THE ITALIAN VIEW
THE NARROW PATH

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Ministero dell'Economia e delle Finanze

AFTER 75 YEARS ITALY ADOPTS A NEW INSOLVENCY FRAMEWORK

When he tabled it in the Senate, the Italian Minister of Justice described the **recent reform of the Italian insolvency and bankruptcy law** as a landmark in the framework of our national justice system. Parliament passed the new law on 11 October.

Up until now, a 1942 law has regulated bankruptcies and insolvencies in Italy and the private sector has obviously been negatively affected by the lack of a more up-to-date legal framework.

A new preliminary extrajudicial phase
The new law adds to the former legal set-up a new preliminary extrajudicial phase as a way to help businesses overcome situations of financial distress more quickly. This new process is carried out by a public body specialised in providing aid to companies experiencing a business crisis. The new public body will assess the causes behind the difficulties and identify - where possible - a quick way-out. In most cases, the body will also facilitate the signing of ad hoc agreements between the firm and its creditors. Pursuant to the new law, this new body shall be established within the local chamber of commerce in order to provide tailored assistance at local level.

Specialised judges for insolvency proceedings
The business courts will deal with the main proceedings, while other courts will deal with the other cases of insolvency. In all cases, only specialised judges can deal with this type of business trials.

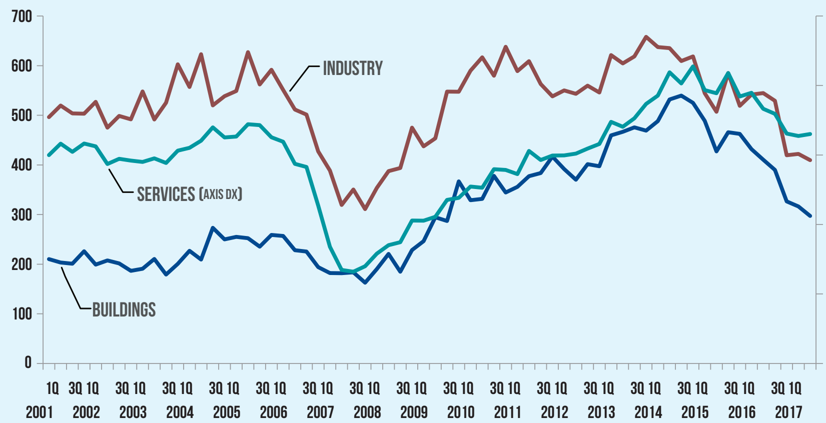
Most efficient reorganisation agreements
Through the court, the debtor could ask the agreed conditions to be extended also to the minority of creditors who initially did not take part in the deal, provided those initially involved account for at least 75% of the total amount due. In this way the decision-making process becomes quicker and the so-called "minority dictatorship" is avoided.

Insolvency procedures for groups of firms
A single court could be responsible for the trials of all firms belonging to a same group. It will, therefore, be possible for the Court to treat a few claims as a single one, so as to harmonise debt restructuring conditions and admit all firms belonging to the same group to a common preliminary extrajudicial phase with a significant improvement of the efficiency of the whole civil justice system.

Helping enterprises to get access to credit
New provisions facilitate access to credit for companies, especially for small enterprises, while new forms of guarantee do not imply the disposal of secured assets. Therefore, the entrepreneur can continue to use the secured asset in its production system, or transfer the guarantee to its earnings, or set up a guarantee on future assets such as forecasted inventory.

Most efficient business control
An obligation to set up control bodies which previously only bigger firms were required to establish has now been extended to non-listed companies and smaller firms. In so doing, the new law improves the overall re-

BANKRUPTCY BY SECTORS
QUARTERLY, SEASONALLY ADJUSTED BY WORKING DAYS



SOURCE: CERVED

silience of the business sector.

Greater legal protection for buyers of properties under construction

All agreements signed for the purchase of properties under construction must now be registered. The notary must verify signatures and check that the future building is in compliance with the existing legislation. The new system obliges the builder to provide a bank guarantee or insurance to protect the buyer in case any problems arise while the property is being built.

The Common Marketplace: an integrated market for assets acquired during judicial proceedings

The Common Marketplace is a new unique national market for assets acquired during judicial proceedings to render them directly marketable, either as cash, or as resources assigned to creditors in judicial settlements. Overall, the new system brings Italy's legal framework in line with international standards, it unleashes new growth opportunities allowing healthy companies affected by the crisis to revitalise their business and adjust to the new economic conditions, thereby contributing to growth.

Last but not least, the new law does not mention the word bankruptcy which has been replaced in the new text by the expression "winding up procedure".

The new text includes the possibility of a compromise and a full debt cancellation within three years from the start of proceedings. The possibilities afforded by the new law remove the stigma associated with bankruptcy by recognising that, in some cases, insolvency can also be one of the stages of a business cycle which - on the whole - is indeed healthy.

THE NPL STOCK HITS RECORD LOW

Recent improvements in macroeconomic conditions have had a positive impact on the quality of Italian banks' credit. The ratio of new non-performing loans (NPLs) to outstanding loans fell in August to 2.0% (on a seasonally adjusted and annualized basis data), a **percentage aligned with the average of the years preceding the global financial crisis**. The non-performing loans coverage ratio rose to 55.3% from the 52.3% of the Ist quarter. In August the net bad loans NPLs stock reached **its lowest level since 2013 totalling €65.3 bn**, which is significantly lower than the €86.8 bn level reached in December 2016. EBA data show that the net NPLs ratio (non-performing loans to total gross loans) of Italian banks is now 4 points above the EU average (it was 7 points higher in 2015).

THE NEW NON-PERFORMING LOANS RATE FALLS	AUGUST 2017 -2.0%
NET BAD LOANS STOCK	AUGUST 2017 -24.7%

SOURCE: BANK OF ITALY, ECONOMIC BULLETIN NO.4 2017

FURTHER INFORMATION

Bank of Italy, Banks and Money: National data - August 2017
https://www.bancaditalia.it/pubblicazioni/moneta-banche/2017-moneta/en_statistiche_BAM_20171010.pdf?language_id=1

ITALY MOVING AHEAD ON FINTECH

The Italian Government is actively taking up the Fintech (i.e. financial technology) challenge, fostering dialogue with market operators and regulators, while promoting a comprehensive package to support investment and startups' development.

From a policy perspective, Fintech requires fine-tuning and updating of the existing rules to ensure that regulations do not hinder developments, that there is a level playing field for incumbents and newcomers, and that the rights and confidentiality of consumers are adequately protected. **The Italian Ministry of Economy and Finance has launched a task-force on Fintech to these ends**, together with regulators, financial market operators and startups. The purpose of the task force is to have a platform to discuss these issues, provide input on measures to be taken and analyse the effects of measures already in place.

There are in fact a number of measures already in place to support and foster growth of startups.

By simply sitting in front of their computer, foreign (non-EU) entrepreneurs **can make an online application to obtain a startup VISA**.

Once they are in Italy, they can benefit of the newly launched facilitations to establish and operate innovative startups. For instance, a company can be set up through simplified, fully digitised administrative procedures - free-of-charge. It can be enrolled on the online register dedicated to innovative startups (both a marketing tool and a showcase for investors). It can also benefit from the 1-year grace period to cover losses over 1/3 of share capital.

Founders also have access to more flexible labour market laws, with 6 to 36-months temporary contracts applicable for the whole of the startup life cycle (up to 4 years). They can introduce performance-related pay and remunerate employees and external consultants with stock options and equity, respectively, with a privileged tax treatment for stock options. **Moreover, they get a 35% tax credit for hiring qualified workers with open-ended contracts**.

The Government is also stimulating equity investments into companies. **There is a robust 30% tax incentive on investment amounting up to €1.8 mn in startups' share capital**. The Budget Law 2017 has also introduced a new type of VISA to encourage foreign investors willing to engage in capital investment.

The funding landscape has also been broadened. Companies can raise capital in exchange for shares through equity crowdfunding portals. They can also obtain streamlined and free-of-charge access up-to-80% public guaranteeson bank loans up to €2.5 mn. **Firms can be the investment target of the recently introduced individual long-term saving plans (Piani Individuali di Risparmio or PIR)**, which are expected to collect around €10 bn in the first year of operation, vastly exceeding the initial estimated target of €1.8 bn.

The private sector is also proactively supporting Fintech. **The Fintech District was inaugurated on September 26 in Milan and is already hosting over 30 companies**. The premises, owned by Banca Sella, provide a space where the Fintech community can meet, work, discuss and grow. The sector in Italy now counts on over 100 companies and is expected to significantly expand in the coming years.

TAX CREDIT FOR STARTUPS HIRING QUALIFIED WORKERS WITH OPEN-ENDED CONTRACTS	35%
TAX CREDIT ON INVESTMENT UP TO €1.8 MN IN STARTUPS' SHARE CAPITAL	30%

FURTHER INFORMATION

Italia Startup Visa website
http://italiastartupvisa.mise.gov.it/

Italian legislation for innovative startups
http://www.mise.gov.it/images/stories/documenti/Executive-Summary-of-Italy-s-Startup-Act-new-format-23_02_2017.pdf

Italian Startup Act deck
http://www.sviluppoeconomico.gov.it/images/stories/documenti/Innovative_startups_10_02_2017.pdf

SOURCE: MINISTRY OF ECONOMIC DEVELOPMENT

BOOSTING INVESTMENT: A TWO LEG STRATEGY

Investment represents today's demand and tomorrow's supply. Therefore, a significant pick up in this variable would push up the growth rate in the short run - by sustaining demand - and in the mid to long-run - by improving conditions on the supply side.

In Italy, gross fixed capital formation dropped from 21.8% of GDP in 2008-2009, down to 16.8% in 2014. Public investment contributed significantly to this result.

In the last two years the ratio recovered somewhat, reaching 17.3% in 2016, but Italy remains below the average of Germany (20%), France (21.8%) and the Eurozone (20.4%).

Private sector

In 2017, industrial production rose by 2.6%, exports by 7.6%, the business confidence index increased by 4%, while the FDI stock at the end of the first quarter had grown by 5.7%. Orders for capital goods increased by 11.6% for machineries and other equipment up until September. In this same sectors expected orders climbed past the previous peak reached in 2010. In the second quarter of 2017 gross fixed capital formation increased by 2.3%.

The Government put in place several measures to support private investment whose effects will fully consolidate, strengthen and bear fruit in the coming years.

› **The national plan Industry 4.0** creates new opportunities and, through concrete proposals for action, offers new ways to face the challenges that the transition to the next stage of industrialisation poses to our economy.

› The 2016 Budget law introduced **the possibility of a 140% amortisation of the cost of new capital goods**. In 2017 the option was extended **up to a total of 250% tax amortization for investment in innovation**.

› Measures introduced by the Government include, inter alia, **simplifications related to tax repayment obligations, corporate tax obligations and measures to ease the bureaucratic burden on firms and citizens**.

› In 2017 the Budget introduced **a new class of tax-exempt investment plans for individual retail investors called "Piani individuali di risparmio"** (Individual savings plans - PIR). Returns on PIRs are exempt from both capital gains (26%) and inheritance tax as long as the investment meets a few criteria, including a minimum holding period of 5 years and a maximum contribution of €30,000 per year. These plans were created to channel private savings towards equity and debt instruments issued by Italian corporates, and especially by small and medium enterprises (SMEs).

Public sector

As far as public investment is concerned, in January 2017 a new set of rules relating to tenders for public contracts came into force. The new system simplifies the project design phase, sets a floor for manpower wages, raises qualitative requirements for applicant firms, renders legal preliminary activity free. In addition, the new system fosters the gradual digitalisation of infrastructure design and it finally enables the recently established Anti-corruption Agency to challenge bids not complying with the new standards at all stages of the process.

To compensate for the dramatic drop in public investment registered in the aftermath of the financial crisis and ensuing austerity, the 2017 Budget established a comprehensive 15-year plan to revamp public investment. The plan earmarks 1.9 billion euros in 2017, 3.15 billion euros in 2018 and 2019, and 3 billion euros each successive year from 2020 until 2032 for total of 47.5 billion euros. Funds have been allocated to the following key areas:

› Transport and sustainable mobility;
› Water infrastructure;
› Industrial and strategic research;
› Mitigation of hydrogeological instability;
› Government property and estates including schools;
› High-tech industrial activities in support of exports
› Digitisation of civil justice;
› Earthquake damage prevention;
› Maintaining law and order in peripheral metropolitan areas;
› Removal of architectural barriers.

The plan will be supported by a comprehensive strategy to improve the effectiveness of the whole public investment process at all levels of government, by removing unnecessary hurdles and speeding up the realisation of strategic programmes.

ORDERS FOR CAPITAL GOODS
(MACHINERIES AND OTHER EQUIPMENT)

+11.6%

JANUARY-SEPTEMBER 2017

SOURCE: ISTAT

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In Italy, since the financial crisis, our duty as policy makers has been stabilising a high public debt while bringing the economy out of sluggish or negative growth and The Narrow Path is an image of the difficulties we are facing and the goals we are achieving. Here we update periodically a professional audience about the evolution of structural conditions affecting the economic activity in the country.