Italy’s Strategy for Reforms

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Ministry of Economy and Finance, December 2017

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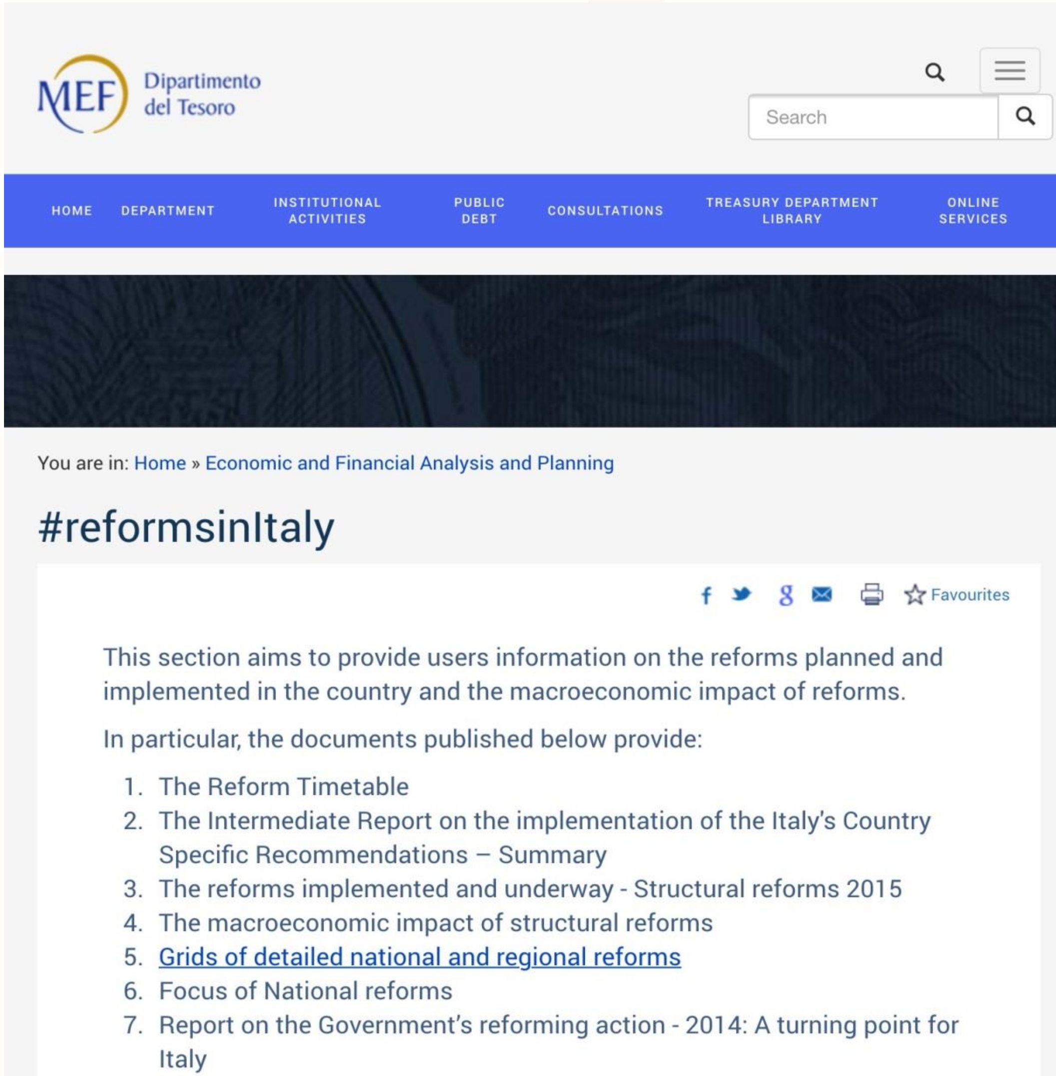
The Agenda and Timetable: #reformsinItaly



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This section aims to provide users information on the reforms planned and implemented in the country and the macroeconomic impact of reforms.

In particular, the documents published below provide:

1. The Reform Timetable
2. The Intermediate Report on the implementation of the Italy's Country Specific Recommendations – Summary
3. The reforms implemented and underway - Structural reforms 2015
4. The macroeconomic impact of structural reforms
5. Grids of detailed national and regional reforms
6. Focus of National reforms
7. Report on the Government's reforming action - 2014: A turning point for Italy

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A two-fold reform strategy to ensure growth

Excessive Macro Economic imbalances	Low productivity growth High public indebtedness
Instruments	Sound public finance Structural reforms
Positive exogenous factors	ECB decision to launch the QE programme Low Oil prices Confidence
Outcome	Growth

Italy's reforms: a recap of the past six years

- **2011-2012: Monti –** Major reforms in response to the crisis
- **2014-2016: Renzi –** A broad reform agenda
- **2017: Gentiloni** – Further progress in key areas (e.g. banking system)

Key reforms in the 2014-2017 period

- Labour
- Social inclusion
- Public sector
- Justice
- Education
- Banking system
- Insolvency procedures
- Taxation
- Competition
- Finance for growth, SME financing
- Industry 4.0
- Privatisation

Main structural reforms underway

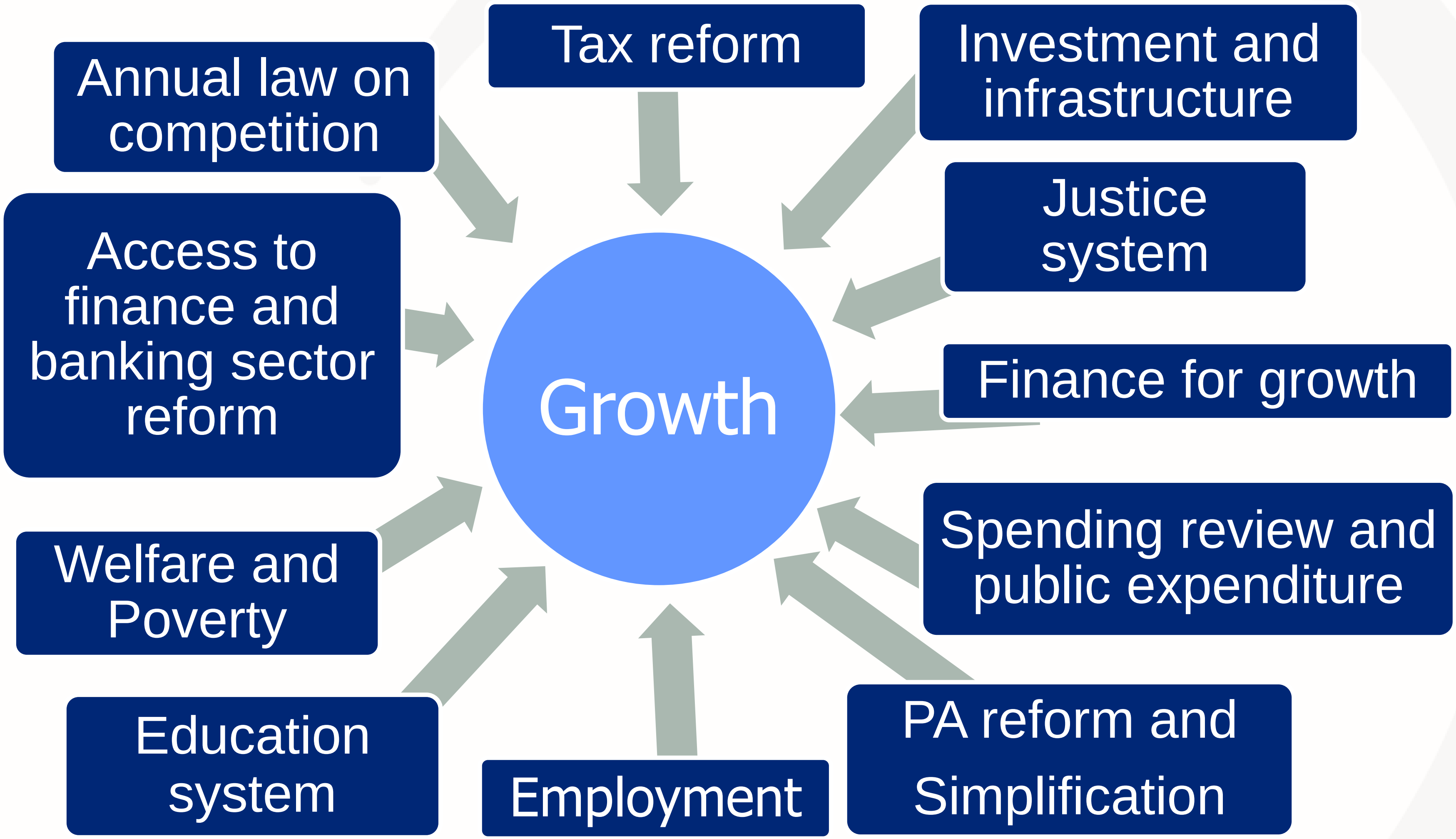
- **Finance for growth and investment framework:** measures to stimulate the digital and technological transformation of firms; fiscal incentives to favour investments;
- **Labour market reform:** further flexibility in hiring, labour law reshuffling and simplification;
- **Tax system:** reduction in the tax wedge, a more equitable, transparent, simplified and growth-oriented tax system;
- **Non-performing loans and bankruptcy:** State guarantee mechanism as part of securitization transactions whose underlying assets are banks' non-performing loans. Recent law decree to safeguard saving and intervene on banks' liquidity and assets.

Main structural reforms underway

2/2

- **Justice:** improve the efficiency of both civil and criminal trials, reform the insolvency framework, strengthen the development of the digital justice system;
- **Welfare and poverty**: many measures to fight poverty and social exclusion aiming at expanding the number of potential beneficiaries and redefining the economic benefit;
- **Spending review**: reduction of procurement costs, increasing efficiency and cutting unproductive public spending;
- **Public administration**: digitalisation and modernisation, open data, transparency, red tape reduction, fight against corruption.

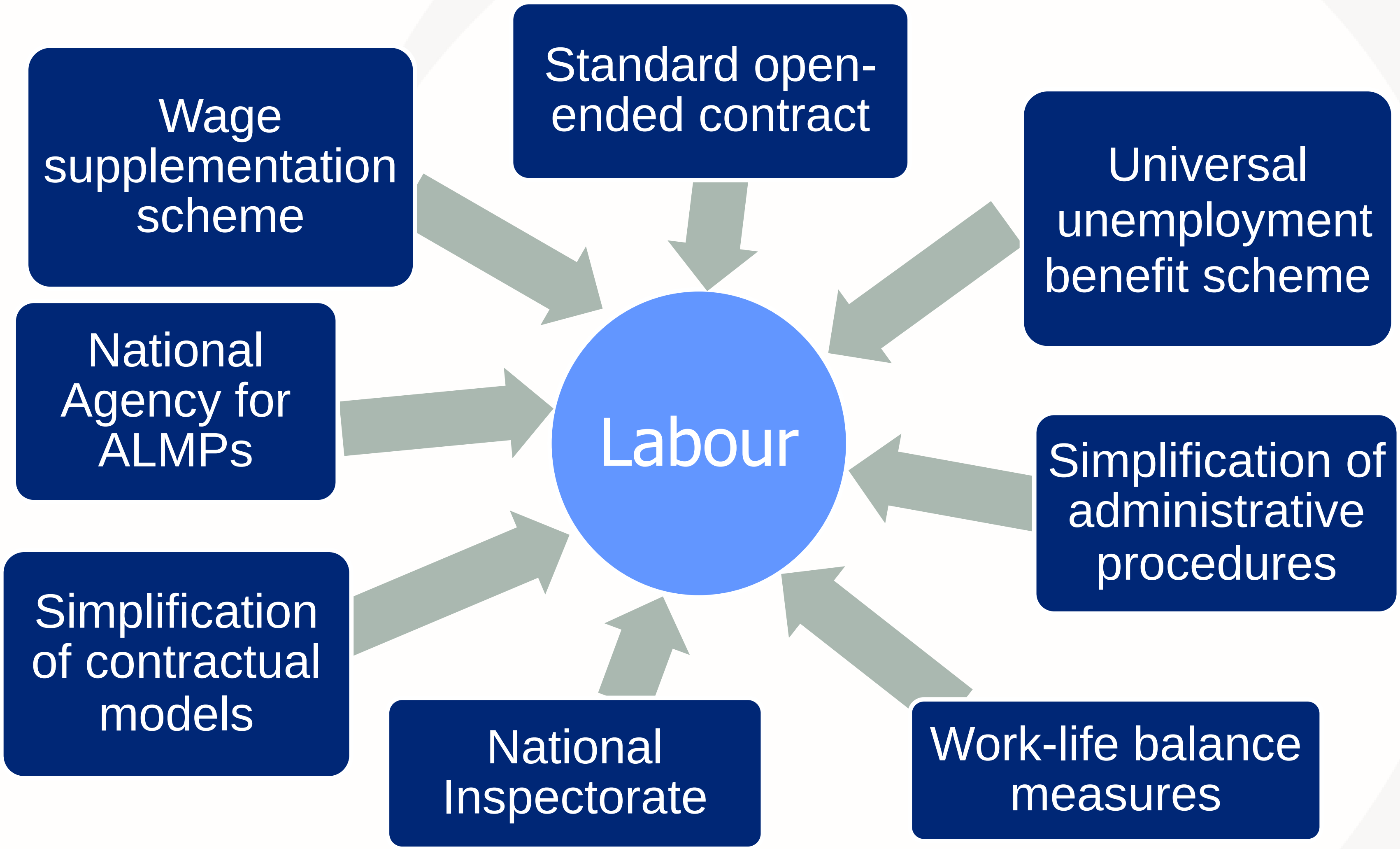
A comprehensive strategy toward economic growth



IMPACT FOR POLICY AREA *(percentage deviation of GDP from baseline scenario)*			
	T+5	**T+10**	**Long run**
Public Administration	**0.5**	**0.8**	**1.2**
Competitiveness	**0.2**	**0.5**	**1.0**
Labour Market	**0.6**	**0.9**	**1.3**
Justice	**0.1**	**0.2**	**0.9**
Education	**0.2**	**0.3**	**1.3**
NPL and insolvency proceedings	**0.1**	**0.1**	**0.1**
'Impresa 4,0' National Plan	**1.2**	**1.9**	**4.1**
of which: Innovative investments	0.6	0.7	1.1
Skills	0.1	0.3	1.1
Finance for growth	0.5	0.9	1.9
of which: Individual Saving Plans (PIR) and Investment Funds	0.3	0.5	0.9
Other interventions	0.2	0.4	1.0
TOTAL	**2.9**	**4.7**	**9.9**

Note: MEF estimates. The macroeconomic impact of structural reforms is carried out by focusing on a scenario where only the most recent reforms are considered, namely those eligible for the application of the structural reforms clause recently introduced by the European Commission (flexibility clause scenario, FCS).

Reforming the labour market



Jobs Act - New open-ended employment contract

- The reform introduced, from March 2015, a **new contractual form** for permanent employment characterized by:
  - Minimum protection floor: new contract ensures a stable level of protection and severance payment for the first two years, which subsequently increases with tenure;
  - Revised dismissal rules on an individual and collective basis. A reinforced, fast and more convenient arbitration procedure is introduced in order to reduce uncertainty and allow parties to reach out-of-court settlements;
  - Rules apply to all newly-hired workers on permanent basis and to small firms that increase their workforce.

Employment and Active Labour Market Policies

- Creation of the **National Agency for Active Labour Policies** (ANPAL) to coordinate the national network of employment services. Instruments of active labour market policies can be accessed through its website;
- Creation of a **national register of employment services**, both private and public, in charge of connecting jobseekers to employers through information, placement and active support;
- **Work-life balance measures**: more flexibility in using the parental leave extended to all types of workers;
- **Apprenticeship contracts streamlined** to reinforce the link between school and work;
- Implementation of the **Jobs Act for the self-employed** and regulation of ancillary work.

The new social safety nets 1/2

- Revision of public supporting schemes for temporary layoff workers. New rules for Cassa Integrazione Guadagni (**CIG**);
- The universal unemployment benefit scheme (**NASpI**) targets all employees working in the private sector (with the exception of agriculture) and it entered into force on 1th May 2015. From January 2017 NASpI replaces mobility allowance (‘Indennità di Mobilità’);
- The benefit is correlated to the average wage of the last 4 years and cannot exceed €1,300. From January 2017 the duration of the allowance is limited to 78 weeks;
- The provision of NASpI is conditional on participation to requalification measures proposed by employment services.

The new social safety nets 2/2

NASpI (since May 2015)

- Maximum duration: **24 months**
- Beneficiaries: all workers with at least 13 weeks of contribution in the previous 4 years;
- Benefit: 75% of the last monthly wage with capped at €1.300

ASDI (since May 2015)

- Maximum duration: **6 months**
- Beneficiaries: primarily workers of family units with minors, and then workers at an age close to retirement;
- Benefit: monthly compensation equivalent to 75% of the monthly NASpI benefit

New regulation for occasional work

- Work - **New vouchers for temporary work**, exempt from taxation and with no incidence on unemployment benefit eligibility. The amount cannot exceed:
  - ✓ € 5,000 for each worker with reference to all users/employers;
  - ✓ € 5,000 for each user, with reference to all workers;
  - ✓ € 2,500 for work supplied by each worker in favour of the same employer.
- **Families - A booklet of pre-paid work vouchers** (‘*Libretto di famiglia*’), available at INPS or post offices. It can be used for payment of occasional work and it defines the user’s limits of income, the occasional worker’s insurance cover and pension scheme, as well as exceptions to the use of the new tool.

Incentives to boost youth employment 1/2

- **Young Bonus:** incentives for employers who hire in 2017 a NEET with open ended or apprenticeship contracts (100% exemptions until € 8,060) and with fixed-term contracts (50% exemptions until € 4,030);
- **The draft 2018 Budget Law introduced a permanent 3-year 50% discount (until €3,000) on social security contributions concerning**:
  - young people under 30 (as long as they are not employed with an open ended contract);
  - only for 2018, young workers under 35 at the same conditions described above;
  - young people under 30 when a fixed-term contract is converted into an open ended contract;
  - the discount is reduced to 1 year for people under 30 in cases of continuation of an apprenticeship contract into an open-ended one.

Incentives to boost youth employment 2/2

- **3-year 100% discount** (for a maximum of €3,000 yearly) **concerning**:
  - graduated students under 30 having done with the same employer either their school-job transition program or apprenticeship (within 6 months from the diploma);
  - only for 1 year and for a maximum of € 8,060, young unemployed under 35 and elder people who do not work for at least 6 months in Southern regions;
  - farmers and professional workers in the agricultural sector under 40 who enroll for the first time in the social security agricultural system. The discount is reduced to 66% from the 4th year and to 50% for the 5th one.

Measures for social inclusion and welfare (1/2)

- Since the 1 December 2017 it is possible to fill the form to obtain the **Inclusion Income (REI)**, a single national measure to fight poverty and social exclusion that will enter into force in January 2018;
- A **gradual expansion of the number of potential beneficiaries and a redefinition of the economic benefit** (which is nonetheless conditioned upon participation in social inclusion projects) is planned in the 2018 draft Budget Law, as well as the re-ordering of assistance services and benefits to fight poverty, and the improvement of coordination of social services initiatives;
- It provides economic support accompanied by personalised services for social/work inclusion. It will replace the Support for Active Inclusion (SIA).

Measures for social inclusion and welfare (2/2)

- The REI is financed by the **National Fund for fighting poverty and social exclusion**, with an endowment of 1.7 billion from 2018 and further 2 billion from 2019; the draft 2018 Budget Law increases the endowment of the Fund;
- Priority will be given to families with minor and disabled children, pregnant women and unemployed over 55-years old. Other pre-requisites related to income are required;
- In the meantime, the **SIA,** operational at national level since Sept. 2016, has been modified but significative differences compared to REI remain;
- **Non-profit sector reform** approved in June 2017, to regulate the governance and the activities, as well as introducing tax breaks.

Reforming the education system

Education reform ('Buona scuola')

- New evaluation system for teachers rewarding merit
- National Plan for Digital School
- New parameters to assign resources from School Operation Fund
- New governance to enhance vocational education
- A three-year planning of financial and human resources for each school
- New procedures to hire school directors
- School Bonus
- School-Job transition (Apprenticeship)

Reforming education 1/2

- The ‘***Buona scuola***’ **reform aims** at improving school governance. It reinforces the tenured teaching staff in a permanent way, develops teachers’ competences through permanent formation, fosters digitalisation and strengthens the link between school and work. The Budget Law for 2017 provides additional resources to strengthen teaching staff and schools;
- The Plan provides for: a **three-year planning** of financial and human resources for each school; a new **evaluation system** for teachers with **careers** linked to performances; enhanced managerial role of **headmaster**.

Reforming education 2/2

8 new decrees - approved by the CoM in April 2017 to further implement the '*Buona Scuola*' reform – pertain to:

- initial training and access to teaching position in primary and secondary school;
- individual education programme for students with disabilities;
- review of vocational education pathways;
- national pre-school education (0-6 years);
- effectiveness of the right to education;
- promotion and dissemination of culture;
- evaluation and certification of students skills;
- Italian educational institutions and initiatives abroad.

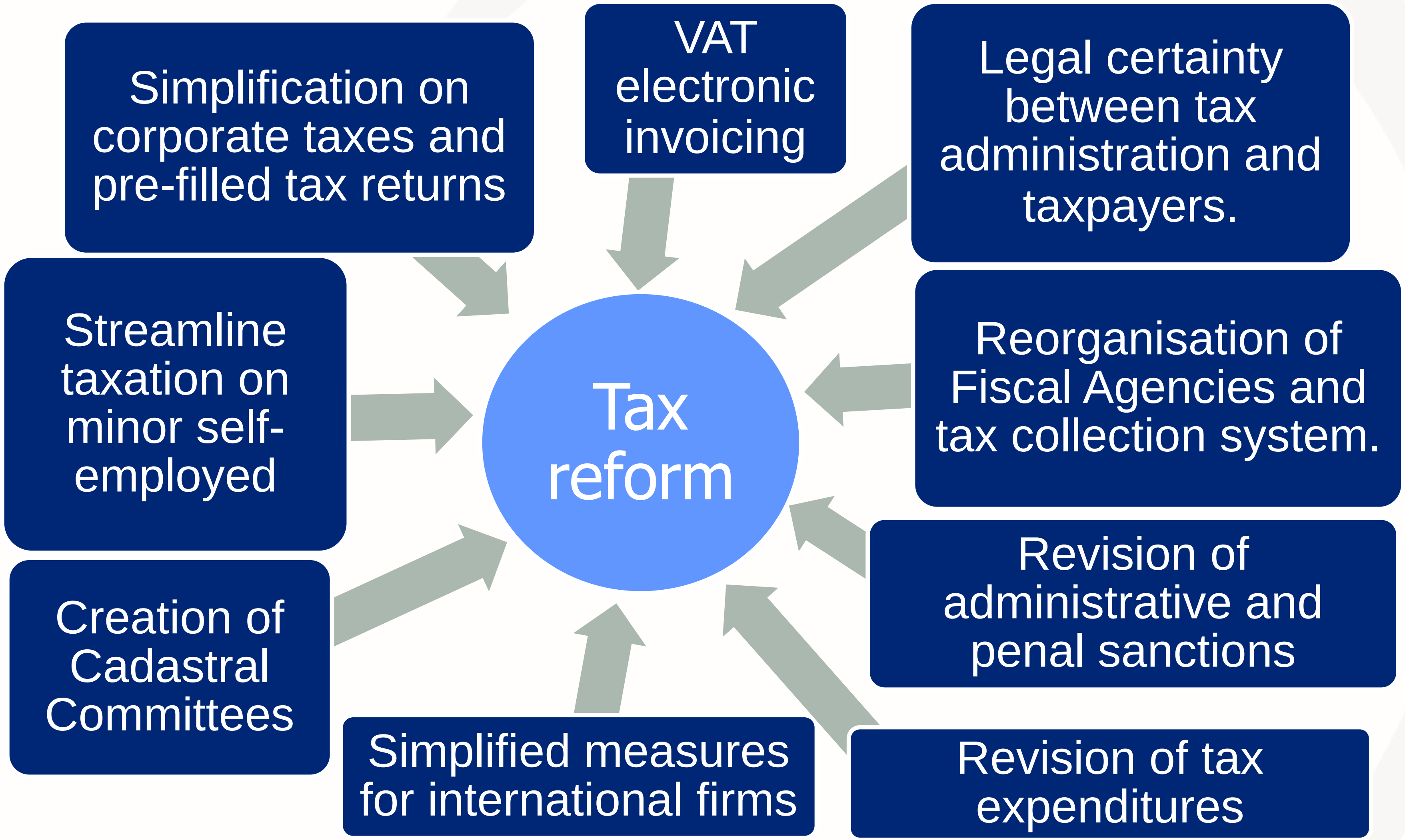
Innovative schools

- **National Plan for Digital School**: a comprehensive strategy made up of 3 areas - instruments, skills and training – 9 fields and 35 actions concerning ultra broad band infrastructures, new digital skills for students, online tools for education, promotion of Open Educational Resources (OER), work-school alternance in digital business, training for the school staff. A total of €1.2 billion has been earmarked;
- With the D.L. 50/2017, €64 million in 2017, €118 million in 2018, €80 million in 2019 and €44.1 million in 2020 have been allocated for the **financing of school construction projects;**
- The Decree also amended the provisions for **granting financial leeway to local entities for investments made in school construction projects**.

Innovative schools - First results for each area

- **Instruments**: 97% of schools have Internet connectivity and 54% are suitable for digital teaching; 78 territorial laboratory for employability, €58 million investment; 2.7 billion of student's cards with digital identity; 82% of schools use the electronic class register, 95% use electronic process for economic-financial management, 96% use digital instruments to communicate with families;
- **Skills**: the "Future computational thought" Programme has seen the participation of 5,856 schools as at May 2017 with 14 hours per student; €50 million (NOP Funds) for 2017-2018 to bring schools – businesses closer; 1,000 innovative libraries will be financed with up to €10,000 for each project;
- **Training**: 8,300 digital animators, 25,000 teachers (consisting of at least three people for each school, in support of the animators) who will makeup the 'team for innovation'.

Enabling law on tax reform



Fiscal reform 1/2

- Since 2014, thanks to the **enabling law on tax reform** realised **simplifications** related to tax repayment obligations, corporate tax obligations, as well as abrogation of unnecessary hurdles for firms and citizens. Introduced a pre-filled tax returns for permanent employees and pensioners;
- **Simplified measures for international firms.** The legislative decree is aimed to i) reduce administrative burden on international firms, by introducing a prior agreement with the Revenue Agency; and ii) create a stable taxation profile for new investment (over €30m) realized by international firms.

Fiscal reform 2/2

- **VAT electronic invoicing:** introduced (Lgs. D.127/2015) as compulsory between private and public administration (B2G) and optional within the private sector, with in order to strengthen the tax administration's ability to effectively prevent and counter tax evasion and VAT fraud;
- The draft 2018 Budget Law extends the **electronic invoicing** obligation **to B2B** transactions and to transactions with final consumers (B2C) starting from 1 January 2019 (in 2018 for the oil sector and public procurement);
- The Revenue Agency has made available free of charge the software for the use the Interchange System, which ensure the interoperability with the different e-invoicing systems.

Fiscal measures in the Decree Law 50/2017

- Mechanism of **reinforced cooperation** between Italian fiscal authorities and non-resident businesses belonging to multinationals with consolidated revenues of more than €1 billion and selling goods or services in Italy for an amount exceeding €50 million (so called **transitory web tax**);
- **Flat tax rate of 21%** on income from short term rental agreements;
- Measures to **reduce tax litigation**;
- Reduction of the **VAT hike** scheduled for 2018;
- Extension, as from 1 July 2017, of the **split payment system** to all the public authorities, to SOEs, as well as to a group of companies that are deemed to be particularly reliable, listed on the stock exchange and included in the FTSE MIB.

Fiscal measures in the Decree Law 148/2017

- The Decree **further extended the 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;
- It also extended the possibility for taxpayers to avoid sanctions by spontaneously regularizing their past tax positions ("***rottamazione delle cartelle esattoriali***")

Budget Laws 2017 and 2018 1/3

- **Review of ACE** (Allowance for Corporate Equity) and repealing of super ACE for listed companies in order to make ACE coherent with the present financial market conditions;
- The tax on business income called **IRI** (set at 24%) has been postponed to 2019, to reconsider this preferential regime in line with possible changes to the PIT system, with the aim of providing an integrated and coordinated system;
- Corporate taxation (**IRES**) reduced at 24%;
- **Abolition of the IRPEF in the agricultural sector**: dominical and farm incomes no more contributing to the IRPEF taxable income of farmers;
- Fiscal incentives to **favour the return of researchers** from abroad have been made structural.

Budget Laws 2017 and 2018 2/3

- Simplification of the accounting system of individual and partnership companies by introducing the **cash criterion** - instead of the accrual criterion - to determine income and net production;
- Extension to July 2017 of the **voluntary disclosure** of income and assets held abroad. It has been further modified by the Decree Law 50/2017;
- The new measures to fight tax evasion adds to the good results obtained in the last years (+240% increase in collection in 10 years);
- Extension to July 2017 of the **voluntary disclosure** of income and assets held abroad. It has been further modified by the Decree Law 50/2017.

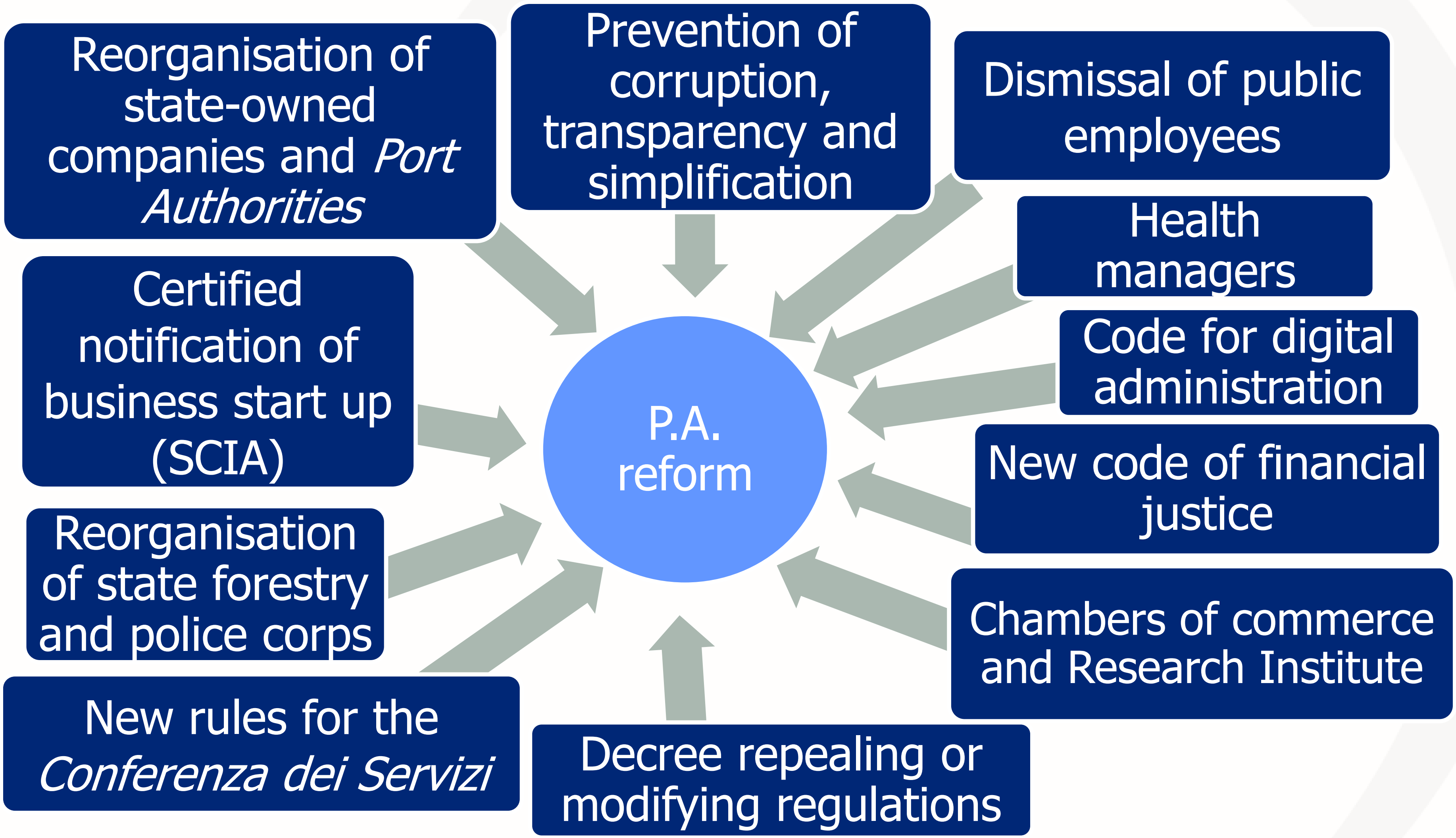
Budget Laws 2017 and 2018 3/3

- Measures to reduce tax fraud in the draft 2018 budget Law:
  - 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;
  - a new system of preventive fulfilment of tax obligations in the case of intra-EU transactions in mineral oils introduced in a tax warehouse;
- The new measures to fight tax evasion adds to the good results obtained in the last years (+240% increase in collection in 10 years).

Revision of tax expenditures - state of play

- Since 2016, the **annual tax expenditures report** is attached to the Budget Law, while a programming report is attached to the EFD. Revenue effects and the number of beneficiaries are estimated on the basis of the Current Tax Law Benchmark methodology;
- Allowances which can be considered as part of the tax structure are not included, such as PIT spouse tax credit, ACE allowances, VAT reduced rates, SSC deductions;
- Tax expenditures are **classified by mission**, to make them comparable with the State Budget and with Government programs of expenditure concerning the same purposes;
- Tax typology: **65.5%** of total costs concern **PIT**;
- Allowance typology: **27%** of total costs concern **tax credit**.

Enabling law reforming Public Administration



Reforming Public Administration

- **23 legislative decrees definitively approved and gone into effects** as part of the implementation of the law to reform the PA. Last approved decrees concern the reform of the public-sector employment, provisions for performance measurement and evaluation, job dismissal, redeployment of the duties of firefighters, the rolls of the four police forces, healthcare managers, ancillary work for public employment. 3 decrees containing corrective provisions for Forest Rangers, Digital Administration Code and Port Authorities definitively approved in December;
- Due to a Court's ruling, the decrees about **local public services and SOEs** required some corrective provisions;
- For SOEs a corrective decree was approved in June 2017, while for local public services some measures were included in other legislative provisions.

Reforming SOEs

- On 10 Nov. 2017, the **extraordinary recognition** of PAs shareholdings concluded. Data were communicated by the dedicated Portal of shareholdings of the MEF – Department of Treasury, which is in charge for orienting, controlling and monitoring the whole process;
- **83% of PAs responded** to the questionnaire and sent a rationalisation plan. Among the non-respondents, minor municipalities (less than 5,000 inhabitants) which are deemed not having a significant amount of shareholdings;
- Direct participation emerged for 4,701 companies. Preliminary analysis highlighted that **1/3 of the companies will be involved in the reform process**;
- According to the **timeline**, by 1 year from the end of the review the PAs divest the shareholdings identified as not strategic in their rationalization plan; by the end of 2018 the PAs review draw up the periodic rationalisation plan.

Reforming Local Public Services

- The draft legislative decree on local public services was withdrawn following the **Constitutional Court's ruling**, which declared the adoption process unconstitutional and required to achieve the agreement with the conference of the regions;
- The draft decree required the competent authorities to award the related contract through an **open tender process**. If the competent authority assign the service directly to the in-house company, it is required to demonstrate that the relative decision is not unfavorable for citizens in terms of quality and prices of the service. Public company costs: not less efficient costs than the average cost level offered by the market must also be guaranteed;
- The part of the decree concerning **local public transport** regulation was transferred into the text of decree 50/2017 approved by the Government in April 2017.

Reforming Local Public Transport

- The D.L. 50/2017 provides some **general rules concerning competition in the local transport sector**. Different functions of regulation, organisation and control must be separated from the management activities;
- The decree requires competent authorities to plan the service according to **efficiency criteria**, with the objective of reducing costs and increasing quality;
- The **Fund for transport** will be distributed among Regions on the basis of standard costs and other efficiency criteria which reward good management and increased competition;
- **Financial penalties** are applied to Regions that award contracts directly, without a public tender;
- To favour the quality improvement, the Government has already allocated to Regions €784 million for the purchase and renewal of passenger transport vehicles and €1,440 million for rolling stock.

Reforming Public Procurement 1/2

- By the delegated law no.16/2016 the Government was entrusted to harmonise the domestic legislation with the European criteria on **reviewing public procurement procedures as well as reforming the unified Code of public procurement;**
- The Code of Public Procurement has been streamlined. Following the public consultation, 8 guidelines have been issued by the ANAC. Also MIT guidelines on European Document for tender (DGUE) and parameters to be used as baseline in tenders for planning designs have been published;
- The central role of guidance and supervision assigned to the **Anticorruption National Authority** (ANAC) has been strengthened by the D.L. 50/2017.

Reforming Public Procurement 2/2

- **The D.L. 50/2017 amended the Public Procurement Code** with regard to pre-dispute opinions, thus authorizing ANAC to take legal action for challenging the tenders, other general acts and orders related to significant-impact contracts of any contracting authority, whenever it deems that procedures violate the laws and regulations governing public contracts;
- The new public procurement rules have been firstly applied by the Ministry of Infrastructure for some procedures notified to the European Commission regarding the extension of the duration of concession contracts in the motorways sector.

Simplification of bureaucracy

- The **2015-2017 Simplification Agenda** focuses on 5 strategic areas: digital citizenship, welfare and health, taxation, construction and business;
- According to the 5th **monitoring report** (May 2017), 95% of the deadlines set in the Agenda were respected;
- The **electronic invoicing** for all the PA entities is fully operational. The social security compliance certificate (**DURC**) is on line starting from July 2015;
- The **digital citizenship** has been fostered;
- A new package of **single, standard and simplified forms** for construction and commercial activities was approved on July 2017 by the Unified Conference of Services.

Civil and criminal justice reform

Justice reform

- Digital fiscal trial
- ADR mechanisms to reduce backlog and new cases
- Integrated digital system for civil cases
- Reform of honorary magistrates and judges of peace
- Law for fighting corruption in the P.A.
- Discipline of false accounting
- Draft law: dedicated Courts for firms and families
- Draft law on assets sequestered to organised crime
- Law to modify the statute of limitations

Reforming justice

- Approval of the enabling law on the **criminal justice and the statute of limitations**;
- To implement the enabling law, 4 decrees have been preliminarily approved;
- Completion of the reform of **honorary magistrates and judges of the peace;**
- **Civil justice reforming action -** pending before the Senate - aiming at: i) consolidate the specialisation of firms' courts; ii) strengthen the protection of individual rights, children and families; iii) ensure greater rapidity in the judgment, by revising the different phases of proceeding.

Reducing judicial backlog

- the enabling law about **corporate crisis and insolvency procedures** has been approved. It aims to streamline and simplify the different insolvency tools and increase specialisation in insolvency matters;
- a draft law about the **extraordinary administration of big insolvent firms** is being considered by the Parliament;
- To tackle the efficiency gaps an **integrated digital system for civil cases** was introduced. Estimated savings for €48mn and 50% in time reduction for injunctions;
- In the 2nd quarter of 2017, pending civil cases decreased by 1.1% relative to the same period of 2016.

Fiscal trial

- From July 2017, the **Digital fiscal trial** is operative in the whole Country;
- The official website of the **Tax Justice Administration** (www.giustiziatributaria.gov.it) has been created. It allows for the electronic filing of documents and court records. In addition, tax courts, taxpayers, professionals and tax authorities, previously authorised, will consult from home or from their offices the case files;
- A broader application of **mediation** has been planned with the D.L.50/2017;
- Until June 2017, pending cases have been reduced by 12.8% compared to the same period of 2016.

Measures for competition 1/3

- The **annual draft law on competition** has been definitively approved in August 2017. The main measures:

Insurance

- Insurance companies shall apply a "**significant discount**" to customers who accept anti-fraud clauses (e.g. the installation of the so called "black box").
- The **interoperability** and **portability** of the black boxes shall be allowed in order to facilitate demand switching (to a different insurance company).
- Definition of a single national scheme to quantify the damages from **macro-injuries**

Telecommunication

- Maximum term of **24 months for promotions** and **exit costs** verified by the regulator (Agcom)
- "**Symmetry**" between the conditions of subscription and termination of contracts Obligation to maintain an **online channel** available for termination of contracts.
- **Online switching** made possible
- **Digital payments** for cultural initiatives charged to the telecom bill.

Energy

- **Full liberalization**, through the phase-out of regulated tariffs in 2019
- **Price-comparison website** will be set up and maintained by the regulator (Agcom).
- Tender procedures for **Gas distribution** will be accelerated.
- **Motor fuels:** the conditions under which the opening of new fuel stations may be subject to "third fuel" obligations will be regulated.

Source: Ministry for Economic Development.

Measures for competition 2/3

Banking and Postal Services

- Greater comparability between services and price offered by banks through a dedicated web site.
- Mortgage ancillary contracts offered by the bank can be replaced with those freely chosen by the clients under equivalence of conditions.
- the legal monopoly of Poste Italiane for the delivery of court documents and penalty notifications is terminated

Legal professions

- Non-professional shareholders will be allowed in law-firms, up to 1/3 of the voting capital.
- Obligation to give a quote in advance
- **Notaries**: number increased and scope of operation extended to the regional level.

Pharmacies and transports

- **Non-pharmacist shareholders** are allowed in the capital of pharmacies.
- **A 20% cap to the regional market share** substituted the previous 4-pharmacy cap
- **Pharmacy opening hours** are fully liberalized.
- **Taxi services**: the Government is delegated to review of the 1992 law under the goals of promoting competition and preventing abuses

Source: Ministry for Economic Development.

Measures for competition 3/3

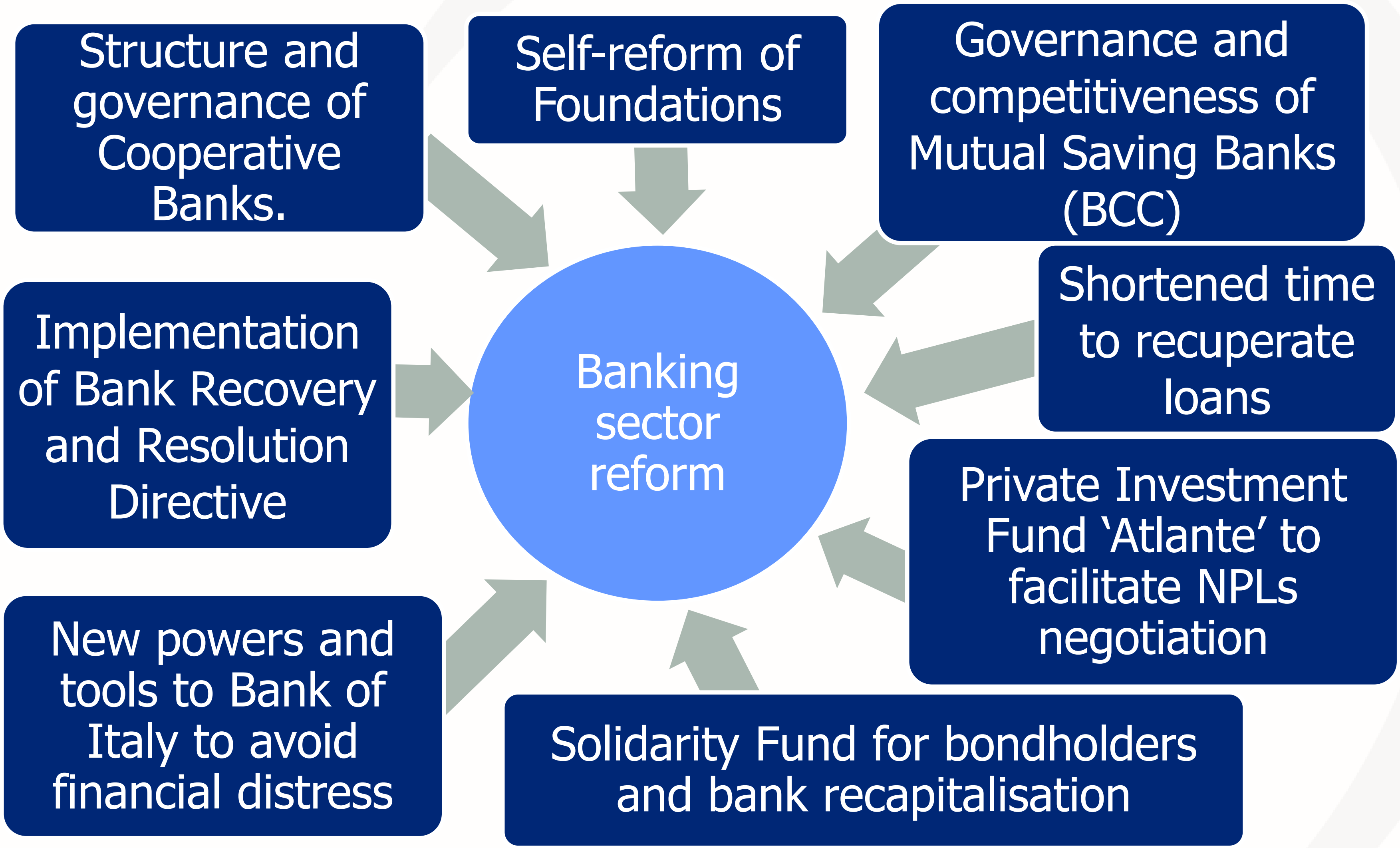
Competition law - Implementation timetable

	2017		2018					
	Nov	Dec	Jan	Feb	Mar	Apr	May	Sep
Insurance								
- MD* on discounts for installation of car black box	■							
Telecommunication								
- Regulation for the registry of customer opposition to marketing		■						
- MD for client ID identification to facilitate demand mobility				■				
Energy								
- MD List of providers		■						
- MD Bonus for low income				■				
- MD Phasing out of electricity and gas retail price regulation						■		
Banking								
- MD Common standards for comparability of online accounts				■				
Transportation								
- Enabling legislation for taxis and car services								■

* MD = Ministerial Decree, secondary legislation

Source: Ministry for Economic Development.

Banking sector reform



The reform of the banking sector

Major reforms were introduced in the past two years with the aim of making the Italian banking system more efficient and resilient.

Governance (to promote efficiency and recapitalisation):

- reform of mutual banks
- reform of cooperative credit banks
- self-reform of banking foundations

NPLs and insolvency procedures (to address deterioration of asset quality):

- State guarantees (GACS) on the securitisation of non-performing loans
- Streamlining of insolvency procedures
- Reduction of credit recovery time
- Reform of bankruptcy Law (ongoing)

Recent measures in support of the banking system 1/3

- **Law 15/2017**: Establishes budgetary allocation of up to €20bn for recapitalisation and provision of guarantees to banks. Sets rules for compensation of retail investors in subordinated bonds;
- **Law Decree n.99/2017**: Consistent with Bank of Italy's Insolvency Law, Veneto Banca and Popolare Vicenza are subject to a 'Compulsory Administrative Liquidation.' Deposits and performing assets are sold to Banca Intesa via a competitive procedure. The residual entities are left with around €10bn of NPLs (at book value) and €6.4bn of liabilities. Intesa will cover their funding gap with a government-guaranteed credit line. NPLs will be managed by state-owned SGA.

Recent measures in support of the banking system 2/3

- **Precautionary recapitalisation of Banca Monte Paschi di Siena**: On 5 July BMPS announced a 2017-2021 restructuring plan approved by the EC and the ECB. The bank will sell €28.6bn of bad loans, €26.1bn of which via a dedicated securitisation, with Atlante II acquiring the junior and mezzanine bonds. It raises €8.1bn of capital via a precautionary recapitalisation, with the government injecting €3.9bn and burden-sharing contributing €4.3bn.

Recent measures in support of the banking system 3/3

- In September, The Ministry of Finance extended by one year the aid-free State guarantee scheme for NPL securitisations (GACS) and launched for public consultation a draft decree law on fit and proper provisions for bank managers. Moreover, 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;
- In October, 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.

Compulsory liquidation of Veneto banks 1/2

- At end-2016, the two banks combined had assets of €62.5bn, 10,404 staff and 920 branches in Italy, with NPL ratios of 38.7% (VB) and 35.8% (BPVi). The Atlante I fund injected €3.459bn into the two banks betwen May 2016 and Jan 2017;
- Following a competitive selection process, on 25 June Banca Intesa acquired for a token price of €1 the branches and selected assets and liabilities of VB and BPVi, including €26.1bn of performing loans, €8.9bn of financial assets, €1.9bn of tax assets; €25.8bn of customer deposits, €11.8bn of senior bonds;
- Intesa received €4.785bn for the transaction, of which 3.5bn to preserve its capital ratio and €1.285bn for restructuring costs, (reduction of 3,874 staff and 600 branches by June 2019).

Compulsory liquidation of Veneto banks 2/2

- The government will guarantee up to €6.351bn to cover the funding gap of assets and liabilities in the liquidation and €4.035bn of high-risk performing loans acquired by Intesa;
- The government will also guarantee up to €0.491bn on ongoing legal disputes and €1.5bn for legal risks and misrepresentation of transferred assets;
- The NPLs transferred to SGA have a gross value of €17.5bn, of which bad loans are €8.9bn, nonperforming exposures €8.4bn and past due €0.2bn. The net value of the book is €9.6bn;
- Based on historical credit recovery values, the NPL portfolio may ultimately yield €9,9bn including the value of a foreign subsidiary.

Precautionary recapitalisation of Monte dei Paschi 1/2

- On 4 July 2017 the European Commission approved a €8.1bn recapitalisation of BMPS;
- The government injected €3.9bn of capital, the balance was provided by burden sharing;
- As per Law Decree n.237, retail bondholders are provided relief through a scheme that will allow them the resell their shares in BMPS to the government. If all rights are exercised, the government will inject a further €1.5bn and end up holding 70% of ordinary shares in BMPS;
- A €26.1bn portfolio of bad loans will be transferred to an SPV and securitized. On 26 June 2017, the Atlante II fund agreed to purchase 95% of the junior and mezzanine tranches. Senior bonds will be backed by GACS.

Precautionary recapitalisation of Monte Paschi 2/2

- The portfolio is sold at 21% of GBV, or €5.5bn. Its book value was €9.4bn on 31/12/2016;
- In all, BMPS will dispose of €28.6bn of bad loans. Its NPE ratio will fall from 34.5% at end-2016 to 14.3 by 2019 and 12.9 by 2021;
- The CET1 ratio will rise from 8.2% in 2016 to 12.7% in 2019 and 14.7% in 2021;
- BMPS will cut 5,501 jobs by 2021, from an end-2016 level of 25,566 employees;
- The cost/income ratio will fall from 61.2% in 2016 to 50.6% in 2021;
- Net earnings should swing from -3.2bn in 2016 to €0.6bn in 2019 and €1.2bn in 2021.

Limited impact on the public finances

millions of euros	Veneto Banks	Monte Paschi	Total
Capital contribution[1]	4785	5400	10185
Fair value of guarantees[2]	400		400
memo items:			
Guarantees[3]	12351		12351
GACS[4]		3256	3256

1 Capital injection into Monte Pachi assumes that all conversion rights of retail bondholders will be exercised

2 Fair value of guarantees provided for the liquidation of Veneto Banks

3 Maximum level of guarantees provided for the compulsory liquidation of Veneto Banks

4 Amount of Senior A1 notes in Monte Paschi's NPL securitisation covered by the state guarantee scheme

- Capital contribution, €10.2bn, will be recorded as government debt. Amount is in line with estimate used in Stability Program (0.6% of GDP) to project 2017 debt/GDP ratio;
- Fair value of guarantees for the liquidation of Veneto banks will be recorded as deficit;
- The securitisation of Monte Paschi NPLs will involve the use of GACS for the senior tranche;
- The total amount of guarantees provided in the two operations is thus €15.5bn.

Banking sector: NPLs and bankruptcy

- Law Decree 59/2016 aims at speeding up the recovery of banks by **shortening time to recuperate loans**, cutting times from 40 to 6-8 months;
- A '**Non-possessory pledge**' can be obtained as security for loans by banks and financial intermediaries over an identifiable non-real estate asset of the debtor, without requiring the dispossession. The pledge must be registered in an ad hoc register hold by the Tax Authority. The registration has a ten-years renewable validity;
- Moreover, a **real estate asset** can be given as security for the loan by the borrower **with a financing contract (Patto Marciano).** Appropriation of the property by the lender requires a default of payment by the borrower for more than six months.

Finance for Growth

ACE

Tax credit for firms investing in R&D

Tax credit for additional investment in the Mezzogiorno

140% Super-amortisation

Finance for Growth

Direct lending for funds and insurance companies

New 'Sabatini Law' and 15% tax credit on new investment

Patent box

Public-private fund for the recapitalisation of businesses

Simplification for innovative start-ups and SMEs

Mini-bond and Simplified rules for SMEs listing

Voucher for internationali-sation of SMEs

'*Industria* 4.0' Plan

Impresa 4.0 National Plan 1/2

The Plan provides credit to firms (including start-ups and innovative firms) to improve their competitiveness and strengthen their size.

INNOVATIVE INVESTMENTS	SKILLS	ENABLING INFRASTRUCTURE	PUBLIC SUPPORT INSTRUMENTS
2017 - 2020 objectives			
+10€B private investments increae from 80 to 90 €B in '17-'18	**200,000** academic students qualified on I4.0 topics	**100%** of Italian companies with access to **30** Mbps connectivity within 2020	**+1 €B** Reform and refinancing of Guarantee Fund
+11.3€B R&D private expenditure over the '17-'20 period	**+100%** students attending "Istituti Tecnici Superiori" on I4.0 topics	**50%** of Italian companies with access to **100** Mbps connectivity within 2020	**+1 €B** Development Contracts focused on large I4.0 investments
+2,6 €B volume of early stage investments mobilized over the '17-'20 period	**Competence Center and DIH** focused on solution-driven tech-transfer, training and	**6 consortia** on IoT standards, with the involvement of Italian players	**+0.1 €B** Strong investment on digital sales chains (Made in Italy plan)
	National Skill Strategy		Strengthening of productivity-salary taxation exchange

Source: Ministry for Economic Development

Impresa 4.0 National Plan 2/2

Some of the measures already implemented in the Budget Law for 2017 are:

- the **super amortization** and **hyper-amortization** (see next slides);
- strengthening of **R&D tax credit**;
- refinancing of the **Guarantee Fund for SMEs** with a focus on I4.0 investments for €1 billion;
- reinforcement of development contracts - facilitations for large-sized innovative and strategic investments - through faster procedures and a greater participation of the Regions.

Measures in the Budget Laws for 2017 and 2018 1/2

- Individual Saving Plans (**PIR**): tax exemption for retail investors on capital gains associated to long term investments, subject to certain conditions. According to the draft 2018 Budget Law PIR funds can invest in real estate;
- Revised tax regime for corporate groups (***IVA di gruppo***);
- Renewal to 2023 of the '***Nuova Sabatini***' to finance investments in new equipment and digital manufacture. 30% of the Fund will be earmarked for *Industria* 4.0 investments;
- Refinancing of the **Plan to promote Made in Italy** in order to promote internationalisation efforts of SMEs;
- A 50% tax credit has been introduced for **SMEs**, for expenditures incurred for professional advice in the process of listing on regulated markets, until end 2020 and up to a maximum of €500,000.

Measures in the Budget Laws for 2017 and 2018 2/2

- The **super-amortization** is extended to 2018. It consists of a 30% tax bonus (instead of the previous 40%) for investments in new instrumental goods (excluding motor vehicles);
- The Budget Law also provides for the extension to 2018 of the **iper-amortization**, consisting in a 150% bonus for new instrumental material assets with a high technology content aiming at transformation in line with Industry 4.0. Iper-amortization beneficiaries can also benefit from a 40% tax bonus for instrumental intangible assets (software). The extension is also to 2019 provided that the asset is commissioned within 2018 with a 20% deposit;
- **Other fiscal measures** already considered (IRI, ACE, etc.).

The use of European Funds for investments

- The **European Fund for Strategic Investments** (EFSI) will consist of €16bn in guarantees from the EU budget and €5b from the European Investment Bank. Italy's contribution to EFSI-supported projects amounts to €8bn (via CDP being the national promotional bank);
- As of November 2017, operations approved in Italy under the EFSI now represent a total financing volume of €6.5 billion, in relation to which €36.7 billion of expected investment are linked.
  - For infrastructure and innovation projects, the 52 approved projects amount to €4.6 billion financing, which are expected to trigger €14.5 billion in investments.
  - For SMEs, the European Investment Fund approved 57 agreements with financial intermediaries (banks, funds, etc). The financing totals €1.9 billion and is expected to trigger €22.3 billion in investments.

For details see: https://ec.europa.eu/commission/publications/country-factsheets-investment-plan-state-play_en

Public investment

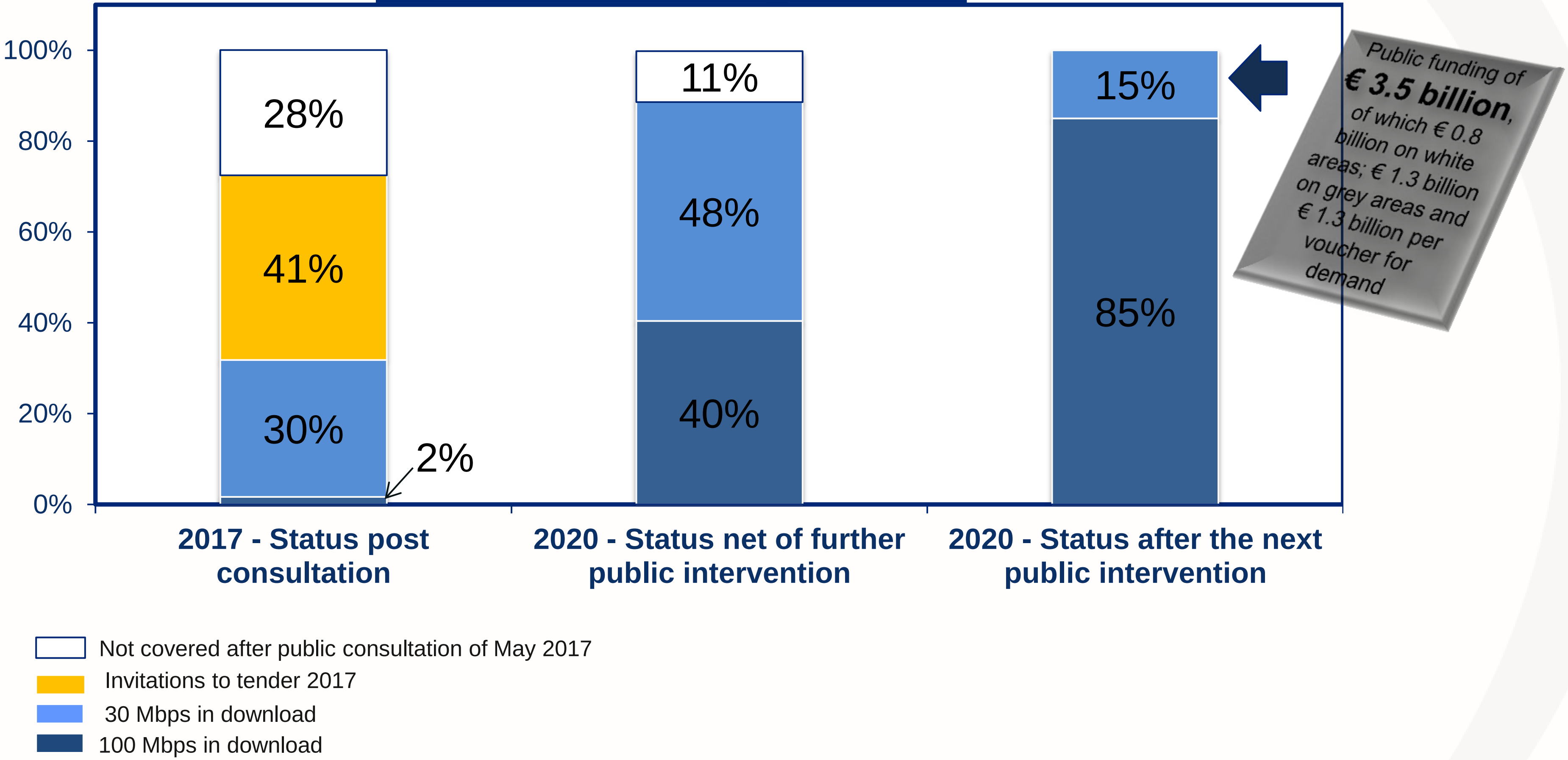
- To support the development of the country's infrastructure and create a further impetus to economic recovery, the government has allocated the **Investments Fund**. It has been endowed with €47.55 billion in 15 years: €1.9 billion for 2017, €3.15 billion for 2018, €3.5 billion for 2019 and €3 billion for each of the years from 2020 to 2032;
- The amount for 2017 has been entirely used, assigning the resources to the public administrations involved, to allow the start of the planned intervention;
- The Prime Minister decrees allocated the resources. The first decree assigned €800 million for **urban regeneration and security**. The second one is related for more than €19 billion to **transportation**, **road conditions**, sustainable mobility, road security, and the renewal and accessibility of railway stations;
- Additional measures for **investment in railways and public transports** have been introduced by the Decree Law 50/2017.

Ultra Broad Band Plan

- Italian Regions signed an operative agreement with MISE to build the Broad Band network in ‘white areas’ grouped in cluster C and D of National Ultra Broad Band Plan, also using ERDF and EAFRD Funds;
- The invitation to tender includes the design, realisation, maintenance and management of the network to supply services to final users at a maximum speed of 100Mbps. The network will remain public under a 20year-concession;
- The EU Commission has considered the Plan compatible with the State Aid rules. The Plan has a budget of €4bn, for the period 2016-2020;
- The agreement for the **first tender concerning 6 Regions** has been **signed** in June 2017.

Ultra Broad Band Plan

National coverage trend



Source: Infratel

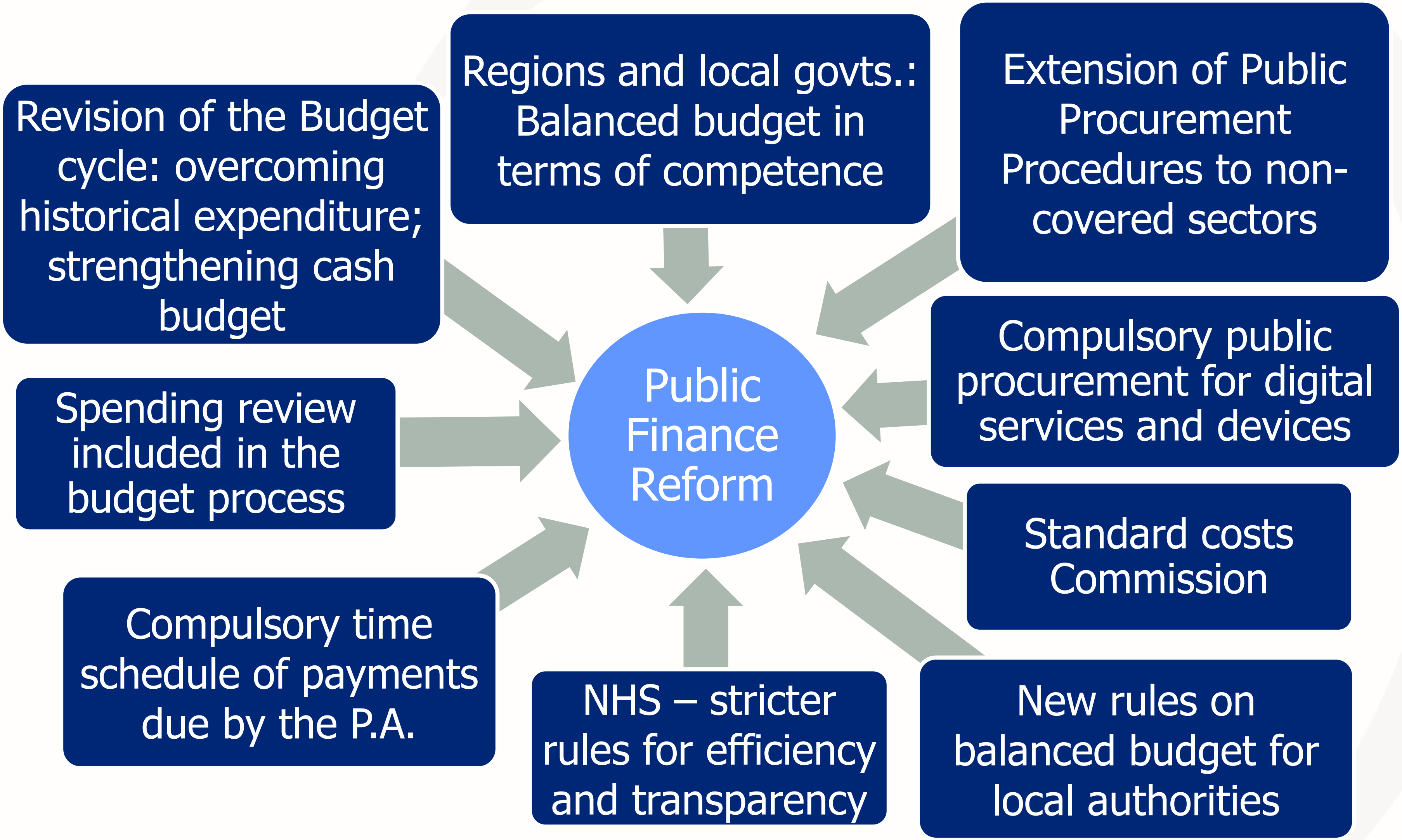
Masterplan for the South (Mezzogiorno)

- The Masterplan builds upon **two pillars**: i) efficiency in the **use of EU Funds** both for the projects already financed (2007-2013) and for the new planning cycle (2014-2020); ii) **industrial policy** able to cope with the crisis of the manufacturing sector which dramatically affected the South;
- Joint **task forces** on the **management of EU funds** have been created between the Gov.t and Calabria, Campania, Sicilia Regions and MIT;
- **Specific plans of actions and timetables** have been set for each of the 8 Regions and 7 metropolitan cities of the South. The plan will define the strategic priorities according to the reality of each territory.

Main measures in the South Decree:

- A measure called '***Resto al Sud'*** that offers financing to the young people of southern Italy who intend to embark on business activity;
- Other measures to support the business activity of young people in the farming sector;
- Institution and regulation of **Special Economic Zones (ZES)** concentrated in port areas and areas economically linked to them–with the objective of reviving the competitiveness of the ports in the southern regions. The ZES will be granted tax relief as from 2020 in addition to the ordinary system of tax credits for southern Italy.

Public finance reform at central and local level



Budget reform and spending review

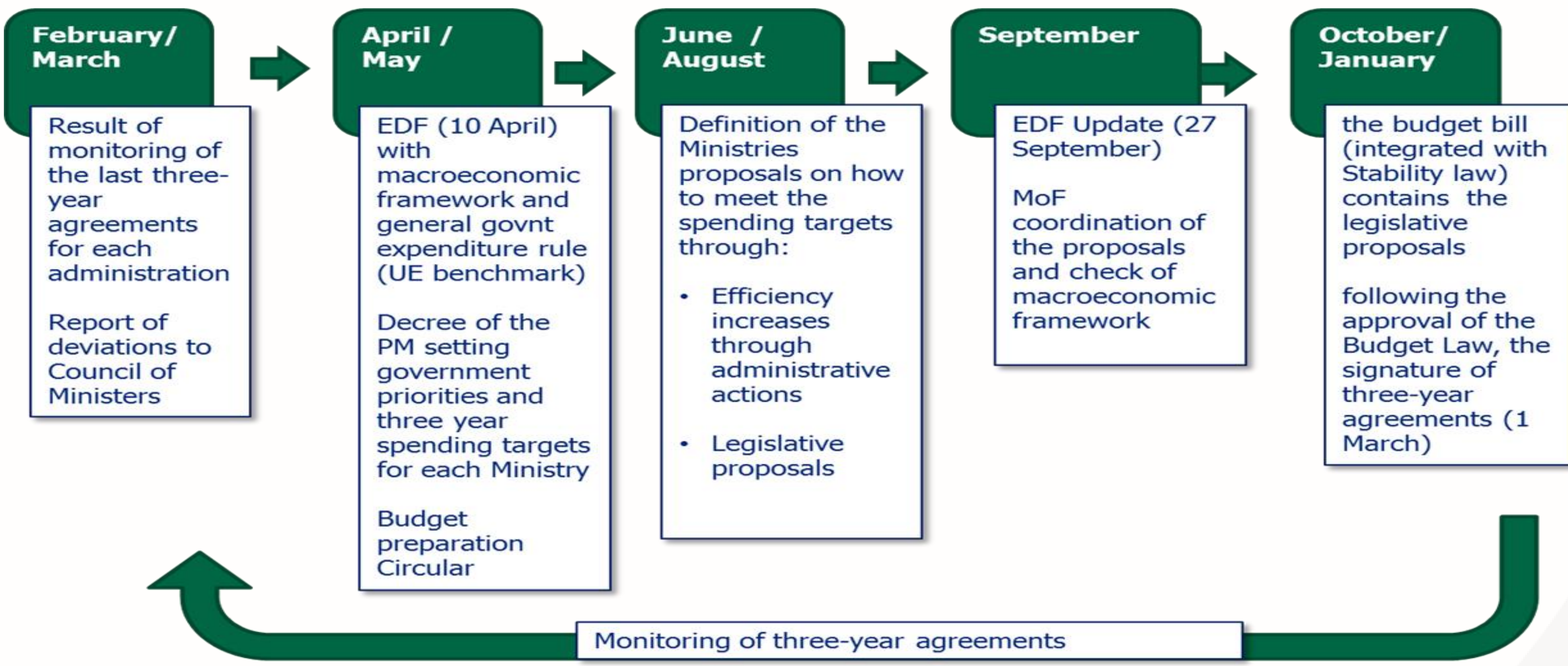
- Completed in May 2016, the budget reform aims at increasing **transparency**, making the **spending review** a regular practice in the budget process and revising the **budget cycle;**
- The **budget management** was reorganised and **the cash budget** was strengthened, accordingly. The aim is to improve forecasting and monitoring of public finance and to introduce and making compulsory the "time schedule" of the payments due by the public administration;
- Public contracts will be managed by a single public procurement company (**CONSIP**) and a few other purchasing centers (33 instead of more than 35,000), so called aggregators, responsible for Regions and large cities (9 Metropolitan cities and 2 Provinces).

Ministries' Spending review 1/2

- For the first time this year the SR was formally integrated into the 2018-2020 budget cycle, requiring budget proposals of the line Ministries to be anchored to specific targets and to be scrutinized;
- In June 2017 the Government defined the **expenditure objectives for each Ministry** for a total of 1 billion yearly, starting from 2018, to contribute to the budget law 2018-2020;
- 96% of the Ministries' savings are obtained by de-financing existing projects or revising administrative procedures in order to be more efficient. Most measures are current expenditure cuts (over 86%), related to intermediate consumption and transfers to other public administrations. Expenditures linked to gross fixed capital formation, the prevention and remedial actions related to natural disasters and seismic event and immigration, as well as the fight against poverty are excluded from the cuts.

Ministries' Spending review 2/2

- After approval of the Budget Law, the actual achievement of the savings will be monitored under specific "agreements" between the MEF and each Ministry, possibly from both a financial and results-based approach. The agreements must be formalized and made public by 1st March 2018 on the corresponding websites.



Legislative implementation

- **Gentiloni Gov.t** (December 12, 2016 to November 6, 2017): **142 pieces of legislation** approved, 83 pieces of legislation fully entered into force. 37.3% of the provision are self enforcing, the remaining need secondary legislation;
- 224 pieces of legislation from the Renzi's Government have been adopted between December 2016 and November 2017;
- As for the implementation of the legislative acts adopted by **previous Governments** (Monti and Letta), out of 889 pieces of secondary legislation required, 102 are left.

Reform process since mid-2016

PROGRESS OF REFORMS IMPLEMENTATION BY AREA OF INTENVENTION

	Fino al 2015	2016	Competitiveness Relevance
Public Administration	20%	80%	High (5)
Labour Market	70%	90%	High (5)
Justice	40%	50%	Medium High (4)
School System	50%	80%	Medium High (5)
Taxation/Fight Evasion	60%	75%	Medium High (4)
Spending Review	50%	70%	Medium (3)
Nonperforming loans	20%	80%	Medium High (4)
Competitiveness /Industria 4.0	40%	80%	High (5)

PROGRESS OF THE 'COMPETITIVENESS RELEVANCE' INDICATOR BY AREA OF INTERVENTION

	Level 2015	Level 2016	Change 2015-2016	Weighted Max Contribution
Public Administration	0,03	0,12	0,09	0,15
Labour Market	0,10	0,13	0,03	0,15
Justice	0,05	0,06	0,01	0,12
School System	0,06	0,09	0,04	0,12
Taxation/Fight Evasion	0,07	0,09	0,02	0,12
Spending Review	0,04	0,06	0,02	0,09
Nonperforming loans	0,02	0,09	0,07	0,12
Competitiveness /Industria 4.0	0,06	0,12	0,06	0,15
Competitiveness Relevance Indicator	**0.44**	**0.76**	**0,33**	**1,00**

Competitiveness Relevance Progress indicator: weighted average of the progress taking into account the economic impact of the reform, range 0 (min)- 1 (max)