ITALY

Italy's economic freedom score is 62.2, making its economy the 80th freest in the 2019 Index. Its overall score has decreased by 0.3 point, with a sharp drop in judicial effectiveness and a lower score for monetary freedom, overwhelming improvements in government integrity, government spending, and fiscal health. Italy is ranked 36th among 44 countries in the Europe region, and its overall score is below the regional average but above the world average.

Despite political and economic volatility, Italy continues to register moderate growth. The eurozone’s third-largest economy is hobbled by political interference; corruption; poor management of public finances; exceptionally high public debt; and such structural impediments to growth as labor market inefficiencies, a sluggish judicial system, and a weak banking sector. A complex regulatory framework and the high cost of conducting business drive a considerable amount of economic activity to the informal sector.

BACKGROUND: Italy is a charter member of NATO and the European Union. In a rebuke to establishment political parties, the Five Star Movement and the anti-immigrant League Party won more than half of the vote in March 2018 elections. Prime Minister Giuseppe Conte, a politically independent law professor, was the compromise pick to lead a populist government. Attempts by tens of thousands of migrants to enter Italy from the Mediterranean and Adriatic Seas generated a backlash, and the new government claims a mandate for stricter border control. Italy’s diversified economy is bifurcated between the highly developed industrial North, dominated by private companies, and a less-developed, highly subsidized agricultural South, where unemployment is higher.
Property rights and contracts are secure, but court procedures are notoriously slow. The legal system is cumbersome and vulnerable to political interference. Corruption and organized crime are significant impediments to investment and economic growth, costing an estimated €60 billion annually in wasted public resources. A bloated and self-interested bureaucracy slows efforts to enforce anticorruption laws.

The top personal income tax rate is 43 percent, and the top corporate rate is 27.5 percent. Other taxes include value-added and inheritance taxes. The overall tax burden equals 42.9 percent of total domestic income. Over the past three years, government spending has amounted to 49.5 percent of the country’s output (GDP), and budget deficits have averaged 2.3 percent of GDP. Public debt is equivalent to 131.5 percent of GDP.

Organizing new investment and production remains a cumbersome and bureaucratic process. Inefficient public administration increases the cost of entrepreneurial activity. Systemic deficiencies in the labor market continue to hamper job growth. The government has the legal right to regulate prices but allows most to be set by the market except for electricity, transportation, pharmaceuticals, telecommunications, water, and gas networks.

The combined value of exports and imports is equal to 59.5 percent of GDP. The average applied tariff rate is 2.0 percent. Italy implements a number of EU-directed nontariff trade barriers including technical and product-specific regulations, subsidies, and quotas. There is no general screening of foreign investment, and most sectors of the economy are open. Bank recapitalization has been underway, but nonperforming loans remain problematic.