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Weekly Report from Italy
Political outlook
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Privatisation process

27 January 2016

1. Political Outlook

- PM Renzi finalised on 28 January a widely expected minor Government reshuffle, basically aimed at strengthening the parliamentary majority by awarding Pd's junior allies (the centrist parties NCD, *Scelta Civica* and *Area Popolare*) with some secondary posts
- As predicted, the Vice-Minister of Justice, Enrico **Costa** (NCD), is the new Minister for Regional Affairs. Costa - a centrist/Catholic politician - will also be in charge of family policies: this would be rather significant, as Parliament is debating a controversial Bill on civil unions and stepchild adoptions
- Among the other 12 new members of the Cabinet's team:
 - the economic advisor to the PM, Tommaso **Nannicini**, was appointed as Undersecretary of State to the Presidency of the Council of Ministers. Nannicini was already chairing the team of economic advisors to the PM, established in November (*please refer to our Report of 13 November 2015*), and his promotion to Undersecretary confirms the progressive shifting as the core decision-making centre on economic issues from the Ministry of Economy to the Prime Ministers' Office
 - Ivan **Scalfarotto** (PD) has been appointed as Undersecretary for Economic Development, replacing the new Head of the Italian Permanent Representation in Brussels, Carlo Calenda
 - Enrico **Zanetti** has been promoted from Undersecretary of State to Vice Minister of Economy.

2. Renzi/Merkel meeting

- Matteo Renzi and Angela Merkel met today in Berlin. The migrants issue, energy policy and EU budget rules were on top of the meeting agenda
- During the press conference that followed the meeting, Renzi admitted that "*we do not agree on everything*", but "*we share the view that tackling unemployment means combating populism, and populism is our common enemy*". Merkel praised the Italian Government's efforts for its "*remarkable*" set of reforms and - with regards to Italy's request for budget flexibility - said that "*defining the right interpretation of the common rules is up to the European Commission*"
- The two Heads of Government announced that an economic conference to strengthen bilateral relations will be held in the near future. Merkel anticipated that the conference will, among other, deal with ultra-broadband policies.

3. Government expected measures on the disposal of banks' NPLs

- The Cabinet will approve next week a Decree-Law implementing the Italian Treasury/European Commission agreement on the management and disposal of banks' NPLs
- The Decree is also expected to introduce measures to streamline and speed-up credit recovery procedures and setting general principles for a reform of cooperative banks, to be then implemented in detail by the Bank of Italy
- During a parliamentary hearing on 27 January, the Minister of Economy illustrated the NPLs' management mechanism agreed with the European Commission, reassuring that the State guarantee to be granted on NPLs' securitisation will have no detrimental impact over public accounts

- However, financial markets negatively reacted to the agreement on NPLs: Italian banks' shares resumed a downward trend, after Mario Draghi's announcement of monetary policy interventions in March had temporarily stopped last week's market drop.

4. Parliament cleared the sale of Ilva steel mill

- The Senate finally approved on 27 January a legislation authorising the sale of the Ilva steel mill, in Taranto (Puglia)
- Along with the authorisation to sell - or rent - the steel mill and 7 subsidiary companies, the Law provides a €300 million loan to Ilva for the transitional period, to be paid back to the State by the purchaser/renter
- Ilva - among the most polluting industrial site in Europe - had been put under the Government's compulsory administration in January 2015 due to major environmental offences.

5. Update on the sale of Inwit

- *Telecom Italia* is finalising the sale of a 45% of its towers unit Inwit, with binding offers to be submitted by 05 March 2016. Mediaset's EI Towers and the Spanish operator Cellnex are reportedly the closest to the purchase of Inwit
- The Government would be pressing on *Cassa Depositi e Prestiti* (CDP) to join Inwit's shareholding (possibly gleaning from the 40% free floating stake), so as to keep the a State control over the transmission infrastructure
- On 28 January, the Undersecretary of State for Communications, Antonello Giacomelli, endorsed the establishment of a single national operator for the management of phone/broadcasting towers, possibly resulting from the sale of Inwit. "*There would be no reasons for the Government in opposing an industrial plan for grouping all towers under a single entity*", Giacomelli said. He however remarked that transmission towers are a strategic network, and the Government will only clear operations providing for the State keeping a controlling interest in the infrastructure.

6. Banco Popolare and BPM to merge

- The cooperative lenders *Banco Popolare* and *Banco Popolare di Milano* (BPM) are finalising talks for a merger of equals. A Memorandum of Understanding is expected to be signed by mid-February, with a view at closing the operation in the second half of 2016
- The top-management of the two banks met with the Minister of Economy Padoan on 27 January to present the merger plan. The Government would have preferred a joint intervention of Banco Popolare and BPM in support of the struggling MPS, but eventually green-lighted the proposed operation. Also ECB would have broadly cleared the merger, after getting reassurances on the capital requirements of the new entity
- The new bank would be the third largest Italian lender, after *Intesa Sanpaolo* and Unicredit. Its Board would be made up of 19 members (9 from *Banco*, 7 from BPM and 3 independents). The current Chairman of Banco, Carlo Fratta Pasini, will be probably appointed as the new Chairman, whereas the CEO of BPM, Giuseppe Castagna, will be group's CEO.

7. Update on the sale of *Grandi Stazioni Retail*

- The State-owned railway group *Ferrovie dello Stato* sent on 27 January a memorandum to 17 operators that had expressed their interest in the acquisition of its subsidiary *Grandi Stazioni Retail* (managing retail services in the 13 largest Italian rail stations)
- Non-binding offers are to be submitted by the end of February.
- The Board of *Grandi Stazioni* had approved last Summer a demerger plan and the establishment of the new company *Grandi Stazioni Retail* (please refer to our Report of 17 July 2015)
- The sale of *Grandi Stazioni Retail* is part of the plan of *Ferrovie dello Stato* for paving the way to the launch of an IPO on a 40% of its shares, to be launched in all probability in early 2017 (please refer to our Report of 15 January 2016).

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