resilience Plan, the government reduced social security contributions for between 18 and 36 months for firms maintaining or hiring workers in the South, and for new permanent hires of youth and women across the country from 2021 to 2023. It also made a labour income tax credit worth up to EUR 1 200 per year permanent, helping to reduce the labour income tax wedge by almost 2 percentage points.

**Figure 1.39. Access to employment is deeply unequal and unemployment is persistent**



Source: ISTAT; and OECD (2021), Labour Force Statistics (database).

StatLink  <https://stat.link/tcql67>

Italy's recent temporary cuts make welcome inroads into its large labour income tax wedge, which is the fifth highest among OECD countries. Cuts in social security contributions should help to reduce the tax wedge for affected workers and raise their prospects of employment (Figure 1.40). Recent evidence on the impact of hiring credits in Italy has been found to be positive: (Sestito and Viviano, 2018<sup>[95]</sup>) find a 2015 measure supported 20% of new jobs created in the first half of 2015, whilst (Brunetti et al., 2020<sup>[96]</sup>) found that the employment incentives introduced in 2017 raised new hirings by 6.5% in industry and by 4% in services. In France, too, hiring credits introduced were found to be effective in creating new jobs when the economy is beginning to emerge from a slump. (Cahuc, Carcillo and Le Barbanchon, 2019<sup>[97]</sup>) found the effects particularly positive for lower-wage workers in 2009, (Martin and Rathelot, 2021<sup>[98]</sup>) and (Dares, 2021<sup>[99]</sup>) found a positive effect on youth employment in response to COVID-related measures. However, evidence of the long-term impact of hiring credits in France suggests they are less likely to support new jobs if maintained indefinitely (Cahuc, Carcillo and Le Barbanchon, 2019<sup>[97]</sup>).

A permanent reduction in the labour tax wedge through lower social security contributions or a re-designed personal income tax system could support higher levels of participation as well as employment, rather than relying on hiring credits. Eligibility thresholds for many tax credits, allowances and transfers phase out sharply, generating high marginal effective tax rates and disincentives to work particularly for low income earners (UPB, 2021<sup>[100]</sup>). Reducing in-work benefits more gradually as incomes rise would improve equity and incentives for beneficiaries with low incomes to increase their work effort and earn more (OECD, 2019<sup>[53]</sup>).

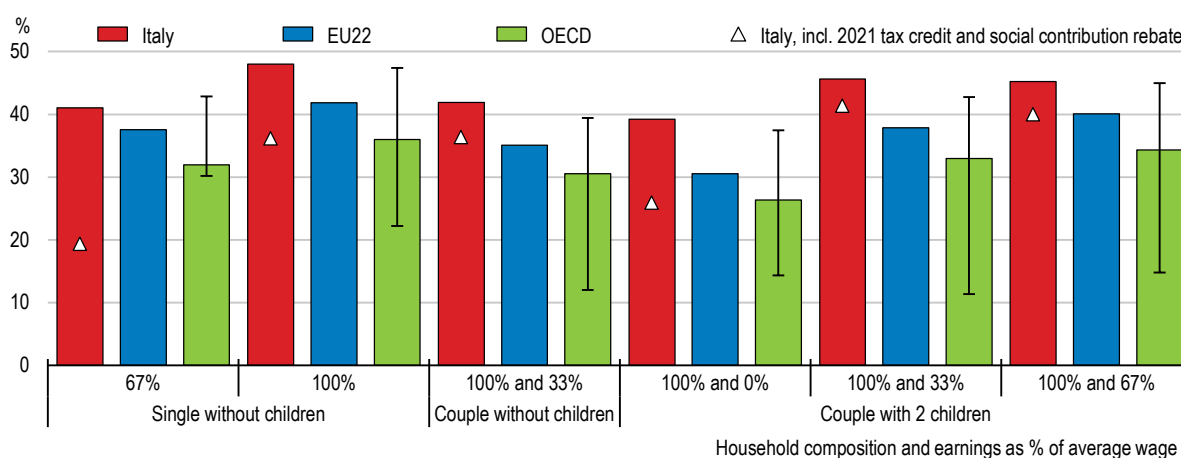
The monthly in-work tax benefit of EUR 100 introduced in 2021 is available as a tax credit and it has a much smoother marginal effective tax profile than the previous scheme. Resources of EUR 7 billion (0.4% of GDP) from 2023 onwards have been earmarked for the proposed unified child allowance, which will combine a range of incentives and be available as a tax credit, further raising the number of workers it will benefit. Whilst the design is yet to be finalised, it will seek to avoid sharp jumps in marginal effective rates. A temporary adjustment mechanism has been proposed until the formal scheme is introduced in 2022. Since many of these benefits are assessed based on household incomes, they can generate high marginal effective tax rates for second earners discouraging them entering the labour force. In many OECD tax systems, the second earner faces a lower effective tax rate than the first earner at most wage rates.

Tackling social support policies could further raise women's labour force participation. For women of prime working age, parenting is a key influence in the decision to enter the labour market. In 2020, 70% of women

between the ages of 25 and 49 without children were employed, compared to 55% in the same age group with at least one child under the age of 6. This in turn is due to the lack or limited availability of social policies such as early childhood care or elderly care facilities, which is particularly acute in the South of Italy (ISTAT, 2020<sub>[101]</sub>); (Ferragina, 2020<sub>[102]</sub>). To speed up and improve the roll out of early childhood care services, authorities should expand the number of facilities available while monitoring and publishing consistent information about quality, as outlined in Chapter 2. To support access to quality facilities, the National Recovery and Resilience Plan proposes to increase spending on early childhood education and care by EUR 4.6 billion.

**Figure 1.40. Workers benefiting from Italy’s recent reforms now face income tax wedges near the EU average**

Average labour tax wedge, 2019



Note: The “Italy incl. 2021 tax credit and social contribution rebate” relates only to the employees eligible for these measures, and is not a workforce-wide value. EU22 and OECD averages are unweighted averages. Whiskers indicate range between the first and the last decile of OECD countries. Italy 2021 simulates the effect of the tax credit for employees and the rebate of up to EUR 6 000 per annum in employers’ social security contributions for hiring women, workers younger than 35 and workers in southern regions, as provided in the NPRR. The labour tax wedge shows the difference between an employee’s net take-home pay and that worker’s total employment labour costs for their employer, relative to the total employment labour costs. This includes employee and employer labour income tax payments and tax credits, and social security contributions. This accounts for the employee’s household type and wage rate, which is expressed relative to the country’s average wage.

Source: OECD Tax database; Ministry of Finance and Economy, and OECD estimates for 2021.

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Other ways of reducing the non-wage cost of labour should be given greater consideration. Whilst the temporary ban on firing during the COVID-19 crisis was part of a quid-pro-quo for increased wage protection for workers, evidence suggests that lower firing costs can actually boost employment. The Jobs Act reforms introduced a new form of contract that reduced uncertainty about potential firing costs for firms with more than 15 employees. This contract resulted in a durable shift in these firms’ propensity to create permanent contracts (Sestito and Viviano, 2018<sub>[103]</sub>); (Pigini and Staffolani, 2021<sub>[104]</sub>). By contrast, smaller firms that were not granted this option tended to resort to creating temporary jobs in the absence of generous social security contributions (Sestito and Viviano, 2018<sub>[103]</sub>).

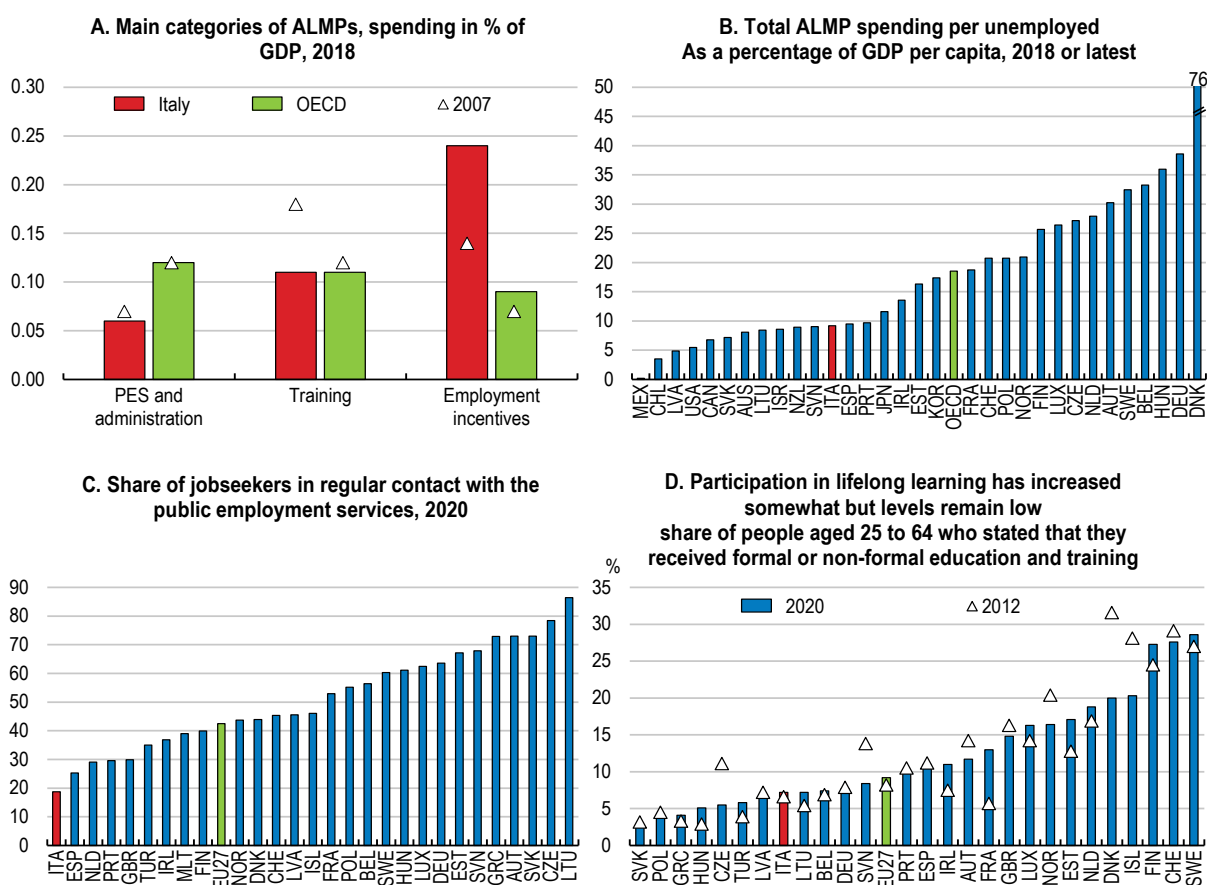
A highly skilled workforce has lower risks of long-term unemployment and raises firms’ ability to grow and innovate. In Italy, the youth face high dropout rates and poor educational outcomes; these problems are more acute in the South, where the quality of education is lower (OECD, 2019<sub>[53]</sub>). The National Recovery and Resilience Plan allocates additional resources for schools. Efforts should focus on modernizing infrastructure, as well as supporting the training and motivation of teachers (Visco, 2020<sub>[70]</sub>). Skills in

science, technology, engineering and mathematics (STEM) require particular attention. The recent recruitment of 3 000 suitably qualified STEM teachers to begin in September 2021 is a step in the right direction. Reforms to the technical vocational scheme need to be more ambitious given its success in helping young people find employment.

### Deepening access to adult learning

The existing workforce also requires urgent support in upskilling. The OECD estimates that in Italy, 15.2% of jobs have a high risk of automation, and a further 35.5% of jobs may experience significant changes to how they are performed (Nedelkoska and Quintini, 2018<sub>[105]</sub>). Adult skills levels are low (Figure 1.41.) and only 25% of Italian adults participate in job-related training, just above half the OECD average. Spending on training has fallen as a share of GDP. Although it is now in line with the OECD average, aggregate spending per unemployed is amongst the lowest in the OECD (Figure 1.41.). A strategy to firstly improve, and thereafter increase resources for, training in the context of a constrained budget is required.

**Figure 1.41. Spending on ALMPs has risen, but high unemployment and skills gaps require more**



Note: Panel B: OECD average covers the countries shown in the graph.

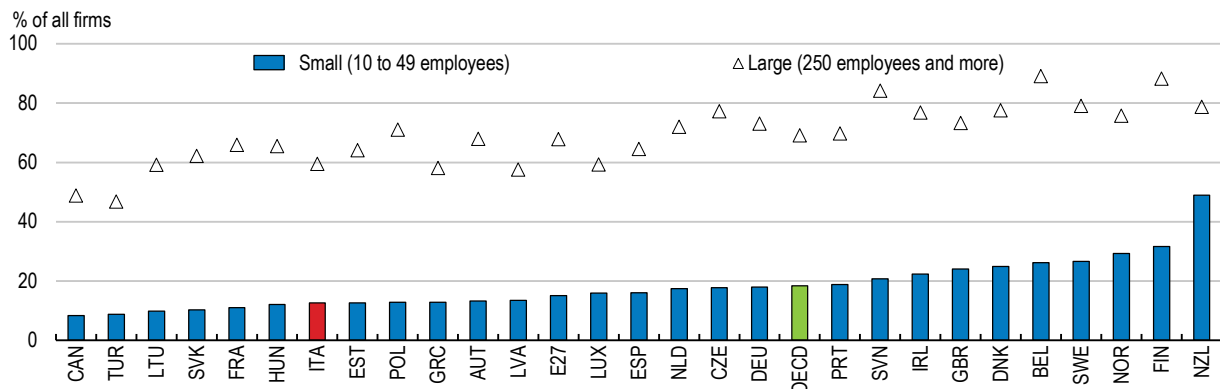
Source: OECD (2021), Statistics on Labour Market Programmes (database); OECD (2021), Labour Force Statistics (database); OECD (2020), National Accounts Statistics (database); and OECD (2019), OECD Employment Outlook; OECD (2019), Skills Matter Additional results from the survey of Adult skills, Annex A.

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The majority of training for workers is conducted via Training Funds. Despite being a significant payroll cost, take-up of the funds is low, particularly by smaller firms - just 6.2% of smaller firms access the funds compared to 64.1% of firms with more than 1 000 employees (OECD, 2019<sub>[106]</sub>). Burdensome application procedures, the high opportunity costs of workers being in training, the lack of a learning culture among entrepreneurs of small businesses and poor awareness of the availability of funding limit take-up by smaller firms (OECD, 2021<sub>[107]</sub>); (OECD, 2019<sub>[53]</sub>). The training is often procedural, with a high proportion of health and safety training rather than technical skills despite, for example, firms' relatively low levels of digital training (Figure 1.42). A greater focus on digital skills needs to be promoted. This could be achieved by focusing on individual training accounts, rather than a firm-centric approach to determining training, as well as by the training funds providing more standardised courses for workers in SMEs, thereby simplifying the application and approval process. The National Skills Certificates could have an expanded role in recognising on-the-job training and identifying workers' training needs.

**Figure 1.42. Firms are not providing their employees enough digital training**

Percentage of businesses providing ICT training to their employees by firm size, 2020 or latest year



Note: Firms with at least 10 employees that provided any type of training to develop the ICT related skills of their employees within the last 12 months. OECD average covers the countries shown in the graph.

Source: OECD (2020), ICT Access and Usage by Businesses (database).

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Social partners, who are responsible for governing the Training Funds, could grant SMEs higher reimbursement rates, faster reimbursements and simplified application procedures (OECD, 2021<sub>[107]</sub>). A greater focus on management training could help improve SMEs' investment and hiring practices (Visco, 2020<sub>[70]</sub>). To help reduce the costs of training for firms, the government established the new skills fund (Fondo Nuove Competenze) under the Budget Law 2020. It provides compensation for the time lost to firms whose workers undertake training, with a further EUR 2 billion proposed in the National Recovery and Resilience Plan. Although these costs are very significant for smaller firms, it is not clear they will be able to use them (OECD, 2021<sub>[107]</sub>). Earmarking a sub-set of funds for SMEs, which are allocated on a first-come, first-served basis, along with simpler application procedures, could improve the probability that micro and small firms will use them. SMEs' awareness of the tools available to help them plan and implement worker training can be raised with networks and coaching (OECD, 2021<sub>[107]</sub>).

### *Public employment services need to be better managed*

For the unemployed, public employment services are an important potential channel for training and job placement. In Italy, they have been hampered by unclear organisational structures, large regional variations in performance and low levels of funding. As part of the National Recovery and Resilience Plan, the authorities proposed a new national programme ("GOL") for the unemployed and those employed in

companies undergoing restructuring or bankruptcy procedures (“in transition”). The plan seeks to improve profiling and the selection of relevant training for employment opportunities. It importantly leverages successes in the National Skills Certification Policy, allowing past experience to be recognised. Institutional arrangements will be key to the success of the project. Performance can be increased through improving communication and cooperation across regions and between public and private providers, hiring better-skilled staff and leveraging digitalisation, such as online registration and support, effective database management and communication tools, as outlined in Chapter 2. Countries such as Austria and the Netherlands have used digital channels, including more informal channels such as free access training videos and tests that can be accessed directly via public employment services’ websites (OECD, 2020<sub>[108]</sub>); (OECD, 2020<sub>[108]</sub>).

### Past OECD recommendations to raise employment and skills

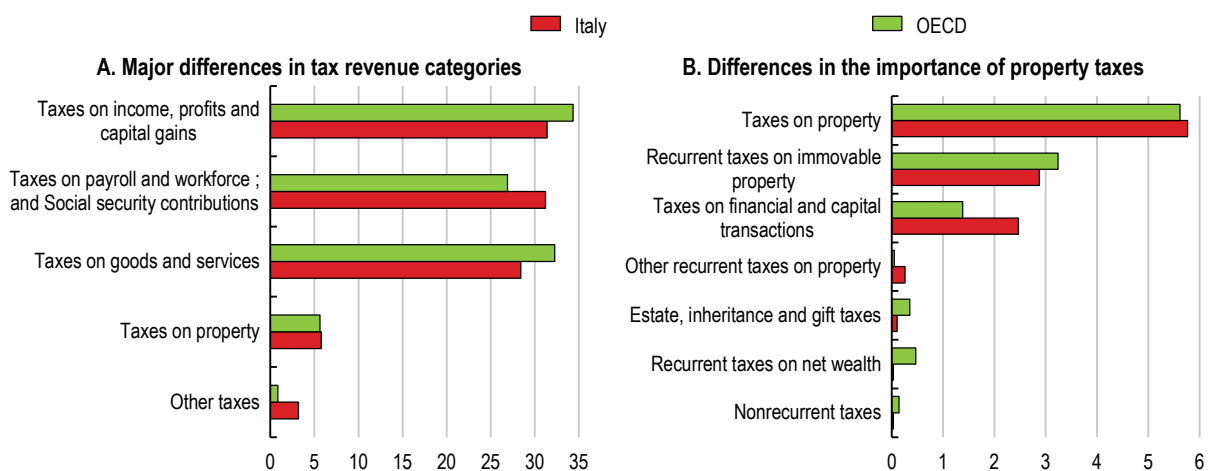
Past recommendations	Actions taken since 2019
<b>Reduce the labour income tax wedge on low-income workers and second earners through lowering employer social security contributions and tax and benefit reforms, while maintaining the tax system’s progressivity.</b>	The most recent budget law extended the reduction in social security contributions for workers in the South for a further 4 years. For firms hiring new workers under 36 years old, between 2021 and 2023, social security contributions can be reduced by 100%, up to a maximum value of EUR 6 000. In 2021 and 2022, employers hiring women can also qualify for a 100% reduction in social security contributions, although for a shorter period (18 months for a full time job and 12 months for a temporary job)
<b>Provide more quality infant care places at a low cost relative to average wages, prioritising regions with low female employment.</b>	Government has provided for increased ECEC funding through the budget and seeks to raise the number of places in the South
Implement a multi-year plan to revamp public employment services based on enforcing essential service standards and higher investments in IT systems, profiling tools and human resources. Raise the efficiency of public employment services by decreasing job seeker-to-staff ratio. Employ profiling tools and specialised counsellors.	The number of counsellors was increased to support job search, although outcomes have been mixed.
<b>Grant to ANPAL the power to restructure public employment services that repeatedly fail to meet commonly agreed performance targets.</b> Ensure ANPAL has the powers to coordinate local employment services offices and set national standards on job search and training policies. Implement a systematic assessment of the labour market impact of activation programmes and focus funding on those that are performing well	ANPAL is providing guidelines on minimum quality standards for public employment services, but its ability to influence outcomes at public employment services remains limited.
Facilitate labour mobility between regions, occupations and sectors through skills recognition and the use of skills assessment	Skills certification is growing among participants in Training Funds. The National Skill Certification System came into effect in January 2021 (“Linee guida del Sistema Nazionale di Certificazione delle Competenze”).
Strengthen the post-secondary vocational education and training (VET) system following the example of Istituti Tecnici Superiori. Establish a national body on VET involving the business sector and key stakeholders to improve training.	The budget allocations to VET have risen, but remain relatively small. A national body has not been established. However, relationships between businesses and key stakeholders are being strengthened to better to link the training component of VET with apprenticeships.
Introduce minimum training quality standards to the firms providing traineeships, internships and apprenticeships.	No progress
Target the low skilled in lifelong learning by facilitating integration into formal education through part-time programmes in post-secondary education and vocational training.	A pilot programme is ongoing in public employment services and in provincial centres for adult education for the self-assessment of adults’ skills based on PIAAC.
Develop digital skills at all levels of education and training.	Digital skills are being developed as part of the national school curriculum. Tax credits for worker training exist as part of the Transizione 4.0 / Impresa 4.0 plan, although specific digital training is not required.
Develop a career-based system for teachers based on a well-functioning system for evaluating teachers to attract and retain the best-qualified teachers and improve career development.	Funds continue to be allocated for the training needs of teachers and to support their professional development.
Create partnerships between schools and the business sector to create quality work-based learning opportunities for students as envisaged by the Good School reform.	Since 2018/19, vocational institutes and regional vocational education and training providers are part of the national network of vocational schools.

### Tax reforms could finance a lower labour tax wedge

Tax revenues in Italy made up a substantial 42.4% of GDP in 2019, compared to an OECD average of 33.8%. Revising the tax composition can foster economic growth by reducing taxes most harmful to growth (Arnold et al., 2011[109]); (Brys et al., 2016[110]). Italy's tax revenue bases are weighted more heavily to social security contributions than OECD peers, imposing a heavy cost on hiring, whilst consumption, inheritance and wealth taxes are low (Figure 1.43). The incidence of personal income tax has risen on middle income earners (UPB, 2021[100]). The wealthiest households have enjoyed higher exemptions and lower marginal effective rates in inheritance taxes (OECD, 2021[111]) (OECD, 2018[112]).

**Figure 1.43. Italy's tax mix has low reliance on VAT and a higher reliance on social security contributions than peer countries**

Percentage of total tax revenue, 2019



Note: Due to data unavailability the unweighted average of OECD countries excludes Costa Rica.  
Source: OECD (2021), Tax Revenue (database).

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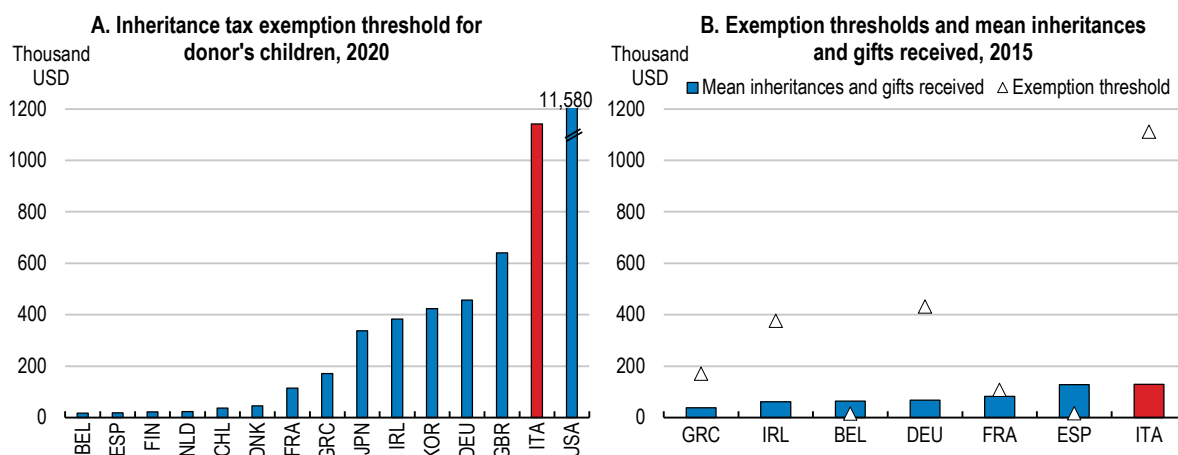
Tax reform should prioritise improving compliance and restructuring the composition of taxes in a more growth-friendly way. Consumption taxes tend to be more growth supporting than labour taxes (Arnold et al., 2011[109])— but a major obstacle to higher VAT revenues in Italy is compliance. The government estimates the difference between taxes due and taxes paid in 2018 stood at 5.9% of GDP (Ministry of Economics and Finance, 2020[113]). Around a third of this was due to a EUR 33.3 billion shortfall in VAT receipts. Accelerated digitalisation due to the COVID crisis could help clamp down on non-compliance, with the switch to electronic invoicing generating an additional EUR 2.1 billion in tax payments in 2018 (Ministry of Economics and Finance, 2020[113]). In addition, the VAT exemption threshold, which is amongst the highest of OECD countries (OECD, 2020[114]), could be reduced steadily over time. Advances in digital technologies, generous government support for technology investments and the drive towards reducing cash as a means of payment should reduce firms' compliance burden.

Inheritance taxes tend to have more limited effects on savings than other taxes levied on wealthy taxpayers, and positive effects on heirs' incentives to work and on donors' charitable giving (OECD, 2021[111]). Italy has a low inheritance tax take (Figure 1.43) and a relatively high tax exemption threshold (Figure 1.44) (OECD, 2021[111]). (Acciari and Morelli, 2021[115]) estimate that inheritance and gifts rose from 8.4% in 1995 to 15.1% in 2016, whilst inheritance tax receipts fell from 0.14% to 0.06% of total tax revenue. Whilst inheritance taxes might reduce the probability of family business successions, they might at the same time reduce risks of misallocating capital to less-skilled heirs (OECD, 2021[111]). Ireland provides recipients with a lifetime exemption for wealth transfers, which can promote greater equity. Strengthening



property tax revenues would complement inheritance taxes in raising revenues while limiting the drag on investment and activity. If immovable property values were more closely related to market values, as in past OECD recommendations, revenue and equity gains could be achieved (OECD, 2019<sup>[53]</sup>); (Cammeraat and Crivelli, 2020<sup>[116]</sup>). The marginal effective rates of property are well below other assets (Figure 1.45).

**Figure 1.44. Inheritance tax thresholds are low compared to OECD peers and average bequests**



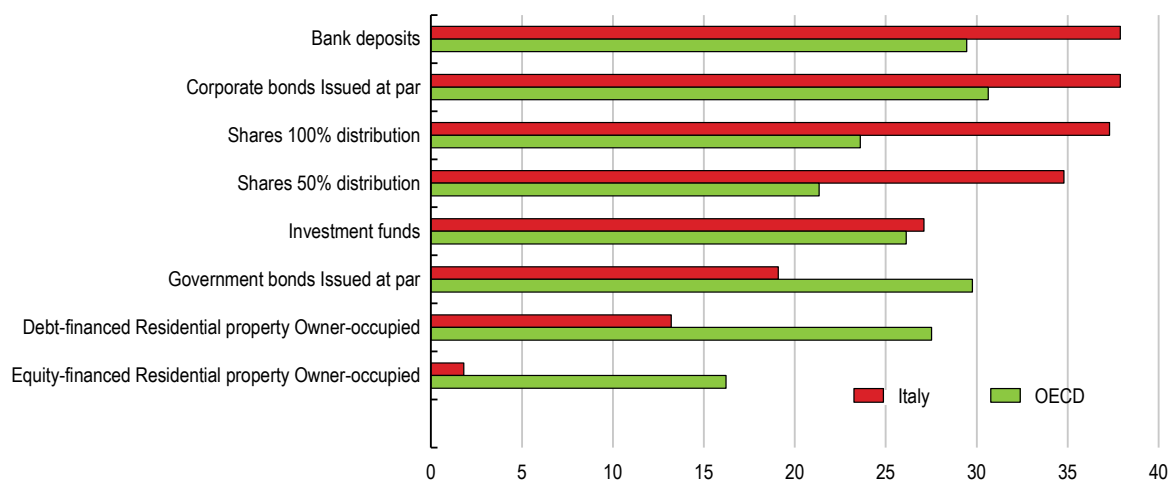
Note: Panel A: Tax exemption thresholds are reported in USD 2020. Children of the donor are exempt in Hungary, Lithuania, Poland, Portugal, Slovenia, Switzerland. This figure assumes that beneficiaries are adults and do not have a disability. Belgium: refers to the Brussels-Capital Region. Luxembourg: exemption thresholds depend on the value of the estate; children are exempt on the inheritance that they would be attributed under intestate laws, defined as a share of the estate, and are taxed above this amount. Switzerland: refers to the canton of Zurich. United Kingdom: assumes that the donor uses the residence nil-rate band, but not the transferable nil-rate band (which applies if the donor's spouse had already passed away and did not made full use of the tax-exemption threshold). Panel B: Mean inheritances and gift received 2015 data from the OECD Wealth Distribution Database, [oe.cd/wealth](https://oe.cd/wealth).

Source: OECD (2021), Inheritance Taxation in OECD Countries, <https://doi.org/10.1787/e2879a7d-en>.

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**Figure 1.45. The marginal effective rates of property**

Marginal effective tax rates by asset, 2016



Note: Due to data unavailability the unweighted OECD average excludes Costa Rica.

Source: OECD (2018), Taxation of Household Savings.

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Tax expenditures have been an important tool to respond to COVID, with 69 new measures implemented (Ministero dell'Economia e delle Finanze, 2020<sup>[117]</sup>) but when the recovery is underway, they should be streamlined. Total tax expenditures in 2021 are expected to reach EUR 68.1 billion, and the government forecasts their cost to decline slightly to EUR 65.1 billion in 2023 (Senato della Repubblica and Camera dei Deputati, 2021<sup>[118]</sup>). In total, almost 180 tax expenditures apply to personal income taxes, representing an average annual amount of EUR 40 billion in tax expenditures between 2021 and 2023 (Bratta, 2021<sup>[119]</sup>). Their distributional impact must be evaluated, alongside assessing if the intended policy objectives are best achieved with a tax exemption or other policy tools. Higher public spending, better designed regulations, improved certainty or better coordinating across different government levels could be more effective, as discussed in Chapter 2. A simpler tax deduction regime may also make it easier to identify the EUR 31.7 billion in self-employed taxes that are estimated as due but not collected.

To support tax collections, an integrated data analytics platform across the highly fragmented Italian tax administration could support a more strategic approach to risk identification and enforcement. Repeated tax amnesties should be avoided as they undermine tax collection. Continued tax amnesties or tax-related forgiveness (such as the March 2021 cancelling of EUR 5 000 tax debts from 2000 – 2010) imposes a high cost on compliant taxpayers and reduces the incentives for compliance, for any given rate of penalty.

### Past OECD recommendations on tax policy

Past recommendations	Actions taken since 2019
Lower the maximum threshold for cash payments.	The expansion of e-invoicing has continued. The minimum cash threshold for payments was lowered to EUR 2 000 in July 2020 and will reach EUR 1 000 in January 2022.
Continue to improve coordination across tax administration agencies	Compulsory digital invoicing extended and advanced taxpayer profiling to raise compliance introduced in 2019 Introduction of the Cashless Plan in late 2020 to incentivize move away from cash to digital payments.
Abolish tax expenditures that are poorly targeted or have outdated objectives.	No progress.
Continue to improve voluntary tax compliance and avoid repeated tax amnesties.	Voluntary compliance assisted with auto-filled taxpayer forms and system of advance communications with taxpayers. Tax amnesties were introduced in 2019. In 2021, those owing less than EUR 5 000 between 2000 and 2010 were granted amnesty. Introduced a lottery to encourage use of cards, although this has now been replaced with incentives to reduce merchants' costs using point of sale devices.

## Main findings and recommendations

MAIN FINDINGS	RECOMMENDATIONS
<b>Policies for a stronger and more resilient recovery from COVID-19</b>	
<p>The economy is expected to recover to 2019 levels by the first half of 2022. Withdrawing support for individuals and companies too early would lead to more bankruptcies, lower employment and higher poverty. Government debt will reach nearly 160% of GDP in 2021 and population ageing will put pressure on public finance.</p>	<p><b>Continue to provide fiscal support until the economic and employment recovery is well underway and make it increasingly targeted.</b></p> <p><b>Announce in advance a medium-term fiscal plan to be implemented once the recovery is self-sustained to reduce the public debt to GDP ratio, taking into account the effects of an ageing population.</b></p>
<p>Higher post-COVID insolvencies raise bank balance sheets risks. Although banking sector resilience has improved, non-performing loans remain high by OECD standards. The well-developed non-performing loan market can play a key role in reallocating credit in the post-COVID recovery.</p> <p>The court and early warning system risk being overwhelmed as the economy emerges from the crisis. Reforms to continue to improve the efficiency of the civil justice system are being considered by Parliament.</p>	<p><b>Introduce market-wide standards for valuing unlikely-to-pay loans.</b></p> <p>Continue to encourage banks to sell non-performing exposures through stringent supervision and guarantees, and incentivise securitisation.</p> <p><b>Increase resources for courts to better manage backlogs and improve the speed and efficiency of civil justice court procedures.</b></p> <p>Implement the civil justice reform bill.</p> <p>Augment the early warning system with digitised procedures to reduce caseloads in the medium-term and encourage the use of out-of-court settlement procedures, including through financial incentives.</p>
<b>Public finance reforms are needed to support faster growth and more and better jobs</b>	
<p>Despite relatively high public spending, spending that can best support growth and well-being is low and has been falling. Next Generation EU grant funds are significant at 13.5% of 2020 GDP. Slow historic absorption of EU funds is due to hurdles in designing, approving and implementing programmes. Procurement is slow, competition limited and capacity varies widely.</p>	<p><b>Improve the composition of public spending to promote growth and job creation.</b></p> <p>Improve coordination across agencies implementing public investment projects to raise disbursement levels.</p> <p><b>Consolidate smaller agencies' public procurement activities into higher capacity bodies.</b></p>
<p>Ageing- and interest-related expenditure pressures are high and set to rise in the longer term. The government has committed to returning to pre-COVID debt levels.</p>	<p><b>Contain pension spending by allowing the early retirement scheme (Quota 100) and the so-called women's option to expire in December 2021, and immediately re-establish the link between life expectancy and retirement age.</b></p>
<p>Tax revenue shares from labour are higher and VAT and inheritance tax revenues lower than OECD peers. The tax wedge on labour is high, but has been lowered with income tax relief, family allowance reforms and temporary social security contribution cuts. The government intends to reform the tax system.</p> <p>Labour force participation fell sharply in 2020 and remains particularly low for women, especially those with children.</p>	<p><b>Implement a holistic tax reform that reduces complexity and permanently lowers taxes on labour, financed through improved compliance, lower tax expenditures and higher taxes on immovable property and inheritance.</b></p> <p>Lower the marginal effective tax rates for secondary earners.</p> <p><b>Improve access to quality childcare across all regions</b></p>
<p>The recovery plan allocates 6.5% of GDP for green projects. Carbon tax pricing continues to favour diesel and industry.</p>	<p><b>Set a long-term plan to harmonise and gradually raise carbon prices, with policies and time to ease social and competitiveness transition costs.</b></p>
<p>SMEs do not access training funds enough. Current resources and structures will not reverse low adult learning rates and digital skills levels.</p>	<p><b>Increase access to adult skills attainment, with improved Training Fund application processes and better coordinated public employment services.</b></p>
<b>Raise investment and productivity</b>	
<p>Government incentives, including the recent temporary increase in the allowance for corporate equity, only partially offset regulatory obstacles to higher investment. Services productivity lags manufacturers, and firm growth levels lag OECD peers. Regulations are often anti-competitive.</p>	<p><b>Reduce regulatory barriers to entering professional services, including replacing licensing systems with less distortionary certification schemes.</b></p> <p>Introduce a national productivity board to identify and communicate the costs and benefits of reforms, and build a national consensus</p> <p>Ensure that the tax allowance for corporate equity is sufficiently predictable and generous to reduce the debt-equity bias.</p>
<p>Penalties for engaging in corrupt activities increased in 2019.</p>	<p><b>Improve oversight and accountability of elected officials and magistrates to improve the quality of policies and build public trust.</b></p>

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