

ITALY

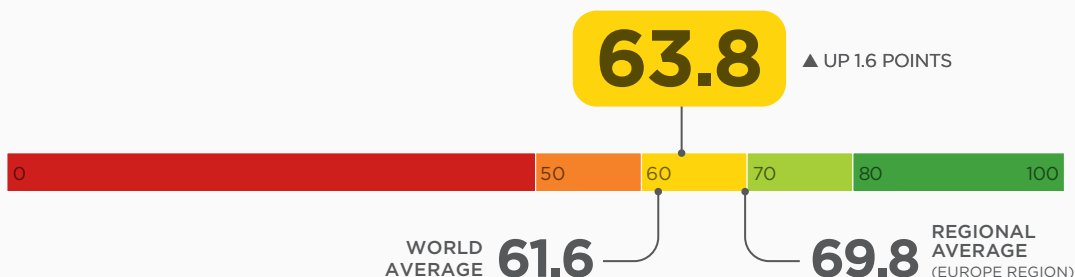
Italy's economic freedom score is 63.8, making its economy the 74th freest in the 2020 *Index*. Its overall score has increased by 1.6 points, primarily because of an improved **government integrity** score. Italy is ranked 37th among 45 countries in the Europe region, and its overall score is well below the regional average and slightly above the world average.

The Italian economy has been mired in the bottom ranks of the moderately free category for most of the years since the inception of the *Index* in 1995, dragged down by one consistently very low-scoring indicator: government spending. Perhaps as a result, GDP growth has been exceptionally weak for the past five years.

The new government's policy priorities—higher spending on research, education, and welfare; introduction of a minimum wage; incentives for small and medium-size enterprises; and pension guarantees for young people—will do nothing to increase economic freedom in Italy.

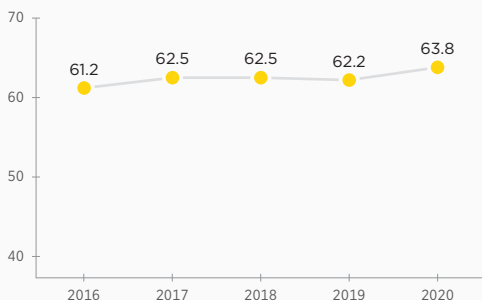


ECONOMIC FREEDOM SCORE



HISTORICAL *INDEX* SCORE CHANGE (SINCE 1995): +2.6

RECENT FREEDOM TREND



QUICK FACTS

POPULATION:
60.5 million

GDP (PPP):
\$2.4 trillion
0.9% growth in 2018
5-year compound
annual growth 0.9%
\$39,637 per capita

UNEMPLOYMENT:
10.2%

INFLATION (CPI):
1.2%

FDI INFLOW:
\$24.3 billion

PUBLIC DEBT:
132.1% of GDP

2018 data unless otherwise noted. Data compiled as of September 2019

BACKGROUND: Italy is a charter member of NATO and the European Union. In September 2019, a new and more stable coalition government, led again by Prime Minister Giuseppe Conte and comprising the populist Five Star Movement and the center-left Democratic Party, obtained votes of confidence in both houses of parliament. The new coalition will be less confrontational toward EU rules on migration and fiscal policy. 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. Migration remains the most highly charged political issue, and the prior government's changes in immigration policy led to a significant decline in migrant arrivals.

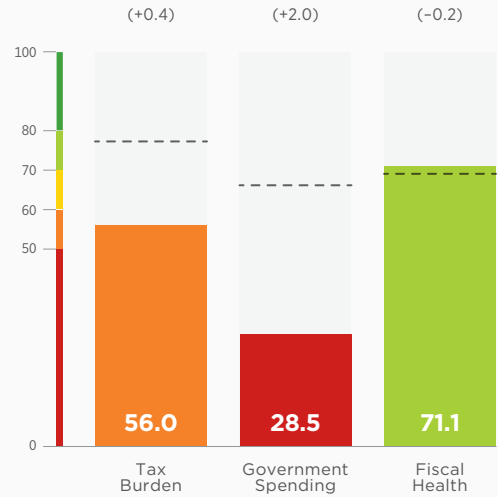
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RULE OF LAW



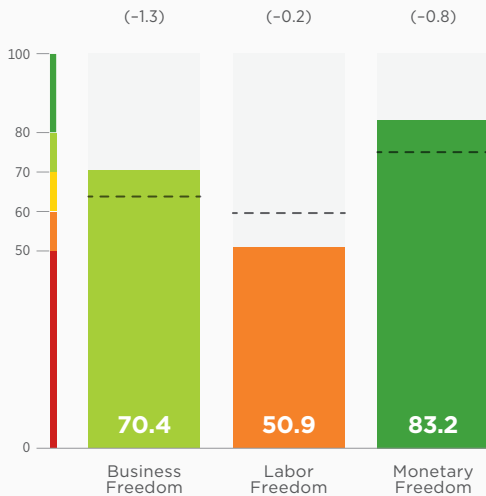
Real property rights are enforced in Italian courts, but registration costs an average of 4.4 percent of property value. Delays in court proceedings can undermine contract enforcement. Although the judiciary is generally independent, judicial corruption and political interference persist. Corruption and organized crime continue to be significant impediments to investment and economic growth, despite efforts by successive governments to reduce risks.

GOVERNMENT SIZE



The top personal income tax rate is 43 percent, and the top corporate tax rate is 27.5 percent. Other taxes include value-added and inheritance taxes. The overall tax burden equals 42.4 percent of total domestic income. Government spending has amounted to 48.4 percent of the country's output (GDP) over the past three years, and budget deficits have averaged 2.4 percent of GDP. Public debt is equivalent to 132.1 percent of GDP.

REGULATORY EFFICIENCY



Taxes have increased, partly because some exemptions on social security contributions were reduced. In 2018, the government introduced the so-called Dignity Decree, which includes incentives to hire workers under 35 years old, sets limits on short-term contracts, and makes it costlier to fire workers. The government allows most prices to be set by the market except for electricity, transportation, pharmaceuticals, telecommunications, water, and gas networks.

OPEN MARKETS



The total value of exports and imports of goods and services equals 61.0 percent of GDP. The average trade-weighted applied tariff rate (common among EU members) is 1.8 percent, with 637 EU-mandated nontariff measures reportedly in force. A decree strengthening the foreign direct investment screening mechanism in areas of strategic importance was adopted in 2019. Restructuring and consolidation of the banking sector continue, and the number of nonperforming loans is declining.