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SNAPSHOT OF ITALY'S REFORM

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Over the past two years Italy's reform effort has been wide, ambitious and far-reaching. The results achieved in a short period of time have been significant, as noted by the European Commission in the 2016 Country Report. However, considering the extent of the effort made, there is still a lot that needs to be done. Economic recovery needs to be fostered by both macroeconomic stimulus policies and structural reforms to strengthen potential growth.

The structural reform strategy must be accompanied and supported by a policy of fiscal responsibility which, by reducing the burden of taxation, enables business and household expenditure to be buoyed and growth to be strengthened at a time of substantial global economic uncertainty, while the fiscal consolidation and debt reduction efforts are continued.

This National Reform Programme reviews and broadens the approach and the objectives of the previous year, bringing them into line with the latest *Annual Growth Survey* by the European Commission and the European Council's Recommendations for Italy and the Euro Area. It also sets out a series of measures to be adopted in the short term, with a special emphasis on the actual implementation of reforms aimed at supporting economic recovery by strengthening the policies set out in the 2016 Stability Programme.

Competitiveness and investment are the priorities for growth

Last year Italy's economic recovery was mainly led by export and then driven by household consumption. In the second half of 2015 a worsening of the economic situation in the newly industrialised countries and the still sluggish growth of the European economy affected export performance. Further worldwide competitiveness gains are therefore needed to increase market shares to offset the unsatisfactory growth of global trade in the short term. Increased competitiveness is needed to support GDP growth over the medium and long term.

In 2015 gross fixed investment increased by 0.8 per cent in real terms. Public investment increased by 1.0 per cent. After years of contraction this signals a major trend reversal. However, in order to return to more sustained economic growth, the ratio of investment to GDP, which reached the minimum level of 16.5 per cent in 2015, needs to increase again over the next few years and reach 20 per cent, which is the percentage it stood at before the crisis. Significant fiscal measures have been introduced by the 2016 Stability Law to stimulate gross fixed investment and their government component, including the specific request for flexibility. These measures must be supported by reforms to further improve the 'investment climate' in Italy, especially the propensity to invest in venture capital.

A major contribution to investment will also be made by the implementation of projects included in the so-called 'Juncker Plan', as Italy is one of the countries that stand to gain from the plan. As far as Italy is concerned, the latest data on the European Fund for Strategic Investment (EFSI) show 29 initiatives, including funding agreements and infrastructural projects, for a total of €1.7 billion funds. If financial leverage is considered, €12 billion worth of investment will be mobilised.

While the latest updates of the international indicators on **investment climate** show an improved situation, they do not fully capture the progress Italy has made thanks to the reforms implemented in the last two years. This is due to a physiological time lag between legislative measures and their anticipated impact. In any case, surveys of the business climate in Italy show that, in addition to the weakness of demand expectations, the major impediments to investment are the slowness of judicial proceedings and issues such as the administrative burden, access to credit and taxation. The government's reform efforts will continue to focus on these areas.

In order to sustain productivity over the medium and long term, **human capital** needs to be further developed, which means retraining the unemployed, improving education and vocational training for young people, developing technological research, promoting science and culture and placing all these goals high on the nation's political agenda.

Institutional reforms

The **constitutional reform** bill submitted by the Government to Parliament in 2014 was passed by the Senate on its second reading on January 20 and will complete its passage through the Chamber of Deputies in April. A confirmatory referendum could take place next autumn.

The aim of the bill is to overhaul the current system of perfect bicameralism and change the allocation of law-making powers between the State and the Regions. The bill creates the conditions for a marked improvement of Parliament's decision**-making ability** while at the same time preserving the **balance among democratic institutions**. The Chamber of Deputies will be the main law-making body and will have a trust-based relationship with the Government. The Senate will be a second-tier elective assembly, composed of no more than one hundred members, with responsibilities in areas such as the relationships between central and regional institutions, between Italy and the European Union, in addition to responsibilities for assessing policies and public appointments. The so-called 'fast-track vote' (*voto a data certa*) will ensure fast-track voting of bills that are particularly important for the Government's programme. The reorganisation of responsibilities between the central government and the regional institutions will enable more **effective governance of economic policy** without prejudice to regional and local autonomies.

In addition, it is worth recalling that in 2015 Parliament approved the reform of the Electoral **Law for the Chamber of Deputies**. The new electoral law reconciles the representation requirements with the need for institutional stability; it provides for the establishment of multi-member electoral districts which are allotted a limited number of seats and the possibility for citizens to cast preferential votes; it gives the list which has received the highest number of votes (or which wins the highest number of votes in a later run-off, in the event that no list wins at least 40 per cent of valid votes in the first round at national level) a number of seats sufficient to reach 340 seats out of an unchanged total of 630 seats.

The Chamber of Deputies has already approved new regulations on the conflict of interests, which are now being considered by the Senate.

Public Administration

The key objective of the **Enabling Law on the Reform of Public Administration**, adopted by Parliament last August, is the achievement of greater efficiency and better services for citizens and firms.

The first legislative decree on regulatory simplification has been adopted and during its preliminary consideration the Government has already approved twelve implementing decrees concerning the simplification and acceleration of administrative measures, the digital administration code, transparency in public procurement, the reorganisation of law-enforcement agencies and port authorities, rules governing employee dismissal, local public services, companies partly owned by the State or local authorities as well as the Chambers of Commerce.

The enabling law on the reform of public administration provides for the adoption of additional legislative decrees containing provisions on corruption, the reform of public sector management positions, the reorganisation of provisions governing civil servants, the reorganisation of the Prime Minister's office and of non-economic public bodies.

The public administration reform programme will be supported by the implementation of the **Simplification Agenda,** 90 per cent of whose targets have already been achieved. In 2016 and 2017 the remaining activities envisaged in the Agenda will continue, including the shortening of the timeline for the '*conferenza dei servizi*', as well as the exploration, simplification and standardization of procedures and the relevant forms.

Justice

The reform strategy aims at achieving the key objective of making the Italian justice system more equitable and efficient bringing it into line with European standards. Over the past two years important progress has been made with the introduction of **electronic filing of cases** and the extension of the scope of **out-of-court settlements**. In 2015 the government has also submitted draft delegated legislation on the **reform of civil proceedings**, which has been adopted by the Chamber of Deputies and is currently being considered by the Senate. Tax incentives have been introduced for assisted negotiation and arbitration, and have now been made a permanent part of the relevant regulations through the 2016 Stability Law.

In 2016 additional steps will be taken to achieve this objective. In March the Senate adopted an enabling draft law on the **comprehensive reform of honorary judges** and of the role of justices of the peace. The Government has also recently set up a research committee on conciliation tools (mediation, assisted negotiation and arbitration) with the aim of streamlining the regulatory framework and ensuring these tools are easy to use.

On 10 February the Government also approved enabling draft law on the **comprehensive reform of regulations on business crisis and insolvency**. The draft law comes in the wake of the reform process initiated with Law 132 of 6 August 2015, which was adopted to provide urgent support to the activities of companies in financial distress by facilitating their access to credit. The aim of the law is to promptly tackle business failure, by creating opportunities for restructuring, thereby limiting the damage inflicted on the business environment where the company operates. In addition, bankruptcy procedures and the rules governing receivership have been simplified.

Recent changes to the enforcement and insolvency legislation have been brought by Decree Law 59 of 3 May 2016. Changes to the bankruptcy law should speed up the recovery by banks by shortening time to recuperate loans and aligning Italy with international best practices. The measures to reduce the debt collection times cut times from 40 to 6-8 months. In particular, the new provision introduces a new type of floating charge, namely 'non-possessory pledge', and the possibility for the lender to appropriate the secured property in case of continuing default by the borrower. The 'non-possessory pledge' offers to banks and financial intermediaries the possibility to obtain, as security for loans, a pledge over existing or future, identifiable assets of the debtor (or third party guarantor), which does not require the dispossession of the latter (or third party pledgor). The enforcement allows the creditor to have the pledged assets sold through competitive procedures based on an estimate of the assets made by expert appraisers, which may be appointed by mutual agreement between the creditor and the debtor or by the judge. The creditor will retain the sums obtained by the sale up to the amount of its credit and pay the difference to the debtor/pledgor.

Furthermore the Decree Law allows banks and other entities entitled to grant loans, to obtain, in case of default by the borrower, the appropriation of the property given as security for the loan by the borrower . The appropriation may be agreed for all loans entered into aftee the approval of the Decree Law, and also for existing loans (by means of specific amendments to be made by notarial deed). The appropriation of the property by the lender requires a default of payment which is continuing for more than six months.

The Decree Law introduces amendments to enforcement rules, also in relation to the direct assignment of the distrained property in favor of the requesting creditor, in case the property is not sold due to deserted auctions. It also provides for also minor amendments to bankruptcy law, basically aiming at simplifying the procedure.

The Decree Law establishes a special fund in protection of the bondholders of the four Italian banks recently declared insolvent . Bondholders are entitled to request the fund a lump-sum compensation, set forth by the Decree Law, provided that certain conditions are met. The compensation is equal to 80 per cent of the amount paid for the bonds covered by the fund and shall be addressed to the fund within four months from the date of conversion in Law of the Decree Law (the fund shall calculate and pay the compensation within 60 days). As an alternative, bondholders may resort to the arbitration procedure provided for by Law 208/2015

(2016 Stability Law), which is also applicable for claims of investors which purchased bonds issued by the mentioned four banks following 12 June 2014.

The 2016 reform program also envisages **changes to criminal provisions and the statute of limitations**, as well as measures to combat organised crime and illicit wealth. The **reform of the criminal code** has been approved by the Chamber of Deputies and is currently being considered by the Senate. It aims at increasing the efficiency of the criminal justice system while at the same time strengthening the safeguards of defence and the rights of people involved in proceedings. The Senate is also considering a draft law submitted by the Government concerning the **fight against organised crime and illicit wealth.** Moreover, additional draft laws has been submitted by the Government on important issues such as **false accounting, self-laundering, corruption and mafia-style conspiracy**.

With a view to strengthening its policy to counter delinquency, not just through law-enforcement, the Government intends to strengthen prevention, including by raising the awareness of entrepreneurs operating in the local community.

To this end a joint Ministry of- Finance/Ministry of Justice Committee has been set up which has been tasked with i) drawing up a series of proposals over the next few months aimed at addressing a number of problems that have arisen in connection with the enforcement of Legislative Decree 231 of 2001 and ii) revitalising the prevention approach introduced by the decree.

Banking system

As acknowledged by the European Commission in the 2016 Italy's Country Report, in 2015 and the early months of this year there have been substantial developments towards a **more modern and competitive framework for the Italian banking system**: the reform of cooperative **banks**, new regulations on **banking foundations**, **the reform of mutual banks, bankruptcy proceedings and debt recovery** and lastly the introduction of a system of Government guarantees for the **disposal and securitization of banks' non-performing loans**.

All these reforms are now being implemented. The Government is monitoring progress of the **integration of cooperative banks and consolidation** in the sector of **mutual banks**. There have been major developments in terms of mergers of cooperative banks.

The Italian banking system continues to be viable. However, the high level of non-performing loans in the system and the spillover effects of the introduction of European regulations on the resolution of financial institutions require that its resilience, both actual and perceived, be increased.

Given the limited leeway afforded by the existing European regulations on State aid and bail-in, the Government believes that the strategy to strengthen the banking system should be based on **further shortening of the duration of bankruptcy procedure and debt recovery** with a view to facilitating the disposal of banks' non-performing loans. The new measures will also aim at strengthening the efficiency of courts and increasing opportunities for out-of-court settlements.

Finally the Atlante bank rescue fund, launched in April 2016, could buy junior debt derived from securitization of non-performing bank loans. Atlante will allow the banks to sell their own bad loans at above-market prices thanks to a number of factors, including less aggressive yields than those requested by the current market players; public guarantees the approved in February by the Government; and the shortening of the timeframe for credit recovery anticipated in Decree Law 59/2016 approved in May. Of its initial endowment of €4.25 billion, €1.27 billion will be earmarked to non-performing loans (NPLs).

A growth-friendly financial sector

Over the last few years the economic crisis has exacerbated the difficulties of raising capital and sustaining investment for smaller firms. The government has implemented a variety of instruments to **support funding of SMEs, start-ups and technological innovation** and also to **incentivize the growth in size of Italian businesses**.

New innovative tools have been introduced to simplify access to credit and promote productive investment and innovation, capitalisation and listing on the stock exchange. They include **mini-bonds**, **credit-funds**, **equity crowd-funding stock-exchange listing**. New incentives for productive investment and the capitalisation of firms have been provided, as well as measures to support innovation.

The **Central SMEs Guarantee Fund** has played an important role and it will be strengthened through corrective and supplementary action aimed at improving it. The 2016 Stability Law has broadened the guarantees that may be drawn from the Fund. At least 20 per cent of the Fund's resources shall be earmarked for investment and businesses located in the *Mezzogiorno*.

The European Investment Fund (EIF) and the Central Guarantee Fund, with the support of the European Strategic Investment Fund (ESIF), signed an agreement in March last year which lies at the heart of the Investment Plan for Europe. The counter-guarantee agreement enables the Guarantee Fund to sustain investment of over €1 billion for 20,000 Italian SMEs over the next 12 months.

With the aim of incentivizing the development of **innovative start-ups** a simplified procedure to access the Guarantee fund has been introduced. The establishment and consolidation of innovative businesses has also been pursued through the setting up of a **venture capital fund** for start-ups and innovative high-growth potential SMEs.

Incentives have been introduced to unlock the potential of patents and other intellectual property. More specifically, the optional concessionary tax regime for income from intangible assets (**patent box**) has been further finetuned, with provisions governing its conditions and timeframe.

The legislative framework for innovative enterprises has also been improved through the introduction of the new legal status of '**Innovative SME**'. It benefits from a whole series of simplified rules and concessions similar to those envisaged for innovative start-ups, which ensure more flexible governance of these enterprises by deregulating compensation schemes and by strengthening access to credit thanks to the introduction of innovative tools and concessions for raising capital as well as favouring access to foreign markets. Regulations governing innovative start-ups have been further refined with the issue of a decree extending **tax benefits for individuals investing in these firms** to 2016 and by raising the threshold for eligible investment for each innovative start-up.

The Government is planning to introduce a new package of measures to further develop policy orientations that have emerged as part of the 'Finance for Growth' initiative, by strengthening existing tools and introducing new ones with a view to consolidating the positive performance of investment in 2015.

Making enterprises more competitive also entails encouraging R&D spending. This goal has been pursued by the Government with a number of tools and especially with **the tax credit for R&D expenditure**, which has been fully implemented. The concession is available to all enterprises regardless of their turnover, legal status, accounting regime or economic sector they operate in. The tax incentive amounts to 25 per cent of incremental costs incurred during the 2015-2019 period, and reaches 50 per cent of costs incurred for hires of skilled staff and the use of research contracts with universities or other equivalent institutions and innovative start-ups.

Competition

The Government's strategy is to achieve greater competitiveness also through greater market openness. Through **the Annual competition Law for 2015**, the Government has transposed a great deal of the 2014 Competition authority (*Autorità Garante della Concorrenza e del Mercato)* report . The law abolishes restrictive regulations that hinder competition and innovation. The sectors affected are: **insurance, telecommunications, postal services, energy, banking, professional services (notaries, lawyers, engineers) as well as pharmacies**. In October 2015 the Chamber of Deputies completed its consideration of the law and made several amendments to it, which affected professional services, pharmacies and postal services. The Government expects the law to be finally adopted by June 2016.

As far as professional services are concerned, in February 2016 the Government submitted the **National Plan for Professional Reform (*Piano nazionale di riforma delle professioni*)**, with a view to implementing the European Directive on the recognition of professional qualifications, and has now already initiated action on transparency and simplification of the regulation.

The Government intends to continue along the path set out in the first annual competition law, mainstreaming it to improve market functioning. The **second annual competition law will be adopted in 2016** after receiving the report from the Competition Authority. The measures currently being examined may affect the following sectors: **communications, healthcare, transport and other public services**, and be linked to the Public Administration reform.

Labour market

The implementation phase of Enabling Law 183 of 2014 (**Jobs Act**) ended in September, with the issuing of all the relevant legislative decrees. It is a far-reaching labour market reform whose positive impact can already be seen by looking at data on open-ended employment.

The process initiated with the Jobs Act will be completed in 2016 when the two national agencies established under the reform will be up and running: The **Agency for Active Labour Policies (*Agenzia per le Politiche Attive del Lavoro*)** (ANPAL) and the **Labour Inspectorate (***Ispettorato del Lavoro***)**, which will be responsible for all the controls to be performed under the existing labour law, social security and occupational health and safety regulations.

With the establishment of ANPAL a **National Network of services for labour policies** has been set up. The new system of services, coupled with a set of passive income-support policies, is based on the development of **tailored career paths** instrumental for acquiring the necessary **skills** for the **placement and re-placement of unemployed workers** in the labour market. The recipients of income-support benefits will be required to participate in schemes aimed at enabling them to enter or re-enter into the labour market; failure to participate in these schemes may entail curtailment, discontinuance or loss of entitlements.

In brief, who receive the unemployment benefit (NASpI) for a duration exceeding the four months laid down by law, will be entitled to the new **replacement cheque**. The amount, calculated on the basis of the employability profile, can be spent at the Employment Centres or Accredited Centres that perform functions and tasks in the field of active labour policies.

At the end of January 2016 a draft law entitled '**Jobs Act for the self-employed and agile work**' was adopted; it aims at creating a system of rights and protection for independent contractors who provide physical and intellectual work. The aim of the legislation is twofold. On the one hand, a range of rights and opportunities (concerning training and welfare requirements, unfair clauses and late payments) are introduced for professionals working as self-employed individuals, while on the other organisational arrangements are developed for dependent work (in the form of smart working or agile work) that may meet the flexibility needs of workers and enterprises, support technological change and favour productivity.

As to the policy for **integrating young people into the labour market**, this year has seen the launch of the second phase of the **Youth Guarantee programme**. It includes a new measure, the so-called **superbonus** for the transformation of traineeships, designed for employers hiring a young person aged 16 to 29 who has attended or is currently attending an extracurricular traineeship as part of the Youth Guarantee programme. The amount is twice that of an ordinary bonus: starting from a minimum of €3,000 to a maximum of €12,000, disbursed in monthly instalments of equal amount.

As far as wage bargaining is concerned, the 2016 Stability Law has introduced new elements to incentivise **second-level bargaining** through substantial changes concerning corporate productivity and welfare. In addition to the re-introduction, as of last year, of the **tax exemption for productivity bonuses**, tax exemptions shall also apply to bonuses disbursed in the form of services or vouchers to purchase goods. The above-mentioned law also identifies funds to be earmarked for promoting work-life balance.

The reintroduction of the tax exemption through a 10 per cent concessionary rate is linked to productivity hikes, to be measured with well-defined criteria set out in an interministerial decree. The criteria relate to productivity increase, savings in the use of inputs and improvement of the quality of products and processes. The decree will be supplemented by an addendum containing the indicators to monitor decentralised bargaining.

In addition, in 2016 the Government will concentrate on a reform of firm-level bargaining to make firm-level contracts more enforceable and effective and ensure industrial peace during the term of the agreement. Firm-level agreement may also override national agreements in areas such as work organisation and production.

Education and research

The **education reform** (*Buona Scuola*) came into force in July 2015;a number of implementing decrees must be issued for the reform to be fully implemented. After the extraordinary recruitment plan initiated in 2015, the process of adding new teachers to the government payroll to fill vacancies is being continued. The reform also led to the start of the school self-assessment process, the introduction of the external assessment groups for educational institutions and the assessment procedures of school managers.

The education reform has also introduced new forms of **vocational learning through school-work alternation and apprenticeship** linked up with the labour market reform (Jobs Act). The changes that have been introduced must now be fully implemented. The *Italia Lavoro* Agency is completing the selection of 300 training centres, which will conduct the pilot project. School-work alternation has been extended to high-schools (*licei*), with a view to guiding students through the process of choosing university courses and increasing the percentage of those who engage in school-work alternation.

The **National Plan for Digital School**, envisaged by the reform, was rolled out in October 2015. Funds for a total of € 1.1 billion have been identified, €650 million of which for infrastructure, training facilities, technological equipment, administrative digitization and connectivity and €400 million for the so-called 21-century skills, entrepreneurship and the relation between digital skills and work, staff training, mentoring measures and monitoring. The first implementation of the entire policy will be completed by December 2016.

As far as **university education** is concerned, an extraordinary plan for **hiring 861 university researchers** has been initiated through a decree implementing the provisions of the 2016 Stability Law. By 2016 the Plan will increase the number of type B researchers (tenure track), working at public universities from the current 700 to over 1,500. These researchers can be confirmed as tenured associate professors after a three-year contract if they have the scientific qualifications and have received a positive assessment from their universities.

In addition to this plan, there are resources allocated to the **500 professorships awarded on the basis of merit** named after **Giulio Natta**, an extraordinary recruitment plan for hiring full professors and associate professors predicated on excellence criteria based on international standards and characterised by competitive remuneration and research funds and by the mobility of winners across all the Italian universities willing to hire them.

The **2015-2020 National Research Plan** includes six key programmes and is aimed at incentivising business competitiveness and promoting the country's development through research expenditure amounting to €2.5 billion for the 2015-

2017 three-year period (and €4.7 billion for the whole 2015-2020 period) in areas that are considered key sectors for Italy's research system. In addition, for the same 2015-2017 three-year period, additional resources have been made available for a total of €3.8 billion (€9.4 billionn for the whole 2015-2020 period), from Regional Operational Programmes and the Horizon 2020 Framework Programme.

The Plan is based on six pillars: internationalisation, human capital, selective support to research infrastructure, public-private partnerships, the *Mezzogiorno*, quality and efficiency of expenditure (broken down in 12 specialisation areas). The Plan also intends to attract **internationally renowned scientists** offering them a high degree of flexibility in the organisation of their research activities, as well as the possibility to receive *matching funds* for already existing excellence research programmes.

Reducing regional imbalances

Against a backdrop of social as well as regional cohesion, economic growth is poised to pick up. The **policies for the *Mezzogiorno*** are predicated on the conviction that the reform approaches should be the same for all the Italian regions, but that they should be strengthened to make them more effective in those areas that are lagging behind in terms of human capital formation, productivity and infrastructure, by supporting them also through appropriate macroeconomic stimuli.

The 2016 Stability Law introduced new **tax incentives for investment in the *Mezzogiorno***, available for 4 tax years. An important economic policy initiative is the **Masterplan for the *Mezzogiorno***, which builds upon the strengths and the vibrant nature of the economic fabric of Southern Italy and places them in a context of industrial, infrastructure and services development so as to broaden the entrepreneurship and the occupational skills while setting up and developing production chains.

The fight against poverty

The Social Act recently submitted by the Government and currently being considered by Parliament is characterised by a comprehensive approach on the support of distressed families, with priority being given to those with dependent children. The Government is investing an unprecedented amount of resources in this area: an additional billion of euro per year starting from 2017. Thanks to these resources, measures will be introduced to provide coverage to over half of the poor families with dependent children. The enabling law provides for more equitable and homogeneous welfare benefits, while a new integrated management system will be established for social services.

The action plan to reduce poverty will involve all social actors, starting from non-profit sector organisations to the social private sector. An important role will also be played by foundations of banking origin, which will participate with the government in the establishment of a fund to combat educational poverty, which will fund projects for poor children with 130 million a year over the 2016-2018 period to improve access to quality education and educational tools and out-of-school personal development tools.

Finally, the “***Dopo di noi***” (literally 'after us') bill currently being considered by Parliament contains provisions relating to the care, treatment and protection of people with serious disabilities in the years after the death of their parents or family members.

Taxation

The reforms introduced over the past two years are those contained in Enabling Law 23 of 2014. A number of elements of the taxation system and the relationship between taxpayers and the tax authorities have been changed. In addition, the Government has taken tax policy decisions that have reduced the tax wedge on labour, incentivised hiring of permanent employees and reduced taxation for households, especially low-income households, and on main residences, so-called 'bolted ' equipment and agricultural land. The 2016 Stability Law has also introduced a reduction of the IRES (corporate income tax) tax rate on corporate profits, which will be applied as of 2017.

The reform action will be continued in 2016. New rules will come into force to develop a stable and impartial system to gather, calculate and publish the results of strategies to combat tax evasion. Every year the Government will submit a **Report on the results achieved in the fight against tax evasion and the new strategic plans** together with the Update of the Economic and Financial Document. The Report will be a key tool for taking ever more effective and targeted initiative to improve tax compliance.

Monitoring of tax expenditures will also be introduced in view of their reorganisation. The annual process of reorganising tax expenditures will be temporarily included in the Update of the Economic and Financial Document in the form of policy guidelines, which, once approved by Parliament with a specific Resolution, will become binding when the Government develop the budget package. The action to reorganise tax expenditures is aimed at abolishing or reviewing those expenditures which are no longer warranted due to changed social and economic needs or those which are a duplication of government expenditure programmes. The Government will rely on a Committee of experts established by the Ministry of the Economy and Finance, composed of fifteen experts of economic, statistical, tax or legal-financial issues.

New rules on **electronic invoicing** will help identify income that would otherwise go unreported on tax returns. Electronic invoicing has become mandatory for suppliers of general government entities as of March 31, 2015. As of January 1, 2017 taxpayers who choose to use automated invoicing or registering procedures of their compensation will benefit from major streamlined filing compliance procedures. These measures are in line with the OECD approach, according to which the tax authorities shall no longer review tax compliance ex-post but rather become an authority which facilitates tax compliance and reduces intrusive checks to a minimum by leveraging technology.

As to other programmes envisaged in the enabling law, which had not been implemented by the relevant decree laws, the Government has already intervened or will do so with specific measures. **The reorganisation of the public gaming industry** has started with action on key aspects such as the way in which the sector is taxed, greater ability to monitor gaming devices and advertising; the latter will be governed by rules in compliance with EU policies.

More comprehensive and systematic action will be taken in terms of the **review of cadastral values**, once the complex operations of database alignment are completed. This action is necessary to accurately assess the revenue impact as well as the distribution effects on taxpayers. For the time being, with the 2016 Stability Law the Government has given priority to action on particularly critical issues relating to the determination of cadastral rents of property used for industrial and production purposes.

Ordinary and extraordinary activities relating to the cadastral registration of real estate units in the cadastral archives are being continued along with those to determine and ascertain their cadastral rents. With regard to residential property, targeted intervention is in place to review the classification of real estate in urban areas every year.

Finally, in line with the programmes of the European and Italian Digital Agenda, in December 2015 an electronic filing of tax proceedings have been introduced as a pilot project in the Tuscany and Umbria Regions, and they will be extended to all other Italian Regions within two years. The range of web-based services has also been broadened, thus improving the possibility of 'remote' interaction between the tax authorities and citizens as well as companies.

After taking action on the regulations governing proceedings, the Government also intends to start a **comprehensive reform of tax justice** for more efficient jurisdiction and to ensure that judicial decisions are taken in a reasonable short time, through measures aimed at strengthening the professional skills of tax judges.

Spending review

The Government's tax policy is based on reducing and streamlining government current expenditure to free up resources for public investment and for cutting tax rates on labour, businesses and households. The **Spending Review** initiated in 2014 has already achieved remarkable results, as current expenditure (adjusted for the disbursement of the €80 premium, which is basically a tax cut) has declined in absolute terms and not simply as a percentage of GDP. From 2013 to 2016, the incidence of government current expenditure on GDP has gone down by 1.6 per cent. It has been estimated that the impact of the Spending Review will reach €25 billion in 2016.

The **cut in the number of expenditure centres and the introduction of e-procurement** are two key aspects of the strategy implemented by general government entities for streamlining procurement processes and costs. The Technical Committee on Aggregate Entities has a range of tasks, including that of determining goods and services procurement requirements for general government bodies and favouring coordinated planning of initiatives to increase the percentage of aggregate procurement. Some results have already been achieved in this respect. The survey conducted in 2015 on procurement in the year 2014 shows a reduction in the purchase price for 20 categories of goods. In the health sector, purchases of 19 categories of goods and medical devices were concentrated through 35 central purchasing agencies.

Budget reform

Over the next few years the spending review will be supported by **the reform of the Government budget**, which is already operational for the 2017-2019 three-year periods. The legislative decree for completing the reform was adopted in February. In the Spring, Ministers will set expenditure targets for the following three years based on a new approach, in line with the Policy targets of the Stability Programme (Economic and Financial Document).

As of 2017 the Stability Law shall no longer be separate from the Budget Law: there will be **one single set of substantive measures,** whose first part will contain rules changing revenues and expenditure while the second part will contain revenue and expenditure forecasts under the existing legislation. These changes set the stage for a systematic and structural spending review, with the whole framework of resources emerging several months ahead of the Budget Law, when Ministries will set expenditure targets earlier in the Economic and Financial Document and will be confirmed in the relevant Prime Minister's Decrees by May each year. Progress towards achieving the spending targets shall be closely monitored.

Privatisation

The Government is implementing a privatisation programme of its subsidiaries and property with the aim of **reducing the public debt and opening capital to market companies**. In 2015 tax revenues amounted to more than 0.4 per cent of GDP, i.e. €6.5 billion. The programme for the next few years forecasts revenues at 0.5 per cent of GDP per year in the years 2016, 2017 e 2018, and 0.3 per cent in 2019.

The transactions made in 2015 include the sale of a share of ENEL's capital and the listing of *Poste Italiane*'s shares amounting to 33.2 per cent of capital.

Arrangements to divest a share of up to 49 per cent of ENAV's capital in 2016 have already been made. Other transactions will be agreed upon during the year depending on the revenue targets. The privatisation of *Ferrovie dello Stato* or some of its components is part of the Government's medium-term programme.

The sale of public property will play an increasing role in achieving the revenue targets. To give greater impetus to this process last year the Ministry of the Economy and Finance and the State Property Agency started the '*Proposta Immobili 2015*' initiative, which led to the selection of real estate units owned by local authorities and other government agencies to be included in programmes for their regularisation, renovation and sale. Some parts of Government property have been sold to *Cassa Depositi e Prestiti* in December. In 2015 the sale of property by local authorities, which own most of government property, fetched €946 million, thus the target was exceeded by €500 million.

'*Proposta Immobili'initiative* will be continued in 2016, also thanks to the data collected by the Ministry of the Economy and Finance to assess the real estate owned by all general government bodies. Ongoing initiatives include '*Vetrina Immobili PA*', '*Valore Paese*' and the activities of INVIMIT, the assett management company specialising in the renovation and change of use of government property.