

## **Renzi plans to move fast on reform**

*di Guy Dinmore e Giulia Segreti*

"Working on the most important government dossiers," said a predawn tweet from Matteo Renzi to his 901,000 followers yesterday, accompanied by a picture of lights shining in his Palazzo Chigi offices. Since taking over as Italy's youngest prime minister on Saturday, Mr Renzi has outlined plans for "radical" reforms for an economy with record high debt and youth unemployment that is struggling to emerge from its longest postwar recession. With European parliamentary elections in May, he wants to move fast. But standing in his way are an entrenched bureaucracy and vested interests resistant to change. As the 39-year-old centre-left prime minister warned in his first speech to parliament: "Ours is a rusty country, bogged down and chained by a suffocating bureaucracy, by rules, laws and little codes that paradoxically do not even eliminate illegality." One of Mr Renzi's "important government dossiers" concerns an ambitious, but so far sketchy, pledge to pay all public sector arrears to the private sector, estimated at around 70bn - about 4 per cent of gross domestic product. Thousands of small and medium-sized enterprises have gone under or laid off workers because, as well as being starved of credit from an ailing banking sector, they have not received money owed by local administrations. Repaying the arrears would boost GDP by at least 1.2 per cent, according to JPMorgan estimates. To this end, Mr Renzi has suggested adopting a proposal set out by Franco Bas-sanini, president of the Cassa Depositi e Prestiti (CDP), a state-controlled financing agency that manages some 242bn in Italians' postal savings accounts, and Marcello Mes-sori, an economist, with the Astrid think-tank. Asked how quickly the plan could be implemented, Mr Bas-sanini told the Financial Times: "In a few weeks, if the government immediately approves the few necessary changes to the law." The Astrid plan is modelled in part on Spain's experience in 2012 when it used its equivalent of the CDP to pay arrears of almost 30bn. Under the Italian proposal the government would certify all outstanding commercial debt owed by local administrations and provide guarantees needed for banks and other institutions to acquire the debt, giving local authorities the resources to repay businesses. In the event of delays in payments the CDP would step in to reschedule the debt of local administrations for 20 to 30 years. Given the full state guarantee, the debts would have no impact on banks' capital ratios and could be used as high-quality collateral to obtain cheap funding from the European Central Bank. As a further sweetener, the government would enjoy windfall VAT revenues from the payment of arrears estimated at 4bn- 6bn. Complex though the plan may sound, economists believe it is at least partly viable - in theory. In practice, government officials believe it will fall foul of Mr Renzi's

"suffocating bureaucracy" - in this case the powerful general accounting office. The office has already rejected the plan once, when it was submitted by Enrico Letta's former government last year, despite assurances it would not affect Italy's budget deficit limit set by the European Commission. Fabrizio Saccomanni, who moved from the Bank of Italy to become finance minister last April, brought in his former colleague Daniele Franco to head the general accounting office but, officials say, he too failed to overcome mandarins' objections. "Resistance from the 'corporation' was too strong. Much depends on Renzi and his ministers to overcome the brake of bureaucracy," said one official involved in the process. "The country cannot wait any longer." Another priority for Mr Renzi is how to find the money to cut high labour costs. He says he wants to reduce annual payroll taxes amounting to 10bn. A possible rise in taxes on financial gains would fill part of the government's revenue gap. The rest is earmarked to come from a spending review. Carlo Cottarelli, a former senior official at the International Monetary Fund appointed last year as the government's spending tsar, is reported to have identified savings this year of 4.5bn 6bn, but may be pressed by Mr Renzi to bring forward cuts planned for 2015. Here Mr Renzi may face resistance not just from the general accounting office, but also trade unions, local governments and the left of his Democratic party. Markets, meanwhile, are giving him some breathing space as Europe's periphery continues to benefit from the ECB's accommodative stance. Italy yesterday sold 10-year bonds at the lowest yield since September 2005.