

## BASIC SOCIO-ECONOMIC INDICATORS

Income group - HIGH INCOME: OECD Local currency - Euro (EUR)

### POPULATION AND GEOGRAPHY

AREA: **295 113** km<sup>2</sup>

POPULATION: **60.795** million inhabitants (2014), an increase of 0.4% per year (2010-14)

DENSITY: **206** inhabitants/km<sup>2</sup>

URBAN POPULATION: **68.8%** of national population

CAPITAL CITY: **Rome** (6.1% of national population)

Sources : OECD, Eurostat, World Bank, UNDP, ILO

### ECONOMIC DATA

GDP: **2 155.8** billion (current PPP international dollars) i.e. 35 463 dollars per inhabitant (2014)

REAL GDP GROWTH: **-0.4%** (2014 vs 2013)

UNEMPLOYMENT RATE: **12.7%** (2014)

FOREIGN DIRECT INVESTMENT, NET INFLOWS (FDI): **13 727** (BoP, current USD millions, 2014)

GROSS FIXED CAPITAL FORMATION (GFCF): **17%** of GDP (2014)

HUMAN DEVELOPMENT INDEX: **0.873** (very high), rank 27

## TERRITORIAL ORGANISATION AND SUBNATIONAL GOVERNMENT RESPONSIBILITIES

MUNICIPAL LEVEL	INTERMEDIATE LEVEL	REGIONAL OR STATE LEVEL	TOTAL NUMBER OF SNGs
<b>8 047</b>	<b>107</b>	<b>20</b>	<b>8 174</b>
MUNICIPALITIES (COMUNI), INCLUDING 14 METROPOLITAN CITIES (CITTÀ METROPOLITANE) AVERAGE MUNICIPAL SIZE: 7 545 INHABITANTS	PROVINCES (PROVINCE)	REGIONS (REGIONI)	

**MAIN FEATURES OF TERRITORIAL ORGANISATION.** Italy has a three-tier system of SNGs, comprising the regions, the provinces and the municipalities. Italy is often referred to as a “regionalised country”, in particular since the constitutional reform of 2001 and the fiscal federalism law of 2009 both granted greater autonomy to the regions. In addition, Italy has an asymmetric decentralisation with fifteen ordinary-status regions (RSO) and the five special status regions (RSS) enjoying even more legislative and financial autonomy (Aosta Valley, Friuli-Venezia Giulia, Sardinia, Sicily and Trentino-Alto Adige/Südtirol). This latter region is divided into two provinces, each with its own special statute. Provinces and municipalities are not governed by regional legislation, except in the RSS. The current Italian multi-level governance system could change in October 2016 if the Constitutional reform adopted in April 2016 is approved by referendum. The reform includes, among others, the abolition of the provinces which would be removed definitively from the Constitution as self-governing entities. The Law 56/2014 already transformed the provinces into inter-municipal cooperation bodies, taking the form of metropolitan cities in each of the ten metropolitan areas designated by the law. Italy also has a state territorial administration based on prefectures (*prefetture*) at the provincial level.

**MAIN SUBNATIONAL GOVERNMENTS RESPONSIBILITIES.** Regions have significant legislative and administrative powers since the 2001 Constitutional reform which gave them exclusive legislative power with respect to any matter not expressly reserved to State. Regions are responsible for healthcare, transport, social services and housing, economic development, environmental protection, culture, agriculture, education, etc. Some responsibilities are, however, shared with the central government, resulting in significant overlap (concurrent responsibilities). Before the Law 56/2014, provinces were in charge of transport, roads, environmental protection, sewerage, waste, secondary schools, etc. Following the new law, provincial tasks were transferred to regions, municipalities or new-intermunicipal bodies, depending on each region. Municipal responsibilities include town planning, building and commercial permits, social housing, local police, local public transport and roads, water and waste management, education (pre and primary schools buildings), social services, local economic development, recreation and culture, etc. The Constitutional reform provides for significant changes, intending to clarify the allocation of responsibilities between the central government and ordinary regions. It plans to abolish “concurrent competences” and to recentralise several tasks, the central government gaining in particular exclusive competences on transport, public finance and taxation as well as labour.

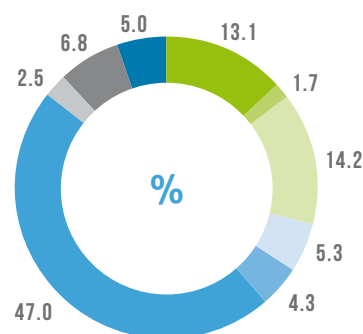
## SUBNATIONAL GOVERNMENT FINANCE

EXPENDITURE	% GDP	% GENERAL GOVERNMENT (same expenditure category)	% SUBNATIONAL GOVERNMENT
TOTAL EXPENDITURE (2013)	14.9%	29.3%	100%
CURRENT EXPENDITURE	12.9%	-	86.4%
STAFF EXPENDITURE	4.2%	41.2%	28.4%
INVESTMENT	1.4%	56.6%	9.1%

The gradual but deep decentralisation process led to a strong increase in SNG expenditure. Italy is today among the most unitary decentralised countries, after Nordic countries and Japan. SNGs are key public employers, in particular in the health sector. The role of SNGs in public investment is slightly lower than in the OECD on average where SNG investment accounted for 58.5% of public investment, 1.9% of GDP and 11.2% of SNG expenditure in 2013. Regions represent the bulk of SNG expenditure (around 65%), municipalities and provinces representing around 30% and 5%.

## EXPENDITURE BY FUNCTION

## % SUBNATIONAL GOVERNMENT EXPENDITURE



Health is by far the primary area of SNG spending, representing almost half of SNG expenditure, and even 60% of regional budgets (health services are organized within special-purpose autonomous bodies funded by the regions (local health agencies or ASL). It is followed by economic affairs/transport and general public services. The share of social protection and education is lower than in the OECD on average (where they respectively accounted for 11.9% and 26.2% in 2013) as these two sectors remain primary functions of the central government, in particular regarding staff management. SNGs are responsible for the large majority of overall public spending in the areas of environmental protection, housing and community amenities and health (over 80% of public spending).

REVENUE BY TYPE	% GDP	% GENERAL GOVERNMENT (same revenue category)	% SUBNATIONAL GOVERNMENT
TOTAL REVENUE (2013)	14.9%	31.0%	100%
TAX REVENUE	6.5%	21.7%	44.0%
GRANTS AND SUBSIDIES	6.5%	-	43.6%
OTHER REVENUES	1.9%	-	12.5%

The 2001 Constitutional reform and the fiscal federalism law No. 42 of 2009 set a milestone for Italy in its gradual move towards decentralisation. The objective of the reform was to increase SNG fiscal autonomy, efficiency and accountability, and to guarantee an adequate level of subnational services across the country. It led to an increase of own-taxes and shares in national taxes with the aim of covering spending obligations, which also induce the replacement of a portion of central government grants by tax revenues equalization payments.

**TAX REVENUE.** SNG tax revenue comprises both shared and own-sources taxes. Regional taxes include a regional tax on productive output (IRAP, by far the most important source of tax revenue for regions), a regional surtax on the PIT (*imposta sul Reddito delle Persone Fisiche IRPEF*), a regional automobile tax, etc. The RSS and the central government also share certain national taxes (PIT, CIT, stamp tax, excise duties, etc.). Provincial own taxes include a vehicle insurance tax, a vehicle registration tax, a surtax on electricity consumption and a share of the PIT (*compartecipazione IRE*). Municipalities also receive a share of the PIT but most of their taxes are own-source, including a municipal property tax (*Imposta Municipale Propria IMU*), a municipal tax on building licenses, a waste tax and a surtax on the PIT (IRPEF), with some municipal leeway on the rate. The property tax, abolished in 2006, was re-established in 2012, accounting for 1.3% of GDP in 2013. In 2014, a new Municipal tax, called IUC (Single Municipal tax), was established, consisting of three separate taxes: the IMU, the TASI (tax financing local services such as public lighting, roads) and the TARI (waste tax).

**GRANTS AND SUBSIDIES.** The 2009 reform reviewed the equalisation system, introducing a new system based on covering the costs of essential public services and equalising tax-raising capacities. Central government (non-capital) transfers consist exclusively of general purpose equalisation grants. This system replaced the prior system of negotiated grants based primarily upon historical levels. The grants system is funded through a share of national VAT receipts. Equalization must take into account both expenditure needs (a minimum level of the compulsory services is guaranteed to all citizens regardless of where they live within the country) and fiscal capacity. SNGs with a below-average fiscal capacity are entitled to equalising grants. There are, however, some earmarked transfers targeted to specific needs, in particular to correct regional disparities for economic development and social cohesion purposes, for natural disasters, and for funding functions delegated to regions by the central government. These types of grants should be limited as far as possible as conditional grants are banned by the Constitution. Regional transfers to local governments are often earmarked, and include, for instance, capital grants. Overall, capital grants represented 13% of all grants in 2013.

**OTHER REVENUES.** The share of other revenue in SNG revenue is significantly lower than in the OECD on average (12.5% vs 19.0%). They include mostly user charges and fees (10.9% of SNG revenue, but more for the municipalities), property income (rents, sales) representing 1% of SNG revenue.

OUTSTANDING DEBT	% GDP	% GENERAL GOVERNMENT
OUTSTANDING DEBT (2013)	12.3%	8.6%

In 1999, Italy has introduced an Internal Stability Pact (ISP) to ensure that the financial situation of local, provincial and regional administrations is consistent with Italy's obligations under the European Union fiscal rules. ISP has been progressively modified, with different targets and borrowing limits for regions, provinces and municipalities and specific rules for health spending. A reform enshrining the budget stability rule in the Italian constitution also passed in May 2012. Deficits can no longer be financed through debt (golden rule). The reform also reinforced the role of the central government in the co-ordination of public finances, subjecting regional and local government budgets to central control. Italian SNG outstanding debt as a share of GDP and public debt is below OECD averages, especially that of unitary countries (15.1% of GDP and 12.0% of public debt). It is made up of financial debt (70%) and other accounts payable (30%). Municipalities, provinces and regions may issue bonds according to specific prudential rules. However, the majority of Italy's regional and local debt is in the form of bank loans (59% of outstanding SNG debt in 2013). The government set up a funding plan in 2013 to repay the SNGs' accumulated liabilities (debt buyback). The regions receive funding directly from Italy's Ministry of Finance, while cities and provinces receive funding from Italian government agency Cassa Depositi e Prestiti (CDEP).

A joint- study of:



**Sources:** OECD National Accounts Statistics • OECD (2016 and 2015) Subnational Governments in OECD Countries: Key data • Chatry I., Hulbert C. (2016), "Multi-level governance reforms: Overview of OECD country experiences" OECD publishing • Unicredit (2016), Financing Italy's regional and local governments • OECD (2015), OECD Economic Surveys Italy • OECD (2015), The State of Public Finances 2015, Strategies for Budgetary Consolidation and Reform in OECD Countries • Wolman H. and Hincapie D. (2014), National Fiscal Policy And Local Government During The Economic Crisis, Volume 2: Country Profiles, Urban Paper Series • Council of Europe (2013), Local and regional democracy in Italy CG(24)8FINAL.