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Economic Policy
Position Paper

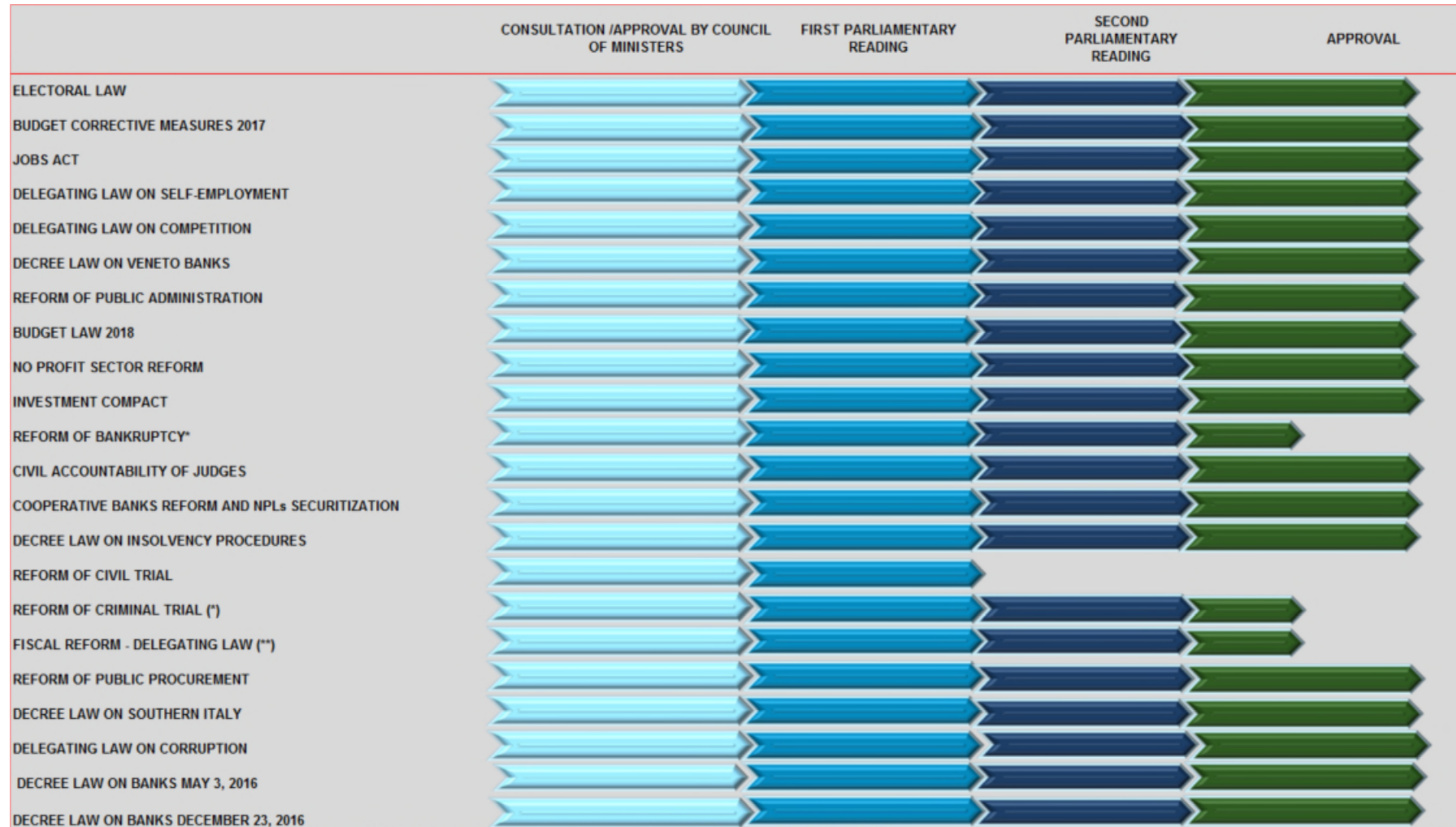
Government reforms and measures to foster sustainable growth since 2015

Sources: Bank of Italy, Budget Parliamentary Office, CER, Istat, Italian Government, Prometeia, REF. ricerche, UniCredit Research, UniCredit Group Institutional Affairs, Il Sole 24Ore

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IMPLEMENTATION OF GOVERNMENT REFORMS – SUMMARY



(*) WAITING FOR THE FULL ISSUANCE OF THE LEGISLATIVE DECREES (**) THE DELEGATING LAW HAS NOT BEEN FULLY IMPLEMENTED

WHAT HAS BEEN DONE

WHAT IS TO BE DONE

BUDGET LAW 2018

THE APPROVAL BY THE PARLIAMENT

The budget law was definitively approved by the Senate on December 23, 2017. The Lower House also approved on November 30, 2017 the tax law decree connected to the budget draft.

THE ISSUE OF THE IMPLEMENTING DECREES

The issue of 175 measures are provided for, of which 24 relating to the tax decree and 151 relating to the budget law.

DECREE LAW ON VENETO BANKS

BAILOUT OF VENETO BANCA AND POPOLARE DI VICENZA

The government approved on June 25, 2017 a decree law that provides for the administrative liquidation of Veneto Banca and Banca Popolare di Vicenza, after the declaration of the two banks' distress by the ECB. The good part of the two banks will be bought for only one euro by Intesa Sanpaolo that receives from the state €5.2 bln to shore up its capital base. The state will offer additional guarantees of up to €12 bln to cover losses from the two banks' bad loans.

STREAMLINE OF BANKING NETWORK

The decree was definitively approved by the Senate on July 27, 2017 and converted into law. The impact of the bailout of the two banks will be on staff, for which about 4,000 lay-offs on voluntary basis are expected. The number of branches will decrease by 600, given the partial overlap with Banca Intesa network.

PUBLIC ADMINISTRATION

A LONG PATH OF APPROVAL

After the approval of the Draft Delegating Law, the government issued 15 legislative decrees. However, the Constitutional Court on November 25, 2016 declared unconstitutional five articles of the delegating law regarding the relations with the Regions. Consequently, the government reworded two legislative decrees already entered into force, and re-approved other legislative decrees, taking into account the Constitutional Court's remarks.

THE IMPLEMENTATION OF THE REFORM

The actual impact of the reform on citizens and businesses will depend on its practical application.

DELEGATING LAW ON COMPETITION

THE DEFINITIVE APPROVAL BY THE SENATE

The government approved on February 20, 2015 a package of liberalization measures including insurance, professions, energy and pharmacies. The government has faced many resistances, as evidenced by the long period of time before the Senate's definitive approval on August 2, 2017.

WAITING FOR OTHER INTERVENTIONS

During the Parliamentary path many measures are skipped away, such as the sale of C-band drugs not only in pharmacies and the deregulation in the local public transport. It will be necessary to return to liberalization with new measures.

DECREE LAW ON SOUTHERN ITALY

ECONOMIC MEASURES FOR SOUTHERN ITALY'S GROWTH

The government approved on June 9, 2017 a decree law containing urgent provisions for the economic growth of Southern Italy, such as facilities for young entrepreneurs, creation of special economic zones and other measures for the realization of strategic investments and for the upgrading of suburbs. The decree was definitively approved on August 1.

A PUSH FOR INVESTMENT

The decree aims to relaunch investment in Southern Italy and to reduce the gap with the rest of the country.

JOB ACT

NEW RULES FOR THE LABOR MARKET

In May 2014 the decree law on apprenticeship and fixed-term contract was converted into law by the Parliament. In October 2014 the Parliament approved the Jobs Act, that rules the contract at increasing protection for new employees and the unemployment-benefit system, reforms the unemployment insurance and establishes a new National Employment Agency.

ACTIVE POLICIES ARE NEEDED TO BE IMPLEMENTED

The ministerial decrees on the new National Labor Inspectorate and the new National Employment Agency must be implemented to ensure the effectiveness of the labor market reform.

JUSTICE

APPROVED THE REFORM OF THE BANKRUPTCY

The Parliament so far approved a decree law to reduce the backlog of the civil trials, a draft bill on the civil liability of the judges, a draft bill on corruption, a decree law on insolvency procedures, the penal justice reform and the reform of the bankruptcy. The Lower House approved at first lecture the reform of the civil trial.

WAITING FOR THE REFORM OF THE CIVIL TRIAL

The reform of the civil trial is under discussion in Senate. The legislative decrees on the criminal trial are being enacted, while those on the bankruptcy reform have still to be issued.

FISCAL REFORM

TEN LEGISLATIVE DECREES ISSUED BY THE GOVERNMENT

The Parliament delegated the government on March 27, 2014 to revise the Italian fiscal system. So far the government approved ten legislative decrees on the simplification of the tax system, the function of cadastre committees, the abuse of rights, corporate internationalization, electroning invoicing, the revision of administrative and criminal sanctions, tax collection, conciliation, tax expenditures, tax agencies.

MEASURES MISSING

Some important measures expected - such as the cadastre reform, the tax on gambling, the taxation of small businesses, the Irap exclusion for self-employed people - have not been included in the legislative decrees approved by the government. They could be, however, included in next legislative provisions.

REFORM OF THE NO PROFIT SECTOR

THE REFORM

Implementing the delegating law of no profit sector's reform, the government approved on June 28, 2017 three legislative decrees: a decree on the Code of no profit sector; a decree on social enterprise and a third one on the discipline of the institute of "five per thousand" (support for volunteering and other institutions with a social purpose).

A START POINT FOR THE NO PROFIT SECTOR

The three legislative decrees issued by the government are an important start point for the so-called "third sector" reform.

SELF-EMPLOYMENT

A LONG PATH FINALLY COMPLETED

The government approved on January 28, 2016 a draft delegating law that includes measures to support self-employment and to encourage reconciliation between life time and working time. The delegating law was approved by the Senate on November 3, 2016 and reviewed again by the Lower House on March 9, 2017. The definitive approval was on May 10, 2017.

THE REFORM TO THE TEST OF IMPLEMENTATION

There are some doubts and uncertainties about the application of some innovations that could generate litigation from the fiscal point of view. It will also be important to check the actual implementation of the reform regarding the relations with the public administration.

BUDGET CORRECTIVE MEASURES 2017

THE CORRECTIVE DECREE

The government approved a decree law on April 24, 2017 introducing additional budgetary measures requested by the European Commission to reduce the indebtedness by 0.2% of GDP. The decree includes also some measures to boost growth and the reconstruction of areas hit by the earthquake.

TOWARDS THE BUDGET LAW 2018

The decree, that was converted into law on June 16, anticipates some measures on public deficit foreseen in the Budget Law 2018.

REFORM OF PUBLIC PROCUREMENT

THE DELEGATING LAW

After the approval by the Parliament of the delegating law that transposes the European directives on public procurement, the government approved the new procurement code on April 15, 2016. Afterwards, a corrective decree was approved by the government on April 13, 2017.

SOME MEASURES TO BE COMPLETED

The new code has an innovative scope that still needs to be fully understood by the operators. Some important implementation measures must be completed.

COOPERATIVE BANKS REFORM AND BAD LOANS DISPOSAL

URGENT MEASURES FOR BANKING SECTOR

The government approved on February 10, 2016 a decree law on the cooperative banks reform, that also includes a regulatory definition of the agreement reached in Europe on the state guarantee on securitization of non performing loans.

POSTPONED THE REFUND OF SUBORDINATED BONDS

The refund of subordinated bondholders, who suffered losses in the rescue of the four regional banks recently saved by the government (Banca Etruria, Banca Marche, CariFerrara, CariChieti), was taken out of the decree.

DECREE LAW ON BANKS OF MAY 3, 2016

MEASURES ON NON PERFORMING LOANS RECOVERY

The government approved on April 29, 2016 a law decree on banks with some measures that should speed up non performing loans recovery. The decree includes indemnities to bondholders of Banca Etruria, Banca Marche, CariFerrara, CariChieti.

NOT ALL BONDHOLDERS ARE REPAID

The procedure for repayment of subordinated bondholders of the four banks, effective from July 3 2016 to January 3 2017, provides for the automatic refund of 80% only for investors with an income not exceeding € 35,000 and assets less than € 100,000.

DECREE LAW ON BANKS OF DECEMBER 23, 2016

RESCUE OF MONTE DEI PASCHI DI SIENA

The government approved on December 23, 2016 a decree law to strengthen the Italian banking system and protect savings. A €20 bln fund was allocated to grant the capital increase of the banks that have capital shortfall. Monte dei Paschi di Siena has been the first bank to apply for the intervention of the fund after the failure of capital increase through the market. The intervention was approved by the European Commission.

MPS RESTRUCTURING

After the State's entry into the capital of Monte dei Paschi di Siena with a 53% share, the bank's restructuring began, which provides the exit of 4,800 employees by 2021.

THE REFORMS FROM 2015 TO TODAY

A) INSTITUTIONAL REFORMS

A1) Electoral Law (approved)

The Parliament approved on May 4, 2015 an electoral law for the Lower House (the "Italicum"), proposed by the Renzi government. The Italicum was amended by the Constitutional Court's ruling on January 25, 2017 (the "Consultellum"). As there were two different electoral systems for the election of the House and the Senate, a new electoral law valid for both the branches of Parliament was proposed (the so-called **Rosatellum-bis**), which was finally approved by the Senate on October 26, 2017. The Rosatellum-bis is a proportional / majority system that provides for:

- **A share of proportional constituencies of 64% with short lists (about three or four candidates) and a share of majority constituencies of 36%;**
- **A 3% entry threshold for the single list and a 10% threshold for the coalition;**
- **The absence of a dissociated vote:** it is not possible to express two different preferences between the uninominal and the proportional part;
- **Multiple candidacy:** no candidate can be included in more than five plurinominal constituencies. It is not possible to compete in several uninominal constituencies. Whoever competes for uninominal constituencies can also be included in the lists of other plurinominal constituencies, subject to the limit of five;
- **Gender equality** must be ensured by electoral rolls.

Forza Italia and Northern League are in favor of the reform, 5 Stars Movement, MDP and Fratelli d'Italia are opposed.

Comments:

As recommended by the President of the Republic Sergio Mattarella, the political parties have succeeded in agreeing on a new electoral law valid both for the House and the Senate. A result not easy to achieve, given the divisions between the political forces.

B) ECONOMIC STIMULUS PACKAGE

B1) Budget Law 2018 (in progress)

The Parliament definitively approved on December 23, 2017 the budget law 2018 issued by the government on October 16, 2017. Now 189 implementing decrees are awaited. The Lower House also approved on November 30, 2017 the tax law decree attached to the budget draft. The main measures are related to:

- **the non-activation of the safeguard clauses in 2018 for €15.7 bln** (the automatic increase in Vat and other

- taxes in the event of lower than targeted public expenditure savings);
- the deferral of corporate income tax (Ires) to 2019;
- a stimulus package for firms, which includes:
 - **tax incentives for investment** in machinery which will allow firms to amortize 130% of the value of investment and 250% for digitalized goods;
 - **40% tax credit on staff training** for issues related to Industry 4.0;
 - **the refinancing of the Central Guarantee Fund and the "New Sabatini" law;**
- **the tax relief on youth hiring with permanent contract.** They will be 50% of the three-year contribution with a ceiling of €3,000 and will benefit young people under the age of 30 (35 for 2018 only);
- the **renewal of the PA contract** for 1.65 billion both in 2018 and 2019 and 2020. The average increase will be 85 euro per month;
- **more public investments** both national and local for around 300 million;
- **measures for family:** 100 million in 2018, 2019, 2020;
- **measures to promote social cohesion** for 450 million in 2018, of which 300 million are for **inclusion income.**

Comments:

The Budget Law 2018 is worth €21.6 billion and enhances the growth-oriented stance of the Italian government's fiscal policy in order to support the economic activity. The most important source of financing is the fiscal flexibility (about €10,9 bln). In addition, the government expects to achieve €3.2 bln by the expenditure savings, including about 1 bln from spending review, and €7.2 bln by more revenues, largely from the fight against tax evasion. According to government targets, in 2018, the deficit/GDP ratio will fall to 1.6% and the debt/GDP ratio to 130%.

B2) Decree law on Veneto banks (approved)

The government approved on June 25, 2017 a decree law that provides for the administrative liquidation of two regional banks - Veneto Banca and Banca Popolare di Vicenza - after the declaration of the two banks' bankruptcy by the ECB. The decree was definitively approved by the Senate on July 27, 2017 and converted into law. Italy obtained European Union permission to deal with the Veneto banks using national insolvency laws, avoiding the risk of bail-in.

- **The good part of the two banks will be bought for only one euro by Intesa Sanpaolo** that receives from the state €5.2 billion to shore up its capital base, manage the restructuring of the two banks and provide credit to the territory. **The state will offer additional**

guarantees of up to €12 bln to cover losses from the two banks' bad loans;

- **The non-performing loans are assigned to SGA Ltd, a company owner by the Ministry of Economy**, that will try to sell them on the market;
- **Neither depositors nor senior bondholders will suffer any loss.** Also junior bondholders, if they are natural persons, are safe. On the contrary, shareholders lose capital;
- **The impact of the bailout of the two banks will be on staff**, for which about 4,000 lay-offs on voluntary basis are expected. The number of branches will decrease by 600, given the partial overlap with Banca Intesa network;

Comments:

Prime Minister Paolo Gentiloni said that the intervention was needed to prevent a disorderly failure of two important regional banks. The decree will help to preserve the prosperous north-eastern economy, while avoiding a confidence crisis in the Italian banking system. The resources needed for public support are taken from the "save savings" fund, constituted by the decree law n.237 of December 23, 2016. According to the Minister of Economy Pier Carlo Padoan the bail out does not affect the public deficit.

B3) Budget corrective measures 2017 (approved)

The government approved a decree law on April 24, 2017, introducing additional budgetary measures requested by the European Commission to reduce the indebtedness by 0.2% of GDP. The decree, after the approval by the European Commission, was converted into law on June 15. The decree includes also some measures to boost growth and the reconstruction of areas hit by the earthquake:

- **Areas hit by the earthquake:** the decree allocates €3 billion for the reconstruction of private and public buildings, including schools;
- **Urban free zones** are set up for the tax period 2017-2018 in the municipalities of Abruzzo, Lazio, Marche and Umbria affected by seismic phenomena. Tax breaks are recognized for damaged businesses;
- **Territorial authorities:** interventions are planned for the upgrading of provinces and metropolitan cities, for school building and for maintenance of the road network;
- **Transport:** measures are approved to stabilize the fund for local public transport and a special state budget fund is established. The decree also includes rules that favor synergies between Anas (the public body for roads) and FS (Railways Group) with the aim of boosting investment in infrastructure;

- **Equity crowdfunding for SMEs:** the incentives envisaged for innovative start-ups are extended to Smes;
- **PIR (Individual Plans for Saving):** also social security institutions and pension funds can invest in the PIRs, enjoying the same facilities of natural persons;
- **Occasional service contract:** after the vouchers abolition, the government introduces a new, online and simplified tool that can only be used by small businesses (up to 5 employees) and a total of €5,000. For families a telematic booklet is envisaged with a €2,500 roof for small housework;
- **Banks:** supplementary pension funds are excluded from the bail-in. In addition, the securitization companies of non-performing loans sold by banks and financial intermediaries may grant funding to improve the prospect of recovering debts;
- **Web tax:** the measure aims to introduce a temporary mechanism for a reinforced "preventing agreement" between digital companies and Italian fiscal authorities.

Comments:

The impact of the budget corrective measures is not limited to 2017 but has some lasting effects in subsequent years. The commitment of the Italian government is likely to reassure the European Commission, avoiding the opening of an excessive deficit procedure against Italy. With respect to revenues, the bulk is expected to come from measures aimed at reinforcing action against tax evasion (extension of the split payment). The remaining revenues will come from gaming taxation and increases in duties on tobacco.

B4) Decree Law on Southern Italy (approved)

The government approved on June 9, 2017 a decree law in order to introduce urgent interventions to aid economic growth in Southern Italy. The decree was converted into law on August 2, 2017. The main measures are:

- **Facilitated funding for young entrepreneurs** up to a maximum of €40,000, of which 35% in the form of grant and 65% in the form of a zero rate loan provided by banks. This measure benefits from an interest subsidy and a public guarantee through a special section of the Guarantee Fund for SMEs;
- **Special Economic Zones** are established in port areas and in areas economically linked to them. In these areas companies can benefit from particular conditions

in relation to the nature of their activities and investments;

- **Strategic investments in Southern Italy:** measures are issued to speed up strategic investments in Southern Italy over 40 million;
- **Simplification measures are adopted for urban regeneration,** aiming to facilitate the realization of complex programs submitted by individuals especially for suburbs.

Comments:

following the decree 243/16 passed on December 2016 and the Master Plan for Southern Italy wanted by the Renzi Government, the measure aims to introduce stimulus to the economic growth of the Southern Italy, encouraging new entrepreneurship and introducing specific discipline for the establishment of special economic zones, especially the port areas. This has caused the reaction of North-Center ports, which are afraid to be disadvantaged. The decree law is before the Senate for the conversion into law.

B5) Delegating Law on competition (approved)

On February 20, 2015, the government passed a delegating law, that was definitively approved on August 2, 2017.

The main measures of the reform are related to:

- **Insurance:** the insurance company is obliged to offer discounts if the motorist accepts at least one of the clauses designed to reduce the risks or counteract fraud, such as black box's installation, alcohol-level detectors and preventive inspections of the vehicles.
- **Loan-linked insurance policies:** with reference to the insurance contracts related to real estate mortgages or consumer credit, banks, lenders and financial intermediaries are obliged to accept the insurance policy that the client will present or retrieve to the market without changing the conditions offered for loan or consumer credit. The insurance policy submitted by the client must have minimum content corresponding to those required by banks if it is required to obtain funding under the terms offered.
- **Professions:** attorneys are allowed to exercise the forensic profession in the form of companies of persons, capital or cooperatives, provided that the shareholders, for at least two thirds of the share capital and the voting rights, are lawyers registered with the lawyers' register. The associations of notaries are allowed. Engineering companies can enter into contracts with private individuals, for which they will have to subscribe an insurance policy to cover the risks arising from civil liability.

- **Energy:** the deadline for the abolition of the protected electricity market for all types of users and the transition to the free market has been extended to July 1, 2019.
- **Pharmacies:** the exercise of the private pharmacy is allowed to natural persons, limited liability companies and cooperatives. These subjects can directly or indirectly control no more than 20% of the existing pharmacies in the territory of the same region or autonomous province.

Comments:

After ten years the government resumed the chapter of competition and liberalization. The government has faced a lot of resistances, which have put some spiny issues down, such as the anti-takeover statutes and the taxi reform (Uber). Among the measures skipped, there are the sale of C-band drugs not only in pharmacies as well as the deregulation in the local public transport and ports. This will require reconsidering the issue of liberalization in subsequent measures.

According to government's estimates, the impact of liberalization on GDP is 0.2% in 5 years, 0.5% in 10 years and 1% in the long run.

B6) Reform of public procurement (approved)

After the approval by the Parliament of the delegating law that transposes the European directives on public procurement, **the government approved the new procurement code on April 15 2016.** Afterwards, **a corrective decree was approved** by the government **on April 13, 2017.**

The main measures of the reform are related to:

- **ANAC:** the Anti-Corruption Authority issues the general guidelines of the new procurement code. It can stop irregular tenders and asks their canceling.
- **Derogations:** the reform prohibits the assignment of contracts through procedures derogating from those indicating by the new public procurement code.
- **Variants:** they will become more difficult to ask. The EU rules will be worth, distinguishing small changes by remarkable variations, that will require a new tender.
- **Contracting stations:** they will be reduced from the current 36,000, forcing the aggregation of many municipalities.
- **Simplification:** the number of articles of the new procurement code will be drastically reduced from more than 600 to 220.
- **Maximum drawdown:** the tenders over €1 million will no longer awarded based only on price, but on the best price/quality ratio.

Comments:

The reform aims to make more streamlined, but not less effective the rules on public procurement, with the target of fostering efficiency and fighting corruption. A great responsibility lies with the Anti-Corruption Authority, which is the pivot of the reform. The new code has an innovative scope that still needs to be fully understood by the operators. Some important implementation measures must be completed.

B7) Decree Law on banks of December 23, 2016 (approved)

The government approved on December 23, 2016 a new decree law on banks in order to strengthen the Italian banking system and protect savings. An amount of € 20 bln was allocated to provide precautionary recapitalization and liquidity for banks that make a request. The Parliament approved the law decree on February 16, 2017. More in details:

- **Public guarantee on liquidity:** the Treasury is authorized to activate the State guarantee on issues of debt instruments for banks with funding problems;
- **Precautionary recapitalisation by the State:** in exceptional circumstances, in order to remedy a serious disruption of economy and preserve the financial stability, the Treasury is authorised to subscribe for shares issued by Italian banks that need to strengthen capital. This is an extraordinary State aid of a precautionary and temporary nature, permitted as long as the bank is solvent. The intervention is compliant with the rules on State aid;
- **The intervention mechanism:** the precautionary recapitalization triggers the forced conversion of subordinated bonds into equity at a 15% discount, while the State will buy new shares through the public recapitalization at a 25% discount compared to the conversion price;
- **Restoration of retail investors:** the decree provides that the shares subscribed by retail customers were purchased by the State exchanging them with senior bonds. Only who subscribed the subordinated bonds before January 1, 2016, without complying with the relevant transparency rules, will receive a value corresponding to the nominal value when the bond was bought.

Comments:

The immediate target of the law decree is to rescue Monte dei Paschi Siena (MPS). Having failed the attempt of recapitalizing MPS through the market, the law decree was the only possible way to avoid the bail in of the bank. After the failure of the "market solution", the amount of capital required by the ECB in the case of a 'precautionary recapitalization' of MPS by the Italian state increased to €8.8 billion. The European Commission and the Italian

government reached an agreement on recapitalization on June 1, 2017. The EU Commission gave way on July 4, 2017 to the recapitalization of precautionary measures and approved state aid of €5,4 bln. After the State's entry into the capital of Monte dei Paschi di Siena with a 53% share, the bank's restructuring began, which provides the exit of 4,800 employees by 2021.

B8) Decree Law on banks of May 3, 2016 (approved)

The government approved on April 29, 2016 a decree law on the banking sector whose measures should speed up non performing loans recovery. The decree also includes indemnities to subordinated bondholders of four banks that were "bailed-in" last year - Banca Etruria, Banca Marche, CariFerrara, CariChieti. The decree was converted into law by the Parliament on June 29, 2016.

Measures on bankruptcy procedures:

- **non-possessory lien over movable assets:** a new norm allows borrowers to **pledge non-real estate assets as collateral for loans without taking actual possession**. A debtor who gives a movable property in pledge like a machinery can continue to use it in the production process;
- **enlargement of the so-called "patto marciano":** in the loan agreements between financial institutions and firms with **real estate as collateral** (which must not be the entrepreneur's residence) the parties may sign a contract for the sale of the asset that becomes automatically effective in case of default of the borrower;
- **new rules to reduce the debt collection times:** the amount of time accorded to the debtor to raise objections is reduced. In addition the decree allows courts to make a provisional injunction on uncontested sums in case of partial opposition to the credit from the debtor;
- the use of **telematics technologies** is introduced **for the hearings and meetings of creditors** in order to make bankruptcy procedures more rapid.

Indemnities to subordinated bondholders of four banks:

- those who bought the bonds before June 12, 2014 can apply for **automatic compensation or access to arbitration**;
- **the payment of indemnities is automatic** if the investor's personal property is less than €100.000 at December 31 2015 or if the amount of gross income for the investor's income tax is less than €35.000 in 2015;
- **the automatic compensation is fixed, equal to 80%** of the amount paid for the purchase of financial

instruments, but excluding fees and expenses linked to the purchase and the difference between the return earned and the BTP rates.

Other measures:

- **Bank Solidarity Fund:** in order to facilitate the management of banks' overstaffing, the income support allowance is increased from five to seven years;
- **Deferred taxes:** the companies may continue to apply the tax provisions on deferred tax assets provided that they pay an annual fee equal to 1.5% of the difference between the deferred tax assets and taxes paid.

Comments:

The decree aims to restore the confidence of savers towards banks and to solve the problem of bad debts, which continue to weigh heavily on the recovery. The law should allow an acceleration of the times of claims' recovery, aligning Italy with international best practices. The solution for the compensation to the holders of subordinated bonds is the best result that the Italian government could get from negotiations with the European Commission.

B9) Cooperative banks reform and bad loans disposal (approved)

The government approved on February 10 2016 a decree law on the cooperative banks reform, that also includes a regulatory definition of the agreement reached in Europe on the state guarantee on securitization of non-performing loans. **The decree was approved definitively by the Senate on April 6, 2016.**

Cooperative banks reform:

- the decree law foresees the creation of a joint-stock parent company with a minimum capital requirement of €1 billion. Single banks can join it through a cohesion pact that sets the rules for the direction and coordination of the holding company;
- the holding will propose strategies, direction and coordination, based on the risk level of participating banks, and will have the power to appoint or reject the appointment of one or more board members;
- the capital of the holding is majority-held by the cooperative banks themselves;
- the cooperative banks not willing to join the holding company can decide within 60 days to transform their statutes into a joint stock company, redeeming their assets and paying a 20% tax. However, the "way out" is only banks with more than €200 million in assets.

State guarantee on securitization of non-performing loans (NPLs):

- the State guarantees on NPLs can be requested by banks which securitize and sell NPLs, in return for a

regular commission to be paid to the Treasury and calculated on an annual percentage of the guaranteed assets. The State guarantee will be also for registered financial intermediaries;

- the State will guarantee only the tranches of securitization operations rated as senior, i.e. the more secure ones. The riskiest tranches (i.e. junior and mezzanine) shall not be repaid until the senior tranches guaranteed by the State have been fully repaid;
- the Treasury will issue the guarantee only after the notes have received a rating equal to or higher than Investment Grade from an independent rating agency included in the list of credit rating agencies accepted by the European Central Bank.

Comments:

The reform of cooperative banks reflects in large part a regime of self-regulation drawn up by the banks themselves. The creation of a single group with roles of control, supervision and strategy and with €20 billion of capitalization is aimed at achieving a healthy management of the cooperative system, more efficiencies, lower costs and more competitiveness. The measure on bad loans disposal meets the requirements set by the European Commission regarding state aid. Under the state guarantee scheme chosen by the government, the State will be remunerated in line with the market conditions for the risk it will assume. According to the government, the measure should encourage the development of the Italian market for NPLs, facilitating the matching of supply and demand. The refund of subordinated bondholders who suffered losses in the rescue of the four regional banks recently saved by the government (Banca Etruria, Banca Marche, CariFerrara, CariChieti) was taken out of the decree.

C) LABOR MARKET REFORMS

C1) Delegating Law on self-employment (approved)

The government approved on January 28 2016 a Draft Delegating Law that includes measures to support self-employment and to encourage reconciliation between life time and working time. The delegating law was approved by the Senate on November 3, 2016 and amended by the Lower House on March 9, 2017. It was definitively approved by the Senate on May 10, 2017.

Main measures on self-employment:

- tax relief on expenses incurred both for participation in conferences, congresses and training courses and for outplacement;

- equalization of self-employment to small entrepreneurs for the access to European Structural Funds;
- acknowledgement of maternity leave also to self-employment;
- in case of pregnancy, disease and injury the employment relationship continues, but remains suspended, without pay, for a maximum of 150 days.

Reconciliation between life time and working time:

- it is not a new type of contract, but a flexible mode of carrying out the employment relationship as regards workplaces and working times;
- the worker who performs such activities has the right to receive the same pay and conditions like the inside workers and to benefit tax incentives on productivity bonus.

Comments:

The Draft Delegating Law on self-employment is a first step towards a welfare system that includes the self-employed as well as employees. The measures for reconciliation between life time and working time are consistent with the implementation of the Jobs Act. Now the reform is at the test of implementation. There are some doubts and uncertainties about the application of some innovations that could generate litigation from the fiscal point of view. It will also be important to check the actual implementation of the reform regarding the relations with the public administration.

C2) Jobs Act (approved)

The Jobs Act, approved by the Parliament in October 2014, is the delegating law that reforms the Italian labor market. On **December 24, 2014** the government implemented the **first two legislative decrees**, that received the final approval by the cabinet on February 20 2015, after the non-binding opinion of the Parliament.

- **Contract at increasing protections for new employees:** introduction of the permanent contract at increasing protections in relation to the length of service for all new hires. In such a contract the safeguards provided by the current permanent contracts will be obtained gradually. By the new rules, the reinstatement of the dismissed worker is possible just for dismissals based on discrimination and in very extreme cases - when the claim is deemed unfounded - on disciplinary action. For the dismissals due to economic or restructuring reasons, the reinstatement is no longer permitted and workers will get a severance package, whose monetary value will rise according to their seniority (two months' wages per year of service with a minimum of 4 and a maximum of 24 months' wages).
- **Unemployment benefit system:** the decree introduces four important changes:

- **eligibility requirements to receive benefit payments are made less-restrictive**, and the maximum duration of the subsidy has been extended;
- **a specific unemployment benefit is now also granted to the so-called project workers (co.co.pro)**, who were excluded from the previous unemployment benefit system;
- **an additional unemployment subsidy** is introduced **for unemployed people** who after the expiring of the ordinary subsidy have not found a job and are **facing particular economic hardship**;
- the new unemployment subsidy is subject to precise conditionality, meaning that the unemployed people can receive the benefit only until they are involved.

Moreover the government definitively approved **on June 11, 2015 two more legislative decrees:**

- **Rationalization of contractual arrangements:** the provision reviews the cooperation relationships with the strong restrictions of project workers (co.co.pro) and the job sharing. Since January 1, 2016 the rules of the contract at increasing protections will be applied to a large part of the collaborative relationships. School apprenticeships are made even simpler as to create a school-work link on the German dual model: the students can enter a company starting from their second year of high school with a contract that can last for a maximum of four years. Also, the new rules grant the employers more room to modify, even worsening, the tasks of workers in case of corporate restructuring. The transition from one task to another becomes easier, but this will require the workers' income to be kept unchanged.
- **Strengthening work-family conciliation:** the legislative decree enhances childcare services and extends the maternity leave to all categories of workers, not only for employees. The period of paid maternity leave increases from three to six years of age of the child, while the period of unpaid leave increases from eight to twelve years of age of the child. The flexibility of maternity leave increases in special cases such as those of premature birth or hospitalization of the newborn.

Finally, in the cabinet meeting on **September 4, 2015** the government approved definitively the **last four legislative decrees of Jobs Act:**

- **Reform of the unemployment insurance (Cassa Integrazione Guadagni)**, that is extended to all companies more than 5 employees. The new unemployment insurance runs for twenty-four months, is extended to apprentices and can no longer be used in the event of cessation of activity.

- **Active policies:** a new National Employment Agency (Anpal) is established with the task of coordinating the activities of employment services. The various national and regional employment structures already operating converge in Anpal, that will start in 2016.
- **Inspection activities:** all inspection services are unified into a new agency called National Labor Inspectorate.
- **Remote controls:** the Article 4 of the Statute of workers is amended allowing to carry out remote controls on workers using video cameras, personal computers, tablets and business mobile phones. These controls may be used for disciplinary purposes.

Subsequently, **on September 23, 2016, the government approved definitively a legislative decree that amends the Jobs Act:**

- **Contracts of solidarity** can be transformed from defensive (to avoid layoffs) into expansionary (to hire).
- **Active policies:** Anpal (the new National Employment Agency) becomes responsible also for the vocational training of people who don't work.

Comments:

The new rules of the labor market phase in the new open-ended contract, with increasing protection for dismissals based on the seniority of the employees. Under the new open-ended contract, the article 18 of the Statute of workers has been amended: reinstatement in dismissals for economic reason is no longer possible. The new rules aim to give greater certainty to businesses on firing costs, severely limiting the discretion of judges.

As for the measures definitively approved on June 11, 2015 the legislative decree on rationalization of contractual agreements aims to remove all forms of cooperation relationships which actually hide an employment relationship. The permanent contract at increasing protections is considered as the main form of employment relationship. The introduction of measures for the protection of parenthood and for the work-family conciliation is very positive.

With the measures approved on September 4, 2015 the government completes the reform of labor market. About sixty ministerial decrees are now expected for the implementation of Jobs Act. The most discussed, among the latest provisions approved, is the measure on remote controls, that the parliamentary committees have tried to change by limiting the use for disciplinary purposes.

According to government's estimates, the impact of labor market reforms on GDP is 0.6% in 5 years, 0.9% in 10 years and 1.3% in the long run.

D) PUBLIC ADMINISTRATION REFORM

D1) Delegating Law (approved)

The Parliament approved on August 4 2015 the Draft Delegating Law on the PA reform. Afterwards **the government issued the legislative decrees.** However, the Constitutional Court on November 25, 2016 declared unconstititional five articles of the delegating law regarding the relations with the Regions. Consequently, the government reworded two legislative decrees already entered into force, and approved other legislative decrees, taking into account the Constitutional Court's remarks.

Legislative decrees definitively approved:

- **Digital citizenship and Code of Digital Administration:** every citizen will have his own "digital address", an electronic code like an e.mail or home address. Other key measures include a strengthening of economic payment systems and the launch of a single security code, establishing a digital identity;
- **Revision and simplification of regulation to prevent corruption and for the transparency of PA (FOIA):** the various divisions of the Public Administration will have to publish on their official websites every information about PA, included payments and staff remuneration. Bureaucratic procedures will be simplified and it will be much easier to access public archives under the Freedom Information Act, which gives citizens the right to access data they ask for within 30 days;
- **Reorganization of the Chambers of Commerce:** a plan for 40% cut of the Chambers of Commerce, from 105 to 60 bodies, must be prepared within 6 months. The Chambers with less than 75,000 firms registered will be merged. It is envisaged the 30% cut of the number of directors, while the charges paid by enterprises will be reduced by 50%;
- **Simplification of the rules for research centers:** it is envisaged the early release of employee turnover, which will return to 100% in 2017. The mobility of scientists is encouraged and the direct call up to 10% of the workforce of researchers is introduced;
- **Performance evaluation of public employment:** the rules on rewards and evaluation system change. The employees' performance is measured using a three-year plan. Both individual and team performance is evaluated and the national collective agreement will set the amount of resources to remunerate employees;
- **Single code of the civil service:** the new tool of the Three Year Plan of Needs and new rules on disciplinary responsibilities of civil servants are introduced. Between 2018 and 2010 the stabilization of the precarious workers who work for three years in the PA is expected.
- **Reorganization of State Forestry and police corps:** State Forestry Corps are absorbed into Carabinieri Corps. The move concerns functions and personnel, with the exception of fire-fighting competencies, to be assigned to the National Firefighters Corps. Another measure includes a streamlining of the duties of all

branches of law enforcement, with each being assigned a particular area of specialization and a specific geographic focus: the police force will oversee major metropolitan areas while Carabinieri are entrusted with the rest of country;

- **Reform of the vehicle register:** the functions of the public vehicle register are transferred to the Ministry of Transport and Infrastructure. The registration certificate becomes the only document of ownership of the vehicles;
- **Companies owned by local governments:** the public sector administrations will have sell or shut down the companies owned by local bodies that are not strictly necessary or those with a higher number of board members than employees. In addition, the public sector administrations will have to get rid of the companies generating less than €500.000 or with losses in four years out of five. More careful criteria for management remuneration are also envisaged, especially for companies at a loss.
- **New rules on disciplinary dismissal:** in the case of a false attestation of attendance at work are envisaged obligatory suspension from service within 48 hours and the conclusion of the disciplinary proceedings within 30 days. It is also envisaged the disciplinary responsibility of the manager who doesn't proceed to the suspension of the service and the opening of procedure.

Comments:

The government aims to make the Public Administration more efficient, reducing costs and making it more responsive to the needs of citizens and firms. The government's target is also to cut the public spending by reducing the number of companies owned by a public body. The implementation of privatisations would also contribute to the rationalisation of publicly-owned enterprises. According to government's estimates, the impact of Public Administration reform on GDP is 0.5% in 5 years, 0.8% in 10 years and 1.2% in the long run.

E) JUSTICE REFORM

E1) Reform of the penal justice (approved)

The Lower House approved definitively on June 14, 2017 the delegating law on criminal trial and penitentiary system. The legislative decrees are being enacted.

The main contents include:

- **revision of limitations:** the timing of limitations is frozen for 36 months after the first degree of judgment. For the offenses of corruption and induction

is compared a stronger limitation compared to the previous rules;

- **new rules on wiretapping:** the total freedom of judges in the use of intercepts is diminished. The matter is regulated to safeguard the right to privacy;
- **theft and robbery:** the reform aims at making sanctions more incisive, ensuring a more effective repression of these crimes;
- **rehabilitative purpose of punishment:** the rules on the access to alternative measures, the right to work, the mothers in prison and the freedom of worship for foreigners are amended;
- **digital trial:** the use of video links in mafia, terrorism and organized crime is expanded and participation in the distance debate becomes the rule.

Comments:

the reform aims to modify the statute of limitations, cope with judicial backlog, revise the criminal codes and proceedings, strengthen the rights of defence and ensure a reasonable duration of trials.

According to government's estimates, the impact of justice reform on GDP is 0.1% in 5 years, 0.2% in 10 years and 0.9% in the long run.

E2) Reform of bankruptcy (approved)

The government approved on February 10 2016 a Draft Delegating Law on insolvency and bankruptcy. **The bill was definitively approved by the Senate on October 11, 2017.** The legislative decrees are now awaited.

- **Judicial liquidation:** it replaces the current insolvency law with strengthened powers of the insolvency administrator, that will more easily access to the PA databases, promote legal actions due to shareholders or creditors, handle the distribution of assets among the creditors;
- **Early warning:** it is an instrument to avoid bankruptcy by anticipating the emergence of corporate crisis and facilitating an assisted composition. It can be activated directly by the debtor or ex officio by the court on the recommendation of public creditors and it shall be made to the organism of resolution of the crisis provided to each Chamber of Commerce;
- **Simplified process:** in the case of legal action, the procedural model is unique and provides that, after a first common phase, the procedure will, as appropriate, develop into liquidation or conservative solutions;
- **Debt restructuring:** it is lowered the threshold of the 60% of the credits for the approval of the debt restructuring agreement;
- **Arrangement with creditors:** it is redesigned, admitting also the arrangement aiming at the

liquidation of the company if it can assure the payment of at least 20% of unsecured credits;

- **Insolvency of the group companies:** there is a unified procedure for the handling of the crisis and the insolvency of the same group companies;
- **Reorganization of indebtedness rules:** the discipline of over-indebtedness has been reorganized, including in the settlement process even the fully liable partners and ensuring a coordinated management of procedures relating to more family members.

Comments:

The Delegating Law approved aims to outline an organic design of the insolvency law reform, promptly addressing the corporate crises and limiting the impact on the local economy arising from a business crisis. The measure aims to reduce the number of bankruptcies and facilitate the settlement of corporate crises outside the court. The reform follows the decree law on insolvency procedures approved on August 5, 2015.

E3) Reform of the civil trial (in progress)

The Lower House approved on March 10, 2016 a delegating law that delegates the government to carry out a wide reform of civil trial, in a perspective of specialization and simplification:

- strengthening of the companies court with the attribution of the class action and disputes relating to unfair competition;
- establishment of specialized sections at the courts and the courts of appeal for the disputes relating to the person, the family and children;
- acceleration of the times of civil justice by reforming the civil trial of first instance, the appeal proceedings and by strengthening.

The delegating law is now before the Senate.

Comments:

The Delegating Law approved by the government aims to outline an organic design of the insolvency law reform, promptly addressing the corporate crises and limiting the impact on the local economy arising from a business crisis. The reform follows the decree law on insolvency procedures approved on August 5, 2015.

E4) Decree Law on insolvency procedures (approved)

The Parliament approved on August 5, 2015 a decree law on bankruptcy, civil procedure and functioning of judicial administration issued by the government on June 23:

- **Deductibility of losses:** write downs on loans that become non performing (in default or close to default) from 2016 can be deducted during the same year (as is currently the case in France, Germany and UK) and no more in five years.
- **Access to credit during a corporate crisis:** the Court may authorize interim financing in favor of the borrower who applies for composition with creditors.
- **Competing offers:** in the arrangement with creditors the Court may authorize bids for the purchase of company assets by a third party too, as well as by the debtor, provided such bids are comparable.
- **Alternative proposals of composition with creditors:** one or more creditors can present during the arrangement with creditors alternative proposals to those of the debtor.
- **Restructuring of the debt:** the agreement can be concluded with 75% of the financial creditors, if they represent at least half of indebtedness.
- **Official receiver** must be different from the judicial commissioner and he has to be able to complete his obligations under the terms.
- **Operations of sale:** they are made faster to improve the value of sale.

Comments:

The measure approved helps banks to move the nearly €350 billion of bad loans off their balance sheets more quickly, thereby freeing up more capital to lend money to businesses. The Italian banks are now put on a par with the other European banks. The benefit of this measure also concerns the firms, whose non-performing loans amount to €210 bln, and the state, that is the largest creditor in the country.

According to recent studies, Italy could gain up to 1.5 – 2 percentage points in additional GDP growth over the next two or three years.

E5) Draft Bill on corruption (approved)

The Draft Bill, approved by the Senate on April 1, 2015 and by the Lower House on May 20, 2015, provides for:

- **an increase of the penalties for the crimes against the public administration;**
- **reintroduction of the crime of false accounting**, with penalties that can reach up to 8 years in jail for listed companies and up to 5 years for unlisted companies;
- **tougher penalties for the crime of mafia association** (up to 26 years in jail);
- **more powers to the Anti-Corruption Authority**, that must be informed by the public prosecutor when he decides to institute criminal proceedings for the crimes of corruption.

E6) Civil accountability of judges (approved)

The Draft Bill, approved by the Parliament on February 24, 2015, provides for that the State refunds the citizen wrongly sentenced by judge. The State will be compensated by judges for a maximum amount of up to half of their salary.

F) FISCAL REFORM

The Parliament on March 27, 2014 delegated the government to revise, within 12 months, the Italian fiscal system. Afterwards, the delegating law was extended to June 26, 2015. Overall, the government approved ten legislative decrees.

F1) Legislative decree on the revision of administrative and criminal sanctions (approved)

The government approved on September 22, 2015 a legislative decree that reduces the penalties for less serious cases of tax crimes, while keeping a tough stance on fraud, especially when it involves documentation. The 3% punishment threshold is left out, along with the €1,000 criminal threshold for false invoices. As for missing VAT payments, the €50,000 minimum level for criminal charges is increased to €200,000.

F2) Legislative decree on tax collection (approved)

In the same cabinet meeting on September 22, 2015 the government approved a legislative decree that reduces the “aggio” (the premium that the agent receives for the collection of taxes) from 8% to 6%. The sums collected will be directly paid to the state.

F3) Legislative decree on conciliation (approved)

The government also approved on September 22, 2015 a provision to reduce tax litigations in two ways. The first is a boost to conciliation, that allows to close a dispute against tax authorities with lighter sanctions for the taxpayer. The conciliation is now extended to the appeal phase and could be activated either out of court or during the hearing. The second way is the reorganization of the so-called “interpello”, that can be used in five different ways. When the taxpayer asks the opinion of the tax administration before completing a certain act, if the administration does not reply within a certain deadline, “silence is consent” clause works.

F4) Legislative decree on tax expenditures (approved)

This decree approved by the government on September 22, 2015 provides a revision of tax expenditures. Every year the government will have to indicate to Parliament the rules necessary to eliminate, reduce and change tax expenditures. All the sums collected will go to a fund to reduce taxes to be used primarily to lower labor costs.

F5) Legislative decree on tax agencies (approved)

The last legislative decree approved by the government on September 22, 2015 is on the reorganization of tax agencies. Both public competitions and reduction of executives up to 5% are planned. The target is to improve the digitization of tax agencies with the aim to cut the costs of firms.

F6) Legislative Decree on Corporate internationalization (approved)

The government on August 6, 2015 approved a legislative decree that includes clear and certain rules for Italian and foreign investors in Italy. The bill allows companies looking to invest in Italy no less than €30 mln to ask the Italian Revenue Agency which fiscal treatment it would apply to their business plan, including possible corporate deals. The Agency will send a written response within 120 days that will be binding for five years. The “consent by silence” rule applies if the revenue agency does not respond with this term. The decree also contains a measure designed to provide tax incentives for the return of skilled workers in Italy.

F7) Legislative Decree on Abuse of rights (approved)

The government on July 31, 2015 approved a legislative decree on abuse of rights. The bill aims at regulating the situations where a fiscal advantage achieved by a business transaction is illegitimate. The provision introduces also the **cooperative compliance between tax administration and firms** and includes a rule that limits the possibility to double the length of fiscal inspections in the case of criminal violations. The measure is designed to provide more certainty to those willing to adhere to voluntary disclosure of funds held abroad.

F8) Legislative Decree on Electronic invoicing (approved)

On the same date the government approved a legislative decree on electronic invoicing that extends electronic invoicing to the private sector in addition to the public administration. From January, 1 2017 the taxpayer may issue electronic invoices, benefiting from certain simplifications in compulsory communications to the tax administration.

Comments:

The measures approved by the government should improve both the efficiency of the tax system and the relationship between tax authorities and citizens, allowing, as stated by the Economy Minister Pier Carlo Padoan, the “certainty of law for tax-payers.” However, some important measures expected - such as the cadastre’s reform, the tax on gambling, the taxation of small businesses, the Irap exclusion for self-employed people – have not been included in the legislative decrees. However, they could be envisaged by next legislative provisions.

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