Italian Structural Reforms

Ministry of Economy and Finance
June 9, 2014
Outline

- Shifting Gears: the new Italian Reform Agenda 2014.
- The Reform Agenda.
- Spending Review.
- General Government Debt Arrears.
- Capital Market and Banking Sector.
- Labour Market.
The strategy

- Introduce institutional reforms.
- Reduce the tax wedge.
- Boost investment and cut administrative burden for businesses.
- Improve finance for growth.
- Promote competition and deregulation.
- Support the internationalisation of businesses.
- Settle Public Administration payables in accordance with EU directives.
A new business environment for firms and citizens

- Simplify employment and apprenticeship contracts, simplify procedures and streamline the number of contracts.
- Implement the Italian ‘Youth Guarantee’ Plan.
- Support employment services, active labour policies and work-life balance.
- Expand income-support measures and fight against poverty.
- Modernise the Public Administration.
- Design a more equitable and growth-friendly tax system.
- Ensure a fast-paced, transparent, accessible justice system.
Challenges and opportunities

- Enact a plan for schools.
- Promote merit, quality assessments and internationalisation of education.
- Link education and research to the labour market.
- Involve the private sector in major infrastructure projects.
- Implement the Housing Plan to help the real estate market.
- Improve air, sea, rail and road transport.
- Favour green growth and efficient use of resources.
- Modernise the health sector.
- Support tourism and culture as drivers of growth.
- Revitalise the country’s deprived areas.
A well-defined schedule for implementing reforms

- Monitor progress and achievements.
- Take action to meet each milestone.

The actions of reforms are fully detailed in the 2014 National Reform Program, which was approved by Parliament in April.

The full reform plan is available at: http://www.dt.tesoro.it/en/analisi_programmazione_economico_finanziaria/strategia_crescita/
## Schedule for reforms

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Constitutional reform (1)

The Council of Ministers approved the Draft Constitutional Reform Bill on March 31, which will: i) improve stability by limiting ‘balanced bicameralism’; ii) lower costs by reducing the number of Senators; iii) contain institutional costs; iv) eliminate the National Economic and Labour Council (CNEL); and v) revise Title V of the Italian Constitution.

Title V revision will improve the efficiency of State and Regions by shifting from outdated, fragmented, and overlapping legislative competencies to a more functional division of labour in order to make fiscal federalism effective.
Constitutional reform (2)

- In April, a major **reform of local entities** entered into force.

- The reform aims to: i) contain costs, ii) realise economies of scale in public services; and iii) improve the quality of services provided to citizens.

- Key elements include: i) rationalising the powers of ‘Metropolitan cities’; ii) redefining **Provinces** as wide-area entities with limited planning functions; and iii) strengthening collaboration across jurisdictions through legislative and regulatory simplification to favour **Unions of Municipalities**.
In February 2014, Parliament passed the enabling law on tax reform. Most measures will be implemented within 12 months.

The Government is delegated to: i) update cadastral values; ii) strengthen regulations to curb tax abuse and increase tax compliance; iii) enhance tutoring and tax simplification to encourage compliance; iv) revise the system of sanctions, checks and inspections; v) review local collections procedures to protect honest taxpayers; vi) modernise corporate income taxes; vii) facilitate compliance for smaller taxpayers through lump-sum taxation; viii) harmonise taxes on gambling and lotteries; and viii) revise environmental taxes.
**Tax burden on labour and business income**

- **May - December 2014:** reduced personal income tax by **€80 per month** (€640 per year) for permanent employees earning from €8,000 to €24,000, with the reduction phased out (from €640 to zero) as income rises to €26,000.

- **For 2014:** corporate income tax (IRAP) reduced by 10%. The standard tax rate falls from 3.9 to 3.5%, with similar reductions for banks (from 4.6 to 4.2%), insurance companies (from 5.9 to 5.3%) and agricultural businesses (from 1.9 to 1.7%).
Public Administration modernisation (1)

- **Digitise administrative procedures**: speed up the introduction of the e-invoicing for commercial transactions between the PA and suppliers.

- **Ensure transparency**: public tenders at national and local level will be available online.

- **Reduce management costs**: annual gross salaries for PA directors will no longer exceed €240,000 (the Italian President’s salary). Broader revisions of management compensation schemes are planned to link pay to performance and improve mobility.
Public Administration modernisation (2)

- A public consultation on a comprehensive reform of the Public Administration was launched in May.
- The consultation solicits suggestions from public employees to modernise the PA, with emphasis on: i) innovation in personnel and selection criteria at all levels of management; ii) generational transitions, mobility, work-life balance; iii) reducing inefficiencies and unnecessary costs; iv) open data to improve transparency; v) accountability and accessibility.
- The public consultation will close on May 30. By June the Government will present a decree based on input received.
Procedural changes for civil justice

- Enhance out-of-court proceedings and expand compulsory mediation to decrease the number of new court proceedings.

- Review judicial districts: close several satellite offices of courts and streamline organisational charts.

- Facilitate non-prison sentencing alternatives for minor, non-violent offenses, even for recidivists.

- Process crimes not subject to imprisonment as administrative offenses to allow the collection of fines and restitution without burdening the criminal justice system.

- Alternative social re-integration penalties for minor crimes.
Tourism and culture (1)

- Tax credit for grants to archaeological projects (65% in 3 years).

- National Strategic Tourism Plan ‘Grandi progetti - Beni culturali’ to protect assets and identify sites which require preservation or restoration.

- Enhancing the Pompeii archaeological site: more effective and simplified governance.

- Measures to protect and enhance the Reggia di Caserta site.
THE REFORM AGENDA

Tourism and culture (2)

☐ Tax credit for **film production** in Italy (from € 5mn to €10mn).

☐ Tax benefits for the **movie industry** (€5mn).

☐ Tax credit (30% of investment costs up to €12,500) for digitisation of hotels and tourism.

☐ Plan for **tourism mobility** to encourage specialised tourist centres, mostly in Southern Italy.

☐ Administrative **simplification for tourism businesses**.
Social Housing Plan (1)

- Incentives worth €1.74bn to contribute to payment of rents: i) an additional €200mn to the National Fund supporting access to rented properties; and ii) an additional €266mn to the Fund for tenants unable to pay rent.

- Increase availability of social housing, through renovation and maintenance programmes.

- Sustain social housing, including through the €568 mn housing recovery Plan managed by Municipalities.
Social Housing Plan: tax benefits

- Reduction of the lump-sum tax (from 15% to 10%) due by leaseholders.
- Tax credit for renting new or restored social housing.
- Tax credits for social housing leaseholders.
- Tax credit (50%) for furniture purchases up to €10,000.
THE REFORM AGENDA

The Cohesion Action Plan

The Partnership Agreement 2014 – 2020 was developed in December 2013 among Ministries, Regions and Local Authorities as well as social and economic partners.

The agreement specified technical proposals for the use of €32.3bn of EU funding, plus €24bn of national co-funding from the Government and regional co-funding for Regionally-managed programmes.

Strengthened the capacity of the monitoring body of newly established Regional Cohesion Agency as well as institutions involved in scheduling and implementing co-funded programmes.
Privatisations (1)

On May 16, the Government approved two decrees setting the rules for the **divestment of an initial tranche of ENAV (49%) and Poste Italiane (40%).**

The public offering is open to Italian investors, public employees of the same company, as well as national and international institutional investors.
The process will involve several other companies directly owned, in whole or in part, by the State (i.e., ENI, STM), and companies in which the State indirectly holds a stake through CDP (i.e., SACE, Fincantieri, CDP Reti, TAG) or through FS (i.e., Grandi Stazioni).

Expected revenues from privatisation and disposal of real estate assets: 0.7% of GDP per year from 2014 to 2017.
The Reform Agenda

Taxation and tax evasion

- Increasing taxation on income from financial assets from 20 to 26%, with the exemption of government bonds and postal savings (taxed at 12.5%).

- Strengthening the fight against tax evasion, with a target of €2bn in increased tax revenue by 2015 (compared to 2013).

- In 2013, €300mn of unpaid taxes was recovered and used to reduce the tax burden.

- Voluntary disclosure of financial information to repatriate undeclared taxable revenue or income held abroad.
Strengthening education and vocational services

Starting with the school year 2014-2015, the extra-curricular traineeships for students in upper secondary school will be operational.

The objective is to enable students to experience labour market before the conclusion of their studies, therefore alternating their school attendance with training and working activities.
The new Spending Review Goals and Targets


- **Structural reorganisation of public expenditure**, i.e. moving beyond the approach of linear cuts adopted in emergency situations of fiscal consolidation.

- Savings will mainly be used to fund a **reductions in the tax wedge**, as well as to achieve **public finance targets**.

- The Spending Review process is fully integrated into the annual budget.
A reinforced framework

- **Interministerial Committee for Spending Review (ICSR)**: chaired by the Prime Minister.

- **ICSR members** include the Ministers of Economy and Finance, Interior, Relationships with Parliament, Public Administration and Simplification and the Undersecretary to the Prime Minister Office.

- Special Commissioner appointed in **October 2013** with a 3-year mandate.

- Staffing and resources provided by the Ministry of Economy and Finance and other public institutions.
An important role for the Special Commissioner

- Acts on the basis of the directives of the ICSR.
- Independence of judgement and evaluation assured.
- May access Public Administration databases and information.
- Empowered to order inspections and audits to be carried out by the Public Sector Audit Department and the State General Accounting Office.
- Entitled to request the aid of the Italian Financial Police.
Methodology based on IMF best practices

- **Stakeholders involvement**: Public Administrations, employers and Unions, (through informal meeting), external experts.

- **Activation of several working groups**, both vertical (ministries, Regions, Provinces and Municipalities) and horizontal (e.g., Procurement, Real estate, Public employment, Standard costs, SOEs), with participation of MEF, Accounting Department and experts.

- **Clear mandate and transparent deadlines**.
Work programme: targets and timetable

- Technical recognition ended in March 2014: identified €4.5bn for 2014; set spending priorities.

- The second phase is on-going and aims to identify additional measures and related savings for the period 2014-2016.

- From 2015, the focus will be on budgeting and performance indicators so to measure the effectiveness and efficiency of public spending.
Cost containment: procurement of goods and services

- Currently there are about 30,000 contracting units in Italy.
- Instead, **public contracting** will be **managed by a unique public procurement company (CONSIP)** and a few other purchasing centres for Regions and large cities.
- Savings are also possible from improvement in the punctuality of general government trade payments, with positive effects on purchase prices.
Cost containment: CONSIP budget for 2013

- In 2013 CONSIP generated a value for Public Administration of €7 bn.
- €4.6 bn of total saving stem from the Purchasing Programme; in 2013 CONSIP e-procurement instruments (agreements, P.A. Electronic Market, dynamic system of purchasing, tenders) have accounted for a total amount of €36.1 bn of expenditure.
- Other kind of savings: simplification of procedures, dematerialisation and environment (purchases of green goods and services).
Cost containment: salaries and standard costs

☐ Cap on salaries of public sector managers in line with the European average.

☐ Standard costs applied soon for fixed amounts transferred to Municipalities to achieve €600-€800mn of savings in 2015 and about €2bn in 2016.

☐ Full implementation of e-invoicing by the Public Administration to pay suppliers.

☐ Rationalisation of Public Administration’s office space for public employees.
Streamlining public entities and equity holdings

- **Reorganisation of** prefectures, firefighters, port authorities and other **central government departments** (at least €300mn in 2015 and €800mn in 2016).

- **Revision of costs** for independent authorities and chambers of commerce.

- **Reduction of equity holdings of local governments** (excluding those that supply essential public services). The Commissioner is charged with developing an action plan by the end of October 2014.
Injecting liquidity into the economy (1)

- In 2013, the government took **urgent actions** to speed up the payments of general government debts in arrears.

- **Liquidity injection** into the economy at a time when domestic financial conditions were very tight.

- Actions taken were in line with EU recommendations to use available fiscal space for initiatives to support growth and employment as well as firms’ competitiveness.
Injecting liquidity into the economy (2)

- **About €47bn already allocated in 2013-2014**, consisting of about €40bn in April 2013 and a further €7.2bn in August 2013.

- By end-March 2014 about €23.5bn had already been paid (about 86% of resources allocated for 2013).

- The government is committed to provide **further resources** to complete the settlement of residual payables. Indeed, Parliament has already authorised additional €13bn for 2014.
Completing the settlement of residual payables

- Increased the fund to ensure that the Regions and local entities have the liquidity needed to settle their trade payables.

- **Granted liquidity advances for Municipalities with structural imbalances and for those** that have declared insolvency.

- Designed a system of sanctions to reduce resources to localities that do not comply with certification requirements.

- Favoured the **rebalancing of cash management** within the healthcare sector, by expanding the pool of healthcare payables that can be financed with liquidity advances.
Assuring convergence with European standards

- The Government is implementing structural initiatives to comply with the European Directive on terms of payment of trade debts, thereby producing benefits from reducing entry barriers and increasing competitiveness.

- The new payment deadline: 30 calendar days following the date of receipt of the invoice (only in special cases, 60 days)

- Some measures already adopted include: i) promoting the sale to financial intermediaries of certified trade receivables of creditors to the public administration; ii) strengthening the monitoring of both the payables and the terms of settlement; and iii) preventing the formation of arrears.
Promoting sales of receivables to financial intermediates (1)

- **State guarantee** is extended to certified credits sold to financial institutions and in case of renegotiation of contractual terms.

- **Any debtor administration** encountering temporary liquidity problems may ask the cessionary financial intermediary, or other institutions, to **renegotiate the terms** and conditions for payment of the debt.

- **CDP**, as well as European and international **financial institutions**, now **able to buy receivables**, on the basis of a protocol with **ABI**, from cessionary institutions.

- Protocol favours renegotiation of terms, if appropriate.
Promoting sales of receivables to financial intermediates (2)

- **Sales transactions** are now more *streamlined* and faster through the use of the *credit certification platform*. The platform allows the public administrations to certify their debts with private suppliers.

- The **certified credit** can be sold or transferred to third **parties**. In particular, the holder of the credit is now allowed to sell the payable to a financial institution by private contract and must notify the debtor administration of the transaction. Unless the public entity objects within 7 days, the sales transaction is finalised. The receivable may subsequently be transferred to third parties.
Strengthening the monitoring of the terms of settlement

- By 2014 all public administrations must certify, within 20 days of receipt, whether a credit is certain, liquid and enforceable.

- Introduction of a series of escalating penalties applicable to the public administrations in cases of unjustified refusal to certify or failure to respond.

- Obligation of the administrations to report any credits that remain unpaid after 30 days of receiving the invoice or upon expiration of the contractual period of payment, by the 15th of each month using the credit certification platform.
Actions to prevent arrears in future payables

☐ Requirement for all administrations to record every invoice in a **single invoice register** within 10 days of receipt. By 2015 all administrations must adopt an **e-invoicing** system.

☐ From 2014 all administrations must submit with their financial statements a schedule that **certifies the amount of trade debt payments** made after the time periods provided by the European Directive, and the average term of payments made.

☐ Introduction of **incentives for timely payments** for the local entities that are parties to the Domestic Stability Pact and penalties for the public administrations that fail to make timely payments (within 90 days in 2014 and 60 by 2015).
Finance for firms (1)

- **Incentives** have been created to encourage companies to upgrade machinery and equipment.

- The new ‘**Sabatini Law**’ offers financing to SMEs for investments in new equipment (max €2mn for 5 years) with a dedicated Fund managed by the **Cassa Depositi e Prestiti**.

- The program began in April. In less than two months, over 3,000 SMEs have submitted requests to financial intermediaries, for a total amount of €941mn in CDP financing and €71mn in Ministry of Economic Development contributions in the form of interest payments.
The Central Guarantee Fund is the main national facility for SMEs’ access to credit; it provides a State guarantee of bank loans to SMEs.

In 2013, the Central Guarantee Fund eligibility provisions were simplified and its resources were increased. Thanks to this Fund, more than 77,000 firms received borrowings for about €11bn.

In May 2014, new conditions to allow guarantees on portfolio investments in SMEs became operational.
Finance for firms (3)

- The **development of capital markets** is fostered by the 2012 launch of the Alternative Investment Market (AIM), a new segment of the stock market offering a faster and more flexible listing procedure for SMEs.

- Since January 2013, 15 Italian non-financial companies have gone public: the largest number since 2007.

- The **allowance for corporate equity** (ACE) was strengthened by the 2014 Stability Law to further increase the tax deduction for new equity contributions to firms’ capital structure. ACE entitlements valued at €1.8bn for firms, about €1bn for partnerships and €344mn for individuals.
Finance for firms (4)

- Greater participation of insurance companies in the growth of the mini-bond market, made possible by regulatory changes by IVASS (Italian insurance supervisory authority) in December 2013 following the ‘Destinazione Italia’ Decree Law.

- Insurance companies can invest up to 3% of their technical reserves in: i) bonds issued by unlisted companies (i.e. mini-bonds), and ii) securitised mini-bonds without rating.

- Insurance companies may now invest in alternative funds that specialise in mini-bonds and securitised mini-bonds (the concentration ceiling is raised to 3%).
Two agreements signed by the Ministry of Economy and the Ministry of economic development with the EIB to finance SMEs, infrastructure, students and employment.

100mn of the Guarantee Fund used to cover the risk of first loss in R&D of SMEs and Mid-Cap, by which the EIB will trigger a loan portfolio of 500mn. The agreement allows to finance projects with a higher risk profile.

A framework agreement between the two ministries and the EIB to cooperate with the aim of increasing the resources for the financing of new investments.
Banking Sector (1)

- Banks have asked for more collateral and reduced loan-to-value ratios and have further increased their screening in order to improve the performance of their loan portfolios.

- By the end of 2013: i) 60% of the aggregate loan portfolio was collateralised; ii) the ratio of bad loans to outstanding loans has stabilised since the 3Q13; iii) the Italian banking groups’ average core tier 1 capital ratio reached 10.5% (vs. 7.1% in 2008).

- There is ongoing capital strengthening, achieved almost entirely with private capital. New equity and retained profits contributed to nearly €60bn to capital.
Banking Sector (2)

- The asset quality review (AQR) and a stress test, agreed with the EBA, aimed to test the resilience of banks’ balance sheet to adverse scenarios.

- In 2012 a specific AQR was launched, aimed at assessing the adequacy of the provisioning on non-performing loans. 20 banking groups inspected.

- The comprehensive assessment to prepare for the Single Supervisory Mechanism of November 2014, will involve 15 intermediaries identified as systemically important.

- The national authorities will maintain direct supervision over all the other banks (around 600) according to common standards.
Banking Sector (3)

- An increase in **NPLs** from 4.5% of total in 2007 to 15.9% in 2013 has not produced much selling activity up to recently.

- **Sales of NPLs are now easier** due to: i) the increase in provisioning and the ensuing rise in coverage ratios, triggered by supervisory action; ii) the reduction in sovereign risk; iii) the improved tax treatment of write-downs and credit losses; iv) the gradual economic recovery; and v) judicial reforms to reduce the time needed for bankruptcy procedures and credit recovery.
Governance of the Banking Sector

- Regulation and supervision of the Bank of Italy pays particular attention to corporate governance.

- In the 2008 regulation on banks’ corporate governance, stringent rules were applicable to all banks. In 2012, corporate governance regulation was strengthened to make the procedure for the appointment of directors more transparent, with ex-ante analysis and the ex-post verification on the proper composition of the board.

- All banks benefit from the enhanced procedure, especially ‘banche popolari’ and banks in which Foundations have a large stake.
The Jobs Act

In March the Government launched a strategy to tackle unemployment and reduce bureaucratic burdens weighing on the labour market.

The strategy includes: i) a new regulatory framework for entry flexibility; ii) a more inclusive social safety net; iii) stronger coordination between active and passive labour market policies; iv) a rationalised and targeted system of tax incentives; v) procedural simplifications.

A Decree converted into Law in May 2014 included some of these elements, while a draft enabling law is under discussion in the Parliament.
Highlights of the Law (1)

- **Higher entry flexibility**: extends the maximum duration of fixed-term contracts (FTCs) from 12 to 36 months (without the need to state a reason), with the possibility of up to 5 extensions within 3 years (with a specific reason). Employees covered by FTCs cannot exceed 20% of total of a company (excluding SMEs with less than 5 employees and the R&D sector) with sanctions in case of infringements.

- **Apprenticeships**: streamlines the criteria for individual training plans, complementary public training and abolishes the need to confirm 20% of existing apprentices before hiring new ones (for firms up to 50 employees).
Solidarity contracts: increased the resources (to €15mn) to sustain schemes to allow a reduction of working hours by firms facing a drop in demand.

Administrative simplification: the social security compliance certificate (DURC) will be fully digitised through online verifications of social security compliance.

Periodic monitoring: the Ministry of Labour is tasked with reporting to the Parliament on the use of FTCs and apprenticeship contracts 12 months after the reform.
Highlights of the proposed Enabling Laws (1)

- **Unemployment insurance and benefits**: extended targets and higher replacement rates and durations; tightened criteria for the CIG (Wage Supplementation scheme).

- **Strengthening ALMPs**: better coordination between active and passive labour market policies (a new National Employment Agency is established); rationalisation and increased effectiveness of tax incentives.

- **Simplification and digitisation** of administrative procedures specifically related to hiring and employment.
Rationalisation of contractual arrangements: a new ‘insertion contract’ for new entrants into the labour market with an increasing level of employment protection, the introduction of a minimum wage for all employees, and the enactment of a streamlined and unified labour code.

Strengthening work-family conciliation: extend maternity benefits to all employees and grant a tax credit for employment of women (including self-employed) according to total income and family size; promote collective agreements favouring flexible working hours, productivity, as well as enhanced childcare/eldercare services and work-life balance.
Implementation of the Youth Guarantee National Plan

The plan was submitted by the Ministry of Labour to the European Commission in December 2013 and officially launched in May 2014.

Hinges on 9 initiatives centered on vocational training, apprenticeship and traineeship.

Involvement of Public Employment Services (PESs) and Local Administrations in the activation of training and employment measures in favour of NEETs.

A national integrated technological platform for registration and work placement. Definition of a set of monitoring indicators.