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

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**Executive summary**

**This is the fifth specific monitoring report under the Macroeconomic Imbalance Procedure for Italy which was considered to experience excessive macroeconomic imbalances in the 2017 European Semester.** In line with the 2017 country-specific recommendations, the report reviews recent developments and policy initiatives relevant for unwinding Italy's imbalances, i.e. high public debt and protracted weak productivity dynamics in a context of a large legacy stock of non-performing loans (NPLs) and high unemployment.

**Italy's economic recovery is strengthening but remaining imbalances are expected to unwind only slowly.** The Italian economy has embarked on a modest recovery path with annual real GDP growth projected to have accelerated to 1.5% in 2017 but is expected to slow down to 1.0% by 2019, as monetary and fiscal policy becomes less supportive and external tailwinds are gradually waning. Structural reforms and recent government actions to shore up the banking sector have helped to slowly lift potential growth. However, muted productivity growth and a low investment ratio are weighing on medium-term growth perspectives. Despite subdued growth in labour productivity, external cost competitiveness has improved, partly due to contained wage growth, while non-cost factors continue to weigh on export performance. Labour market developments are encouraging with employment back to pre-crisis levels. The resilience of the banking sector has improved, although important challenges remain, in particular on asset quality. Importantly, the public debt level remains very high and a major source of vulnerability.

**Italy has recently adopted important structural reforms in line with the National Reform Programme, though the reform momentum has slowed down since mid-2016.** *Regarding public finances*, the government has implemented for the first time the recent reform of the budgetary process aimed to make spending reviews a permanent feature of it. It has also taken steps to reduce the tax wedge and increase tax compliance through mandatory e-invoicing in private sector transactions. However, progress in reforming the cadastral system, tax expenditures and property taxation is limited. The privatisation target for 2017 risks being missed, as was the case in 2016. Moreover, measures on pensions in the 2017 Budget Law, together with ongoing discussions about the possible extension of some of them next year, may raise concerns on the long-term sustainability of Italy's public finances. *Concerning labour and social policies*, the comprehensive anti-poverty scheme, to be introduced in 2018, is an important reform. The agency coordinating active labour market policies is now operational, while active policies *per se* face significant implementation challenges, including due to the wide regional differences in the quality of employment services. Progress on raising female labour force participation and strengthening the framework for collective bargaining is limited. *Regarding the banking sector*, acute financial stability risks have been addressed, while banks' restructuring process, including NPL disposals, has continued. Despite adopting a number of important reforms, including on corporate governance, significant challenges remain, foremost on the still high legacy stock of NPLs, while the reform of insolvency is yet to be completed. *Concerning institutional capacity*, the government is continuing the implementation of the public administration

reform and has stepped up the fight against corruption through a long-awaited revision of the statute of limitations and the extension of whistle-blowers' protection. A few reforms of the civil justice system have been passed, but efficiency gains are limited and an important enabling law streamlining civil proceedings is still pending in parliament. *Regarding the business environment and firms' competitiveness*, the implementation of the 2015-2017 "Simplification Agenda" is on track with a new 2018-2020 agenda being discussed with stakeholders. The long-awaited 2015 annual competition law was adopted in August 2017, although the final version is less ambitious than the original draft. Lastly, a range of measures has been taken to support firms' investment, innovation and internationalisation.

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

| On track | Wait-and-see | Action wanted |
|---|---|---|
| • Reform of the budgetary process<br>• Social inclusion policy<br>• Banking sector corporate governance reforms<br>• 2015-2017 Simplification Agenda<br>• Public administration reform<br>• 2015 competition law<br>• Reform of criminal justice and the statute of limitations | • Privatisation agenda<br>• Fight against tax evasion<br>• Reform of active labour market policies<br>• Non-performing loan reduction measures (including insolvency and collateral enforcement reforms)<br>• Civil justice reform<br>• New 2018-2020 Simplification agenda<br>• National Energy strategy<br>• Strengthen the collective bargaining framework | • Revision of cadastral values<br>• Rationalisation of tax expenditures<br>• Female labour market participation<br>• Further measures to remaining restrictions to competition |

[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 sixth Alert Mechanism Report in November 2016[2], which selected Italy as one of the Member States for an in-depth Review. In February 2017, the Country Report on Italy[3] examined in more detail Italy's macroeconomic imbalances and risks. At the same time, the Commission in its Communication[4] concluded that Italy was experiencing excessive macroeconomic imbalances, linked in particular to its high public debt and to protracted weak productivity dynamics in a context of a large legacy stock of non-performing loans (NPLs) and high unemployment. In April 2017, 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 2017[8]. These CSRs focus on four broad policy areas: (i) public finances, privatisations and taxation; (ii) justice, corruption, public administration, and competition; (iii) NPLs and the insolvency framework; (iv) labour market and social policy. This report does not provide an assessment of Italy's revised fiscal targets in the 2018 Draft Budgetary Plan (DBP), which can be found in the Commission's Opinion on Italy's 2018 DBP.[9]

A specific monitoring mission to Italy was conducted on 13-15 November 2017, and the cut-off date of this report is 1 December 2017.

## 2. Outlook and recent developments on imbalances

### 2.1. Recent economic developments and outlook

**The recovery of the Italian economy is strengthening amid a favourable external environment.** After emerging from a double-dip recession in 2014, Italy's real GDP grew by about 1.0% in 2015 and 2016. The Commission's 2017 autumn forecast[10] revised up real GDP growth to 1.5%[11] in 2017 and 1.3% in 2018, projecting 1.0% in 2019. Exports of goods and services picked up markedly,[12] while domestic demand, especially private consumption supported by sustained employment growth, contributed the most to the unfolding recovery. Linked to the global upswing and fiscal incentives, investment has been recovering since 2015, albeit from low levels[13]. As a result, subdued investment associated with corporate and

[2] https://ec.europa.eu/info/sites/info/files/2017-european-semester-alert-mechanism-report_en_0.pdf
[3] https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-report-italy-en_0.pdf
[4] https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-reports-comm-en.pdf
[5] https://ec.europa.eu/info/sites/info/files/2017-european-semester-national-reform-programme-italia-it.pdf
[6] https://ec.europa.eu/info/sites/info/files/2017-european-semester-stability-programme_italy_en_0.pdf
[7] https://ec.europa.eu/info/sites/info/files/2017-european-semester-country-specific-recommendations-commission-recommendations-italy.pdf
[8] http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX%3A32017H0809%2811%29
[9] https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/stability-and-growth-pact/annual-draft-budgetary-plans-dbps-euro-area-countries/draft-budgetary-plans-2018_en
[10] https://ec.europa.eu/info/sites/info/files/economy-finance/ecfin_forecast_autumn_091117_it_en.pdf
[11] This forecast was made prior to the release (on 1 December 2017) of the 0.3% quarterly growth estimate for Q3 2016 (compared to 0.2% in the Commission's 2016 autumn forecast) and the upward revision of Q1 2016 quarterly growth from 0.3% to 0.4%.
[12] Given that imports grew equally strongly partly linked to the relatively high import content of exports and equipment investment, net trade made a slightly negative contribution to GDP growth.
[13] Aggregate investment plummeted by 31% in volume terms between 2007 and 2014, with construction and equipment taking the brunt. As a result, the investment-to-GDP ratio dropped from 21.6% in 2007 to 16.7% in 2014 and has only slightly recovered since then (the fixed investment ratio in 2017 is expected to reach 17.2% of GDP).

public sector deleveraging has contributed to the steady rise of the current account balance (which equalled 2.7% of GDP in September 2017). However, the current account surplus is forecast to slightly decline in the coming years on the back of a further recovery in investment, helped by benign financing conditions and rising corporate profitability. In addition, new bank lending remains targeted to larger and more productive firms. Credit supply standards have been also improving both for households and non-financial corporations but are on average still tighter than before the crisis.

**The risks to the Commission's economic projections are broadly balanced.** Recent government actions to restructure some of the most vulnerable banks have increased the resilience of the banking sector and might help unclog bank lending. However, the Italian banking sector remains burdened by the still high level of NPLs and weak profitability in a challenging environment of subdued growth, low interest rates and regulatory change. Structural reforms – if implemented swiftly and soundly – are expected to lift potential growth. However, a slowdown in reform momentum and the risk of backtracking on already adopted reforms could adversely weigh on medium-term growth prospects. Finally, the forthcoming national elections could either reignite or further stall the reform momentum, depending on whether they reduce or prolong political uncertainty.

**Inflation is gradually picking-up, driven by energy prices, while wage pressures remain contained.** After being negative at -0.1% in 2016, the year-on-year HICP inflation rate averaged 1.4% in November 2017. The recent increase is largely due to a hike in energy prices and prices for unprocessed food, while overall wage moderation exerted a partially dampening effect. Core inflation (i.e. excluding unprocessed food and energy) has remained low but on average positive (0.8%) in the year up to November 2017.

### 2.2. Developments as regards imbalances and adjustment & legacy issues

Public debt

**Italy's public debt is projected to slightly decrease to 130.8% in 2018, but sustainability challenges remain**. Italy’s public debt-to-GDP ratio slightly increased to 132.0% in 2016, partly due to public sector support to the banking sector and retail investors. The Commission 2017 autumn forecast projects it to broadly stabilise at 132.1% in 2017 before decreasing to 130.8% in 2018 on the back of stronger nominal growth. Still weak inflation, in combination with the expected limited improvement of the primary surplus over the forecast horizon and privatisations falling short of the government plans, keep hindering debt reduction efforts. Further risks to those projections for 2018 could stem from a worse-than-anticipated growth outlook, the statistical recording of the banking sector support operations, as well as a large existing stock of trade debt arrears of the public administration (see Section 3.1). Overall, the high level of public debt therefore remains an important source of vulnerability for the Italian economy and sustainability challenges remain, especially in the medium term. However, for the time being, the ECB’s accommodative monetary policy stance is playing a mitigating role by underpinning economic recovery and gradually reducing the differential between the implicit cost of debt and the GDP growth rate. As such, Italy does not appear to face

sustainability challenges in the short-term, given limited risks from the macro-financial context, although the rollover needs related to its high debt ratio, around 20% of GDP each year, expose it to any sudden increase in financial market risk aversion. Furthermore, the projected deterioration in Italy's structural primary surplus[14] could increase sustainability risks in the medium term, as a weak fiscal position might raise risk premia in the future. As regards long-term sustainability, following the upward level shift Italy's pension expenditure as a share of GDP during the crisis, implicit liabilities arising from population ageing were curbed thanks to various pension reforms enacted in the past years. However, the 2017 Budget contained provisions that partially reversed the latter, thereby slightly increasing pension expenditure over the medium term, and the government is currently discussing a possible further extension of some of those provisions for next year. Substantial backtracking on the implementation of the adjustments reflecting demographic projections, in particular those relating to retirement age, increases also long-term sustainability risks.

External competitiveness

**External competitiveness has improved, but labour productivity growth remains subdued.** In recent years, cost competitiveness has been supported by the contained growth of nominal unit labour costs (0.5% on average over 2013-2017), on the back of moderate wage developments. The past depreciation of the euro has also helped, favouring Italy’s exports towards non-euro-area countries since 2015 and Italy's loss in export market shares has been stopped. Despite the slow and very gradual shift towards more technology-intensive products, the slow growth in labour productivity (expected to have risen by 0.4% in 2017), together with the known non-cost weaknesses such as the small average firm size make it challenging to fully reverse past large competitiveness losses. Conversely, the current account surpluses recorded since 2013 (contributing to a reduction of the negative net international investment position to -8.5% of GDP in Q2 2017) have substantially lowered external financing risks, especially in the current context of ample ECB liquidity provision.

Productivity

**Slow productivity growth continues to be the main source of Italy’s macroeconomic imbalances.** Total factor productivity has partly recovered with average annual growth rates of 0.6% between 2010 and 2016. However, productivity growth remains below the EU-average, while structural obstacles continue to hamper an efficient allocation of productive factors across the economy. The relatively low productivity growth (in spite of observed differences by sector) keeps Italy in a low-growth equilibrium, thereby making it harder to correct macroeconomic imbalances and strengthen economic resilience.

Labour market participation and unemployment

**Labour market developments are encouraging, although unemployment is receding only slowly due to rising labour market participation.** Employment rose by a further 1.1% year-on-year in October 2017, despite the phasing-out of tax incentives at the end of 2016. As

[14] From 3.3% of GDP in 2015 to 1.6% of GDP in 2018 based on the Commission forecast.

a result, the unemployment rate, which stood at 11.1% in October 2017, has started to gradually decline from its November 2014 peak of 13.0%, even though previously discouraged workers have (re-)joined the labour force. Despite recent positive trends, labour force participation remains well below the EU average, especially among women. The risk of poverty and social exclusion remain high.

Banks' asset quality

**While NPL levels continue to decline, they remain very high.** At the end of Q2 2017, the total gross stock of NPLs amounted to EUR 324 billion, down from a peak of EUR 349 billion in mid-2015 with NPL inflows slowing down to pre-crisis levels. Gross NPLs relative to customer loans stood at 16.4% in Q2 2017 (based on Bank of Italy data), well above the NPL ratios of most EU peers. In this regard, bad debt (*sofferenze*), i.e. debt with the worst recovery prospects, has also seen a recent drop on the back of banks' NPL disposals. The bad debt coverage ratio has further improved to 65.6%. The indicators do not yet include a few NPL disposal transactions that yet have to be booked (see section 3.3). Finally on another positive development, NPL prices for unsecured and secured loan portfolios have remained relatively stable in spite of the increased volume.

## 3. Policy implementation and assessment

### 3.1. Achieving sound and growth-friendly public finances

*This section describes the measures related to the reform of the budgetary process, the spending review, privatisations, and taxation.*

*Spending review and fight against tax evasion are the main pillars of the Italian budgetary strategy to finance growth-enhancing measures.*

**The draft 2018 Budget Law implements for the first time the spending review envisaged by the reformed budgetary process, but medium-term planning remains weak.** With the draft 2018 Budget Law, the government has implemented for the first time the reformed budgetary process[15], which aims at performance-budgeting over the medium term and ensures a more systematic spending review across all levels of government. In particular, Ministers have been directly involved in selecting areas within their own budgets where targeted savings can be realised. The latter will be monitored under specific agreements between the Ministry of Finance and each line Ministry, to be made public by March 2018. Overall, the spending review is projected to yield additional gross expenditure savings of around EUR 3.2 billion (or 0.18% of GDP) in 2018, partly through the rationalisation of ministries' expenditure but also through lower planned transfers to local public bodies. As often happened in the recent past, the latter might however result in lower public investment. Moreover, the medium-term budgetary planning remains weak to the detriment of predictability as a result of: (i) the persistent practice of including large tax rates increases (now worth 0.7% of GDP in 2019 and 1% in 2020) as "safeguard clauses", which ensure the attainment of the fiscal targets in the outer years but are then systematically repealed at the

15 Law 163/2016 of 4 August 2016

time of budget preparation; and (ii) frequent changes of fiscal targets, mostly in the direction of less ambitious deficit reduction targets, as well as in the composition of the budget in terms of both taxation policy and projected spending cuts[16].

**Centralised public procurement is ensuring savings, but a few implementing provisions are still pending**. In August 2017, the national anti-corruption authority (ANAC) updated the list of 32 procurement aggregator centres: the national central purchasing body (CBP) *Consip*, 21 regional purchasing bodies and 10 sub-regional ones. Their purchasing criteria were also defined by a ministerial decree. A permanent technical working table has recently completed the list of goods and services that all administrations, including local ones, should purchase through procurement aggregator centres. Following a first Prime Minister's decree that made the recourse to procurement aggregator centres compulsory in December 2015, a new one has been drafted. The ministerial decree defining Consip's benchmark for goods and services was published in June 2016, and a new one has been finalised and is waiting to be signed by the Minister. Latest data[17] indicate that already some EUR 50 billion of expenditure is covered by Consip (out of an overall EUR 89 billion for public procurement); the estimated average saving amounts to 14% on observed unit prices.

**Tax incentives to support employment and investment are being extended**. The draft 2018 Budget Law aims to support employment growth by reducing the tax wedge on labour in favour, in particular, of young people, through: (i) the permanent halving of social security contributions (within the limit of EUR 3000 per year) paid by private employers on new hires below the age of 30 (below 35 in 2018) for the first three years of an open-ended contract, as well as for the first year following the conversion of an existing apprenticeship contract; and (ii) the full exemption of private employers from social security contributions if they hire under an open-ended contract students who had previously spent periods of apprenticeship or traineeship ("*alternanza scuola lavoro*") with them. Moreover, the annual income eligibility threshold for the so-called "80 EUR bonus" is slightly increased, so as to accommodate wage increases for current beneficiaries whose income is close to the ceiling. As regards incentives for private investment, the draft 2018 Budget Law extends the possibility for firms to deduct from the tax base more than 100% of the amount spent for new investment in 2018 and 2019 under specific conditions[18]. In contrast, it postpones to 2019 the new tax on business income called *IRI* (set at 24%, in line with the corporate income tax), which was originally introduced by the 2017 Budget Law to harmonise the tax treatment of small firms and corporations as of 2018. Moreover, the notional return on new equity capital or reinvested earnings exempted from the payment of corporate income tax under the "allowance for corporate equity" (ACE) is further reduced in 2017 from 2.3% to 1.6% (and from 2.7% to 1.5% in 2018)[19].

[16] Examples of the latter include: (i) the downward revision to 0.3% of GDP of the 0.8% fiscal effort targeted for 2018 by the 2017 Stability Programme; (ii) the postponement to 2019 (through the 2018 Budget Law) of the simplified tax regime (IRI) originally foreseen for 2018 by the 2017 Budget Law; and (iii) repeated revisions of the amounts of spending cuts foreseen by past laws for Regions. See also the Fiscal Council's "*Audizione del Presidente dell'Ufficio Parlamentare di Bilancio*", 7/11/2017

[17] From "acquistiinretepa.it", Consip, November 2016 and MEF-ISTAT survey 2016

[18] Namely, the draft 2018 Budget Law extends the so-called "iperammortamento" rate of 250% on equipment functional to the digital and technological development of firms and the "superammortamento" rate of 140% on software and of 130% on equipment instrumental to the firm's activity.

[19] Decree Law 50/2017 and Decree Law 148/2017

**The draft 2018 Budget Law includes provisions to fight tax fraud and enhance compliance, notably for indirect taxes.** In the course of 2017, the so-called "*split payment*" system was considerably extended to cover the whole public administration, all companies directly or indirectly controlled by it, professionals dealing with it, as well as listed companies included in the FTSE MIB[20]. The draft 2018 Budget Law confirms that measures to increase tax compliance and tackle Italy's large VAT gap are indeed a pillar of the government's budgetary strategy. The existing compulsory electronic invoicing for transactions with the public administration will be extended to all private sector transactions as of 2019, except for taxpayers subject to a simplified tax regime. This should ensure better control over commercial transactions and incentives to e-payments of invoices, thereby increasing tax compliance without imposing large additional burden on firms, given the existing equipment to already e-invoice the public administration. Additional provisions to reduce tax fraud include further limits to the automatic compensation of tax credits with tax dues, lower thresholds for enhanced tax checks by the public administration before proceeding to a payment, and a new system of preventive fulfilment of tax obligations in the case of intra-EU transactions in mineral oils introduced in a tax warehouse. However, the capacity of the new provisions to also reduce tax evasion with consent remains to be tested in practice. Moreover, the extended possibility for taxpayers to avoid sanctions by spontaneously regularising their past tax positions ("*rottamazione delle cartelle esattoriali*")[21] could also reduce future compliance by becoming an implicit reward to previous non-compliant behaviours.

**Despite the above-mentioned progress, the broader reform of tax policy is delayed.** Important steps needed to shift the tax burden from the factors of production onto property and consumption are still missing. Specifically, there are delays in the reform of the outdated cadastral system, in the adoption of measures increasing first property taxation on high-income households,[22] and in implementing concrete actions to reduce the number and scope of tax expenditures. While the latter are now reviewed on an annual basis in a report attached to the Budget Law, the government has recently increased the number of tax credits and repealed a legislated increase in reduced VAT rates rather than proceeding to a rationalisation of tax expenditures.

**While late payments by the public administration remain a problem in Italy, their monitoring is improving**. The extension of mandatory electronic invoicing to all transactions with public administrations as of April 2015 has represented an incentive for the latter to improve their payable accounts and allowed better monitoring and a reduction of the average payment period. Namely, the latter has continued to decrease but it still amounted to 100 days at the beginning of 2017.[23] Despite the positive trend, the stock of trade debt arrears

[20] In April, Decree Law 50/2017 extended as of July 2017 the "split payment" system to the whole public administration, to companies directly or indirectly controlled by the Central Government, Regions, Provinces and Municipalities, and to listed companies included in the FTSE MIB. In October, Decree Law 148/2017 further extended it to all companies directly or indirectly controlled by any public administration or anyhow with a collective public share of at least 70%, as well as to any public body of economic nature.

[21] Decree Law 148/2017

[22] The abolition of the property tax on first residences (TASI) through the 2016 Budget Law was in fact at odds with the goal of broadening the tax base and shifting the tax burden from productive factors onto property and consumption.

[23] Bank of Italy, Annual Report, 31 May 2017. Based only on recorded payments, the authorities estimate an average payment period of 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 the Directive 2011/7/EU.

remains significant: according to the Bank of Italy, the overall amount of trade debt of Italian public administrations at end-2016 would be around EUR 64 billion (or 3.8% of GDP, of which around 2% of GDP are arrears beyond normal payment deadline). Moreover, the data on average payment delay are not complete, since a significant share of public bodies still fails to communicate data on actual payments despite the obligation of e-invoicing. In order to solve that problem and acquire in real time all information on trade debts, the new platform "SIOPE Plus" is currently under a pilot phase as of July 2017 and is set to gradually involve all Regions, local governments, municipalities and health service bodies as of 2018.

**Risks to achieving the planned privatisation target for 2017 and 2018 remain.** After missing the 2016 target[24], the 2018 Draft Budgetary Plan still projects privatisation proceeds of 0.2% of GDP for 2017 (below the originally planned 0.5%) and 0.3% for 2018. Specifically, the government expects to transfer by end-2017 further stakes of ENAV and ENI to the Italian National Promotional Institution *Cassa Depositi e Prestiti* (which already holds a stake of some 25.7% in them)[25], with overall estimated proceeds of around EUR 3 billion. However, the feasibility of the operation remains uncertain in such a short period of time. Moreover, there is still considerable uncertainty on the planned privatisation operations in 2018 in light of the forthcoming national elections.

### 3.2. Ensuring efficient labour market functioning and fostering social inclusion

*This section describes the measures to improve the functioning of the labour market, including through more efficient active labour market policies, strengthened collective bargaining to better take into account local conditions, increased labour market participation as well as the measures to address poverty and improve the education system.*

*Although reforms have contributed to reduce the duality of the labour market, temporary employment has recently increased rapidly*

**Following the 2015 labour market reform, supported by generous hiring incentives, permanent employment increased markedly until the end of 2016.** The introduction of a new open-ended contract for new hires[26] (with employment protection only gradually rising with tenure) and a reform of other labour contracts aimed at reducing the scope for non-standard employment[27] were key pillars of the Jobs Act[28]. The measures were supported by generous incentives for new hires under permanent contracts in 2015 and 2016[29]. Employment under permanent contracts increased by more than 441 000 persons from the beginning of 2015 to the end of 2016[30], when hiring incentives were scaled down. This has contributed to reducing the segmentation of the Italian labour market, which was one of the expected effects of the reform. Self-employment has continued to decrease since 2015,

[24] For 2016, privatisation proceeds amounting to 0.05% of GDP were recorded (by listing on the stock exchange the air traffic control company ENAV). This was well below the 0.5% of GDP target in the 2016 Stability Programme.

[25] "Cassa Depositi e Prestiti" (CDP), in which the government holds a majority share of 82.77%, is statistically recorded outside the general government. Therefore, any transfer of public participations to CDP has a decreasing impact on public debt for the amount paid by CDP for them, also because there is a provision in the Italian legislation that earmarks the proceeds to a fund for the reduction of public debt.

[26] Dlgs 23/2105 of 4 March 2015

[27] Dlgs 81 of 15 June 2015

[28] Law 183/2014 of 10 December 2014

[29] European Commission (2017), Italy Country report, SWD(2017) 77 final.

[30] Istat, Labour Force Survey, headcount, seasonally adjusted data.

possibly also due to the abolition of some forms of atypical contracts *(collaborazioni coordinate e continuative a progetto)* and to the restrictions imposed on outsourcing (instead of dependent employment). In May 2017, a law was adopted to strengthen labour protection for self-employed workers who are not entrepreneurs and extend to them some work-life balance opportunities such as paternal leave[31].

**With the waning of incentives in 2017, employment growth was driven by temporary employment, possibly also due to cyclical, demographic and anticipation effects.** In the first nine months of 2017, temporary employment increased by 288 000 while permanent employment continued to increase but at reduced pace (50 000). The sharp increase of temporary employment can be explained, besides cyclical factors, by the shrinkage of the demographic 35-44 age class (more likely to move into permanent contracts than older workers) and the fact that the more highly skilled workers had already been recruited on permanent contracts. The timing of the incentives may also play a role: recruiting under permanent contracts may have been anticipated in 2015 and 2016 due to the hiring incentives in place in that period, and then delayed in 2017, due to the expectation of their for certain permanent contracts in 2018. Correspondingly, this could have held back temporary employment in 2015 and 2016 and then boosted it in 2017. In April 2017, the mini-jobs vouchers were abrogated[32] in response to the sharp increase of their use in previous years as well as some concerns about misuses, and instead substituted by a new scheme of non-standard employment (*lavoro accessorio*)[33]. Employment associated with job-on-call increased sharply thereafter. Finally, data reporting has substantially improved, with a quarterly newsletter published jointly by Istat, Inps and the Ministry of Labour. However, the yearly report on the implementation and impacts of the reform, foreseen by the law, has not been published yet.

*The strengthening of the collective bargaining framework progresses slowly*

**The reform of the framework for collective bargaining is only slowly proceeding.** The reference national intersectoral agreement for the bargaining framework (signed in 2009 by Confindustria and the main trade unions) expired in 2013 and has not been renegotiated yet. However, in November 2016, two important national framework agreements with three other employers' organisations (Confcommercio, Confartigianato and CNA) were signed, which somehow leave more scope for bargaining at firm-level. Furthermore, certain national sectoral agreements signed in 2016 and 2017 introduced some innovations with respect to the 2009 agreement[34]. Over recent years, the number of national sectoral agreements increased dramatically (doubling to around 800 over 2009-2017); most of them were signed by minor trade unions and employers organisations in search for flexibility outside the main national sectoral agreements. While this may indeed increase flexibility in the bargaining system, it

[31] Law 81/2017 of 22 May 2017 (Jobs Act for self-employment)
[32] Law 49/2017 of 20 April 2017
[33] Law 96/2017 of 21 June 2017
[34] For examples, innovations concern: 1) the inclusion of welfare provisions (e.g. childcare, additional social security) in second-level bargaining, which may be helpful in developing the bargaining; 2) the mechanism to adapt wages to price inflation. 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.

might also increase complexity and uncertainty for workers and employers (incumbent and potential newcomers).

**Agreements on rules and criteria to measure trade union representativeness, a prerequisite for fostering second-level bargaining[35], 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[36]. In 2014, social partners and Confindustria agreed on the criteria to measure trade union representativeness[37]. The agreement is however not operational yet[38]. Following a new agreement signed in July 2017, the first measurement exercise is expected for 2019[39].

**The effectiveness of tax incentives aimed at enhancing second level bargaining is not evident yet.** To foster the decentralisation of wage bargaining, tax rebates on productivity-related wage increases set by second-level agreements were introduced in 2016, strengthened in 2017 and are confirmed for 2018. Similar incentives, although with varying criteria, had been in place since 2008 and were disconnected only for 2015. Foregone fiscal revenues are estimated to increase gradually to nearly EUR 1 billion per year in 2019. While for 2016 Banca d'Italia found no significant increase in the share of firms engaged in second level bargaining compared to the previous year[40], data by the Ministry of Labour indicate an increase in the absolute number of second level contracts. This could be partly influenced by companies formalising pre-existing agreements, so as to qualify for rebates. The exact number of workers covered will be known only in 2018 following the availability of tax declaration data.

*The implementation of the reform of active labour market policies (ALMP) faces obstacles*

**Public employment services (PES) are weak and show wide regional variation in performance, but the new Agency for ALMPs is expected to foster policy consistency across the national territory.** With a few exceptions (e.g. Emilia-Romagna), the placement capacity of the PES and their overall efficiency remain limited, with wide regional differences. This has serious consequences on the implementation of the Jobs Act, as it affects the effectiveness of conditionality mechanisms linked to activation measures for the recipients of unemployment benefits (NaSPI) and the implementation of the new minimum income scheme (see below). The new Agency for Active Labour Market Policies (ANPAL), is expected to enhance policy consistency and effectiveness of ALMPs across the national territory, while the direct competence for ALMPs, following the 2016 constitutional referendum, remains with the regions.

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

[36] European Commission (2016), Italy Country Report, SWD(2016) 81 final. See in particular Box 2.4.1.

[37] *Testo Unico sulla Rappresentanza* (10 January 2014)

[38] Although similar agreements have progressively been signed by other employers' organisations for other sectors, none of them are operational yet.

[39] *Accordo di modifiche al Testo Unico sulla Rappresentanza* (7 July 2017)

[40] Banca Italia (2017), Relazione annuale 2017

**A plan to reinforce PES staffing and improve the information and accreditation system is work in progress**. Since the beginning of 2016, the Ministry of Labour had been working on a strategic plan on ALMP *(Piano per le Politiche Attive)*, which included support from the 2014-2020 European Social Fund (EUR 6.7 billion). The plan aims at strengthening the PES through staff hiring and training, a unified information platform and a national accreditation system of employment services and agencies.[41] Moreover, the 2018 draft Budget law set aside funding to support PES staff. An important pillar of the new design of ALMPs is the outplacement voucher, an entitlement to unemployed people for use in private or public employment agencies.[42] A pilot project was launched in 2017, but the uptake has been lower than expected, also due to lack of awareness among the potential beneficiaries. The slow implementation of the reform of ALMPs may hamper the effectiveness of the reform of passive policies introduced by the Jobs Act. For instance, the draft 2018 Budget law sets aside resources, although very limited, for 2018 and 2019, to finance the extension of *Cassa Integrazione Straordinaria* (the wage supplementation scheme in case of restructuring) beyond the time limits set by the Jobs Act under certain conditions. At the same time, workers under wage supplementation will be beneficiaries of some active policies, also before the resolution of their contract.

**Limited measures have been taken to foster female labour participation.** Progress in raising female labour force participation has been very slow with only 55% of working age women in Italy in employment or actively searching for a job in 2016, the second lowest rate in Europe. Measures included the extension of parental leave for fathers from two to four days and childcare subsidies in cash[43]. While the first measure, although partial, goes in the right direction, cash benefits may induce women not to resume work in case of childcare supply shortages.[44] In particular, the steep progressivity of the income tax code in combination with the tax credits/cash transfer for unemployed spouses and their dependent children continues to prevent many women from entering the labour market. A comprehensive strategy, coupled with adequate evaluation and monitoring, to improve female labour market participation is still missing.

*The social safety net has been substantially strengthened and steps are being taken to improve the education system*

**A major breakthrough in social policies has been achieved with the transformation of the transitional anti-poverty scheme into a permanent measure**. The transitional *Sostegno per l'Inclusione Attiva* (SIA) will be replaced by the new scheme *Reddito d'inclusione attiva* (REI) as of January 2018[45]. The REI introduces some significant changes to SIA, including new rules to calculate the benefits. While SIA was mainly focused on child poverty, REI aspires to become, in the medium term, a universal scheme, applying to all people in absolute poverty and providing an adequate coverage on the whole national territory, within the limits

[41] In the absence of an agreement on the plan, Regions hold the responsibility for the management of PES.
[42] European Commission (2017), Italy Country report, SWD(2017) 77 final.
[43] Ministerial Decree of February 2017 operationalised the annual bonus of EUR 1 000 per year to be spent on private/public childcare introduced by Budget law 2017.
[44] European Commission (2017), Italy Country report, SWD(2017) 77 final.
[45] Legislative decree 147/2017 of 15 September 2017, implementing Law 33/2017 of 15 March 2017.

of available resources *("livelli essenziali delle prestazioni").* Already in the current setting, in addition to families with minor children, the REI targets unemployed adults above 55 years who are not entitled to the social pension. Furthermore, the draft 2018 Budget law allocates funding to extend the measure to all individuals in the same condition of poverty regardless of the family status. The new scheme incorporates and replaces the unemployment assistance scheme (*Assegno di disoccupazione* – ASDI), as a first step towards the rationalisation of social spending. This long awaited anti-poverty scheme finally implements the reform of social policies that had been adopted in 2000[46].

**The overall quality of education has improved in recent years, but wide and persisting regional disparities are a cause for concern.** The implementation of the school reform (*La buona scuola)* is on track, but some measures have not been implemented, in areas such as the geographical mobility of teachers, the possibility for school leaders to directly hire teachers who fit the school's needs and the evaluation of teachers and school leaders. The new recruitment and training system for secondary school teachers is now in place and is expected to improve quality by combining a year of formal learning with two years' remunerated teaching apprenticeship, which can eventually lead to a permanent contract, while reducing long waiting lists. Participation in work-based learning is mandatory in the three final years of upper secondary school, but many school leaders report limited backing from employers and business and have to resort to alternatives such as simulated enterprises. Two new monitoring bodies were set up in August 2017 to assess the disadvantages experienced by weakest students, including non-citizens. To promote tertiary non-academic education, the Ministry proposed a new co-ordinated system based on the existing *Istituti Tecnici Superiori* (ITS) and on the introduction of professional degrees.

*Effective implementation and monitoring remains essential to reap the full benefits of the reform*

**The Jobs Act and the design of the new anti-poverty scheme are major reform steps, but their swift and full implementation remains crucial.** The early impact of the overall changes to the employment protection legislation is encouraging. However, the reform of ALMPs is proceeding only slowly, given the ambitious scope of the reform and the decentralised institutional set-up with major competences at the regional level. It remains central to the overall design of the Jobs Act, as it will help also setting the eligibility criteria for unemployment benefits. Overall, effective monitoring of implementation and the impact remains crucial. In addition, second-level bargaining remains insufficiently developed, while the renewal of the main inter-sectoral agreement is still pending. The new anti-poverty scheme represents a major step forward in social policies, but measures to foster female labour market participation remain limited. The education reform is broadly on track but faces implementation challenges.

[46] (Law 328/2000)

### 3.3. Further improving the resilience of the banking sector to support the economy

*This section describes the measures to accelerate the reduction of the high stock of NPLs, the recent and long awaited clean-up of some of Italy's weakest banks, as well as the ongoing corporate governance reforms. The reform of the insolvency framework is also discussed.*

*While recent and previous policy measures are slowly starting to bear fruit, significant structural weaknesses remain for banks' balance sheet repair.*

**Italy adopted new and long awaited measures to support vulnerable banks as well as the cleaning-up of bank balance sheets in late 2016 and during 2017.** On 23 December 2016, the Italian government adopted the *Salva Risparmio* decree law[47], which includes measures targeted to vulnerable banks. The decree law established a liquidity guarantee scheme, a precautionary recapitalisation mechanism (backed by EUR 20 billion in funds amounting to 1.2% of GDP), a burden-sharing approach and a compensation scheme for eligible retail subordinated bondholders impacted by burden-sharing.[48] The Italian authorities also introduced several amendments to the law on the securitisation of loans in the summer 2017[49]. The objective is to facilitate the securitisation of some categories of NPLs (in particular the unlikely-to-pay), increase the scope of manoeuvre of special purpose vehicles (SPVs) and encourage their participation in foreclosure auctions. In September 2017, the State guarantee scheme to facilitate NPL securitisations (*Garanzia sulla Cartolarizzazione delle Sofferenze* - GACS), which was created in February 2016[50] and became operational in August 2016[51] with the adoption of an implementing decree[52], was extended for one year. The GACS aims to *inter alia* support the development of a secondary NPL market in Italy by reducing the large NPL bid-ask pricing spread.

**The various corporate governance reforms in the banking sector seem broadly on track.** All large cooperative banks (*banche popolari*) had transformed themselves into joint-stock companies by the end of the 2016 deadline, with the exception of Banca Popolare di Bari and Banca Popolare di Sondrio. These two *banche popolari* postponed their transformation given that the 2015 reform of large cooperative banks[53] has been challenged and brought to the Constitutional Court[54]. Nonetheless, the reform has already led to the emergence of the third largest banking group in Italy, Banco BPM, following the merger between Banco Popolare and Banca Popolare di Milano in early 2017. Following the adoption by the Bank of Italy of

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[47] Law 15/2017 of 17 February 2017 (Decree Law 237/2016 of 23 December 2016). The decree law has been converted by Parliament into law on 17 February 2017.

[48] The Italian authorities on June 16 amended the *Salva Risparmio* law to delay the imminently maturing EUR 85 million subordinated bond payment of Veneto Banca on June 21 (Decree law 89/ 2017).

[49] The main novelties of amendments to Law 130/ 1999 are the following: i) SPVs that acquire and securitise NPLs are allowed to grant new loans to certain categories of borrowers in case this facilitates the restructuring of the financial position of borrowers and the repayment of outstanding debt; ii) SPVs are allowed to buy assets placed as collateral for secured loans. This makes it possible for SPVs to participate in foreclosed asset auctions to support prices or buy the foreclosed asset; iii) the simplification of loan transfers from originating banks to SPVs by exempting these transfers from the obligation to notify the borrowers, as provided by the Italian Civil Code.

[50] Decree Law 18/2016 of 14 February 2016, subsequently converted into Law 49/2016 of 8 April 2016

[51] The GACS actually became only fully operational as of 16 December 2016 when the monitoring trustee was appointed by the Italian authorities. Prior to that date, State guarantees could not yet be granted and banks' applications to GACS were on hold.

[52] Ministry of Economy and Finance Decree of 3 August 2016

[53] Decree Law 3/2015 of 24 January 2015, subsequently converted into Law 33/2015 of 24 March 2015

[54] Specifically, while the constitutionality of several provisions has been legally contested, the challenge regarding the legitimacy of implementing the reform through decree law was rejected by the Constitutional Court. The constitutional challenge against the reform's restriction on the withdrawal rights of shareholders of *banche popolari*, which transform themselves into join-stock companies, is still on-going.

the implementing provisions in November 2016[55], the reform of the small mutual banks (*banche di credito cooperativo* – BCCs*)* is also moving forward. Three main holding groups, which will be majority-owned by their member BCCs, are expected to emerge. BCCs are currently in the process of deciding which of the three holding groups to join: Istituto Centrale delle Casse Rurali ed Artigiane (ICCREA), Cassa Centrale Banca (CCB) or the provincial group of Bolzano. Finally, the fit and proper provisions for bank managers are currently being overhauled. The Ministry of Finance launched a public consultation on these new rules in September 2017, which was finalised in November.

**These and previous reforms are slowly starting to bear fruit.** The decree *Salva Risparmio* has enabled the precautionary recapitalisation recapitalization of Banca Monte dei Paschi di Siena (BMPS). Furthermore, Banca Popolare di Vicenza (BPV) and Veneto Banca (VB) were put in liquidation under national insolvency proceedings in mid-2017 (see box 1), thus alleviating the most acute risks in the banking sector. Over the past year and on the back of the economic tailwinds, Italian banks have continued the necessary restructuring process by further increasing provisioning and accelerating the disposal of their high stock of NPLs, including through State-guaranteed securitisation transactions. The overall level of NPLs has declined to EUR 324 billion at the end of Q2 2017 with the NPL disposal of BMPS and the transfer of the NPLs of the Venetian banks to the vehicle SGA alone expected to lead to a further decline of gross NPLs in the banking sector by at least EUR 44 billion[56]. Consolidation has increased from the bank restructuring and failures, while some banks plan to significantly downsize branches and staff.

**Despite the above-mentioned progress, Italy's banking system continues to be perceived by markets as more vulnerable than peers, as significant structural weaknesses remain**. For instance, the recent market uncertainty surrounding the capital hike by Banca Carige is a case in point. Though the level of NPLs is expected to decline significantly with banks optimising their NPL management and disposal strategies to *inter alia* comply with supervisory requirements, a number of challenges remain to comprehensively address the issue: (i) the slow judiciary system for foreclosure procedures and collateral enforcement (see below); (ii) the still limited number of NPLs servicing companies; (iii) banks' cautious stance to adopt faster NPL reduction strategies given the adverse effects on capital buffers; and (iv) the NPL data quality, though the Bank of Italy NPL reporting template adopted in 2016 improved the situation.  Overall, the still high legacy stock of NPLs continues to significantly constrain banks' weak profitability and their ability to internally raise capital on top of other structural challenges (e.g., fragmentation, still high cost-to-income ratios). The NPLs also continue to weigh on the subdued credit supply, and thus contributes to the tepid economic recovery. Over the medium term, it will also be important for banks to review their cost structure, earnings capacity and business model.

[55] https://www.bancaditalia.it/compiti/vigilanza/normativa/consultazioni/2016/gruppo-bancario-cooperativo/index.html)

[56] The indicators do however not yet include a few recent operations, like for instance, the EUR 17.7 billion NPL sale by Unicredit (booked in July) as well as the 26.1 billion NPL securitization disposal of BMPS and the EUR 17.8 billion gross NPL transfer to the bad bank SGA from the liquidation of the Venetian banks.

**Box 1: The Cases of Banca Popolare di Vicenza (BPV), Veneto Banca (VB) and Banca Monte dei Paschi di Siena (BMPS)**

As regards BPV and VB, the European Commission approved the liquidation State aid on 25 June 2017. The Commission approval followed the decision of the ECB that these banks were "failing or likely to fail" and that of the Single Resolution Board, which concluded that a resolution action was not warranted in either case to protect the public interest. The Commission authorised the authorities to grant liquidation State aid to avoid an economic disturbance in the Veneto region by mitigating the market impact from the exit of both banks. Thus, the two banks were liquidated under the national insolvency law (compulsory administrative liquidation - CAL), which involved the sale of some (healthy) parts of the banks to Intesa Sanpaolo; for the sold parts, Italy provided a cash injection from the state of EUR 4.8 billion and State guarantees of up to EUR 12 billion, while EUR 17.8 billion of gross NPLs (net value of EUR 9.9 billion according to Bank of Italy valuation) will be shifted to the State-owned bad bank SGA. Victims of mis-selling are entitled to compensation by the bank-funded solidarity fund, which is managed by the deposit guarantee scheme of credit institutions (similar as in the resolution of four small banks in 2015).

As regards BMPS, the Commission authorised on 4 July 2017 the provision of State aid by the Italian government in the form of a precautionary recapitalisation of the bank up to EUR 5.4 billion, *inter alia* conditional upon the implementation of an adequate restructuring plan. Importantly, BMPS will sell its bad loan (*sofferenze*) portfolio of EUR 26.1 billion to a newly created securitisation vehicle for a price of 21% of the loans' gross book value, where the senior notes are to be guaranteed by the government (GACS). Atlante II (recently renamed Italian Recovery Fund) will subscribe 95% of the junior mezzanine and junior notes for a total amount of EUR 1.7 billion. Finally, as required under EU State aid rules to limit the use of taxpayer money, subordinated debtholders and shareholders were bailed-in, thereby contributing EUR 4.3 billion, while retail investors in some subordinated BMPS debt are entitled to compensation up to EUR 1.5 billion for mis-selling according to the provisions in the *Salva Risparmio*.

*Priority should now be given to effective implementation of the adopted measures and to the completion of the reform of the insolvency framework.*

**Some of the adopted policy measures have had a limited impact so far.** Measures adopted in spring 2016 to shorten the period for creditor collateral enforcement (the *Patto Marciano*) are not used by the banks yet. The *Patto Marciano* is a private enforcement clause in credit agreements, which allows creditors to take ownership of the collateral of firms out-of-court in case of default of the borrowers.[57] Whereas the *Patto Marciano* could help to significantly reduce the time required to enforce collateral, it is not currently used by credit institutions neither for firms nor for households. Regarding the *Patto Marciano* for firms, operational guidelines on best practices as well as clearer rules on the valuation of collateral would help to alleviate any remaining uncertainty and encourage the banks to use it[58]. On another front, banks have initially shown a limited interest for the GACS scheme, although more GACS transactions are in the pipeline for 2017 and beyond[59]. The fact that the GACS has not been the one-size-fits-all solution to address the legacy NPL problem may be linked to various factors: (i) the absence of detailed loan portfolio data and especially for smaller banks, the limited capacity so far to bundle impaired assets to reach a critical mass attractive for

[57] It should be noted that the *Patto Marciano* is generally not going to be applicable to the legacy NPL stock, as its inclusion in existing contracts requires debtor's consent.
[58] Meanwhile, the Patto Marciano for household loans is waiting the implementing guidelines, which is work in progress.
[59] The Italian Recovery Fund (formerly Atlante II) has become the main player in the Italian securitisation market.

investors; (ii) banks' reservations to take the upfront costs on NPL data quality and NPL servicing arrangements; (iii) the fact that poor quality or older vintage portfolios are often not securitised with a view to applying for GACS.

**Priority should now be given to the effective implementation of the new rules.** As regards reforms with a limited impact so far (e.g. *Patto Marciano*, see above), it will be important for the authorities to better understand the reasons for the limited buy-in from stakeholders and take appropriate corrective action, where needed. The proper monitoring of banks' compliance by supervisors is also key to overcome structural vulnerabilities. To foster NPLs resolution by banks, the Bank of Italy launched a public consultation on the NPL guidance for less significant institutions (LSIs) in September 2017. The NPL guidance[60], which draws upon the ECB NPL guidance from March 2017[61], 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 in the form of higher coverage ratios. The Bank of Italy has also started to capture LSIs in stress testing exercises. It has the power to request banks with potential capital shortfalls in the stress test to increase capital buffers. The two largest new cooperative groups, ICCREA and CCB, will fall under the supervision of the SSM. As such, they will undergo a comprehensive assessment including an asset quality review and stress test scheduled for the first half of 2018. The Bank of Italy is currently working with the two groups to prepare them for the upcoming supervisory exercises. If successfully implemented, the reform of the cooperative banks should make the BCC segment more resilient thanks to easier access to capital markets, cross-guarantees, scale benefits and cost synergies. It would also represent a decisive step forward in reducing the fragmentation of the Italian banking sector.

**However, the reform of the insolvency framework is still to be completed.** In October 2017, the Italian legislators passed an enabling law, authorising the government to overhaul its bankruptcy legislation, which dates back to 1942[62]. 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, within 12 months, 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. The principles laid down in the reform

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[60] http://www.bancaditalia.it/compiti/vigilanza/normativa/consultazioni/2017/linee-guida-less-significant/Documento_di_consultazione.pdf

[61] New initiatives have also been taken at European level to stem the inflow of new NPLs. Both the European Commission and the ECB launched public consultations relating to the NPL provisioning flow. Under the new draft ECB addendum (pillar 2 measure) issued in October 2017, banks will have to set aside 100% coverage for unsecured loans after 2 years and for secured loans after 7 years. The guidance does not apply to legacy NPLs but only to new NPLs. The measure is non-binding to the banks; however, any significant deviations will have to be explained to the supervisor. In November 2017, the European Commission issued for consultation a proposed statutory prudential backstop (pillar 1 measure) that would solely apply to newly originated loans (after a certain cut-off date). As with the ECB proposal, 100% provisioning coverage would apply to unsecured NPLs after 2 years but after 6-8 years for secured NPLs. Overall, the provisioning proposals might incentivise Italian banks to accelerate the NPL clean-up including by earlier NPL sales.

[62] 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.

include a new definition of distress (probability of future insolvency), a single entry mechanism to the Court system to identify the distress, and a priority treatment of cases seeking to maintain the debtor as going concern. Bankruptcy – which shall be renamed judicial liquidation *(liquidazione giudiziale)* – will be an option where no other suitable alternative is available.[63] Timely implementation of these reforms is instrumental to address decisively legacy issues in the banking sector.

### 3.4. Improving the business environment and strengthening firms' competitiveness

*This section describes progress with the adoption of the 2015 annual competition law, as well as measures to strengthen competition in a number of other sectors and to continue improving the business environment. Further important competition and simplification measures are part of the enabling law on public administration reform (Section 3.5).*

*Progress has been achieved on enhancing competition and making the business environment more attractive*

**Reforms to strengthen competition have made progress in 2017.** The long-awaited 2015 annual competition law (*legge annuale per la concorrenza*) was finally adopted by Parliament 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. However, the adopted law is less ambitious than the initial draft, as market-opening measures on regulated professions and pharmacies have been significantly weakened. Moreover, important sectors for which the competition authority had identified restrictions to competition[64] are not covered by the law (e.g. healthcare, taxis, airports, radio frequency allocation). In light of this, the government announced in the 2017 National Reform Programme that it would present a new annual competition law for 2017, based on a new recommendation by the national competition authority. However, the new competition law is set to be delayed, as the competition authority will only release a new set of recommendations after the 2018 general elections. Restrictions to competition might arise from the recent final adoption of the *"dl fiscale"*[65] introducing the *"equo compenso"* for all the professions or from the entry into force of limitations[66] for the NCC sector (if not postponed, the new restrictions will entry into force in January 2018).

**In addition, the implementation of the 2015-2017 "Simplification Agenda" is on track**. The coherent and time-bound framework for business environment simplification is being implemented according to the timeline, while progress reports[67] are available online. The Italian authorities announced that a new 2018-2020 simplification agenda is currently being

[63] The government is mandated to take into account, when preparing the implementing decrees, Regulation (EU) 2015/848 on insolvency proceedings, Commission Recommendation 2014/135/EU on a new approach to business failure and insolvency, and the model law on insolvency promulgated by the United Nations Commission on International Trade Law (UNCITRAL).

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

[65] Decree law 148/2017

[66] Law 19/2017

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

discussed with the regions and relevant stakeholders with an objective to pursue and strengthen the 2015-2017 agenda.

**Measures to boost innovation and investment have been proposed.** The draft 2018 Budget Law refinances and adjusts some of the measures already in place to support investment and innovation, such as the *superammortamento* and *iperammortamento* rates (Section 3.1); a series of Research & Development (R&D) tax credits and a fund for the enhancement of research; the *Nuova Sabatini* framework; and the Central Guarantee Fund for SMEs also in view of operational changes that will make it accessible to a larger number of firms. Moreover, the draft 2018 Budget Law introduces a 50% tax credit for expenditures incurred by SMEs for professional advice in the process of listing on regulated markets until end-2020, up to a maximum tax credit of EUR 500,000. However, the further reduction in *ACE* (see Section 3.1) could reduce incentives to firms' capitalisation, which may spur investment and innovation. The government has updated its new plan (*Impresa 4.0*, previously called *Industria 4.0*), which includes a comprehensive set of measures to encourage innovative industrial investment, SMEs' equity financing, issuance of corporate bonds by unlisted companies (*minibonds*), incentives for SMEs' listing, preferential treatments for innovative start-ups, and public resources for R&D in selected existing research centres and universities[68]. The new *Impresa 4.0* also focuses on human resources by introducing tax credit for training expenditures on Impresa 4.0 related topics[69]. Overall, these measures go in the right direction, but they appear fragmented and their effectiveness needs to be more closely monitored. Furthermore, the reform of the public procurement code (adopted in April 2016 and revised in spring 2017)[70] is welcome. Nevertheless, this reform appears to have slowed down public investment due to the delayed implementation and some missing guidelines. In addition, local public administrations are reportedly waiting for the new code to be completely operational to fully resume public investment. Moreover, some dedicated measures have been recently proposed. In November 2017, the Italian Government adopted a new National Energy Strategy (Strategia Energetica Nazionale)[71] to support the transition to clean energy, setting new targets and objectives in order to contribute to the EU 2030 climate and energy targets. Thanks to the new strategy, the government expects existing R&D investments related to clean energy technologies to double (to EUR 444 million in 2021 from 2013). According to the estimates of the Italian Government, policies and measures included in the strategy have the potential to trigger EUR 175 billion of additional investments by 2030.

**The government has also intervened to foster the internationalisation of Italian firms.** The government's strategy to boost the internationalisation of firms follows two avenues: (i) an increase in the resources available to support internationalisation processes; and (ii) a reorganisation of public support. The *Piano Straordinario per il Made in Italy*[72] fund

[68] Other measures provide for tax deductions on income derived from the exploitation of patents and trademarks ('patent box') as well as tax exemptions for retail investors on capital gains from long-term investment (individual saving plans, so-called PIR).

[69] In the current version before the Senate, the tax credit is on 40% of expenditure sustained with a cap of EUR 300,000 per enterprise

[70] Legislative Decree 50/2016 of 19 April 2016 and Legislative Decree 56/2017 of 19 April 2017

[71] Decreto Interministeriale sulla nuova Strategia Energetica Nazionale (SEN) of 10 November 2017 http://www.sviluppoeconomico.gov.it/images/stories/normativa/decreto-SEN-2017.pdf

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

amounted to EUR 525 million over the period 2015-2017. The plan is to support Italian SMEs in expanding in international markets through training programmes for managers (vouchers for temporary export managers), roadshows, large fair events and e-commerce support. As part of the public administration reform (Section 3.5), a legislative decree[73] for the reorganisation of the local chambers of commerce was adopted in 2016 (currently being implemented), which clarifies their role in the process of internationalisation. Specifically, the chambers of commerce will screen potential candidates and select the most promising companies in their territory. These companies will be supported by the chambers in their structural preparation to become active abroad. When the companies are deemed ready, the agencies *ICE*, *SACE* and *SIMEST* will support them in the concrete internationalisation process. If swiftly and properly implemented, this reform is expected to be very effective given the existing overly complex structure.

**Overall, there has been some progress in opening markets to competition and in improving the business environment.** The 2015-2017 "Simplification Agenda" implementation is on track, while new measures to boost investment and firms' internationalisation go in the right direction. The long-awaited first annual competition law was finally adopted and has to be implemented, which will further open important sectors such as insurance, regulated professions, telecommunications and the energy sector.

### 3.5. Strengthening the institutional capacity

*This section describes the implementation of the public administration reform and reviews the progress in raising the efficiency of the justice system and the fight against corruption.*

*The public administration reforms move forward*

**The adoption of legislative decrees to implement the public administration reform[74] is almost completed.** In 2016 the government adopted legislative decrees in the following areas: i) the simplification of the decision-making process and of citizens' access to public administrations[75]; ii) State-owned enterprises (SOEs)[76]; iii) human resources (management level in the health sector[77] and disciplinary dismissal[78]). However, on 25 November 2016, the Constitutional Court deemed the procedure followed for some already adopted and also planned legislative decrees[79] unconstitutional[80]. While the already adopted legislative decrees could be amended by a corrective decree (within 12 months of the adoption deadline), the deadline for adopting the legislative decrees on local public services and public managers has expired. In 2017 and as expected, the government adopted all the remaining important legislative decrees including: i) public employment code; ii) performance evaluation; iii) the

[73] Legislative Decree 219/2016 of 25 November 2016
[74] Law 124/2015 of 7 August 2015
[75] 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
[76] Legislative Decree 175/2016 of 19 August 2016
[77] Legislative Decree 171/2016 of 4 August 2016
[78] Legislative Decree 116/2016 of 20 June 2016
[79] 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.
[80] 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.

corrective decrees on State-owned enterprises, disciplinary dismissals and public employment in the health sector. However, new legislative initiatives are required to address the two above-mentioned legislative decrees on local public services and public employment at managerial level.

**Operationalising the public employment reform will be challenging.** The legislative decrees on the public employment code and the performance evaluation go in the right direction in addressing the two most urgent remaining public employment issues: i) the selection and recruitment of civil servants has been so far more based on academic knowledge than skills; ii) the lack of relationship between the evaluation processes and promotion and salary progression. The reform could have been more ambitious in shifting the existing knowledge-seniority based system to a system based on skills and performance[81]. The public administration department, though without a specific timelime, is currently revising the general competition rules to introduce further skill-based elements. While the new evaluation system is welcomed, however, as it entails changing established practices in the public administration at all levels, its operationalisation might prove challenging. Finally, non-managerial careers still follow a different path than managers, which reduces career prospects and incentives for non-managers.

**While a new single framework is in place for managing and rationalising State-owned enterprises (SOEs), the enforcement of the new rules is crucial.** Adopted in August 2016 and corrected in June 2017, the new legislative decree[82] integrates and streamlines the existing fragmented legislation. The new rules put SOEs on equal footing with private companies and introduce a number of criteria for establishing, acquiring, and keeping the shareholding in SOEs by requiring a direct link with the authority's institutional goals or services of general interest. Also, financial criteria (e.g. an annual turnover higher than EUR 1 million) and business scope restrictions (e.g. to avoid overlaps with already existing SOEs) add to the conditions for SOE ownership. Moreover, ex-ante and ex-post control mechanisms are strengthened, while annual reviews in combination with sanctions are established. Administrations that fail to adhere to the SOE criteria or do not present the annual review of their shareholdings can be financially sanctioned or they could have their voting rights frozen in the SOE's board of directors. Compliance with the reform’s provisions will be ensured by the Ministry of Economy and Finance, the Competition Authority and the Court of Auditors. Overall, the set of monitoring and sanctioning tools seems more effective than in past reform attempts. Still, given the difficulties of past reform attempts, the operationalisation and the enforcement are expected to be challenging. Public administrations were expected to deliver their first rationalisation plans by end- September 2017. By end-October, around 83% of public administrations had submitted a plan, resulting in around 33% of directly-owned enterprises due to be divested

[81] 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.
[82] Legislative Decree 175/2016 of 19 August 2016

*An important reform streamlining civil justice proceedings is still pending, while progress has been made on the fight against corruption*

**Several civil justice reforms of limited scope have recently been passed, but an important enabling law to streamline civil proceedings is still pending**. In the course of 2017, the government enacted a series of sectoral provisions to deflate litigation and streamline proceedings[83] as well as a global reform of the honorary magistrates[84] coupled with the filling of 2,441 posts in September. In parallel, public competitions are ongoing to fill vacant posts for ordinary judges and administrative staff[85], for which the vacancy rate is still high (22.8%). The draft 2018 Budget Law also provides for the hiring of (at most) 50 additional retired auxiliary judges for three years to help manage pending tax trials at the Court of Cassation. These measures, in particular the recruitment of judges and court staff, may help speed up efficiency gains from past civil justice reforms, which are only slowly and timidly showing in the data on disposition time of civil and commercial litigious cases. An important draft enabling law[86] has been pending in Parliament for almost two years now. It aims to streamline certain aspects of civil proceedings and introduce stricter admissibility filters for appeals, stronger deterrence against vexatious litigations, broader competences for business courts and higher court specialisation in family law.

**The fight against corruption has been stepped up by revising the statute of limitations and extending whistle-blowers' protection.** After modifying the definition of the crime of "corruption among private parties" in order to align it better with international standards[87], the government passed amendments to the criminal code in June 2017[88], including a long-awaited revision of the statute of limitations. The latter provides for the suspension of prescription terms for all criminal trials after conviction in first and second instance [89] as well as their increase by up to 50% for specific corruption offences. This may help to reduce the scope of abusive litigation as a delaying tactic at higher instances. The government is also empowered to adopt legislative decrees (still pending) aimed at streamlining the overall criminal trial. The extension of whistle-blowers' protection as of November 2017 beyond public employees to private sector workers (under public control or involved in public procurement) could enhance corruption prevention. Moreover, the human and financial resources of the national anti-corruption authority (*ANAC*) have been increased[90], while its monitoring powers in the field of public procurement have been modified[91]. Specifically, while its power to suspend irregular procurement procedures has been curtailed, the administrative authority is now allowed to issue pre-dispute opinions to solve controversies

[83] Law 46/2017 subjects international protection procedures to two jurisdictional levels only, instead of three, for appealing against an asylum decision; Law 24/2017 in terms of medical liability and medical malpractice modifies the procedural rules to favour amicable solutions; and Law 47/2017 streamlines procedures for the nomination of a tutor for the underage.

[84] Decree Law 116/2017 establishes a single status of lay judges, increases their competences and number as of 2021, and enhances their professional training, supervision and assessment.

[85] Specifically, the three public competitions for ordinary judges aim to fill the 851 vacant posts out of 10,151 ordinary judges (of which 350 should be hired by 2017).

[86] Bill number 2953

[87] Legislative Decree 38/2017

[88] Law 103/2017

[89] After a conviction at first/second instance, the limitation period is suspended until the filing of the appeal/final ruling up to a maximum of one year and a half.

[90] Law 225/2016

[91] Legislative Decree 56/2017

before they are brought to court and to appeal to the administrative judge against any act that seriously breaches the new public procurement code. Moreover, ANAC has been entrusted competencies on the protection of whistle-blowers against retaliation.[92] However, most of these new powers still need to be operationalised through a regulation by ANAC, and the authority can only issue non-binding pre-dispute opinions in the absence of an *ex-ante* agreement between the parties.

[92] Law 225/2016

## 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 2018 Budget Law extends fiscal incentives to employment, through: (i) the permanent halving of social security contributions (within the limit of EUR 3000 per year) paid by private employers on new hires below the age of 30 (below 35 in 2018) for the first three years of an open-ended contract, as well as for the first year following the conversion of an existing apprenticeship contract into a permanent one; and (ii) the full exemption of private employers from social security contributions if they hire under an open-ended contract students who had previously spent periods of apprenticeship or traineeship ("alternanza scuola lavoro") with them.<br>• The draft 2018 Budget Law extends to new investment made in 2018 and 2019 the following super- and hyper-amortisation rates: 250% on equipment functional to the digital and technological development of firms; 140% on software; and 130% | • **April 2017:** with Decree Law 50/2017, the notional return on new equity capital or reinvested earnings exempted from the payment of corporate income tax under the "allowance for corporate equity" (ACE) is further reduced in 2017 from 2.3% to 1.6% and from 2.7% to 1.5% in 2018. | | • CSR 1: "Shift the tax burden from the factors of production onto taxes less detrimental to growth in a budget-neutral way by taking decisive action to reduce the number and scope of tax expenditures, reforming the outdated cadastral system and reintroducing the first residence tax for high-income households. |

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| on equipment instrumental to the firm's activity.<br>• The draft 2018 Budget Law postpones to 2019 the new tax on business income called IRI (set at 24%, in line with the corporate income tax), originally introduced by the 2017 Budget Law to harmonise the tax treatment of small firms and corporations as of 2018. | | | |
| Long-term sustainability of public finances (including pensions) | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| • The government is discussing with the trade unions measures that extend some of the provisions in the 2017 Budget Law, partially reversing the 2012 "Fornero" pension reform, *inter alia* by allowing earlier retirement for specific categories of employees<br>• The draft 2018 Budget Law implements for the first time the spending review foreseen by the reformed budgetary process, | | • **August 2017:** the national anti-corruption authority (ANAC) updated the list of 32 procurement aggregator centres and a ministerial decree defined their purchasing criteria | CSR1: "Pursue a substantial fiscal effort in 2018, in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Italy's public finances" |
| • In 2017, the government intends to transfer stakes of ENAV and ENI to Cassa Depositi e Prestiti, with overall estimated proceeds of around EUR 3 billion (around 0.2% of GDP)<br>• In 2018, the government intends to achieve 0.3% of GDP privatisation | | | • CSR 1: "Ensure the timely implementation of the privatisation programme and use the windfall gains to accelerate the reduction of the general government debt-to-GDP ratio." |

| proceeds, but details still unknown. | | | |
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| Fight against tax evasion, improve tax administration and tackle tax avoidance | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| • The draft 2018 Budget Law extends the existing compulsory electronic invoicing for transactions with the public administration to all private sector transactions as of 2019 (2018 for fuels and public procurement) except for taxpayers subject to a simplified tax regime.<br><br>The draft 2018 budget Law provides for additional measures to reduce tax fraud including: (i) further limits to the automatic compensation of tax credits with tax dues; (ii) lower thresholds for enhanced tax checks by the public administration before proceeding to a payment; and (iii) a new system of preventive fulfilment of tax obligations in the case of intra-EU transactions in mineral oils introduced in a tax warehouse. | • **April 2017:** Decree Law 50/2017 extended as of July 2017 the so-called "*split payment*" system to the whole public administration, to companies directly or indirectly controlled by the Central Government, Regions, Provinces and Municipalities, and to listed companies included in the FTSE MIB.<br>• **October 2017:** Decree Law 148/2017 further extended the so-called "*split payment*" system to all companies directly or indirectly controlled by any public administration or anyhow with a collective public share of at least 70%, and to all public bodies of economic nature.<br>• **October 2017:** Decree Law 148/2017 extended the possibility for taxpayers to avoid sanctions by spontaneously regularising their past tax positions ("rottamazione delle cartelle esattoriali") | | • CSR 1: "Broaden the compulsory use of electronic invoicing and payments." |

| 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* |
| | **July 2017.** The main social partners signed an agreement (*Accordo di modifiche al Testo Unico sulla Rappresentanza)* including provisions to facilitate the implementation of the 2014 agreement on representativeness *(Testo Unico sulla Rappresentanza)* and setting 2019 as the deadline for completing the first measurement exercise | | 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 2018 Budget Law includes resources to support PES staff | | | • CSR 4: "Implement the reform of active labour market policies, in particular by strengthening the effectiveness of employment services." |
| | | **March-November 2017.** Pilot project on the outplacement voucher was carried out | • CSR 4: "Implement the reform of active labour market policies, in particular by strengthening the effectiveness of employment services." |

| Incentives to work, job creation, labour market participation | | | |
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| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| Some relevant measures are reported under "MIP objective: Achieving sound and growth-friendly public finances" | | | |
| | | **February 2017**. Ministerial Decree operationalised the annual bonus of EUR 1 000 per year to be spent on private/public childcare introduced by Budget law 2017 | • CSR 4: "Facilitate the take-up of work by second earners" |
| | **May 2017.** Jobs Act for self-employed, (law 81/2017) was adopted. The law aims at regulating the wide field of self-employment, which ranges from bogus self-employment to liberal professions, with the exception of entrepreneurial work. | | |
| Poverty reduction & social inclusion | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| | **March 2017:** The enabling law 33/2017 introduced new anti-poverty scheme 'Reddito di inclusione attiva' (REI). REI replaces the previous active inclusion measure (*SIA)* and the existing unemployment assistance scheme *(ASDI)*.<br>**September 2017.** The legislative decree | | • CSR 4: "Rationalise social spending and improve its composition" |

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| | 147/2017 implementing law 33/2017 was adopted. The measure is expected to be rolled out as of January 2018. | | |
| **MIP objective: Re-enabling the financial sector to support economic growth** | | | |
| **Financial sector** | | | |
| Financial services | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| • **September 2017:** The Ministry of Finance launched for public consultation (which ended on September 22) a draft decree law on fit and proper provisions for bank managers.<br>• **September 2017:** The Bank of Italy launched a public consultation on the NPL guidance for less significant institutions, drawing upon the ECB NPL guidance from March 2017. | • **October 2017:** Amendments to Law 130/ 1999 on the securitisation of loans facilitates the securitisation of some categories of NPLs (in particular of unlikely-to-pay), increase the scope of manoeuvre of special purpose vehicles (SPVs) and encourage participation in foreclosure auctions.<br>• **October 2017:** Law 155/ 2017 from October 19 (entering into force on November 14) is the enabling law for the overhaul of Italy's insolvency framework (dating back to 1942), based on the recommendations of the "Rordorf" experts" commission. The enabling law aims to streamline and simplify the different insolvency tools and increase specialisation in insolvency matters. The government is required to implement the reform with relevant decrees within 12 months. | • **February 2017:** Law 15/2017 created the Salva Risparmio law with measures to protect vulnerable banks. The law established a liquidity guarantee scheme, a precautionary recapitalisation mechanism (backed by EUR 20 billion in funds), a burden-sharing approach and a compensation scheme for selected retail subordinated bondholders. On December 2016, the Italian government had adopted the earlier decree law 237/2016, after Banco Monte dei Paschi (BMPS) had just announced before that its private recapitalisation had failed.<br>• **June 2017:** Decree law 89/ 2017 on June 16 amended the Salva Risparmio law to delay the imminently maturing EUR 85 million subordinated bond payment of Veneto Banca on June 21.<br>• **June 2017:** The government on June | • CSR 3: "Accelerate the reduction in the stock of non-performing loans and step up incentives for balance-sheet clean-up and restructuring, in particular in the segment of banks under national supervision. Adopt a comprehensive overhaul of the regulatory framework for insolvency and collateral enforcement." |

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| | | 25 issued a decree law 186/2017 for the liquidation of Banco Popolare di Vicenza (BPVi) and Veneto Banca (VB) and the sale of some parts to Intesa SanPaolo.<br>• **July 2017:** The government on July 4 provided State aid in the form of a precautionary recapitalisation of BMPS. The bank will dispose of EUR 26.1 billion of gross NPLs through a NPL securitisation transaction which is planned to benefit from State guarantees (GACS) and from financing by the Atlante II fund (recently renamed Italian Recovery Fund).<br>• **September 2017:** The Ministry of Finance extended by one year the aid-free State guarantee scheme for NPL securitisations (GACS). | |
| **MIP objective: Improving the business environment and strengthening firms' competitiveness** | | | |
| **Structural policies** | | | |
| Research & innovation | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| • **November 2017**: new National Energy Strategy (*Strategia Energetica Nazionale*) was announced, doubling investments in research and development related to clean energy technologies. | Refinancing and adjustment of Impresa 4.0 (previously Industria 4.0) | • ***"Industria 4.0"*** plan: set of measures to boost expenditure in Research, Development and Innovation: Tax credit R&I, patent box, preferential treatment for innovative start-ups, public resources for R&D in selected research centres. The plan | |

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| | | Industria 4.0 was updated and expanded into the new "***Impresa 4.0***", including provision on training and education. | |
| Competition & regulatory framework | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| | • **August 2017**. The 2015 competition law 124/2017 was adopted (partly self-applicable) | • **Simplification Agenda 2015-2017** has been implemented | • CSR 3: "Promptly adopt and implement the pending law on competition and address remaining restrictions to competition" |
| • **Simplification Agenda 2018-2020** being discussed with regions and relevant stakeholders | | ***"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. | |
| **Public administration & business environment** | | | |
| Public administration | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| • **Reform of local public services** based on the guidelines of legislative decree ruled as unconstitutional by the Constitutional court in November 2016. | • **April 2017:** Legislative decree 56/2017 corrects the 2016 code on public procurement and concessions. | | |

| Financial sector | | | |
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| 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 | - |
| **MIP objective: Strengthening the institutional capacity** | | | |
| **Public administration & business environment** | | | |
| Public administration | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| • Three years plan for ICT and cyber security in the Public administration | • **June 2017**. Reform of public employment (Legislative decree 75/2017)<br>• **June 2017**. Performance evaluation in PAs (Legislative decree 74/2017)<br>• **Spring-Summer 2017**. Corrective decrees to Legislative Decrees 175/2016 (publicly-owned enterprises), 116/2016 (disciplinary dismissals) and 171/2016 (public employment in health sector) | | • CSR 2: “Complete reforms of public employment and improve the efficiency of publicly-owned enterprises.” |

| Civil justice | | | |
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| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| • A draft enabling law (draft Bill 2953) aiming to further reforming civil procedures is under discussion in the Parliament. It is designed to streamline first- and second-instance procedures, introduce a stricter admissibility filter for appeals, discourage more strongly vexatious litigations, broaden competences for business courts, increase court specialisation in family law, and make it possible to reduce appeal courts by dividing them into thematically specialised sectors.<br>• The draft 2018 Budget Law provides for the hiring of (at most) 50 retired auxiliary judges for three years to help manage pending tax trials.<br>• The government is empowered to adopt legislative decrees aimed at streamlining the overall criminal trial. | • **March-April 2017:** the government enacted a series of sectoral provisions to deflate litigation and streamline proceedings**:** Law 46/2017 in international protection procedures; Law 24/2017 in terms of medical liability and medical malpractice; and Law 47/2017 in nominating a tutor for the underage.<br>• **July 2017:** Decree Law 116/2017 provides for global reform of the honorary magistrates (a single status of lay judges, increasing their competences and number as of 2021, and enhancing their professional training, supervision and assessment.) coupled with the filling of 2,441 posts in September 2017 | | • CSR 2: "Reduce the trial length in civil justice through effective case management and rules ensuring procedural discipline" |
| Shadow economy & corruption | | | |
| *Announced measures* | *Adopted measures* | *Implemented measures* | *Sources of commitment* |
| | • **March 2017**: Legislative Decree 38/2017 modified the definition of the crime of "corruption among private parties" in order to align it better with international standards | | • CSR 2: "Step up the fight against corruption, in particular by revising the statute of limitations" |

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|---|---|---|---|
| | • **June 2017:** Law 103/2017 provides for a long-awaited revision of the statute of limitations, in particular the suspension of prescription terms for all criminal trials, as well as its increase by up to 50% for specific corruption offences.<br><br>• **April 2017**: Legislative Decree 56/2017 modifies the monitoring powers of the national anti-corruption authority (ANAC) in the field of public procurement (still to be fully operationalised)<br><br>• **November 2017**: whistle-blowers' protection was extended beyond public employees to private sector workers (under public control or involved in public procurement) | | |