ITALY

Priorities supported by indicators

Reduce public ownership (2005, 2009)

Recommendations: Reduce state involvement in business by accelerating privatisation and abolishing golden shares, especially in electricity, gas, post and transport, and enterprises that provide local services.

Action taken: Privatisation has continued but the long process of partial privatisation of Alitalia illustrated that public involvement is still an issue in some sectors. The role of golden shares is now restricted to electricity, gas and airlines.

➤ ***Reduce regulatory barriers to competition (2007, 2009)***

Recommendations: Further strengthen regulators and the antitrust authority. Further deregulate the network industries and services sector, by removing entry barriers and price restrictions.

Action taken: Liberalisation laws in 2007 and 2008, and incorporation of EU directives, notably on full liberalisation of the internal electricity market, have reduced barriers. Many remain in professional and local services. Public tendering for local public services was made compulsory in 2008; in 2009, provisions were introduced for class action law suits against poor quality services, and oversight of efficiency by the Court of Auditors was introduced.

Improve access to and graduation from tertiary education (2005, 2007, 2009)

Recommendations: Decentralise university finance, and increase the share of private finance, with professional managers and higher student fees along with income-contingent student loans. Introduce performance-related career advancement for teachers.

Action taken: Some changes in recruitment procedures have been introduced but not yet fully implemented. A 2008 decree allows universities to become private sector foundations, though none have yet taken up the option.

Reduce the tax wedge on labour income (2005, 2007, 2009)

Recommendations: Reduce marginal income tax rates and pension contributions, and expand deductions for wage costs in business value added tax (IRAP). Finance tax reductions with improved tax enforcement, end use of tax amnesties.

Action taken: Tax enforcement has improved, but a relatively generous, temporary, partial tax amnesty for repatriated funds held abroad was introduced. No significant cuts have been made in tax rates, but deductions for IRAP have been expanded and income tax reductions for pay increases related to productivity gains and overtime work have been introduced.

Other key priorities

Reform corporate governance (2005, 2007)

Recommendations: Strengthen independent directors and minority shareholder rights. Reform the bankruptcy law by strengthening creditor rights and reducing borrower penalties in case of insolvency. Fully implement the 2006 financial market supervision reform.

Action taken: Bankruptcy and financial market supervision reforms have been implemented. New Bank of Italy rules clarify the identification of supervisory and management authority in management bodies of banking institutions.

Decentralise wage bargaining (2005, 2007, 2009)

Recommendations: The public sector should take a lead in decentralising wage bargaining arrangements, taking into account regional differences in both productivity and cost of living.

Action taken: No action has been taken on decentralisation. A programme to introduce transparency and productivity-related rewards in the public administration has been introduced.

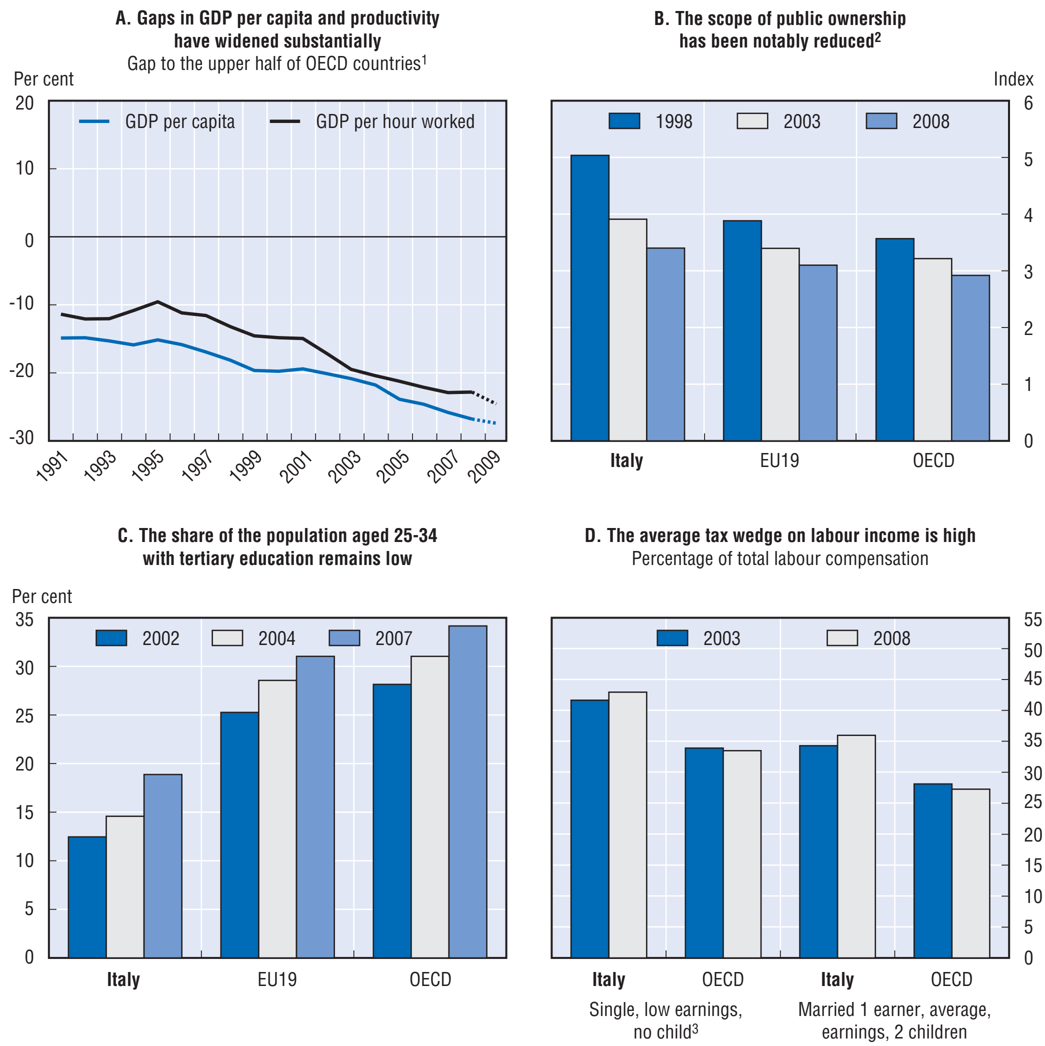
Strengthen incentives for innovation (2009)

Recommendations: Foster R&D expenditure through careful use of tax incentives. Promote research partnerships between industry and universities. Make public sector recruitment procedures for researchers more transparent.

Action taken: Tax credits for R&D have been introduced, and increased when related to universities. Tax incentives for Italian researchers working abroad to return to Italy were introduced in 2008.

ITALY

- Italy's productivity performance has remained poor, and the income gap relative to the upper half of OECD countries has widened. However, labour market performance, in terms of both participation and the unemployment rate had been improving steadily until the financial and economic crisis hit the economy.
- Liberalisation and the strengthened climate for competition have improved the outlook for productivity growth, though there is evidence that reforms that remain to be done would have more impact than those implemented so far. Professional services and local public services are key areas where reform efforts are still needed.
- In other areas, reforms of the public administration to improve its performance orientation have advanced, though they will need to be sustained in order to produce significant gains.



1. Percentage gap with respect to the simple average of the upper half of OECD countries in terms of GDP per capita and GDP per hour worked (in constant 2005 PPPs). The gaps for 2009 are OECD estimates, based on the *OECD Economic Outlook*, No. 86.
2. Index scale of 0-6 from least to most restrictive.
3. Low earnings refer to two-thirds of average earnings.

Source: Chart A: OECD, *National Accounts* and *Economic Outlook 86 Databases*; Chart B: OECD, *Product Market Regulation Database*; Chart C: OECD (2009), *Education at a Glance*; Chart D: OECD, *Taxing Wages Database*.

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