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ITALY – REVIEW OF PROGRESS ON POLICY MEASURES RELEVANT FOR THE CORRECTION OF MACROECONOMIC IMBALANCES

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Executive summary

This is the seventh specific monitoring report under the Macroeconomic Imbalance Procedure for Italy, which was considered to experience excessive macroeconomic imbalances in the 2019 European Semester. In line with the 2019 country-specific recommendations, the report reviews recent developments and policy initiatives relevant for unwinding Italy's imbalances, which essentially relate to high public debt and slow productivity dynamics, and addressing legacy issues related to the weak labour market performance and a vulnerable banking sector.

Italy's economy is at the margin of stagnation and imbalances are not expected to unwind in the near term, although the share of non-performing loans (NPLs) has reduced considerably and unemployment has kept falling. Italy's economy decelerated in 2018 and real GDP is projected to grow by 0.1% in 2019 and 0.4% in 2020. While investment grew by more than 3% in 2018 and an estimated 2.7% in 2019, subdued demand and global policy uncertainty are expected to prevent similar growth rates in the following years. Net external liabilities are declining, but slower world trade growth may further affect export performance. Low GDP growth and the lack of fiscal consolidation contributed to the increase in the government debt ratio in 2018, which remains high and is projected to further increase to 136.8% of GDP in 2020. Aggregate productivity growth remains subdued especially due to the negative contribution of services. Unemployment continued to decline but is still high, in particular long-term and youth unemployment. There is still room to raise labour market participation, especially of women. The situation of the banking sector has improved, with a large and continued reduction of NPLs (which almost halved from 2015 to 2018). However, the stock of NPLs remains high (gross ratio at around 8% on average), especially for small and medium banks. The limited recourse to non-bank finance leaves Italian firms vulnerable to shocks in the banking sector and lending to firms has halted.

While some recent policy measures go in the right direction, in particular announced measures on fighting tax evasion, boosting public investment and supporting childcare, full implementation of reforms without backtracking in some policy areas remain an issue. Recent measures such as those to encourage electronic payments are a step in the right direction for enhancing the efficiency of tax collection and reducing public debt, while others such as the fund aimed at reducing the labour tax wedge can improve the quality of public finances. However, the introduction of a new minimum income scheme and of the provisions increasing the possibilities for early retirement in 2019, including "Quota 100", will further weigh on public finances in 2020, with also a potential negative impact on labour supply in the case of the latter. The plan to increase the financial support for childcare facilities can help increase the labour market participation of women, which is still low. However, the role of activation policies and of efforts to improve the overall quality of education remain limited. Enhanced budgetary autonomy of local governments and increased public funding for investment are helping to relaunch public investment, while measures to strengthen the administrative capacity of the public administration are still insufficient. Measures to support private investment and the internationalisation of firms have been prolonged but remain fragmented and temporary. The uncertainty of the business environment is increased by the announcement of further changes in the public procurement and concessions code and by the still pending reform of the civil justice system. However, improvements are observed in the digitisation of public services and in the reform of the anti-corruption framework, although gaps remain in the latter. Outright sales and securitisation with the government guarantee scheme made banks' disposal of NPLs substantially progress. The re-introduction of the allowance for corporate equity could improve firms' access to finance, but the effectiveness of other measures to promote non-bank finance remains limited.

Overall, a clearer and more sustained reform agenda is crucial for supporting a virtuous cycle in the unwinding of imbalances. This would include effective structural reforms and a reduction of public debt, while improving its composition, notably through investment. Delays in the adoption or implementation of important reforms, as well as backtracking on others (notably pensions) and year-by-year confirmation of temporary policy measures, such as those to support private investment, increase uncertainty for firms. Accompanying the increase in the funding of public investment with comprehensive structural reforms, such as measures to effectively strengthen administrative and spending capacity, especially at the local level, is key. Increasing productivity, where most needed, and employment, by tapping the unexploited potential of female labour supply, is crucial to promote growth and support the reduction in the public debt-to-GDP ratio.

Table 1: Key findings on implementation of policy reforms[1]

On track	Wait-and-see	Action wanted
• Compulsory electronic invoicing and transmission of receipts • "Concretezza" decree to support local administrations • New anti-corruption law • Impresa 4.0 incentives for investment and innovation • Strengthening the National Plan for the Digital school • Reform of the Italian insolvency framework • Reform of the small mutual banks • Re-introduction of the "allowance for corporate equity" (ACE)	• Combating tax evasion, including by strengthening electronic payments • Design of the labour tax wedge reduction • Privatisation agenda • Institutional agencies to support investment projects • Reform of active labour market policies • Support to childcare • Revision of the public procurement code • Announced measures to improve the efficiency of the public administration • 34% clause for investment in the South • Reform of the large cooperative banks • National Fund for Innovation	• Revision of cadastral values • Rationalisation of tax expenditures, in particular for consumption taxes • Reduction of the share of old-age pension in public spending • Reform of civil and criminal trial • Reform of public employment at management level • Reform of local public services • Measures on competition policy

[1] The table classifies reforms under review on the basis of their respective adoption and implementation process, uncertainty and their level of detail. "On track" are measures for which the legislative or implementation process has been completed or is progressing well according to the envisaged timeline, and which are expected to be sufficiently effective. "Wait and see" are measures for which the legislative process is on-going, but is still in a relatively early phase, or measures for which there is still uncertainty on the complete implementation and effectiveness. "Action wanted" are measures for which limited or no action has been taken, or measures that have been announced but which are not sufficiently detailed yet to be assessed.

1. Introduction

In the context of the Macroeconomic Imbalance Procedure (MIP), the European Commission published its eight Alert Mechanism Report in November 2018[2], which selected Italy as one of the Member States selected for an in-depth Review. In February 2019, the Country Report on Italy[3] examined in greater detail Italy's macroeconomic imbalances and risks. At the same time, the Commission Communication[4] confirmed that Italy was experiencing excessive macroeconomic imbalances, stemming from the very high public debt and protracted weak productivity growth in a context of a still high level of non-performing loans (NPLs) and high unemployment.

In April 2019, Italy submitted its Stability Programme[5] and National Reform Programme[6]. Based on an assessment of those plans, the Commission proposed a set of five country-specific recommendations (CSRs)[7], which were adopted by the Council in July 2019[8]. The CSRs focus on five broad policy areas: (i) public finances; (ii) labour market, social policies and education; (iii) investment policies and barriers (public administration and competition); (iv) justice and corruption; and (v) financial sector. All CSRs were considered to be MIP relevant.

As regards Italy's fiscal policy specifically, following the Commission's request for a revised Draft Budgetary Plan (DBP) for 2019, Italy proposed amendments in December 2018, and the Commission concluded that those changes were material enough to avert the opening of a debt-based excessive deficit procedure (EDP) at that stage. In the spring 2019 round of fiscal surveillance, the Commission concluded that a debt-based EDP was warranted[9]. In July 2019, the government adopted a fiscal correction for 2019, supported by a commitment to achieve a structural effort in line with the EU rules for 2020, as well as to proceed with structural reforms in line with the 2019 CSRs[10]. This was considered sufficient to avoid the opening of an EDP at that stage. Based on the 2020 DBP, the Commission assessed the existence of a risk of non-compliance with the provisions of the Stability and Growth Pact.[11].

Commission staff conducted a specific monitoring mission to Italy on 4-7 November 2019. The cut-off date of this report is 3 December 2019.

[2] https://ec.europa.eu/info/sites/info/files/2019-european-semester-alert-mechanism-report-statistical-annex.pdf
[3] https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-country-report-italy_en.pdf
[4] https://ec.europa.eu/info/sites/info/files/file_import/2019-european-semester-communication-country-reports_en_0.pdf
[5] https://ec.europa.eu/info/sites/info/files/2019-european-semester-stability-programme-italy_en.pdf
[6] https://ec.europa.eu/info/sites/info/files/business_economy_euro/economic_and_fiscal_policy_coordination/documents/2019-european-semester-national-reform-programme-italy-it.pdf
[7] https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52019DC0512&from=EN
[8] http://data.consilium.europa.eu/doc/document/ST-10165-2019-INIT/en/pdf
[9] Further details can be found in the 126(3) report: https://ec.europa.eu/info/files/report-commission-italy-report-prepared-accordance-article-126-3-treaty-functioning-european-union_en
[10] Letter to the Commission of 2 July 2019.
[11] Further details can be found in the Commission's Opinion on Italy's 2020 DBP: https://ec.europa.eu/info/sites/info/files/economy-finance/c2019_9110_en_act_part1_v3.pdf

2. Outlook and recent developments on imbalances

2.1. Recent economic developments and outlook

Italy's economy has been almost stagnating since the beginning of 2018 and there were no signs of imminent recovery up to the third quarter of 2019. Italy's economy decelerated in 2018, with real GDP growth at 0.8%. After a short reprieve at the beginning of 2019, the manufacturing cycle weakened further, with falling inventories weighing on output growth. Investment spending, in particular on machinery and equipment, surprised on the upside alongside a rise in public investment. Fiscal incentives, ebbing political uncertainty at home and favourable financing costs are the main supporting factors.

Subdued demand prospects and recurrent global policy uncertainty are set to prevent a meaningful rebound in business investment in the short term. Household consumption is expected to gradually increase overall on the back of higher social transfers and falling energy prices. A stronger rebound in consumer spending is likely to be hampered by the worsening of the labour market due to weak economic activity and subdued wage growth. In view of the sharp slowdown in global trade, Italian exports held up remarkably well in the first half of 2019. However, in the wake of persisting trade tensions and uncertainty about trade policy, exports are unlikely to pick up further momentum. The growth contribution of net exports is likely to remain broadly neutral over 2020-2021, while the current account surplus is forecast to remain close to 3% until 2021.

Real GDP is projected to grow by 0.1% in 2019, before picking up moderately. In 2020, real GDP is set to rise by 0.4% mainly on the back of moderately growing domestic demand and exports. In 2021, real output is expected to grow at 0.7%, slightly above potential. Potential growth is estimated to remain at around 0.5% over 2019-2021. The growth in potential output is mainly driven by increasing contributions from labour and total factor productivity. Falling oil prices are dampening consumer price inflation. HICP inflation is set to slow down this year on the back of lower energy prices, before gradually picking up to 1.1% by 2021. The existing slack in the labour market will prevent the build-up of wage pressure.

2.2. Developments as regards imbalances and legacy issues

Public debt

The government debt-to-GDP ratio increased in 2018 and is expected to further rise in the next years. In September 2019, the national statistical institute (ISTAT) and the Bank of Italy published revised data on Italy's public debt, which implied an upward level shift of the debt-to-GDP ratio over the past years. Following the revision, Italy's debt-to-GDP ratio peaked at 135.4% in 2014, before declining to 134.1% of GDP in 2017 and increasing again to 134.8% in 2018. The increase in 2018 was due to particularly low real GDP growth and a large stock-flow adjustment (0.7% of GDP), mainly related to fluctuations of the Treasury liquidity reserves and to negative developments in the financial markets. After substantially increasing in May 2018 (from around 130 to 290 bps), with further peaks in October and November of last year (at 320 bps), risk premia on sovereign yields, as measured by the spread versus 10-year German government bonds, declined marginally in January 2019 (to 250 bps) and more substantially from July onwards (to 200 bps), reaching by September 2019 the level observed at the beginning of 2018. In September 2019, yields on 10-year government bonds recorded a historically low level (0.8%).

The Commission 2019 autumn forecast expects Italy's debt-to-GDP ratio to further rise to 136.2% in 2019, 136.8% in 2020 and 137.4% in 2021, amid persistently weak nominal GDP growth and a deteriorating primary balance. The latter is expected to decline as a share of GDP by 0.2% in 2019, 0.3% in 2020 and 0.6% in 2021.

Productivity and competitiveness

Italy's non-cost competitiveness remains modest, although exports kept up well in the slowdown of global trade. Italian exports are forecast to grow by 1.9% in 2019. In recent years, cost competitiveness has been supported by contained growth in unit labour costs, while they increased moderately in 2018 (+2.2% versus +1.9 in the EA). Despite the past improvements in cost competitiveness, on average low-productivity growth continues to constrain non-cost competitiveness and a shift in exports towards more technology-intensive products. Conversely, the trade balance is in surplus and is forecast to remain close to 3% of GDP over the period until 2021. The trade balance contributed to the improvement in the net international investment position, which is now close to balance.

Subdued productivity growth, particularly in services and for smaller firms, limits non-cost competitiveness and potential growth. In 2018, value-added growth was still driven by increases in employment rather than productivity. Aggregate labour productivity continued to decline in 2018 (-0.3% versus +0.5% in the EA19) and is expected to remain subdued in 2019-2020. This is mostly due to a decline in labour productivity in services, while productivity in manufacturing has been steadily increasing since 2000, except during the crisis, although at a slower pace than in peer countries. Total factor productivity (TFP) increased slightly in 2018 (+0.3% versus +0.6% in the EA19), after an almost constant decline since 2000. Exceptions are manufacturing and very large firms in services, where TFP has increased since 2000. Productivity dropped in laggard Southern regions. Public investment continued declining, to 2.1% of GDP in 2018, from 2.2% of GDP in 2017. However, a change in trend since the end of 2018 is suggested by data on the number of projects and investment-related payments from local administrations. Persistent barriers to productivity and investment constrain productivity and growth, which in turn hampers the reduction of Italy's public debt-to-GDP ratio. Important issues in this respect are to improve the efficiency of the public sector, the need for a more supportive business environment, better allocation of capital and ensuring an adequate level of skills.

Unemployment and labour market participation

Unemployment has been decreasing but remains high, especially long-term and youth unemployment, amid low labour market participation rates, especially of women. Unemployment continued to decline in 2019, while employment growth started showing signs of weakness. In the third quarter of 2019, the unemployment rate fell to 9.8% (average of monthly LFS figures), and joblessness among the young (15-24 years) to 28.4%, compared to 10.8% and 31.9%, respectively, a year earlier. However, total employment growth slowed down over the summer amid low inactivity rates, in particular of women and young people. The total labour force on average slightly decreased in the first ten months of 2019, compared with the same period of last year. This lends support to the hypothesis that the new minimum income scheme ("Reddito di cittadinanza") has not yet induced a large number of inactive people to register as unemployed in order to receive income support. In the year up to October 2019, the number of permanent employees has risen by 1.2%, while the number of temporary posts has grown by 1.3%, down from an annual average growth rate of 11.9% in 2018. The shift from temporary to permanent employment has been supported by hiring incentives for permanent posts and by the "Decreto Dignità", which as of November 2018, sets more stringent limits to the maximum duration of temporary contracts.

Financial sector

The situation of the banking sector has improved, but vulnerabilities remain. Italian banks are still substantially exposed to their sovereign, implying a pronounced home bias and the risk of adverse feedback loops. As of September 2019, Italian banks' holdings of domestic sovereign debt equalled to EUR 334 billion, with less significant institutions[12] often having a higher exposure in terms of total assets than significant ones[13]. Following the ease of market tensions, Italian banks reduced their value of stock by EUR 5 billion between May and September 2019. Currently, yields on domestic sovereign debt are markedly below the peak levels observed in 2018, but a rebound may put strain on banks' cost of funding and the credit provision to the economy. The disposal of NPLs has further progressed, but the legacy stock remains high, in particular for less significant institutions. The gross NPL ratio at system level decreased substantially, from 16.8% at the peak-level in the third quarter of 2015 to 8.1% in June 2019. A rapid pace of reduction is also visible in terms of gross NPL disposals, which amounted to EUR 55 billion in 2018 and EUR 20 billion in the first ten months of 2019. On the back of retained earnings, Italian banks have slightly increased their capital base since December 2018, while liquidity conditions remain broadly stable. As of August 2019, lending to households has been rising at a modest pace (+2.4% YoY) while lending to non-financial corporations has halted (-0.7% YoY). Since the financing of the

[12] The direct supervision of credit institutions classified as less significant institutions is conducted by national competent authorities, subject to oversight by the ECB.
[13] Credit institutions classified as significant institutions are directly supervised by the ECB, assisted by national competent authorities.

Italian economy is predominantly bank based, a slowdown in economic activity is likely to affect loan demand and to deteriorate the already subdued profitability. Lower bank profitability would, in turn, reduce the organic capital generation and therefore affecting the capacity of banks to strengthen their capital base. The limited progress in expanding non-bank financing leaves Italian firms vulnerable to shocks in the banking sector.

3. Policy implementation and assessment

3.1. Achieving sustainable and growth-friendly public finances

The main measures introduced by the 2019 budget will further weigh on Italy's public finances in 2020. The 2019 budget provided for a new minimum income scheme and broader possibilities for early retirement, including a new early retirement scheme ("Quota 100"). The two measures[14] were estimated by the government to increase public spending by around 0.5% of GDP in 2019 and 0.8% of GDP from 2020. Although the time needed to process applications for the new minimum income scheme and the relatively low take-up rate of the early retirement scheme generated some savings, the related cost remains substantial, estimated by the government at 0.4% of GDP in 2019 and 0.7% of GDP in 2020. In 2019, it is however expected to be offset by other measures and extraordinary developments[15], leading to an overall improvement in the structural balance of 0.2% of GDP based on the Commission 2019 autumn forecast. In 2020, although the financing measures included in the 2020 draft budget will partly offset the costs of the new social schemes, the structural balance is expected to deteriorate by 0.3% of GDP. Furthermore, the new provisions on pensions are expected to increase the share of pension expenditure in total public spending, further aggravating the long-standing bias of Italy's public spending towards old-age pensions and limiting resources for more growth-enhancing expenditure. In addition, if extended after the three-year trial period, the new early retirement scheme would worsen the sustainability of public finances over the medium term. It might also negatively affect potential growth going forward, further worsening the medium-term sustainability of public debt.

The 2020 draft budget contributes to a reduction in labour taxes and tax expenditures, but a comprehensive reform to shift taxation away from labour is still pending. The 2020 draft budget includes a fund to reduce the tax wedge on labour of around 0.2% of GDP in 2020 and 0.3% of GDP from 2021, but the design of the tax reduction is not yet determined. At the same time, the accompanying fiscal decree introduces a limit on tax deductions on personal income taxes (with the exception of interests on mortgages and specific types of healthcare expenditures) above an income threshold and progressively declining with income. Environmentally harmful tax expenditures are reduced by lowering tax incentives for the most polluting diesel vehicles from 2021 and reducing exemptions for the most polluting company cars. In addition, a new tax on plastic packaging and higher taxes

[14] Those measures were defined in detail by law 26/2019.
[15] The extraordinary developments include the particularly high dividends paid by Bank of Italy and the national promotional agency ("Cassa depositi e prestiti"), as well as the large tax settlement with the Kering Group.

on gambling are introduced. However, a comprehensive reform of tax expenditures, notably reviewing consumption taxes and particularly the use of reduced VAT rates, is still pending. Furthermore, there are no plans yet for reforming the outdated cadastral system, although a digital platform has been put in place which in principle contains the necessary information to fill the gap between cadastral and market values.

Corporate taxation continues to be subject to frequent changes, while the overall tax burden on firms is broadly unchanged. The 2020 draft budget extends past tax incentives on new equipment investment until 2022. However, numerous measures affecting corporate taxation have been discontinued, including by reversing previous measures before they entered into force. This concerns the harmonisation of taxation between self-employed workers and small firms, for which first a specific tax regime and then a flat-rate regime were both planned and then abrogated before entering into force. Similarly, the allowance for corporate equity ("ACE") was replaced in 2019 by two subsequent tax regimes providing structural incentives to investment, which were abolished before entering into force, when the 2020 draft budget reintroduced ACE. Finally, the 2020 draft budget suspended also for 2019 the tax deductibility of specific costs and budgetary losses for some categories of firms, especially banks, which the 2019 budget had already suspended for 2018. Overall, the 2020 draft budget increases the tax burden on firms by 0.1% of GDP in 2020 at an aggregate level, compared to the unchanged policy scenario.

The 2020 draft budget further stepped up the fight against tax evasion, including by encouraging electronic payments. In recent years, several measures have been implemented to deter tax evasion, especially to tackle omitted payments for declared income as well as to improve the quality and timing of the information available to the tax administration. In particular, electronic invoicing has become compulsory for all private sector transactions since January 2019, and the electronic transmission of receipts has been introduced for larger firms from July 2019 and for all firms from January 2020. At the same time, the 2020 draft budget includes several measures to fight omitted declarations, including by encouraging traceable means of payments. In particular, a fund (0.2% of GDP from 2021) is created to reward consumers that pay via electronic means. Other measures to encourage electronic payments include: (i) a lower limit to cash payments, reduced from EUR 3000 to EUR 2000 from July 2020 and to EUR 1000 from 2022; (ii) several deductions on personal income taxes allowed only if payments are made with traceable means; (iii) a special lottery for consumers who ask the sellers to pay electronically and transmit their fiscal number to the tax authority. Other provisions include disincentives to the undue compensation of tax credits, the shift to the main contractor of the subcontractors' tax liability and several measures against fraud in the fuel sector. These latter incentives importantly aim at reducing tax evasion in specific sectors.

Regular spending reviews support the consolidation of public finances, but the impact on the efficiency of public spending is still unclear. Since 2017, the budgetary framework provides for spending reviews to be conducted every year among all ministries, with the targets set in year t-1 and an ex-post evaluation performed in year t+1. The ex-post assessment of the first spending review conducted in this framework, relating to the budgetary year 2018, concluded that the overall saving targets had been reached. However, it also highlighted that ministries tended to reach them by cutting or postponing spending programmes and only partially through efficiency gains. An additional spending review, targeting EUR 1 billion (0.06% of GDP) of savings, was carried out for the budgetary year 2019, and the 2020 draft budget targets additional savings for the same amount in 2020. However, as the legislated process was not followed closely and the saving targets were allocated to the ministries with a delay, the effects on the quality of public expenditure could be suboptimal. More generally, while the yearly spending reviews conducted under the new framework appear successful in containing spending increases, improving the efficiency of public expenditure requires a medium-term approach. Furthermore, the spending reviews only affect the central government, while no equivalent process exists at the regional or local level although together they account for approximately 30% of public expenditure.

The reform of fiscal relations among the central, regional and local governments ("fiscal federalism") is yet to be completed. The reform, launched in 2009, aims to encourage fiscal responsibility and efficiency of public spending at the subnational level. However, the last implementing decrees have been postponed and are currently planned for 2021. Completing the reform could contribute to streamlining and improving the efficiency of Italy's fiscal framework, while also representing the necessary condition for exploring any additional form of regional autonomy.

Delays in payments from the public administration are progressively narrowing, but the stock of arrears is still sizable. The extension of mandatory electronic invoicing to all transactions with public administrations as of April 2015 has reduced the average payment period. However, it still amounts to 85 days in 2018 (95 days in 2017)[16]. The stock of trade debt arrears remains significant, amounting to EUR 53 billion (3% of GDP) in 2018 according to the survey-based estimates of the Bank of Italy. In 2019, all public administrations were for the first time obliged to transmit data on their stock of trade debt arrears to the Ministry of Finance. First indications point to a slightly lower stock of arrears as compared to the estimates of the Bank of Italy. The new electronic platform "SIOPE plus", fully operational since the beginning of 2018, provides real-time information on trade debts of the public administration, and now covers most of public administration bodies, including semi-private healthcare providers. The data collected through the new platform confirms that the average time of delay in payments is progressively narrowing.

The privatisation targets for 2020-2022 are subject to risks. The 2020 draft budget assumes privatisation proceeds amounting to 0.2% of GDP per year over 2020-2022. While the target would in principle be achievable, as some privatisation plans have been under discussion for several years already, including the sale of additional shares of semi-public companies, privatisation targets were systematically underachieved in recent years. Past plans assumed privatisation proceeds amounting to 0.5% of GDP per year in 2017 and 2018,

[16] Bank of Italy, Annual Report, 31 May 2019, estimated by the Bank of Italy on the basis of supervisory reports and statistical surveys of firms.

subsequently revised to 0.3% per year, and to 1% of GDP in 2019. However, practically no proceeds have been collected during this time up to November 2019.

3.2. Promoting inclusive labour markets and education

Since the introduction of stricter rules on renewals of short-term contracts ("Decreto Dignità") the conversion of temporary into permanent contracts has increased. According to administrative data ("Osservatorio sul Precariato") provided by the national social security institute (INPS), transitions from temporary to open-ended contracts have increased sizeably since mid-2018. In the first eight months of 2019, transitions increased by almost 50% compared to the same period of the previous year. However, the number of transitions had already increased prior to the introduction of the new labour legislation. This is likely due to new hiring incentives to support youth employment on permanent jobs, effective from January 2018[17], but also due to the increase in fixed-term contracts registered in early 2018 which determines the potential for transformations in subsequent years. INPS data show a steady yearly increase in new recruitments with open-ended contracts up to July, while the number of new temporary posts is receding. However, the total number of temporary posts started to increase again after February, while the upward trend in permanent employment appears to have come to halt in June. On balance, employment is increasingly affected by weak economic activity and the pick-up in transitions from temporary to permanent posts might have been only transitory.

Despite the new framework agreement ("Patto della fabbrica"), the collective bargaining system remains highly centralised. In 2018, the three major trade unions (CGIL, CISL and UIL) and Confindustria, the biggest employer association, signed a new framework agreement for collective bargaining. This agreement provides inter alia for an inflation-indexed wage floor (TEM – Trattamento economico minimo) and confirms the two levels of collective bargaining – national and regional/firm-level. However, second-level bargaining continues to play only a minor role. Unions and employers conclude wage agreements at the national level for each industry and occupational level, while firms in a specific sector make little use of available tool to adjust wages to local and/or firm-level conditions or to productivity. In September 2019, the National Institute for Social Security (INPS), the Labour Inspectorate and the main representatives of trade unions and employers (Confindustria, CGIL, CISL, UIL) signed an agreement on the procedures for collecting, processing and publishing data on union membership and elections. This might be helpful step to foster second level bargaining while avoiding wage dumping.

The ongoing progress on the strengthening of collective bargaining framework is also linked with the current debate on the introduction of a statutory minimum wage. The main features of the current proposals include the possibility to extend erga omnes the wage

[17] The 2018 budget reintroduced tax incentives that allow private employers to receive a 50% reduction in social contributions (up to a cap of EUR 3.000 per year) on new hires below the age of 30 (below 35 until 2020) for the first three years of an open-ended contract.

floors agreed through collective contracts; the possibility to apply minimum wage floors to some categories of self-employed; the setting of a national minimum wage in case of a missing collective agreement. Estimates on the impact of the measure, in terms of costs for employers, reduction of in-work poverty and overall impact on employment crucially depend on the wage level and the wage-setting mechanism. According to early studies (INAPP, INPS)[18], a statutory minimum wage set at EUR 9 gross per hour would concern about 20 % of employees, mainly in small firms and firms located in the south.

Despite some improvements, the implementation of reforms of active labour market policies remains incomplete. Measures have been taken to strengthen public employment services and reduce regional disparities. However, active labour market policies (ALMP) remain barely integrated and coordinated with other related policies (e.g. social protection, social services, adult learning, vocational training). While the legal competences regarding ALMP remain with the regions, the coordination role for the national agency (ANPAL) is weaker than originally intended. The main challenges for the implementation of the reform remain improving the coordination, the exchange of data and the standardisation of services provided. Regional authorities received new resources in 2019 to reinforce public employment services and a total of 3000 so-called "navigators" have been hired to support the recipients of the new minimum income in their training efforts and job search.

The income-support component of the new minimum income scheme ("Reddito di cittadinanza") has become operational in April 2019, but the implementation of effective activation policies needs time. Most beneficiaries (61%) live in the South and the countrywide level of expected number of beneficiaries has almost been reached in 2019. In principle, the minimum income scheme should also help integrate the jobless beneficiaries into the labour market, but activation policies have not yet started at a large scale. The minimum income scheme includes hiring incentives for employers, further detailed by INPS in November 2019. A further comprehensive reform of the system is envisaged to implement the activation component of the minimum income scheme, with a maximum EUR 1 billion allocated for 2019 and 2020. However, other persons not receiving the minimum income are excluded from certain activation policies. For example, recipients of the standard unemployment benefit (NASpI) lost the right to the "assegno di ricollocazione", a voucher to be used for employment services, which is now limited to beneficiaries of the new minimum income scheme.

Due to the lack of effective policy action thus far, the participation rate of women and young people in the labour market remains low. The employment rate of women (20-64) increased in 2018 but remains substantially below the EU average (53.1% vs 67.4%), and the gender employment gap, albeit on a falling trend since 2005, remains one of the highest in the EU at 19.8 pps. The lack of adequate social services such as long-term care and childcare facilities tends to make female employment prohibitively costly in a country where the care of dependent children or other family members falls almost exclusively on women. The 2020

[18] INAPP (2019), L'introduzione del salario minimo legale in Italia. Una stima dei costi e dei beneficiari, Policy Brief no. 13, June 2019.

draft budget envisages a higher allowance for childcare facilities. Minor changes are introduced to the system of parental leave, whereby leave days are increased from 5 to 7 per year for men, while the wage replacement rate will remain at 30% for the optional leave (and 100% for the mandatory leave). Moreover, the high tax wedge for second earners reduces the financial incentive for women to take up work. In addition, the structure of the tax and benefit system implies high marginal tax rates, once income taxes increase and eligibility for various forms of transfer payments and government benefits decrease when labour income exceeds a certain threshold.

Tackling undeclared work remains a challenge. According to ISTAT, the shadow economy is estimated at 12.1% of GDP in 2017 (+0.7% compared to 2016) with 3.7 million irregular job positions, especially in the agricultural, construction and services sector. The National Inspectorate Agency ("Ispettorato Nazionale del Lavoro") registered a drop of 35.5% in irregular employment in 2018, while the number of inspected firms declined by 10.1%. The 2019 budget increased the penalties for illegal employment and in October 2019, a recruitment competition has started to fill 822 positions (of which 691 inspector posts) at the labour inspectorate and a total of 635 posts at INAIL (Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro e le malattie professionali) and at the Ministry of Labour. This investment in human resources could further improve the overall performance of the agency.

Policy action to improve the quality of education has been limited in recent years. The implementation of the 2015 primary and secondary education reform ("La buona scuola") is still incomplete. Few new reform initiatives have been put forward in 2018 and 2019, concerning mostly the hiring of new teachers, the Updated Note of the Document of Economy and Finance (Nadef) announced the intention to put forward new initiatives regarding teachers' recruitment and training, the fight against early school leaving and the strengthening of the National Digital School Plan. The announcements regarding the tertiary education system focused mostly on (i) the reorganisation of the evaluation and assessment model of schools and universities; (ii) the establishment of a *National Agency for High Education and Research Institutions* to improve the effectiveness of public research policies; and (iii) the creation of a new form of funding and incentives to public-private partnerships. Overall, not enough details are provided to properly assess the potential effects of the announced measures. Finally, the promotion of tertiary non-academic education, through a co-ordinated system based on the existing Istituti Tecnici Superiori (ITS) and on the introduction of professional degrees, has been confirmed, but details on the contents and the timeline are still missing.

3.3. Supporting productivity, investment and innovation

The increasing funds allocated to public investment and the strengthened autonomy for local governments to use budgetary surpluses go in the right direction. The 2020 draft budget further increases funds for public investment in 2020-2021, adding to the increase defined by the 2019 budget. The two main multiannual funds are envisaged for central and local administrations. A third (smaller) fund is added to support investment in the green economy (“Green New deal”). These funds include the support to private investment, with the Green fund working through a guarantee system similar to the Juncker Plan. In spring 2019, the decree “Sblocca cantieri”[19] simplified legal provisions for public investment of limited size. The possibility, since January 2019, for local governments to spend their surpluses without prior authorization seems to have inverted the past negative trend of public investment by increasing investment at municipal level. The 2020 draft budget strengthens the “34% investment clause for the South”, which aims at reducing regional disparities in the allocation of public capital expenditure.

Adopted measures to improve the investment capacity of the public administration are not operational yet, and a comprehensive strategy is still missing. Two public agencies (“Struttura per la progettazione” and “Investitalia”) were set-up in the first half of 2019 with the aim of supporting central and local administrations in the planning and implementation of investment projects, as envisaged by the 2019 budget. The government has defined the organizational and operational aspects of both agencies. They are not yet operational, while the selection of personnel is progressing[20]. The first agency can provide support for investment projects related to infrastructures[21], including for the energy efficiency of public buildings. Furthermore, initiatives to improve the administrative capacity through trainings and courses have been launched by different ministries and public bodies. However, a clear comprehensive strategy is missing, as these actions, while going in the right direction, are not coordinated and remain limited in scope.

New announced measures will complement the comprehensive 2015 Public Administration reform. The 2015 Public Administration (PA) reform aimed at improving the efficiency of the PA. However, the legislation on local public services and public employment at management level was left unchanged (on 25 November 2016, the Constitutional Court deemed the procedure followed for these legislative decrees unconstitutional). The reform is already delivering some positive results, especially for the decision-making procedures. To complement the reform, in June 2019 the “Concretezza” bill was adopted to: (i) lift the replacement rate of public employees back to 100%; and (ii) establish a taskforce (“Nucleo della Concretezza”) to support departments to adequately enforce the 2015 reform and to improve their effectiveness. Two new draft enabling laws were put forward in spring 2019. The first concerns the reform of access to public employment, the merit and reward system and the reorganization of management discipline. The second aims to increase the simplification and codification of the legislation. No measures have been put forward regarding the reform of local public services. Both the recently adopted measures and the announced ones seem to go in the right direction despite the lack of any initiative regarding the local public services. Overall, if swiftly and properly

[19] Decree law n. 32/2019.
[20] A Commission in charge of personnel research and selection is being settled for the “Struttura”.
[21] The “Struttura” has been set-up under Agenzia del Demanio.

adopted and implemented, these reforms would help improve the PA's administrative capacity, especially regarding public investment (including EU funded) and its responsiveness to business and private needs.

The digitisation of public services is advancing, notably with the creation of a new Ministry of technological innovation and digitisation, which will better coordinate the process of digital transformation of the PA. A new public limited company (PagoPA) has been created in order to accelerate the deployment of key digital platforms[22] to the ensemble of the PA.

The public procurement and concessions code is announced to be revised again. In line with the previous government, the new government confirmed the intention to revise the public procurement and concessions code. An enabling law was put forward in March 2019 to simplify the system and reduce the interpretative uncertainty of the current rules, including by scaling down the role of the Anti-Corruption Authority's guidelines. No details about the proposed revision are currently available to properly assess the potential impact of such a revision. However, the uncertainty created by continuous changes in the legislation is affecting the local administrations, especially the small ones, as regards their investment decisions and how to design public tenders bids. This uncertainty, therefore, affects the investment plans of private firms.

Measures to support private investment and innovation are generally prolonged but remain fragmented and temporary. Tax incentives to promote investment in physical and intangible capital (hyper/super-depreciations, tax credit for training), introduced in 2015 with the Impresa 4.0 plan, are planned to be extended for the next years by the 2020 draft budget. Tax incentives for investment and innovation have had an overall positive impact. They are planned to be refocused on environmental sustainability and the circular economy. However, they are disproportionately used by firms located in the North, due to their stronger specialization in manufacturing and innovation. Additional measures to support private investment in the South are maintained (such as Special Economic Zones, the tax credit for the South, and a fund to support the competitiveness and growth of SMEs[23]). The Fund for Innovation, set up by the 2019 budget, is not yet operational. The monitoring of these measures is advanced, while a streamlining based on an impact assessment, including through a coordinated approach to the regional divide and a stabilization of the most effective measures (not simply through extensions of temporary measures year by year), is still lacking. The new targeting of some of these measures to environmental sustainability is a positive step for a more focused strategy in boosting investment. A National Productivity Board[24] has not been set up yet.

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[22] Digital payments to the PA but also mobile solutions for online public services and use of Big Data for public policies.

[23] Fondo "Cresci al Sud" envisaged by the 2020 draft budget law.

[24] As recommended by the Council in 2016.

The most important measures to support the internationalisation of firms are still those contained in the extraordinary "Made in Italy" plan. The 2020 draft budget plans a re-financing of the Made in Italy plan introduced in 2015 with EUR 45 million for 2020 and 40 million for 2021. The plan supports Italian SMEs in expanding into international markets through measures such as vouchers for temporary export managers, roadshows, tax credit to participate in international fair events, e-commerce, also supporting already internationalised firms. While these measures appear to adequately cover all the phases of the internationalisation process, they remain extraordinary measures, while ordinary measures account for a smaller share of resources. In 2019, the responsibility for the internationalization of firms passed from the Ministry of Economic Development to the Ministry of Foreign Affairs, with the aim of improving efficiency and strengthening economic diplomacy. This could facilitate, for instance, the promotion of Italian culture, but the overall impact of this organizational change will need to be assessed.

No measures on competition policy have been adopted or announced. The adoption of the 2015 Competition law in August 2017 was the latest relevant effort of the Italian government to remove barriers to competition and improve sectoral regulation. Despite the need to improve competition and regulatory quality in many sectors, including the retail sector and the collaborative economy, no action has been taken in this regard since then. Furthermore, no new measures to further liberalise or review the existing sectoral regulations were announced. However, the government is still discussing the backtracking measures on the retail sector announced in 2018 (restrictions to opening hours of retail establishment).

The government is working on a long-awaited reform of civil justice aimed at tackling its low efficiency. Italy's lengthy civil proceedings hinder entrepreneurial activity and foreign direct investment. In 2018, the time needed to resolve civil and commercial litigious cases in Italy was still the highest in the EU at all instances. A few reforms passed in recent years are starting to translate into small efficiency gains in terms of reducing both the backlog of civil cases and, to a lesser extent, trial length. Nevertheless, there is still room to limit instrumental appeals and ensure a more efficient functioning of courts to reduce the length of civil proceedings[25]. Adequate enforcement of simpler procedural rules could contribute to decisively speed up civil trials, but, despite announcements in that direction, an all-encompassing reform of civil trials is still pending. The government is working on a draft enabling law aimed at streamlining civil procedure. The proposal extends the use of simplified procedures as well as the range of cases where a single judge is competent to adjudicate, it removes the admissibility filter for appeals, as it failed to reach its objective of deflating litigation in higher instances, and restricts the cases of suspension of contested first-instance rulings in order to reduce incentives to appeal. Moreover, the 2020 draft budget law allows the hiring of new judges as of 2020, which, coupled with more flexibility in the allocation of judges where it is most needed through "*flexible task forces*", could reduce the backlog in courts with a high number of pending cases.

[25] European Commission 2019, Country Report for Italy, pages 58-59.

The government is working on a long-awaited reform of criminal justice, which could also further strengthen the anti-corruption framework. In recent years, the percentage of Italian firms reporting that corruption is a hindrance to doing business, including by negatively affecting competition and public procurement, has been higher than the EU average. Italy has recently improved its anti-corruption system, *inter alia* through a new framework to protect whistleblowers, a stronger role of the National Anti-corruption Authority, and a new anti-corruption law. The latter, in particular, aims at boosting corruption detection and repression, by setting stricter penalties, and thus longer prescription terms, for corruption cases; extending to them special investigation techniques like "operations under cover"; introducing a leniency scheme for those who denounce corruption; permanently banning parties involved in corruption from holding public office or doing business with the public administration; and stopping prescription terms after a first-instance ruling as of 2020. The latter provision could contribute to improving the low efficiency of Italy's criminal justice, which still hinders the prosecution of corruption, in particular if coupled in the future with measures to increase efficiency at the appeal level. The government is working on a comprehensive reform of the criminal procedure, including a broader use of simplified procedures, the limitation of the possibility to appeal also through the need of new power of attorney for lawyers, the introduction of a single judge in second instance for direct summons, a reform of the notification procedures, greater use of electronic tools for the filing of documents, and a simplification in the rules concerning evidence. A swift adoption of these provisions, coupled with measures to tackle the large number of pending cases at appeal courts, could improve the efficiency of the Italian criminal justice system.

3.4. Re-enabling the financial sector to support economic growth

Banks' disposals of non-performing loans through outright sales and securitisations with the government guarantee scheme (GACS)[26], have substantially progressed. However, less significant institutions are still burdened by legacy-impaired assets to a larger extent than significant ones. Some of the less significant institutions are struggling with high, double digit, NPL levels that are noticeably above the average. Since Italy's financial sector is predominantly bank-based, the credit risk linked to bank portfolios is closely connected to the development of the real economy and the debt-servicing capacity of non-financial corporations. A slowdown in economic activity may adversely affect loan demand and lead to downside risks for NPL disposals. Given the relatively favourable conditions, also due to the prolongation of the GACS scheme in May 2019, the pace of balance sheet restructuring and consolidation, in particular for small and second-tier banks, should be maintained to further strengthen financial stability and facilitate the provision of credit to the economy.

The 2015 reform of the large cooperative banks is not yet fully implemented, unlike the 2016 reform of small mutual banks which has been essentially concluded. With the exception of Banca Popolare di Bari and Banca Popolare di Sondrio, all large cooperative

[26] Garanzia sulla Cartolarizzazione Sofferenze.

banks (*banche popolari*) with assets above EUR 8 billion have already transformed themselves into joint-stock companies. However, the full implementation of the reform was again suspended, when the Italian State Council referred several questions on this reform to the European Court of Justice in late 2018. Going forward, further consolidation of large cooperative banks would allow them to reap substantial benefits from operational synergies and better market access. Regarding small mutual banks (BCCs), the Parliament modified at the end of 2018 the 2016 reform, which allows the BCCs from the Bolzano and Trento provinces (Raiffeisen banks) to participate in institutional protection schemes, as an alternative to setting up a cooperative banking group. Consequently, the BCCs reform led to the emergence of only two groups with national coverage, ICCREA and Cassa Centrale Banca (CCB), which will be supervised directly by the ECB and subject to a comprehensive assessment in 2020.

The reform of the Italian insolvency framework was passed in January 2019. The new provisions included in the Crisis and Insolvency Code *(Codice della Crisi d'impresa e dell'insolvenza)* will enter into force in August 2020, with the exception of a few regulations that entered into force in March 2019. The reform promotes, *inter alia*, out-of-court agreements between debtors and creditors, simplifies bankruptcy procedures and introduces a pre-emptive mechanism for corporate insolvencies. A timely implementation of the decrees is important to accelerate the slow judiciary system for foreclosure procedures and collateral enforcement and to further boost the resilience of the banking sector. Previous measures to accelerate out-of-court collateral enforcement via the application of private enforcement clauses in credit agreements ("Patto Marciano") have not been used by banks in practice so far.

Public support to firms to access non-bank finance could be strengthened, while the stock market in Italy is still underdeveloped compared to EU peers. Measures to support access to finance (SME Guarantee Fund, Nuova Sabatini), which remains particularly challenging for smaller and innovative firms, are planned to be refinanced. However, these measures mostly support bank-based financing. The National Fund for Innovation (set by the 2019 budget) will support venture capital funds investing in start-ups and innovative SMEs but is not yet operational. Moreover, the initially allocated amount of about EUR 1 billion has been revised downwards by subsequent measures. The Decree "Crescita" introduced a special vehicle (Società di Investimento Semplice), meant to invest directly in unlisted SMEs. The plan to (retroactively) re-introduce the allowance for corporate equity (ACE) can support the capitalization of firms. Furthermore, as part of the measures to foster SMEs' access to capital markets, the 2019 budget modified provisions related to PIR (i.e. individual savings plans via collective investment schemes). The new measures have severely hampered the development of this instrument and the subscription of new plans. Limited progress in expanding non-bank financing leaves Italian firms, especially smaller ones, vulnerable to shocks in the banking sector.

Annex: Overview of MIP-relevant reforms

MIP objective: Achieving sustainable and growth-friendly public finances			
Public finances & taxation			
Reduce the tax burden on labour			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• The draft 2020 Budget Law includes a fund worth 0.2% of GDP in 2020 and 0.3% of GDP from 2021 for reducing the tax wedge on labour. • The draft 2020 Budget Law reduces tax deductions on personal income taxes for higher incomes, with the exception of mortgage payments and specific healthcare expenditures. • The draft 2020 Budget Law lowers tax incentives for the most polluting diesel-powered commercial vehicles from 2020 and reduces exemptions for the most polluting company cars.	•	•	• CSR1: “Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. "
Fight against tax evasion, improve tax administration and tackle tax avoidance			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• The draft 2020 Budget Law includes a fund (0.2% of GDP from 2021) to reward consumers that pay via electronic means.	• Decree Law 124/2019 introduced several measures to encourage electronic payments, including: (i) lower limit to cash payments from July 2020; (ii) deductions on personal income taxes if payments are made with traceable means; (iii) a special lottery for consumers who	• The electronic transmission of receipts for all transactions with final consumers is compulsory from January 2020.	• CSR 1: “Fight tax evasion, especially in the form of omitted invoicing, including by strengthening the compulsory use of e-payments including through lower legal thresholds for cash payments.”

	ask the sellers to pay electronically and transmit their tax code to the tax authority. • Decree Law 124/2019 introduced several disincentives to the undue compensation of tax credits. • Decree Law 124/2019 shifted to the main contractor of the subcontractors' tax liabilities. • Decree Law 124/2019 introduced several measures against fraud in the fuel sector.		
Long-term sustainability of public finances, incl. pensions			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
•	•	•	• CSR 1: "Implement fully past pension reforms to reduce the share of old-age pensions in public spending and create space for other social and growth-enhancing spending."
MIP objective: Promoting inclusive labour market and education			
Labour market, education & social policies			
Active labour market policies			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
•	•	• 3000 navigators have been hired.	• CSR 2: "Ensure that active labour market and social policies are

			effectively integrated and reach out notably to young people and vulnerable groups. “
Incentives to work, job creation, labour market participation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• Increasing the childcare bonus for low-and medium-income households	•	•	• CSR 2: Support women’s participation in the labour market through a comprehensive strategy, including through access to quality childcare and long-term care."
Education, skills & lifelong learning			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• Strengthening of the National Plan of the Digital School • Hiring of new teachers, including digital school experts (120 experts) • National Agency for High Education and Research Institutions • Reorganisation of the evaluation and assessment model of schools and universities	•	•	• CSR 2: “Improve educational outcomes, also through adequate and targeted investment, and foster upskilling, including by strengthening digital skills.
Public administration & business environment : Shadow economy & corruption			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
•	• Recruitment competition for additional labour inspectors has	• Sanctions for illicit work have been	• CSR 2: “Step up efforts to tackle

	started in October 2019	increased.	undeclared work.”
MIP objective: Supporting productivity, investment and innovation			
Structural policies			
Research & innovation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• Increased multiannual funds for investment at central and local level. Fund for the Green New Deal • Full implementation of the 34% investment clause for the South • Extension of tax incentives of Impresa 4.0.	• New ministry for technological innovation and digitisation. • Set-up of public limited company PagoPA.	• Impresa 4.0 measures. A National Industry 4.0 network was developed in order to promote digital transition of firms and technology transfer. The competence centres have been set up and have been starting operations.	• CSR 3: “Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities.”
Competition in services			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
•	• 2015 Competition law (implementation is still not complete)	•	• CSR 3: “Address restrictions to competition, particularly in the retail sector and in business services, also through a new annual competition law.”
Public administration & business environment			
Public administration			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*

• Revision of the public procurement code. • Draft enabling law on access to public employment, merit and reward. • Draft enabling law on simplification and codification of the legislation.	• Set-up of "Centrale per la progettazione dei beni e degli edifici pubblici" and of "Investitalia". • *"Concretezza"* decree • New ministry for technological innovation and digitisation. • Set-up of public limited company PagoPA.	•	• CSR 3: "Improve the effectiveness of public administration, including by investing in the skills of public employees, by accelerating digitalisation, and by increasing the efficiency and quality of local public services."
Civil justice			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• Reform of civil trial		•	• CSR 4: "Reduce the length of civil trials at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator."
Shadow economy & corruption			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• Reform of criminal trial	• New anti-corruption law ("spazzacorrotti")	•	• CSR 4: "Improve the effectiveness of the fight against corruption by reforming procedural rules to reduce the length of criminal trials."
MIP objective: Re-enabling the financial sector to promote economic growth			
Financial sector			

<table>
<tr><td colspan="4">Financial services</td></tr>
<tr><td>Announced measures</td><td>Adopted measures</td><td>Implemented measures</td><td>Sources of commitment</td></tr>
<tr><td>•</td><td>• January 2019: The Government finalised the reform of the insolvency framework. With the exception of a few regulations that entered into force in March 2019, the new provisions included in the Crisis and Insolvency Code (Codice della Crisi d'impresa e dell'insolvenza) will enter into force in August 2020.</td><td>• December 2018: the Parliament modified the 2016 reform of small mutual banks (BCCs) by allowing the BCCs operating in the Bolzano and Trento provinces (Raiffeisen banks) to participate in institutional protection schemes, as alternative to setting up a cooperative banking group.
• May 2019: The Ministry of Finance prolonged the guarantee scheme for the securitisation of non-performing loans by twenty four months (GACS).</td><td>• CSR 5: “Foster bank balance sheet restructuring, in particular for small and medium-sized banks, by improving efficiency and asset quality, continuing the reduction of non-performing loans, and diversifying funding.”</td></tr>
<tr><td colspan="4">Access to finance</td></tr>
<tr><td>Announced measures</td><td>Adopted measures</td><td>Implemented measures</td><td>Sources of commitment</td></tr>
<tr><td>• The draft 2020 Budget Law reintroduces the "allowance for corporate equity" (ACE), which was abrogated by the 2019 Budget Law.
• Extension of Impresa 4.0 measures on access to finance (SME Guarantee Fund etc.).</td><td>• National Fund for Innovation (not operational yet)
• Societa’ di Investimento Semplice
• Extension of SME Guarantee Fund for mid-cups</td><td>• Impresa 4.0 (SME Guarantee Fund, etc.).</td><td>• CSR 5: “Improve non-bank financing for smaller and innovative firms.”</td></tr>
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