

Italy's Strategy for Reforms



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Ministry of Economy and Finance, December 2016

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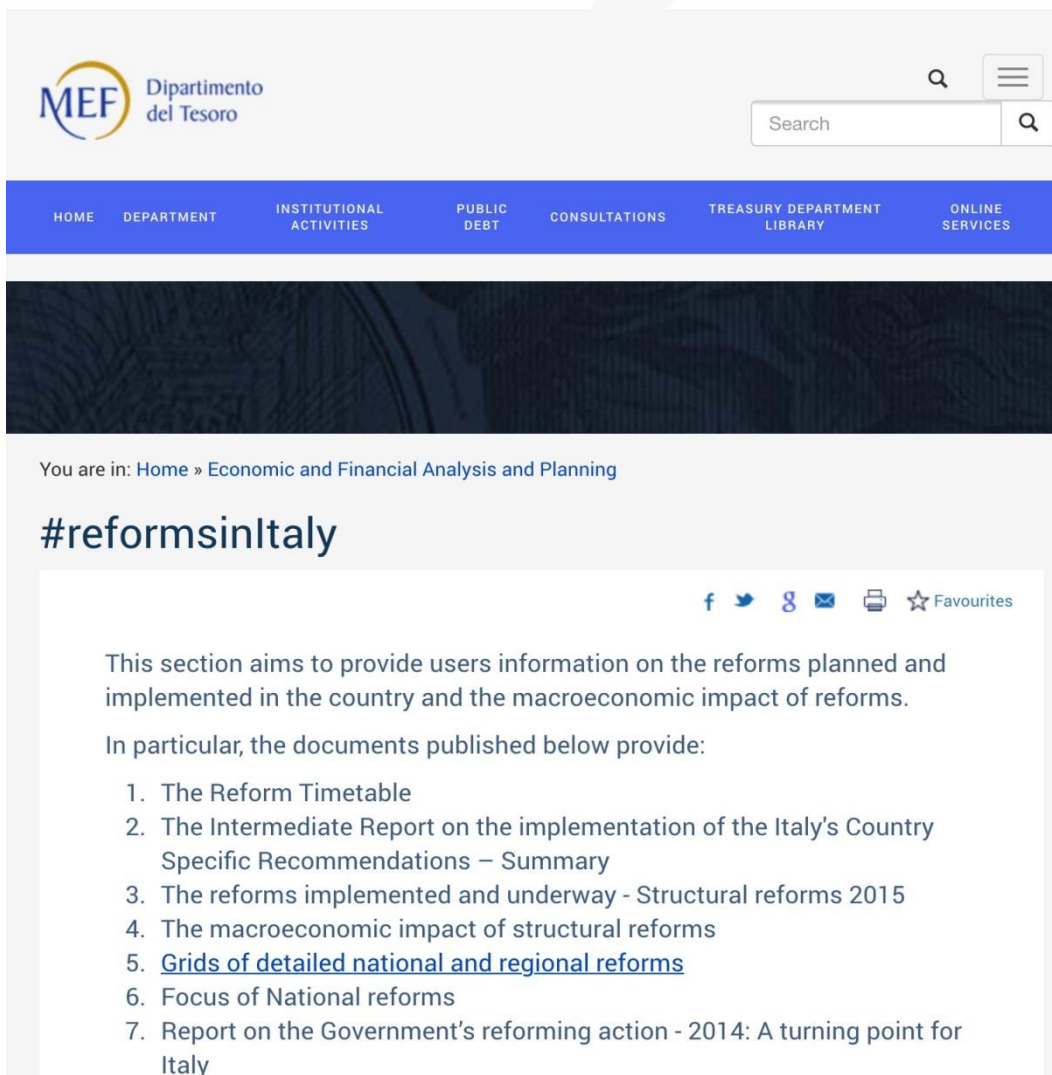
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The Agenda and Timetable: #reformsinItaly



The screenshot shows the MEF website header with the logo and navigation menu. The main content area displays the #reformsinItaly section, which includes a list of documents related to the reform timetable and implementation.

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This section aims to provide users information on the reforms planned and implemented in the country and the macroeconomic impact of reforms.

In particular, the documents published below provide:

1. The Reform Timetable
2. The Intermediate Report on the implementation of the Italy's Country Specific Recommendations – Summary
3. The reforms implemented and underway - Structural reforms 2015
4. The macroeconomic impact of structural reforms
5. [Grids of detailed national and regional reforms](#)
6. Focus of National reforms
7. Report on the Government's reforming action - 2014: A turning point for Italy

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A two-fold reform strategy to ensure growth

Excessive Macro
Economic
imbalances

Low productivity growth
High public indebtedness

Instruments

Sound public finance
Structural reforms

Positive exogenous
factors

ECB decision to launch the **QE** programme
Low Oil prices
Competitive exchange rate \$/€
Confidence

Outcome

Growth

A positive assessment of government's commitments

European
Commission
(2016 CSRs)

The impact of all the reforms on real GDP is estimated by the authorities at 2.2 percentage points by 2020, which seems to be plausible.

IMF
(Italy's Art.IV 2016)

The government has been pursuing a range of important reforms. The list of reform initiatives has been impressive.

OECD
(Going for Growth,
2016)

The pace of reforms continues to be generally higher in Southern European countries (in particular Italy...).

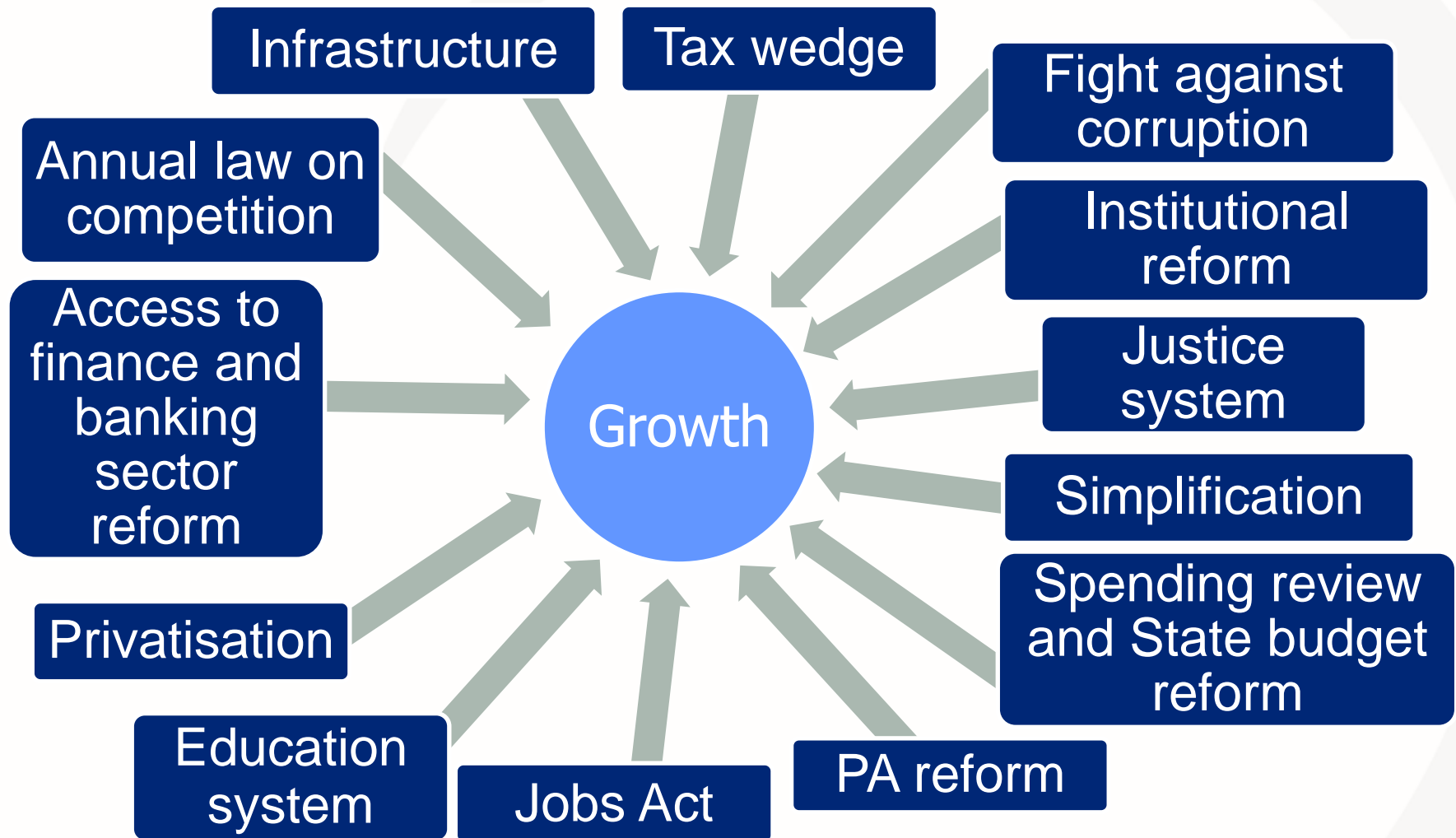
Main structural reforms underway

- **Institutional reforms:** end of bicameralism, simplification of the multilayers governance.
- **Labour market reform:** further flexibility in hiring, labour law reshuffling and simplification.
- **Tax system:** reduction in the tax wedge, a more equitable, transparent, simplified and growth-oriented tax system.
- **Non-performing loans and bankruptcy:** State guarantee mechanism as part of securitization transactions whose underlying assets are banks' non-performing loans. Law decree to allow the restructuring of a firm and avoiding bankruptcy.

Main structural reforms underway

- **Privatisation programme:** State-owned/local Gov.t companies and real estate assets to improve efficiency and reduce debt.
- **Spending review:** reducing procurement costs, increasing efficiency and cutting unproductive public spending.
- **Investment framework:** alternative financing especially for SMEs, incentives for large-scale infrastructure investment; extra budget leeway for public investment at local level.
- **Public administration:** digitalisation and modernisation, open data, transparency, red tape reduction, fight against corruption.

A comprehensive strategy toward economic growth



Budget strategy for 2017

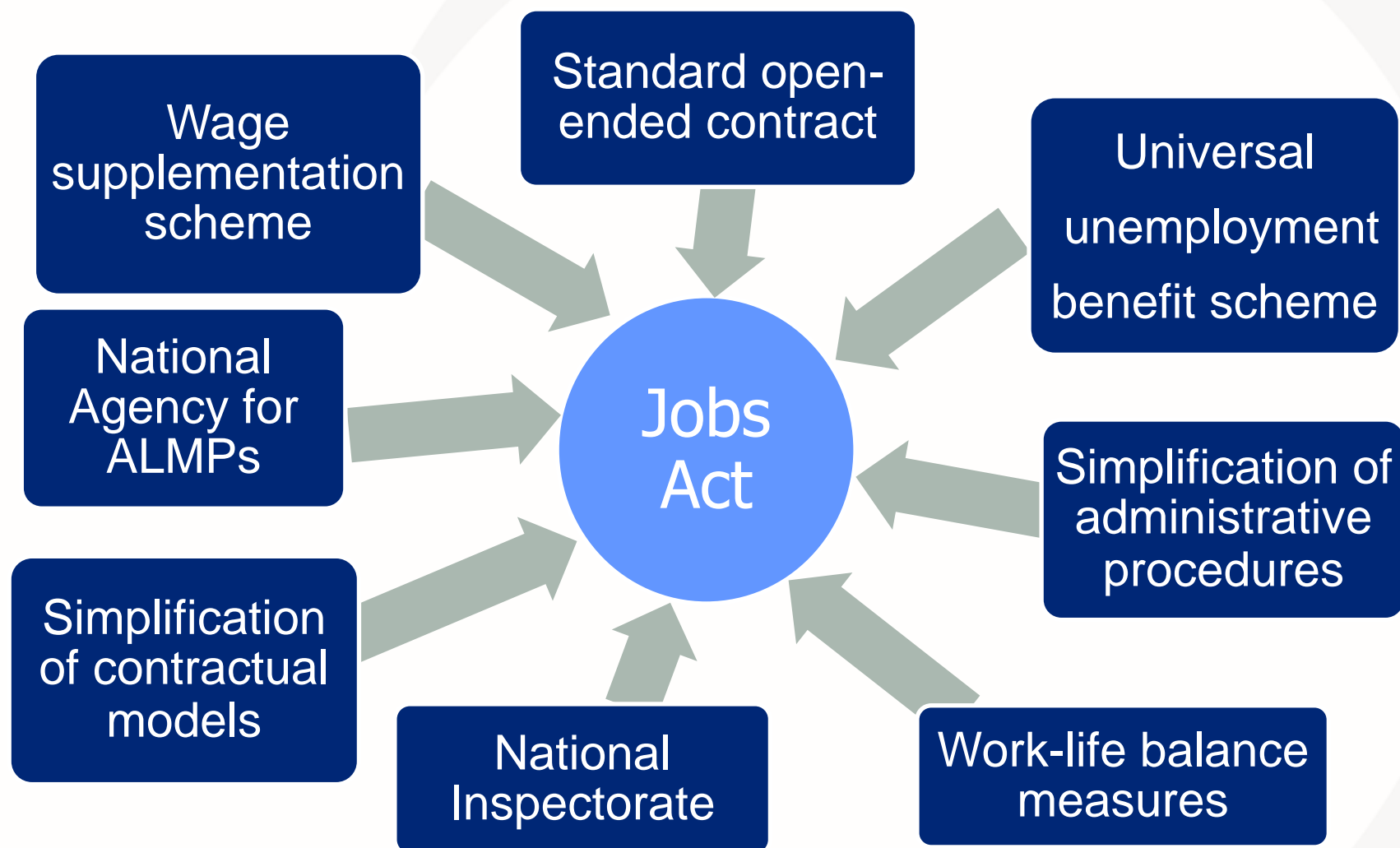
- **Use of flexibility:** estimated deficit of 2.4% in 2016 basically confirms the DEF 2016 target. Deterioration of the structural balance in line with the margin of flexibility granted by the EC
- **Tax burden:** New measures to reduce tax evasion and to improve compliance. Income taxes further reduced if fiscal room available.
- **Spending measures:** new savings from the spending review measures, which will play an increasing role in 2018-2019

MACROECONOMIC EFFECTS OF STRUCTURAL REFORMS

IMPACT FOR POLICY AREA <i>(percentage deviation of GDP from baseline scenario)</i>			
	2020	2025	Long run
Public Administration	0.4	0.7	1.2
Competitiveness	0.4	0.7	1.2
Labour Market	0.6	0.9	1.3
Justice	0.1	0.2	0.9
School System	0.3	0.6	2.4
Tax Shift	0.2	0.2	0.2
Spending Review	-0.2	-0.3	0.0
NPL and insolvency proceedings	0.2	-	-
Finance for growth	0.2	0.4	1.0
TOTAL	2.2	3.4	8.2

Note: MEF estimates. The macroeconomic impact of structural reforms is carried out by focusing on a scenario where only the most recent reforms are considered, namely those eligible for the application of the structural reforms clause recently introduced by the European Commission (flexibility clause scenario, FCS).

Reforming the labour market (completed in Sept. 2015)



Jobs Act: New open-end employment contract

- Starting from March 2015 the **new open-ended contracts** can be used by firms. It is characterised by:
 - ✓ **Minimum protection floor.** Depending on the circumstances, the new contract ensures a stable level of protection for the first two years, then increasing with tenure.
 - ✓ **Revision of the dismissal rules** on both individual and collective basis. A reinforced, fast and more convenient conciliation procedure is created so as to reduce uncertainty and allow parties to reach an extra-judicial agreement.
- Rules apply to all the **newly hired workers on permanent base** and to small firms that increase their workforce.

Jobs Act: Work-life balance measures

- The **work-life balance measures** increase the flexibility in using the parental leave, which is now extended to all types of workers.
- The **parental leave** can be used until the child ages 12 (vs. 8 in the previous legislation). Until the child is 6 years old (previously 3) the parental leave is partially remunerated (30% of the regular wage). In case of adoption, parents are entitled with the same rights as natural parents.
- Strengthened the **telecommuting** and distance work opportunities.
- **In case of violence**, women can benefit from a job leave.
- In November 2016, the Senate approved a draft law that extends the **Jobs Act to self-employed** supporting these workers with a system of rights and welfare and to facilitate '**smart working**' (*lavoro agile*) performed both inside and outside of company premises, with the accent on increasing worker productivity, also accommodating the work-life balance.

Jobs Act: Rationalisation of contractual models

- The **rationalisation of contractual models** aims at reducing the array of short-term contracts.
- **By 2016 the temporary and project-based contracts** will be transformed into permanent contracts. Collective agreements may set flexibility criteria for the use of temporary contracts.
- Streamlined the **apprenticeship contracts** so as to reinforce the link between school and work.
- Revised the discipline for few other **short-term contracts**.
- In case of business restructuring, allowed the **flexibility in job's responsibilities and duties**.

Jobs Act: Active labour market policy

- The **reorganisation of employment services and active labour market policies** relies on:
 - ✓ The **National Agency for Active Labour Policies (ANPAL)** set with the mission of coordinating the national network of employment services. Its statute has been approved in Apr. 2016 after consultation with local governments, and members will have a 3-year mandate renewable once.
 - ✓ The creation of a **national register of employment services**, both private and public, in charge of connecting jobseekers to employers through information, placement and active support.
 - ✓ ANPAL is now fully operational: instruments of active labour market policies can be activated through its website.
- The **Ministry of Labour** is in charge of defining a 3 year-plan setting targets and minimum standards of service provision.

Jobs Act: Revision of CIG

- The Government took actions towards the **revision of public supporting schemes for temporary layoff workers**.
- The wage guarantee scheme called ***Cassa Integrazione Guadagni*** (CIG) is **extended** to support **workers** affected by a temporary suspension of job, while a stronger **conditionality on labour activation** is enforced.
- **For employers** willing to use the CIG instrument, the legislative decree sets **selection criteria, time limits** and social **contributions proportional** to the provision of wage support (*bonus malus* system).

Jobs Act: Simplifications

- The Government adopted several measures to **simplify labour administrative procedures**. Among them:
 - ✓ Reduced the burden on firms and citizens mainly through the **digitalisation** of compulsory communications and obligations. Introduction of an **electronic folder for each worker** to be shared with the Ministry of Labour (starting from 2017).
 - ✓ Streamlined the hiring process of **disabled persons**.
 - ✓ Revision of **occupational safety and health legislation**, with new responsibilities and sanctions for both employer and employee. Measures to fight illegal work.

Jobs Act: Inspection activity

- The Government adopted measures to **reorganise the labour inspection activity and legislation** in order to create a **unique labour inspectorate** at national level responsible for enforcing compliance with employment law.
- The **National Agency for Safety and Health at Work** merges the functions currently shared among INPS, INAIL and the Ministry of Labour.
- The Agency **coordinate the activity** of the inspectorates of the local health authorities and the regional agencies for environmental protection. Its statute has been approved in Apr. 2016 after consultation.
- In Sept. 2016 **additional measures** concerning ancillary works, wage supplementation scheme and ALMPs, apprenticeship have been approved.

Jobs Act: First results

- The Jobs Act holds the promise of reducing the mismatch between the supply and demand of skills (**OECD, *Education at a Glance 2016***).
- Sizeable financial and organisational resources in launching 'An Italian **Approach to the Dual System**': increasing students' work experience during school years, and securing greater involvement of Italian businesses in the professional development of students.
- At present, **2.5 million of new contracts** with protection increasing with tenure (*contratto a tutele crescenti*) have been signed, 25 percent of the total.

Incentives to boost youth employment

- From March 1st, 2016 the second phase of **Italian Youth Guarantee** has started, so as to improve the inclusion in the labour market of young people included in the Programme.
- A '**Superbonus**' has been envisaged: the employer who transform a professional training in a permanent contract as well as an apprenticeship contract for a young people aged 16-29, will receive from INPS a bonus within the thresholds of € 3,000-12,000 that can be combined with the social security contributions exemptions stated in the Stability Law for 2016.
- Youth Guarantee Programme: **+50.9 percent** increase in the number of the young people actively benefitting from the programme between 31 December 2015 and 9 September 2016.

«Active ageing» introduced by the 2016 Stability Law

- The ‘assisted part-time’ is now operational. It sets the gradual exit from the labour market by allowing an agreement between worker and employer to reduce by 40% and 60% the hours worked.
- The worker will receive the monthly social security contributions in his pay slip.
- The measure is applicable to the private sector’s employees, with the following characteristics: i) acquired minimum period of social security contributions (20 years), ii) and maturing their personal data requirement within 31st December 2018.

Budget Law for 2017: Labour market

- Social contribution exemption (100% for 3 years and for a maximum of €3,250 per year) for employers who hire (in 2017-2018) graduated students having done with the same employer their apprenticeship or traineeship.
- Tax exemption for productivity bonuses is strengthened.
- Reduction of the contribution rate to 25% for self-employed.
- Introduced tax incentives to develop a system of corporate welfare

Budget Law for 2017: Pensions

- Introduction of **incentives for early retirement (APE)** :
 - ✓ **Social APE** (requirements: 63 years and 30-36 years of contributions): a welfare support for a maximum of 1,500 € granted by the State until the pension. Reserved to unemployed, disabled workers or with a relative with disability, heavy-duty workers.
 - ✓ **Voluntary APE** (requirements: 63 years and 20 years of contributions): a financial advance to guarantee pensions to be paid back in 20 years.
 - ✓ **Corporate APE** in case of firms restructuring if workers decide to apply for the pension anticipation (APE) the related costs are supported by the companies by paying to INPS a contribution correlated to the previously earned salary. The aim is to increase the pension and compensate the costs of loans requested for the APE.

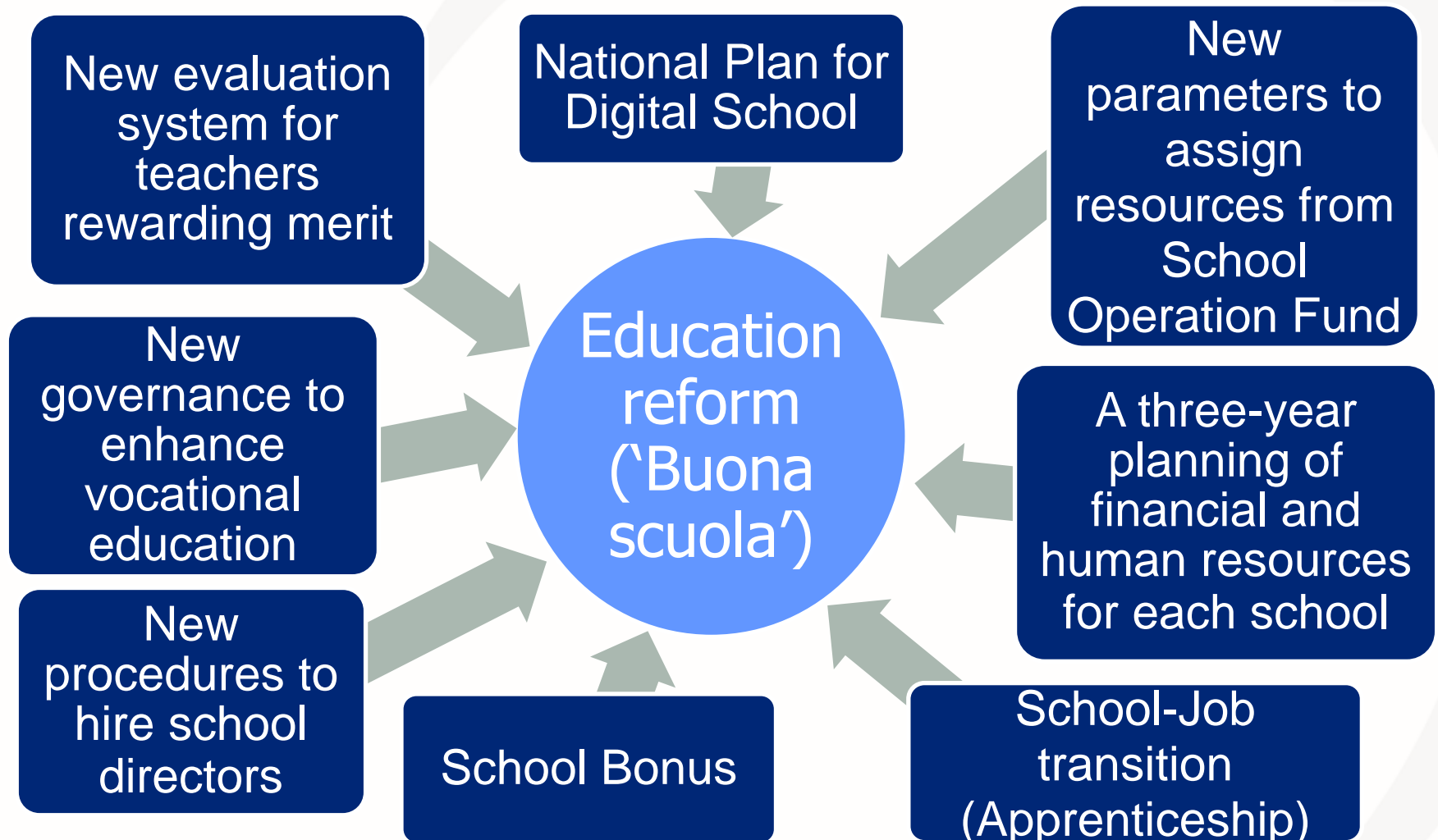
Measures for social inclusion (1/2)

- The Stability Law 2016 provides for the adoption of a **National Plan to fight poverty and social exclusion**. The Plan is organised over a three-year period and identifies or updates the set of actions to achieve basic level of social assistance to be ensured throughout the country, given the available resources.
- **Special Fund for fighting poverty** with €600ml for 2016 and €1bn starting from 2017. Out of this amount in 2016 €750mn will be allocated to supporting the active inclusion of families with minor children and €600mn will be devoted to unemployment benefit schemes ASDI (€ 1bn in 2017).
- 30 per cent increase in the amount of **14th monthly salary** (so called *quattordicesima*) for lower income retired.
- Enlargement of **no-tax area** for pensioners under 75.

Measures for social inclusion (2/2)

- Tax credit of 75 per cent on project designed to cope with the **children's low educational attainment** and financed by banking foundations. Set on an experimental basis for the period 2016-2018, resources amount to €400mn.
- New resources to the Fund for **non self-sufficient people** with additional €90mn for 2016. The Fund dedicated to self-sufficiency has been increased by €50 million with the Budget Law for 2017. Created a fund to look after seriously disabled people over the years.
- In the Budget Law for 2017 provided resources for:
 - ✓ baby-sitter vouchers;
 - ✓ fund for family policies to develop the territorial system of socio-educational services for early childhood;
 - ✓ additional resources for the care of migrants.

Reforming the education system



Reforming education

- The '***Buona scuola***' reform aims at improving school governance. It reinforces the tenured teaching staff in a permanent way, develops teachers' competencies through permanent formation, fosters digitalisation and strengthens the link between school and work.
- The Plan provides for: a **three-year planning** of financial and human resources for each school; a new **evaluation system** for teachers with **careers** linked to performances; enhanced managerial role of **principals**.
- Further **delegated acts** will revise the systems of primary and secondary education.

Innovative schools

- **National Plan for Digital School:** a comprehensive strategy made up of 35 measures concerning ultra broad band infrastructures, new digital skills for students, online tools for education, promotion of Open Educational Resources (OER), work-school alternance in digital business, training for the school staff.
- €300m for the **construction of new school buildings** innovative in terms of architecture and technology.
- **School bonus:** 65% tax credit on private **donations** (max €100,000) for brand new schools and the maintenance of the existing ones, as well as for educational projects.

The 'Buona scuola' after 1 year

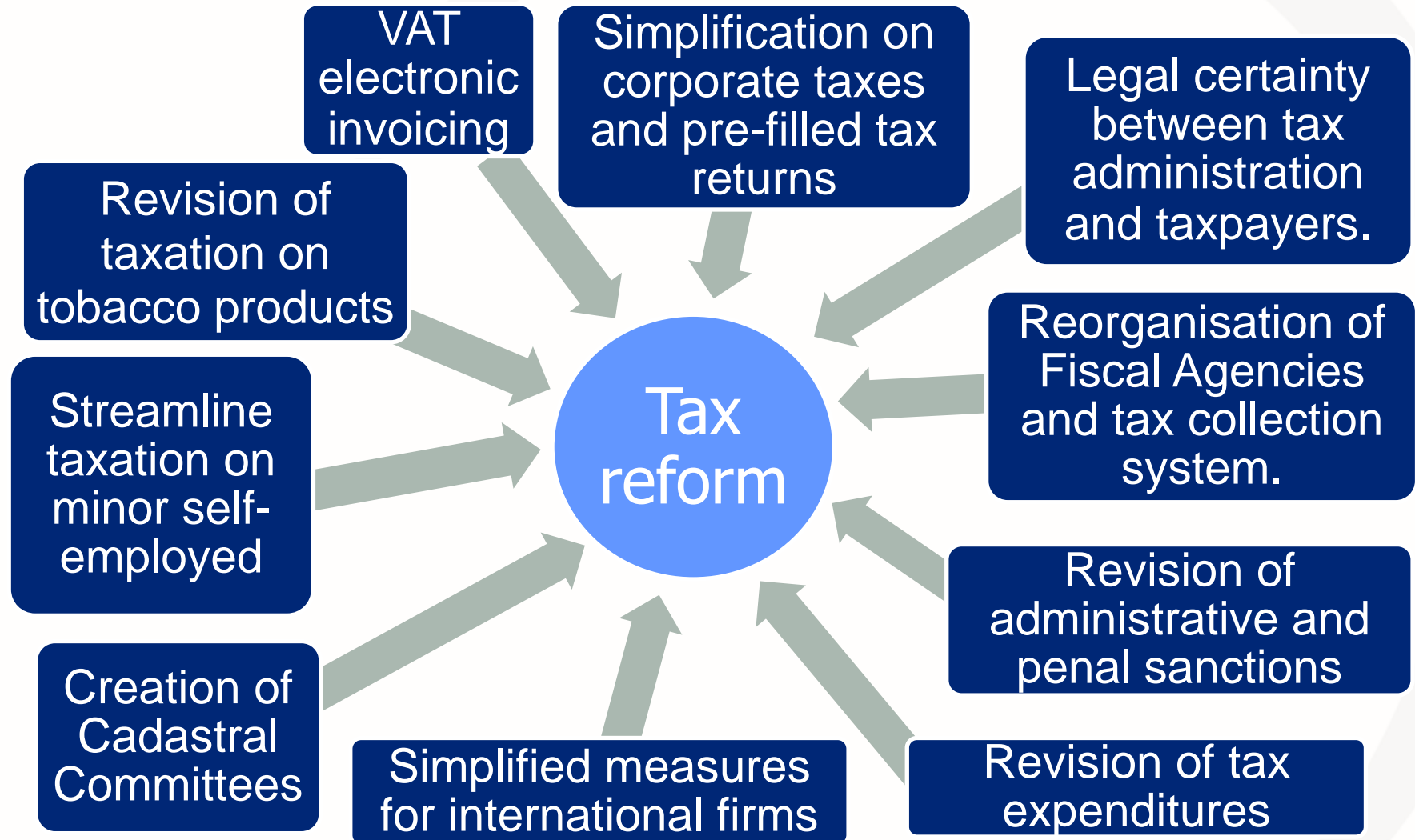
- **€100mn for school-job transition.** 36 Protocols at National level with museums, firms and associations. 50 Protocols at Regional level.
- **6-7 more teachers for each school** to enhance autonomy and educational offer.
- **€500 in 2015/2016 for each teacher** for their professional upgrade. From 2016/2017 an **'electronic wallet'** will be set. **€200mn** at national level to enhance **teachers' merit**.
- Extraordinary inspections in comprehensive schools.
- The Directive to **link part of school directors' salary to results** has been issued.
- **€1bn for innovation.** 60% of 35 Action of National Plan for Digital School have been started. €350mn already allocated.
- **Register of school building** is now operative through the website '*Scuola in Chiaro*'. Further resources from EIB: €40mn for earthquake-proof upgrade and €350mn to build 52 innovative schools.
- **Yearly funds** for daily school management amount to **€230mn**.
- To favour inclusion, **90,000 teaching assistants** have been hired in 2015 with permanent contract.
- **€1bn in September 2015** to favour integration of minor immigrants without parents.
- **30% of resources for ITS** assigned on the basis of quality parameters.
- **School bonus** is now operative.
- **Self-evaluation Reports** published by schools in November 2015.

Budget Law for 2017: Education

€800 million allocated for supporting students, guarantying the right to education and further implementing the '*Buona Scuola*' reform. In particular:

- Financing of a State supplementary fund to grant merit and mobility scholarships;
- Setting up of a Fund to finance basic research and promote research activities of professors of state universities;
- Refinancing of Electronic card for eighteen years students in the national territory;
- Revision of rules for university fees (including exemptions criteria).

Enabling law on tax reform



Implementing the enabling law on tax reform

- Implemented the **enabling law on tax reform** with the final approval of the last expected legislative decrees.
- Since 2014, realised **simplifications** related to tax repayment obligations, corporate tax obligations, as well as abrogation of unnecessary hurdles for firms and citizens. Introduced a pre-filled tax returns for permanent employees and pensioners.
- Other **legislative decrees approved** redefine Cadastral Committees and revise tobacco taxation.
- The Stability Laws for 2015 and 2016 contain several measures enacting the enabling law principals such as the streamlining of the **taxation on minor self-employed**.

Fiscal reform: Legal certainty and sanctions

- The legislative decrees approved deal with:
- ✓ **Legal certainty in the relationship between tax administration and taxpayers.** The legislative decree aims to ensure a legal framework with respect to elusion, evasion and abuse of legislation. Moreover, it extends the verification period and simplifies tax compliance procedures.
- ✓ **Revision of administrative and penal sanctions.** Endorsed the proportionality in sanctions: reduction of the penalties for minor violations. A tough stance remains on tax fraud, especially when it involves documentation.

Fiscal reform: Simplifications

- ✓ **VAT electronic invoicing.** The measure offers incentives to the adoption of electronic systems in payments and transactions so as to ensure the traceability of VAT exchanges and reduce the fiscal burden on business. The adoption will be on a voluntary basis, starting from Jan. 2017.
- ✓ **Simplified measures for international firms.** The legislative decree is aimed to i) reduce administrative burden on international firms, by introducing a prior agreement with the Revenue Agency; and ii) create a stable taxation profile for new investment (over €30m) realized by international firms.

Budget Law 2017: Fiscal simplification and fight of tax evasion (1/2)

- Review of ACE (help for economic growth) and repealing of super ACE for listed companies.
- Introduction of a tax on business income called 'IRI' (set at 24 per cent) aiming at harmonising the tax treatment of firms and corporations and reinforcing SMEs capital; corporate taxation (IRES) also reduced at 24 per cent.
- Extension to 2017 of the voluntary disclosure of income and assets held abroad; other measures in the pipeline for the disclosure of cash money and other values.

Budget Law 2017: Fiscal simplification and fight of tax evasion (2/2)

- Several measures to fight tax avoidance such as the electronic communication of data and invoices.
- Simplification of the accounting system of individual and partnership companies by introducing the cash criterion - instead of the accrual criterion - to determine income and net production.
- Abolition of the IRPEF in the agricultural sector: dominical and farm incomes no more contributing to the IRPEF taxable income of farmers; tax relieves for farmers under 40 years.

Fiscal reform: Collection system

- ✓ Rationalisation of the **tax collection system**. Measures facilitating tax compliance, also by applying for an installment agreement with the Revenue Agency which becomes more easy to access. Reductions in the premium of agents collecting taxes.
- ✓ Reorganisation of **fiscal agencies**. Ensure a broad coordination in their administrative action, cutting red tape and limiting in-depth financial controls, while offering to tax payers more possibilities for clarification and conciliation.
- ✓ In the fiscal bill attached to the Budget Law for 2017 is provided the abolition of Equitalia to guarantee greater managerial independence in accordance with the conclusions of IMF-OECD reports.

Fiscal reform: Conciliation and monitoring tax evasion

- ✓ **Fiscal litigation.** More possibilities offered for conciliation with the Italian Revenue Agency so as to avoid court litigations. Measures to ensure certainty in the proceeding.
- ✓ Monitoring system of **tax evasion** and a new regulatory framework for **tax expenditures**. Annually the Gov.t will review existing tax expenditures according to their economic impact. Savings will be allocated to reduce tax wedge.
- ✓ In the fiscal bill attached to the Budget Law for 2017 provided facilitation for unpaid tax bills: interests on delayed payments will not be due while the entire amount of tax should be paid.

Further cut of the tax wedge (1/2)

- The **Stability Law 2016** introduced relevant cuts to the fiscal burden existing on households and firms.
- Concerning **households**: i) removal of the VAT rate tax increases foreseen for 2016; ii) abolished property taxes on primary residential dwellings; iii) tax allowances on productivity wages; iv) confirmed the tax relief already provided for renovation of buildings and energy upgrading.
- Concerning **professionals**: extended and improved the access to the flat rate system (15%) on the revenues up to €30,000 for single entrepreneurs and professionals.

Further cut of the tax wedge (2/2)

- Concerning **firms**: i) abolished property taxation on farmland and on 'bolted' equipment; 40% allowance on fiscal amortisations for new machinery and equipment purchased until December 2016; ii) extended to the year 2016, but lowered, the social security contributions exemption on new permanent labour contracts introduced in 2015 (it is now worth 40% of SSC exemption for the first two years).
- For firms located in the **South**: i) 4-year tax credit (2016-2019) on investment; ii) the SSC exemption is valid for 2016 and 2017.

Measures for building sector and land security

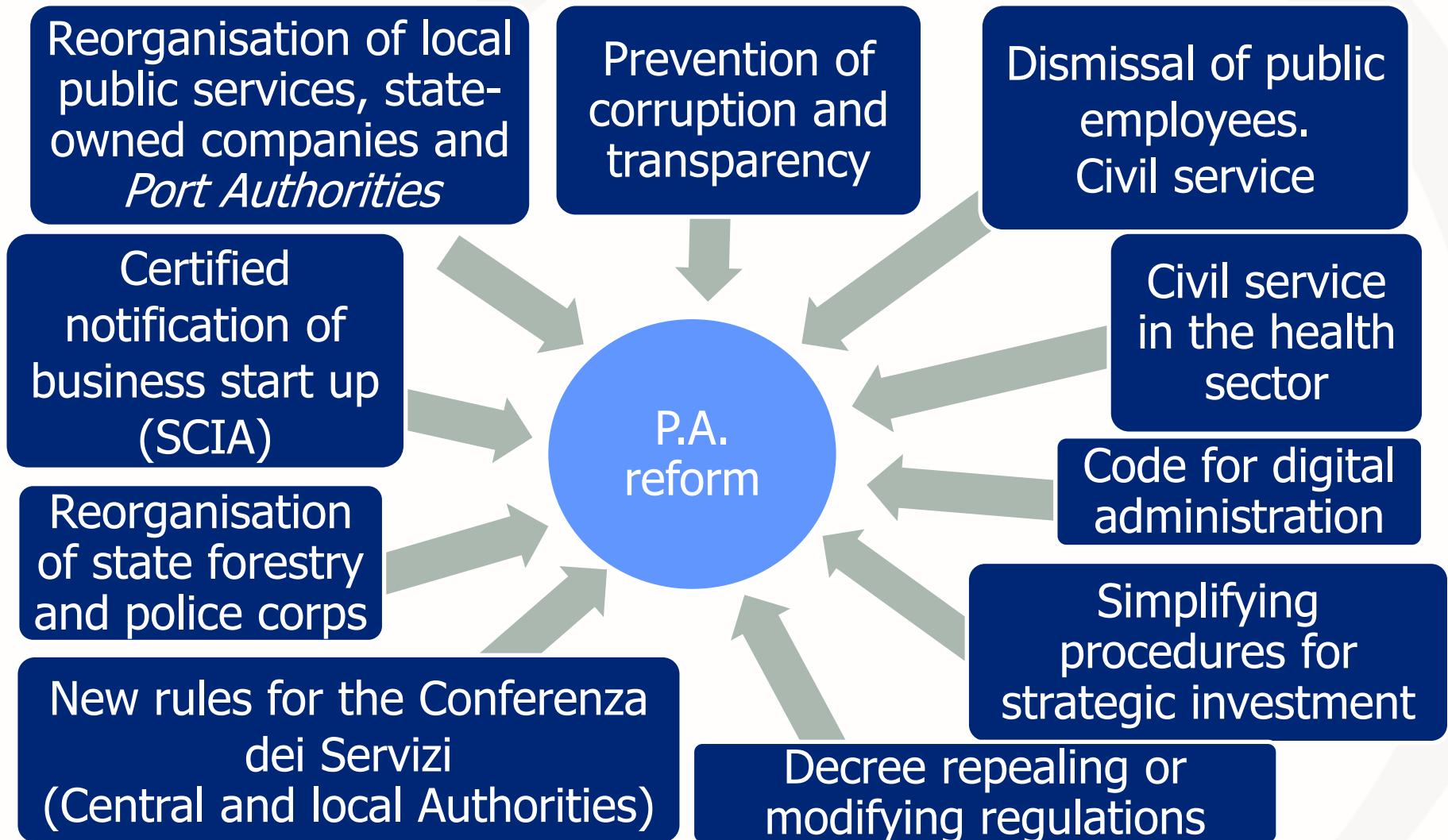
Extension of tax allowances for:

- building renovation;
- anti-seismic interventions;
- energy efficiency;
- purchase of furniture.

Tax credit for hotels renovation, extraordinary maintenance and elimination of architectural barriers.

Specific measures to support the reconstruction of public and private buildings in the Regions hit by the earthquake.

Enabling law reforming Public Administration



Reforming Public Administration

- **16 legislative decrees definitively approved** between August and November 2016: code for digital administration, Conferenza dei Servizi, administrative simplification, certified notification of business start up, dismissal of public employees, State Owned Enterprises (SOEs), prevention of corruption, port authorities, police and state forestry corps, health managers, new code of financial justice, public managers and public utilities, Chambers of Commerce, Research Institutes.
- The reform adds to a general undergoing process of revision of the **staff planning and recruitment system of PA**. In May 2016 the performance assessment has been finally approved.
- To overcome the Court's ruling: corrective provisions of the decrees on SOEs, health management and disciplinary dismissals, to be agreed with the Regions; decrees on local public services and public management will be submitted again following the most appropriate legislative procedures.

Reforming Public Procurement (1/2)

- The delegated Law no.16/2016, approved in April 2016, entrusts the Government to harmonise the domestic legislation with the European criteria on **reviewing public procurement procedures**: i) awarding concession contracts (2014/23/EU); ii) public procurement and procedures (2014/24/EU); and iii) procurement by entities operating in the water, energy, transport and postal services sectors (2014/25/EU); **as well as reforming the unified Code of public procurement**.
- The Code of Public Procurement has been streamlined. 4 guidelines by the ANAC, following the public consultation, have been issued, while 4 are being drafted. Also guidelines by the MIT on the European Document for tender (DGUE) and parameters to be used as baseline in tenders for planning designs have been published.

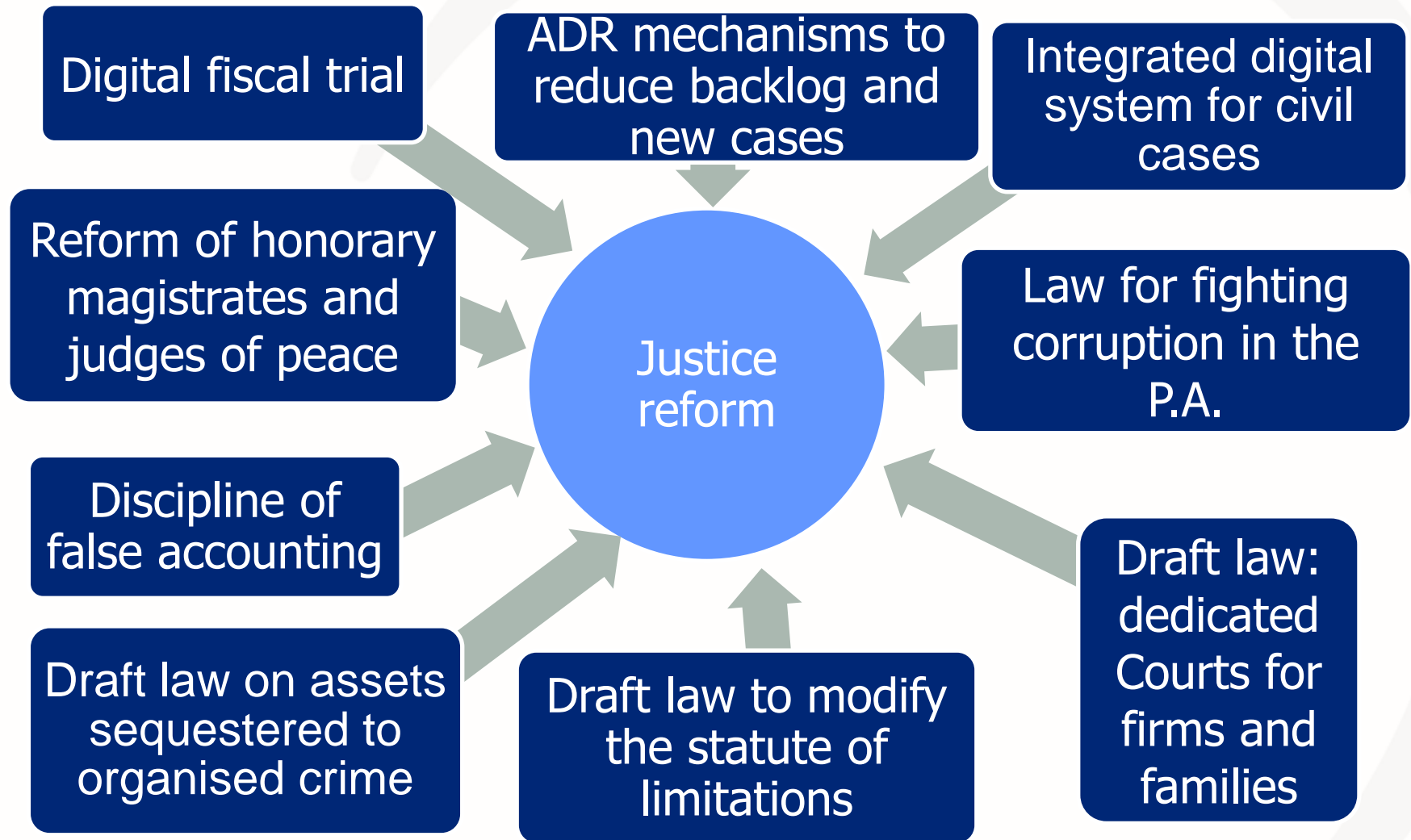
Reforming Public Procurement (2/2)

- In particular, the **legislative decree** stipulates, among others:
 - i) **tender procedures** strictly applying the ordinary planning, thus overcoming the '*Legge Obiettivo*'; ii) various **forms of public private partnership**; iii) public consultation with **local stakeholders**; iv) for public works and concession contracts: 80% must be assigned with tender, the rest can be assigned 'in house'.
- The '**most economically advantageous**' tender will be the dominant awarding criterion, overcoming the procedure of the lowest bid by tenderers.
- The central role of guidance and supervision is assigned to the **Anticorruption National Authority (ANAC)**.

Simplification of bureaucracy

- The approved **2015-2017 Simplification Agenda** focuses on five strategic areas: digital citizenship, welfare and health, taxation, construction and business.
- According to the 3rd **monitoring report** issued on July 2016, 90% of the deadlines set in the Agenda were respected.
- The **electronic invoicing** for all the PA entities is fully operational. Moreover the social security compliance certificate (**DURC**) is on line starting from July 2015.
- Fostered the **digital citizenship**: actions to innovate the census and ID card.

Civil and criminal justice reform



Measures against corruption and false accounting

- In May 2015 a **law for fighting corruption in the PA** was approved. It introduces: i) increased penalties for most of the offenses against the PA; ii) full recovery of the money unduly received by public officials; iii) revision of the crime of false accounting.
- Regarding business activities, **false accounting** is again a crime punished with jail. If the company is listed, those who commits false accounting can be punished with 3 to 8 years of imprisonment; if the company is not listed, the years of prison are reduced to one to 5 years.

Reforming justice (1/2)

- **Civil justice reforming action** aiming at: i) consolidate the specialisation of firms' courts; ii) strengthen the protection of individual rights, children and families, through dedicated courts; iii) ensure greater rapidity in the judgment, by revising the different phases of proceeding. As for the latter aim, a first step is the reform of honorary magistrates and judges of the peace (Apr. 2016).
- **Penal justice reform** - before Parliament - modify the **statute of limitations**, cope with judicial backlog, revise the criminal codes and proceedings, strengthen the rights of defence and ensure a reasonable duration of trials. The bill approved by Deputies also delegates the government to reform the criminal process and the penitentiary system.

Reforming justice (2/2)

- In order to **deflate the criminal justice system**, a legislative decree has transformed some minor crimes into administrative offenses and has made sanctions more incisive while ensuring a more effective repression of the most serious crimes.
- Another legislative decree designs a more efficient sanction system against **crimes of scarce offensiveness**. It aims at replacing penalties with fines.

Reducing judicial backlog

- To tackle the efficiency gaps an **integrated digital system for civil cases** was introduced. Estimated savings for €48m and 50% in time reduction for injunctions.
- In 2015, total outstanding backlog in all degrees of judgment went down to less than 4.5 million from nearly 6 million pending in late 2009.
- 2015 data also show some improvements for both seniority in lying causes (-14% of contentious ultratriennial causes compared to 2014) and national average duration (-5%). Also the Courts of Appeal show the first improvements in efficiency in terms of backlog reduction (-8.2%).
- In 2015, 20% fewer new civil cases were registered and also registrations in the Court of Appeal went down by 10%.

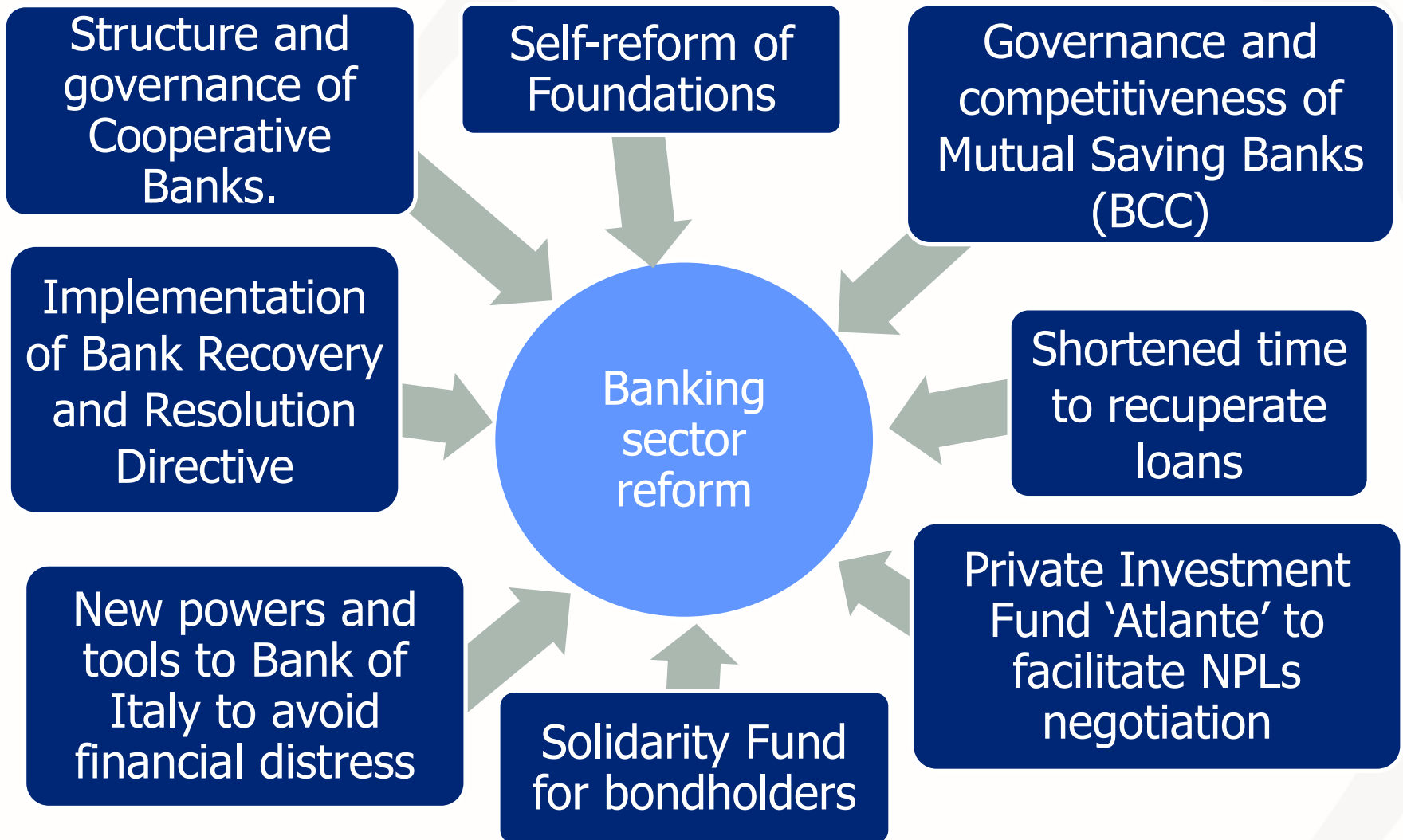
Fiscal trial

- In December 1, 2015 the **Digital fiscal trial** was launched in the local and regional Tax Commissions of Tuscany and Umbria. In 2016 it will be available in other 6 regions.
- Created the official website of the **Tax Justice Administration** (www.giustiziatributaria.gov.it). It allows for the electronic filing of documents and court records. In addition, tax courts, taxpayers, professionals and tax authorities, previously authorised, will consult from home or from their offices the case files containing all the acts and documents of the fiscal litigation in which they are interested.
- In Apr-June 2016 there has been a reduction of 9,5% of backlog relative to 2015.
- Digital administrative trial will be launched in January 2017.

Measures for competitiveness

- The **annual draft law on competition** was presented to Parliament.
- Measures are as follows: in the insurance sector actions to fight fraud and enhance transparency; in the TLC actions to ease switching; liberalisation of fuel distribution; several liberalisations for legal professions (notaries and lawyers); the scope of activity for limited liability companies is enlarged for the engineering profession; removed limits to pharmacies' ownership; portability of check accounts.

Banking sector reform



Governance of the banking sector (1/2)

- Regarding the **cooperative banks** (*banche popolari*), the Government action aims at strengthening their organisational structure and governance. The reform should be fully implemented by the second half of 2016.
- In order to reform the **regulation of banking Foundations**, in April 2015 a protocol between ACRI and MEF was signed. The agreement's principles are: i) maximum investment in one bank of 1/3 of its assets; ii) indebtedness must be only temporary, not exceeding 10% of net worth; iii) management board and supervisors are appointed for 4 years and renewable only once; iv) after the first mandate, a three-year period of interval is needed before a new appointment.

Governance of the banking sector (2/2)

- **Mutual Savings banks (BCC)** regulation has been modified so as to improve governance, ensure an efficient resource allocation and enhance competitiveness and stability in the medium-long run.
- BCC will be obliged to adhere (signing a ‘cohesion contract’) to a banking group, held by a joint-stock company with a minimum capital of €1bn, unless the BCC has at least €200mn of reserves. In this latter case it is obliged to transform into a joint-stock company.
- Raised the maximum number of shareholders for a BCC.

Banking sector: NPLs and bankruptcy (1/4)

- As of January 1st 2016, Italy applies the single rulebook for the resolution of banks and large investment firms, as prescribed by the Bank Recovery and Resolution Directive.
- To avoid financial distress, if banks do face failure, the Bank of Italy is equipped with powers and tools to restructure them, allocating losses to shareholders and creditors. The recovery plan must preserve the banks critical functions and prevents taxpayers having to bail them out.
- The first application of this new solving procedure has been adopted to solve the financial crisis of four minor credit institutes.

Banking sector: NPLs and bankruptcy (2/4)

- Each of the four banks is split into a '**good bank** or bridge bank' and a '**bad bank**'. The bad bank cumulates the non performing loans to be sold to collection agencies. The bridge bank is recapitalised thanks to its shareholders and to a special **resolution Fund**, funded only by the Italian banking system.
- A **Solidarity Fund for bondholders** has been created by the 2016 Stability Law, fuelled by the Interbank Fund for the deposit protection. Law Decree 59/2016 has set the criteria: bondholders are entitled to request a lump-sum compensation, equal to 80 per cent of the amount paid, or resort to the arbitration procedure. To access the Fund, one of the following conditions is to be met: *i*) bonds purchased before 12 June 2014; *ii*) assets of the bondholder lower than €100,000; *iii*) gross income of the bondholder in 2015 lower than € 35,000.

Banking sector: NPLs and bankruptcy (3/4)

- Launched in April 2016, the **Private Investment Fund ‘Atlante’** (controlled by an independent SGR) is operative to facilitate capital increases of banks and to acquire NPL and real estate assets at market prices. The fund is supported by banks, insurance companies, CDP and institutional investors. It has been recently divided into Atlante 1 and 2.
- Atlante 2 will be dealing with non-performing bank loans.
- Atlante will allow the banks to sell their own bad loans at above-market prices thanks to less aggressive yields; public guarantees approved in February by the Government; and the shortening of the timeframe for credit recovery.

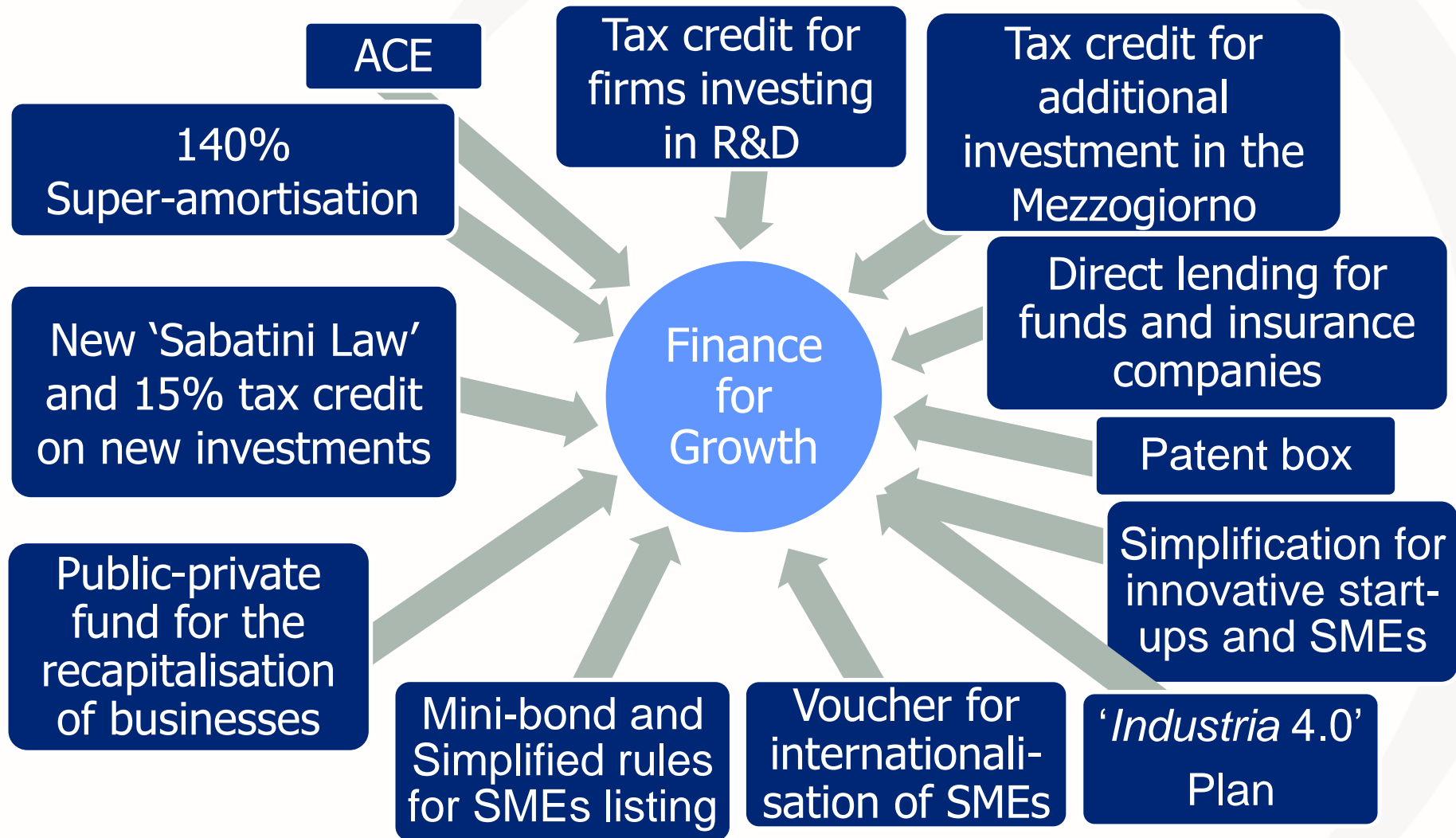
Banking sector: NPLs and bankruptcy (4/4)

- Law Decree 59/2016 aims at speeding up the recovery by banks by **shortening time to recuperate loans**, cutting times from 40 to 6-8 months.
- A '**Non-possessory pledge**' can be obtained as security for loans by banks and financial intermediaries over an identifiable non real estate asset of the debtor, without requiring the dispossession. The pledge must be registered in an ad hoc register hold by the Tax Authority. The registration has a ten-years renewable validity.
- Moreover, a **real estate asset** can be given as security for the loan by the borrower **with a financing contract** ("***Patto Marciano***"). Appropriation of the property by the lender requires a default of payment by the borrower for more than six months.

Business sector: measures for bankruptcy

- Urgent **measures on bankruptcy**, civil justice procedures and the organisation of judiciary approved by the Gov.t in June 2015.
- The measures reduce obstacles in **accessing credit** for firms involved in bankruptcy procedures, and improve changes of **business recovery**.
- Approved measures on: i) tax compensation of **deteriorated credit** held by banks and insurance companies; ii) in case of **corporate crisis** the tribunal can authorise new credit to firm under procedure; iii) the agreement with creditors opened to third parties; iv) **debt restructuring** can be signed with the agreement of 75% of creditors (holding at least 50% of the debt); v) streamlined procedures for extra-judicial auctioning.

Finance for Growth



Finance for growth (1/3)

- The Government aims at **easing lending constraints** to the economy, ensuring **access to capital markets** by fostering bonds issuing by unlisted companies and opening the credit market to new players.
- To support investment activity: **a tax credit** provided to **social security funds** (6%) and **pension funds** (9%), in case they invest in the real economy, so to balance out the increasing taxation (26 and 20%).
- The public-private **fund for the recapitalisation** of businesses undertaking reorganisation or debt-restructuring processes became fully operational (Investment Compact Decree).

Finance for growth (2/3)

- **Incentives** to encourage companies to **upgrade machinery and equipment** have been strengthened.
- The '**Sabatini Law**' offers financing to SMEs for investment in new equipment (min €20,000 max €2m, for 5 years), as well as investments in hardware, software and digital technology. As at February 2016, the amount financed is of €2.548 bn.; interest contribution by MISE is of €196.6mn.
- 15% tax credit (on IRES and IRAP) for additional **investment in production assets** to be extended until end 2015.
- As for the ACE, in 2013 companies used this tax break for €6.8 bn. (+63% compared to 2012). In 2011 it was €1.8 bn.

Finance for growth (3/3)

- Additional **investment in production assets** realised from Oct. 15th 2015 to Dec. 31st 2016, can be amortised for a 140% of their cost.
- A Fund with a yearly endowment of €617mn. will finance a **tax credit for additional investment in the *Mezzogiorno***. The tax credit is maximum 20% for small firms, 15% for medium firms and 10% for big ones.
- **Tax credit for firms investing in R&D:** it amounts to 50% for investments exceeding the average of the last 3 years (including high qualified personnel), or 25% in case of amortisation or laboratory equipment.
- **Revised tax regime** for corporate groups (*IVA di gruppo*).

Industria 4.0 Plan

The Plan provide credit to firms in order to improve their competitiveness and strengthen their size:

- extension to June 2018 of the **super amortization** at 140% (also for intangibles);
- introduction of an **iper amortization** at 250% for the purchase of goods functional to the I4.0 Plan;
- strengthening and simplification of the tax credit on expenditure in **R&D**, by extension the measure to 2020, application of a 50% single rate to all types of R&D expenditure, widening of the scope;
- further incentives for **startup** and innovative SMEs;
- refinancing of the Guarantee Fund for SMEs with a focus on I4.0 investments.

National Strategic Plan for Harbour and Logistics

- The majority of traffic handled by **Italian ports** is concentrated in few hubs, while many ports are small sized harbours handling few quantities of cargo.
 - The Gov.t approved a **comprehensive plan** in order to rationalise the port sector, attract additional investments and relaunch the competitiveness of the national shipping network.
 - The **plan aims at**: i) simplifying bureaucracy; ii) upgrading ports infrastructures and multimodal transport planning; iii) ensuring environmental sustainability and efficiency; iv) improving the governance of port authorities with a stronger coordination while allowing for more financial autonomy.
- Regulation of Port Authorities approved in July 2016.

Airports of National Interest

- The Government is committed to **develop the airport sector** within a governance that balances the needs of national and international traffic with the development of local economies, to upgrade the logistic infrastructure and to improve the efficiency of the air navigation.
- 38 airports of **national interest** were identified on the base size and type of traffic, the location of territorial and strategic role of the same, and the terms of the programs of the Trans-European Transport Network (TEN). There, the State will have exclusive powers.

European task force for investment

- The **EU task force for investment**, launched by ECOFIN on Oct. 2014, is identifying investment projects with European value added currently facing obstacles in realisation.
- The **European Fund for Strategic Investments (EFSI)** will consist of €16b in guarantees from the EU budget and €5b from the European Investment Bank. Italy's contribution to EFSI-supported projects amounts to €8b (via CDP being the national promotional bank).
- Italy is the 2nd country in the ranking of Countries benefiting from Juncker Plan Fund with 13 projects financed, for a total of €1.8 bn., which are expected to activate investments for €5.7 bn.

AGENDA ON INFRASTRUCTURE

Ultra Broad Band Plan

- 16 Regions as well as Province of Trento signed an operative agreement with MISE to build the network in 'white areas' grouped in cluster C and D of National Ultra Broad Band Plan, also using ERDF and EAFRD Funds.
- The invitation to tender regards the project, realisation, maintenance and management of the network to supply services to final users at a maximum speed of 100Mbps. The network will remain public with a 20year-concession.
- The EU Commission has considered The Plan compatible with the State Aid rules. The Plan has a budget of €4bn, for the period 2016-2020.

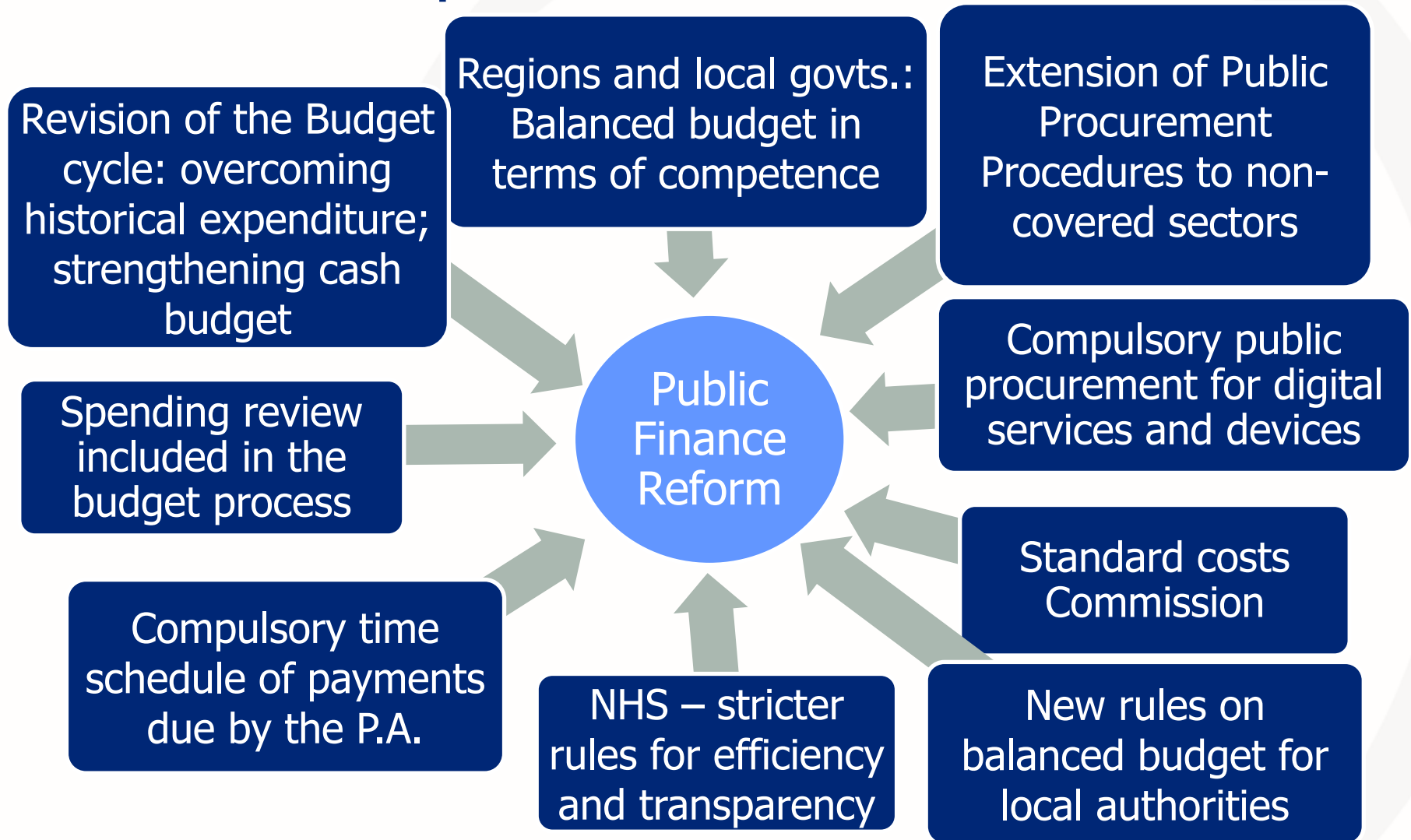
Masterplan for the *Mezzogiorno* of Italy

- The Masterplan builds upon **two pillars**: i) efficiency in the **use of EU funds** both for the projects already financed (2007-2013) and for the new planning cycle (2014-2020); ii) **industrial policy** able to cope with the crisis of the manufacturing sector which dramatically affected the South.
- A joint **task force** between the Gov.t and Regions on the **management of EU funds** is to be established.
- **Specific plans of actions and timetables** will be set for each of the 8 Regions and 7 metropolitan cities of the South. The plan will define the strategic priorities according to the reality of each territory.

Environment protection

- Draft Law presented with the Stability Law 2016 (***Collegato ambientale***) dealing with remuneration of environmental and ecosystem services, waste management, reclamation, river basin districts, and environmental damage.
- **Natural capital committee** established in April 2016 in order to evaluate the impact of public policies on natural capital and ecosystem services and to implement an environmental accounting system at local level.
- Other measures to be implemented: *catalogo dei sussidi*, plan on sustainable consumption and production, “Made green Italy” scheme.

Central and local public finance reform



Budget reform (1/2)

- The Gov.t approved in May 2016 a legislative decree to complete the budget reform with the aim of:
 - ✓ Increase **transparency** by introducing a third expenditure level called 'actions' after 'missions' and 'programmes'.
 - ✓ Make the **spending review** a regular practice to be performed by Central Administrations in the budget process, while ensuring a stronger flexibility in the use of available resources.
 - ✓ Revise the **budget cycle** by defining ex ante spending guidelines for Ministries, consistent with the policy objectives of the DEF, thus overcoming the historical expenditure criteria.

Budget reform (2/2)

- Moreover, the Government approved in May 2016 a legislative decree concerning the reorganization of the **budget management** and the strengthening of **the cash budget**. It aims at:
 - ✓ **Improving the forecasting and monitoring** of trends and actual needs of the public finance, in line with the evolution of the European fiscal rules, as well as the management of cash flows.
 - ✓ Introducing and make compulsory the “**time schedule**” of **the payments** due by the Public Administration, so to rationalise arrears.

Budget Law for 2017: Safeguard clauses

- As a result of the savings derived from the spending review the safeguard clauses will be entirely deactivated in 2017;
- The aim is the reduction of the tax burden ;
- Main measure foreseen to this aim is the sterilisation of the increase in excise and VAT rates.

Spending review

- **Public contracting will be managed by a single public procurement company (CONSIP)** and a few other purchasing centers (33 instead of more than 35,000), so called aggregators responsible for Regions and large cities (9 Metropolitan cities and 2 Provinces). **Obligated to manage** purchases of a list of 19 goods and services for over a defined amount of expenditure. 5 product groups (€3bn) are the following: security and vigilance services, cleaning and maintenance of real estates and facility management. Other 14 are related to health service.
- A MEF Ministerial Decree (implementing Stability Law for 2016), sets the main characteristics of the 34 Consip agreements scheduled in 2016. The agreements are taken as benchmark and precise parameters of quality-prices are used.

Spending review in the Budget Law for 2017

- Several measures directed at reviewing and reprogramming of public spending also through the optimisation of Ministers' budget.
- Reform of the pharmaceutical governance and requalification of healthcare expenditures.
- Further rationalisation of purchasing, implementation of the electronic healthcare folder (Fascicolo sanitario elettronico, FSE), stabilisation of medical staff of the National Health System, refinancing of the Fund for innovative drugs.
- Resources for the renewal of public administration contracts and the stabilisation and recruitment of personnel.







Local public finance

- Starting from 2016 local entities local authorities and regions must achieve a **balanced budget in terms of competence**: final expenses must not exceed final revenues.
- As of 2016, the **municipal solidarity fund** increases the share of resources to be distributed according to standard requirements and fiscal capabilities criteria. Online publication of financial statements by 31 March.
- Established a government commission for the definition of methodologies for assessing the **standard costs and requirements** applied to the fundamental functions of local authorities.




Privatisation plan

- **Expected revenues** from privatisation of 0.1% of GDP; future targets: 0.5% annually in 2017 – 2018; 0.3% in 2019.
- The **Key 2016 initiatives** is ENAV (46.6%).
- By law, the revenues from sales of shares directly held by the State will be used to **reduce public debt**.
- Technical support of **Invimit** in the real estate divestiture.

PRIVATISATION PLAN

Company Name	Relevant sectors	Transaction description
	<ul style="list-style-type: none"> Shipbuilding – cruise liners, mega yachts, naval vessels, oil & gas vessels 	<ul style="list-style-type: none"> 30% of the company sold through IPO, including a capital increase
	<ul style="list-style-type: none"> Gas transportation 	<ul style="list-style-type: none"> 89% of the company sold to SNAM
CDP Reti 	<ul style="list-style-type: none"> Gas transportation and power high voltage 	<ul style="list-style-type: none"> 35% of the company sold to private investors
	<ul style="list-style-type: none"> TLC infrastructure provider for RAI broadcast 	<ul style="list-style-type: none"> 30% of the company sold through IPO
	<ul style="list-style-type: none"> Multi-national power company 	<ul style="list-style-type: none"> 5.74% of the company sold through accelerated book building
	<ul style="list-style-type: none"> Postal services, financial services, insurance, ICT, logistics 	<ul style="list-style-type: none"> 34.7% of the company sold through IPO (excluding greenshoe); 35% conferred to CDP through a capital increase; 29.7% further IPO.

PRIVATISATION PLAN

Company Name	Relevant sectors	Transaction description
	<ul style="list-style-type: none"> Investment funds 	<ul style="list-style-type: none"> 12.50% of the SGR to be sold to CDP
	<ul style="list-style-type: none"> Air traffic control 	<ul style="list-style-type: none"> 42.5% of the company (230 millions of shares) sold through Global Offering: 90% to institutional investors and 10% to employees and the general public.
	<ul style="list-style-type: none"> Rail Transport 	<ul style="list-style-type: none"> Reduction of the State-owned stake under study
Further measures	Relevant sectors	Transaction description
Municipal utilities	<ul style="list-style-type: none"> Companies that provide public utilities at local level (water, electricity, waste collection and management) 	<ul style="list-style-type: none"> Opening to private control and significant reduction of their numbers through merger
Public real estate assets	<ul style="list-style-type: none"> Public real estate assets - State and Local authorities properties 	<ul style="list-style-type: none"> Disposal plan of public real estate assets. Decrease the rent of real estate for the PA, increase the efficiency of locations' distribution

Privatisation: state of the art

- **Concluded transactions:** i) **Fincantieri** (€1.3bn cap., initial public offering of €350mn); ii) **RaiWay** (€1.1bn cap., IPO of €300mn); iii) 35% of **CDP Reti** (which owns 30% of Terna and 30% of SNAM) for €2.1bn; iv) 89% of **TAG** for €505mn; v) 5.74% of **ENEL** already listed, through an ABB, for €2.2bn; vi) 35% of **Poste Italiane** transferred to CDP (€2.9bn cap.); vii) 46.6% of **ENAV**, through Global Offering (€834mn if the Greenshoe Option is exercised in full); 10% of the shares allocated to retail investors and employees and 90% to institutional investors.
- **Ongoing work:** privatisation of **Ferrovie dello Stato S.p.A.**

Legislative implementation

- **Renzi Gov.t** (February 2014 to October 30, 2016): **384 pieces of legislation** approved, including 142 draft laws, 55 decree laws, 187 legislative decrees. 288 pieces of legislation fully entered into force. 56.6% of the provision are self enforcing, the remaining need secondary legislation.
- The **implementation rate** of Renzi Gov.t reached **76.4%**.
- As for the implementation of the legislative acts adopted by **previous Governments** (Monti and Letta), out of 889 pieces of secondary legislation required, 159 are left, with an implementation rate of 82.1% (from 38%).

Inherited stock of secondary legislation

