

ITALY's REFORMS

Long expected, consistently designed, fully implemented.



Ministero
dell'Economia
e delle Finanze

PUBLIC FINANCE

long term sustainability, short term boost, growth-friendly approach

- ↳ Tax cut over productive factors (IRAP, ...)
- ↳ A Budget Law for growth
- ↳ Spending review
- ↳ Deficit/primary surplus
- ↳ Debt/sustainability (EU Com)

AN IMPROVED BUSINESS ENVIRONMENT

improving access to credit, diversifying financial (re)sources, streamlining the business environment

- ↳ Main factors to facilitate access to alternative resources to bank credit
- ↳ Reform of the Banking Sector I (Operators)
- ↳ Reform of the Banking Sector II (New provisions on NPLs)
- ↳ Labour Market
- ↳ Civil Justice

INSTITUTIONS

improving stability, enhancing efficiency, making governance easier

- ↳ Simplification of the levels of government
- ↳ Electoral law
- ↳ Senate

CONCLUSIONS

PUBLIC FINANCE

The government's policy is focused on reducing the fiscal burden through a growth-friendly approach. Reducing both the deficit and the debt will ensure gradual achievement of EU targets and fiscal sustainability.

TAX CUT OVER PRODUCTIVE FACTORS

The government's labour policy has initially focused on granting fiscal incentives to workers and businesses.

The 2015 Budget Law introduced a €5 billion cut in the regional tax on productive activities (IRAP) with respect to the cost of labour. The total cut is € 13.9 billion from 2015 to 2017. Corporate taxpayers that have no employees and no labour costs can take advantage of a 10% tax credit with respect to IRAP.

The tax wedge has been significantly reduced for low- /medium-income employees; the reduction amounts to €80 per month or €960 per year per employee, and has been effective since April 2014. Small sole proprietorships can also benefit from favourable new tax provisions.



BUDGET LAW 2016: A BUDGET LAW FOR GROWTH

2016 draft Budget Law (to be adopted by Parliament by the end of the year) sets a further milestone in Government's determination to cut taxes.

TASI

PROPERTY TAX ON MAIN DWELLINGS (TASI) HAS BEEN ABOLISHED, PROVIDING AN IMPORTANT TAX RELIEF TO 80% OF ITALIAN POPULATION

IMU

CUTS HAVE BEEN INTRODUCED ON PROPERTY TAX FOR AGRICULTURAL AND INDUSTRIAL ACTIVITIES (IMU)

IRES

CORPORATE TAX RATE (IRES) WILL BE REDUCED STARTING FROM 2017. EARLY IMPLEMENTATION IN 2016 IS UNDER DISCUSSION WITH EUROPEAN COMMISSION

NEW MEASURES TO BOOST INVESTMENT AND PRODUCTIVITY:

BUSINESS INVESTING IN CAPITAL GOODS ARE ENTITLED TO DEDUCT AN AMOUNT EQUAL TO 140% OF THE ORIGINAL COST OF THE EQUIPMENT (DEPRECIATION TAX BENEFIT). THE MEASURE IS OPEN TO ANY TYPE OF BUSINESS AND EFFECTIVE FROM 15TH OCTOBER 2015

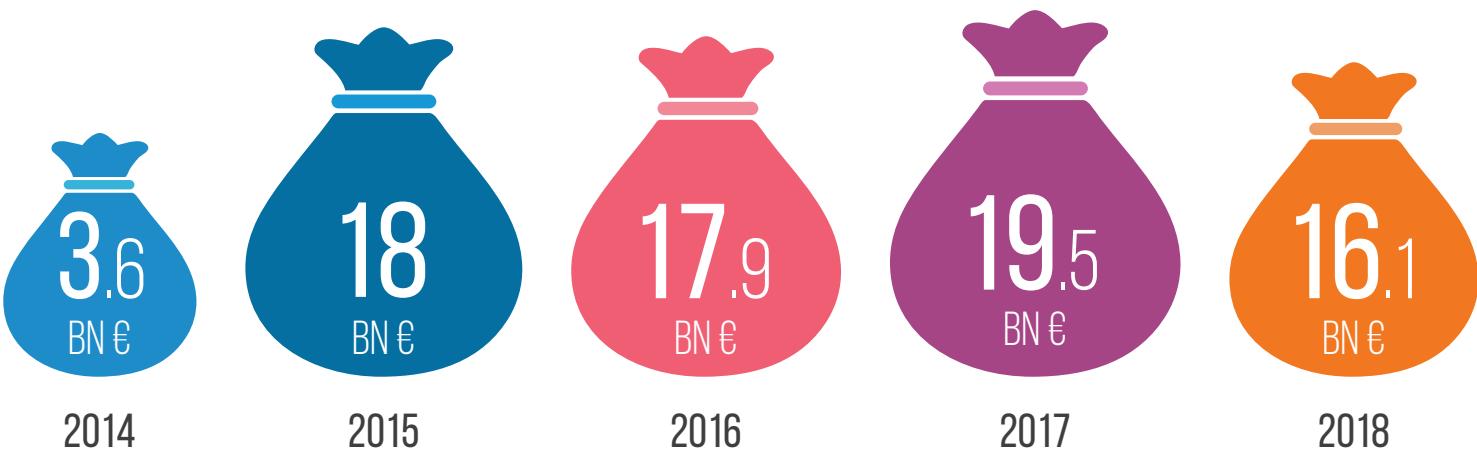
TO FAVOUR MERGERS, ESPECIALLY AMONG SMEs, THE TIME FRAME FOR THE AMORTIZATION OF GOODWILL HAS BEEN CUT BY HALF

FISCAL INCENTIVES TO ENHANCE LABOUR PRODUCTIVITY HAVE BEEN INTRODUCED

SPENDING REVIEW

The spending review launched in 2014 is a comprehensive programme to streamline public spending. As provided by the 2015 Budget Law, the programme is aimed at making the expenditure of the central government and local authorities more efficient. It has also focused on streamlining local utilities and the full implementation of an enabling law for tax administration reform. On a cumulative basis, the SR measures approved in 2014 have targeted savings of up to €3.6 billion in 2014, €18 billion in 2015, €17.9 billion in 2016, €19.5 billion in 2017 and €16.1 billion in 2018.

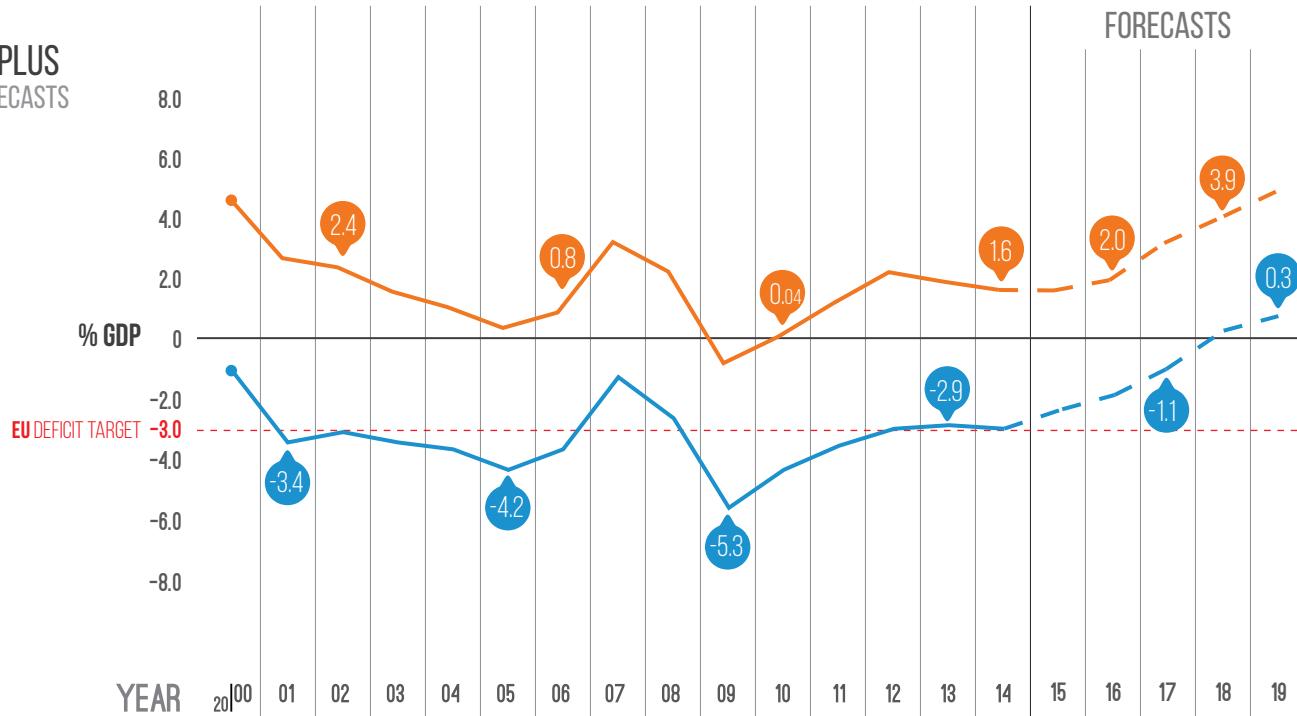
SPENDING REVIEW WITH MEASURES ADOPTED IN 2014



DEFICIT/ PRIMARY SURPLUS

(% GDP)

DEFICIT AND PRIMARY SURPLUS HISTORIC AND FORECASTS



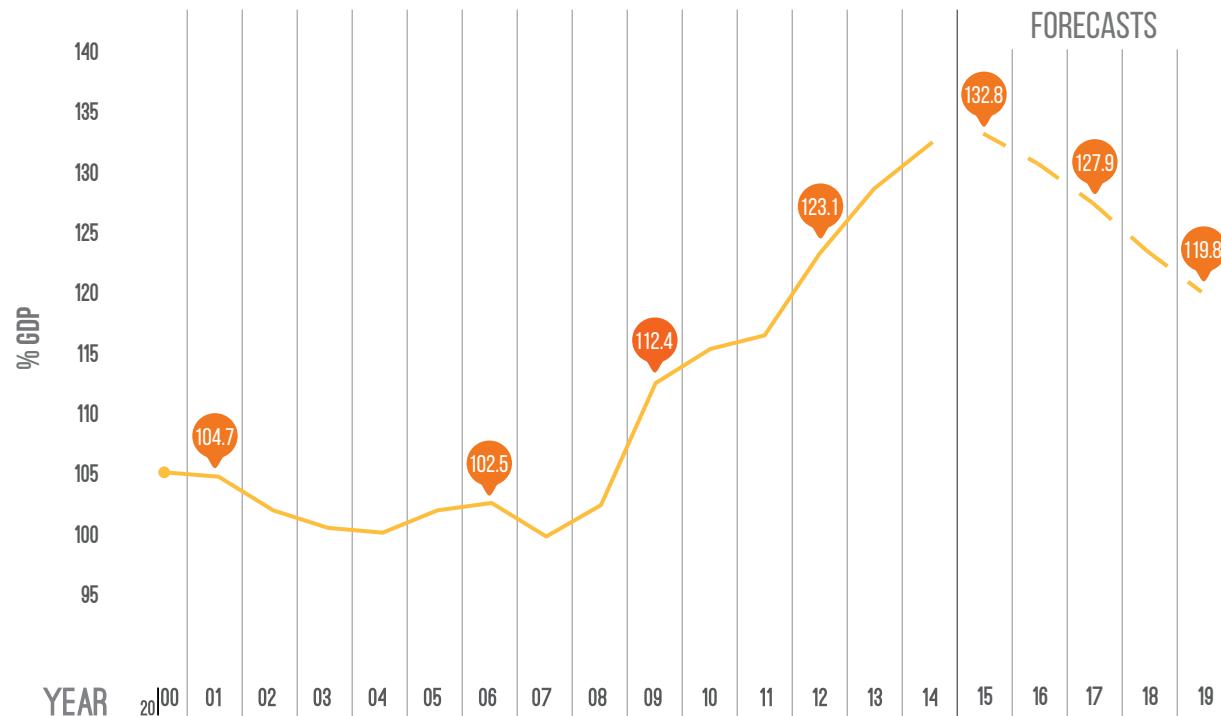
DEBT/GDP SUSTAINABILITY

EU COM

The implementation of highly needed reforms will ensure that growth potential can be fully unleashed. Higher growth and a sizeable primary surplus will put the debt-to-GDP ratio on a sustainable path.

According to an EU Commission analysis, Italy's debt is one of the most sustainable in the Euro Area. The S2 indicator is -2.1 compared with the EU average of 3 and the Euro Area average of 2.3. As the indicator increases, the fiscal adjustment required to maintain sustainability also increases.

DEBT HISTORIC AND FORECASTS



AN IMPROVED BUSINESS ENVIRONMENT

A more efficient banking system, a flexible labour market and an improved civil justice system will ease the bureaucratic burden for companies with respect to their day-to-day operations. A better business environment can attract more investment.

MAIN FACTORS TO FACILITATE ACCESS TO ALTERNATIVE RESOURCES TO BANK CREDIT

The economy needs a healthy and efficient financial system to recover. The "Finance for Growth" programme has addressed the constraints on credit to businesses, providing an alternative to a bank-centric financing system.

Insurance companies and credit funds can now lend directly to firms while EU-based investors no longer pay a withholding tax. The Central Guarantee Fund's programmes have been extended to include mini-bonds, which are bonds issued by SMEs meeting specific criteria.

The "Finance for Growth" programme also provides incentives for SMEs to expand their operations, favouring stock-market listings and enhanced capitalization through the ACE (Allowance for Corporate Equity) and Super ACE.

REFORM OF THE BANKING SECTOR I

OPERATORS

The Investment Compact has introduced the long awaited reform of the banking sector.

Italy's 10 largest cooperative banks must be transformed into joint stock companies by the end of 2016, thus making further consolidation of the banking sector possible. Smaller cooperative banks are undertaking internal reforms for the purposes of efficiency and consolidation.

Banking foundations will legally be required to diversify their assets and to respect an investment exposure threshold with respect to a single bank (no more than one-third of the foundations' capital may be held by allocated to an individual institution).

REFORM OF THE BANKING SECTOR II

NEW PROVISIONS ON NPLS

Italy's stock of non-performing loans (NPLs) is two times the Euro Area average and has impeded growth of the credit market. To facilitate absorption of the NPL stock, the government has introduced measures to accelerate bankruptcy procedures.

Asset foreclosure lead-time has been substantially reduced to allow banks to write off NPLs and increase their credit to businesses. The tax deductibility of loan losses has gone from 5 years to 1 year, in order to allow for the complete write-off of current stock of deferred tax assets (DTAs).

DEDUCTIBILITY OF LOAN LOSSES



LABOUR MARKET

Approved on December 2014, the Jobs Act has provided for more widespread use of fixed-term contracts, with enhanced employment benefits for workers on national scale. The Jobs Act also introduced a new form of a permanent contract, with benefits increasing as the term of employment increases.

The reform provides more simple and precise rules for dismissals, and introduces monetary compensation as a standard; it also broadens unemployment benefit schemes, accompanied by measures to actively involve unemployed workers in seeking new jobs.

2015 Y-O-Y
NEW OPEN-END
CONTRACTS



Q1
+25%

Q2

Q3



CIVIL JUSTICE

The reform of civil justice system aims at improving workings of the judicial system and reducing the time required for court proceedings. The reform provides for increased productivity of the courts (revision of territorial distribution), an introduction of online phases of civil proceedings, and incentives for out-of-court settlements.

In addition, attorneys' fees have been deregulated and there are now more alternatives for resolving disputes.

The government has recently adopted provisions to accelerate bankruptcy proceedings. Liquidation proceedings and debt restructuring can now be accomplished more quickly. The procedures for interim financing of insolvent businesses have been abbreviated, while arrangements with creditors now include competitive bidding.



50% REDUCTION IN TIMING
REQUIRED FOR INJUNCTIONS



ITALY IS THE EU'S FIRST COUNTRY
TO ACTIVATE ONLINE CIVIL TRIALS



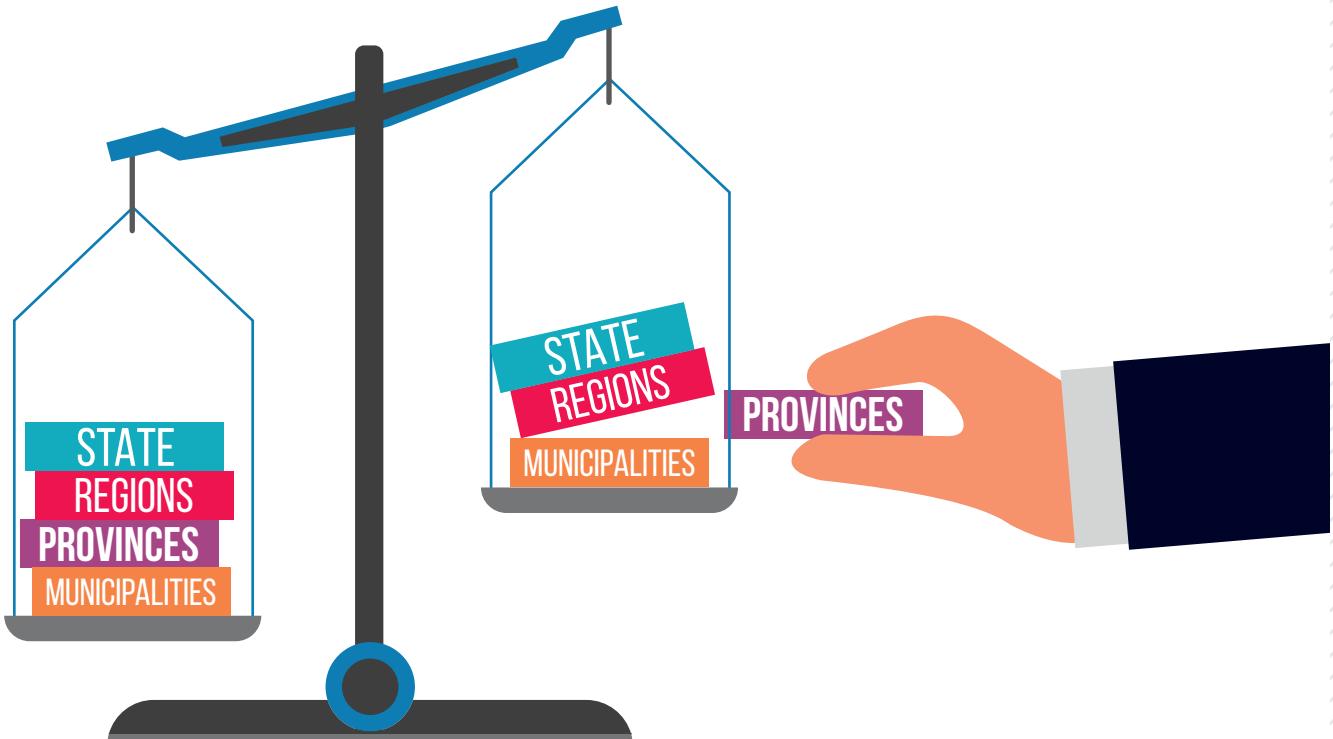
84% OF TRIALS SETTLED BY BUSINESS
TRIBUNALS IN ONE YEAR OR LESS

INSTITUTIONS

Institutional reforms aim at guaranteeing political and institutional stability. Greater stability can ensure a more certain framework to companies and households, thus providing an improved business climate.

SIMPLIFICATION OF THE LEVELS OF GOVERNMENT

Through consolidation, the number of provinces has decreased, meaning significant savings for the State. The provinces now have more streamlined governance, without the requirement for direct elections. The complete abolition of the provinces will require a reform of the Constitution. Employees are now being reassigned and a review of job duties has been under way since January 2015.



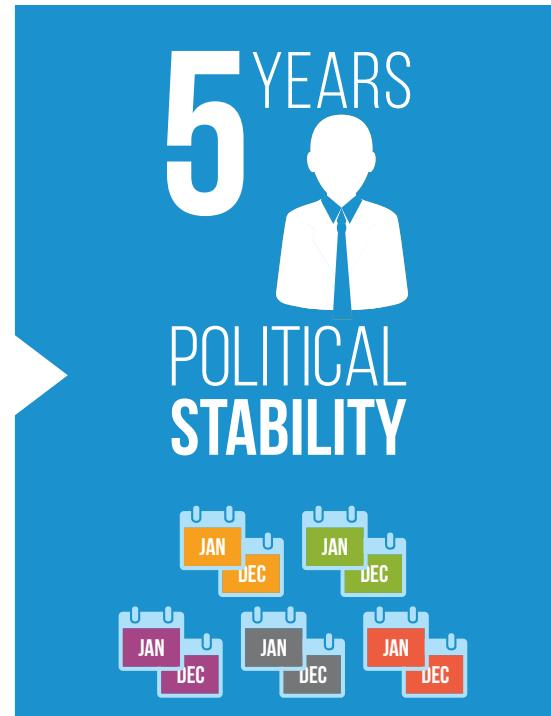
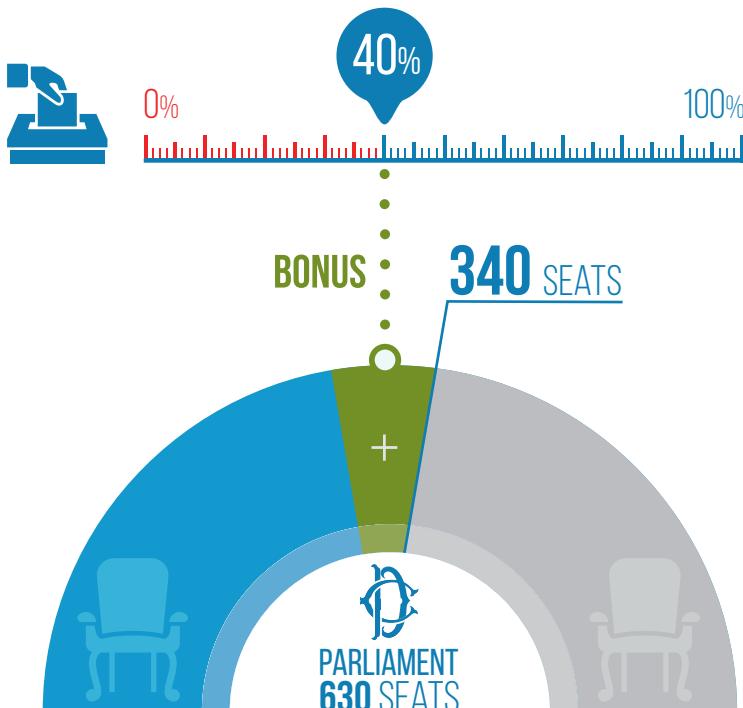
ELECTORAL LAW

The new law for general elections was approved in May 2015.

The system is based on proportional representation over nationwide lists. It assigns a bonus to the winning party that guarantees the political stability over the five years of legislature.

The new law goes into effect on 1 July 2016.

If the winning party obtains 40% of the votes in the first round, it gets a bonus to get to 340 seats therefore securing a sound majority. If not, a run-off ballot is to be held to determine which party gets the bonus.



SENATE

The draft Constitutional bill abolishes the bicameralism and aims at streamlining the law-making process. Approval times should be accelerated, as most of the new laws will be approved only by the Chamber of Deputies.

The draft has been approved in the first round by the two Chambers and in the second round by the Senate. It now needs the last approval of the Chamber of Deputies before a confirmative constitutional referendum.



A VOTE ON THE MOST IMPORTANT PROVISIONS
CAN TAKE PLACE WITHIN A DEADLINE
SET BY THE GOVERNMENT.



THE BUDGET BILLS WILL BE APPROVED BY THE CHAMBER
OF DEPUTIES ONLY. THE SENATE WILL PARTICIPATE IN THE
RATIFICATION OF EU LEGISLATIVE ACTS.



EXCEPT FOR SOME SPECIFIC ISSUES,
THE LEGISLATIVE FUNCTION WILL BE EXCLUSIVELY
CARRIED OUT BY THE CHAMBER OF DEPUTIES.

CONCLUSIONS

The government has accelerated the reform process, addressing long-needed structural changes in various sectors.

The public administration is being restructured so as to reduce the time required for adopting and implementing policy decisions. The financial sector has been opened to competition in order to increase credit flows, and the banking sector has been radically transformed as a result of recent provisions.

The ongoing reform effort has already produced visible effects on Italy's growth, but additional effects should be seen in the months ahead.



Ministry of Economy and Finance

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