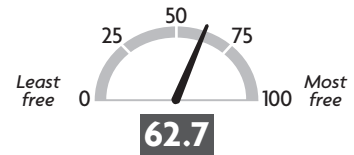


ITALY

Economic Freedom Score



World Rank: **74**

Regional Rank: **35**

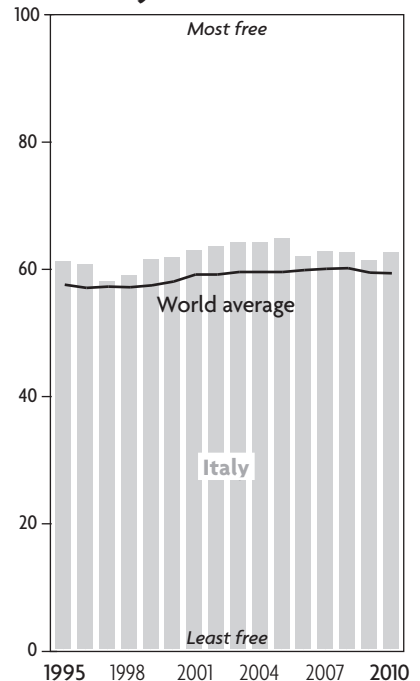
Italy's economic freedom score is 62.7, making its economy the 74th freest in the 2010 *Index*. Its overall score is 1.3 points higher than last year, reflecting modest improvements in trade freedom and investment freedom. Italy is ranked 35th out of 43 countries in the Europe region, and its score is slightly above the world average.

The regional disparities in Italy's economic development remain distinctive. The northern part of the country has well-established traditions of private-sector entrepreneurship, while the southern part of the country has long been dependent on the agricultural sector and government welfare. The Italian economy on the whole has become increasingly dominated by the services sector, which accounts for around 70 percent of GDP.

Italy's overall economic freedom is curbed by ineffective public finance management, considerable corruption, and a high tax burden. Government spending remains over 45 percent of GDP. Reduction of the chronic budget deficit has proved difficult, and public debt still hovers around 105 percent of GDP. A considerable level of economic activity takes place outside of the formal economy.

BACKGROUND: The volatile and vibrantly democratic Italian political landscape is dominated currently by a center-right coalition led by Silvio Berlusconi, who was elected prime minister for a third time in 2008. Italy is a member of the European Union, NATO, and the G-8, which it hosted in July 2009. Small and medium-size enterprises dominate key industries such as manufacturing and high-end design. The export market for luxury goods was hard-hit by the global economic downturn, and the economy experienced a deep recession. The informal sector still accounts for a sizeable portion of economic activity. Persistent problems in other areas include organized crime, increasing unemployment, and the long-standing imbalance between the prosperous and industrialized North and the less developed South.

Country's Score Over Time



Quick Facts

Population: 59.9 million

GDP (PPP): \$1.8 trillion
 -1.0% growth in 2008
 0.8% 5-year compound annual growth
 \$30,756 per capita

Unemployment: 6.8%

Inflation (CPI): 3.5%

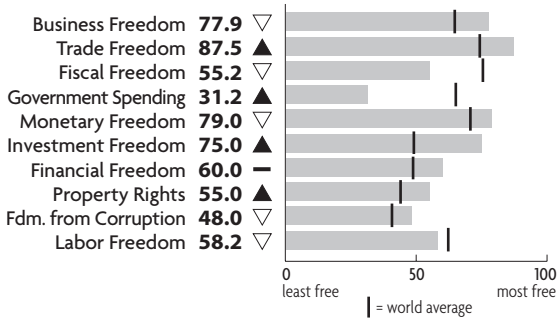
FDI Inflow: \$17 billion

2008 data unless otherwise noted
 Data compiled as of September 2009

How Do We Measure Economic Freedom?

See page 457 for an explanation of the methodology or visit the *Index* Web site at heritage.org/index.

ITALY'S TEN ECONOMIC FREEDOMS



BUSINESS FREEDOM — 77.9

The overall freedom to start, operate, and close a business is relatively well protected under Italy's regulatory environment. Starting a business takes an average of 10 days, compared to the world average of 35 days. Obtaining a business license requires less than the world average of 18 procedures and slightly more than the world average of 218 days.

TRADE FREEDOM — 87.5

Italy's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.3 percent in 2008. However, the EU has high or escalating tariffs for agricultural and manufacturing products, and its MFN tariff code is complex. Non-tariff barriers reflected in EU and Italian policy include agricultural and manufacturing subsidies, quotas, import restrictions and bans for some goods and services, market access restrictions in some services sectors, non-transparent and restrictive regulations and standards, and inconsistent regulatory and customs administration among EU members. Ten points were deducted from Italy's trade freedom score to account for non-tariff barriers.

FISCAL FREEDOM — 55.2

Italy has a high income tax and a moderate corporate tax. The top income tax rate is 43 percent, and the top corporate tax rate is 27.5 percent. Individuals are also subject to small regional and municipal income taxes, and corporations are subject to a regional tax of 3.9 percent. Other taxes include a value-added tax (VAT), a tax on interest, a property transfer tax, and an inheritance tax. In the most recent year, overall tax revenue as a percentage of GDP was 43.3 percent.

GOVERNMENT SPENDING — 31.2

Total government expenditures, including consumption and transfer payments, are high. In the most recent year, government spending equaled 47.9 percent of GDP. The state still controls some strategic enterprises, mainly in transportation and energy.

MONETARY FREEDOM — 79

Italy is a member of the euro zone. Inflation is relatively low, averaging 3.0 percent between 2006 and 2008. As a participant in the EU's Common Agricultural Policy, the

government subsidizes agricultural production, distorting agricultural prices. Items subject to price controls at the national level include drinking water, electricity, gas, highway tolls, prescription drugs reimbursed by the national health service, telecommunications, and domestic travel. Ten points were deducted from Italy's monetary freedom score to account for policies that distort domestic prices.

INVESTMENT FREEDOM — 75

Italy welcomes foreign investment, but the government can veto acquisitions involving foreign investors. National treatment is provided to foreign investors established in Italy or another EU member state, except in defense, aircraft manufacturing, petroleum exploration and development, domestic airlines, and shipping. The government often retains a "golden share" in privatized companies. An inefficient judicial system, bureaucracy, rigid labor laws, inefficient infrastructure, regulatory non-transparency, the possibility of government intervention, and hostile labor unions are deterrents. There are no barriers to repatriation of profits. Foreigners may not buy land along the border.

FINANCIAL FREEDOM — 60

The financial sector is relatively well developed and provides a wide range of services. Banking has undergone consolidation. Credit is allocated on market terms, and foreign participation is welcome. Only three major financial institutions remain state-controlled. However, banks are not free from political interference. The five largest banks account for over 50 percent of assets. Regulations and prohibitions can be burdensome, and approval is needed to gain control of a financial institution. The government has acted to reform underdeveloped capital markets. The global financial turmoil's impact on the banking sector has been relatively modest, with Italian banks less exposed to troubled financial instruments than banks in some other countries.

PROPERTY RIGHTS — 55

Property rights and contracts are secure, but judicial procedures are extremely slow, and many companies choose to settle out of court. Many judges are politically oriented. Enforcement of intellectual property rights falls below the standards of other developed Western European countries.

FREEDOM FROM CORRUPTION — 48

Corruption is perceived as present. Italy ranks 48th out of 179 countries in Transparency International's Corruption Perceptions Index for 2008. Corruption and organized crime are significant impediments to investment and economic growth in southern Italy, and Italians regard investment-related sectors as corrupt.

LABOR FREEDOM — 58.2

Labor regulations are relatively rigid. The non-salary cost of employing a worker is very high, but dismissing an employee can be costless. Rules on work hours are relatively inflexible.