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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 fourth specific monitoring report under the Macroeconomic Imbalance Procedure for Italy which was considered to experience excessive macroeconomic imbalances in the 2016 European Semester.** It reviews the latest developments and policy initiatives relevant for correcting Italy's imbalances (i.e. high government debt and weak competitiveness in a context of subdued productivity growth) and for supporting adjustment processes (particularly in the labour market and banking system), in line with the 2016 country-specific recommendations. The cut-off date for this report is 1 December 2016.

**Italy's current tepid economic recovery is subject to downside risks related to several sources of uncertainty.** After several years of deep recession, the Italian economy is expected to stay on a modest recovery path which started in 2015, with annual real GDP growth close to 1% over the period 2016-2018. Yet, uncertainties on the health of parts of the Italian banking system and the strength of global demand are casting a shadow over this outlook, thereby weighing on demand and holding back the recovery of historically low investment levels.

**In spite of a few positive developments, macroeconomic imbalances are not unwinding yet.** The public debt-to-GDP ratio is expected to have risen slightly to 133% in 2016. In spite of a further decline of labour productivity, nominal unit labour cost growth is expected to have remained contained in 2016. Together with the depreciation of the euro, this has to some extent supported external cost competitiveness. The adjustment process in the labour market is gradually proceeding with labour participation and employment on the rise, resulting in a slow decline of the unemployment rate. Conversely, adjustment in the banking sector in response to the crisis legacy issue continues to face important challenges, with the non-performing loan ratio stable at almost 18%.

**The adoption of new (sometimes long-awaited) reforms has slowed down, but the implementation of measures already taken has continued.** Regarding public finances, the government has adopted a comprehensive reform of the budgetary process which makes spending reviews a permanent feature of it and will be fully operational in the next year's Budget Law. However, progress in the field of taxation is much more limited, 2016 privatisation targets will not be met and measures have been announced that partially reverse the 2012 pension reform. Concerning the labour market, the implementation of the reform of active labour market policies has started but will have to overcome several obstacles. The government is proposing to strengthen tax incentives for productivity-related premia to foster second-level wage bargaining next year, but the reform of the collective bargaining framework is not progressing. Also, the planned measures to foster female labour market participation appear insufficient. An important enabling law on the setup of a comprehensive anti-poverty scheme is under parliamentary discussion. Regarding the banking sector, the implementation of the various corporate governance reforms is broadly on track. Some measures have also been taken to foster market-based mechanisms supported by private resources to reduce the non-performing loan burden, and some banks are preparing to use the new tools in the coming weeks. However, a more comprehensive and ambitious NPL

reduction strategy may be needed. As regards the business environment and firms' competitiveness, the implementation of the 2015-2017 Simplification Agenda is on track and a range of measures has been taken to support firms' investment, innovation and internationalisation. However, the reduction in the allowance for corporate equity envisaged in the draft 2017 Budget Law contradicts the goal of reducing firms' reliance on debt financing. No further progress has been made in the field of strengthening competition: the 2015 annual competition law still awaits final parliamentary ratification. Finally, to strengthen institutional capacity, the government is implementing an ambitious public administration reform. Past reforms of civil justice are starting to show some results, but an important enabling law on the reform of civil proceedings is still under parliamentary discussion. The long-overdue reform of the statute of limitations is still pending.

**Table 1: Key findings on implementation of policy reforms<sup>1</sup>**

On track	Wait-and-see	Action wanted
<ul style="list-style-type: none"> <li>• Reform of the budgetary process</li> <li>• Social inclusion policy</li> <li>• Banking sector corporate governance reforms</li> <li>• 2015-2017 Simplification Agenda</li> <li>• Public administration reform</li> </ul>	<ul style="list-style-type: none"> <li>• Privatisation agenda</li> <li>• Fight against tax evasion</li> <li>• Reform of active labour market policies</li> <li>• Non-performing loan reduction measures (including insolvency and collateral enforcement reforms)</li> <li>• Civil justice reform</li> </ul>	<ul style="list-style-type: none"> <li>• Revision of cadastral values</li> <li>• Rationalisation of tax expenditures</li> <li>• Reform of the collective bargaining framework</li> <li>• Female labour market participation</li> <li>• Competition</li> <li>• Reform of the statute of limitations</li> </ul>

<sup>1</sup> The table classifies reforms under review on the basis of their respective adoption and implementation process and their credibility and 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

On 26 November 2015, the European Commission presented, in the context of the Macroeconomic Imbalance Procedure (MIP), its fifth Alert Mechanism Report<sup>2</sup> to underpin the selection of Member States requiring an in-depth investigation into the existence and extent of macroeconomic imbalances. The subsequent In-Depth Review in the Country Report on Italy<sup>3</sup> – published on 26 February 2016 – examined the nature, origin and severity of the macroeconomic imbalances and risks in Italy. In its Communication published on 8 March 2016<sup>4</sup>, the Commission concluded that Italy was experiencing excessive macroeconomic imbalances. In particular, the Commission emphasised that high government debt and weak external competitiveness, underpinned by lacklustre productivity dynamics, imply risks with cross-border relevance. It also pointed at the burden of non-performing loans on banks' balance sheets and the negative impact of the crisis on employment and social outcomes, both affecting Italy's growth prospects.

In April 2016, Italy submitted its Stability Programme<sup>5</sup> and National Reform Programme<sup>6</sup>, respectively outlining fiscal targets and policy measures to improve its economic performance and unwind imbalances. On the basis of an assessment of these plans, the Commission proposed a set of five country-specific recommendations (CSRs)<sup>7</sup>, which were adopted by the Council on 12 July 2016<sup>8</sup>. These recommendations concern a wide range of policy domains: (i) public finances, privatisation and taxation; (ii) public administration, justice and corruption; (iii) the banking sector; (iv) labour market and social policy; (v) competition. All CSRs are considered to be MIP-relevant.

Moreover, one of the recommendations which was addressed to all euro-area Member States<sup>9</sup> calls for the pursuing of policies that support the recovery, foster convergence, facilitate the correction of macroeconomic imbalances and improve the adjustment capacity. In this respect, the present report assesses the latest main policy measures taken by Italy.<sup>10</sup> For this purpose, a specific monitoring mission to Italy was conducted on 24-26 October 2016.

In order to avoid an overlap of surveillance processes, this report does not provide an assessment of Italy's revised fiscal targets, as presented in the 2017 Draft Budgetary Plan (DBP) (submitted to the Commission in October 2016). The latter assessment can be found in the Commission's opinion on Italy's 2017 DBP<sup>11</sup>.

The cut-off date of this report is 1 December 2016 (i.e. before the Italian constitutional reform referendum). A comprehensive assessment of Italy's economic and social situation and the policy response to the most recent CSRs will be made in the forthcoming 2017 Country Report on Italy.

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<sup>2</sup> [http://ec.europa.eu/europe2020/pdf/2016/ags2016\\_alert\\_mechanism\\_report.pdf](http://ec.europa.eu/europe2020/pdf/2016/ags2016_alert_mechanism_report.pdf)

<sup>3</sup> [http://ec.europa.eu/europe2020/pdf/csr2016/cr2016\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_italy_en.pdf)

<sup>4</sup> [http://ec.europa.eu/europe2020/pdf/csr2016/cr2016\\_comm\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_comm_en.pdf)

<sup>5</sup> [http://ec.europa.eu/europe2020/pdf/csr2016/sp2016\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/sp2016_italy_en.pdf)

<sup>6</sup> [http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/nrp2016_italy_en.pdf)

<sup>7</sup> [http://ec.europa.eu/europe2020/pdf/csr2016/csr2016\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/csr2016_italy_en.pdf)

<sup>8</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818\(01\)&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0818(01)&from=EN)

<sup>9</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0311\(01\)&rid=2](http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016H0311(01)&rid=2)

<sup>10</sup> An overview of the policy measures taken can be found in the overview table in the Annex.

<sup>11</sup> [http://ec.europa.eu/economy\\_finance/economic\\_governance/sgp/pdf/dbp/2016/it\\_2016-11-16\\_co\\_en.pdf](http://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/dbp/2016/it_2016-11-16_co_en.pdf)

## 2. Outlook and recent developments on imbalances

### 2.1. Recent economic developments and outlook

**The Italian economy is currently on a slow recovery path in a context of significant uncertainty.** After several years of deep recession, Italy's real GDP grew by 0.7% in 2015. The Commission's 2016 autumn forecast has revised down real GDP growth to a modest 0.7%<sup>12</sup> in 2016, 0.9% in 2017 and 1.0% in 2018. While net exports drove the initial phase of the recovery, more recently private consumption supported by sustained employment growth contributed the most. The risks to these projections are however tilted to the downside in view of significant uncertainties. A first source of uncertainty lies with the weakening external outlook and slowing global demand. A second factor is the health of a part of the Italian banking sector, which is burdened with non-performing loans (NPLs) and faces weak profit-generating capacity in a challenging operating environment of low growth, low interest rates and regulatory change. Although nominal interest rates on new loans have declined substantially, the large stock of NPLs continues to make banks follow conservative lending practices, especially towards small firms. In combination with tepid demand, this holds back a stronger recovery of credit. Against this background, investment as a share of GDP has been recovering slowly but continues to be close to historically low (fixed investment in 2016 was at 16.6% of GDP, around 4 percentage points below the pre-crisis level). Subdued investment has in turn contributed to the steady rise of the current account balance (which equalled 2.6% of GDP in September 2016), as both the corporate and the public sector deleveraged and households restored savings. However, the current account surplus is forecast to fall somewhat in the coming years as investment may gradually recover and the price of energy imports may increase.

**Inflation has remained low, dragged down by declining energy prices and moderate wage pressure.** The HICP inflation rate was 0.1% in 2015 and in the first ten months of 2016 it averaged -0.1% year-on-year. The significant fall in energy prices has only partially been counterbalanced by internal cost pressures which have remained contained, owing to overall wage moderation. Core inflation (i.e. excluding unprocessed food and energy) has remained low but positive (0.5%) in the first ten months of 2016 on a yearly basis.

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

#### Public debt

**Italy's public debt is projected to stabilise above 130% of GDP in the next few years.** Italy's public debt-to-GDP ratio reached 132.3% in 2015 and the Commission's 2016 autumn forecast projects it to increase to 133% in 2016 and remain broadly stable in 2017-2018. Low growth and inflation, in combination with the expected worsening of the primary surplus, postpone the reduction of the high public debt ratio. It therefore remains an important source of vulnerability for the Italian economy, even though the ECB's quantitative easing policy, for the time being, is playing a significant mitigating role.

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<sup>12</sup> This forecast was made prior to the release (on 1 December 2016) 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%.

### External competitiveness

**The loss of external competitiveness has stopped and external financing risks have subsided, but labour productivity has continued to contract.** In recent years, cost competitiveness has been supported by the contained growth of nominal unit labour costs (0.4% on average over 2013-2016), as well as the depreciation of the euro which has favoured Italy's exports towards extra-euro-area countries since 2015. Yet, the further decline of labour productivity (expected to have shrunk by 0.5% in 2016), the general low-inflation environment and slowing external demand are making it challenging to 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 -19.4% of GDP in Q2 2016) have substantially lowered external financing risks, especially in the current special context of ample ECB liquidity provision.

### Productivity

**Slow productivity growth continues to be the main source of Italy's macroeconomic imbalances.** Structural obstacles continue to hamper an efficient allocation of productive factors across the economy. The resulting 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 conditions continue to improve, but unemployment is still high.** After growing by 0.8% in 2015, employment rose by a further 1.3% year-on-year in the first nine months of 2016, also supported by tax incentives. As a result, the unemployment rate – 11.7% in September 2016 – has started to decline from its November 2014 peak (13.1%), but only gradually as previously discouraged workers rejoin the labour force. In spite of its 0.8% year-on-year growth in the first nine months of 2016, labour force participation remains well below the EU average, especially among women. The risk of poverty and social exclusion also remain high.

### Banks' asset quality

**The high stock of NPLs remains a burden for banks' balance sheets.** At the end of Q2 2016, the gross stock of NPLs amounted to EUR 356 billion (17.7% of total customer loans), including EUR 214 billion of bad loans (the worst NPL category), which net of provisions stood at EUR 88 billion. Although the inflow of new NPLs has come down significantly, the stock has remained virtually stable due to the very slow rate of NPL work-outs and disposals and the continued migration of "unlikely-to-pay" loans to bad loans (triggering extra provisioning). As a result, NPLs continue to weigh significantly on banks' balance sheets, further reducing the already subdued profitability, locking in resources that could otherwise be used to support the economic recovery, and damaging market confidence. Different types of constraints have until now led to a "bank-by-bank" strategy relying on market mechanisms as opposed to a comprehensive approach.

### 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.*

**The implementation of the reform of the budgetary process is ongoing but has not been fully applied yet in the draft 2017 Budget Law.** In May 2016, the Italian authorities adopted the two pending enacting decrees of the 2009 reform of the budgetary process<sup>13</sup>. The first<sup>14</sup> aims to better specify the content and function of each expenditure programme in the state budget, including by giving more prominence to the objectives to be achieved. The second enacting decree<sup>15</sup> introduces a reinforced cash budget principle in order to improve cashflow management and its monitoring in the public administration. In August 2016, the Parliament adopted a Budget Law reform<sup>16</sup> to integrate in a single act all revenues and expenditure allocations planned, together with the legislative acts needed to reach the budgetary targets. Together, these steps entail the integration of spending reviews in the budgetary process. However, due to time constraints, the draft 2017 Budget Law only partially reflects the new top-down approach, and the authorities expect its full implementation by the 2018 Budget Law. Moreover, in recent years, the practice of including large tax increases in the three-year budget to fill the gap between trends and targets (so-called “safeguard clauses”) and repealing them later on has made the 3-year budget unreliable for medium-term planning.

**The centralisation of public procurement for goods and services has been strengthened.** There are now 33 procurement aggregator centres, including 22 central procurement bodies (CPBs), in charge of public procurements (vs. 36 000 purchasing bodies in the past). The overall annual spending under their responsibility is currently around EUR 16 billion (0.9 % of GDP) of which EUR 13 billion related to healthcare (of which EUR 8 billion to pharmaceutical products). The anti-corruption authority (ANAC) supervises the centralised procurements and has a role in raising the number of product categories (beyond the current 34) for which public administrations have to opt for centralised procurement. This process is still ongoing without a clear timeline. In August 2016<sup>17</sup>, the obligation of purchasing specific goods and services<sup>18</sup> through CPBs was extended to local bodies. Autonomous purchases by public administration bodies that have to use framework contracts developed by the CPBs may occur only when the goods and services provided by the CPBs miss essential characteristics and following authorization.<sup>19</sup>

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<sup>13</sup> Law 196/2009 of 31 December 2009

<sup>14</sup> Legislative Decree 90/2016 of 12 May 2016

<sup>15</sup> Legislative Decree 93/2016 of 12 May 2016

<sup>16</sup> Law 163/2016 of 4 August 2016

<sup>17</sup> Law 208/2015 of 28 December 2015

<sup>18</sup> The list of goods and services had already been defined by the Prime Minister Decree of 24 December 2015.

<sup>19</sup> The Ministry of Economy and Finance Decree of 21 June 2016 defined the list of the framework contracts to be benchmarked and their main features and essential characteristics.

**The draft 2017 Budget Law contains measures that partially reverse the 2012 "Fornero" pension reform<sup>20</sup>.** These include provisions increasing minimum pensions (*quattordicesima*) and allowing earlier retirement for specific categories of employees either on a voluntary basis through a bank-loan supported by a tax credit (*APE*) or as a social care measure for workers in need, including the disabled (*APE social*). Moreover, as of 2018 the Budget Law abrogates some penalties introduced by the "Fornero" reform in order to offset the incentives for early retirement under the previous generous defined-benefit system. This may weaken the message regarding the need to work longer and achieve higher labour market participation, with possible negative impact on potential growth. Moreover, these measures will increase the already high pension expenditure in Italy (the second highest in the OECD as a share of GDP after Greece), taking away available resources from growth-enhancing actions also to the benefit of the younger generations.

**Some tax incentives are included in the draft 2017 Budget Law to support private and public investment.** More specifically, firms will benefit from the extension until mid-2018 of the tax incentive concerning the *superammortamento* rate of 140% for investment in equipment (i.e. an extra depreciation of 40% for tax purposes). Moreover, a new tax incentive (so-called *iperammortamento* rate of 250%) will support investment in digitalisation under the government's *Industria 4.0* agenda. Higher tax credits (up to 50%) are also envisaged for new investment in R&D until 2020. New funds will also be allocated to guarantee (up to 80%) new bank loans to SMEs with a low-medium credit rating. A new tax on business income called *IRI* (set at 24% in line with the corporate income tax) will also be introduced to harmonise the tax treatment of small firms and corporations.

**The broader reform of tax policy is delayed and shows structural weaknesses.** In order to increase tax compliance, in the draft 2017 Budget Law the government plans to forego sanctions and fines related to unpaid taxes over the period 2000-2015 (*rottamazione delle cartelle esattoriali*) for taxpayers spontaneously regularising their tax position, and to introduce transparency provisions on the communication of invoices and VAT data. While the latter are expected to have a positive impact on compliance, the former has an uncertain impact depending on taxpayers' behaviour and it is mostly one-off in nature. The same applies to the extension of the "voluntary disclosure" of assets held abroad until July 2017.<sup>21</sup> Moreover, additional measures are needed to substantially increase the use of electronic invoicing and payments, which would help in the fight against tax evasion. Neither the recommended reform of cadastral values nor concrete action to rationalise tax expenditures have been enacted or are expected in the near future. Finally, the reduction from 4.75% to 2.3% and subsequent fluctuation in the notional return on new equity capital or reinvested earnings exempted from the payment of corporate income tax under the so-called "allowance for corporate equity" (*ACE*) does not seem conducive to foster firms' (especially SMEs') capitalisation and reduce their reliance on bank credit.

**Privatisation proceeds will fall short of the original plans for 2016.** In September 2016, the government revised significantly downward its privatisation plans for 2016 (to 0.1% of

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<sup>20</sup> Decree Law 201/2011 of 6 December 2011, subsequently converted into Law 214/2011 of 22 December 2011

<sup>21</sup> Decree Law 193/2016 of 22 October 2016

GDP compared to the objective in the 2016 Stability Programme 0.5% of GDP). The main transaction was carried out in July 2016 (air traffic control company *ENAV* for EUR 836 million or 0.05% of GDP). For 2017, the target of 0.5% of GDP is confirmed as the government intends to sell a further stake (around 30%) in the postal operator (*Poste Italiane*) and launch an initial public offering for the state-owned railway company (*Ferrovie dello Stato*). The government is also committed to extract more value from the management of real estate assets and continue with their sale. In 2015, the sale of general government real assets generated proceeds of around EUR 1 billion (more than half from local authorities). Similar amounts are expected in 2016 and 2017.

**Overall, the reform of the budgetary process is on track, while further progress is needed regarding the reform of tax policy.** A comprehensive reform of the budgetary process has been passed and its implementation is expected in the next Budget Law. It should make the spending review a more integral part of it. Some backtracking can be noticed as regards the pension reform, and very limited progress has been made in revising tax expenditures and reforming cadastral values, while more could also be done to stimulate tax compliance through electronic payments.

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

*This section describes the measures to foster decentralised collective bargaining, to increase labour market participation including through more efficient active labour market policies (ALMPs), and to address poverty.*

**The agreement on trade union representativeness, a prerequisite for the decentralisation of contractual bargaining, has not been implemented yet.** In 2014, social partners and Confindustria (the employers' association in the manufacturing sector) agreed on the criteria to measure trade union representativeness<sup>22</sup>, a prerequisite for the decentralisation of contractual bargaining. Although similar agreements have progressively been signed in other sectors, none of them are operational yet. So far, only data on trade union membership have been collected, while data on the election of local trade union representatives are still missing.

**No progress has been made in reforming the collective bargaining framework.** Social partners have postponed an agreement on the renewal of the bargaining framework to a later stage. Despite broad consensus on the need to increase the use of decentralised bargaining, firm-level and territorial bargaining are delayed by the ongoing renewal on a sector-by-sector basis, as nearly 60% of private-sector contracts already expired. Current sectoral negotiations between trade unions and Confindustria focus mainly on how to adjust salaries to price inflation. Welfare provisions (e.g. childcare, additional social security) could be included in second-level bargaining possibly instead of wage increases.

**The impact of tax incentives on productivity-related premia to foster second-level bargaining has not been assessed yet** To foster the decentralisation of wage bargaining, the

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<sup>22</sup> *Accordo Unico sulla Rappresentanza* (10 January 2014)

government aims to strengthen in the draft 2017 Budget Law the tax rebates on productivity-related wage increases introduced in 2016. Foregone fiscal revenues are estimated to gradually increase to nearly EUR 1 billion per year in 2019. Effective monitoring of the actual impact on firms' internal organisation and salary policies will be needed to avoid that the scheme is used only to benefit from lower contributions and higher net salaries.

**With the introduction of a new open-ended contract supported by tax incentives, permanent employment has increased significantly since 2015.** Following the adoption of the Jobs Act<sup>23</sup>, the Ministry of Labour has published in September 2016 a report<sup>24</sup> on the impact of the labour market reform on contractual composition. However, a more comprehensive impact assessment is only due to be published by the Ministry of Labour in early 2017. Both the number of new permanent and temporary contracts has increased. In addition, there has been a significant rise in the number of vouchers. There may be a risk that vouchers will replace more stable and more expensive labour contracts (particularly at the low end of the labour market, e.g. seasonal low-skilled workers), but at the same time, they can also help undeclared work to emerge.

**The implementation of the reform of ALMPs is still at a very early stage and obstacles lie ahead.** While passive labour market measures have been deeply reformed in 2015, the reform of active labour market policies<sup>25</sup> has just started. *ANPAL*, the new agency in charge of ALMPs, has been officially set up in July 2016. It will be fully staffed (around 200 people) and operational as of January 2017. It will also coordinate *Italia Lavoro*<sup>26</sup>. *ANPAL* will launch the new outplacement voucher (*assegno di ricollocazione*), first on an experimental basis. The vouchers will be given to unemployed people who can use them in private or public employment agencies. The accompanying financial allowance will be set depending on the probability of the applicant to find a job, based on his/her profile. However, many important details and specifications of this measure are still to be defined by *ANPAL* (e.g. national certification of private employment agencies, the definition of a “good offer” by an employment centre). A smooth and rapid implementation of the reformed ALMPs requires a good cooperation between regions and the central government, also in order to reduce the large performance disparities of public employment services across regions.

**Female labour market participation remains the second lowest in Europe.** In 2015, only 47% of working age women in Italy either had been or were actively searching for a job, the second lowest rate in Europe. Progress in raising female labour force participation has been very slow. In the draft 2017 Budget Law, the government introduced *inter alia* an additional day of paternal leave. Despite going in the right direction, the measure is limited in scope and further action is needed to boost female participation (e.g. more childcare provision, reduction of tax disincentives).

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<sup>23</sup> Law 183/2014 of 10 December 2014

<sup>24</sup> Ministero del Lavoro e delle Politiche Sociali (2016), *I contratti di lavoro dopo il Jobs Act*, Quaderno di monitoraggio no. 1

<sup>25</sup> Legislative Decree 150/2015 of 14 September 2014

<sup>26</sup> *Italia Lavoro* is a state-owned enterprise present across the national territory and with a staff of around 1 000. So far, it has operated as an agency of the Ministry of Labour to promote and manage ALMPs on the ground.

**Steps are taken to address social exclusion.** The active inclusion measure (*SIA*), which provides economic as well as social care to disadvantaged households, has been rolled out at national level since September 2016. Moreover, its financing has been ensured for both 2017 and 2018 (around EUR 3 billion over the two years). In addition, an enabling law<sup>27</sup> to establish a single comprehensive scheme against poverty, replacing current instruments such as *SIA* and *ASDI* (unemployment assistance), has been approved by the Chamber of Deputies and is currently under discussion in the Senate.

**Overall, after the successful adoption of the Jobs Act, providing further impetus to implementation remains crucial in view of expected challenges.** After adopting all legislative decrees of the Jobs Act, the full implementation of the ALMP reform turns out to be challenging given its ambitious scope and the current institutional set-up. Quick progress remains highly desirable to prevent rising dissatisfaction towards the Jobs Act given the context of still high unemployment and the reform of passive policies. The framework for collective bargaining has not yet been reformed, second-level bargaining remains insufficiently developed, and progress in this direction is uncertain. Measures to tackle the low participation of women in the labour market are still needed, while a comprehensive reform to address poverty and rationalise social spending is under parliamentary discussion.

### **3.3. Re-enabling the banking sector to support economic growth**

*This section describes the measures to accelerate the reduction of the stock of non-performing loans, including by further improving the insolvency and debt collection frameworks, and the implementation of corporate governance reforms in the banking sector.*

**The non-performing loan (NPL) securitisation scheme benefitting from state guarantees is operational, but its take-up so far is low.** In February 2016<sup>28</sup> the government created the *Garanzia sulla Cartolarizzazione delle Sofferenze* (GACS). With the adoption of an implementing decree<sup>29</sup> in August 2016, the mechanism is now fully operational, but so far, few banks<sup>30</sup> are expected to use the GACS. The scheme is in place until October 2017, but could be extended by another 18 months. The GACS is supposed to support the development of a private NPL market in Italy by reducing the large NPL pricing gap. Yet several factors may hinder its effectiveness: (i) the attractiveness of the non-senior tranches depends heavily on the recovery and upside prospects, in turn driven by the value at which assets are transferred and thus the haircut applied to their net book value, although the creation of the private “Atlante 2” fund (see below) may mitigate this; (ii) the pricing of the state guarantee in the chosen free-of-state-aid setup; (iii) smaller banks’ participation in the scheme may be

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<sup>27</sup> Atto Camera no. 3594

<sup>28</sup> Decree Law 18/2016 of 14 February 2016, subsequently converted into Law 49/2016 of 8 April 2016

<sup>29</sup> Ministry of Economy and Finance Decree of 3 August 2016

<sup>30</sup> Banca Popolare di Bari announced in August 2016 the disposal of EUR 480 million bad loan portfolio (gross book value) to a securitisation vehicle at a transfer price of EUR 150.5 million (31.4% of the loans’ total gross book value). The vehicle has issued a EUR 126.5 million senior tranche (for which an application to GACS is pending), a EUR 14 million mezzanine tranche and a EUR 10 million junior tranche. Banca Monte dei Paschi di Siena (BMPS) announced in October 2016 its intention to dispose of virtually all of its bad loans worth EUR 27.6 billion (gross book value) to a securitisation vehicle at a transfer price of EUR 9.1 billion (33.0% of the loans’ total gross book value). The vehicle would issue EUR 5 billion in senior notes (for which a GACS application will be made), EUR 1 billion in senior mezzanine notes, EUR 1.6 billion in junior mezzanine notes (to be underwritten by the Atlante 2 fund) and EUR 1.5 billion in junior notes (to be assigned to BMPS’ shareholders).

limited by the small size of their bad loan portfolios which may not attract investor interest (even though joint securitisations are possible) and the absence of detailed loan portfolio data.

**Italian financial-sector players have pooled resources in two private backstop facilities (the so-called “Atlante” funds) to support banks in distress.** Since April 2016, two private “Atlante” funds have been created with just over EUR 5 billion in capital contributions by Italian financial-sector players (e.g. large banks, insurance groups, bank foundations, Cassa Depositi e Prestiti). Atlante 1 backstopped the initial public offerings of Banca Popolare di Vicenza (EUR 1.5 billion) and Veneto Banca (EUR 1 billion) in spring 2016. Conversely, Atlante 2 was set up in summer 2016 specifically to support NPL disposal operations by banks in distress. In this context, it conditionally committed to invest up to EUR 1.6 billion in the junior mezzanine tranche of the bad loan securitisation vehicle to be set up by Banca Monte dei Paschi di Siena. Atlante 2 may help to create better market conditions for NPL sales by banks in several ways: (i) by investing in non-senior notes issued by NPL securitisation vehicles, it may help to overcome an important weakness of GACS; (ii) its envisaged involvement in large securitisation operations could give it the scale to foster a more competitive NPL servicer market in Italy; (iii) it contributes to an increase in the sale price of banks’ bad loan portfolios as it targets a lower return than other private investors and counts on the effectiveness of ongoing insolvency and collateral enforcement reforms (see below). On the other hand, the role of both Atlante funds feature two main drawbacks: (i) their limited capacity prevents them from playing a systemic role in cleaning up the Italian banking system as a whole; (ii) the funds have increased the interdependencies between stronger and weaker banks, intensifying contagion risks.

**The Bank of Italy has issued a new reporting template requiring banks to provide detailed data on their bad loans, collateral and ongoing recovery procedures.**<sup>31</sup> This may prompt banks to improve their NPL management, support banks’ discussions with investors on potential NPL transactions, and better inform supervisory action. Second, Bank of Italy has adopted new supervisory provisions on the valuation of property collateral as part of mortgage contracts.<sup>32</sup> Finally, it is considering how to apply the draft ECB guidance on NPLs<sup>33</sup> also to less significant institutions under its direct supervision. An ECB stocktaking report<sup>34</sup> accompanying the guidance suggests considerable scope to expand NPL supervisory guidance at national level.

**Improved insolvency and collateral enforcement rules are expected to support NPL market activity, while a systemic overhaul of the insolvency framework is being prepared.** A new law<sup>35</sup> authorises private enforcement clauses in loan contracts with firms allowing creditors, in case of a debtor's default, to take ownership of collateral out-of-court (*pactum marcianum*).<sup>36</sup> It is expected to curb dramatically the time needed to enforce

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<sup>31</sup> The new template was subject to a public consultation launched in January 2016:

<https://www.bancaditalia.it/compiti/vigilanza/normativa/consultazioni/2016/segnalazione-esposizioni-sofferenza/index.html>

<sup>32</sup> The new provisions were subject to a public consultation launched in July 2016:

<https://www.bancaditalia.it/compiti/vigilanza/normativa/consultazioni/2016/credito-immobiliare/index.html>

<sup>33</sup> [https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/npl/npl\\_guidance.en.pdf](https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/npl/npl_guidance.en.pdf)

<sup>34</sup> [https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/npl/stock\\_taking.en.pdf](https://www.bankingsupervision.europa.eu/legalframework/publiccons/pdf/npl/stock_taking.en.pdf)

<sup>35</sup> Decree Law 59/2016 of 3 May 2016, subsequently converted into Law 119/2016 of 30 June 2016

<sup>36</sup> This has, in effect, a similar function to *pactum commissorium*, prohibited in Italian civil law, but it differs in that the difference in value between the debt and the collateral is disregarded under the latter regime.

collateral (from an average 40 months to 12 months), since it would limit the judicial involvement to the appointment of a collateral valuation expert. Lenders may also be able to introduce such a clause in existing contracts when renegotiating loan agreements with clients. Another novelty enables entrepreneurs to pledge movable assets while continuing to use them (a kind of non-possessory lien), which may ease their access to finance. In addition, an electronic register for insolvency cases is in the making, which will enable better monitoring and foster discipline. Furthermore, hearings, which are essential for multi-partite procedures, can now be held electronically. Finally, another law<sup>37</sup> has reduced the registration tax on property sales following enforcement proceedings. Most of the measures included in the latest reform and that of 2015<sup>38</sup> could reduce the NPL pricing gap and thereby support NPL market activity. However, these effects may only materialise in the medium term and in some cases rely on improvements in the capacity of the judicial system at large. In parallel, a team of experts – the Rordorf commission – has prepared the ground for an overhaul of Italy’s insolvency framework, and a draft enabling law<sup>39</sup> based on its work is currently under discussion in Parliament. The overhaul is expected to streamline and simplify the different insolvency tools and increase specialisation in insolvency matters. However, the timeline for the overhaul’s adoption and implementation is unclear.

**The pay-out of compensation to retail customers affected by the 2015 resolution of four small banks has started, but not all compensation procedures are fully operational yet.**

The first of two compensation mechanisms is operational since early July 2016 for a six-month period, and applications must be processed within 60 days after receipt.<sup>40</sup> Under this mechanism, the automatic reimbursement of approximately 80% of the investment is envisaged under certain conditions. In addition, the government envisaged an arbitration procedure for retail investors who acquired the said bonds after the BRRD publication date and claim to be victims of mis-selling. However, the necessary implementing decree for this arbitration mechanism has not yet been adopted. In the meantime, most banks have stopped marketing subordinated bonds to retail customers.

**The implementation of the various corporate governance reforms in the banking sector is broadly on track.**

First, in the context of the 2015 reform of large cooperative banks<sup>41</sup>, which required the transformation of large *banche popolari* into joint-stock companies by the end of 2016, only one merger has been announced, namely between Banca Popolare di Milano and Banco Popolare (as of January 2017). Second, the implementation of the memorandum of understanding<sup>42</sup> between the Ministry of Economy and Finance and bank foundations is ongoing: almost all foundations have complied with the April 2016 deadline to bring their statutes in line with the memorandum, but divestments from reference banks are postponed because of unfavourable market conditions. Finally, the self-reform of small

<sup>37</sup> Decree Law 18/2016 of 14 February 2016, subsequently converted into Law 49/2016 of 8 April 2016

<sup>38</sup> Decree Law 83/2015 of 27 June 2015, subsequently converted in Law 132/2015 of 6 August 2015. For a description and assessment of this reform – including of the more favourable tax treatment for loan loss provisions which it introduced – please see European Commission (2016), *Country Report Italy 2016*, pp. 47-49. ([http://ec.europa.eu/europe2020/pdf/csr2016/cr2016\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_italy_en.pdf))

<sup>39</sup> Atto Camera no. 3671

<sup>40</sup> Decree Law 59/2016 of 3 May 2016, subsequently converted into Law 119/2016 of 30 June 2016

<sup>41</sup> Decree Law 3/2015 of 24 January 2015, subsequently converted into Law 33/2015 of 24 March 2015

<sup>42</sup> For a description and assessment of the contents of the memorandum (available at <http://www.mef.gov.it/inevidenza/documenti/acri.pdf>), please see European Commission (2016), *Country Report Italy 2016*, p. 50. ([http://ec.europa.eu/europe2020/pdf/csr2016/cr2016\\_italy\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2016/cr2016_italy_en.pdf))

cooperative banks (*banche di credito cooperativo* (BCCs)) has been laid down in the law<sup>43</sup>. The 18-month implementation period started early November 2016 with the publication of Bank of Italy's implementing provisions<sup>44</sup>. It is currently expected that up to two national and one provincial cooperative banking groups may be created. Groups reaching "significant institution" status will become subject to direct ECB supervision and therefore to a stress test and asset quality review. If successfully implemented, the reform 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.

**Overall, despite the measures taken to improve asset quality and corporate governance, concerns and uncertainties related to the health of some Italian banks persist.** In particular, some banks' asset quality and weak profit-generating capacity in a context of low interest rates and a flat yield curve, subdued growth and increasing regulatory requirements continue to feed market volatility, hold back the recovery of credit and delay the restructuring and consolidation of the sector. It remains to be seen whether the adopted NPL reduction measures – which all focus on voluntary, market-based mechanisms supported by steps taken to improve framework conditions (e.g. insolvency reforms) – will be effective in reducing the NPL stock and sufficient to alleviate current market tensions.

### **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).*

**Reforms in the area of competition did not progress so far in 2016.** The 2015 annual competition law<sup>45</sup> (*legge annuale per la concorrenza*) was passed by the Chamber of Deputies in October 2015, but is still being discussed in the Senate. Its adoption is expected for Q1 2017. The draft law envisages competition-enhancing interventions *inter alia* in the insurance, telecom, postal services, electricity and gas and fuel distribution sectors and for banks and pharmacies. However, the final text is expected to be less ambitious than the initial draft. In particular, market-opening measures on regulated professions and pharmacies has been significantly weakened, while new provisions strengthening regulation in the touristic sector are being discussed. Important sectors for which the competition authority had identified restrictions to competition<sup>46</sup> are not covered by the draft law (e.g. healthcare, taxis, airports, radio frequency allocation). The government announced that it would present a new annual competition law as soon as the current one is adopted, based on a new recommendation by the national competition authority.

<sup>43</sup> Decree Law 18/2016 of 14 February 2016, subsequently converted into Law 49/2016 of 8 April 2016

<sup>44</sup> [https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/circolari/c285/Circ\\_285\\_19\\_aggtto\\_Testo\\_aggiornamento.pdf](https://www.bancaditalia.it/compiti/vigilanza/normativa/archivio-norme/circolari/c285/Circ_285_19_aggtto_Testo_aggiornamento.pdf) (the implementing provisions were subject to a public consultation launched in July 2016:

<https://www.bancaditalia.it/compiti/vigilanza/normativa/consultazioni/2016/gruppo-bancario-cooperativo/index.html>)

<sup>45</sup> Atto Senato no. 2085

<sup>46</sup> Segnalazione AS1137 of the *Autorità Garante della Concorrenza e del Mercato* (AGCM)

**The implementation of the 2015-2017 Simplification Agenda is progressing according to schedule.** The coherent and time-bound framework for business environment simplification is implemented according to the timeline set, and progress reports<sup>47</sup> are available on a dedicated website<sup>48</sup>.

**Measures to boost innovation and investment have been proposed.** In 2016, the government refinanced and adjusted some of the following provisions already in place to support investment. The so-called *superammortamento* (Section 3.1), R&D tax credits, the *Nuova Sabatini* framework and the Central Guarantee Fund for SMEs are among the tools for which new resources have been made available in the draft 2017 Budget Law. A new provision (*iperammortamento*) is introduced to boost investment, but it is accompanied by a change in *ACE* which contradicts the goal of reducing firms' reliance on debt financing (Section 3.1). The government also presented a new plan (*Industria 4.0*) which includes measures to encourage innovative industrial investment, SMEs' equity financing, preferential treatments for innovative start-ups, and public resources for R&D in selected existing research centres and universities. The measures go in the right direction and their effectiveness needs to be monitored. A welcome reform of the public procurement code was adopted in April 2016.<sup>49</sup> Nevertheless, it seems to slow down public investment as the implementation of some guidelines are still missing: public administrations are reportedly waiting for the new code to be fully operational to resume investment.

**The government is also intervening 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; (ii) a reorganisation of public support. The *Piano Straordinario per il Made in Italy*<sup>50</sup> fund was increased from EUR 40 million in 2013 to EUR 385 million in 2017 (EUR 182 million already planned but not used from 2016 plus EUR 203 million newly financed for 2017). As part of the public administration reform (Section 3.5), a legislative decree for the reorganisation of the local chambers of commerce<sup>51</sup> has been adopted, clarifying their role in the process of internationalisation. 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 actual internationalisation process. This reform is very welcome given the existing overly complex structure.

**Overall, there are still important delays in opening markets to competition.** On the one hand, the 2015-2017 Simplification Agenda implementation is on track and new measures to boost investment and firms' internationalisation go in the right direction. On the other hand, no progress has been recorded to remove remaining barriers to competition in sheltered sectors.

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<sup>47</sup> The latest progress report is available at [http://www.italiasemplice.gov.it/media/2215/report\\_31agosto2015.pdf](http://www.italiasemplice.gov.it/media/2215/report_31agosto2015.pdf).

<sup>48</sup> <http://www.italiasemplice.gov.it/>

<sup>49</sup> Legislative Decree 50/2016 of 19 April 2016

<sup>50</sup> Decree Law 133/2014 of 11 September 2014, subsequently converted into Law 164/2014 of 11 November 2014

<sup>51</sup> Legislative Decree 219/2016 of 25 Novembre 2016



### 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 adoption of legislative decrees implementing the public administration reform<sup>52</sup> is broadly on track, but it is not clear yet how the government will address a recent constitutional court judgement.** In line with expectations, the government adopted the legislative decrees covering: i) the simplification of the decision-making process and of citizens' access to public administrations<sup>53</sup>; ii) state-owned enterprises (SOEs)<sup>54</sup>; iii) human resources (management level in the health sector<sup>55</sup> and disciplinary dismissal<sup>56</sup>). On 25 November 2016, the Constitutional Court stated<sup>57</sup> that the procedure followed for three legislative decrees already adopted (i.e. those regulating the management level in the health sector, disciplinary dismissals and SOEs) as well as for three legislative decrees not yet adopted (i.e. on local public services, public managers and public at non-managerial staff) was unconstitutional. Whereas the former three legislative decrees could be amended by a corrective decree (within 12 months given the adoption deadline), the deadline for adoption of the legislative decrees on local public services and public managers has already expired. The decree on non-managerial staff has not yet been published, so it will arguably follow the correct procedure. The government has not yet clarified how it will address the Constitutional Court judgement, especially for the two legislative decrees for which the delegation to the government has already expired.

**The implementation of the reform of public employment will be challenging.** Two current features of public employment illustrate the expected implementation challenges: i) the selection and recruitment of civil servants so far was more based on academic knowledge than skills; ii) a lack of a link between evaluation processes and promotion and salary progression. Moreover, non-managerial careers are kept on a different path than managerial ones, reducing career prospects and incentives for non-managers. The legislative decree for non-managerial staff is expected to be adopted in the first half of 2017.

**A new single framework is in place for the management and rationalisation of SOEs, but its implementation appears challenging.** Adopted in August 2016, the legislative decree<sup>58</sup> integrates the existing fragmented body of legislation, thereby providing for the needed clarification and streamlining. The new rules put SOEs on equal footing with private companies and introduce a number of criteria for the establishment, acquisition, and maintenance of 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)

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<sup>52</sup> Law 124/2015 of 7 August 2015

<sup>53</sup> 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

<sup>54</sup> Legislative Decree 175/2016 of 19 August 2016

<sup>55</sup> Legislative Decree 171/2016 of 4 August 2016

<sup>56</sup> Legislative Decree 116/2016 of 20 June 2016

<sup>57</sup> 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.

<sup>58</sup> Legislative Decree 175/2016 of 19 August 2016

add to the conditions for SOE ownership. Ex-ante and ex-post control mechanisms are strengthened and annual reviews in combination with sanctions are established. Compliance with the reform's provisions will be ensured by the Ministry of Economy and Finance, the Competition Authority and the Court of Auditors. Given the difficulties encountered by past reform attempts, implementation is expected to be challenging. Moreover, the legislative decree will also need to be amended in agreement with local administrations, which is likely to substantially change its contents. The reform's ambitious goals provide for an update of SOEs' by-laws by the end of 2016 and a first global review of SOEs by March 2017.

**In the field of civil justice, past reforms are only very slowly starting to influence disposition time, while new reforms to increase court specialisation, simplify procedures and contain litigation are still on hold.** In recent years, civil justice reforms have been numerous. In particular, digitalisation is now mandatory at all instances of civil trials<sup>59</sup> and is being extended to tax cases<sup>60</sup>. The “offices of the trial” supporting judges in case handling are now operational and being reinforced.<sup>61</sup> In May 2016, a reform of the honorary magistracy and justice of the peace was adopted<sup>62</sup>, providing for a major reorganisation of their appointment, function and career. In August 2016, the government passed a decree law<sup>63</sup> with measures to reduce the backlog of cases in the Supreme Court (*Corte di Cassazione*) and increase the efficiency of administrative courts, also through increased digitalisation. Moreover, the Ministry of Justice circulated among courts best practices to deal with cases pending for more than three years, in line with the ongoing implementation of the Barbutto plan to strengthen case management. Notwithstanding this reform effort, the latest CEPEJ data<sup>64</sup> show that the length of civil trials in Italy is still among the highest in the EU and decreasing only slowly. In this context, a draft enabling law<sup>65</sup> under discussion in the Parliament aims to further reform civil procedures. The new provisions would imply streamlined first- and second-instance procedures, stricter admissibility filter for appeals, stronger deterrence against vexatious litigations, broader competences for business courts, higher court specialisation in family law, and the possibility to reduce appeal courts by dividing them into thematically specialised sectors.

**The revision of the statute of limitations is still on hold and the national anti-corruption authority has limited capacity to exercise its increasing powers.** In Italy, the share of time-barred corruption cases, particularly against the public administration, remains worrying at all instances. This encourages litigation and tactics to delay rulings. A draft law<sup>66</sup> introducing a suspension of prescription terms for all criminal trials and a special extension for corruption offences has been discussed in Parliament for two years now. On corruption prevention, the monitoring powers of the national anti-corruption authority (ANAC) have recently been

<sup>59</sup> Decree Law 90/2014 of 24 June 2014, subsequently converted into Law 114/2014 of 11 August 2014 (on the digital civil trial); Decree Law 83/2015 of 27 June 2015, subsequently converted into Law 132/2015 of 6 August 2015 (on the functioning of the digital civil trial); Decree Law 168/2016 of 31 August 2016, subsequently converted into Law 197/2016 of 25 October 2016 (extending digitalisation also to pending cases for which appeals are filed as of 1 January 2017)

<sup>60</sup> Decreto del Direttore Generale delle Finanze of 4 August 2015; Decreto del Direttore Generale delle Finanze of 30 June 2016

<sup>61</sup> Ministry of Justice Decree of 1 October 2015

<sup>62</sup> Legislative Decree 92/2016 of 31 May 2016

<sup>63</sup> Decree Law 168/2016 of 31 August 2016, subsequently converted into Law 197/2016 of 25 October 2016

<sup>64</sup> <http://www.coe.int/t/dghl/cooperation/cepej/evaluation/2016/publication/CEPEJ%20Study%202023%20report%20EN%20web.pdf>

<sup>65</sup> Atto Senato no. 2284

<sup>66</sup> Atto Senato no. 1844, now discussed jointly with Atto Senato no. 2067

extended<sup>67</sup>, in particular to larger procurement contracts. However, this is not the case for contracts below EU thresholds and those (ambiguously) defined as “not particularly complex”. Moreover, the new powers are not matched by sufficient new human and financial resources.<sup>68</sup>

**Overall, the strengthening of the institutional capacity and of the civil justice system is ongoing, but the reform of the statute of limitations is still pending.** The implementation of the public administration reform is ongoing, but will face additional challenges following a Constitutional Court judgement at the end of November 2016. Different reforms of the civil judiciary have been passed or implemented, but a swift approval of the draft enabling law to reform the civil procedure would help given its strong focus on simplification and containing litigation. The long-overdue extension of Italy's prescription terms has still not been adopted yet.

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<sup>67</sup> Legislative Decree 50/2016 of 18 April 2016 (the so-called *Nuovo codice degli appalti pubblici*)

<sup>68</sup> *Nota di aggiornamento al piano di riordino dell'Autorità nazionale anticorruzione* (28 January 2016)

## Annex: Overview of MIP-relevant reforms

MIP objective: Achieving sound and growth-friendly public finances			
Public finances & taxation			
Fiscal policy & fiscal governance			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
-	<ul style="list-style-type: none"> <li>• <b>May 2016:</b> Legislative Decree 90/2016 better specified the content and function of expenditure programmes in the state budget.</li> <li>• <b>May 2016:</b> Legislative Decree 93/2016 introduced a reinforced cash budget principle to improve cashflow management and monitoring.</li> <li>• <b>August 2016:</b> Law 163/2016 reformed the Budget Law to integrate into a single act all revenue and expenditure allocations planned, together with the legislative acts needed to reach the budgetary targets. Together with the above-mentioned legislative decrees, this entailed the integration of spending reviews in the budgetary process</li> </ul>	<ul style="list-style-type: none"> <li>• <b>August 2016:</b> The obligation of purchasing specific goods and services through central procurement bodies was extended to local bodies, as required by Law 208/2015.</li> </ul>	<ul style="list-style-type: none"> <li>• CSR 1: “Finalise the reform of the budgetary process in the course of 2016 and ensure that the spending review is an integral part of it.”</li> </ul>
Long-term sustainability of public finances (including pensions)			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>• The draft 2017 Budget Law</li> </ul>	-	-	-

<p>envisages to partially reverse the 2012 “Fornero” pension reform, <i>inter alia</i> through provisions increasing minimum pensions and allowing earlier retirement for specific categories of employees. It also aims to abrogate some penalties introduced by the Fornero reform to offset the incentives for early retirement under the previous generous defined-benefit system.</p>			
<ul style="list-style-type: none"> <li>In 2017, the government intends to sell a further stake (around 30%) in the postal operator (<i>Poste Italiane</i>) and launch an initial public offering for the state-owned railway company (<i>Ferrovie dello Stato</i>).</li> </ul>	-	<ul style="list-style-type: none"> <li><b>July 2016:</b> The government sold a public stake in air traffic control company <i>ENAV</i> worth EUR 836 million.</li> </ul>	<ul style="list-style-type: none"> <li>CSR 1: “Ensure the timely implementation of the privatisation programme and use the windfall gains to accelerate the reduction of the general government debt ratio.”</li> </ul>
Fight against tax evasion, improve tax administration and tackle tax avoidance			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The draft 2017 Budget Law envisages a new tax on business income called <i>IRI</i> (24%) to harmonise the tax treatment of small firms and corporations.</li> <li>The draft 2017 Budget Law envisages to forego sanctions and fines related to unpaid taxes over the period 2000-2015 for taxpayers spontaneously regularising their tax position, and to introduce transparency provisions on the communication of invoices and</li> </ul>	<ul style="list-style-type: none"> <li><b>October 2016:</b> Decree Law 193/2016 extended the “voluntary disclosure” of assets held abroad until July 2017.</li> </ul>	-	<ul style="list-style-type: none"> <li>CSR 1: “Take measures to improve tax compliance, including through electronic invoicing and payments.”</li> </ul>

VAT data.			
<b>MIP objective: Ensuring efficient labour market functioning and fostering social inclusion</b>			
<b>Labour market, education &amp; social policies</b>			
Wages & wage-setting			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The draft 2017 Budget Law envisages to strengthen the tax rebates on productivity-related wage increases introduced in 2016.</li> </ul>	-	-	-
Active labour market policies			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The new agency in charge of active labour market policies (ANPAL) will launch outplacement vouchers (first on an experimental basis), to be given to unemployed people who can use them in private or public employment agencies.</li> </ul>	-	<ul style="list-style-type: none"> <li><b>July 2016:</b> The new agency in charge of active labour market policies (ANPAL) was set up.</li> </ul>	<ul style="list-style-type: none"> <li>CSR 4: “Implement the reform of active labour market policies, in particular by strengthening the effectiveness of employment services.”</li> </ul>
Incentives to work, job creation, labour market participation			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The draft 2017 Budget Law aims to introduce an additional day of paternal leave.</li> </ul>	-	-	<ul style="list-style-type: none"> <li>CSR 4: “Facilitate the take-up of work for second earners.”</li> </ul>

Poverty reduction & social inclusion			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>An enabling law aims to establish a single comprehensive scheme against poverty, replacing current instruments such as <i>SIA</i> and <i>ASDI</i> (unemployment assistance).</li> </ul>	-	<b>September 2016:</b> The active inclusion measure ( <i>SIA</i> ), which provides economic and social care to disadvantaged households, was rolled out at national level.	<ul style="list-style-type: none"> <li>CSR 4: “Adopt and implement the national antipoverty strategy and review and rationalise social spending.”</li> </ul>
MIP objective: Re-enabling the financial sector to support economic growth			
Financial sector			
Financial services			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>An enabling law for the overhaul of Italy’s insolvency framework, based on the recommendations of the “Rordorf” experts’ commission, is under discussion in the Parliament. It aims to streamline and simplify the different insolvency tools and increase specialisation in insolvency matters.</li> </ul>	<ul style="list-style-type: none"> <li><b>June 2016:</b> Law 119/2016 introduced further reforms of Italy’s insolvency and collateral enforcement frameworks. It <i>inter alia</i> authorised a form of private out-of-court enforcement of collateral, made it possible for entrepreneurs to pledge movable assets while continuing to use them, set up an electronic register for insolvency cases and made it possible to hold hearings in the context of insolvency proceedings electronically.</li> </ul>	<ul style="list-style-type: none"> <li><b>April 2016:</b> Law 49/2016 reduced the registration tax on property sales following enforcement proceedings.</li> <li><b>April &amp; August 2016:</b> Law 49/2016 created a non-performing loan securitisation scheme benefitting from state guarantees (<i>GACS</i>). A necessary implementing decree to make the scheme operational has been adopted in August 2016. Under the <i>GACS</i>, a bank (or group of banks) may voluntarily set up a securitisation vehicle that issues senior-, junior- and optionally also mezzanine-ranked notes to acquire bad loans (<i>sofferenze</i>) of that bank. A state guarantee is given on the senior notes if the latter carry an</li> </ul>	<ul style="list-style-type: none"> <li>CSR 3: “Accelerate the reduction in the stock of non-performing loans, including by further improving the framework for insolvency and debt collection.”</li> </ul>

		<p>investment-grade credit rating and at least 50% of the junior notes are sold to private investors. To be free of state aid, the state guarantee is remunerated at a market-conform fee. The latter rises over time to encourage the loans' swift work-out by independent NPL servicers. Banks can apply to the GACS until October 2017, but the authorities can extend this deadline by another 18 months.</p> <ul style="list-style-type: none"> <li>• <b>April 2016:</b> Italian financial-sector players pooled resources in two private backstop fund ("Atlante" I and II) to support banks in distress, either by supporting recapitalisations or by investing in non-senior tranches of non-performing loan securitisation vehicles.</li> <li>• <b>Spring 2016:</b> The Bank of Italy issued a more detailed reporting template requiring banks to provide more detailed data on their bad loans, collateral and ongoing recovery procedures.</li> <li>• <b>Summer 2016:</b> The Bank of Italy adopted new supervisory provisions on the valuation of property collateral as part of mortgage contracts.</li> </ul>	
-	<ul style="list-style-type: none"> <li>• <b>April 2016:</b> The self-reform of small cooperative banks (<i>banche di credito cooperativo</i> (BCCs)) was</li> </ul>	-	CSR 3: "Swiftly complete the implementation of ongoing corporate governance reforms in the banking

	<p>laid down in the law. The reform obliges BCCs to join a cooperative banking group (which can be provincial) in order to retain their BCC status. The holding of a group should be a joint-stock company, but will be majority-owned by its member BCCs. It will have the power to direct and coordinate member BCCs on the basis of “cohesion contracts” based on the risk profile of each individual bank. Holdings must have at least EUR 1 billion in capital (or EUR 250 million for a provincial group) and will have an institutional protection scheme.</p> <ul style="list-style-type: none"> <li>• <b>November 2016:</b> The Bank of Italy published provisions to enact the reform of small cooperative banks, thereby kicking off the 18-month implementation period.</li> </ul>		sector.”
<b>MIP objective: Improving the business environment and strengthening firms’ competitiveness</b>			
<b>Structural policies</b>			
Research & innovation			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>• The draft 2017 Budget Law envisages to extend until mid-2018 of the tax incentive related to the 140% <i>superammortamento</i> rate for investment in equipment, to introduce a new <i>iperammortamento</i></li> </ul>	-	-	-

rate of 250% to support investment in digitalisation, and to increase to 50% tax credits for new investment in R&D.			
Competition & regulatory framework			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The 2015 annual competition law is still under discussion in the Parliament. As soon as it will have been adopted, the government intends to present a new annual competition law.</li> </ul>	-	-	<ul style="list-style-type: none"> <li>CSR 5: “Swiftly adopt and implement the pending law on competition. Take further action to increase competition in regulated professions, the transport, health and retail sectors and the system of concessions.”</li> </ul>
Public administration & business environment			
Public administration			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
-	<ul style="list-style-type: none"> <li><b>April 2016:</b> A reform of the public procurement code was adopted.</li> </ul>	-	-
Public finances & taxation			
Reduce the debt bias			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The draft 2017 Budget Law envisages to reduce the notional return on new equity capital or reinvested earnings from 4.75% to</li> </ul>	-	-	-

2.3% and let it fluctuate subsequently.			
<b>Financial sector</b>			
Access to finance			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The draft 2017 Budget Law envisages to allocate new funds to guarantee (up to 80%) new loans to SMEs with a low-medium credit rating.</li> </ul>	-	-	-
<b>MIP objective: Strengthening the institutional capacity</b>			
<b>Public administration &amp; business environment</b>			
Public administration			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The remaining legislative decrees (e.g. on non-managerial staff at public administrations) under the enabling law for the reform of the public administration are expected to be adopted by the end of the first half of 2017.</li> </ul>	<ul style="list-style-type: none"> <li><b>May-September 2016:</b> Through various legal instruments (i.e. Presidential Decree 194/2016, Legislative Decree 179/2016, Legislative Decree 127/2016, Legislative Decree 126/2016 and Legislative Decree 97/2016), the government adopted measures to simplify the decision-making process and citizens' access to public administrations.</li> <li><b>June 2016:</b> Legislative Decree</li> </ul>	-	<ul style="list-style-type: none"> <li>CSR 2: "Implement the reform of the public administration by adopting and implementing all necessary legislative decrees, in particular those reforming publicly-owned enterprises, local public services and the management of human resources."</li> </ul>

	<p>116/2016 reformed rules on disciplinary dismissals in the public administration.</p> <ul style="list-style-type: none"> <li>• <b>August 2016:</b> Legislative Decree 175/2016 reformed the framework for state-owned enterprises (SOEs) by integrating the existing fragmented body of legislation, thereby providing for the needed clarification and streamlining. The new rules put SOEs on equal footing with private companies and introduce a number of criteria for the establishment, acquisition, and maintenance of SOEs by requiring a direct link with the authority's institutional goals or services of general interest. Also, financial criteria and business scope restrictions add to the conditions for SOE ownership. Ex-ante and ex-post control mechanisms are strengthened and annual reviews in combination with sanctions are established.</li> <li>• <b>August 2016:</b> Legislative Decrees 171/2016 reformed rules on management staff in the health sector.</li> <li>• <b>November 2016:</b> Legislative Decree 219/2016 reorganised the local chambers of commerce as part of a wider intervention to streamline the support for firms' internationalisation processes.</li> </ul>		
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Civil justice			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>The draft 2017 Budget Law envisages to allocate new funds to guarantee (up to 80%) new loans to SMEs with a low-medium credit rating.</li> <li>A draft enabling law 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.</li> </ul>	<ul style="list-style-type: none"> <li><b>May 2016:</b> Legislative Decree 92/2016 reformed the honorary magistracy and justice of the peace.</li> <li><b>August &amp; October 2016:</b> A decree made digitalisation mandatory for tax cases. Law 197/2016 extended digitalisation also to pending cases for which appeals are filed as of 1 January 2017.</li> <li><b>October 2016:</b> Law 197/2016 established measures to reduce the case backlog in the Supreme Court (<i>Corte di Cassazione</i>) and increase the efficiency of administrative courts, also through increased digitalisation.</li> </ul>	-	<ul style="list-style-type: none"> <li>CSR 2: “Reduce the length of civil justice proceedings by enforcing reforms and through effective case-management.”</li> </ul>
Shadow economy & corruption			
<i>Announced measures</i>	<i>Adopted measures</i>	<i>Implemented measures</i>	<i>Sources of commitment</i>
<ul style="list-style-type: none"> <li>A draft law introducing a suspension of prescription terms for all criminal trials and a special extension for corruption offences is still under parliamentary discussion.</li> </ul>	-	<ul style="list-style-type: none"> <li><b>April 2016:</b> Legislative Decree 50/2016 extended the anti-corruption authority’s (<i>ANAC</i>) monitoring powers, in particular to larger procurement contracts.</li> </ul>	<ul style="list-style-type: none"> <li>CSR 2: “Step up the fight against corruption including by revising the statute of limitations by the end of 2016.”</li> </ul>