

#perfarsiunidea

ITALY'S REFORMS

Long expected, consistently designed, fully implemented.



Ministero
dell'Economia
e delle Finanze

PUBLIC FINANCE

long term sustainability, short term boost, growth-friendly approach

- Tax cut over productive factors (IRAP, ...)
- Budget Law 2016: a Budget Law for growth
- Spending review
- Deficit/primary surplus
- Debt/sustainability (EU Com)

AN IMPROVED BUSINESS ENVIRONMENT

improving access to credit, diversifying financial (re)sources, streamlining the business environment

- Main factors to facilitate access to alternative resources to bank credit
- Reform of the Banking Sector I (Operators)
- Guarantee on NPLs ABS
- Reform of the Banking Sector II (New provisions on NPLs)
- Labour Market
- Civil Justice
- Public Administration

INSTITUTIONS

improving stability, enhancing efficiency, making governance easier

- Simplification of the levels of government
- Electoral law
- Law-making process

CONCLUSIONS

PUBLIC FINANCE

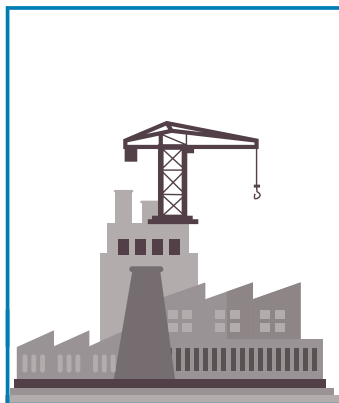
The government's policy is focused on reducing the fiscal burden through a growth-friendly approach. Reducing both the deficit and the debt will ensure gradual achievement of EU targets and fiscal sustainability.

TAX CUT OVER PRODUCTIVE FACTORS

The government's labour policy has initially focused on granting fiscal incentives to workers and businesses.

The 2015 Budget Law introduced a €5 billion cut in the regional tax on productive activities (IRAP) with respect to the cost of labour. The total cut is € 13.9 billion from 2015 to 2017. Corporate taxpayers that have no employees and no labour costs can take advantage of a 10% tax credit with respect to IRAP.

The tax wedge has been significantly reduced for low- /medium-income employees; the reduction amounts to €80 per months or €960 per year per employee, and has been effective since April 2014. Small sole proprietorships can also benefit from favourable new tax provisions.



REGIONAL TAX ON BUSINESS



INCOME EMPLOYEES



BUDGET LAW 2016: A BUDGET LAW FOR GROWTH

2016 Budget Law sets a further milestone in government's determination to cut taxes.

TASI

PROPERTY TAX ON MAIN DWELLINGS (TASI) HAS BEEN ABOLISHED, PROVIDING AN IMPORTANT TAX RELIEF TO 80% OF ITALIAN POPULATION

IMU

CUTS HAVE BEEN INTRODUCED ON PROPERTY TAX FOR AGRICULTURAL AND INDUSTRIAL ACTIVITIES (IMU)

IRES

CORPORATE TAX RATE (IRES) WILL BE REDUCED STARTING FROM 2017. EARLY IMPLEMENTATION IN 2016 IS UNDER DISCUSSION WITH EUROPEAN COMMISSION

NEW MEASURES TO BOOST INVESTMENT AND PRODUCTIVITY:

BUSINESS INVESTING IN CAPITAL GOODS ARE ENTITLED TO DEDUCT AN AMOUNT EQUAL TO 140% OF THE ORIGINAL COST OF THE EQUIPMENT (DEPRECIATION TAX BENEFIT). THE MEASURE IS OPEN TO ANY TYPE OF BUSINESS AND EFFECTIVE FROM 15TH OCTOBER 2015

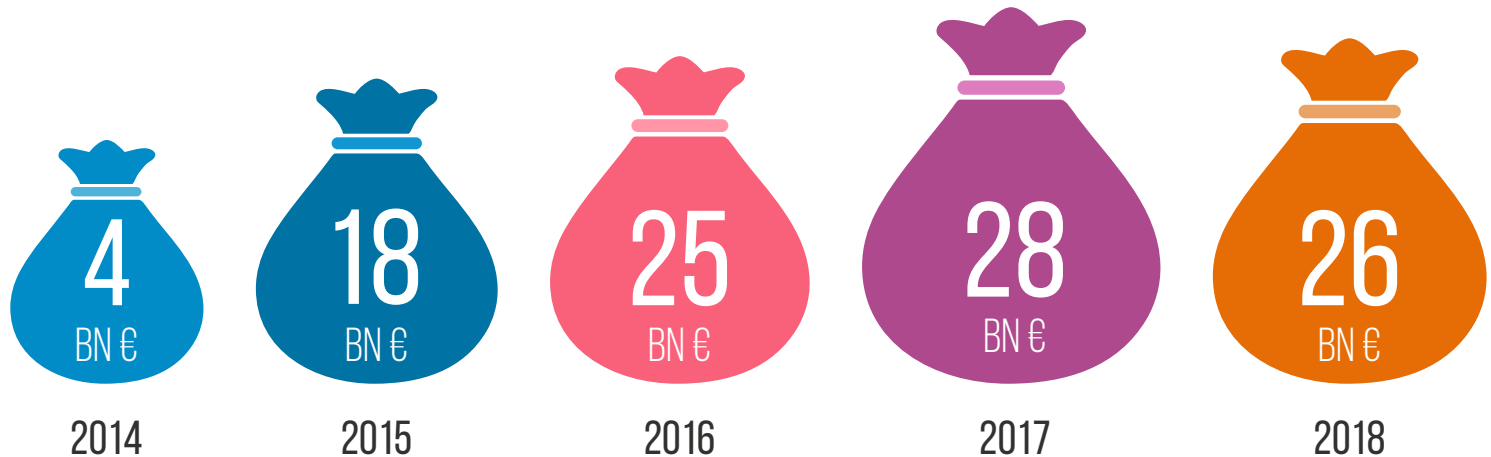
TO FAVOUR MERGERS, ESPECIALLY AMONG SMES, THE TIME FRAME FOR THE AMORTIZATION OF GOODWILL HAS BEEN CUT BY HALF

FISCAL INCENTIVES TO ENHANCE LABOUR PRODUCTIVITY HAVE BEEN INTRODUCED

SPENDING REVIEW

The spending review launched in 2014 is a comprehensive programme to streamline public spending. As provided by the 2015 Budget Law, the programme is aimed at making the expenditure of the central government and local authorities more efficient. It has also focused on streamlining local utilities and the full implementation of an enabling law for tax administration reform. On a cumulative basis, the SR measures approved in 2014 and 2015 (including Budget Law 2016) have targeted savings of up to €3.6 billion in 2014, €18 billion in 2015, €25.1 billion in 2016, €27.9 billion in 2017 and €26.3 billion in 2018.

SPENDING REVIEW WITH MEASURES ADOPTED IN 2014

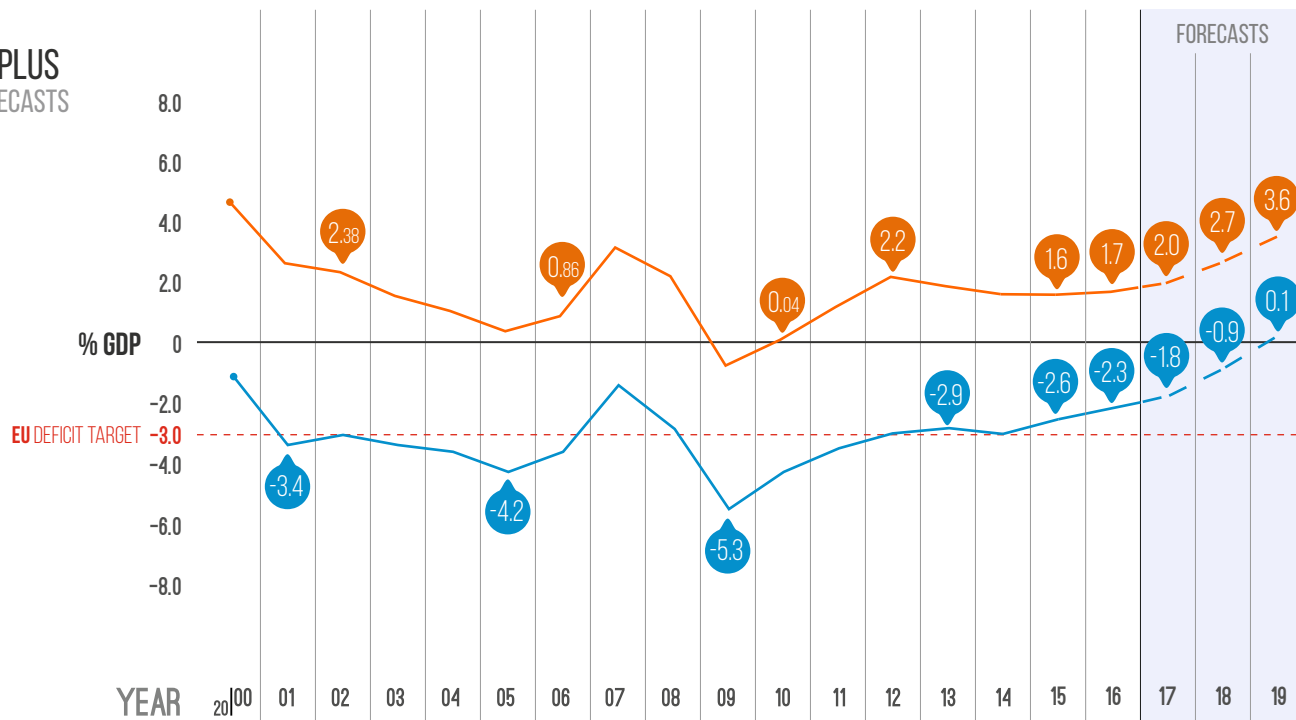


DEFICIT/ PRIMARY SURPLUS

(% GDP)

A declining deficit, together with a growing primary surplus, will help to keep the trend of the budget positive, while also allowing for a gradual achievement of the EU deficit target.

DEFICIT AND PRIMARY SURPLUS HISTORIC AND FORECASTS



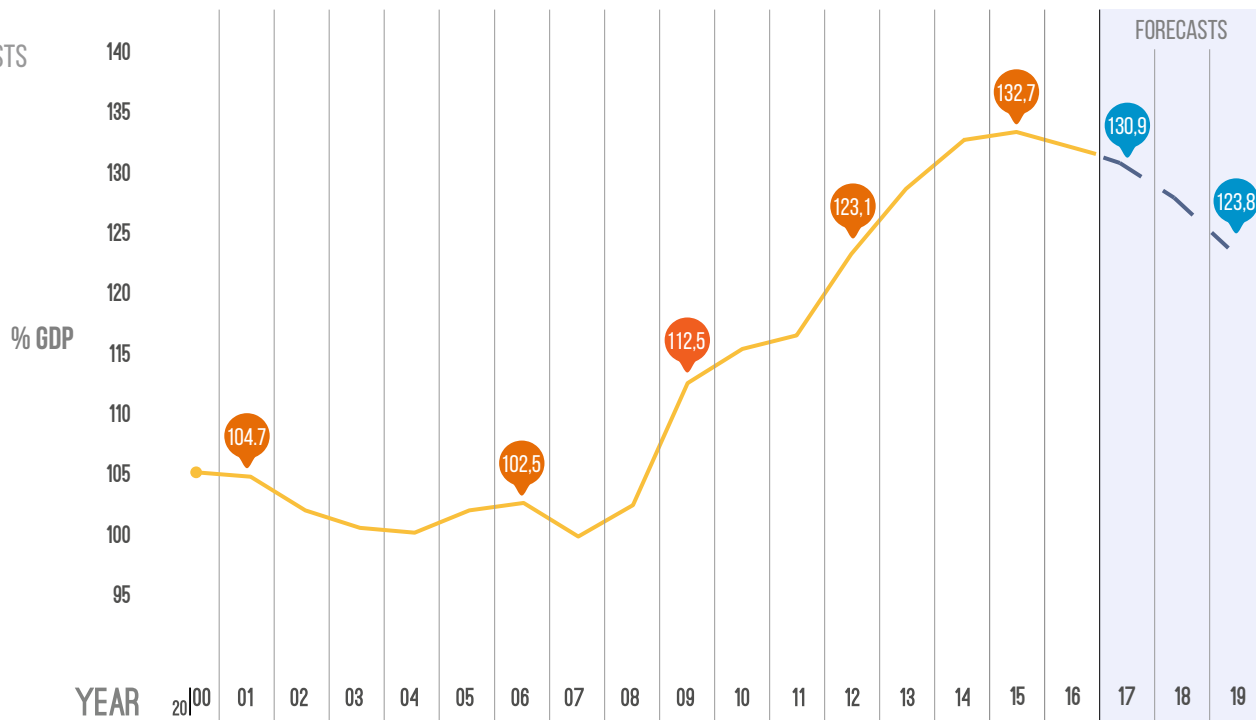
DEBT/GDP SUSTAINABILITY

EU COM

The implementation of highly needed reforms will ensure that growth potential can be fully unleashed. Higher growth and a sizeable primary surplus will put the debt-to-GDP ratio on a sustainable path.

According to an EU Commission analysis, Italy's debt is one of the most sustainable in the Euro Area. The S2 indicator is -2.1 compared with the EU average of 1.7 and the Euro Area average of 0.8. As the indicator increases, the fiscal adjustment required to maintain sustainability also increases.

DEBT HISTORIC AND FORECASTS



KEY

DEBT/GDP

AN IMPROVED BUSINESS ENVIRONMENT

A more efficient banking system, a more flexible labour market and an improved civil justice system will ease the bureaucratic burden for companies with respect to their day-to-day operations.

A better business environment can attract more investment.

MAIN FACTORS TO FACILITATE ACCESS TO ALTERNATIVE RESOURCES TO BANK CREDIT

The economy needs a healthy and efficient financial system to recover. The "Finance for Growth" programme has addressed the constraints on credit to businesses, providing an alternative to a bank-centric financing system.

Insurance companies and credit funds can now lend directly to firms while EU-based investors no longer pay a withholding tax. The Central Guarantee Fund's programmes have been extended to include mini-bonds, which are bonds issued by SMEs meeting specific criteria.

The "Finance for Growth" programme also provides introduces incentives for SMEs to expand their operations, thus favouring stock-market listings and enhanced capitalization through the ACE (Allowance for Corporate Equity).

REFORM OF THE BANKING SECTOR I

OPERATORS

Italy's 10 largest cooperative banks must be transformed into joint stock companies by the end of 2016, thus making further consolidation of the banking sector possible.

The reform of smaller cooperative banks ("BCC") asks for the creation of a joint stock parent company, with expected control stake detained by BCCs. This conglomerate could potentially become Italy's third largest group.

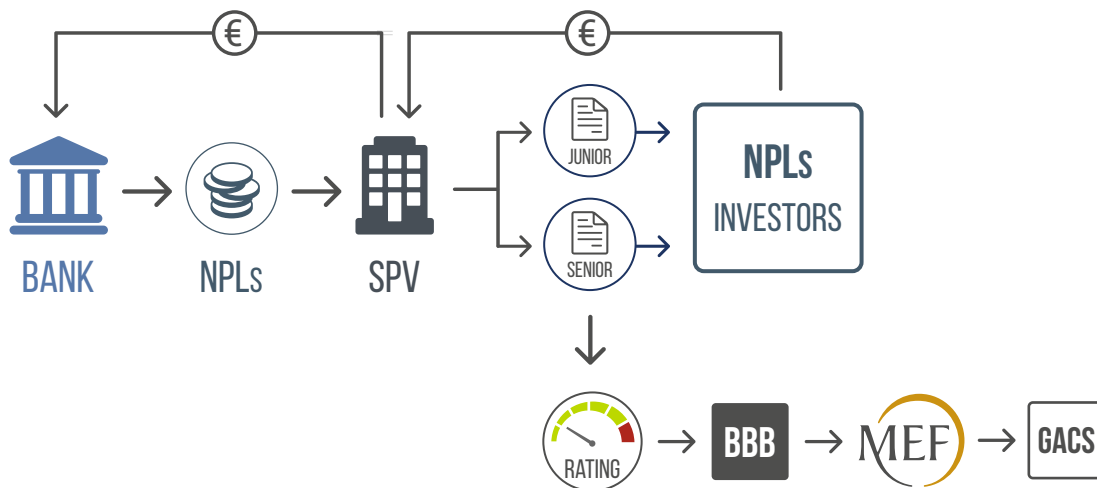
Banking foundations will legally be required to diversify their assets and to respect an investment exposure threshold with respect to a single bank (no more than one-third of the foundations' capital may be held by allocated to an individual institution).

“GACS” GUARANTEE ON NPLs ABS

On February 2016 the Government has introduced a guarantee for senior tranches of securitized non-performing loans (NPLs), in order to facilitate the dismissal of NPLs. The final aim is to restore and increase lending to the real economy.

The guarantee will be issued upon request of banks, which in turn have to pay a regular commission to the Treasury. Price of the guarantee will reflect the market price in order to ensure the state aid-free nature of the scheme.

The State will guarantee only senior tranches of the Asset-backed security (ABS) which have received a rating equal to or higher than Investment Grade by a rating agency qualified to the ECB (i.e. the main credit rating agencies). Guarantee is effective after that half of the junior tranches have been sold. The riskiest tranches (i.e. junior and mezzanine) shall not be repaid until the senior tranches guaranteed by the State have been fully repaid.



REFORM OF THE BANKING SECTOR II

NEW PROVISIONS ON NPLs

Italy's stock of non-performing loans is twice the Euro Area average and has impeded growth of the credit market. To facilitate absorption of the NPL stock, the government has introduced measures to accelerate bankruptcy procedures.

Asset foreclosure lead-time has been substantially reduced to allow banks to write off NPLs and increase their credit to businesses. The tax deductibility of loan losses has gone from 5 years to 1 year, in order to allow for the complete write-off of current stock of deferred tax assets (DTAs).

DEDUCTIBILITY OF LOAN LOSSES

18 YEARS

5 YEARS

1 YEAR

2013

2015



LABOUR MARKET

The Jobs Act, entered into force in March 2015, promotes a wider use of open-ended contracts and enhances employment benefits for all categories of workers, included the most vulnerable ones. The Jobs Act also introduces a new form of contract, with benefits increasing with seniority and provides for clearer and more effective rules for dismissals, by introducing monetary compensation as the standard with an amount fixed by law; it also broadens income support schemes, accompanied by measures to actively involve unemployed workers in their job search, through a brand-new national Agency for active labour market policies

2015 Y-O-Y
NEW OPEN-END
CONTRACTS

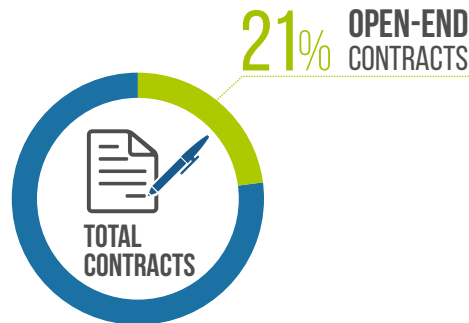


+25%

Q1

Q2

Q3



CIVIL JUSTICE

The reform of civil justice system aims at improving the working methods of the judicial system and reducing the time required for court proceedings. The reform provides for increased productivity of the courts (revision of territorial distribution), an introduction of online phases of civil proceedings, and incentives for out-of-court settlements.

In addition, attorneys' fees have been deregulated and there are now more alternatives for resolving disputes.

The government has recently adopted provisions to accelerate bankruptcy proceedings. Liquidation proceedings and debt restructuring can now be accomplished more quickly. The procedures for interim financing of insolvent businesses have been abbreviated, while arrangements with creditors now include competitive bidding.



**50% REDUCTION IN TIMING
REQUIRED FOR INJUNCTIONS**



**ITALY IS THE EU'S FIRST COUNTRY
TO ACTIVATE ONLINE CIVIL TRIALS**



**84% OF TRIALS SETTLED BY BUSINESS
TRIBUNALS IN ONE YEAR OR LESS**

INSTITUTIONS

Institutional reforms aim at guaranteeing political and institutional stability. Greater stability can ensure a more certain framework to companies and households, thus providing an improved business climate.

Last January the Government approved 12 legislative decrees reforming public administration and civil service. The aims are to enhance transparency, to fight corruption, to increase efficiency of public procedures and to reduce bureaucratic barriers to growth and productivity, in order to deliver a clearer State where to live and invest in.

The decrees cut red tape for investors: administrative procedures have been simplified, speeded up and digitalized. At the same time, the reform introduces significant changes in State bodies and structures, through an overhaul of Italy's port authorities, the fusion of military corps, the reduction of the number of State owned companies and their reorganization, in order to assure quality of service provision.

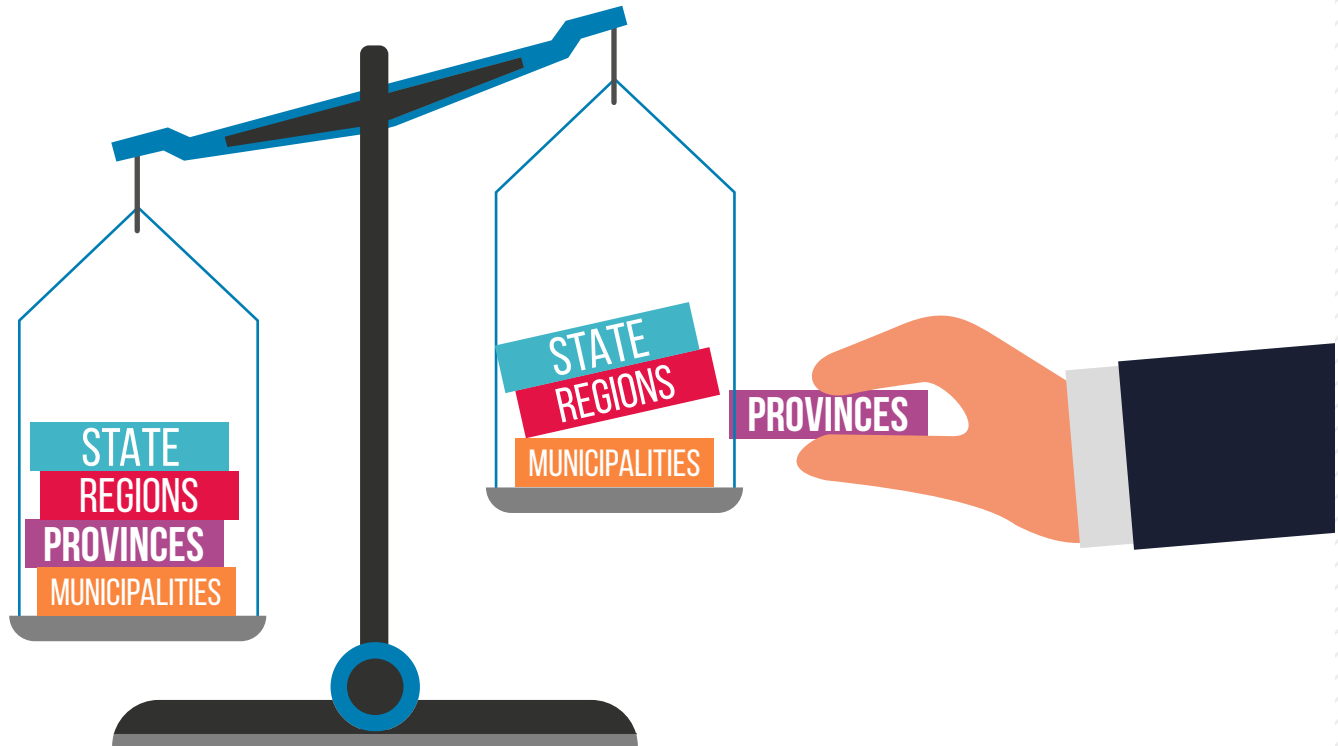
- 50% 

**TIMING FOR ADMINISTRATIVE PROCEDURES
CUT BY HALF FOR RELEVANT PRODUCTIVE
INVESTMENT AND ENTREPRENEURIAL ACTIVITIES**

SIMPLIFICATION OF THE LEVELS OF GOVERNMENT

Through consolidation, the number of provinces has decreased, meaning significant savings for the State. The provinces now have more streamlined governance, without the requirement for direct elections.

Employees are now being reassigned and a review of job duties has been under way since January 2015.



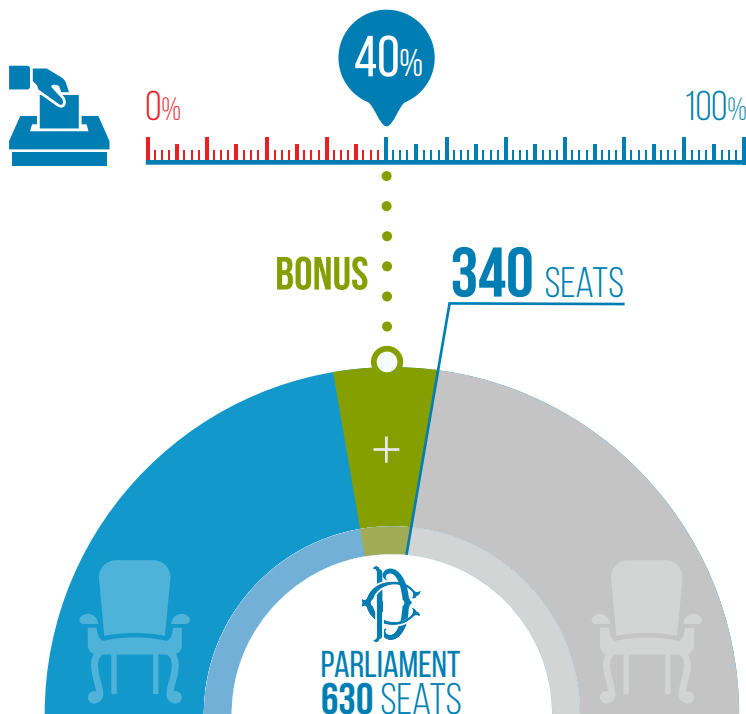
ELECTORAL LAW

The new law for general elections was approved in May 2015.

The system is based on proportional representation over nationwide lists. It assigns a bonus to the winning party that guarantees the political stability over the five years of legislature.

The new law goes into effect on 1 July 2016.

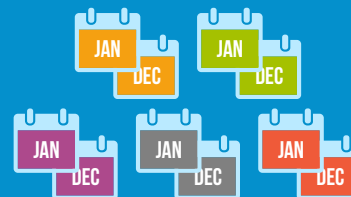
If the winning party obtains 40% of the votes in the first round, it gets a bonus to get to 340 seats therefore securing a sound majority. If not, a run-off ballot is to be held to determine which party gets the bonus.



5 YEARS



POLITICAL STABILITY



LAW-MAKING PROCESS

The draft Constitutional bill overcomes perfect bicameralism and aims at streamlining the law-making process. Approval times should be accelerated, as most of the new laws will be approved only by the Chamber of Deputies.

A confirmative constitutional will be held in the fall 2016.



A VOTE ON THE MOST IMPORTANT PROVISIONS
CAN TAKE PLACE WITHIN A DEADLINE
SET BY THE GOVERNMENT.



THE BUDGET BILLS WILL BE APPROVED BY THE CHAMBER
OF DEPUTIES ONLY. THE SENATE WILL PARTICIPATE IN THE
RATIFICATION OF EU LEGISLATIVE ACTS.



EXCEPT FOR SOME SPECIFIC ISSUES,
THE LEGISLATIVE FUNCTION WILL BE EXCLUSIVELY
CARRIED OUT BY THE CHAMBER OF DEPUTIES.

CONCLUSIONS

The government has accelerated the reform process, addressing long-needed structural changes in various sectors.

The public administration is being restructured so as to reduce the time required for adopting and implementing policy decisions. The financial sector has been opened to competition in order to increase credit flows, and the banking sector has been radically transformed as a result of recent provisions.

The ongoing reform effort has already produced visible effects on Italy's growth, but additional effects should be seen in the months ahead.



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