

# INCRA

AN INTERNATIONAL NON-PROFIT  
CREDIT RATING AGENCY

by Maurizio Cotta



This rating radar illustrates the average scores of all experts who evaluated Italy in the INCRA rating process. The following report is an assessment of Italy by Maurizio Cotta with his evaluation of the indicators as they relate to Italy's willingness and ability to repay its debt, based on INCRA's Forward Looking Indicators.

## I. Political, Economic and Social Stability

### 1. Rule of Law

To what extent do government and administration act on the basis of and in accordance with legal provisions or culturally accepted norms to provide legal or practical certainty?

This question assesses the extent to which executive actions are predictable (i.e., can be expected to be guided by law).



By and large, decisions and actions of the government and the public administration are guided by existing legal regulations. Government and administration rarely fail to conform to these legal rules. The problem is rather that due to the excessive abundance of legal regulations (often of a micro nature and sometimes contradictory) the concrete actions of the administration and its different branches may sometimes be inconsistent and ineffective.

**To what extent do independent courts control whether government and administration act in conformity with the law?**

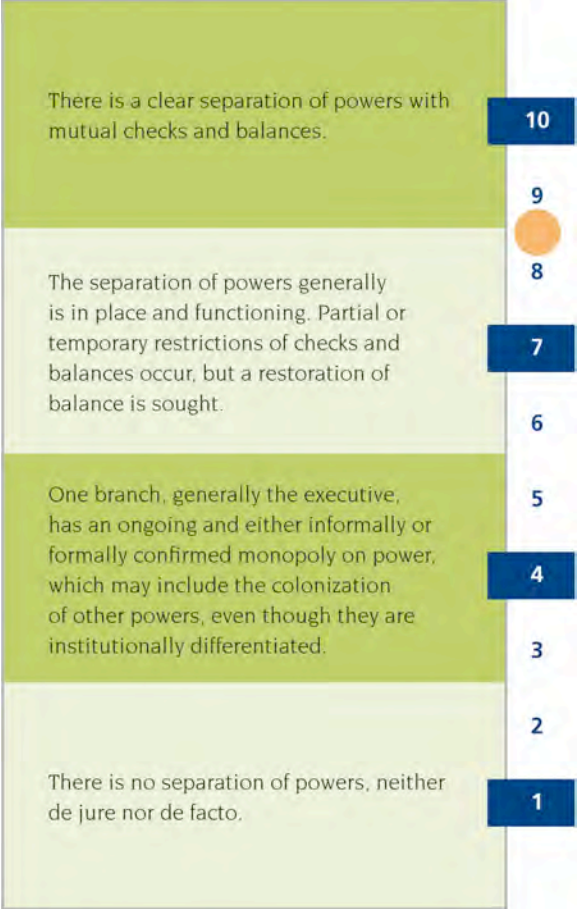
This question examines how well the courts can review actions taken and norms adopted by the executive branch. To provide effective control, courts need to pursue their own reasoning free from the influence of incumbent governments, powerful groups, or individuals. This requires a differentiated organization of the legal system, including legal education, jurisprudence, regulated appointment of the judiciary, rational proceedings, professionalism, channels of appeal, and court administration.



The judicial system is quite independent from the executive. Judges' selection and their career progress are effectively protected against executive interference and are governed by the judicial body itself through a representative organ. Courts can and do in fact control whether government and administration act in conformity with the law. However due to the excessive length of judicial procedures, judicial redress often takes years. This is a serious limit to the effectiveness of judicial action and may induce actors to renounce legal action and to resort to alternative mechanisms of arbitration.

**To what extent is there a working separation of powers (checks and balances)?**

This question refers to the basic configuration and operation of the separation of powers (institutional differentiation, division of labor according to functions and, most significantly, checks and balances).



As Italy, like most European countries, adopts a parliamentary form of government, it is difficult to talk about a separation of powers between government and parliament in the same way as in the US. The government typically enjoys a majority in the parliament and this enables it to have its proposals adopted by the legislative branch. This is not to say that the parliament is not influential. In fact most Italian prime ministers lament that the parliament is too powerful and that it renders policy making difficult. The available data show that the success rate of government bills is in general rather high, but also that important government bills are significantly altered through amendments originating from the majority but also from the opposition. The parliament has significant oversight powers and uses them. It cannot be considered a rubber stamp.

In terms of checks and balances, one should also mention the powers of the president of the republic, which are far from irrelevant. The president constantly monitors the legislative production of the government and often exerts an ex ante moral suasion to prevent government bills that might be contrary to constitutional principles. He can also use an ex post veto against bills approved by the parliament and originating from the government. The high prestige enjoyed by the presidents of the republic during the last twenty years has provided the political support for these powers legally enshrined in the constitution.

To what extent do government authorities ensure well-defined property rights and regulate the acquisition, benefits, use, and sale of property?



Property rights are in general well defined and protected. Only for exceptional reasons of public interest can the government impinge on private property. However, some problems may derive from the lengthy judicial procedures when property rights are disputed.

**2. Transparency / Accountability**

**Corruption prevention: To what extent are public officials prevented from abusing their position for private interests?**

This question addresses how the state and society prevent public servants and politicians from accepting bribes by applying mechanisms to guarantee the integrity of officeholders: auditing of state spending; regulation of party financing; citizen and media access to information; accountability of officeholders (asset declarations, conflict of interest rules, codes of conduct); transparent public procurement systems; effective prosecution of corruption.



Although legal regulations and controls aimed at preventing public officeholders from abusing their positions exist and are often rather detailed, their effectiveness is dubious and the frequency of abuses is significant.

The frequency of judicial prosecutions against cases of corruption and embezzlement of public money suggests that phenomena of corruption are widespread. Projects for strengthening control mechanisms are under study by the current government but are facing a lengthy and contentious parliamentary discussion

**To what extent are the media independent from government?**

This question asks to what extent the media are subject to government influence and the influence of actors associated with the government. The question focuses both on media regulation and government intervention. The rules and practice of supervision should guarantee sufficient independence for publicly owned media. Privately owned media should be subject to licensing and regulatory regimes that ensure independence from government.



While newspapers are largely independent from the government and highly pluralistic, with a balanced distribution of newspapers across the entire political spectrum, a more problematic area is television. The state television (RAI), which is one of the three major players in the field, is traditionally under strong party influence. (The two other television companies are Silvio Berlusconi's Mediaset and Rupert Murdoch's Sky.) RAI is governed according to a kind of proportional agreement among parties and the cabinet in office has a significant influence upon the main TV channel (RAI 1).

The current technical government largely respects the independence of the media and has promoted a more independent and less partisan management of RAI.

**To what extent does the government enable the participation of civil society in the political process?**

This question asks whether the political leadership involves civil society actors in agenda setting, policy formulation, deliberation, decision-making, policy implementation, and performance monitoring. Civil society actors include civic, economic, and professional interest associations, religious, charity and community-based organizations, intellectuals, scientists, and journalists.



Civil society organizations and especially trade unions and entrepreneurial associations participate actively in the policymaking process. In the past these groups have often exercised almost a veto power on certain matters, for instance labor regulations and pension reforms. The current government has kept the channels of communication open with societal organizations but has also shown a much stronger determination to proceed with policy innovations, such as in the field of pensions and labor reform, even against the opposition of interest groups who are more inclined to defend the status quo.



### 3. Social Cohesion

#### To what extent is exclusion and decoupling from society effectively prevented?

Reducing the various risks of social exclusion is a fundamental precondition for social cohesion and stability. The country assessment should focus on the following key questions: 1) To what extent is poverty effectively prevented? 2) To what extent are there enabling conditions for equal opportunity in society? In addition to poverty, please also take into account additional dimensions of exclusion like the experience of marginalization and the desire to be appreciated when evaluating socioeconomic disparities.

Reference Indicators: Poverty rates | Gini Coefficient



A developed welfare system, with relatively favorable pensions schemes for a large majority of old age population and a universal health care system, effectively prevents large scale social exclusion. A comparatively strong family institution also limits social exclusion. In spite of the crisis, relative poverty rates have not changed significantly through 2010 (ISTAT) and oscillate nationally around 11 percent for families and 13 percent for individuals. Southern Italy has significantly higher levels than northern Italy. Using the inequality adjusted HDI for 2011, Italy's 0.779 level ranks between the UK (0.791) and the US (0.771).

To complete the picture, it is also useful to note the low level of indebtedness of Italian families and their high rate of home ownership. According to a comparative study of 2002, Italy enjoyed one of the highest rates of homeownership in the world, with 78 percent of households, compared to 69 percent in the UK and 43 percent in Germany<sup>1</sup>. A more recent analysis by the Italian Ministry of Finance in 2010 showed 73.6 percent of families owning their house.<sup>2</sup>

However, rigidity in the labor market and high levels of youth unemployment create a critical area of exclusion among young people, which is not tackled effectively by existing mechanisms. Educational support for lower-income students, in the form of scholarships or tax exemptions, is insufficient.

<sup>1</sup> Economist, 30 March 2002

<sup>2</sup> Gli Immobili in Italia, Dipartimento delle Finanze, 2010. Retrieved from [www.agenziaterritorio.it/sites/territorio/files/comunicazione/Immobili\\_in\\_Italia\\_2010](http://www.agenziaterritorio.it/sites/territorio/files/comunicazione/Immobili_in_Italia_2010)

### How strong is the citizens' approval of political institutions and procedures?

Please base your assessment on public opinion survey data, addressing the following factors:

- approval of the political system
- approval of performance (measured by how the political institutions function in practice or the satisfaction with the working of the institutions)
- approval of political institutions (often measured by the level of trust in institutions such as government, the legal system and police, state bureaucracy, political parties, and the military)



The approval of institutions in Italy, as in most countries, varies significantly across the spectrum of institutions mentioned. Approval for democracy in general, as the best system, reached about 65 percent in a November 2011 survey. When specific political institutions are mentioned, values oscillate between a high for the president of the republic at 65 percent, and low for the parliament at 8.9 percent and for parties at 3.9 percent. Distrust for parties has increased in recent years and has become so high that approximately 50 percent of the population believes that democracy would be possible without parties. Approval for other state institutions varies between 71 percent for the army and police, 55.7 percent for state schools, 41.8 percent for municipalities, and 41.6 percent for the judiciary.<sup>3</sup>

Approval for the government oscillates significantly over time. The current government has moved between 71 percent in its honeymoon phase to a more recent low of 33 percent.

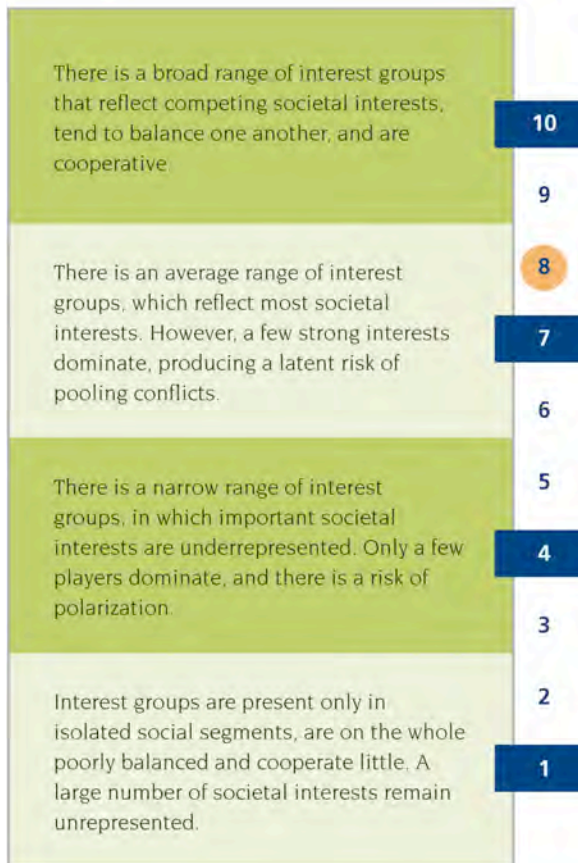
<sup>3</sup> The source for these data is a survey regularly conducted by Demos & Pi ([www.demos.it](http://www.demos.it)) under the scientific direction of professor Ilvo Diamanti (Urbino University)

**To what extent is there a network of cooperative associations to mediate between society and the political system?**

This question addresses the representation of societal interests in the political system. In evaluating the systemic nature and the quality of representative patterns, please consider:

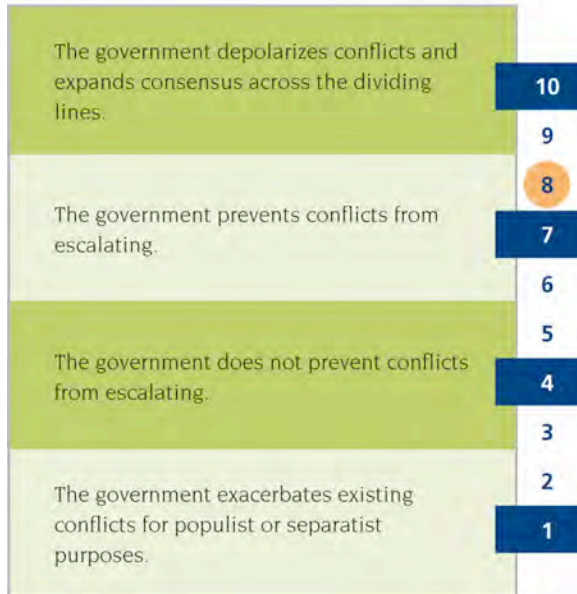
- the spectrum of interest groups, ranging from social movements and community organizations to unions and professional associations
- the capacity to incorporate all (competing) societal interests and to avoid the dominance of a few strong interests
- the degree of cooperation between different interest groups

There is a broad variety of interest groups covering most societal interests. Beside economic groups there are also important religious, environmental and cultural groups. Trade unions, entrepreneurs' and professional organizations typically carry a greater weight, but no player dominates the field. As many of these organizations, in particular trade unions, are internally divided along ideological lines and the number of actors involved is always high, reaching cooperative agreements is often not easy



**To what extent is the government able to moderate domestic economic, political, and social conflicts?**

Please assess the extent to which the government is able to depolarize structural conflicts, to prevent society from falling apart, and establish as broad a consensus as possible across the dividing lines.



The current government, which is based on a broad political consensus embracing both moderate left and moderate right, generally tries to depolarize conflicts and prevents escalation to a greater extent than in the past. Previous governments more clearly took sides either for right oriented or left oriented groups. At the same time, promoting a more innovative policy agenda naturally generates opposition from groups defending the status quo. This was particularly evident with labor law reforms, which triggered strong negative reactions from trade unions, and with reforms aiming to liberalize professional orders, which generated opposition from professional associations. But in spite of the crisis -- or perhaps because of the crisis -- and these disputes, the social climate has remained generally rather calm.

#### 4. Future Resources

##### To what extent does education policy deliver high-quality, efficient, and equitable education and training?

This question assesses the extent to which a government's education policy facilitates high-quality learning that contributes to personal development, sustainable economic growth, and social cohesion. Your response should focus on the following, irrespective of the education system's organization: the contribution of education policy towards providing a skilled labor force, the graduate output of upper secondary and tertiary education, and (equitable) access to education. While the latter pertains to issues of fairness and distributive justice, it also has implications for a country's international competitiveness as unequal education implies a waste of human potential.

Reference Indicators: PISA results | education spending | attainment levels



Education spending as a percentage of gross domestic product (GDP) is a bit lower compared to other European countries, except for Germany, according to UN data. Among the consequences are the relatively low salaries and prestige for teachers at all levels and the limited resources devoted to improving the physical and technological qualities of education facilities. Over the past years, levels of spending have been further reduced as part of austerity policies. More important perhaps is that selection processes at all levels are not fully efficient in promoting the quality of educational personnel. An overly centralized administration reduces the flexibility and adaptability of the education system and does not stimulate responsibility of peripheral institutions.

At the university level, an ambitious reform is underway, which should strengthen the governance of academic institutions and hopefully make them more efficient in managing their resources. The positive aspects of this reform are in part weakened by the excessive rigidity of some of the new rules, which stifle the adaptability of the system.

In spite of a national education system both at the secondary school and university level, there are significant disparities in quality across regions and institutions. Areas of international excellence coexist with areas of low quality. On PISA rankings, Italy fares generally less well than the Organisation for Economic Co-operation and Development (OECD) average. This result reflects significant internal differences between Northern and Southern regions, with Northern regions generally faring better than Southern ones.

**To what extent does research and innovation policy support technological innovations that foster the creation and introduction of new products and services?**

This question comprises subsidies and incentives for research institutions conducting basic and applied research, as well as subsidies and incentives for establishing start-up companies that transfer scientific output into products and enhanced productivity. Bureaucratic impediments to research and innovation should also be taken into account.

*Reference Indicators: R&D spending | Science and Technology Degrees | Patents | R&D Personnel*



The overall level of expenditure for research and development (R&D) in Italy is significantly lower than in other comparable countries, with a EU 27 average of 2 percent of GDP in 2010 versus only 1.26 percent in Italy. This is in part due to the fact that the relative amount of R&D expenditure by business enterprises is lower than in other countries, 44 percent in 2009 against a 54 percent average for the EU, and government expenditure is not enough to compensate. One of the reasons for this imbalance is the smaller average size of Italian firms. Public institutions and procedures for the allocation of these resources are often weak and not very effective. And policies in this field are discontinuous and often unbalanced. A good example is incentives for solar and wind energy. After years of lagging behind other countries in Europe, Italy adopted a new policy some years ago that has greatly increased outlays, producing a boom in green energy production. Unfortunately, the costs of this policy have been high and have been transferred onto consumers, worsening the already high cost of energy. At the university level, a national quality evaluation process (VQR) was launched in 2011 for the first time, after an isolated experiment conducted in 2004 and not replicated. Its results are due by the beginning of 2013. If the process succeeds in becoming institutionalized, it might have a strong impact upon university research.

**How successful is a government in reducing unemployment and in increasing employment?**

This question addresses a government's strategies to reconcile the following objectives: unemployment reduction and job security, and balancing supply and demand on the labor market by providing sufficient mobility of the labor force according to the needs of potential employers in order to increase the level of employment. To assess labor market and employment policy comprehensively, special emphasis should be placed on the positive or detrimental effects resulting from labor market regulation (e.g., dismissal protection, minimum wages, collective agreements) and from the modus operandi of unemployment insurance).



Labor market policies promoted by Italian governments during the first decade of 2000 have had some success in increasing employment and reducing unemployment, by creating a dualistic labor market. On the one hand, the government left in place a rather rigid and protected market for those already at work, including permanent contracts, strict rules for dismissal and a strong union role. On the other hand, the government developed a much more flexible and unprotected market for the new job market entrants, mainly young people. This deregulated market is characterized by short-term contracts, easy dismissals and weak union protection. The current government has introduced a comprehensive reform of the labor market with the purpose of reducing the disparities between the two markets. The new rules increase the flexibility of the more protected permanent jobs, for example making dismissal for economic and disciplinary reasons easier, and at the same time improve the conditions of temporary jobs. It is too early, however, to assess fully the effects of this reform on the labor market.

**To what extent are social security schemes based on principles of fiscal sustainability?**

This question seeks to assess the extent to which social security schemes (e.g. pension systems, health care insurance, unemployment insurance etc.) are fiscally sustainable. This question is essential for assessing a government's room to maneuver in paying its current financial obligations without shifting the cost to future generations.



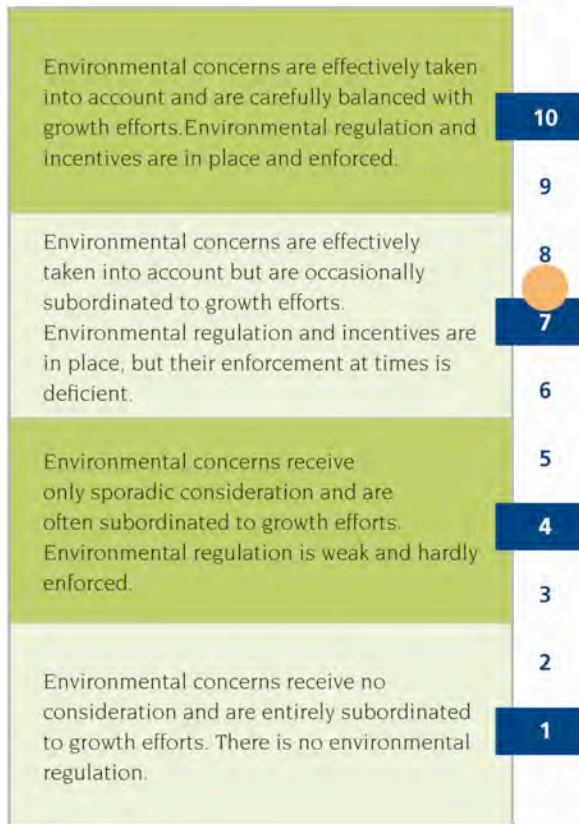
Thanks to a series of reforms conducted under the past governments and lately accelerated by the current government, the pension system has been made sustainable for the medium term. The main change in the new reform is raising the retirement age from 62.5 to 67 years between 2012 and 2028, ensuring high rates of replacement. With regard to health care expenditure, which is essentially under the control of regional authorities, a strong effort is underway under the guidance of the central government to ensure costs are controlled and national standards respected across all regions. Of twenty regions, approximately one third have budgetary deficits in health expenditures, which will have to be balanced within the next few years.



**To what extent are environmental concerns effectively taken into account in both macro- and microeconomic terms?**

This question seeks to assess the extent to which externalization of costs or inadequate time horizons are avoided or restrained by environmental regulation. In macroeconomic terms, please determine whether tax and energy policies take ecological goals and measures into account (e.g. promotion of renewable energies, CO<sup>2</sup> reduction goals). In microeconomic terms, please establish whether the government sets incentives for environmentally sound consumption and investments to households and companies. Please take into account that a deeply engrained awareness of the environment or nature in society may serve as a functional equivalent.

*Reference Indicators: CO<sup>2</sup> emissions | Environmental Performance Index*



Italy has improved its ranking in the Environmental Performance Index in recent years, among the 30 best countries. In 2012 it ranked 8th, an improvement from 18th in 2010 and 25th in 2008. Within this composite index, Italy does well on environmental burden of disease, biodiversity, water, forestry and somewhat less well than other peer countries with regard to climate change indicators, such as CO<sub>2</sub> emissions, partly due to its heavy reliance on gas and oil for energy production, and air pollution.

Systematic environmental regulations exist and are generally taken into account. The implementation is not fully satisfactory, however, and there are numerous cases of industrial and energy production plants that manage to evade existing regulations on toxic emissions and waste disposal. Territorial differences in this field can be significant. In central and northern Italy, respect for environmental rules and recycling is generally higher than in southern Italy

**II. Steering Capability and Reform Capacities**

## 5. Strategic Capacity

### Prioritization: To what extent does the government set and maintain strategic priorities?

This question seeks to assess:

- the political capability to take on a longer-term perspective going beyond immediate concerns of electoral competition, to maintain strategic priorities over periods of crisis and stalemate
- the strategic capacity of the government to prioritize and organize its policy measures (gaining and organizing expertise, evidence-based policy-making, regulatory impact assessment, strategic planning units)

Make sure to identify reform drivers and defenders of the status quo, as political determination and institutional capacity may vary among different departments and ministries. Please also comment on how setting and maintaining strategic priorities might be constrained by government composition and by actors outside the government (e. g. powerful economic interests, lobbies, foreign governments, foreign donors).



The current Monti government is a technocratic government, with the mission of overcoming the financial crisis and supported by a grand coalition of left, center and right. Compared with previous governments, this one has significantly improved its ability to adopt long-term policies and to prioritize strategic changes. An impressive set of reforms was announced, most of which have been formulated and decided in the first nine months. Not unsurprisingly the government has faced significant oppositions in the parliament and from interest groups when its reforms have been brought for approval. Overall, however, it has proved able to push through its legislative reforms and to remain faithful to its reform mission in the crucial policy fields, labor market, pension reform, control of state expenditures, liberalization of the economy, etc.) In devising these reforms, the government has been able to use the high level of expertise of most of the ministers and also of a group of high-quality area experts. It is more dubious what will happen after the next parliamentary election, due in the spring of 2013, and whether political conditions will enable this style of government to continue.

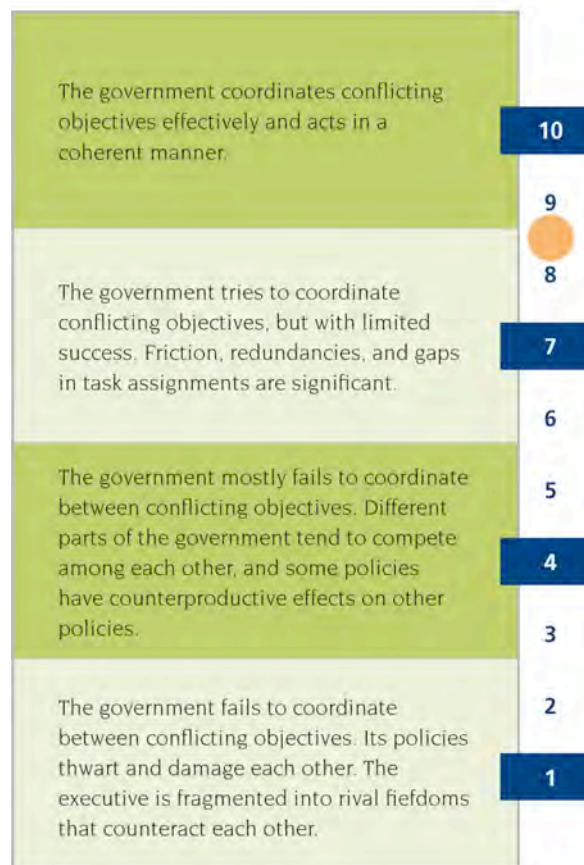
**Policy coordination: To what extent can the government coordinate conflicting objectives into a coherent policy?**

As many policies have conflicting objectives, reflect competing political interests and affect other policies, the government has to ensure that its overall policy is coherent. Successful coordination should:

- assure that trade-offs between policy goals are well balanced
- introduce horizontal forms of coordination to mediate between different departments of the state administration
- ascribe responsibilities in a transparent manner to avoid the negligence of tasks, redundancies, or friction between different government branches.

Various coordination styles (hierarchical-bureaucratic, informal-network, personalist, centralized, decentralized etc.) are possible and may be functionally equivalent. What matters is their impact on policy coherence.

Overall, the current government has proven fairly effective in coordinating its actions. The strong leading role of the prime minister, the government's clear mission when it was formed (to overcome the crisis) and the background of ministers (typically recruited from technocratic positions) have facilitated coordination among different ministries. The staff of the office of the prime minister has played a crucial role in ensuring a good level of harmony in the cabinet. Conflicts between ministers and ministries have not been totally absent but they have never reached a level that would affect negatively the action of the executive.



**Stakeholder Involvement: To what extent does the government consult with major economic and social interest groups to support its policy?**

This question assesses how successfully the government consults with economic and social actors in preparing its policy. Successful consultation is conceived here as an exchange of views and information that increases the quality of government policies and induces economic and social actors to support them.



Because its mission explicitly focuses on deep changes in many policy sectors with exceedingly strong organized interests, the current government has chosen to downplay the role of consultations with social and economic interests in order to avoid being trapped in lengthy negotiations. This choice has paid out and has enabled an unprecedented speed of reform action but has, in some cases, generated mistakes and problems that could have been avoided with a more open social dialogue. Overall, however, this choice can be evaluated positively in view of the existing financial and economic conditions that require swift action. In the future months it might be wise for the government to devise new and more effective mechanisms of social consultation that, while avoiding excessive encroachment of organized interests, would facilitate broader support for reforms

**Political Communication: To what extent does the government actively and coherently communicate and justify the rationale for and goals of its policies to the public?**

A coherent communication policy is an important aspect of strategic governance, and ultimately in winning public acceptance for governmental policies. This question assesses governments' public communication efforts, and the extent to which policy-makers are able to coherently describe and justify goals and programs to the public.



Overall, the current government is able to communicate its fundamental mission and to justify the goals of its policies to the public. However, the technocratic background of the prime minister and of most of the ministers generates a communication style that is sometimes lacking the warmth and empathy that could more effectively mobilize the support of public opinion. From time to time discrepancies emerge among the messages of different ministers, but the prime minister provides, in the end, an effectively unified communication for the whole government.

## 6. Implementation and Efficiency

### To what extent can the government achieve its own policy objectives?

This question seeks to evaluate a government's implementation performance against the performance benchmarks set by the government for its own work. The assessment should therefore focus on the major policy priorities identified by a government and examine whether declared objectives could be realized.



As the main objectives of the current government are particularly ambitious and often of a structural nature -- to quickly achieve a balanced budget, to reduce substantially the stock of the public debt, to deeply restructure the public administration, to regain prestige and influence in the international scene, to liberalize and stimulate the economy -- an assessment of their full implementation will require some time, in most cases. However after little more than nine months, the government has already obtained a good level of implementation in some of the crucial policy fields of its mandate: budgetary policy, international prestige, proactive position in European level decision-making and pension reform.

**To what extent does the government make efficient use of available human, financial, and organizational resources?**

In assessing the government's resource efficiency, please focus on the executive, including the administration and the cabinet.

*Reference Indicators: Personnel expenses relative to the services offered by the state | low number of politically motivated dismissals and new appointments of public servants | competitive recruiting procedures protected against political influence | transparent budget planning and implementation | low deviation of actual budget expenditures from the associated planned expenditures | effective and independent auditing | public administration that enables effective management under criteria of professional rationality | procedures and institutions to reform and modernize public administration.*



Traditionally, Italian governments have not made the most efficient use of all available human, financial and organizational resources. Among the main weaknesses includes the limited ability to control expenditures, recruitment procedures that have often privileged political loyalty over personal merit and competence, and tolerance of low performances by many branches of public administration. The current government has shown a strong determination to deviate from the failures of the past and to improve significantly the efficiency in the use of budgetary, personnel and organization resources. A far reaching revision of spending practices and of administrative procedures in the central government has been started and a deep reorganization of levels of local government has been initiated against strong opposition. If the government can complete these actions, it will have improved significantly its control over resources.

## 7. Adaptability

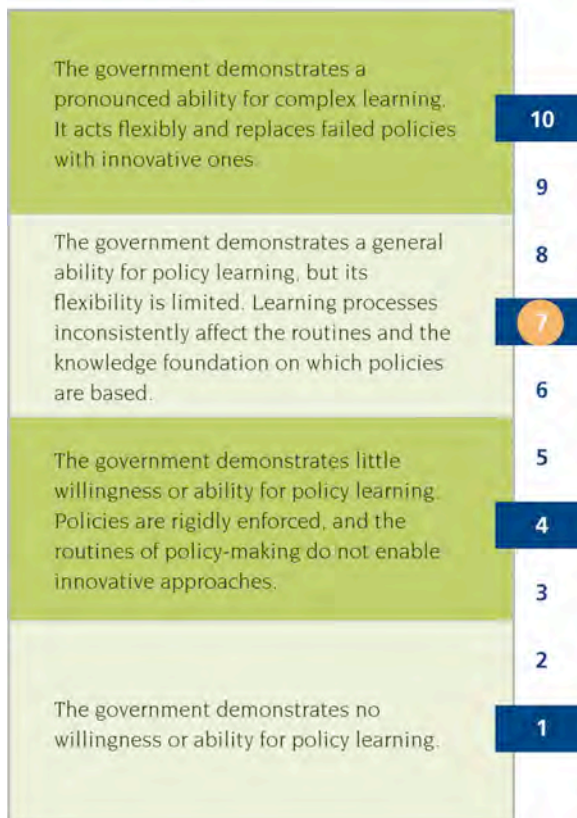
### Policy Learning: How innovative and flexible is the government?

Innovation in policy-making often comes from learning. This learning goes beyond changes in policy outputs to include changes in the basic beliefs in guiding policy formulation. Learning opportunities are provided by:

- learning from past experience (effective internal monitoring and evaluation)
- observation and knowledge exchange (good practices, international cooperation)
- consultancy (academic experts and practitioners)

Flexibility refers to a government's ability to adapt to and take advantage of development opportunities inherent to a given political situation. Flexibility and learning allow governments to replace failed policies with innovative ones. If possible, provide empirical evidence on whether policy learning happens coincidentally or if there are institutionalized mechanisms that facilitate innovation and flexibility in policy-making.

Traditionally Italian governments are not very keen at conducting evaluation exercises over their policies. Most of the political energy goes into devising and “selling” new policies. A somewhat greater contribution to policy evaluation and policy learning comes from the community of experts that governments use and who are more inclined to monitor the effects of past policies. But the political debates do not pay in general sufficient attention to this aspect. The current government, also because its main mission requires a global rethinking of public expenditures, is devoting more attention to the evaluation and revision of old policies. An example is the thorough spending review for all ministries that it has launched. It is not yet clear, however, whether this will produce new stable and institutionalized practices in this field.





**Institutional Learning: To what extent does the government improve its strategic capacity by changing the institutional arrangements of governing?**

Strategic capacity is the capacity to take and implement political decisions that take into account the externalities and interdependencies of policies, are based on scientific knowledge, promote the common goods and represent a long-term orientation. Institutional arrangements include the rules of procedure and the work formats defined there, in particular the cabinet, the office of the head of government, the center of government, the portfolio of ministries, the advisory staffs of ministers, and the head of government as well as the management of relations with parliament, governing parties, ministerial administration, and public communication.

The current government has not yet introduced major institutional changes that would produce a significant increase of its strategic capacity. However, the recruitment of ministers with a generally high level of technical competence and a less partisan outlook has contributed to increase the capacity of the government to think in strategic terms and to use of expert advice.



### **III. Track record of past crisis management (if applicable)**

*Is there evidence from historical events that the country and its society have already mastered economic and political shocks in the past?*

Italy has often displayed a better than expected ability to face major crises. Without going too far back in time, we must remember the terrorist crisis of the 1970s when extreme left and extreme right terrorist groups conducted a bloody campaign of political assassinations. After an initial uncertainty, all political parties were able to join forces against this threat and to support the action of the judiciary and of police forces against these groups, which were successfully defeated. The government faced the financial crisis of 1992-93 -- when Italy (together with the UK) was forced out of the European Monetary System after strong speculations against the lira -- without excessive drama and put in place the drastic budgetary measures required.

*Does the political system facilitate crisis remediation in a timely manner?*

The constitutional system enables the government to use instruments of rapid intervention in the case of crisis, law decrees that are immediately effective and need to receive the approval of the parliament only later on. However, a crucial political factor is the ability of the government to rally a large consensus among all the main political forces. While the “normal” political life in Italy is often characterized by a high level of rhetorical conflict, the willingness to join forces in face of a serious crisis is often higher than expected.

*Is the signaling process between decision makers (government, central bank, employers, employee representatives) so well established that confusion about (and resistance to) the expected outcome of decisions by one decision maker on the others can be avoided or at least minimized?*

Communications between the government and the national central bank are generally rather effective in reducing confusion about adopted measures. (With the ECB things are obviously different.) With other groups, such as trade unions and employers associations, relations are less smooth and more variable.

*Are there constitutionally anchored and politically accepted procedures for sequencing and timing countermeasures in a crisis?*

As discussed above, Italy does have politically accepted procedures for implementing countermeasures in a time of crisis, in keeping with the constitution.

*Are precautionary measures (e.g., deposit insurances, foreclosure procedures) in place that can protect the most vulnerable groups against the full effect of a crisis?*

Bank deposits are insured through the Interbank Deposit Protection Fund, established in 1987 as a voluntary consortium, and now as a private-law mandatory consortium. The government has also exerted strong moral suasion on the banking system with the purpose of reducing defaults of subscribers of house loans.

*Are automatic stabilizers in fiscal policies sufficiently strong to contain surges of massive unemployment?*

Italy has a significant wage integration system (Cassa Integrazione Guadagni) partly paid by the state and partly by firms and workers, which is largely used by enterprises to support workers kept idle during periods of production crisis, thus avoiding their dismissal. However, unemployed people receive very limited support. The merits of the system are debated. On the one hand, it offers a significant protection against production crises for those who already have employment, and reduces dismissals, on the other hand it delays the restructuring of declining economic sectors and leaves with limited protection those who have not been able to enter the job market. This again makes the condition of young people more difficult.