MEF

Dipartimento del Tesoro

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2023

Quarterly Issuance Program

Updates on public debt issuance, the macroeconomic and public finance frameworks - December 2022

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INDEX

1. QUARTERLY ISSUANCE PROGRAM FIRST QUARTER 2023

NEW BONDS TO BE ISSUED

BTP Short Term - maturity 03/28/2025 Minimum final outstanding: 9 billion Euros

BTP 3 years – maturity 04/15/2026 Minimum final outstanding: 9 billion Euros

The minimum final outstanding refers to the overall issuance of the bond and therefore it relates to the minimum amount the bond shall reach before being replaced by a new benchmark on the same maturity.

New bonds, in addition to the above-mentioned ones, could be issued during the first quarter, according to market conditions.

REOPENINGS OF OUTSTANDING BONDS

Moreover, during the same quarter further tranches of the following on-the-run bonds could be issued too:

BTP	10/15/2022 - 01/15/2026	coupon 3.50%
BTP	11/30/2022 - 04/01/2028	coupon 3.40%
BTP	11/15/2022 - 12/15/2029	coupon 3.85%
BTP	11/01/2022 - 05/01/2033	coupon 4.40%

Furthermore, according to market conditions, the Ministry of Economy and Finance reserves the right to offer further tranches of on-the-run nominal bonds with maturity above 10 years, CCTeu and inflation-linked bonds, also with the aim to tackle possible secondary market dislocations of these bonds.

Finally, the Ministry of Economy and Finance could offer further tranches of off-the-run medium and long-term instruments, nominal – fixed rate and floating (CCTeu) – and inflation linked, in order to ensure secondary market efficiency.

The Treasury will place medium and long-term securities, nominal – fixed rate and floating (CCTeu) – and inflation linked (BTP€i), through the usual uniform-price (marginal) auction mechanism and it will discretionally set the price and the issuance amount within the interval communicated in the auction announcement press release.

2. UPDATE ON 2023 FUNDING ACTIVITY

2023 funding needs will be determined by the outstanding government securities redemptions that, net of T-bills (BOTs), will amount to a volume slightly below EUR 260 billion and by the new net cash borrowing requirement of the State Sector that, based on the preliminary estimates consistent with the last November version of the Draft Budgetary Plan (DPB), should hoover around EUR 90 billion.

Taking into account the loans from the NGEU package and the cash management activity, with the information currently available total gross issuance volume of medium-long term bonds is expected to be an interval between 310 ed i 320 billion euros.

3. MACROECONOMIC FRAMEWORK

In the third quarter of 2022, in an international context marked by the signs of a global slowdown and persistent inflation, the performance of the Italian economy was among the most dynamic in the Eurozone (0.5% q/q from 1.1% in the second quarter), leading to a growth rate for 2022 equal to 3.9%. The most recent economic indicators point to a weakening of activity in the final part of the year, making it likely that the GDP growth rate for 2022 will at least reach 3.7 % as projected in the Draft Budgetary Plan (DBP). A growth of 0.6 % is expected for 2023.

In the third quarter of 2022, despite an international macroeconomic framework weighed down by continuing inflationary pressures and signs of a cyclical slowdown, the Italian economy outperformed the Eurozone average. Consolidating a trend that had been underway since the first quarter of 2021, GDP continued to grow and, although it decelerated compared to previous quarters, it surprisingly outpaced consensus forecasts with an increase of 0.5% over the previous period and of 2.6% compared to the third quarter of 2021.

After an overall positive first half of the year, the trend of activity in the third quarter (0.5 % q/q) was driven by a marked increase in household consumption (2.5 % q/q) against a dynamic service sector, which benefited from the removal of nearly all the restrictions adopted to combat the pandemic. Conversely, added value in the industrial and construction sectors contracted moderately, reflecting a slowdown in investment, especially in construction, after a prolonged period of expansion. Nevertheless, the investment rate reached 21.2% of GDP, a level not seen since 2008. The economic repercussions of the Russian-Ukrainian conflict and the loss of momentum in global demand affected exports, whose pace of growth slowed further by 8% compared to the third quarter of 2021.

The economic information relating to the final part of the year outlines heterogeneous trends: in fact, despite the persisting uncertainty, November saw a recovery in household and business confidence and a less unfavourable trend in quantitative indicators. Despite the persistence of geopolitical tensions, the strategies adopted to increase storage volumes, together with the lower demand due to milder temperatures in the autumn season, contributed to the significant decreases in the price of natural gas - which then began to rise again from the second half of November, although remaining below the peaks reached in the summer.

This, together with the fall in oil and fuel prices, affected overall price trends: after the new upsurge recorded in October, caused by marked price increases in both regulated and unregulated energy products, in November the inflation measured by the Harmonised Index of Consumer Prices (HICP) stabilised at 12.6% y/y after a prolonged period of acceleration. As inflation spread to all expenditure components, core inflation (excluding energy and fresh food) reached 6.1% y/y, a historically high value, although lower than the Eurozone average (6.6%).

Government interventions aimed at containing rising utility bills and fuel prices softened the negative impact of inflation on households. Given current energy futures prices, the inflation rate is expected to start falling beginning in the first quarter of next year. Due to delays in the adjustment of prices of other goods and services, core inflation is expected to be more persistent than the overall index, before gradually slowing down over the coming year.

The persistent surge in energy prices continued to affect the trade balance, especially the energy balance. After years of high surpluses, the current account deficit widened, although the performance of the non-energy trade balance remained positive overall.

With regard to the labour market, in the third quarter of the year the streak of consecutive cyclical increases in employment that had been underway since the second quarter of 2021 came to a halt, accompanied, however, by a fall in the unemployment rate. The continued coexistence of a low unemployment rate and stable number of job vacancies did not, however, reflect in the growth of actual wages, which was only moderate (0.1% q/q; 0.3% y/y). In October, while the recovery in employment continued, there was a further decline in the unemployment rate (7.8 %) which reached its lowest value since 2009.

Looking ahead, albeit amid persistent inflationary pressures, household consumption will be supported by the measures introduced by the Italian government with the recent *'Aiuti-quater'* decree-law and with the draft budget law for 2023, especially in a scenario in which the credit market is beginning to feel the restrictive effects of monetary policy, as reflected in the slowdown in the amount of loans granted and the progressive increase in interest rates charged to customers.

Going forward, benefiting from a growth in GDP of 3.9% for the current year (on average quarterly data), and although in the presence of signs of weakening activity in the final quarter of the year, 2023 should record a much lower but still positive growth rate (0.6%), also thanks to the boost provided by the large volume of investments included in the National Recovery and Resilience Plan.

4. PUBLIC FINANCE

Over the first eleven months of 2022 the net cash borrowing requirement dropped to around EUR 63.5 billion from almost EUR 103 billion in the corresponding period of last year. The sharp decline in the borrowing requirement (by more than 38%) is due to the growth in tax revenues and social security contributions and the moderation of current expenditure in the state budget. It benefitted from the EUR 20 billion grant coming from the Recovery and Resilience Facility (RRF) in the two instalments of April and November, which was about EUR 11 billion higher than in 2021. Even taking into account this factor, the decline of the net cash borrowing requirement amounted to EUR 28.5 billion.

In the first ten months of the year, the performance of government tax revenues was particularly positive, increasing by +11.5% in the no-policy scenario. Among indirect taxes, VAT revenues on imports continued to show the greatest dynamism. The sharp rise in oil and gas prices put pressure on import prices which, together with the recovery in import volumes observed after the pandemic, boosted import growth. VAT revenues on domestic trades also registered largely positive trend rates of change (+11.2% in October) due to higher inflation and growth in domestic demand. Other types of indirect taxes, such as lotto and instant lottery proceeds, recorded strong growth rates in the first ten months of the year. On the other hand, starting in the second half of the year, a decrease in excise duties (in particular those on energy products and their derivatives) was observed compared to the same period in 2021, following the temporary reduction of their rates to curb high energy bills.

Social contributions continued to increase, while growth in direct taxes, boosted in July and August by self-assessment payments, remained above 10% through October. The good performance of social contributions and IRPEF withholdings in the first three quarters of the year reflected the positive trend in GDP and employment. The growth in employment made it possible to compensate the impact of the reform introduced by the 2022 Italian Budget Law on IRPEF, which entails an easing of the tax burden for all taxpayers, resulting in an increase in disposable income and a reduction in the tax wedge on the labour factor.

These results incorporate the fiscal measures implemented this year to mitigate the impact of rising energy prices on households and businesses, such as the reduction in the VAT rate for natural gas, the aforementioned cuts in fuel excise duties, and exemptions from social security contributions and tax credits for businesses.

As far as expenditure is concerned, the data on payments for pensions and other social benefits continue to move along a growth path, albeit of moderate intensity, after the contraction in the no-policy scenario over the first six months of 2022. This trend reversal is largely affected by the disbursement of the EUR 200 bonus to pensioners, as well as by the payment of the Single and Universal Child Allowance.

In the final months of 2022 the growth in pension payments is also set to accelerate as a result of the bringing forward from 2023 to 2022 of the 0.2% pension adjustment (relating to the inflation rate recorded in 2021) provided for in the *'Aiuti bis'* decree. The expenditure trend is also affected by the increase of 2 percentage points for pensions up to EUR 35,000, limited to the October-December months (including the year-end bonus), also provided for by the *'Aiuti bis'* decree.

Higher inflation and the sharp rise in interest rates had a major impact on interest expenditure, especially due to interest on inflation-indexed government bonds. Despite this, the cash payments related to interest on government bonds in the first eleven months of the year were still lower (-ER 1.5 billion) than in the corresponding period of 2021.

Monthly data through November confirm a growth of almost 3% for expenditure on compensation of employees in the public administration (PA). This growth reflects both the contract renewals in June and the payment of the EUR 200 bonus in July. This also includes the renewal of contracts in the health sector, recorded in the November data. In the following years, wage growth in the public sector will again be modest and will not aggravate inflationary pressure.

Overall, as of the end of November, current payments are still lower than in the same period of 2021, despite the expenditure increases mentioned above and the impact of the new measures to mitigate high energy prices introduced between September and November (*'Aiuti-ter'* and *'Aiuti-quater'* decrees). On the other hand, the trend in current expenditure is benefiting from the discontinuation of the temporary measures adopted to counter the economic and social impact of the pandemic crisis.

Among capital payments, investments grants and other capital transfers continue to show the strongest dynamism in the first eleven months of 2022, partly as a result of tax credits granted to companies to counter high energy prices, which are recorded as capital payments according to the accounting rules of the state budget. Cash payments are also affected by the disbursement of the EUR 4 billion loan to GSE for the purchase of natural gas to be stored and subsequently sold.

Fixed gross investments of the PA is affected by the postponement of some NRRP-related expenditures compared to the forecast. The actual implementation of NRRP projects is proving to be complex due not only to the rise in cost of public works, that somehow slowed the assignment of public tenders but also triggered the increase of additional resources through the national budget, but also to the technical time required to prepare and carry out calls for tenders on innovative projects. These factors inevitably push the actual disbursement of funds received from the RRF in 2022 towards the years 2023-2026, when the greatest economic effects of the NRRP will be seen.

In conclusion, the data as of end-November suggest that the needs of the state sector in 2022 will be very contained and lower than expected. The PA deficit target for 2022, confirmed at 5.6% of GDP in the integrated and revised version of the DBP, is to be considered fully achievable, as is its gradual reduction over the next three years. The PA debt/GDP ratio, that already dropped to 150,3% in 2021, is also expected to decrease to 145.7% this year and to around 141% in 2025, the final year of the three-year planning period.