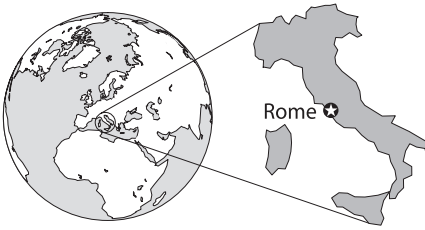


# ITALY



World Rank: **87** Regional Rank: **36**

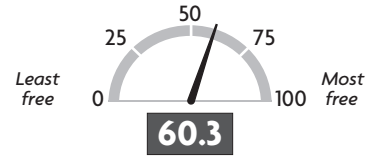
Italy's economic freedom score is 60.3, making its economy the 87th freest in the 2011 *Index*. Its overall score is 2.4 points lower than last year, with significant declines in labor freedom, property rights, and freedom from corruption. Italy is ranked 36th out of 43 countries in the Europe region, and its score is slightly above the world average.

Although Italy's banking sector has weathered the global financial turmoil relatively well, the crisis has taken a considerable toll on overall macroeconomic stability. The global economic slowdown has also aggravated ongoing structural weaknesses, undermining long-term competitiveness. With public debt around 120 percent of GDP and growing, policy options are increasingly constrained.

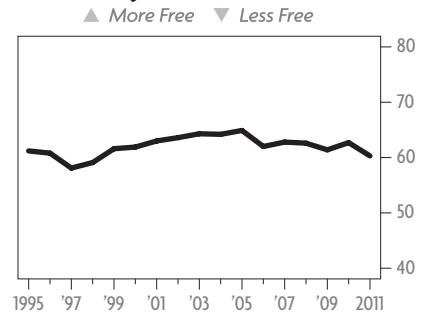
Despite repeated reform attempts, Italy's move toward greater economic freedom has been uneven and marginal. Short-term legislative reforms have not been implemented effectively, and the economy remains burdened by political interference, corruption, high levels of taxation, and a rigid labor market. Due to the complexity of the regulatory framework and the high cost of conducting business, a considerable amount of economic activity remains in the informal sector.

**BACKGROUND:** The volatile but 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. Small and medium-size enterprises dominate key industries such as manufacturing and high-end design. The export market for luxury goods was severely affected by the global economic downturn, and the economy experienced a deep recession. Lack of movement on much-needed structural reforms continues to weaken the economy even though it formally emerged from recession in mid-2009. Persistent problems include organized crime, illegal immigration, high unemployment, and the long-standing imbalance between the prosperous and industrialized North and the less-developed, agricultural South.

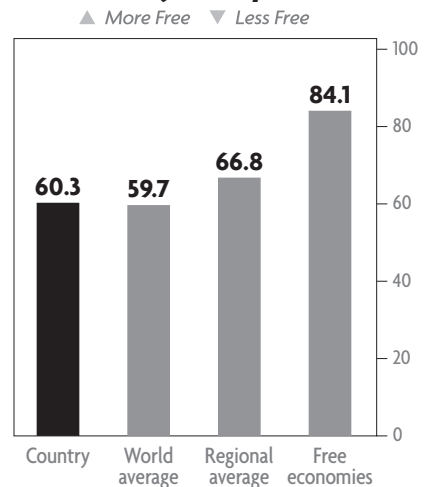
## Economic Freedom Score



## Country's Score Over Time



## Country Comparisons



## Quick Facts

- Population:** 59.8 million
- GDP (PPP):** \$1.7 trillion
- 5.0% growth in 2009
- 0.7% 5-year compound annual growth
- \$29,109 per capita
- Unemployment:** 7.8%
- Inflation (CPI):** 0.8%
- FDI Inflow:** \$30.5 billion

### How Do We Measure Economic Freedom?

See page 447 for an explanation of the methodology or visit the *Index* Web site at [heritage.org/index](http://heritage.org/index).

2009 data unless otherwise noted.  
Data compiled as of September 2010.

THE TEN ECONOMIC FREEDOMS

**BUSINESS FREEDOM: 77.3** - 0.6

Organizing new investment and production remains a cumbersome and bureaucratic process. Inefficient public administration and legislative complexity continue to delay and increase the cost of entrepreneurial activity.

**TRADE FREEDOM: 87.6** + 0.1

Italy's trade policy is the same as that of other members of the European Union. The common EU weighted average tariff rate was 1.2 percent in 2009. 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: 55.4** + 0.2

Italy has a high income tax and a moderate corporate tax. The top income tax rate is 43 percent. The top corporate tax rate is 27.5 percent (31.4 when the IRAP, a regional tax of 3.9 percent, is included). Individuals are also subject to small regional and municipal income taxes. 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 43.1 percent.

**GOVERNMENT SPENDING: 28.6** - 2.6

In the most recent year, total government expenditures, including consumption and transfer payments, increased slightly to 48.8 percent of GDP, while the deficit widened to 5.3 percent of GDP. Social transfers and public service outlays have comprised much of the crisis spending. The state still controls some strategic enterprises, mainly in transportation and energy.

**MONETARY FREEDOM: 82.1** + 3.1

Italy is a member of the euro zone. Inflation is low, averaging 1.5 percent between 2007 and 2009. 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 measures that distort domestic prices.

**INVESTMENT FREEDOM: 75** no change

Italy welcomes foreign investment, but the government can veto acquisitions involving foreign investors. National

COUNTRY'S WORLD RANKINGS

Business Freedom	No. 41	Investment Freedom	No. 26
Trade Freedom	No. 12	Financial Freedom	No. 38
Fiscal Freedom	No. 167	Property Rights	No. 52
Government Spending	No. 160	Freedom from Corruption	No. 62
Monetary Freedom	No. 21	Labor Freedom	No. 147

treatment is provided except in defense, aircraft manufacturing, petroleum exploration and development, domestic airlines, and shipping. The government often retains a controlling interest 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.

**FINANCIAL FREEDOM: 60** no change

The financial sector is relatively well developed and provides a wide range of services. The banking sector 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: 50** - 5.0

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. Italy is ranked only 44th out of 125 countries in the 2010 International Property Rights Index.

**FREEDOM FROM CORRUPTION: 43** - 5.0

Corruption is perceived as significant. Italy ranks 63rd out of 180 countries in Transparency International's Corruption Perceptions Index for 2009, a steep drop from 2008. Corruption and organized crime are major impediments to investment and economic growth in southern Italy, and Italians regard investment-related sectors as corrupt.

**LABOR FREEDOM: 44.4** - 13.8

Systemic deficiencies in the labor market continue to hamper job growth. A large informal labor market accounts for a significant proportion of employment.