EUROPEAN COMMISSION
DIRECTORATE GENERAL
ECONOMIC AND FINANCIAL AFFAIRS

Brussels, December 2018

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

Table of contents

Executive summary 3
1. Introduction 6
2. Outlook and recent developments on imbalances 7
   2.1. Recent economic developments and outlook 7
   2.2. Developments as regards imbalances and adjustment & legacy issues 8
3. Policy implementation and assessment 10
   3.1. Achieving sound and growth-friendly public finances 10
   3.2. Ensuring efficient labour market functioning and fostering social inclusion 13
   3.3. Safeguarding financial stability and supporting the economy 16
   3.4. Improving investment, innovation and firms' competitiveness 19
Annex: Overview of MIP-relevant reforms 25

Executive summary

This is the sixth specific monitoring report under the Macroeconomic Imbalance Procedure for Italy which was considered to experience excessive macroeconomic imbalances in the 2018 European Semester. In line with the 2018 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 protracted weak productivity dynamics, in a context of heightened market volatility and economic slowdown.

Italy's economic recovery has slowed down significantly in 2018, and imbalances are not expected to unwind in the near term and could even worsen, in particular as regards the evolution of public debt. According to the Commission 2018 autumn forecast, real GDP growth is estimated at 1.1% in 2018, mostly driven by investment, and to slightly accelerate in 2019 and 2020 to 1.2% and 1.3%, respectively. However, the economic outlook is subject to intensified downside risks. Latest hard data and leading indicators point to a further worsening of the economic situation, including first signs of a tightening of credit conditions. Public debt remains very high. The large fiscal expansion planned by the Italian government in 2019 in a context of rising sovereign yields may hamper the reduction of the debt-to-GDP ratio going forward. That adds to Italy's structural weaknesses. Low productivity growth, an increasing but still low investment ratio and a shrinking working-age population all weigh on Italy's potential growth. The unemployment rate remains high, still far above pre-crisis levels, in particular for young people and the long-term unemployed. A recovering banking system, in particular small and mid-sized banks, is now suffering contagion from the increase in sovereign yields, which has already negatively impacted banks' capital positions and jeopardised access to unsecured wholesale funding. Contagion from rising Italian sovereign yields to other Member States has so far been limited. However given the significant size of the Italian economy and its interconnectedness within the Euro Area, any deterioration in Italy's macro-financial fundamentals creates risks of negative spillovers for other Member States.

Overall, Italy's reform momentum has stalled in 2018. The fiscal expansion planned by the government does not include effective measures to lift Italy's sluggish potential growth and, in particular, to close the persistent productivity gap vis-à-vis the EU average. Some of the envisaged measures in the 2019 budget reverse elements of previous important reforms, in particular in the area of pensions, which can threaten the long term sustainability of public finances.

- *Regarding public finances*, the government has introduced provisions to enhance flexibility for early retirement, significantly raising pension expenditure in the coming years and undermining past pension reforms, which were underpinning the long-term sustainability of public finances. Several measures to reform the tax regime will temporarily increase the overall tax burden on firms. Progress in reforming the cadastral system, tax expenditures and property taxation is limited. The privatisation

targets for 2018 and 2019 are subject to significant downside risks, also in light of the poor track record observed in recent years.

- *Concerning labour market and social policies*, the new government intends to replace the comprehensive anti-poverty scheme introduced in 2018 by a basic income scheme with a close link to active labour market policies (ALMP). However, the implementation of the ALMP reform is slow and public employment services, a cornerstone of the basic income scheme, do not seem adequately equipped. The partial rollback of the Fornero pension reform is likely to reduce labour supply which adds to the challenges linked to the shrinking working-age population. Efforts to raise female labour force participation only show modest success, while curtailing undeclared work remains a challenge.
- *Regarding the banking sector*, banks have increasingly come under market pressure from the entrenched sovereign-bank feedback loop and higher market volatility. While the stress test by the European Banking Authority (EBA) has confirmed that the largest Italian banks are resilient, pockets of vulnerability remain, especially amongst medium and small banks. Banks' balance sheet repair including non-performing loans disposals through outright sales and securitisations with the government guarantee scheme (GACS) has successfully continued. Despite a number of important banking reforms adopted in recent years, the corporate governance reform of the large cooperative banks has stalled and that of the small mutual banks could be further amended, while the insolvency framework reform still has to be finalised.
- *Concerning institutional capacity*, the previous government completed the implementation of the public administration reform and stepped up the fight against corruption through a long-awaited revision of the statute of limitations and the extension of whistle-blowers' protection. A new anti-corruption bill is currently under discussion in parliament. As regards civil justice, despite a few reforms, efficiency gains remain limited. An important enabling law reforming civil trials, submitted to parliament in 2015, failed to be adopted, but a new reform streamlining civil trials is in the making.
- *Regarding investment, innovation and firms' competitiveness,* new measures are being proposed to relaunch public investment, while the impact of past and new measures is only likely to be observed with a delay. Moreover, the government plans to revise existing measures for private investment and innovation in order to better target them to smaller firms. Measures to support internationalisation continue. However, the absorption of EU funds remains low.
- *Regarding competition and business environment*, the implementation of the long-awaited 2015 annual competition law, adopted in August 2017, is delayed, and no new initiatives to address remaining competitive bottlenecks have been recently put forward by the government. In contrast, some restrictions have been introduced by the previous government, and others are being discussed by the new one, especially in the retail sector.

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

On track	Wait-and-see	Action wanted
• Reform of the budgetary process • Public administration reform • Impresa 4.0 for R&D • Non-performing loan reduction measures	• Privatisation agenda • Fight against tax evasion • Reform of civil justice trials • New reform of anti-corruption and statute of limitations • New 2018-2020 Simplification agenda • Enforcement of the new SOEs framework • New agency for public investment • Banking sector corporate governance • Insolvency and collateral enforcement reforms Strengthen the collective bargaining framework • Social inclusion policy	• Revision of cadastral values • Rationalisation of tax expenditures • Reduction of the share of old-age pension in public spending • Reform of criminal trials and appeal system • Local public services and public employment at management level • Measures to remove remaining barriers to competition • Reform of active labour market policies • Female labour market participation • Improve educational outcomes

[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 seventh Alert Mechanism Report in November 2017[2], which selected Italy as one of the Member States for an in-depth Review. In March 2018, the Country Report on Italy[3] examined in greater detail Italy's macroeconomic imbalances and risks. At the same time, the Commission in its Communication[4] reconfirmed that Italy was experiencing excessive macroeconomic imbalances, linked in particular to its high public debt and protracted weak productivity dynamics, in a context of a still high level of non-performing loans (NPLs) and high unemployment. In April 2018, Italy submitted its Stability Programme[5] and National Reform Programme[6] relating to its fiscal targets and policy measures, respectively. Based on an assessment of these plans, the Commission proposed a set of four country-specific recommendations (CSRs)[7], which were adopted by the Council in July 2018[8]. These CSRs focus on four broad policy areas: (i) public finances, taxation and pensions; (ii) institutional quality (justice, corruption, public administration) and competition; (iii) bank balance sheet restructuring, the insolvency framework, and market-based access to finance; (iv) active labour market policies and participation, education, and investment.

Following publication of the Update of the Stability and National Reform Programs, and of the Draft Budgetary Plan 2019 by the new government, in its Opinion released on 21 November 2018, the Commission confirmed the existence of a "particularly serious non-compliance" with the fiscal recommendation addressed to Italy by the Council on 13 July 2018, based on both the government plans and the Commission 2018 autumn forecast. [9] On the same date, the Commission also published its report on Italy's compliance with the debt rule under Article 126.3 of the Treaty. In particular, in view of the "particularly serious non-compliance" identified in Italy's fiscal plan for 2019, the Commission concluded that the debt rule should be considered as not met and that an excessive deficit procedure is warranted for Italy[10]. The opinion of the Economic and Financial Committee under article 126.4 of the Treaty supported this conclusion.

Commission staff conducted a specific monitoring mission to Italy on 22-24 October 2018; the cut-off date of this report is 5 December 2018.

[2] https://ec.europa.eu/info/sites/info/files/economy-finance/com-2017-771-en.pdf
[3] https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-report-italy-en.pdf
[4] https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-reports-comm-en.pdf
[5] https://ec.europa.eu/info/sites/info/files/2018-european-semester-stability-programme-italy-it_0.pdf
[6] https://ec.europa.eu/info/sites/info/files/2018-european-semester-national-reform-programme-italy-it.pdf
[7] https://ec.europa.eu/info/sites/info/files/2018-european-semester-country-specific-recommendation-commission-recommendation-italy-en.pdf
[8] http://data.consilium.europa.eu/doc/document/ST-9440-2018-INIT/en/pdf
[9] https://ec.europa.eu/info/sites/info/files/economy-finance/c-2018-8028-it_en_0.pdf
[10] https://ec.europa.eu/info/sites/info/files/economy-finance/1263_commission_report_211118_-_italy_en_1.pdf

2. Outlook and recent developments on imbalances

2.1. Recent economic developments and outlook

The recovery of the Italian economy has been slowing down significantly throughout 2018. After solid real GDP growth of 1.6% in 2017, Italy's economy decelerated over the first half of 2018, as exports and industrial production weakened. Economic activity stalled in the third quarter, partly due to the slowdown in the automotive sector, and is expected to remain muted in the very near term. The Commission 2018 autumn forecast[11] projects real GDP growth at 1.1% in 2018 and 1.2% in 2019, on the back of higher public spending and a recovery of exports. In 2020, growth is forecast at 1.3%, mainly supported by investment, especially in construction. However, the growth projections are subject to increasing downside risks in the context of a large public debt and high sovereign yields, while recent data (including the slightly negative GDP growth reading for Q3-2018) and economic indicators already point to a worsening of the economic situation[12]. Furthermore, implementation lags and administrative bottlenecks are expected to delay the moderate growth impact of policy measures over the forecast period. In particular, the recovery of private investment is forecast to slow down, as tailwinds such as accommodative monetary policy and tax incentives wane and firms already face tighter financing conditions, linked to the impact of higher sovereign yields on credit supply. Private consumption is set to continue growing at steady albeit moderate rates, thanks to mildly growing wages and employment as well as increases in social transfers.

The Commission growth outlook is subject to high uncertainty amid intensified downside risks. A prolonged rise in sovereign yields would worsen banks' funding conditions and further reduce credit supply and hamper private investment. Banks with a high exposure to domestic sovereign debt as well as the mid-cap segment in need of new capital could be perceived by the market as more vulnerable, in particular if market uncertainty persists[13]. Envisaged policy measures might prove less effective and have a lower impact on near-term growth. Uncertainty about government policies might also affect sentiment and domestic demand. Finally, the planned rollback of structural reforms bodes ill for employment and medium-term growth prospects.

Consumer prices are set to rise moderately. The headline HICP index is expected to increase by 1.3% this year and by 1.5% in 2019, largely driven by higher oil prices. Headline inflation should moderate to 1.4% in 2020, while core inflation is forecast to rise gradually to 1.4% by the end of the forecast period. The GDP deflator is set to increase by 1.3% this year, partly due to higher public sector wages, and to grow broadly at the same rate over the forecast period.

[11] https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_081018_it_en.pdf

[12] Consensus forecasts and other forecasts that were published after the EC autumn forecast (and taking into account more recent high-frequency economic indicators) validate intensified downside risks.

[13] Sharply slowing growth and regulatory requirements (e.g. on NPL provisioning and funding) could be further challenging headwinds to the banking sector.

2.2. Developments as regards imbalances and adjustment & legacy issues

Public debt

Italy's public debt is projected to remain broadly stable at around 131% of GDP over 2018-2020. Italy's public debt slightly decreased to 131.2% of GDP in 2017, also thanks to declining interest spending and accelerating real GDP growth. The general government headline deficit slightly declined to 2.4% of GDP, with the primary balance remaining stable at 1.4% of GDP. The Commission 2018 autumn forecast projects that the debt-to-GDP ratio will remain broadly stable over the next years. In 2018, debt reduction is hindered by a significant debt-increasing stock-flow adjustment partly related to fluctuations in the Treasury's liquidity reserves. In 2019, the planned fiscal measures are set to entail a marked deterioration of the primary surplus, undermining the reduction of government debt. In the Commission projections, privatisation proceeds for 2018 and 2019 are assumed to fall short of the targets set by the government (0.3% of GDP in both years based on the draft budgetary plan submitted on 16 October)[14], especially in light of the poor track record observed in recent years. Risks to the debt projections stem from a worse-than-anticipated growth outlook, and further rising sovereign risk premia. Overall, the high level of public debt remains an important source of vulnerability for the Italian economy and sustainability challenges remain, especially in the medium term.

The new planned provisions on pensions are expected to worsen fiscal sustainability. In the short-term, the sizable rollover needs related to Italy's high debt ratio, around 20% of GDP each year, expose its public finances to any sudden increase in financial market risk aversion, especially if non-resident investors are not rolling over their maturing debt[15]. As observed since May 2018, rising sovereign yields lead to substantially higher debt servicing costs, with possible subsequent negative spillovers to the banking sector and ultimately worsening financing conditions for firms and households. Furthermore, the projected deterioration in Italy's structural primary surplus and the backtracking with respect to past structural reforms could increase sustainability risks, as a weak fiscal position might further raise sovereign risk premia in the future. Those risks are particularly relevant in light of the announced changes in the ECB's accommodative monetary policy stance (i.e. QE phase-out), which so far played a mitigating role by underpinning the economic recovery and gradually reducing the differential between the implicit cost of debt and the GDP growth rate. As regards long-term fiscal sustainability, implicit liabilities arising from population ageing were curbed thanks to various pension reforms enacted in the past years. However, the draft 2019 Budget Law contains provisions that would partly reverse the latter by introducing broader possibilities for early retirement, which would significantly increase pension expenditure from 2019 and – depending on their design – might imply even higher costs going forward. Furthermore, those provisions might have a negative impact on labour supply, thereby

[14] The target for 2019 was increased to 1% of GDP with the revised draft budgetary plan submitted on 13 November 2018.

[15] In particular, balance of payment data show net sales of Italian government securities by foreign investors of EUR 1.5 billion in September, after net sales of EUR 17.4 billion in August, and net sales of EUR 57.9 billion in May and June together.

hampering potential growth. Overall, the planned backtracking on past pension reforms could significantly worsen Italy's sustainability risks.

External competitiveness

External competitiveness has improved as a result to wage moderation, whereas labour productivity growth only provided marginal support. In recent years, cost competitiveness has been supported by contained growth in nominal unit labour costs (0.6% on average over 2013-2017) on the back of subdued wage developments and the past depreciation of the euro. Over the period 2015-17 Italian exporters re-gained some market shares but given the only very gradual shift towards more technology-intensive products and the slow growth in labour productivity (expected to stagnate in 2018), together with the persistent weaknesses such as the small average firm size, the full reversal of past large competitiveness losses remains a considerable challenge. Conversely, the current account surpluses recorded since 2013 contributed to the improvement of the net international investment position (-3.4% of GDP by Q2 2018) and have substantially lowered external financing risks, especially in the current context of still ample ECB liquidity provision.

Productivity

The slow recovery in productivity hampers the unwinding of Italy's macroeconomic imbalances. Total factor productivity (TFP) increased by 1% in 2017, a growth rate only slightly below the EU average. However, in the previous period 2010-16, annual TFP growth rates averaged a mere 0.2%, implying a productivity gap of about 0.5 pp. to the EU average. Overall, the recent pick-up in productivity growth benefitted from the cyclical recovery of business investment, especially in machinery and equipment, while investment in intangible assets has lagged behind. By contrast, growth in labour productivity (measured as gross value added divided by employment in full-time equivalents) slowed down between 2015 and 2017. Productivity levels are projected to remain unchanged in 2018, as weakeing economic activity coincides with ongoing employment growth. Structural obstacles continue to hamper an efficient allocation of productive factors across the economy. Low average productivity growth across sectors limits Italy's growth potential and makes it harder to correct macroeconomic imbalances and strengthen economic resilience.

Employment growth, unemployment and labour market participation

The labour market situation continues to improve, but employment growth in 2018 has been largely driven by fixed-term contracts, while unemployment has fallen only very gradually. In the nine months to September 2018, the economy added net 238,000 jobs, mostly temporary posts, while the number of permanent positions declined by 112.000. Employment grew by 1.0% compared with the same period of the previous year. The unemployment rate stood at 10.1% in Q3 2018, a drop of 1 pp. compared to end-2017. However, youth unemployment remains extremely high at 31.6%. Activity and employment rates have improved, but labour force participation remains well below the EU average, especially among women. The risk of poverty and social exclusion remain high.

Banking sector

While progress has continued in reducing the legacy stock of non-performing loans, higher sovereign risk is likely to negatively impact the cost of funding of Italian banks, and in turn credit provision to the economy. On the back of significant NPL sales and securitisations as well as persistent supervisory pressure, the gross NPL ratio declined from 11.5% at end-2017 to 10.2% in Q2-2018, though still well above the level observed in most EU peers. Furthermore, bad debt (*sofferenze*), i.e. debt with the worst recovery prospects, has continued declining on the back of banks' NPL disposals, with a bad loan ratio of 5.8%. In this regard, the net NPL ratio (i.e., taking into account the NPL coverage) has halved since 2015 and stood at 5% in Q2 2018 with the differential with the Single Supervisory Mechanism (SSM) average also shrinking. The secondary NPL market has developed with more adequate NPL pricing closer to fundamentals, as e.g. NPL data quality has improved and more NPL servicing firms are active, and the market has substantially benefitted from the government guarantee scheme (GACS). Banks have also worked towards improving their internal work-out capacity. Due to the entrenched sovereign-bank nexus, higher sovereign yields have already adversely affected banks' capital positions, pushing up their funding costs and curtailing market access to unsecured wholesale funding.

3. Policy implementation and assessment

3.1. Achieving sound and growth-friendly public finances

The draft 2019 Budget Law plans a significant fiscal expansion, consisting mainly in increasing social transfers for a basic income ("citizenship income") and an early retirement scheme ("*Quota 100*"). Although the details of the planned new measures will be specified in forthcoming legislative decrees, their main aspects are presented in the 2019 Draft Budgetary Plan (DBP). The fund for "citizenship income" will absorb the resources previously allocated to the anti-poverty scheme (*Reddito di inclusione*)[16], with a net impact on government spending of 0.4% of GDP, including the cost for strengthening employment centres. The "citizenship income" is a minimum income scheme, guaranteeing – according to the 2019 DBP and with access conditions not yet defined – a monthly income of EUR 780, which broadly corresponds to the relative poverty threshold[17]. An additional 0.4% of GDP is allocated to the pension "*Quota 100*" fund, which is an early retirement scheme and sets the minimum threshold for early retirement at 62 years of age and 38 years of contributions[18]. The newly introduced possibility for early retirement backtracks on earlier pension reforms that underpin the long-term sustainability of Italy's sizeable public debt. Furthermore, the

[16] As of September 2018, around 400.000 households benefitted from the *Reddito di inclusione.*

[17] From preliminary information in the 2019 draft budget law, the new scheme targets unemployed or unoccupied individuals (including pensioners) below the relative poverty threshold and residing in Italy for at least 5 years. The scheme keeps the *Reddito di inclusione*'s active inclusion approach through some conditionality rules. However, key implementation and operational details about the new measure will be specified in forthcoming legislative decrees, making it very challenging to formulate an appropriate assessment at the moment. According to the 2019 draft budget law, the new scheme will be financed through a new fund (Fund for the citizenship income) with a yearly budget of EUR 9 billion as of 2019.

[18] This new possibility for early retirement will likely replace similar provisions of more limited scope introduced in recent years for specific categories of workers (*APE sociale*)..

higher flexibility for retiring early might have a negative impact on labour supply, hampering potential growth and further worsening fiscal sustainability challenges.

While taxes on self-employed have been lowered, other measures on corporate taxation temporarily increase the tax burden on firms at an aggregate level. After being postponed by the 2018 Budget Law, the previously legislated simplified tax regime (setting the rate at 24%) for personal income from entrepreneurial activities ("*Imposta sul Reddito Imprenditoriale*"), aimed at harmonising the tax treatment of small firms and corporations, is abrogated. At the same time, taxes for self-employed workers are lowered[19]. The "allowance for corporate equity" (ACE), introduced in 2011 to reduce the corporate debt bias, is abrogated. ACE is replaced by a new tax rebate on firms' profits used to increase investment or hire new employees[20]. As the main beneficiaries of ACE have been *de facto* financial institutions, this reform reduces tax advantages for financial corporations and increases those for the non-financial ones. Furthermore, the tax deductibility of specific costs for some categories of firms, especially banks, will be limited, with a temporary positive effect on revenues in 2019[21].

While some planned measures will encourage tax compliance, others might have an opposite effect. As provided in the "fiscal decree"[22] submitted to the Parliament on 23 October, the electronic transmission of receipts will progressively become compulsory for all commercial transactions with final consumers[23]. This provision is expected to help reduce the VAT compliance gap, by providing the tax agency with more timely and accurate information, which will allow targeted inspections with deterrent effects on taxpayers. At the same time, the "fiscal decree" introduced a new and more advantageous possibility for taxpayers to settle past tax liabilities, by paying in instalments over several years, without fines and with advantageous interest rates. The decree submitted to the Parliament includes an additional measure allowing taxpayers – under specific conditions and limits – to disclose past unreported income and pay only a 20% tax rate, over several instalments and without interests and fines. However, during the parliamentary discussions there was broad agreement to substantially reduce in scope this provision, by only allowing taxpayers to correct clerical errors in past tax declarations with a small fee. The "fiscal decree" also includes several smaller provisions curtailing old pending tax liabilities of limited size and reducing incentives for taxpayers to prolong the duration of tax litigations. Overall, the new tax amnesty provisions are expected to discourage tax compliance in the future. As a consequence, this could offset the benefits of the strengthened provisions on electronic invoicing.

---

[19] This is done by two provisions: (i) extending the scope of the existing simplified tax regime (optional forfait 15% tax rate for self-employed with yearly turnover below sector-specific thresholds up to a maximum of EUR 55 000), by extending the income threshold to EUR 65,000 (independently from the sector of activity); ii) introducing a new 20% forfait tax rate for self-employed and individual entrepreneurs with yearly turnover between EUR 65 000 and EUR 100 000, starting from 2020.

[20] The tax rebate consists in a reduction of the standard corporate income tax (IRES) rate of 24% to 15%.

[21] More specifically, the tax deductibility of the goodwill and other intangible assets related to past operations is lowered by spreading it over eleven years; the tax deductibility of credit losses incurred in 2018 is postponed to 2026; the tax deductibility of losses due to the implementation of new accounting principles is lowered by spreading it over ten years; and the advance payment of the tax on insurances is increased.

[22] Decreto Legge, 23 Ottobre 2018, n. 119, *Disposizioni urgenti in materia fiscal e finanziaria*.

[23] Based on the draft law, the electronic transmission of receipts will be mandatory from 1st July 2019 for all subjects with an yearly turnover above EUR 400 000, and from 1st January 2020 for all taxpayers.

Measures to shift the tax burden from the factors of production to immovable property and consumption are still missing. There are delays in the reform of the outdated cadastral system[24], in the adoption of measures increasing taxation on first properties for high-income households, and in implementing concrete actions to reduce the number and scope of tax expenditures. Tax expenditures are now reviewed on an annual basis and the results presented in a report attached to the Budget Law. However, the government has recently repealed a legislated increase in reduced VAT rates rather than proceeding to a rationalisation of tax expenditures.

Delays in payments by the public administration are still sizeable, but monitoring is improving. The extension of mandatory electronic invoicing to all transactions with public administrations as of April 2015 has led to a reduction of the average payment period. The latter has continued to decrease but still amounts to 95 days in 2017 (100 days in 2016).[25] The stock of trade debt arrears remains significant[26]. Furthermore, administrative payment procedures are cumbersome, especially in specific sectors,[27] and improper practices put in place by public administrations to circumvent the obligation to pay on time are reported[28]. A significant share of public bodies still fails to communicate data on actual payments. However, the new electronic platform "SIOPE plus", fully operational from the beginning of 2018, should allow to consolidate complete information on trade debts of the public administration as a whole, including all regions, local governments, municipalities and health service bodies.

The privatisation targets for 2018 and 2019 are subject to significant risks. The 2016 and 2017 targets of 0.5% of GDP privatisation proceeds per year were underachieved, as actual proceeds amounted to around 0.05% and less than 0.01% of GDP, respectively. The revised 2019 DBP submitted on 13 November projects a privatisation target of 0.3% of GDP in 2018 and 1% of GDP in 2019. These targets appear ambitious, especially in light of the poor track record observed in recent years[29].

The 2019 DBP includes a spending review. With the 2018 Budget Law adopted in autumn 2017, the government implemented for the first time the reformed budgetary process, which included a systematic spending review across all levels of government, targeting savings of around EUR 3.2 billion (or 0.18% of GDP). The monitoring of such spending review is

[24] A dedicated platform will provide local government with more comprehensive information on real estate, which could set the basis of the review, but no clear steps are planned at the moment.
[25] Bank of Italy, Annual Report, 29 May 2018, estimated by the Bank of Italy on the basis of supervisory reports and statistical surveys of firms. Based only on recorded payments, the authorities estimate an average payment period of 55 days in 2017 (declining from 58 days in 2016 -see www.tesoro.it/focus/article_0012.html). The average delay time is computed with reference to the limits prescribed by Directive 2011/7/EU. Based on the European Payment Report 2018, average payment delays are estimated at 104 days in the 2018, the longest average delay in the EU.
[26] According to the Bank of Italy, the overall amount of trade debt of Italian public administrations in 2017 was around EUR 57 billion (down from EUR 64 billion in 2016)
[27] The national association of firms operating in the construction sector reports inefficiencies in the public administration as the second reason for delays in payments. See "ANCE, Osservatorio Congiunturale sull' Industria delle Costruzioni", February 2018, from page 137: http://www.ance.it/docs/docDownload.aspx?id=42965
[28] In April 2017 Italy amended national regulations to extended by 30 days the period for processing specific types of payments. On 7 June 2018 the Commission sent a letter to Italy on this topic. Press release: http://europa.eu/rapid/press-release_MEMO-18-3986_it.htm?locale=en
[29] Part of the expected privatisation proceeds might arise from the transfer of further stakes of ENAV and ENI to the Italian National Promotional Institution *Cassa Depositi e Prestiti* (which already holds a stake in them)[29], with overall estimated proceeds of around EUR 3 billion (0.2% of GDP). The government was expecting to finalise this transfer by the end of 2017, but discussions are still ongoing. However, the feasibility of the operation in 2018 remains uncertain given the short period of time.

currently ongoing under specific agreements between the Ministry of Finance and each line Ministry. A similar spending review has been planned for 2019, expected to yield savings of around 0.2% of GDP in 2019. These savings are planned to be achieved partly through the rationalisation of ministries' expenditure (around EUR 1 billion) but also by reprogramming specific spending plans.

3.2. Ensuring efficient labour market functioning and fostering social inclusion

With the objective to reduce the use of temporary contracts[30], the government adopted a decree law ("*Decreto Dignità*") on 7 August 2018. The decree law (96/2018) reduces the maximum duration of temporary contracts from 36 months to 24 months and requires employers to provide formal reasons to extend contracts beyond 12 months, such as significant and unexpected demand increases or seasonal peaks. Otherwise, the contract is automatically converted into an open-ended one. The maximum number of extensions is reduced from 5 to 4. The law also increases the additional social security contribution paid by employers for the renewal of temporary contracts (previously 1.4%) by 0.5 pps. Furthermore, for open-ended contracts, the law raises the maximum indemnity in case of unfair dismissal from 24 to 36 monthly salaries. For the period 2019-20, existing incentives for hiring people under 30 are extended to the age of 35. The government estimated a very moderate short-term loss in employment (of around 8,000 posts) due to the reform, whereas the National Institute for Social Security (INPS) considers these estimates as too optimistic.

The impact of the decree law on employment growth will inter alia be determined by the transition rate from temporary to permanent employment. The early empirical evidence for the first months after adoption of the decree law is mixed though. While ISTAT's labour force survey data point to a further decline in permanent employment and a rise in temporary employment, INPS administrative data (Osservatorio sul Precariato) indicate a decline in hiring under temporary contracts, a stability in hiring under open-ended contracts and an increase in transitions from temporary to open-ended contracts. Moreover, the Constitutional Court ruling of September 2018 abrogated any automatism between job tenure and the level of indemnity. In the future, the level of severance payments will again be decided by the courts, increasing uncertainty and potential costs for employers.

Bargaining at firm or local level continues to play only a limited role. A stronger framework for collective bargaining at the firm or local level is likely to support the efficient allocation of resources within and across firms, strengthen the link between wages and local economic conditions and facilitate the adoption of innovative work practices at firm level (e.g. flexible working-time arrangements to support work-life balance or vocational

[30] Following the phasing out of hiring incentives for permanent posts at end-2016, temporary employment took over as the sole driver of job creation Between Q4-2016 and Q3-2018, non-permanent posts increased by more than 655,000, while the number of permanent jobs decreased by about 106,000. The share of employees (15-64 years) with temporary contracts has risen to 12.1% by 2017, in line with the EU average. The transition rate from temporary to permanent contracts is among the lowest in the EU.

training)[31]. In February 2018, the main trade unions (CGIL, CISL, UIL) and the main employers association (Confindustria) signed a new framework agreement. This so-called *Patto per la Fabbrica* is intended to reform the collective bargaining framework, in particular by better measuring representativeness[32], especially on the employers' side. However, the criteria for representativeness still need to be defined and might require legislative action. The agreement also stresses the importance of developing collective bargaining on non-wage issues (including welfare benefits, training and skills, occupational safety, workers` involvement in firms' management) and confirms the two-level system for collective bargaining[33]. Wages continue to be negotiated at the national or sector level (TEM – *Trattamento economico minimo*), while pay rises are still linked to expected inflation (excl. energy and imported goods) as forecast by ISTAT every year in May. There is a risk that inflation expectations are subject to large forecast errors, especially around cyclical turning points, implying persistent and unintended changes in real wages.[34] Regarding second-level bargaining, the new framework agreement offers the possibility to deviate from the national or sectorial agreement, albeit only to the upside (TEC – *Trattamento economico complessivo*). The contract renewals in the chemical industry and building sector are the first ones to be concluded based on the new framework agreement.

Strengthening the public employment services (PES) is crucial for the effectiveness of active labour market policies and the future basic income scheme. Major competences now lie with regional authorities, which received new resources in 2018 to reinforce the PES. The recruitment of new staff and the upgrading of competencies of existing personnel via adequate training have not yet started. These steps are necessary, as the government envisages a comprehensive reform of the PES system to implement the activation component of the citizenship income scheme. The PES appear ill-prepared for this task at the current stage[35]. The Budget Law 2019 allocates up to EUR 1 billion for upgrading PES over the period 2019-20.

---

[31] Despite fiscal incentives, i.e. tax rebates on productivity-related wage increases set by second-level agreements, only about 20% of firms (with at least 20 employees) adopted firm-level bargaining in the period 2010-2016. In addition to the small average firm size in Italy, this outcome can be explained by the incentives' very small or even negative (i.e. regressive) impact on net labour income. Overall, the number of registered labour contracts had increased by 50% since 2013. Most of them were signed by minor trade unions and employers' organisations in search for flexibility outside the main national sectoral agreements. However, out of a total number of 871 contracts (as of June 2018) more than 500 are considered "irregular" (i.e. they include economic and working conditions below the standards set by the most common contracts). According to recent estimates for the services sector, wages agreed in these contracts are between 8% and 20% lower than those in the contracts agreed by the established bargaining partners.

[32] Agreements on rules and criteria to measure trade union representativeness, a prerequisite for fostering second-level bargaining, have been signed in recent years, but are not operational yet. Uncertainty about the representativeness of negotiating parties may hamper to the development of firm-level bargaining, in synergy with the prevalence of small enterprises in Italy. In 2014, social partners and Confindustria agreed on the criteria to measure trade union representativeness (Testo Unico sulla Rappresentanza of 10 January 2014). The agreement is however not operational yet . Following a new agreement signed in July 2017 (Accordo di modifiche al Testo Unico sulla Rappresentanza of 7 July 2017), the first measurement exercise is expected for 2019.

[33] The notion of "second-level agreement" refers to agreements signed either at firm- or territorial level (i.e., by a firms located in the same territory) hierarchically subordinated to a certain nationwide sectoral agreement (which represents the "first level" of bargaining).

[34] The 2009 framework agreement set the duration of collective contracts to three years and a link of negotiated wages to the expected evolution of consumer inflation. This resulted in wage rigidity during the crisis, with nominal wages rising above inflation even when unemployment rate was sharply increasing. Some of the new contracts (e.g., metal workers) have introduced ex-post indexation, which however may build some wage inertia in the system.

[35] In January 2018, the government issued a decree to set monitoring indicators and minimum standards for PES services at the national level. But the coordination between the national agency for active labour market policies (ANPAL – *Agenzia Nazionale Politiche Attive Lavoro*) and regions remains a major challenge. PES are being linked throughout a newly developed national IT system, which facilitates the on-line registration of jobseekers and the set-up of single points of contact for the long-term unemployed. Furthermore, a joint project by ANPAL and the Chamber of commerce (*Unioncamere*) aims at disseminating information on companies' vacancies and expected training

Female labour participation remains one of the lowest in the EU. The employment rate of women (20-64) is substantially lower than the EU average (52.5% vs 66.4%) in 2017. On the one hand, a high tax wedge for second earners reduces the financial incentive for women to take up work. On the other hand, the lack of adequate measures to reconcile professional and private life such as long-term care facilities tends to make employment prohibitively costly, especially for women with dependent children or other family members in need of care. This situation is exacerbated by an inadequate system of parental leave. For example, parents on parental leave are only paid 30% of their salary, and the experimental four-day compulsory paternity leave has not been renewed by the 2019 draft budget law.

Undeclared work remains widespread in Italy. The newly created National Inspectorate Agency, created to avoid overlaps and increase effectiveness, registered an increase of 36% in irregular employment in 2017. Sectors particularly affected include housing and food services, construction, commerce and agriculture. Exchanging data between different agencies (INPS, INAIL - Istituto Nazionale per l'Assicurazione contro gli Infortuni sul Lavoro e le malattie professionali, and Ministry of Labour) and investment in human resources could further improve the overall performance of the new Agency. The draft budget law 2019 envisages a recruitment plan of 1 000 inspectors for 2019-2021.

On social policies, the scheme Reddito d'inclusione attiva (REI) will be replaced by the citizenship income scheme. From preliminary information in the 2019 draft budget law, the new scheme targets unemployed or unoccupied individuals (including pensioners) below the relative poverty threshold and residing in Italy for at least 5 years. The scheme will keep the REI's active inclusion approach through some conditionality rules. However, key implementation and operational details about the new measure have still to be defined which prevents a thorough assessment at this stage. According to the 2019 draft budget law, the new scheme will be financed through a new fund (Fund for the citizenship income) with a yearly budget of EUR 9 billion as of 2019.

The overall quality of education has improved in recent years, but low levels of basic skills and wide and persisting regional disparities remain a cause for concern. The implementation of the school reform (*La buona scuola)* has stalled. However, some measures were never implemented (teachers' mobility) while others were abolished, such as the direct hiring of teachers by school principals (based on school needs) and the evaluation of both teachers and principals. The new recruitment and training system for secondary school teachers, expected to improve the quality by combining a year of formal learning with two years' remunerated teaching apprenticeship, eventually leading to a permanent contract, has been backtracked. The new government announced a recruitment system reform to return to the traditional open competitions, reducing the on-the-job training from three years to one. The mandatory participation in work-based learning in the three final years of upper secondary school is now fully operational. However, the new government announced a significant scale down both in terms of mandatory number of hours and the relative funding

---

needs. However, further efforts are necessary to improve the case handling and the provision of individual assessment plans. The take up of the re-placement voucher, a pilot project started in May 2018, is very limited and further efforts are needed to better reach potential beneficiaries

(they were both cut by almost 60%). Moreover, many school principals, especially in southern regions, report limited backing from employers and businesses, and hence have to resort to alternatives such as simulated experiences. To promote tertiary non-academic education, the previous government proposed a new co-ordinated system based on the existing *Istituti Tecnici Superiori* (ITS) and on the introduction of professional degrees. The new government confirmed the same approach without giving details on the contents or the timeline.

3.3. Safeguarding financial stability and supporting the economy

Italian banks have come under renewed strain from the sovereign debt market turmoil. Due to the entrenched sovereign-bank nexus, higher sovereign yields have already adversely affected banks' capital positions, pushing up their funding costs and curtailing market access to unsecured wholesale funding[36]. Since the start of market turbulences in late spring 2018, Italian banks have sizeably increased their exposure to their sovereign. According to Bank of Italy data, Italian banks' holdings of Italian sovereign bonds have increased from EUR 298 billion in April 2018 to EUR 317 billion in August, partly compensating for the withdrawal of foreign investors since spring. Sovereign debt as a share of total banking sector assets remains elevated with 10.6% in August 2018, reflecting the close sovereign-bank nexus in Italy, with smaller banks often being more exposed than larger ones. The core Tier 1 capital (CET1) for the largest Italian banks declined by approximately 30-84bp in their Q2-2018 results (less so in Q3) from the sovereign yield widening. According to Bank of Italy estimates, a 100bp spread widening (as of end-June level) would reduce banks'CET1 ratio by 50bp (40 points for the significant banks and 90 points for the less significant banks)[37]. Several banks adopted strategies to rebalance part of their sovereign bond portfolios to the held-to-collect category (valued at amortised cost) to avoid an even higher capital impact from the higher sovereign yields. The liquidity position of Italian banks remains comfortable, mainly supported by the system increase in domestic deposits and the significant reliance on ECB refinancing operations[38]. However the current market situation, if it were to be prolonged, risks significantly increasing banks' funding costs (whilst impairing credit supply) and making it more difficult for banks to meet the subordinated part of MREL targets as well as to eventually phase out from the ECB TLTROs starting in 2020.

So far, Italian banks have continued to repair their balance sheets and reduce the level of NPLs[39]. The recent EBA stress test has shown the resilience of the Italian banks in the

[36] Only two banks accessed the unsecured funding market. Banks have instead continued to issue covered bonds, albeit at higher costs than in the past.

[37] Bank of Italy Financial Stability Report, November 2018

[38] As a consequence, the funding gap of Italian banks further declined in the first part of 2018 and the volume of assets eligible for use as collateral for Eurosystem refinancing operations has remained high.

[39] In January 2018, the Bank of Italy adopted guidelines on NPL management for less significant financial institutions (LSIs). The NPL guidance, which draws upon the draft ECB NPL guidance from March 2017, touches upon operational issues and contains provisions adapted to the specific situation of LSIs (based on the proportionality principle). The Bank of Italy intends to enhance supervisory scrutiny of the NPL plans of LSIs with higher NPL levels. Such enhanced supervision includes the ability to request corrective measures, for instance, in the form of higher coverage ratios.

sample under the adverse scenario. In 2017 and in the first half of 2018, banks disposed of a significant amount of bad loans (roughly EUR 60 billion), nearly two thirds of which came through securitizations[40]. According to estimates by the Bank of Italy, Italian significant institutions are expected to reduce by some further EUR 40 billion their NPLs by end-2020. The secondary NPL market has developed with more adequate NPL pricing closer to fundamentals, as NPL data quality has improved and more NPL servicing firms have entered the market. Banks have also worked towards improving internal work-outs. Looking ahead, the unlikely-to-pay (UTP) secondary market offers potential for further development[41]. The state-aid-free securitisation framework with State guarantees (*Garanzia sulla Cartolarizzazione delle Sofferenze* or GACS) has so far enabled the securitisation and derecognition of EUR 59 billion in bad loans (gross book value). The scheme was recently extended by another 6 months until March 2019, and the government plans to further prolong it (subject to EC State aid approval)[42]. While the sovereign bond market uncertainty has so far not significantly negatively impacted the degree of NPL sales including prices, downside risks for NPL disposals prevail in the current market environment, also due to more costly state guarantee fees[43].

While second tier banks have progressed on their balance sheet cleaning up and de-risking, they are often still perceived as vulnerable by the market. Despite the progress with balance sheet de-risking, second-tier banks still have above average NPL ratios and need further efforts to strengthen their capital buffers and resilience to shocks including from higher sovereign spreads. The recent developments relating to Banca Carige[44] are a good illustration of that. In addition, whereas their liquidity position has remained comfortable, the TLTRO funding constitutes a significant contribution to the total funding of these banks, as it exceeds 10% of their total assets. Most of these banks only have a limited track record of accessing wholesale markets, which could make the phasing out of the TLTRO more expensive and difficult.

Progress has been also made on state-aided banks, though significant vulnerabilities remain. Banca Monte dei Paschi di Siena has continued to implement its restructuring plan, inter alia, on NPL disposals through a large NPL securitisation transaction and cost-cutting measures. However, after an issuance in early 2018, recent efforts to further increase its subordinated debt have been curtailed by the unfavourable market conditions. No significant

[40] The disposal of NPLs has been also supported by the transitional arrangements related to the implementation of IFRS 9, which allowed spreading over time the impact on capital of additional loan-loss provisions on non-performing exposures.

[41] Banks will have to decide whether to invest in the active management of UTP loans or to de-recognize them through outright sales to specialised operators and securitisation. Market operators focusing on UTPs, which are currently few on the Italian market, require specific skills, strategies and logistics (i.e. proactive management of borrowers, early waring indicators, advanced IT platforms) as well as appropriate financial resources to support borrowers.

[42] In April 2016, the State-aid-free securitisation framework with state guarantees (*GACS*) was established that encourages banks to set up special-purpose vehicles (SPVs) to acquire (part of) their bad debts. The 14 transactions completed since 2016 with the support of GACS, involved a total gross volume of NPLs of EUR 59 billion. Following its latest prolongation in September 2018, some technical changes were made to GACS (e.g. CDS premiums are in certain circumstances averaged over 2-month periods instead of 6-month periods to calculate the State guarantee fees).

[43] As regards the State aided bank, Banca Monte dei Paschi di Siena (BPMS) has continued to implement its restructuring plan, inter alia, on NPL disposals and cost-cutting measures[43]. However, recent efforts to further increase its subordinated debt (after an issuance in early 2018) have been curtailed by the unfavourable market conditions.

[44] Banca Carige benefitted recently from the support of the voluntary scheme of the interbank deposit guarantee fund (FITD), which invested up to EUR 320 million into subordinated convertible bonds and enabled the bank to bridge the time necessary to organize a capital increase of EUR 400 million.

public contingent liabilities have so far materialised related to the resolution of the four small banks in 2015 and the liquidation of the two Venetian banks (Veneto Banca and Popolare di Vicenza), as Intesa Sanpaolo, the acquirer of their good business, has not made yet any claims on public guarantees.

In April 2018, the Commission approved, under State aid rules, a liquidation scheme for failing small Italian banks for a 1-year period. The objective of the scheme is to provide the framework for letting the recognised Deposit Guarantee Scheme (DGS) support the orderly liquidation of non-viable small banks with total assets below EUR 3 billion under national insolvency proceedings[45]. As per the 2013 Banking Communication, burden-sharing must be applied to shareholders and subordinated debt holders of banks subject to the scheme, with senior creditors and depositors spared. The scheme has been applied to one very small bank so far.

The government intends to set up a mis-selling compensation scheme for retail bank shareholders of gone-concern banks in the context of the 2019 DBP. The *Fondo di Ristoro*, with a budget of EUR 1.5 billion, would mainly draw on existing resources in dormant accounts. Beneficiaries would be bank shareholders with a retail profile, who suffered losses on shares directly acquired from banks resolved or liquidated between mid-November 2015 and the end of 2017[46]. Previous mis-selling compensation schemes covered only bank bondholders subject to burden-sharing. Since it is more difficult to prove the mis-selling of shares than that of bondholders, it would be important to ensure that any compensation scheme observes EU state aid rules as well as the bank resolution framework.

Important corporate governance reforms have been recently suspended. The finalisation of the much-awaited reform of the *banche popolari* has been postponed in July 2018 until end-year[47]. Importantly, a recent decision of the Italian State Council referred several questions related to this reform to the European Court of Justice while suspending, in the meantime, the implementation of the reform[48]. The 2016 reform of the small mutual banks *(banche di credito cooperativo* – BCCs) is at a high risk of being further amended**.** This reform was not completed by July 2018 (as originally planned), but was subject to a 3 months delay approved by the government through the so-called Mille-Proroghe decree law[49]. More recently, the Senate approved an amendment to the Decree 119/2018 (Fiscal Decree), which allows the BCCs in the Bolzano and Trento provinces to participate in institutional protection

[45] In more detail, the DGS public financial support under the scheme has the aim of facilitating the orderly market exit of such small banks through a sale of assets and liabilities to another bank (at least 20 times larger), whereby the entity entering liquidation will subsequently cease to exist as a stand-alone market competitor. The residual assets, e.g. NPLs, of the liquidated bank will not move to the acquiring bank but remain in the entity to be wound down. The financial support of the DGS in the liquidation of the failed bank will occur if the burden-sharing by shareholders and subordinated bondholders is not sufficient to bring the net assets of the failing bank to a positive value. Any costs borne by the DGS will not exceed the net amount of compensating covered depositors of the failing bank.

[46] According to the draft law, compensation would be based on a confirmatory decision by a court or the out-of-court arbitration body (ACF – *Arbitro delle Controversie Finanziarie*) created in early 2017 at the level of CONSOB (the Italian financial market supervisor). The compensation would equal 30% of the recognised amount, up to a maximum of EUR 100,000 per retail investor.

[47] The Mille-Proroghe decree law (91/ 2018) adopted in July 2018

[48] The European Court of Justice was requested by the Italian State Council (Consiglio di Stato) to express its opinion on the validity of: i) the threshold of total assets above which a bank is required to convert into joint stock company; ii) the possibility to limit / suspend indefinitely the payment to shareholders who exercised the withdrawal rights; iii) the possibility to limit the payment to shareholders who exercised the withdrawal rights to ensure the stability of the bank.

[49] In the decree law in July 2018, the Government has adopted measures to increase the autonomy of the financially stronger mutual banks to define their strategic and operational plans. Furthermore, the contribution of the small mutual banks to the capital of their parent holding groups was increased to 60%, with the possibility to lower this threshold in case of financial stability concerns.

schemes, as alternative to the seeting up of a cooperative banking group. This would reinforce the cooperative features of the BCCs and maintain regional links[50]. A more limited BCC reform than initially planned would likely maintain the fragmentation of the BCCs, make capital market access for individual BCCs more difficult and create less system resilience. Meanwhile, the decree on fit and proper rules for managers is close to being approved. Though the ministerial decree was completed some months ago, the Italian State Council is likely to provide its opinion soon with a government approval possible in early 2019.

The Government plans to complete the reform of the insolvency framework in the near future. In October 2017, the parliament passed an enabling law of the insolvency framework, authorising the government to overhaul its bankruptcy legislation which dates back to 1942[51]. The reform, inter alia, promotes out-of-court agreements between debtors and creditors, simplifies bankruptcy procedures and introduces a pre-emptive mechanism for corporate insolvencies[52]. A legislative decree has been recently approved by the Prime Minister Cabinet to adopt the insolvency code[53]. A timely implementation of these reforms is important to accelerate the slow judiciary system for foreclosure procedures and collateral enforcement and to further boost the resilience of the banking sector.

Measures to accelerate out-of-court collateral enforcement have not progressed so far. The *Patto Marciano*, which is a private enforcement clause in credit agreements (adopted in 2016), has not been used so far by banks neither in loan contracts with firms nor with households. The application of the *Patto Marciano* with firms has been further facilitated and promoted in a Memorandum of Understanding (MoU) between the Italian Banking Association (ABI) and Confindustria in February 2018. Furthermore in October 2018, the banking prudential regulation has been updated in order to remove some hurdles faced by banks when seizing the collateral under the previous regime. Such amendments – along with the aforementioned MoU – are expected to make the clause easier to be triggered. It will be important to monitor the impact of this MoU and the new regulation in practice and remove any remaining legal uncertainty and take appropriate corrective action, where needed.

3.4. Improving investment, innovation and firms' competitiveness

The 2019 draft budgetary plan includes measures intended to relaunch public investment. These measures aim at reverting the continuous decline of public investment of previous years, especially at local level. Two new institutional bodies have been proposed: i) a competence centre (*Centrale per la progettazione delle opera pubbliche*) will provide

[50] As originally planned, the reform would have led to the emergence of two groups with national coverage supervised by the SSM, and a provincial group (Raffeisen Bolzano). Following the amendment approved by the Senate, the BCCs reform will lead to the emergence of only two groups– ICCREA and Cassa Central Banca (CCB) – which will be subject to a comprehensive assessment by the SSM in 2019.
[51] Law No.155 from19 October 2017 "*Delega al Governo per la riforma delle discipline della crisi di impresa e dell'insolvenza*", entering into force on 14 November 2017.
[52] This is the latest step in a series of reforms introduced during the last years, which follows the guidance given by the "Rordorf" experts committee in 2016. The enabling law requires the government to implement the reform, i.e. to prepare the relevant decrees along the following lines: establishing early warning mechanisms to swiftly address distress situations; making the restructuring of groups of companies easier; rationalising the use of judicial compositions; charging specialised courts with large debtors' cases.
[53] *Codice delle crisi di impresa e dell'insolvenza*

technical support for the planning and evaluation of investment projects, including in public and private partnerships (PPPs); and ii) a central office (InvestItalia) will provide operational support to ministerial work in the identification, assessment and monitoring of investment projects and to address identified bottlenecks[54]. The standard contract for Public and Private Partnership (currently being revised following the public consultation) will facilitate investments, by strengthening the weak link between public and private operators. Although most of these measures appear to go in the right direction, their impact can take time to materialise and proper implementation will be key. The impact of these measures on improving the current low absorption of EU Structural and Investment funds[55] will need to be assessed. Furthermore, a new cost- benefit analysis on already planned large scale transport infrastructure projects ("*Grandi Opere*") is being carried out. This analysis risks blocking and delaying previously planned investments.

The delays in the implementation of the recently adopted new code for public procurement and concessions create additional uncertainty for firms and local administrations. Only 50% of the operational guidelines needed for the implementation of the code have been released so far by ANAC (anticorruption authority). Moreover, the prolonged inactivity of the government's *Cabina di regia* has translated into a lack of coordination in the implementation of the reform, further slowing down the progress made. In the attempt to mitigate interpretative uncertainty, the new government announced amendments to the code, although without providing further details.

The 2019 draft budgetary plan proposes to scale-down existing measures aiming at boosting private investment and innovation. Previously introduced measures in the *Impresa 4.0* plan contributed to the pick-up of private investment, especially in tangibles. However, their number, the uncertainty on their duration (as most were introduced as temporary measures), may have reduced their effectiveness. While a complete evaluation of the impact of the measures is still lacking, the temporary tax incentives to boost private investment and innovation will be overall reduced[56]. A new structural tax rebate on reinvested profits will be introduced on the portion of income that firms use to acquire new tangible assets and to increase employment. The new tax break replaces the allowance for corporate equity (ACE), which is abrogated as of 2019 (see section 3.1). ACE had been largely used by corporations (especially by the financial sector), and it had helped to reduce the corporate debt bias, thus contributing to the significant decline in Italian firms' leverage in recent years. The new tax rebate is more complex than ACE and increases reporting requirement by firms.

Overall, the planned changes to the measures supporting private investment and innovation go in contrasting directions. The introduction of a permanent tax measure (i.e.

[54] The notice of competition for selecting specialised staff to work in these two bodies is currently being drafted.

[55] Italy is among the worse performers in terms of the rate of expenditure of EU Structural and Investment funds declared to the EU Commission.

[56] The hyper-depreciation (a super-evaluation of investments in new tangible and intangible assets that fosters technological and digital transformation) has been extended to 2019, while the allowance has been reduced progressively for larger investments. The super-depreciation (an increment of the allowance for new capital goods), which was largely used by SMEs in the manufacturing sector and contributed to increased investment in machinery, has not been extended. Moreover, the tax credit for incremental expenditure in R&D (planned until 2020), which has been largely used by SMEs in the manufacturing sector, has been reduced for certain types of expenditures.

tax rebate on reinvested profit) instead of temporary tax incentives support investment planning, in the sense that they reduce the uncertainties faced by firms about tax payments in the long-term. On the other hand, resources to promote private investment have been overall reduced, including for investments with an expected higher impact on productivity, which is not conducive to enhance potential growth. Measures to support market-based access to finance for firms (particularly relevant for SMEs and innovative firms) have have not sufficiently advanced[57], which can leave firms vulnerable to a worsening of bank credit conditions. A closer monitoring of the implementation of policies and the use of impact assessments to fine-tune policy choices is still lacking.

The government continues the support the internationalisation of Italian firms. For the period 2015-17, the *Piano Straordinario per il Made in Italy* fund[58] was allocated EUR 525 million, and the 2019 DBP proposes to increase its resources. The plan supports Italian SMEs in expanding in international markets through training programmes for managers (vouchers for temporary export managers), roadshows, large fair events, e-commerce support and support for already internationalised firms (*Programma Alto Potenziale*). The DBP also envisages the realization of the first Important Projects of Common European Interest (IPCEIs)[59]. Moreover, the reorganization of the local chambers of commerce is almost finalised. Overall, the supporting measures for internationalisation appear to adequately cover all the phases of the internationalisation process (firm's capacity and training, markets exploration, markets penetration and consolidation).

The adoption of legislative decrees to implement the public administration (PA) reform[60] has been completed. Between 2016 and 2017 the government adopted all legislative decrees, the most relevant being: i) the simplification of the decision-making process and of citizens' access to public administrations[61]; ii) State-owned enterprises (SOEs)[62]; iii) human resources (management level in the health sector[63] and disciplinary dismissal[64]); iv) the public employment code; v) performance evaluation; vi) the corrective decrees on SOEs, disciplinary dismissals and public employment in the health sector. However, on 25 November 2016, the Constitutional Court deemed the procedure followed for some already adopted and also planned legislative decrees[65] unconstitutional[66]. While the already adopted legislative decrees have been amended by a corrective decree, the deadline

[57] Exisitng measures supporting firms' access to finance (e.g. Nuova Sabatini or the SME Guarantee Fund) are planned to be re-financed, while new measures were announced in the 2019 Draft Budgetary Plan (e.g. the creation of a Bank for investment). Some measures to address specifically address market-based access to finance, such as the creation of a fund to support venture capital and the launch of a public platform to finance highly dynamic SMEs with shares of pension savings have been announced in the 2019 fiscal decree and 2019. Draft Budgetary plan, respectively. However, details on concrete measures are often still missing to allow for a comprehensive assessment.

[58] Decree Law 133/2014 of 11 September 2014, subsequently converted into Law 164/2014 of 11 November 2014

[59] The European Commission has set out criteria under which Member States can support transnational projects of strategic significance for the EU and for the achievement of Europe 2020 objectives, in line with EU state aid rules. The aim is to encourage Member States to channel their public spending to large projects that make a clear contribution to economic growth, jobs and the competitiveness of Europe.

[60] Law 124/2015 of 7 August 2015

[61] Presidential Decree 194/2016 of 12 September 2016; Legislative Decree 179/2016 of 26 August 2016; Legislative Decree 127/2016 of 30 June 2016; Legislative Decree 126/2016 of 30 June 2016; Legislative Decree 97/2016 of 25 May 2016

[62] Legislative Decree 175/2016 of 19 August 2016

[63] Legislative Decree 171/2016 of 4 August 2016

[64] Legislative Decree 116/2016 of 20 June 2016

[65] The three already adopted legislative decrees comprise those regulating the management level in the health sector, disciplinary dismissals and SOEs, while the three legislative decrees not yet adopted are on local public services, public managers and public employment.

[66] Sentenza 251/2016 says that the government needs to reach an agreement with local administrations when intervening in areas that directly affect them. The Court judged the non-binding opinion envisaged in the enabling law as insufficient.

for adopting the legislative decrees on local public services and public managers expired shortly after the ruling. This implies the need for new legislative initiatives in these areas which have not been taken so far. The operationalisation of the adopted decrees is ongoing with some positive results already available, especially for the decision-making procedures.

The operationalisation of the public employment reform is challenging. The legislative decrees on the public employment are being operationalised. On the one hand, the reform could have been more ambitious in shifting the existing knowledge-seniority based system to a system based on skills and performance[67]. On the other, the new recruitment system and evaluation system are welcomed although their operationalisation might prove challenging. The public administration department is currently revising the general competition rules to introduce further skill-based elements but without a specific time-line though. At the same time, it faces the challenge of an important share of staff with temporary contracts aspiring to be hired on a permanent basis. Finally, non-managerial careers still follow a different path than managers, which reduces career prospects and incentives for non-managers. Further action is needed to improve the efficiency and effectiveness of public employment management. In September 2018, a new draft bill (*Decreto Concretezza*) has been put forward by the new government to reinforce the 2015 public administration reform: i) the replacement rate of public employees will reach again 100%; ii) a taskforce (*Nucleo della Concretezza*) will be established to support departments (central and local) in order to adequately enforce the 2015 reform and improve the effectiveness of their operations. Moreover, the government announced that the new legislative initiatives, which aim to reform Local Public Services and public management, will be in line with the ones included in the 2015 reform (then deemed unconstitutional by the Supreme Court for procedural reasons, not for the envisaged provisions). However, a clear timeline and details for these initiatives are not yet available.

While the 2016 new single framework for managing and rationalising State-owned enterprises has been implemented, the enforcement of the new rules is now crucial. Given the difficulties of past reform attempts, the operationalisation and the enforcement are expected to be challenging. By September 2018, public administrations had to complete the divestment procedure for those shareholdings that were identified as non-strategic in their ‘extraordinary’ rationalisation plan. By end-2018, public administrations are due to review all their shareholdings owned at end-2017 and to draw up the first ‘periodic’ rationalisation plan. A monitoring report is currently being drafted by the authorities to assess the actual effectiveness of the framework, although authorities already report some issues with local administration ability to effectively and timely dismiss their shares.

A few civil justice reforms of limited scope were passed in 2017, but a comprehensive reform of civil trials is still missing. An important draft enabling law[68] streamilining certain aspects of civil proceedings and introducing stronger deterrence against abusive litigation, submitted to Parliament in 2015, was not adopted by the end of the parliamentary term.

[67] For instance, the recruitment system, despite a higher focus on PhD degrees, languages management and previous work experiences, is still excessively reliant on knowledge-based recruitment competitions.
[68] Bill number 2953

However, a new bill introducing a single simplified procedure for civil trials has been announced by the government by end-2018[69]. While filling 2,441 posts in 2017 contributed to reducing the vacancy rate for ordinary judges to a physiological rate of 11.5%, around 8,000 vacancies for administrative staff are still to be filled. Overall, efficiency gains from past civil justice reforms are only gradually showing in the data on disposition time for civil and commercial litigious cases, which remain very lengthy.

Following the revision of the statute of limitations and the extension of whistle-blowers' protection in 2017, new provisions to further step up the fight against corruption have been put forward but await adoption. The implementation of the anti-corruption measures adopted in 2017 is ongoing, but it is too early to assess their effectiveness. In September 2018, the new government presented to Parliament a new draft bill[70] to reinforce the anti-corruption framework. The draft bill envisages stricter penalties for corruption, increasing both their minimum and maximum by two years, stops prescription terms after a first-instance conviction, introduces a leniency programme for the wrongdoers denouncing the illegal conduct first, and extends to corruption offences the use of special investigation techniques, in particular the so-called "operations under cover" foreseen by the UN Merida convention. Moreover, it introduces a ban *sine die* for individuals convicted for corruption from making business with the public administration and from holding public offices. Furthermore, an expert group is being set up in the Ministry of Justice to put forward a comprehensive reform of the criminal trial. Among the specific proposals to speed up criminal proceedings already submitted to the Ministry of Justice, there is the reintroduction of the possibility of *reformatio in peius*[71] when the appeal has been filed only by the appellant, in order to deflate litigation by reducing the incentives that its current prohibition may create to appeal first-instance rulings[72]. Last, the national anti-corruption authority (ANAC) is becoming fully operational: its powers to impose sanctions were clarified in early 2018; new rules were adopted on ANAC's supervisory activities[73]; and staffing is almost complete, with 320 filled posts out of existing 350.

Reforms to strengthen competition have made no progress in 2018. No new initiatives have been put forward in the field of competition after the adoption of the long-awaited 2015 annual competition law (*legge annuale per la concorrenza*) in August 2017. The law envisages improvements in competition for a number of sectors, such as *inter alia* insurance, telecom, postal services, electricity and gas, and fuel distribution, as well as for banks and pharmacies. The adopted law is less ambitious than the initial draft, as market-opening measures on regulated professions and pharmacies have been significantly weakened and important sectors, identified by the competition authority[74], were not covered by the law (e.g.

[69] Ministerial Decree of 16 July 2018, setting up a working group to prepare a proposal to reform civil proceedings and alternative means of resolving civil disputes by 30 November 2018. The proposal is not yet available but is expected to be submitted to public consultation soon..

[70] Bill number 1189

[71] The *Reformatio in peius* indicates the possibility that, following an appeal, the appellants find themselves in a worse position than if they did not appeal. In Italy, if the appeal is filed only by the appellant (as opposed to the public prosecutor), a "reformatio in peius" of the first-instance ruling is currently not allowed.

[72] Proposal 3711 for a reform of criminal trials submitted by Italy's National Judges Association to the Ministry of Justice on 23/11/2018: "*Proposte di riforma dell'Associazione Nazionale Magistrati in materia di diritto e processo penale*" – p 23.

[73] ANAC (2018), Regulation on the supervisory power of ANAC (*Direttiva programmatica sull'attività di vigilanza dell'a.n.ac. nell'anno 2018*). Retrieved from:

[74] Segnalazione AS1137 of the *Autorità Garante della Concorrenza e del Mercato* (*AGCM*)

healthcare, ports, airports, radio frequency allocation, concessions and limited authorisations). The implementation of the 2015 competition law has proved difficult with half of the implementing decrees still to be adopted and some delegations already expired, The current government postponed the phasing out of the regulated tariffs in the energy sector from 2019 to mid-2020, while new limitations for professional services were introduced with the 2018 DBP. A new competition law has been announced by the new government but details on contents and timeline have not been provided yet. However,new restrictions might rise with the announced measures on the retail sector, which aim to over-regulate the opening hours of retailers (especially on Sunday).

The implementation of the 2015-2017 "Simplification Agenda" has been completed. The coherent and time-bound framework for business environment simplification is being implemented according to the timeline, while progress reports[75] are available online. The previous government had announced a new 2018-2020 simplification agenda. The new government confirmed the intention to establish a new agenda and is currently consulting the regions and relevant stakeholders with the objective to pursue and strengthen the 2015-2017 agenda.

[75] The latest progress report is available at http://www.italiasemplice.gov.it/monitoraggio/i-risultati-raggiunti/

Annex: Overview of MIP-relevant reforms

MIP objective: Achieving sound and growth-friendly public finances			
Public finances & taxation			
Fiscal policy & fiscal governance			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• The draft 2019 Budget Law lowers taxes for self-employed workers, by: (i) extending the scope of the existing simplified tax regime (optional forfait 15% tax rate for self-employed with yearly income below sector-specific thresholds up to a maximum of EUR 55,000), by extending the income threshold to EUR 65,000 (independently from the sector of activity); ii) introducing a new 20% forfait tax rate for self-employed with yearly income between EUR 65,000 and EUR 100,000, starting from 2020. • The draft 2019 Budget Law reduces the standard corporate income tax (IRES) rate of 24% to 15% on firms' profits used to increase investment or hire new employees. • The draft 2019 Budget Law abrogates the previously legislated simplified tax regime (setting the rate at 24%) for personal income from entrepreneurial activities ("Imposta sul Reddito Imprenditoriale"), aimed at harmonising the tax treatment of			• CSR 1: "Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values".

small firms and corporations. • The draft 2019 Budget Law abrogates the "allowance for corporate equity" (ACE), introduced in 2011 to reduce the corporate debt bias. • The draft 2019 Budget Law lowers the tax deductibility of specific costs for some categories of firms, especially banks, by: (i) lowering the tax deductibility of the goodwill and other intangible assets related to past operations by spreading it over 11 years; (ii) postponing to 2026 the tax deductibility of credit losses incurred in 2018; (iii) lowering the tax deductibility of losses due to the implementation of new accounting principles by spreading it over ten years; (iv) increasing the advance payment of the tax on insurances.			
Long-term sustainability of public finances (including pensions)			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• The draft 2019 Budget Law provides for a significant increase in pension expenditure, by creating a fund for a new early retirement scheme worth 0.4% of GDP per year over 2019-2021. The new early retirement scheme will be specified in legislative decrees after the adoption of the 2019 Budget Law.			• CSR1: "Ensure that the nominal growth rate of net primary government expenditure does not exceed 0,1 % in 2019, corresponding to an annual structural adjustment of 0,6 % of GDP. […] Reduce the share of old-age pensions in public spending to create space for other social spending."

<table>
<tr><td>• The draft 2019 Budget provides for a significant increase in social spending , by creating a fund for a minimum income scheme worth 0.4% of GDP per year over 2019-2021. The minimum income scheme will be specified in legislative decrees after the adoption of the 2019 Budget Law.
• The draft 2019 Budget Law includes a spending review that respects the main provisions of the reformed budgetary process.</td><td></td><td></td><td></td></tr>
<tr><td>• In 2018 and 2019, the government intends to achieve 0.3% of GDP and 1% of GDP privatisation proceeds respectively, but details are still unknown.</td><td></td><td></td><td>• CSR 1: “Use windfall gains to accelerate the reduction of the general government debt ratio.”</td></tr>
<tr><td colspan="4">Fight against tax evasion, improve tax administration and tackle tax avoidance</td></tr>
<tr><td>Announced measures</td><td>Adopted measures</td><td>Implemented measures</td><td>Sources of commitment</td></tr>
<tr><td>• The "fiscal decree" n. 119 (Disposizioni urgenti in materia fiscale e finanziaria) submitted to the Parliament on 23 October 2018, provides for compulsory electronic transmission of receipts for all commercial transactions with final consumers.
• The "fiscal decree" n. 119 introduces new possibilities for taxpayers to settle past tax liabilities at advantageous conditions.</td><td></td><td></td><td>• CSR 1: “Step up efforts to tackle the shadow economy, including by strengthening the compulsory use of e-payments through lower legal thresholds for cash payments.”</td></tr>
</table>

MIP objective: Ensuring efficient labour market functioning and fostering social inclusion			
Labour market, education & social policies			
Wages & wage-setting			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	March 2018. The main trade unions (CGIL, CISL, UIL) and the main employers association (Confindustria) signed a new framework agreement (*Patto per la Fabbrica*). This is intended to reform the collective bargaining framework, in particular by better measuring representativeness. The agreement also stresses the importance of developing collective bargaining on non-wage issues. Wages continue to be negotiated at the national or sector level. Second-level bargaining can deviate from the national or sectorial agreement, albeit only to the upside (TEC - Trattamento economico complessivo).		• CSR 4: "With the involvement of social partners, strengthen the collective bargaining framework to allow collective agreement to better take into account local conditions
Active labour market policies			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• The draft **2019 Budget Law** envisages a reform of public employment services (PES) linked to the implementation of the future basic income scheme (up to EUR 1 billion for 2019)			• CSR 4: "Step up implementation of the reform of active labour market policies to ensure equal access to effective job-search assistance and training"

Incentives to work, job creation, labour market participation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	August 2018. The Decree law (96/2018) "*Decreto Dignità*" reduces the maximum duration of temporary contracts (from 36 months to 24 months), requires formal reasons to extend contracts beyond 12 months, reduces the maximum number of extensions from 5 to 4, increases the additional social security contribution paid by employers for the renewal of temporary contracts and increases the maximum indemnity in case of unfair dismissal from 24 to 36 monthly salaries. It also extends incentives to hiring people under 30 to the age of 35 for the period 2019-20.		• CSR 4: "Encourage labour market participation of women through a comprehensive strategy, rationalising family-support policies and increasing the coverage of childcare facilities"
Poverty reduction & social inclusion			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
The draft **2019 Budget Law** envisages the replacement of the anti-poverty scheme scheme "Reddito d'inclusione attiva" (REI) introduced in 2018 by the			

citizenship income scheme ("Reddito di cittadinanza"), targeting individuals below the relative poverty threshold. The new scheme will relied on a new fund (Fund for the citizenship income) with a yearly budget of EUR 9 billion from 2019. Part of these resources will be used to strengthen PES and implement the activation component of the reform.			
MIP objective: Safeguarding financial stability and supporting the economy			
Financial sector			
Financial services			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• **September 2017:** The Ministry of Finance finalised the public consultation of a draft decree law on fit and proper provisions for bank managers. Though the ministerial decree was completed in recent months, the Italian State Council is likely to provide its opinion soon with a government approval possible in early 2019.	• **January 2018:** The Bank of Italy adopted guidelines on NPL management for less significant financial institutions (LSIs), drawing upon the ECB NPL guidance from March 2017. • **November 2018**: A legislative decree has been recently approved by the Prime Minister Cabinet to adopt the insolvency code (*Codice delle crisi di impresa e dell'insolvenza)*	• **April 2018**: A liquidation scheme for small Italian banks for a 1-year period has been approved by the EC under state aid rules. • **July 2018:** The Mille-Proroghe decree law (91/ 2018) postpones the full implementation of the reform of the large cooperative banks (*banche popolari*) to end-2018, while also delaying by three months the reform of the small mutual banks (BCCs) as well as amending the initial reform measures. • **September 2018:** The Ministry of Finance extended by six months and modified the aid-free State guarantee scheme for NPL securitisations (GACS). The GACS was improved	• CSR 3: "Maintain the pace of reducing the high stock of non-performing loans and support further bank balance sheet restructuring and consolidation, including for small and medium-sized banks, and promptly implement the insolvency reform."

		with changes such as: a time-limitation for the use of the state guarantee, prohibition of “bullet structures” (i.e. State guarantees should be progressively reduced as senior notes are being repaid); disclosure of net recovery values estimated by rating agencies to serve as benchmark to assess the value of senior notes; diversification of rating agencies; CDS premiums to be averaged over 2-month periods to calculate state guarantee fees. • **September 2018:** The Mille-Proroghe decree law allows retail investors of the past resolved/ liquidated banks (4+2) to obtain partial compensation on investments lost in financial instruments.	
MIP objective: Improving the business environment and strengthening firms’ competitiveness			
Structural policies			
Research & innovation			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
• The draft 2019 Budget Law and fiscal decree envisages a revision of the Impresa 4.0 Plan. Tax incentives to support private investment are generally reduced, including the tax credit on R&D. The tax credit on		• ***"Impresa 4.0"*** plan: set of measures to boost innovative investment through: 1) tax incentives (including tax credit for R&D and for training); 2) support to access to finance; 3) imrpovemnet of the business environment; 4) education. The PPP	• CSR 4: "[…] Foster research, innovation, digital skills and infrastructure through better-targeted investment and increase participation in vocational-oriented tertiary education."

training is not extended. • The "fiscal decree" foresees the creation of a fund for Artifical Intelligence, Blockchain and Internet of Things. • The draft 2019 Budget Law envisages the creation of two institutional bodies to strengthen investment capacity of national and local authorities. • The drafting of a standard contract for Public-Private Partnesrhsip is ongoing.		for the creation of Competence centres were selected. • The Start-Up Act provides a specific framework to ease administrative procedures, to provide advice on tax, labour market and other issues.	
Competition & regulatory framework			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
2018 Annual competition law (no details on sectors, contents or timeline)	The **2015 competition law** was adopted in August 2017		• CSR 2: "Address restrictions to competition, including in services, also through a new annual competition law.
		"Made in Italy" plan: set of measure to boost the internationalization of Italian firms: training programmes for export managers, voucher for temporary export managers, supporting SMEs in using e-commerce.	
Measures **restricting competition on the retail sector** (on opening hours)			

Public administration & business environment			
Public administration			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
Simplification Agenda 2018-2020 being discussed with regions and relevant stakeholders		**Simplification Agenda 2015-2017** has been implemented	
Revision of the **2015-2016 public procurement and concessions code**	**2015-2016 Public procurement and concessions code**		
Financial sector			
Access to finance			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
	• Refinancing and adjustment of the Central guarantee fund for SMEs: operational changes will let a larger number of firms access the fund	• Incentives for equity investment, equity crowdfunding, start-up visa, issuance of corporate bonds by unlisted companies (minibonds), incentives for SMEs listing	• CSR 3: "Improve market-based access to finance for firms."

MIP objective: Strengthening the institutional capacity			
Public administration & business environment			
Public administration			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
"Decreto Concretezza" aiming to let the replacement rate of public employees reach again 100% and to create a taskforce (Nucleo della Concretezza) to support administrations to enforce the 2015 reform and improve the effectiveness of their operations. The draft bill is under discussion in the Parliament.		All the constitutional legislative decrees implementing the **2015 Public administration reform** have been adopted.	• CSR 2: "Ensure enforcement of the new framework for publicly-owned enterprises and increase the efficiency and quality of local public services."
Measures to reform **Local public services** and **Public employmnent at management level.**			
Simplification Agenda 2018-2020 being discussed with regions and relevant stakeholders		**Simplification Agenda 2015-2017** has been implemented	
Revision of the **public procurement and concessions code**	**2015-2016 Public procurement and concessions code**		
Civil justice			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
A new draft bill introducing a single simplified procedure for			• CSR 2: "Reduce the length of civil trials at all instances by enforcing

civil trials has been announced by the government by end-2018 (Ministerial Decree of 16 July 2018, setting up a working group to prepare, by 30 November 2018, a proposal to reform civil proceedings and alternative means of resolving civil disputes by November 2018).			and streamlining procedural rules, including those under consideration by the legislator."
Shadow economy & corruption			
Announced measures	*Adopted measures*	*Implemented measures*	*Sources of commitment*
The anti-corruption law 1189 ("**Legge Spazzacorrotti**") was adopted by the Chamber of Deputies in November 2018 and is now under discussion at the Senate. It envisages stricter penalties for corruption, increasing both their minimum and maximum by two years, stops prescription terms after a first-instance conviction, introduces a leniency programme for the wrongdoers denouncing the illegal conduct first, extends to corruption offences the use of special investigation techniques, in particular the so-called "operations under cover" foreseen by the UN Merida convention, and introduces a permanent ban for individuals convicted for corruption from making business with the public administration and from holding public offices. A **reform of the criminal trial** has been announced by the government. Among the proposals submitted to the Ministry of Justice, the National Judges		In the course of 2018, ANAC adopted regulations clarifying: (i) its powers to impose sanctions for failing to protect whistleblowers; (ii) its supervisory role; and (iii) its power to appeal the judicial authorities in case of serious violations of the procurement code.	• CSR 2: "Achieve more effective prevention and repression of corruption by reducing the length of criminal trials and implementing the new anti-corruption framework."

Association tabled the following to streamline and speed up criminal trials: (i) reintroducing the possibility of *reformatio in peius* when the appeal is filed only by the appellant, in order to deflate litigation by reducing the incentives that its current prohibition may create to appeal first-instance rulings; (ii) a reform of the notifications making it possible for lawyers to receive valid judicial notifications at their domicile on behalf of their defendants; and (iii) the repeal of the current rule, whereby any criminal trial needs to start afresh in case of any change in the judges ("rinnovazione degli atti").			