HOW CAN WE GOVERN EUROPE?

MEF Dipartimento del Tesoro

Which policies to foster the EU's long-term fiscal sustainability?

Francesco Felici

"How can we govern Europe?"Florence, 21-23 November 2014

OUTLINE

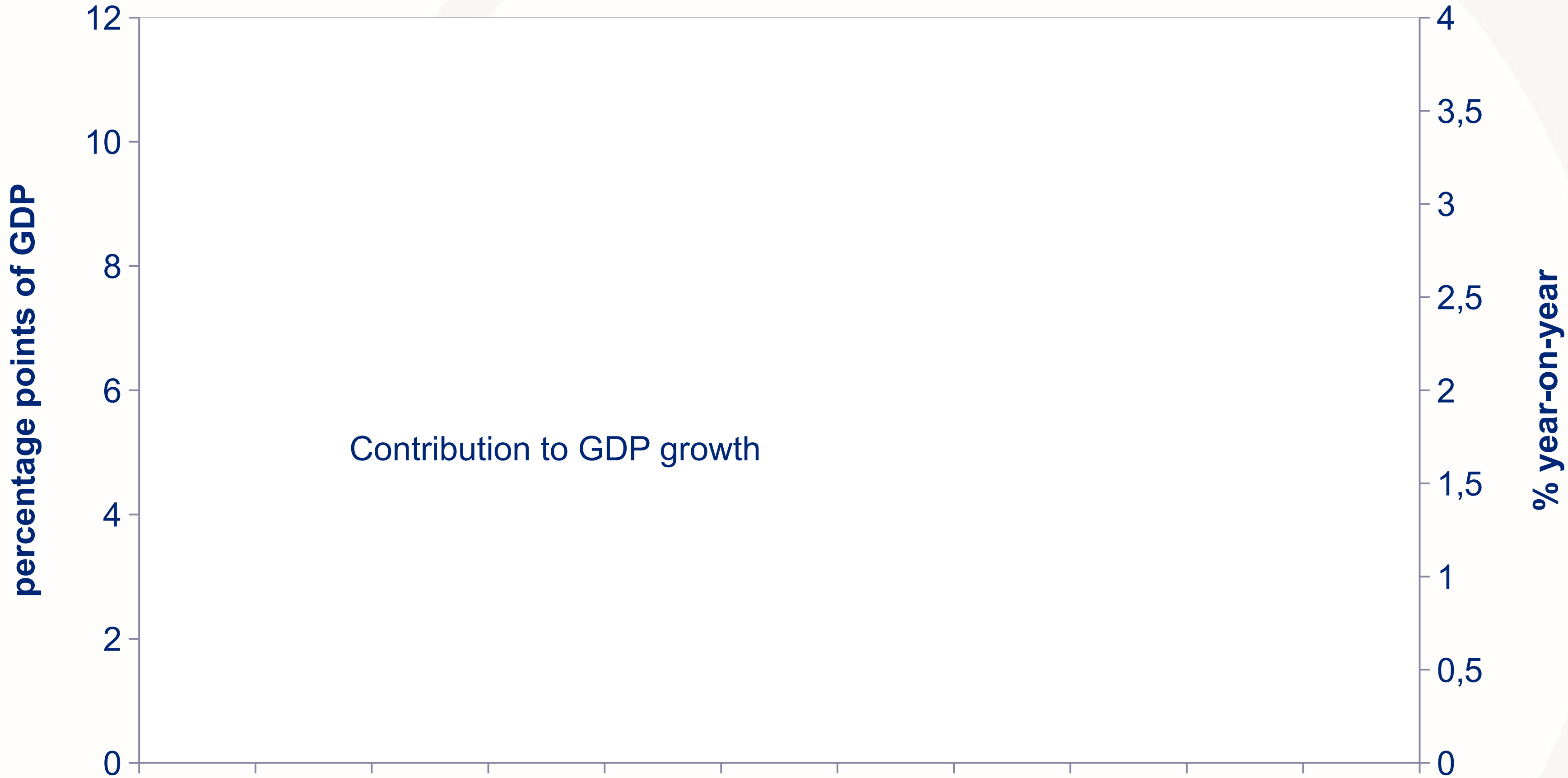
Reforms, fiscal sustainability and economic growth

- The outlook for the Italian economy
- Structural reforms
- Macroeconomic imbalances
- Public finances
- A growth-friendly fiscal consolidation

Growth prospects and commitments

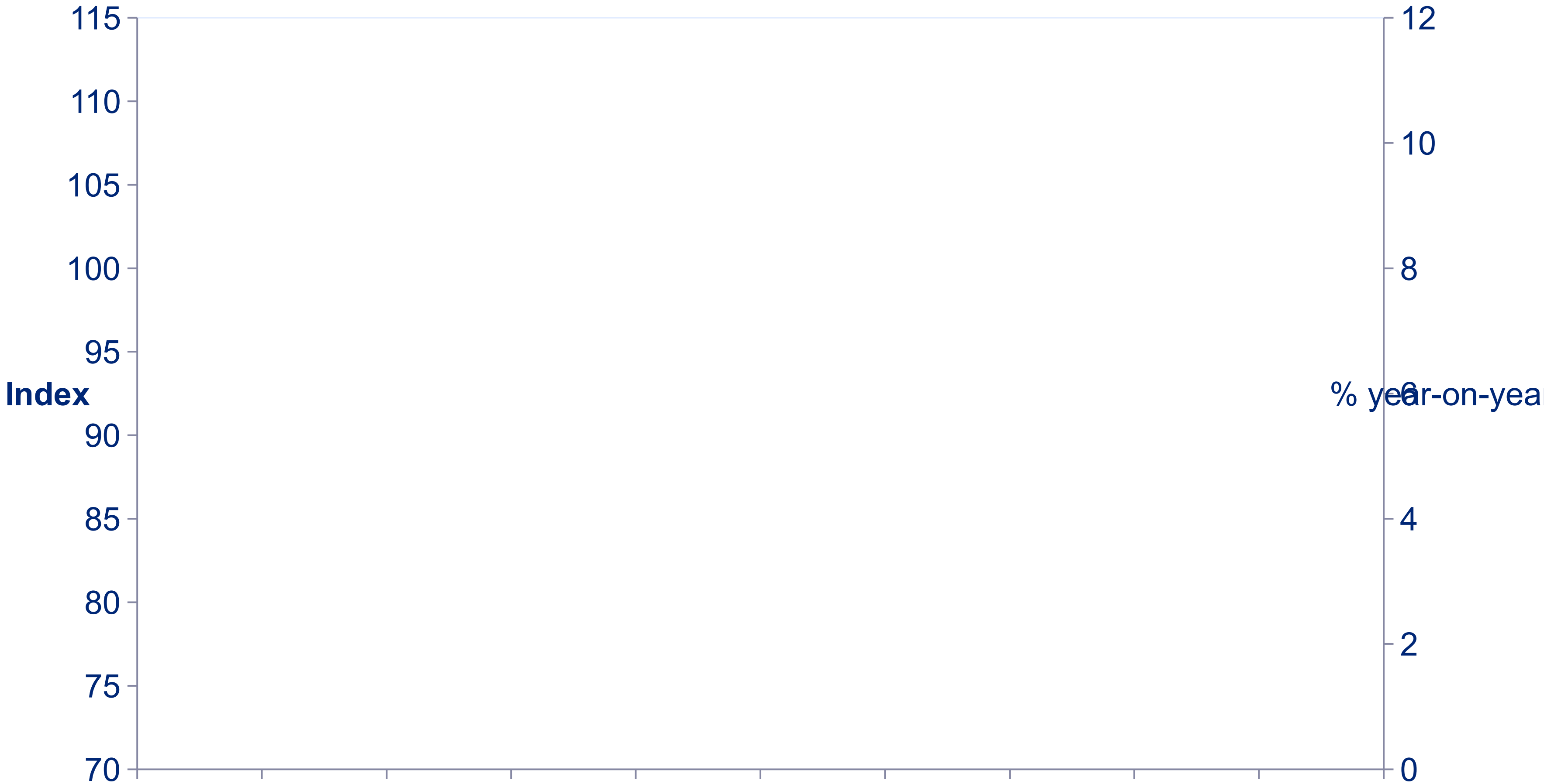
- The Italian Government is committed to **address the structural weaknesses** of the economy
- It is currently engaged in the **implementation of an ambitious and wide-ranging reform agenda** aimed at boosting growth, competitiveness and employment.
- **Fiscal sustainability remains a key pillar** of the reform agenda. Reducing the burden of the public debt and freeing up resources for more productive uses is indeed essential for a balanced and equitable growth pattern.

Italy's GDP: a very slow recovery, for now



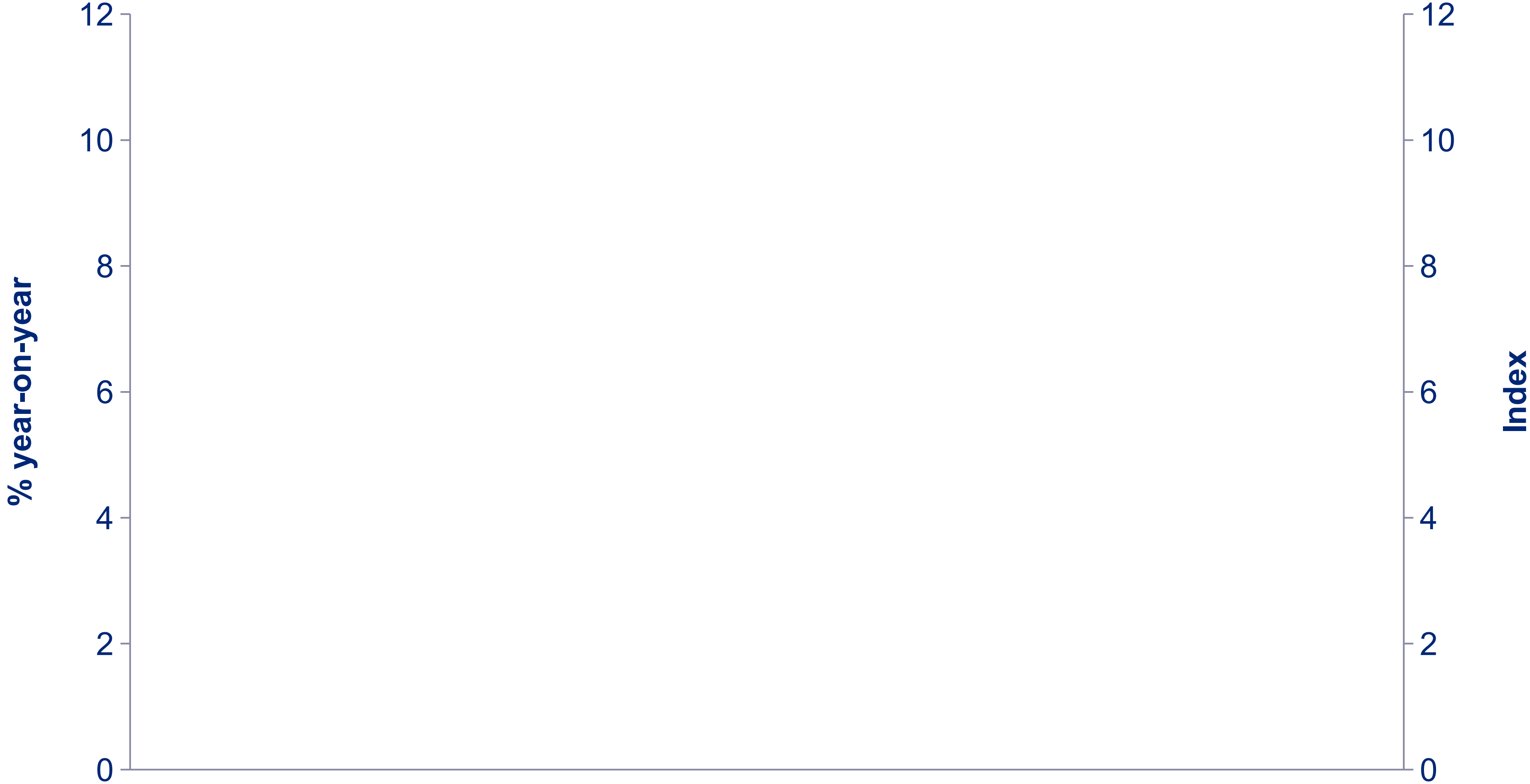
Note: GDP quartely data refer to ESA 2010; quartely data of components refer to ESA 1995.
Source: ISTAT

Despite a temporary setback, the outlook is brightening



Source: ISTAT, Markit

Investment spending expected to recover soon



Source: ISTAT

Household income and consumption catching up slowly

Source: ISTAT

GDP growth expected to recover in 2015

Scenario based upon unchanged legislation						
(% change yoy)	2013	2014	2015	2016	2017	2018
Real GDP	**-1.9**	**-0.3**	**0.6**	**1.0**	**1.3**	**1.4**
Domestic demand net of inventories	*-2.8*	*-0.3*	*0.7*	*1.0*	*1.1*	**1.1**
Inventories	*0.0*	*-0.1*	*0.0*	*0.0*	*0.1*	**0.1**
Net export	*0.9*	*0.1*	*-0.1*	*0.1*	*0.1*	**0.0**
Nominal GDP	**-0.6**	**0.5**	**1.2**	**2.6**	**3.1**	**3.3**
GDP deflator	**1.4**	**0.8**	**0.6**	**1.6**	**1.8**	**1.8**
Compensation per employee	**1.2**	**0.8**	**0.8**	**1.1**	**1.4**	**1.4**
Productivity (on GDP)	**-0.2**	**0.5**	**0.5**	**0.6**	**0.7**	**0.7**
Unit labour cost (on GDP)	**1.4**	**0.3**	**0.3**	**0.6**	**0.7**	**0.8**
Employment (FTE)	**-1.7**	**-0.9**	**0.1**	**0.5**	**0.6**	**0.7**
Unemployment rate	**12.2**	**12.6**	**12.5**	**12.1**	**11.6**	**11.2**
Current account balance	**1.0**	**1.1**	**0.9**	**0.9**	**0.9**	**1.1**

Source: Update to the Economic and Financial Document 2014, September 30, 2014

The strategy: institutional reforms as a starting point

- Introduce major institutional reforms.
- Design a more equitable and growth-friendly tax system.
- Reduce the tax wedge on labour.
- Simplify employment legislation, streamline procedures and reduce the number of standard contracts. Support employment services, active labour market policies and work-life balance.
- Implement the Italian ‘Youth Guarantee’ Plan.
- Expand income-support measures and fight poverty.

The reform momentum has picked up

- An interrelated packages of structural reforms, to foster debt sustainability. They include:
  - reform of the labour market – Jobs act;
  - measures to improve the efficiency of the public administration;
  - reform of the civil justice system and reinforcement of anti – corruption authority;
  - improved access to capital markets that will increase financing alternatives for businesses, especially small- and medium-size firms;
  - simplification of the tax system; shifting the tax burden from productive factors; and strengthening the fight against tax evasion;
  - reform of the educational system to ultimately improve the quality of human capital.

A well-defined schedule for implementing reforms

- Monitor progress and achievements.
- Take action to meet each milestone.

The actions of reforms are fully detailed in the **2014 National Reform Program**, approved by Parliament in April.

The full reform plan is available at:
http://www.dt.tesoro.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/

Schedule for reforms (updated DEF scheme)

Actions	Mar.	Apr.	May	Jun.	July	Actions	Sept.
Jobs Act: simplification of FTCs and Apprenticeships	●					Strengthening the Allowance for Corporate Equity (ACE)	●
Social housing plan		●				Reform of civil justice	●
Cut in labour tax wedge (IRPEF and IRAP)			●			Measures in favour of agriculture and agri-food industry	●
Implementation of the Youth Guarantee Plan for Italy			●			Incentives to private investments in R&D	●
Open data plan for the public administration			●			Strengthening the Central Guarantee Fund for SMEs	●
Measures to fight corruption in the public administration				●		New resources for networks of firms and venture capital	●
Administrative simplification and efficiency					●	Reduction of energy costs for businesses	●
National plan for school facilities					●	Voluntary disclosure of financial information on undeclared taxable revenue or income held abroad	●

Planned Italian In progress forms Done

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Schedule for reforms (updated DEF scheme)

Actions	Sep.	Oct.	Actions	Oct.	Nov.	Dec	2014
Implementation of 'Destinazione Italia' strategy	●		**Simplification and transparency of local public services**	○			
Simplification and administrative transparency; efficiency of judicial offices	●		**Annual law on competition**	○			
Full implementation of the National System for Evaluation of Schools	●		**Measures for environmental and land protection**		●		
Reform of the educational system (on public consultation)	●		**Reform of the real estate market**		●		
National Plan for tourism and culture		●	**Restructuring in rail and local public transport**			●	
Infrastructure plan		●	**FDI attraction plan**			●	
Stable framework for settling the PA trade payables		●	**New framework for Public Private Procurement**			○	
Additional funding to complete the settlement of PA's payments in arrears		●	**Reform of the regulatory framework for road transport**				○
Regulatory review (simplification)		●	**Implemention of the European Infrastructure Plan**				○

Planned Italia In progress eforn Done

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Schedule for reforms (updated DEF scheme)

Actions	2014	2015
National extension of the experimental social inclusion programme	○	
Implementation of a strategic revision of national defence	○	
Approval of the National Airports Strategic Plan	○	
Reform of the maritime sector, transport infrastructure and logistics	○	
New electoral law	● →	○
Reform of administrative justice and governance	● →	○
Reform of criminal justice	● →	○
Implementation of the enabling law on tax reform	● →	○
Reform of the educational system to overcome skills mismatch	● →	○

Actions	2014	2015	2016	2017
Jobs Act: rationalisation of labour contracts	● →	○		
Jobs Act: enabling law to improve work - life balance	● →	○		
Jobs Act: enabling law to reform active and passive labour market policies	● →	○		
Jobs Act: enabling law to reshuffle unemployment schemes	● →	○		
Constitutional Reform	● →	→	○	
Spending Review	● →	→	○	
Healthcare reform	● →	→	○	
Privatisation and dismissals programme	● →	→	→	○
Reform of the public administration	● →	→	→	○

○ Planned ● In progress Done

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Estimating the impact of Structural reforms in Italy

- In carrying out MEF's revisions, two scenarios were considered:
  - ✓ The Trend scenario, which includes major reform provisions embedded into law and fully enforced.
  - ✓ The Policy scenario, which incorporates both the Trend scenario and the effect of measures expected to be introduced by the Government.
- Specific areas of intervention include: i) the Public Administration (PA); ii) Competitiveness; iii) the Labour market and vi) Justice.
- Model used: QUEST III, IGEM, ITEM

Macroeconomic Impact of Structural Reforms

Macro economic impact of structural reforms (total effect)

year	2015	2016	2017	2018	2019	2020	Long run
TREND SCENARIO							
GDP	0.4	0.6	0.9	1.0	1.3	1.4	7.3
Consumption	0.3	0.4	0.8	1.0	1.2	1.6	4.1
Investment	1.4	1.8	2.1	2.5	2.9	3.2	7.8
Labour	0.3	0.5	0.4	0.6	0.7	0.6	0.9
PLANNED SCENARIO							
GDP	0.4	0.8	1.5	2.0	2.8	3.4	8.1
Consumption	0.4	0.5	1.2	1.7	2.2	2.9	4.8
Investment	1.8	2.6	3.2	4.0	5.1	5.6	9.6
Labour	0.4	0.5	0.6	1.1	1.2	1.2	1.1

(*percentage deviations from baseline scenario*)

Estimating the impact of Public Administration’s measures

- Measure aiming at improving business environment by reducing the regulatory burden.
  - ✓ Trend scenario: Decree Law no. 5/2012, ‘Semplifica Italia’; Decree Law no. 90/2014– Misure urgenti per la semplificazione e la trasparenza amministrativa e per l’efficienza degli uffici giudiziari.
  - ✓ Policy scenario: Draft Legislative decree on fiscal simplification (under the enabling law on tax reform); Draft enabling law on the reorganisation of the Public Administration.

Macroeconomic Impact of Structural Reform

Macro economic impact of structural reforms (Public Administration)

year	2015	2016	2017	2018	2019	2020	Long run
TREND SCENARIO							
GDP	0.1	0.2	0.3	0.4	0.4	0.5	2.3
Consumption	1.2	1.2	1.3	1.3	1.4	1.5	2.0
Investment	-0.6	-0.6	-0.7	-0.7	-0.6	-0.6	0.7
Labour	0.1	0.1	0.0	0.0	0.0	-0.1	-0.3
PLANNED SCENARIO							
GDP	0.1	0.3	0.5	0.7	0.8	1.0	2.3
Consumption	1.4	1.4	1.6	1.6	1.7	1.9	2.0
Investment	-0.8	-0.7	-0.8	-0.7	-0.5	-0.4	0.7
Labour	0.2	0.1	0.0	0.0	0.0	-0.1	-0.3

(*percentage deviations from baseline scenario*)

Estimating the impact of Competitiveness measures

- Measures related to boost product market liberalisation.
  - ✓ Trend scenario: Decree Law no. 5/2012. 'Semplifica Italia'; Decree Law no. 1/2012 'Cresci Italia'; Decree Law no. 83/2012 'Decreto Crescita'; Decree Law no. 91/2014.
  - ✓ Policy scenario: Decree Law no. 133/2014, Annual Law on Competition.

Macroeconomic Impact of Competitiveness measures

Macro economic impact of structural reforms (Competitiveness)

year	2015	2016	2017	2018	2019	2020	Long run
TREND SCENARIO							
GDP	0.1	0.1	0.2	0.2	0.3	0.3	3.2
Consumption	-1.0	-1.0	-0.9	-0.8	-0.8	-0.7	0.8
Investment	1.5	1.8	2.2	2.5	2.8	3.1	5.8
Labour	-0.1	0.0	0.0	0.1	0.1	0.1	-0.1
PLANNED SCENARIO							
GDP	0.1	0.1	0.3	0.5	0.8	1.1	3.2
Consumption	-1.1	-1.1	-1.0	-0.7	-0.6	-0.4	0.8
Investment	1.9	2.3	2.9	3.5	3.9	4.3	5.8
Labour	-0.2	-0.1	0.0	0.3	0.4	0.5	-0.1

(*percentage deviations from baseline scenario*)

Estimating the impact of Labour Market's reform

- Measure for improving the efficiency of labour market.
  - ✓ Trend scenario:Law no. 92/2012; Decree Law no. 34/2014.
  - ✓ Policy scenario: Draft Enabling Law on Labour Market 'Jobs Act'.

Macroeconomic Impact of the Labour Market's reform

Macro economic impact of structural reforms (Labour market)							
year	2015	2016	2017	2018	2019	2020	Long run
TREND SCENARIO							
GDP	0.1	0.2	0.3	0.3	0.4	0.4	1.4
Consumption	0.1	0.2	0.3	0.4	0.5	0.7	1.0
Investment	0.1	0.1	0.1	0.2	0.2	0.2	0.7
Labour	0.2	0.3	0.4	0.5	0.6	0.6	1.2
PLANNED SCENARIO							
GDP	0.1	0.3	0.5	0.6	0.8	0.9	1.6
Consumption	0.1	0.2	0.5	0.7	1.0	1.3	1.2
Investment	0.2	0.2	0.2	0.3	0.3	0.3	0.9
Labour	0.3	0.4	0.5	0.7	0.8	0.8	1.3

(*percentage deviations from baseline scenario*)

Estimating the impact of the Justice reform

- Measures for improving the efficiency of civil and penal justice.
  - ✓ Trend scenario: Legislative Decree no. 155/2012 – 'Nuova organizzazione dei tribunali ordinari e degli uffici del pubblico ministero'; Decree Law no.69/2013 'Decreto del Fare'; Decree Law no.90/2014.
  - ✓ Policy scenario: Decree Law no. 92/2014; Draft enabling laws on justice (August 2014); Draft laws on reforming civil and penal justice.

Macroeconomic Impact of the Justice reform

Macro economic impact of structural reforms (Justice)							
year	2015	2016	2017	2018	2019	2020	Long run
TREND SCENARIO							
GDP	0.1	0.1	0.1	0.1	0.2	0.2	0.4
Consumption	0.0	0.0	0.1	0.1	0.1	0.1	0.3
Investment	0.4	0.5	0.5	0.5	0.5	0.5	0.6
Labour	0.1	0.1	0.0	0.0	0.0	0.0	0.1
PLANNED SCENARIO							
GDP	0.1	0.1	0.2	0.2	0.4	0.4	1.0
Consumption	0.0	0.0	0.1	0.1	0.1	0.1	0.8
Investment	0.5	0.8	0.9	0.9	1.4	1.4	2.2
Labour	0.1	0.1	0.1	0.1	0.0	0.0	0.2

(*percentage deviations from baseline scenario*)

Effects of structural reforms on the debt-to-GDP ratio

- In case of implementation of structural reforms with a positive impact on potential growth and fiscal sustainability, governments can be allowed to a temporary deviation in the path towards the Medium Term Objective (MTO) (Article 5 of EC Regulation no. 1455/97) .
- In the following simulation the trend of the debt-to-GDP ratio is recalculated by taking into account both the negative impact of the increased deficit and the increased real growth prompted by the introduction of the reforms

TABLE I.1-1 EFFECTS OF STRUCTURAL REFORMS ON THE DEBT-TO-GDP RATIO

	2014	2015	2016	2017	2018
Debt-to-GDP - unchanged legislation	**131.7**	**133.7**	**133.7**	**132.1**	**129.9**
Net borrowing - unchanged legislation	-3.0	-2.2	-1.8	-1.2	-0.8
Nominal GDP growth - unchanged legislation	0.5	1.0	2.1	2.7	2.8
Deterioration of net borrowing due to policy scenario	0.0	-0.4	-0.4	-0.4	-0.4
Net borrowing - counterfactual analysis	-3.0	-2.6	-2.2	-1.6	-1.2
Incremental real growth due to structural reforms [1]	0.0	0.1	0.3	0.2	0.1
Debt-to-GDP – counterfactual analysis [2]	**131.7**	**134.0**	**133.0**	**130.8**	**128.4**
Debt-to-GDP - difference versus unchanged legislation	**0.0**	**0.3**	**-0.7**	**-1.3**	**-1.5**

Reform implementation

- The Government took office in February 22, 2014.
- From February 22 to September 17, the Government approved 87 pieces of legislation, including 33 draft laws, 20 decree laws (of which 16 already converted into law), 34 legislative decrees, of which 26 already approved.
- Of these, 44 pieces of legislation entered into force having been officially publicised while another 29 require enacting regulations.
- As for the initiatives of previous Governments (Monti and Letta), of the 1148 pieces of secondary legislation required, 55% have been adopted.

Ensure the reform implementation process

- Reinforced the **monitoring and checking** of the cycle of implementation of the legislative provisions.
- In July the Minister for Constitutional Reforms and Relations with Parliament **inaugurated a task force** of cabinet ministers to make the implementation process more rapid and transparent. Formed a **technical committee** to clear the path for implementation.
- Create an **IT platform** providing updated and real-time data.
- As of July, each meeting of Council of the Ministers is opened with information about the **status of implementation of the programme**.

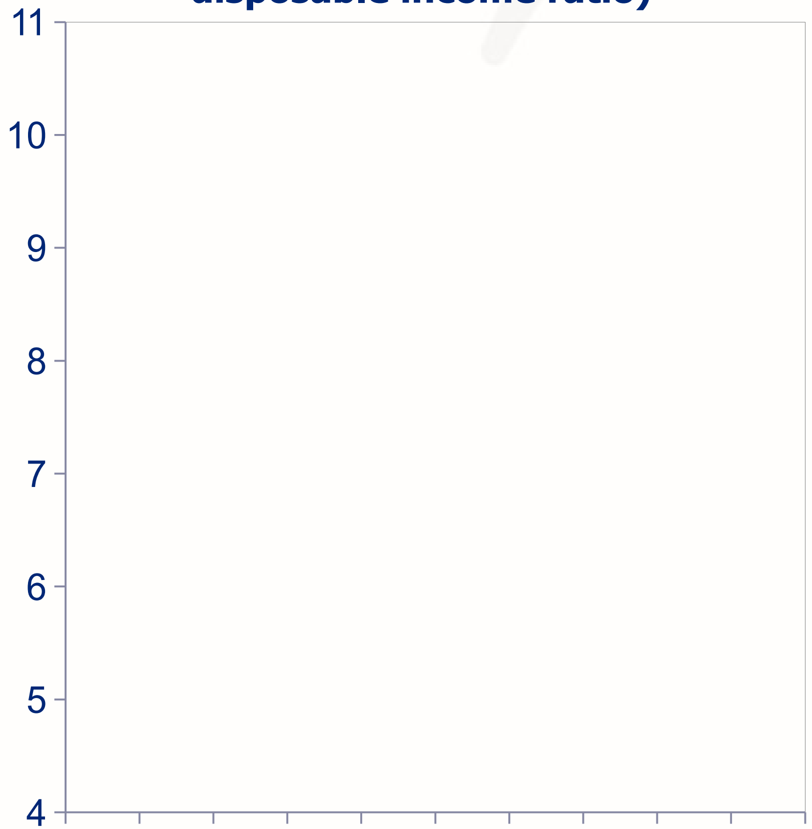
No major imbalances

- **No major macroeconomic imbalances**: no major bubbles in the housing market, low household debt, fundamentally sound banking system, no major external imbalances.
- **Discretionary spending under control in the crisis**: prudent fiscal policy; automatic stabilisers allowed to operate.
- **Competitiveness issues** contained and addressed.
- **Public debt** is large but on a declining path from 2016.

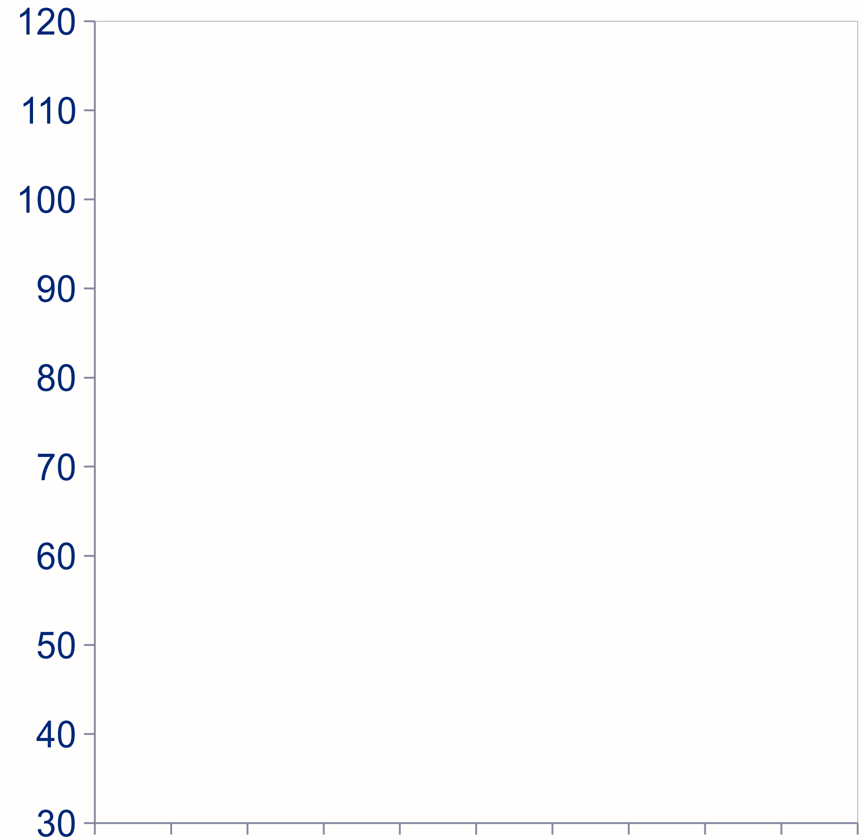
Household debt-to-income ratio among the lowest in EU

Households' wealth

(Households' wealth/gross disposable income ratio)



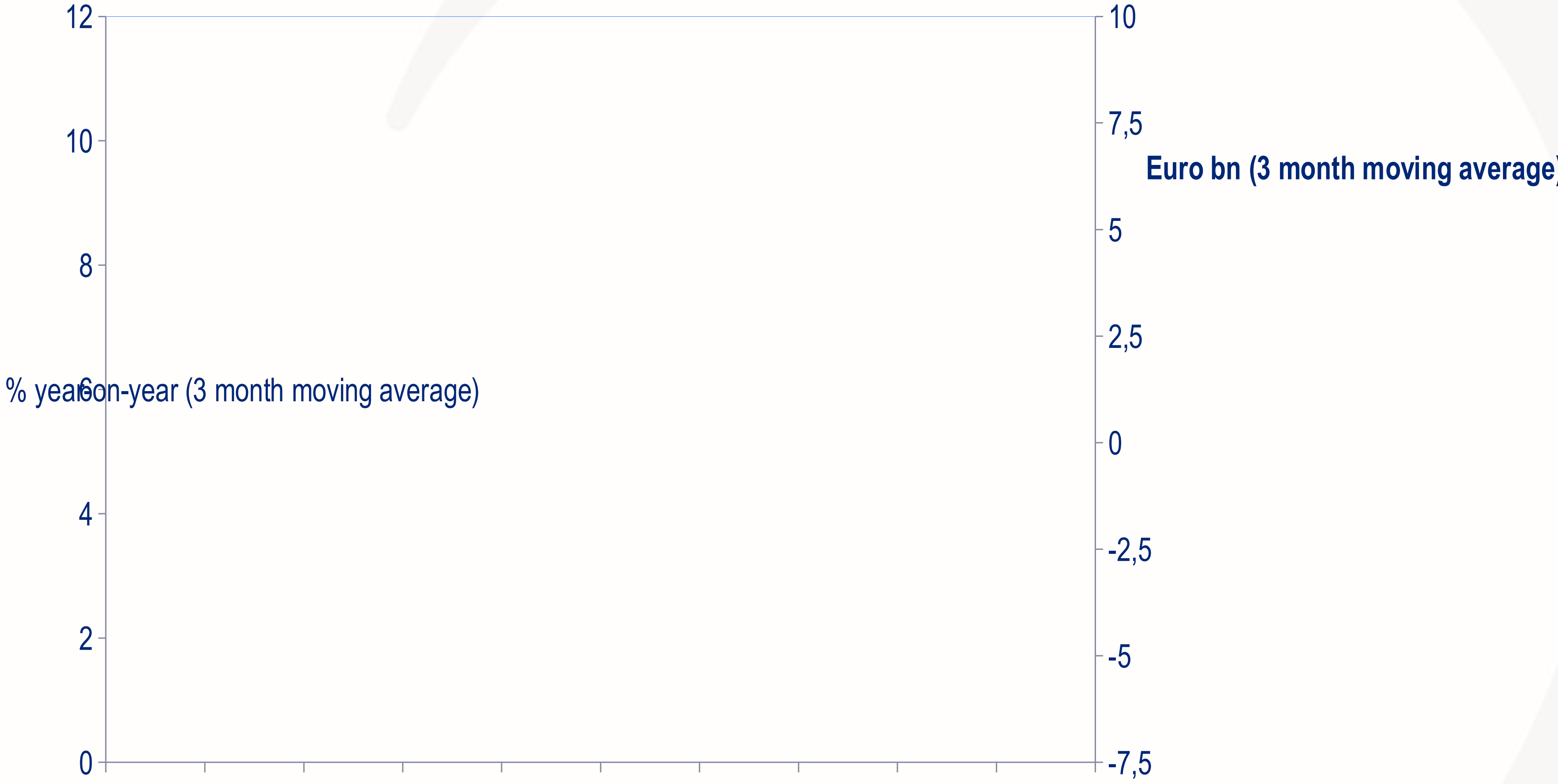
Households' debt (% of gross disposable income)



Source: Bank of Italy, Eurostat

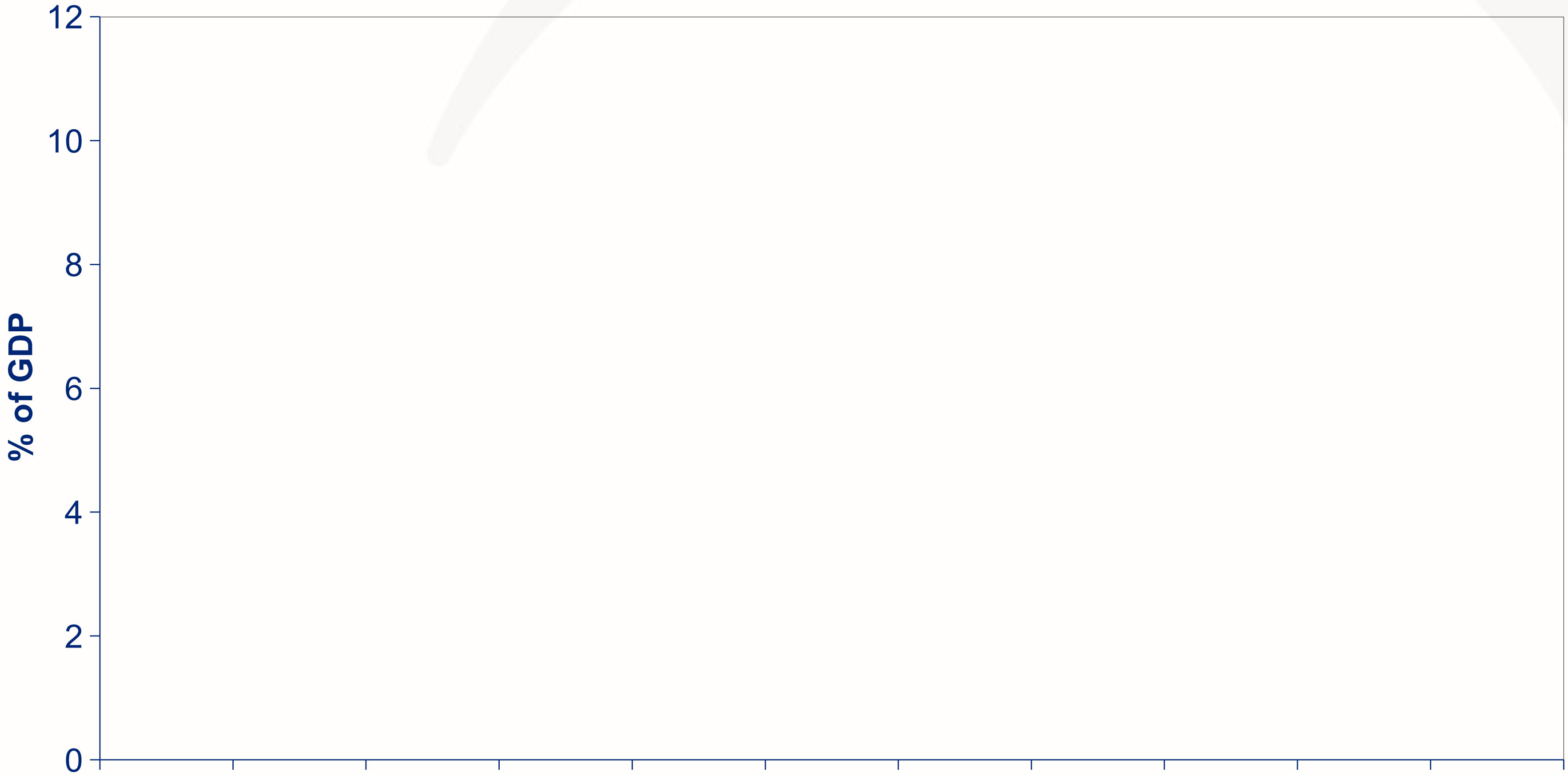
MACROECONOMIC IMBALANCES AND COMPETITIVENESS

Improvement in Italy's trade balance



Source: ISTAT

Current account balance back to surplus in 2013 already



Note: 2013 data for households and corporates are estimated.
Source: MEF calculation based on ISTAT and Bank of Italy data

Reducing the burden of the public debt

- **Fiscal sustainability** a key **pillar of the reform agenda**.
- The fiscal consolidation process has already delivered impressive results. Over the 2012-14 period, despite negative GDP growth rates, **the structural balance has been reduced by a cumulative 3 per cent**. The **primary surplus** hovers around 2 per cent of GDP, **one of the highest value in the Eurozone** and the whole European Union.

Deficit/GDP below 3.0% and balanced budget by 2018

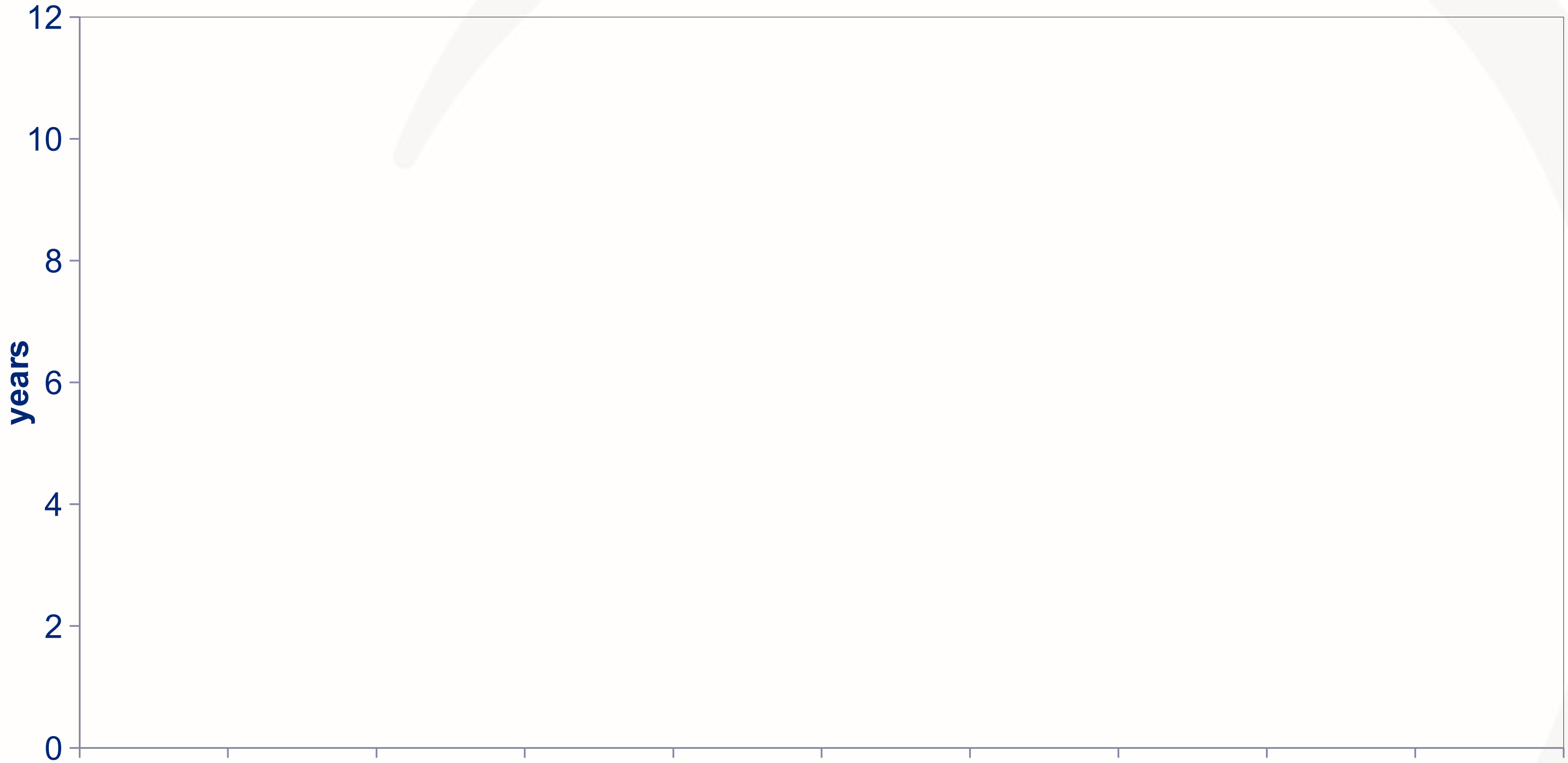
% of GDP	2012	2013	2014	2015	2016	2017	2018
General government balance	**-2.8**	**-2.8**	**-3.0**	**-2.6**	**-1.8**	**-0.8**	**-0.2**
Structural balance (1)	*-1.5*	*-0.7*	*-0.9*	*-0.6*	*-0.4*	*0.0*	*0.0*
Change in the structural balance	*1.9*	*0.8*	*-0.3*	*0.3*	*0.2*	*0.4*	*0.0*
Primary balance	**2.2**	**2.0**	**1.7**	**1.9**	**2.7**	**3.4**	**3.9**
Public debt (2)	**122.2**	**127.9**	**131.6**	**133.1**	**131.6**	**128.4**	**124.3**
Public debt ex support & arrears (3)	**119.6**	**123.2**	**125.0**	**126.6**	**125.3**	**122.4**	**118.5**

(1) Net of one-off measures and cyclically adjusted. Discrepancies, if any, are due to rounding.
(2) Gross of financial support to Eurozone countries and payment of general government trade debt to suppliers in arrears.
(3) Net of financial support given to other Euro area countries and payment of general government trade debt in arrears.
Source: Update of the Economic and Financial Document 2014, September 30, 2014. Data based on ESA 2010

A sustainable debt

- Key indicators of long term sustainability show that **Italy's debt is more sustainable than that of most EU countries.**
- **Liabilities from the ageing of population** have been offset by the pension reforms already introduced in the past.
- In the **short and medium term**, the sustainability indicators produced by the Commission show a **good performance**.
- The **maturity structure** and the currency denomination of the public debt **compare very favorably** at international level as well as the level of private debt.

Average maturity of debt at 6.3 years: low refinancing risk

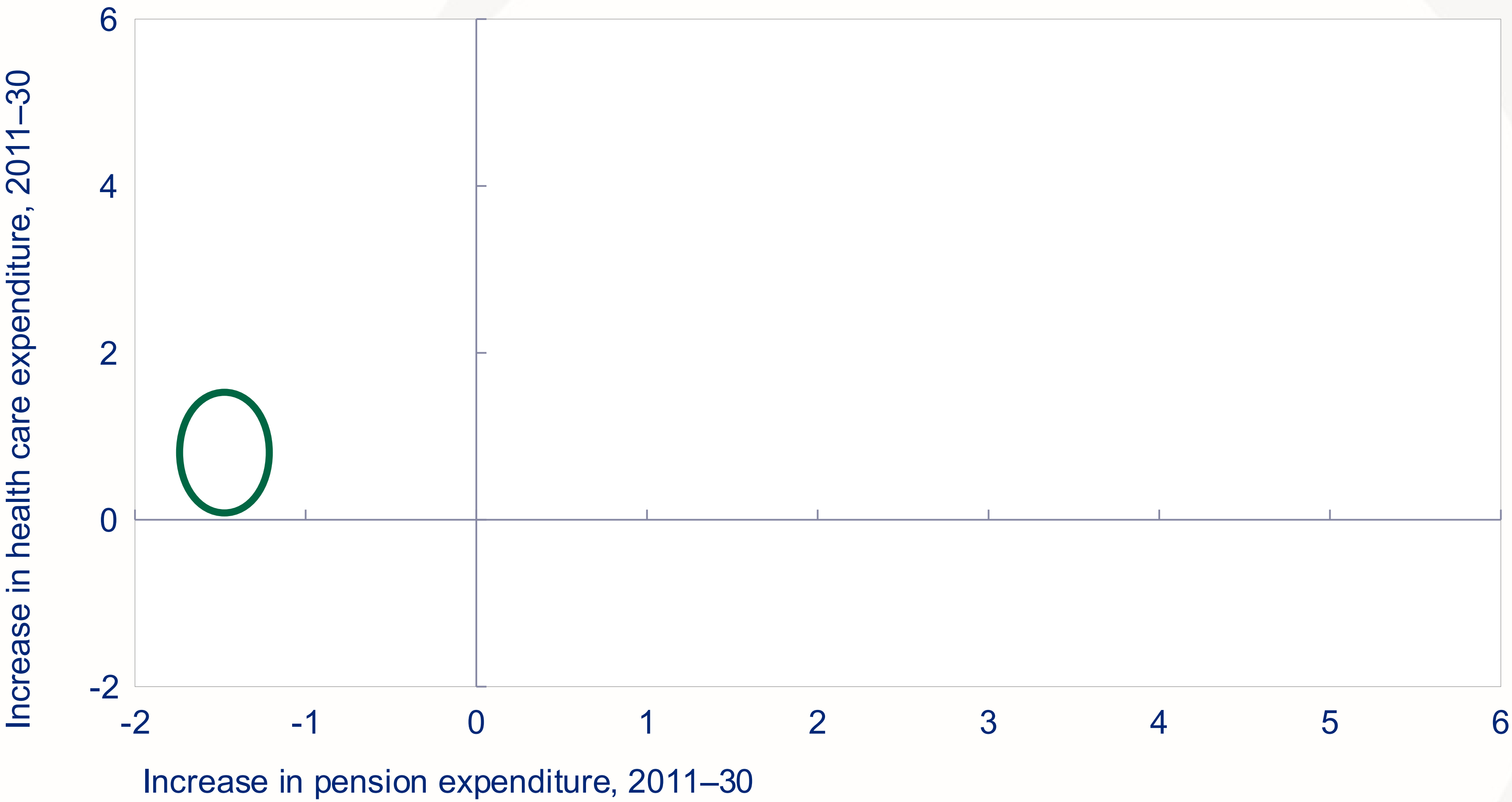


Source: Ministry of Economy and Finance

Debt/GDP falls with a primary surplus at 3%

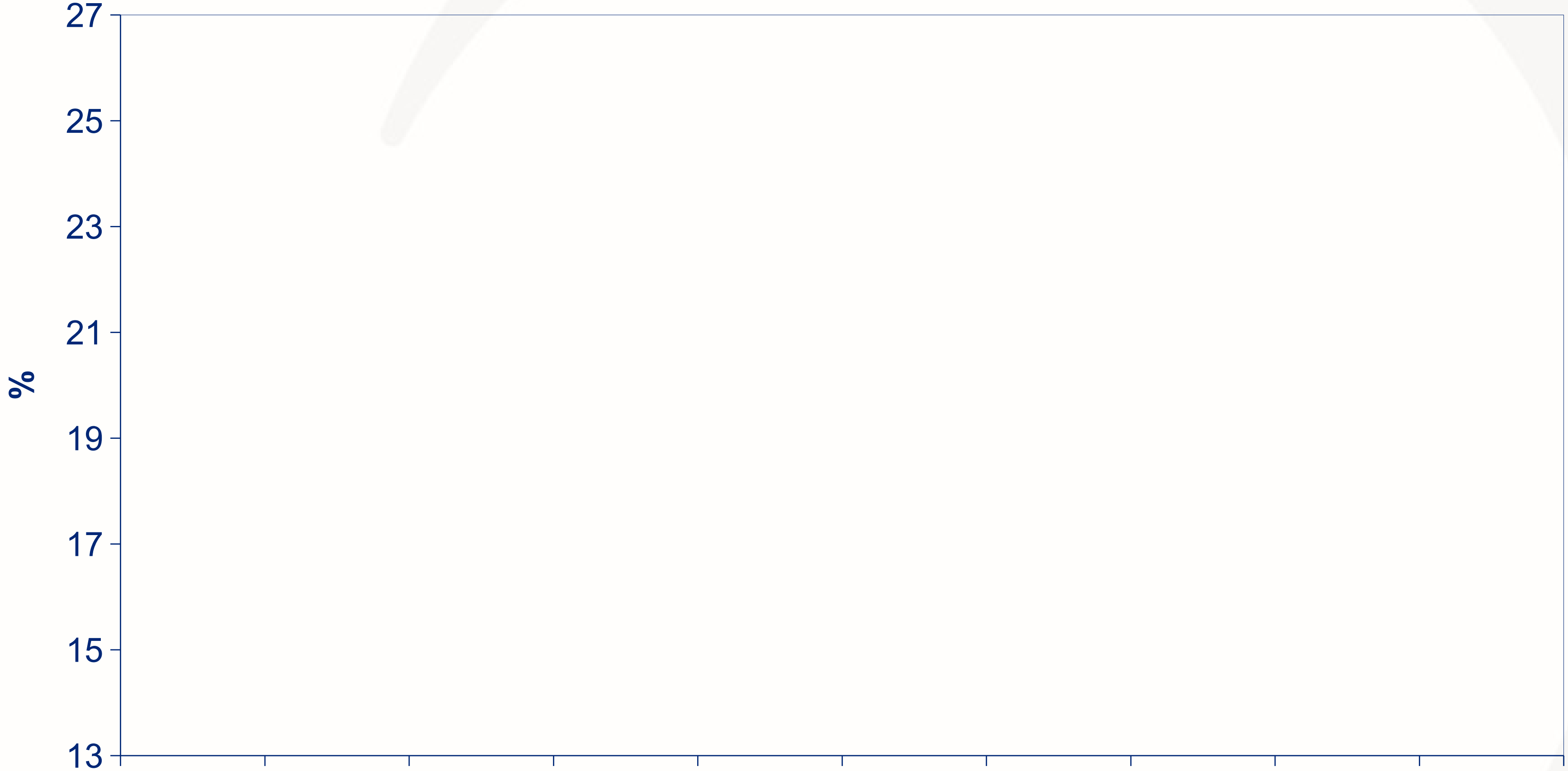
Source: Update of the Economic and Financial Document 2014, September 30, 2014

Lower age-related expenditure than in most other countries



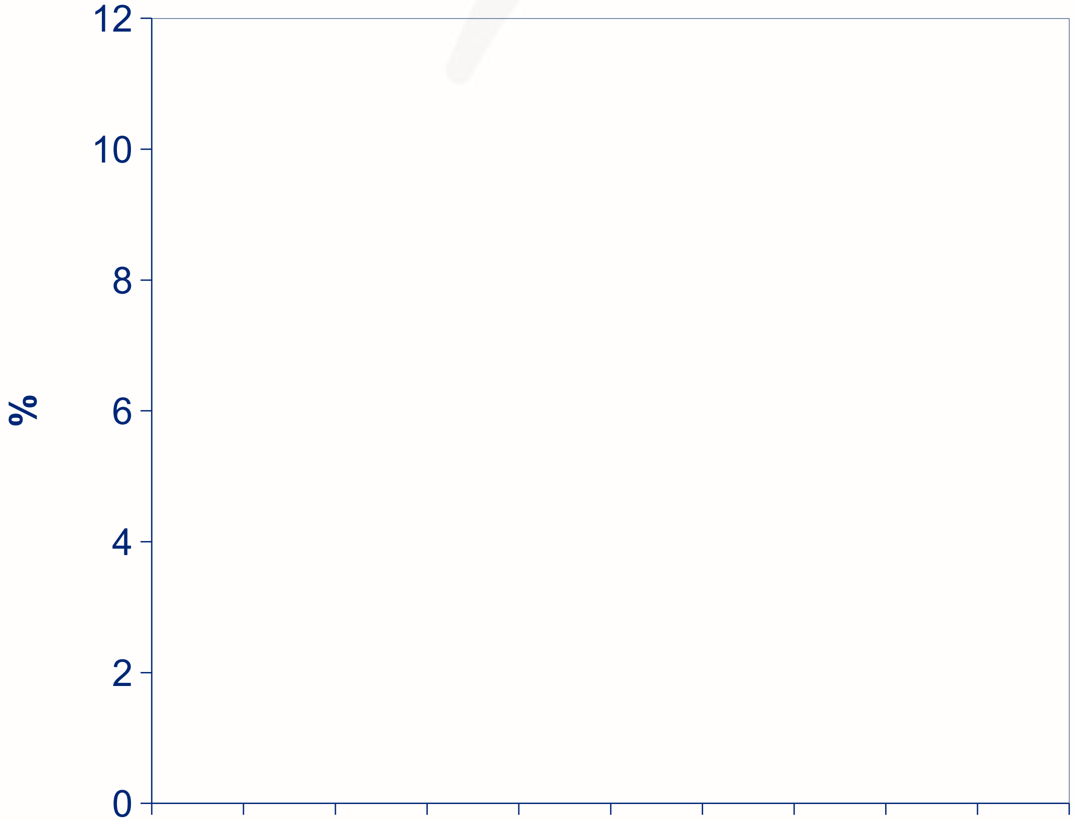
Source: IMF World Economic Outlook, Autumn 2013

Sizeable effect of pension reforms on overall spending ...



Source: Update of the Economic and Financial Document 2014, September 30, 2014. Demographic projections from EPC-WGA.

... and in turn on the government debt-to-GDP ratio



Source: 2014 Economic and Financial Document, April 8, 2014

A growth friendly fiscal consolidation

- A fiscal strategy aimed at implementing **a growth-friendly adjustment** to **minimize the risk of a self-defeating fiscal consolidation**
- In spite of weak recovery prospects, the Government agreed to **lower the deficit to 2.6 per cent** and to **increase the structural adjustment to about 0.3 per cent of GDP**.
- A correction **consistent with the rules of the Stability and Growth Pact** which allow to support relevant structural reforms enhancing sustainability and to cope with the impact of adverse economic circumstances.

Risk of trade-off between structural reforms and excessive fiscal consolidation.

- An additive fiscal consolidation of 2,3 per cent of GDP to anticipate MTO and to comply debt rule, could have very negative effects for the economy.
- Fiscal consolidation: assumption of a permanent reduction of public expenditure (consumption and investments) and of a permanent increase in the value added tax (VAT) rate.
- Fiscal austerity plan severely erodes the positive effects of the reforms.

PLANNED SCENARIO	2015	2016	2017	2018
GDP (reform scenario)	0.4	0.8	1.5	2.0
GDP (reform and consolidation scenario)	-0.3	-0.2	0.3	0.6

Risk of self defeating austerity

- Actions to consolidate public finance contributed to restore the investors' confidence, but produced a contractionary effect on economic activity, at least in the short run.
- The improvement of fiscal performance indicators is lower than what the actual size of the consolidation measures would ex-ante indicate.
- Further interventions to consolidate government finances would be self-defeating because of an adverse performance of the government debt-to-GDP ratio.

Simulation of the risk of self defeating austerity

- Three different fiscal consolidation interventions: i) entirely based on cutting public expenditure; ii) tax increase and cut of public expenditure; iii) entirely based on increasing tax revenues. Each intervention is permanent and amounts to 2 p.p. of GDP in each year.
- Fiscal correction on expenditure side implies a contractionary effect on output (w.r.t baseline), mostly in the short run.
- The deficit-to-GDP ratio improves less than the ex-ante improvement associated with the correction (i.e. 2 p.p. of GDP). This is especially true for the fiscal consolidation on the expenditure side.

Simulation of Public finance and macroeconomic impact of fiscal consolidation

Impact of fiscal consolidation equal to 2 p.p. of GDP

	Policy mix	2015	2016	2017	2018	2019	2020
GDP	100% Expenditure	-1.2	-1.3	-1.1	-0.9	-0.6	-0.5
	50% Exp. & 50% Rev.	-0.8	-1.1	-1.1	-1.1	-0.9	-0.7
	100% Revenues	-0.4	-0.9	-1.1	-1.2	-1.1	-1.0
Prices	100 % Expenditure	0.0	-0.4	-0.9	-1.2	-1.4	-1.4
	50% Exp. & 50% Rev.	0.3	0.1	-0.2	-0.5	-0.8	-0.9
	100% Revenues	0.6	0.6	0.4	0.1	-0.1	-0.4
Deficit/GDP	100% Expenditure	-1.4	-1.0	-0.8	-0.8	-0.8	-0.9
	50% Exp. & 50% Rev.	-1.6	-1.3	-1.1	-1.0	-1.0	-1.0
	100% Revenues	-1.8	-1.6	-1.4	-1.3	-1.2	-1.2
Debt/GDP	100 % Expenditure	0.8	0.8	0.6	0.0	-1.0	-2.2
	50% Exp. & 50% Rev.	-0.7	-1.0	-1.3	-1.9	-2.7	-3.7
	100% Revenues	-2.1	-2.8	-3.3	-3.7	-4.3	-5.2

(deviation in percentage points from the baseline scenario)

Fiscal policy for 2015: A Stability Law for growth

- Very significant tax reduction, most notably the **tax wedge**.
- A durable **improvement in the efficiency and quality of public expenditure** at all levels of government.
- **Growth enhancing spending** such as R&D, innovation, education and essential infrastructure projects.
- The **budget composition** – while directly supporting demand - will also **complement the structural reforms**, making further progress in budget consolidation.

A Stability Law for growth

- The **tightening of economic** conditions is viewed as an exceptional event. It allows for temporarily deviating from the path in converging towards the MTO: the achievement of structural breakeven to 2017.
- The **net borrowing** under the policy scenario is set at 3.0 per cent of GDP in 2014, and 2.9 per cent in 2015. The intensity of the structural improvement considers an output gap equal to -3.5 per cent of potential GDP in 2015.
- The **growth effect** of the reforms alone should get 0.4 p.p. of GDP in 2018. These estimates support the idea behind the flexibility clause provided by the preventive arm of the SGP. The 2015-2017 Stability Law ensure improvement of the structural balance (0.5 p.p. of GDP in 2016), when debt-to-GDP ratio is to descend.

A Stability Law for growth worth €36 bn

- **Reduction of the tax wedge for employees:** i) cuts in **personal income tax** for employees earning less than €25,000 before taxes (€9.5 bn); ii) possibility for employees in the private sector to perceive in their paycheck, as part of their salary, quotas coming from severance pay (so called ‘**TFR**’) (€0.1 bn).
- **Reduction in the cost of labour for employers:** i) total deduction of **IRAP** component related to labour for employees with open end term contracts (€2.7 bn in 2015); ii) Private employers could benefit from a total **exemption on social security contributions** related to new hirings (excluding apprenticeship) for 36 months (€1.6 bn in 2015).

A Stability Law for growth: expenditures

- **Simplification and tax compliance**. Extension of the **favorable fiscal regime *'de minimis'*** for autonomous workers (€0.8 bn), previously limited to young professionals.
- Additional resources for **short-term wage supplementation schemes** (€1.5 bn).
- **School**. Resources for implementing the extraordinary plan on: i) **recruitment of teachers** and ii) **school-to-work alternation initiatives** (€1bn for 2015 and €2 bn for 2016), as foreseen in the 'Good School Plan'.

A Stability Law for growth: revenues

- **Spending review**. Rationalisation of expenditure for Central Government, Regions, Provinces and metropolitan cities, as well as municipalities.
- **The Spending Review will be increasingly integrated within the annual budget process**. The DBP sets cumulative savings targets referred to efficiency and rationalization measures up to 11.3 billion in 2015, 12.4 billion in 2016, 13.4 billion in 2017 and 15. 6 billion in 2018.
- **Fiscal evasion**. Enhanced administrative controls against evasion (€13 billion also in 2014).

DRAFT STABILITY LAW 2015

A Stability Law for growth

The main message: a well balanced policy mix between fiscal consolidation and structural reforms.

Hardness and Flexibility

In one of the traditional rolls of Budo is a poem:

"Do not cross your hard with hard or soft with soft,

There is no advantage and is meaningless,

Capture the river stone with cloth,

Let the stormy wind join the cloth with stone."