ITALY

- GDP per capita is about 75% the average of the most advanced OECD countries, after having fallen in relative terms for more than 20 years. Following the crisis, annual potential GDP per capita growth has turned negative due to declining trends in employment and total factor productivity. Also, severe retrenchment in investment spending has reduced the productive capital stock, further hindering labour productivity growth.
- Inequality has increased in recent years, contrasting with the stability observed in OECD average. The Gini coefficient rose by 0.2 point between 2008 and 2013; poverty has increased substantially, especially among children and youth.
- In the past few years, Italy has implemented significant structural reforms, which have addressed some of the *Going for Growth 2015* priorities. The Jobs Act has rebalanced the protection system from jobs to workers' income and introduced a universal unemployment insurance system. The *Good School* reform has established a formal evaluation system of teachers and heads of schools, which will have to be fully implemented. Also, regulatory barriers to competition have been reduced. Thus, these are no longer priority areas in *Going of Growth*, though weak enforcement relating to the inefficiency of the public administration continues to thwart the potential benefits of reforms.
- Progress on implementing the ambitious reform agenda depends significantly on increasing the efficiency of its public administration and improving the judicial system A more efficient public administration will magnify the benefits of structural reforms. New active labour market policies foreseen by the Jobs Act should be phased in quickly, as they are crucial to reduce structural unemployment. Improving the efficiency and equity of the tax structure by permanently lowering the labour tax wedge, combating tax evasion, broadening the tax base and simplifying the tax system will lead to a more inclusive growth and generate resources to further strengthen the social safety net. Enhancing the quality of public capital spending and fostering innovation and investment in knowledge-based capital will boost the quality and quantity of the productive capital stock.
- Improving co-ordination of Italy's multi-level environmental governance and ensuring compliance with environmental regulation will hinge on raising the efficiency of the public administration. Strengthening the link between taxation and environmental externalities would contribute to make the tax system more efficient and reduce pollution.

Going for Growth 2017 priorities

Improve the efficiency of the public administration and bolster the rule of law.* [1] Continuing to raise the public administration efficiency is key to increasing national productivity and well-being. A better-functioning judiciary is crucial to improve economic performance as lengthy trials undermine the rule of law and impose heavy costs on firms and individuals.

Recommendations: Implement a more performance-oriented human resource system in the public administration and improve skill levels as envisioned by the recent public administration reform. Fight corruption vigorously by ensuring that the National Anti-Corruption Agency (ANAC) continues to have the power, funds and human resources to conduct its tasks effectively. Make further progress on streamlining the court system – with more court specialisation where appropriate, more extensive use of mediation and effective monitoring of court performance, extending the e-tax process to the whole country and broadening it to other areas. Ensure that legislation is clear and unambiguous.

Enhance active labour market policies. Without effective activation policies, long-term unemployed risk permanent labour market and social exclusion.

1. New policy priorities identified in *Going for Growth 2017* (with respect to *Going for Growth 2015*) are preceded and followed by an "*".

ITALY

Growth performance and inequality indicators

A. Growth

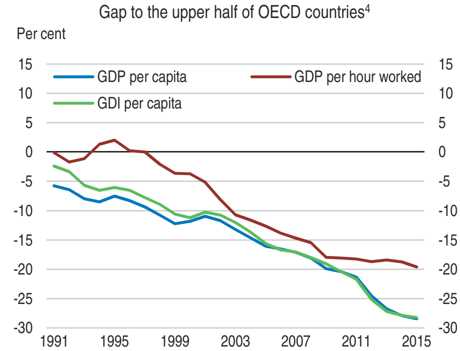
Average annual growth rates (%)		2003-09	2009-15
GDP per capita		-0.8	-0.6
Labour utilisation		0.2	-0.7
of which:	Labour force participation rate	-0.1	0.2
	Employment rate[1]	0.1	-0.8
	Employment coefficient[2]	0.1	-0.1
Labour productivity		-0.6	0.0
of which:	Capital deepening	1.0	0.1
	Total factor productivity	-1.5	0.0
Dependency ratio		-0.3	0.0

B. Inequality

	Level	Annual variation (percentage points)
	2013	2008-13
Gini coefficient[3]	32.5 (31.7)*	0.2 (0)*
Share of national disposable income held by the poorest 20%	6.8 (7.7)*	-0.1 (0)*

** OECD average*

C. Gaps in GDP per capita and productivity have continued to widen
Gap to the upper half of OECD countries[4]



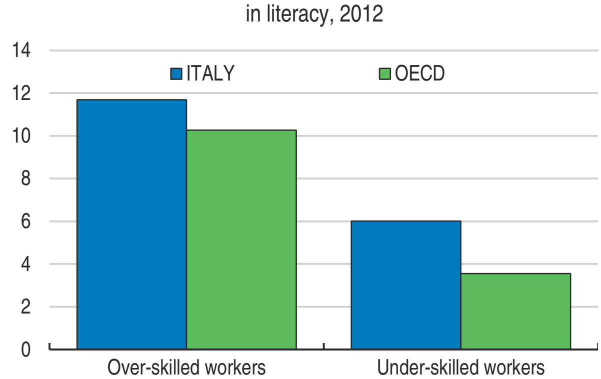
1. The employment rate is defined with respect to the economically active population; a positive growth rate corresponds to a decline in the structural unemployment rate and vice-versa.
2. This adjustment variable is added to the decomposition to capture the impact of non-resident workers.
3. The Gini index measures the extent to which the distribution of disposable income among households deviates from perfect equal distribution. A value of zero represents perfect equality and a value of 100 extreme inequality.
4. Percentage gap with respect to the weighted average using population weights of the highest 17 OECD countries in terms of GDP per capita, GDP per hour worked and GDI per capita (in constant 2010 PPPs).

Source: Panel A: OECD, *Economic Outlook No. 100 Database*; Panel B: OECD, *Income Distribution Database*; Panel C: OECD, *National Accounts and Productivity Databases*.

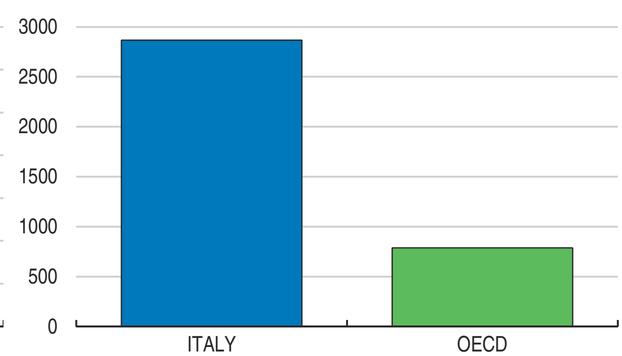
StatLink http://dx.doi.org/10.1787/888933455143

Policy indicators

A. The mismatch between the skills of workers and the skill requirements of jobs is large[1]
Percentage of over- and under-skilled workers in literacy, 2012



B. The duration of trials is comparatively very high
Total trial length (number of days), 2010



1. Over- (under-) skilled workers are those whose proficiency score is higher (lower) than that corresponding to the 95th (5th) percentile of self-reported well-matched workers in their country and occupation.

Source: Panel A: OECD (2013), *OECD Skills Outlook 2013: First Results from the Survey of Adult Skills*; Panel B: OECD (2013), “What makes civil justice effective?”, *OECD Economics Department Policy Notes*, No. 18, June 2013.

StatLink http://dx.doi.org/10.1787/888933455602

Actions taken: The Jobs Act approved and implemented in 2015 has reformed active labour market policies by creating the National Agency for Active Labour Market Policies (ANPAL) to co-ordinate regional job centres, establish minimum standards and evaluate active labour market policies. The conditionality between receiving unemployment benefits and participation in active labour market programmes, delivered also by private job agencies, has been strengthened in 2015. The new legislation also introduces a nationwide information system to facilitate data exchange among regional job centres, ensure compliance with benefits' eligibility criteria, and monitor services provided. The new system of active labour market policies has yet to be fully implemented.

Recommendations: Implement the new system of active labour market policies. Establish an evaluation system to assess the effectiveness of active measures and job centres on a regular basis. Build strong partnership between ANPAL and private job agencies and fully exploit market incentives to increase the offer and improve quality of employment and training services.

Improve the efficiency of the tax structure and strengthen the social safety net. The tax wedge on low-wage earners is high, the tax code is over-complicated and evasion is high, curtailing resources to combat poverty and enhance the social safety net.

Actions taken: The temporary cuts to social security contributions for new permanent contracts were extended to 2016 and 2017, though they were reduced. In 2015, the additional tax receipts attributable to lower tax evasion reached about EUR 15 billion, 5% higher than in 2014. Housing taxes on primary residence have been repealed in 2015. The deadline of the reform of cadastral values has been postponed to 2018.

Recommendations: Reduce distortions and incentives to evade and elude taxes by keeping up efforts against tax evasion (through higher investment in IT systems and better human resource management in tax collection agencies), lowering high nominal tax rates and abolishing tax expenditures devoid of an economic or social rationale. Permanently lower social security contributions, especially for low-wage jobs and shift taxation towards immovable property based on updated cadastral values. Strengthen the link between taxation and environmental externalities. Reduce the fragmentation of anti-poverty programmes, as planned, and improve their targeting while avoiding poverty traps.

Reduce job-skill mismatch. Better quality education, on-the-job training, strengthening firm-level wage setting mechanisms and higher labour mobility will lower skills mismatches.

Actions taken: The Jobs Act and the Good School reform, approved in 2015, contain provisions to facilitate the school-to-job transition process – by boosting work placements for secondary school students, and improve on-the-job training – by strengthening and rationalising apprenticeships. The government also reformed the vocational education system in 2015. The University Plan 2016-2018 allows universities to add, to a limited extent, to their degree courses labour-market relevant subjects.

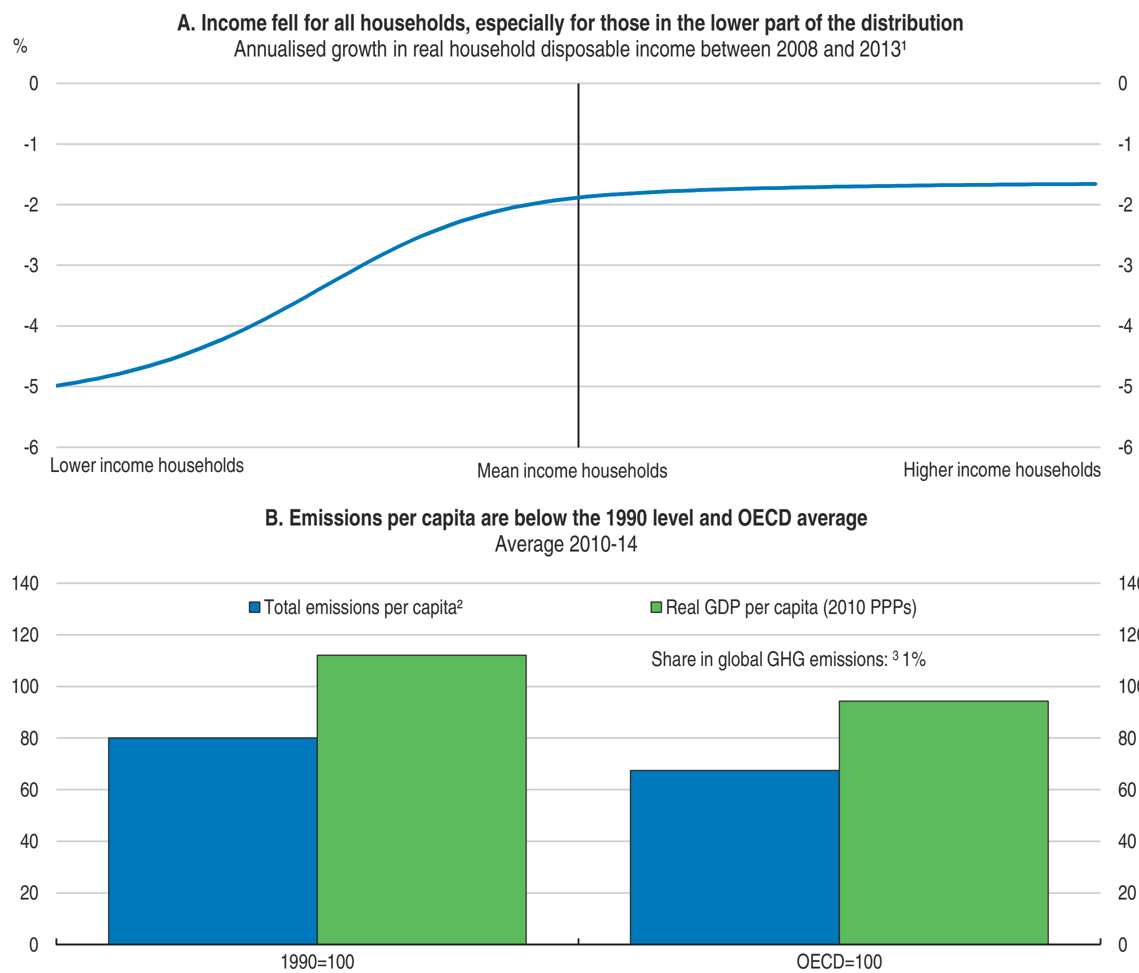
Recommendations: Improve co-ordination between education and labour market policies. Encourage universities and technical schools to revise curricula – in partnership with social partners – so as to reflect present and future skills demands. Continue to make wage setting mechanisms more flexible to take into account firm-specific conditions and monitor initiatives already undertaken in this area. Shift housing taxation from transactions to ownership so as to foster residential mobility.

****Promote higher and better quality investment.**** The low level of public investment and inefficiencies in project selection criteria along with weak innovation and knowledge-based capital investment are holding back potential growth.

ITALY

Recommendations: Enhance the quality of public investment by fully implementing the new public procurement code for construction works, improving infrastructure projects' evaluation and selection, and fighting vigorously corruption. Fully exploit EU initiatives to boost private investment and deepen the Trans-European networks and the Energy Union. Support and monitor the policies undertaken to work out banks' non-performing loans so as to revive bank credit to firms and private investment. Continue to streamline insolvency procedures so as to accelerate the restructuring of viable firms and the exit of those no longer viable. Implement and evaluate the recently introduced programmes to bolster links between research universities and the private sector, strengthen the monitoring and evaluation of public research funds to raise the share of funds allocated through competitive procedures.

Beyond GDP per capita: Other policy objectives



1. The data show average annual growth rates in disposable income (i.e. income after tax and transfers) across the distribution and refer to the period between 2008 and 2013. Disposable incomes cover the full population. Income data are expressed in constant prices (OECD base year 2010).
2. Total GHG emissions including LULUCF in CO_2 equivalents (UNFCCC). The OECD average (excluding Israel and Korea) is calculated according to the same definition.
3. Share in world GHG emissions is calculated using International Energy Agency (IEA) 2010 data.

Source: Panel A: OECD, *Income Distribution Database*; Panel B: OECD, *National Accounts and Energy (IEA) Databases*, *United Nations Framework Convention on Climate Change (UNFCCC) Database*.

StatLink http://dx.doi.org/10.1787/888933456065