**POPULATION AND GEOGRAPHY**

- **Area:** 295,114 km²
- **Population:** 60,537 million inhabitants (2017), a decrease of 0.1% per year (2010-2015)
- **Density:** 205 inhabitants / km²
- **Urban population:** 70.1% of national population
- **Urban population growth:** 0.3% (2017 vs 2016)
- **Capital city:** Rome (7.0% of national population)

**ECONOMIC DATA**

- **GDP:** 2.387.4 billion (current PPP international dollars), i.e. 39.437 dollars per inhabitant (2017)
- **Real GDP growth:** 1.5% (2017 vs 2016)
- **Unemployment rate:** 11.2% (2017)
- **Foreign direct investment, net inflows (FDI):** 9.235 (BoP, current USD millions, 2017)
- **Gross Fixed Capital Formation (GFCF):** 17.5% of GDP (2017)
- **HDI:** 0.880 (very high), rank 28

**MAIN FEATURES OF THE MULTI-LEVEL GOVERNANCE FRAMEWORK**

Italy is a parliamentary democracy. According to its Constitution, which was ratified in 1947 and amended several times since then, the legislative power is vested in the bicameral parliament. The parliament is composed of the Chamber of Deputies and the Senate, which is elected by direct universal suffrage every five years. Senators are elected on a regional basis and are assigned to each region proportionally according to their population. The Chief of State is the President of the Republic, elected for a seven-year term by an electoral college comprising the two chambers of Parliament. The Chief of the Government is the Prime Minister (Presidente del consiglio dei ministri), appointed by the President with the confidence of the Parliament.

According to the Constitution, Italy is a unitary country, one and indivisible which recognises and promotes local autonomies, and implements the fullest measure of administrative decentralisation and adopts the principles and methods of its legislation to the requirements of autonomy and decentralisation. In Articles 114 to 133, the Constitution lays down the fundamental elements of local and regional self-government, counting four administrative government layers at subnational level: regions, provinces, metropolitan cities and municipalities.

The decentralisation process started in 1990s, with law 142/1990 on the “Regulation of Local Autonomies” and then with the 1997 Bassanini reform which implemented the subsidiarity principle through different laws, referred to as “administrative federalism”. This reform significantly modified the fiscal, administrative and political framework at the subnational level. Law 59/1997 in particular granted administrative powers to the regions. The most important piece of legislation on local authorities is the “Unified Laws on local authorities (“Testo Unico”), enacted by Legislative Decree No. 267 in 2000. In 2001, there was a major move towards decentralisation through the constitutional reform which ensnared the regions, provinces and municipalities in the constitution, placing them on the same level as central government. A clause listing the responsibilities of the central government was introduced while regions receive all residual competencies. Several implementing decrees were not adopted, however (“unfinished agenda”). In 2006, a national referendum rejected the constitutional reform that would have further strengthened the regions and paved the way to a federal state. In 2009, a new framework law on fiscal federalism was adopted, which reshaped subnational government functions and relations across levels of government as well as the fiscal framework. It initiated the transformation of the country towards more federalism and as a “regionalised country in 2014”. Law 56/2014 (Dell’Aci) introduced several profound changes concerning the provinces and the metropolitan cities. In 2016, a national referendum rejected the constitutional reform which intended to clarify the allocation of responsibilities between the central government and ordinary regions, abolishing “concurrent competencies” and centralising several responsibilities (e.g. transport, labour, public finance and taxation).

In Italy, inter-governmental coordination mechanisms are well developed. There are three separate conferences – state-regions, state and local governments, and state-regions-local governments – which serve as intergovernmental fora.

**TERRITORIAL ORGANISATION**

<table>
<thead>
<tr>
<th>2018</th>
<th>MUNICIPAL LEVEL</th>
<th>INTERMEDIATE LEVEL</th>
<th>REGIONAL OR STATE LEVEL</th>
<th>TOTAL NUMBER OF SNGs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>7,960 municipalities (comuni)</td>
<td></td>
<td>20 regions (regioni)</td>
<td>7,980</td>
</tr>
<tr>
<td></td>
<td>Average municipal size: 7,605 inhabitants</td>
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</table>

**OVERALL DESCRIPTION.** Italy has a two-tier system of SNGs, comprising 20 regions and 7,960 municipalities, since the reform of territorial organisation through law no. 56/2014 effective since January 2015, which abolished the intermediate level of 107 provinces.

**REGIONS.** Regions are composed of a regional council (Consiglio regionale) and a regional president (presidente). Both are elected for a five-year term by direct universal suffrage. The regional president chairs the regional executive committee (Giunta regionale) which is the executive body of the region. Regionalisation is asymmetric. Among the 20 regions, 15 have ordinary status (regioni a statuto ordinario – RSO) and five have special status (regioni a statuto special - RSS). These five regions were created in 1948 and granted special status including legislative and financial autonomy given their cultural and socio-geographical specificities (Aosta Valley, Friuli-Venezia Giulia, Sardinia, Sicily and Trentino-Alto Adige/Südtirol). The Trentino-Alto Adige/Südtirol region is further divided into two special-status provinces, Bolzano and Trento, with the same legislative powers as regions. Italy’s regional organisation is marked by long-standing regional disparities, between North-Eastern regions and Southern regions. The RSOs were established in the early 1970s. Italian regions are very diverse by their geographic and demographic size and their level socio-economic development. The already large regional economic disparities in Italy have slightly increased over the last 16 years. In the province of Bolzano-Bozen, the level of GDP per capita was two and a half times higher than in Calabria in 2016.
MUNICIPALITIES AND INTER-MUNICIPAL COOPERATION. Municipalities are governed by municipal councils (Consiglio) and mayors (Sindaco) elected by direct universal suffrage for five-year periods. The city board (Giunta comunale) is composed of deputy mayors appointed by the mayor. In 2009, as a special case, Rome was given a special legal status with the Article 24 of the law 42/2009 ("Roma capitale"). The capital city has more competences than a regular city, specific provisions on fiscal and budgetary matters, and a deeper administrative and organisational autonomy. Rome is divided into 10 municipalities, and each one is considered to be a local authority (a municipality) on its own.

The number of municipalities has been stable since the 142/1990, which imposed a minimum threshold on the creation of a municipality (10 000 inhabitants). However, the municipal local level is fragmented. While municipal average size is around 8 000 inhabitants (to be compared to 9 700 in the OECD and 5 900 in the EU28), the median size is around 2 430 inhabitants. Around 70% of Italian municipalities have fewer than 5 000 inhabitants and 44% fewer than 2 000 inhabitants. To reduce fragmentation, law no. 56/2014 encourages municipal mergers through central government and regional financial incentives.

Inter-municipal cooperation has been promoted since law 142/1990 went into effect, in particular through the creation of municipal unions (Unione dei Comuni) and mountain communities, and again with law 56/2014, which strengthened municipal unions and set up financial incentives for municipalities. It also established minimum thresholds of 10 000 inhabitants and 30 000 inhabitants in the mountain areas and extended the scope of tasks of municipal unions, including all basic functions of municipalities. Inter-municipal cooperation is compulsory for municipalities with fewer than 5 000 inhabitants. There were 586 Unions in 2017.

At infra-municipal level, large municipalities, with a population of at least 250 000, can establish district councils (Circoscrizione di decentramento comunale). These bodies, formally recognised in 1976, sometimes have an elected committee and a President. Districts’ powers, which vary from one city to another. Their tasks can include include schools, social services and waste collection.

A supra-municipal level, metropolitan cities were introduced with law 142/1990 offering the possibility for the ten major cities of Italy to establish “metropolitan cities” (città metropolitana). No real action was taken and several local initiatives remained unsuccessful (e.g. Bologna in the 1990s, Rome and Turin in the 2000s). Law 56/2014 ended two decades of gridlock over metropolitan governance reform and created the legal structure for the introduction of differentiated governance in ten major metropolitan areas and four additional cities in special regions.

Provinces were abolished as self-governing units and transformed into inter-municipal cooperation bodies, which also became “metropolitan cities” in each of the metropolitan areas designed by the law. Metropolitan cities and provinces are headed by mayors, presidents and council members, elected by mayors and city councillors of participating municipalities.

In addition, the central state appoints a prefect (prefetto) in each province as a representative of deconcentrated administrative units.

SUBNATIONAL GOVERNMENT RESPONSIBILITIES

The regions and the two autonomous provinces have had significant legislative and administrative powers since the 2001 Constitutional reform, which gave them exclusive legislative power with respect to any matter not expressly reserved to the State. The central government is exclusively in charge of foreign policy, defence and security protection, electoral legislation, local government and fundamental principles. Regions are in charge of healthcare, transport, social services and housing, economic development, environmental protection, etc. They also share some responsibilities with the central government, resulting in significant overlap (concurrent responsibilities). RSS have additional duties in healthcare, school systems and public infrastructure.

Following Law 56/2014, provincial tasks (transport, roads, environmental protection, among others) were transferred to regions, municipalities or new-intermunicipal bodies, depending on each region. Metropolitan cities were also devolved some of the provinces’ former responsibilities such as territorial planning and coordination and supervision of municipalities’ functions that are part of the metropolitan area. Provinces still have responsibilities regarding provincial roads and schools.

Responsibilities of municipal and inter-municipal associations involve mainly service provision, and competences in urban management (town planning, environment), local road networks, culture and recreation, and social welfare. They are also responsible for deconcentrated administrative competences related to registries, elections, military service, and statistics. Regions may attribute “non-core” competences to their own local authorities through regional legislation. Local authorities are however not governed by regional legislation, except in the five special statute regions.

Regions and municipalities can create state-owned companies as well as stock companies. In the health sector, health agencies (ASL) have been established. They are regional public bodies with a separate legal identity but are supervised by the regions.

MAIN RESPONSIBILITY SECTORS AND SUB-SECTORS

<table>
<thead>
<tr>
<th></th>
<th>REGIONAL LEVEL</th>
<th>MUNICIPAL LEVEL</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. General public services</td>
<td>Regional administration; Relations with provinces, metropolitan cities and municipalities; Management of EU funds</td>
<td>Internal administration; Land registry; Building and commercial permits; Delegated administrative services</td>
</tr>
<tr>
<td>2. Public order and safety</td>
<td></td>
<td>Local police</td>
</tr>
<tr>
<td>3. Economic affairs/transport</td>
<td>International and EU relations; Research and innovation; Regional transport; Civil ports and airports; Large-scale transport and navigation networks; Communications; Energy; Regional land; Agriculture; Regional savings; Banks and credit institutions; Tourism; Employment agencies</td>
<td>Local transport; Local roads; Local economic development; Planning, programming and regulation of commercial activities and of industrial and trade zones</td>
</tr>
<tr>
<td>4. Environmental protection</td>
<td>Environmental protection</td>
<td>Environmental protection; Waste management; Waste water</td>
</tr>
<tr>
<td>5. Housing and community amenities</td>
<td>Housing</td>
<td>Town planning; Social housing; Water supply</td>
</tr>
<tr>
<td>6. Health</td>
<td>Health, through public healthcare agencies (construction and maintenance of hospitals, medical equipment, drugs, medical staff management, etc.)</td>
<td></td>
</tr>
<tr>
<td>7. Recreation, culture &amp; religion</td>
<td>Sports; Cultural activities</td>
<td>Museums; Exhibition halls; Cultural activities; Theatres; Leisure</td>
</tr>
<tr>
<td>8. Education</td>
<td>Education</td>
<td>Pre-school and primary education; School-related services</td>
</tr>
<tr>
<td>9. Social protection</td>
<td>Complementary social welfare</td>
<td>Social services and community assistance (poverty reduction policies)</td>
</tr>
</tbody>
</table>

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GENERAL INTRODUCTION. Articles 117 and 119 of the Constitution provide the framework for the SNG financing system and public finance coordination, granting SNGs fiscal autonomy regarding revenues and expenditure. Article 119 was modified in 2009 by the framework Law on financial federalism no. 42/2009. The fiscal decentralisation and municipal federalism processes were slowed down by the economic and public finance crisis and political changes. Despite reforms to increase revenue capacity and financial autonomy, SNG expenditures, and particularly investment spending, have been limited.

SUBNATIONAL GOVERNMENT EXPENDITURE BY FUNCTIONAL CLASSIFICATION – COFOG

By far, health is the primary area of SNG spending, accounting for almost half of SNG expenditure and 6.8% of GDP in 2016 (vs 18.1% of public expenditure and 2.9% of GDP in the OECD). Health accounts for about 85% of regional spending. It is followed by general public services and economic affairs/transport. The share of social protection and education is lower than the OECD on average as these two sectors remain primary functions of the central government, in particular regarding staff management. SNGs are also responsible for the large majority of overall public spending in the areas of environmental protection, and housing and community amenities.
The 2001 Constitutional reform and the fiscal federalism law No. 42 of 2009 set a milestone for Italy in its gradual move towards fiscal decentralisation. The objective of the reform was to increase SNG fiscal autonomy, efficiency and accountability, and to guarantee an adequate level of subnational services across the country. It led to an increase of own-taxes and shares in national taxes with the aim of covering spending obligations. It also led to the replacement of a portion of central government grants by tax revenues equalisation payments. In 2016, intergovernmental transfers remained, however, the primary source of revenue, representing nearly 47% of SNG revenue, a share above the OECD average (37.2% in 2016). Consequently, the contribution of tax revenue to SNG revenue is also slightly below the OECD average (44.6%), while other sources of revenues (tariffs and fees) are quite low by international comparison.

In 2016, municipalities represented 31.2% of total SNG revenue, provinces and metropolitan cities 4.1%, and regions approximately 65%. Tax revenue accounted for 38% of regional revenue.

TAX REVENUE. Following the 1998 Bassanini Reform, tax revenue increased vastly from 25% in 1997 to 41% of subnational revenue after the 2009 reform. In 2016, tax revenue accounted for 5.8% of GDP (vs 7.1% in the OECD) and 19.8% of public tax revenue (vs 31.9% in the OECD). SNG tax revenue comprises both shared and own-source taxes.

Italian municipalities receive a share of the personal income tax (compartecipazione - IRE) but they do not have control over it. The central government also takes a share of certain national taxes, notably the PIT, the corporate income tax, excise duties, stamp tax, with the RSS.

Italian regions have several own-source taxes. The most important is a regional tax on productive output (imposta regionale sulle attività produttive - IRAP). The IRAP is a tax on economic activities, whose basic rate is 3.9% (from 1 January 2015). The regions have the ability to increase (up to 0.92%) or reduce the rate. Other regional taxes include a regional tax on vehicles, which is paid by the owner or user of the vehicle (around 9% of SNG tax), a regional tax on waste landfills and waste incineration plants as well as a regional surtax on the PIT (addizionali regionali all - IRPEF) which varies from 0.7% to 3.33% depending on regions.

The main source of municipal tax revenue is the recurrent tax on property (18.3% of SNG tax revenue in 2016). It was reformed in 2013 with the creation of a single municipal tax (imposta unica comunale - IUC) which incorporates three taxes: 1/ the IMU (imposta municipale propria), which is a real estate tax paid by owners of secondary residences only. The taxable base is determined in connection with the value of the property according to the cadastral. The regular tax rate is 0.76% of the taxable base, but municipalities may increase or reduce the rate, with a maximum of 0.5%. 2/ the TASI or “tax for indivisible services” which is a supplementary real estate tax, which is supposed to meet the expenses for the delivery of lighting, street cleaning, green areas and services that are provided equitably by municipalities to all citizens; 3/ and the TARI (waste tax) which must cover the cost of the service of collection and treatment of waste. Both the IMU and the TASI were repealed on primary residences (except luxury homes) in 2014 and 2015. A reform of cadastral values is still pending to fully exploit the potential of the property tax. In 2016, the recurrent property tax accounted for 1.1% of GDP, in line with the OECD average.

Municipal taxes also include a surtax on the PIT (imposta addizionale comunale), with some municipal leeway on the rate with a maximum of 0.8% (for Roma Capitale, 0.9%), a tax on advertising and touristic tax.

GRANTS AND SUBSIDIES. There are two separate systems of grants, one for the regions (RSO) and one for the municipalities. However, the 2001 constitutional reform and Fiscal Federalism Law of 2009 set the principles for both systems, introducing the obligation for the central government to determine and ensure, by providing adequate financing, uniform levels for public service provision across the whole country for a set of basic services assigned to regions and municipalities. The 2009 Law mandates that officials use both standard expenditure needs and fiscal capacity when calculating the allocation of grants and subsidies. The main source of regional revenue is the Grant (Fondo di Solidarietà Comunale - FSC) but they do not have control over it. The central government also takes a share of certain national taxes, notably the PIT, the corporate income tax, excise duties, stamp tax, with the RSS.

At regional level, the equalisation fund guarantees the coverage of essential public services (healthcare, education, social assistance) in regions with low tax revenue. The funds allocated by the State are calculated based on standard cost, for each service based on expenditure in the region that spends the least and no longer on historical cost. The Regional Health Fund is the most important component. It is allocated on a slightly modified per capita basis, upon agreement reached among regions and the central government within the State-Regional Governments Conference.

At municipal level, the Municipal Solidarity Fund (Fondo di Solidarietà Comunale - FSC), created by law no. 228/2012, is the most important equalisation tool. Managed by the Ministry of the Interior, it is endowed by a share of the local property tax, as well as by contributions from the central government. Grants consist exclusively of general-purpose equalisation grants, allocated according to a complex formula taking into account both fiscal capacity and expenditure needs to ensure the provision of the “fundamental functions” of municipalities. The rest of the FSC continues to be distributed on the basis of the historical level of transfers to individual municipalities. Since the 2014 Stability Pact, a portion of the FSC has been used as incentives in favour of the merger of municipalities.

Other revenues. Italian municipalities may collect a diverse range of fees and charges on installation of advertising (CIMP), occupation of public spaces by economic activities (TOSAP and COSAP), and to cover the cost of some public works by the municipality (ISCOP) or collection of traffic and parking fines. Regions are also entitled to collect charges and fees (e.g. on concessions made on regional public domain goods, on the right to study at the university, on phytosanitary activities, etc.). The share of tariffs and fees in SNG revenue is lower than in the OECD on average (14.9% in 2016).
SNG may also collect revenue from business, commercial activities and revenue from the ownership of property (sale of movable and immovable property), interests and dividends from state-owned companies. Some decrees have been adopted, particularly concerning the attribution to the municipalities of a portion of the State’s property (“public property federalism”).

### Subnational Government Fiscal Rules and Debt

<table>
<thead>
<tr>
<th>Year</th>
<th>DOLLARS PPP/INH</th>
<th>% GDP</th>
<th>% General Government Debt</th>
<th>% SNG Debt</th>
</tr>
</thead>
<tbody>
<tr>
<td>2016</td>
<td>3 195</td>
<td>10.9%</td>
<td>7.0%</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td>2 325</td>
<td>8.0%</td>
<td>5.3%</td>
<td>72.8%</td>
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* Currency and deposits, loans and bonds

**Fiscal Rules.** In 1999, Italy introduced an Internal Stability Pact (Patto di Stabilità Interno - ISP) to ensure that the financial situation of central and regional governments is consistent with Italy’s obligations under the European Union fiscal rules. ISP has been progressively modified and since 2001, local governments have been subject to ISP. Updated and approved yearly, they set targets for their fiscal balances, limits on expenditure growth as well as borrowing limits for SNGs, and may set specific rules for spending, for example on health. In particular, a Health Pact constrains current and capital expenditure on health care by region. Since 2003, a system of sanctions has been set up for non-complying municipalities mostly in the form of transfer cuts and freezes on hiring local staff. The Constitutional Act No. 1/2012 introduced the principle of balanced budgets in structural terms and bans the use of debt to finance the deficit. Implemented by law 243/2012, the law imposed a balanced budget on RSOs for 2015 and for local government as from 2016. The law provides regions with leeway to compensate for temporary imbalances among the municipalities located in their territories. This could strengthen the coordinating role of the regions vis-a-vis their municipalities. The 2012 law also reinforced the State role of coordination of public finance, subjecting SNG budgets to central state control. Accounting and transparency requirements were tightened. The recently established Parliamentary Budget Office (Ufficio parlamentare di bilancio - UPB), whose autonomy is referred to in the 2012 Constitutional Law, has the mandate to analyse and monitor public finance developments, including at the subnational level, and evaluate compliance with budget rules.

**Debt.** Regional and local use of debt is limited to financing investment expenditure (“Golden Rule”). There are additional prudential rules on new borrowing (debt service), which are included in the provisions of the annual finance law. Municipalities and regions may issue bonds according to specific prudential rules. SNG outstanding debt as a share of GDP and public debt is below OECD averages (24.5% of GDP and 20.7% of public debt in 2016) as well as the EU28 average (14.3% of GDP and 14.4% of public debt in 2016). It is made up of financial debt for 73% of debt stock (“Maastricht debt”), and other accounts payable, i.e. commercial debt and arrears (27%). The majority of SNG financial debt is in the form of bank loans largely issued to domestic financial institutions, in particular the Italian public bank Cassa Depositi e Prestiti (89%). The share of loans has increased over the past years compared to the use of bonds, which has declined, representing only 11% of the financial debt stock in 2016. In 2016, Italian regions stopped issuing new debt, but instead relied on the central government for funding. In addition, the central government established programmes to restructure SNG debt in 2013-2014, including a programme for bond repurchases. In 2016, Italian SNGs remained however the third-largest group of issuers among European regions and municipalities, after Germany and Spain.