ITALY'S DRAFT BUDGETARY PLAN

2022

Ministero dell'Economia e delle Finanze

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2022

Submitted by Minister of Economy and Finance

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MINISTERO DELL'ECONOMIA E DELLE FINANZE

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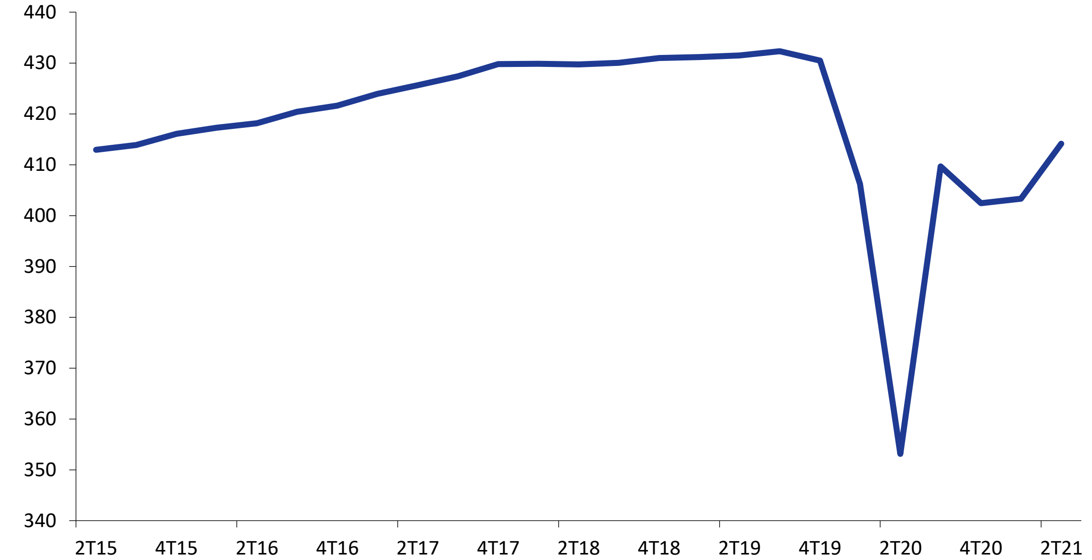
I.1 RECENT TRENDS IN THE ECONOMY

The first half of this year has witnessed a recovery in Gross Domestic Product (GDP) that has exceeded expectations. A slight increase in the first quarter (0.2 percent over the previous period) was followed by a 2.7 percent rise in the second quarter. The third quarter is expected to mark a further recovery in GDP, with an estimated increase over the previous period of 2.2 percent. As a result, even assuming a slower advance in the last three months of the year, the annual real GDP growth forecast rises to 6.0 percent, from 4.5 percent projected in the 2021 Stability Program (SP).

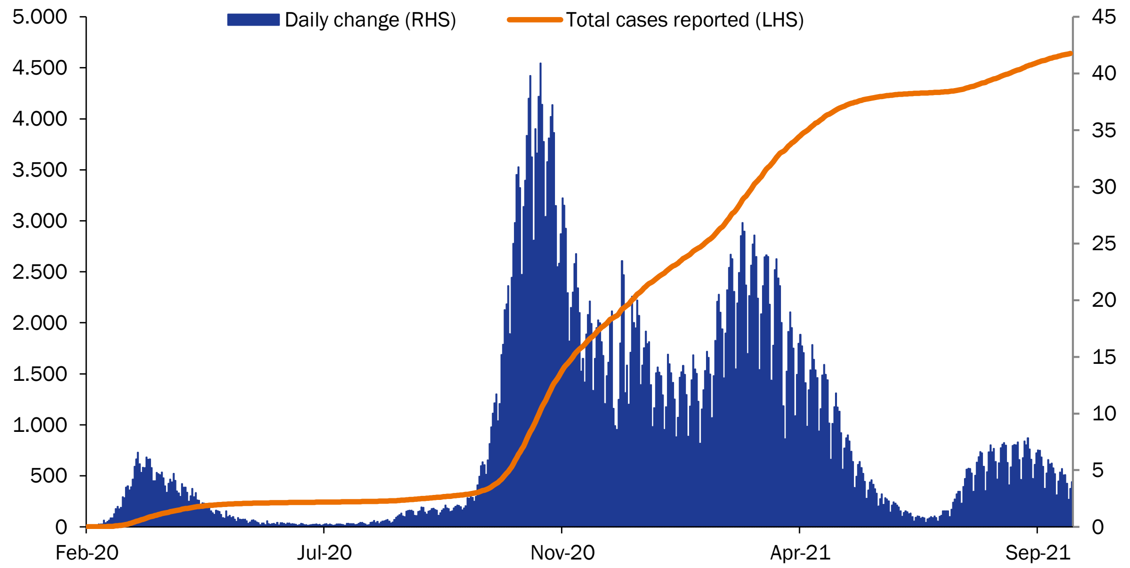
FIGURE I.1-1 : GROSS DOMESTIC PRODUCT AT CONSTANT PRICES – QUARTERLY VALUES (BILLION OF €)



Source: ISTAT.

The performance of the economy continues to be primarily determined by the Covid-19 outbreak and related preventive measures. The significant progress registered with respect to population vaccination in Italy and in our major trading partners has contributed to the easing of restrictions despite the emergence of more contagious variants of SARS-Cov-2. In our country, new infections decreased significantly in May and June, and then increased again in July. However, the 'fourth wave' has visibly slowed down in September. Thanks also to levels of hospitalization and intensive care occupancy below the alert thresholds, all Italian regions are currently in the low-risk category.

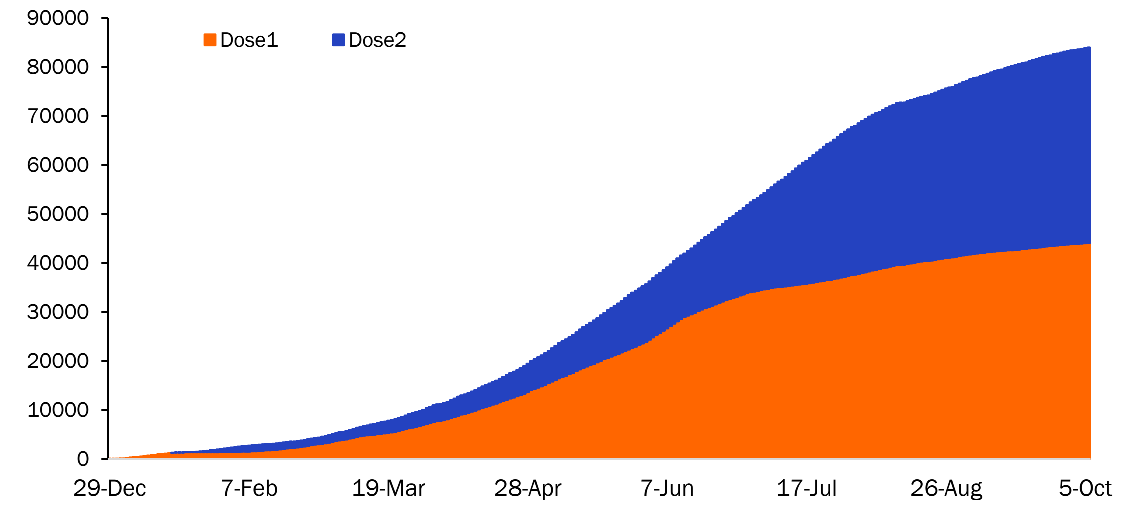
FIGURE I.1-2 : TREND OF COVID-19 INFECTIONS IN ITALY (VALUES IN THOUSANDS)



Fonte: Civil Protection.

Alongside the slowdown in new infections, vaccinations have reached 80 percent of the population over 12 with two doses, and 85 percent with at least one dose. On 7 October the Government announced a further easing of restrictions relating to sporting events and other activities involving social contacts. The normalisation of working and social life should continue in the coming weeks, with the return to in-presence work in the Public Administration (PA).

FIGURE I.1-3 : TREND OF COVID-19 INFECTIONS IN ITALY (VALUES IN THOUSANDS)



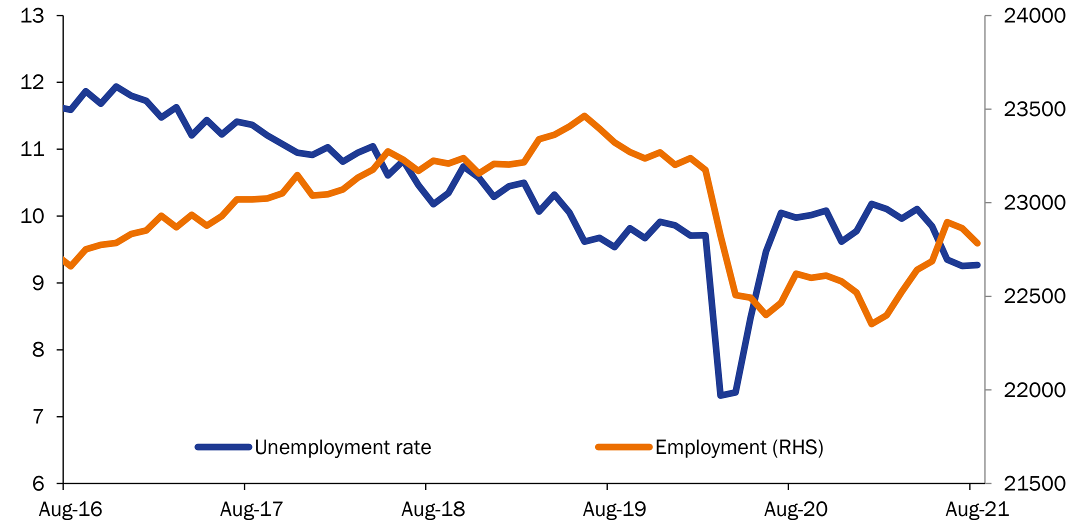
Source: Covid-19 'Opendata' Vaccines.

In the first half of 2021 value added in the industrial and construction sectors continued to grow at a relatively strong pace, which in the case of construction, allowed to exceed the pre-pandemic level of output and, in the case of the industrial field, to return to that level. However, starting from the second quarter, it was the service sector to drive the recovery in GDP, thanks to the easing of restrictions and social distancing measures.

On the demand side, there was a significant rebound in consumption and further increases in investment. Exports grew significantly, especially in the second quarter. However, the recovery of imports meant that the net contribution of the international trade to GDP growth in the first half of the year was slightly negative.

Consistent with the output developments, employment has recovered significantly in the first half of the year. In July-August, the number of employed persons, according to the labor force survey, was 2.1 percent higher than at the beginning of the year, albeit still 1.8 percent below the pre-crisis level. The labor input, measured by national accounts (Full-Time Equivalent, FTE) in the first half of the year has marked a recover only slightly higher than that of the GDP, suggesting that much of the productivity gain recorded by the 2020 data has been maintained in the current year.

FIGURE I.1-4 : EMPLOYMENT AND UNEMPLOYMENT RATE - MONTHLY DATA



Source: Istat.

Concerning the trend of credit, after the exceptional increase recorded last year due to the measures implemented by the Government to facilitate access to credit, the overall trend in loans to businesses and households showed a moderate slowdown in 2021, starting from the second quarter. The slowdown in the pace of growth of bank loans is attributable to the less intense expansion of those to non-financial companies, while those granted to households continue to grow.

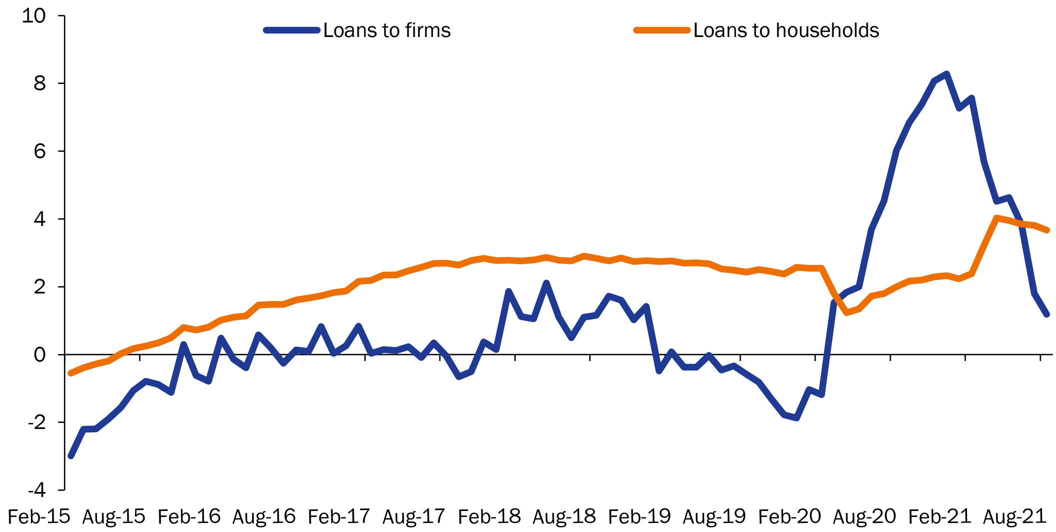
Loans to households regained momentum starting from February; growth accelerated in the following months (+3.8 percent year-on-year in July), benefiting from both the recovery of sales in the real estate market and the expansion of consumer credit[1].

As mentioned above, a more contained dynamics has instead characterized the fluctuation over the twelve months in loans to non-financial companies (adjusted to take into account the effects of securitizations): starting in March, the month in which, last year, loans had returned to grow thanks to the boost provided by public

[1] Data extracted from the Real Estate Market Observatory's 2021 Q2 Report.

guarantees, a deceleration of growth was observed compared to the previous year, which led in July to an increase of 1.7 percent on an annual basis, almost six points below the expansion rate at the beginning of 2021.

FIGURE I.1-5 : LOANS TO THE PRIVATE SECTOR (% CHANGE Y/Y)



Fonte: Bank of Italy.

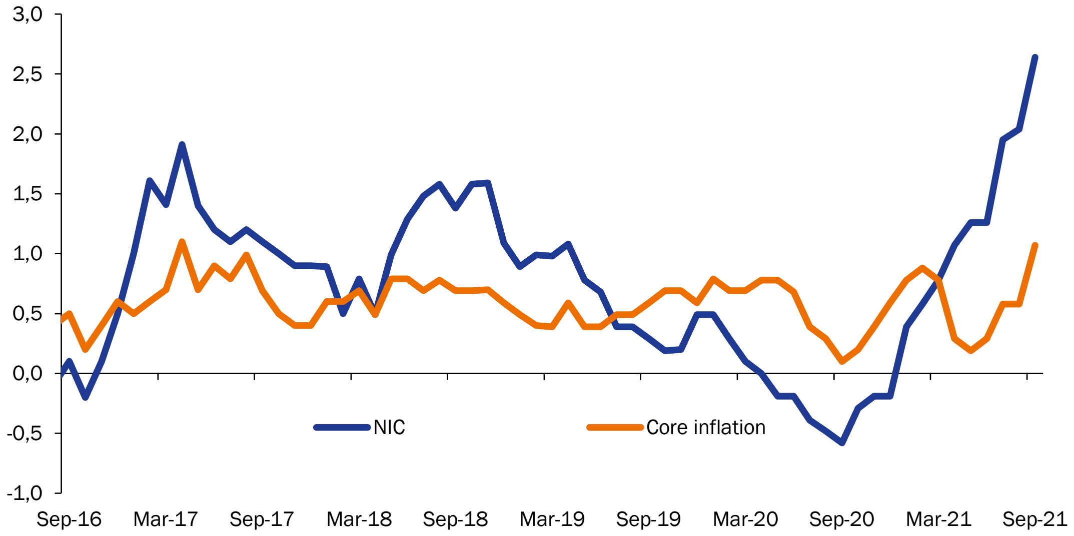
On the supply side, credit standards remain favorable. Lending rates charged by banks are very low and close to all-time lows. SMEs report good credit availability. In addition, banks' capital ratios remain solid, and the process of disposal of non-performing loans continues, according to the latest surveys. In fact, in the first seven months of the year the share of impaired loans over total loans to businesses was 4.9 percent (compared to 7.3 percent in the same period of 2020).

The year 2021 has also been marked by rising inflation, less pronounced than in other advanced economies but still significant. The consumer price index for the whole nation (NIC), after an average decline of 0.2 percent in 2020, has increased on average by 1.3 percent in the first nine months of this year over the corresponding period of 2020, driven by a rebound in energy prices. The inflation rate in September has risen to 2.6 percent, led by regulated energy prices (+34.3 percent) and other energy ones (+13.3 percent). Core inflation (consumer prices excluding energy and fresh food products) remains low (1.1 percent in September) and contractual wage growth at the end of June was zero in the public sector, 1.2 percent in industry and 0.7 percent in market services. Except for hospitality and food services, for which inflation in September stood at 2.8 percent, the increase in the main components of the consumer price index in Italy remains moderate, albeit in an acceleration phase.

It should be noted, however, that growth in the producer price index (PPI) for industrial goods has accelerated considerably (11.6 percent in August), also in the component excluding energy (6.9 percent). Excluding exported goods, the domestic market related PPI rose by 13.8 percent as a trend in August, while building construction prices rose by 5.3 percent. Although these trends relate to a very weak 2020 (-4.3 percent for industrial products on the domestic market and +0.2 percent for construction) there is a real risk of transmission of the significant price increases from the production stage to the consumption stage.

The Government has already taken actions in July to reduce the cost of electricity bills by cutting the so-called system charges; in view of the recent increases in natural gas and electricity prices, on 27 September a new decree-law to reduce tax charges, amounting to €3.5 billion, was introduced.

FIGURE I.1-6 : CONSUMER PRICES, TREND CHANGES (in percentage)

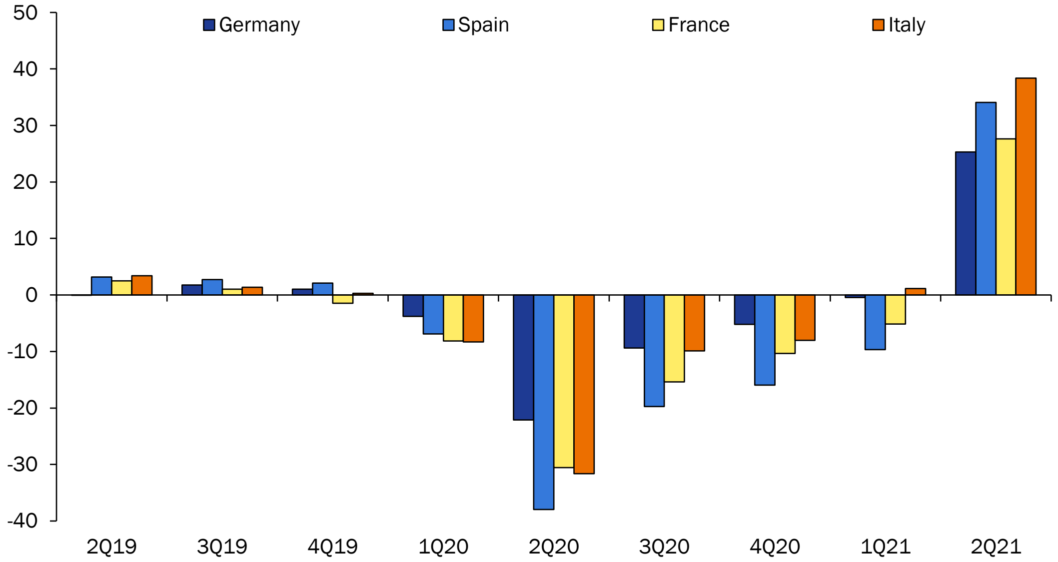


Fonte: Istat.

In terms of foreign trade, the trade surplus and the current account balance surplus amounted respectively to 3.8 and 3.7 percent of GDP in the twelve months ending in July. The recovery of imports due to the strengthening of domestic demand and the rise in the price of electricity and imported fuels should lead to a narrowing of the surplus in the second half of the year; nevertheless, 2021 is expected to end with a current account surplus of 3.6 percent of GDP, from 3.5 percent of 2020.

The outlook for world trade in the second half of 2021 appears favorable, although there have been signs of less dynamism in the summer months caused by semiconductor shortages and maritime transport delays resulting in longer product delivery times. Foreign demand continues to be steady, with the related PMI index of manufacturing orders which, although slightly down in September (to 58.6 from 60.3 in August), remains largely in positive territory.

FIGURE I.1-7 : EXPORTS OF GOODS AND SERVICES IN VOLUME (PERCENTAGE CHANGES Y/Y)



Fonte: Eurostat.

Finally, with reference to public finance, the central-government cash borrowing requirement in the first nine months of the year has shown a much more moderate trend than expected, amounting to 85.5 billion, around 42.2 billion less than in the same period of 2020 (36.2 billion less excluding grants received in August from the Recovery and Resilience Facility - RRF). General government net borrowing also decreased in the first half of the year compared to 2020, from 91.4 billion to 86.6 billion (in non-seasonally adjusted terms)[2]. In light of the steady performance of tax and contribution revenues of the State sector (+ 11.3 percent in the first eight months of the year over the corresponding period of 2020) and lower-than-expected expenditure, the annual net borrowing is expected to be lower than in 2020.

[2] Istat, Conto trimestrale delle AP, reddito e risparmio delle famiglie e profitti delle società, 5 October 2021.

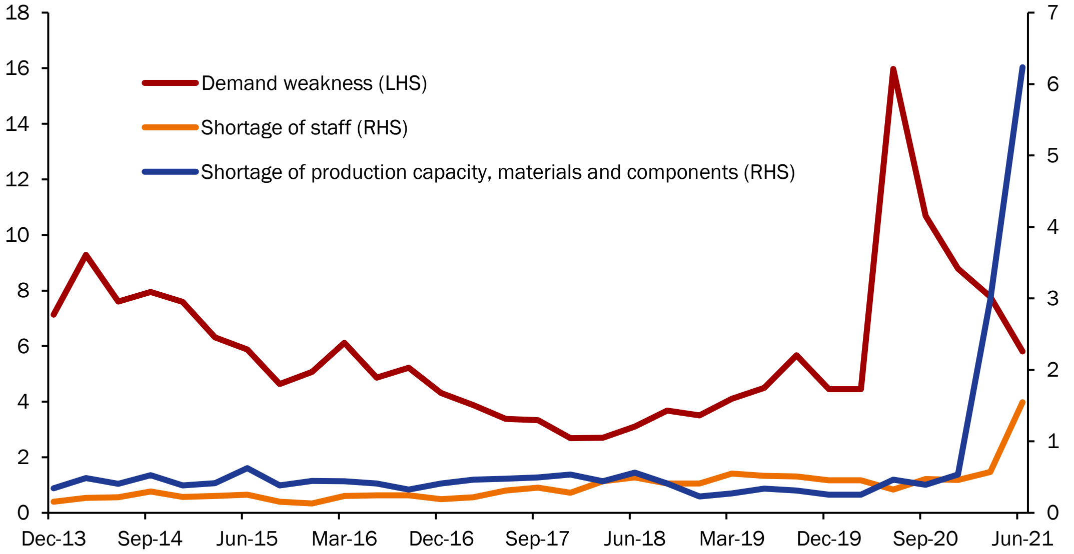
I.2 MACROECONOMIC SCENARIO UNDER EXISTING LEGISLATION

The forecast scenario remains influenced primarily by the expected pandemic developments, the growth momentum coming from the Recovery and Resilience Plan (RRP), and expansionary monetary and fiscal policies at a global level.

Compared to the Stability Program (SP), the exogenous variables in the forecast warrant a significant upward revision to the GDP growth forecast for 2021 and a slight fine-tuning for 2022 and 2023. In detail, the expected growth in world trade and imports of Italy's main trading partners is revised upwards for 2021 and, to a lesser extent, for 2022 and 2023. The euro exchange rate is more competitive than the level used for the SP forecast, especially against the dollar, and further support comes from short-term rates and expected yields on government bonds, which are lower compared with the SP hypothesis. On the other hand, a restraining factor is represented by the expected price of oil (derived from futures quotes), which is higher compared to April forecast.

The econometric model used for the forecast relies on the oil price as an indicator of the cost of energy. In the current phase, however, the greatest upward pressures on producer and consumer prices come from the rise in natural gas and electricity prices. Although the Government has intervened to mitigate the surge in energy prices, the rise in inflation we are witnessing is denting households' purchasing power and increasing the production costs of businesses. This could slow down the recovery in demand both in Italy and abroad. The shortage of materials and components that are appearing globally also weigh on the short-term prospects for industrial production. There is already a clear trace of them in the Istat survey of manufacturing companies relating to the first half of the year. In consideration of these factors, and of the shorter gap vis-à-vis the pre-crisis level, the GDP forecast features a slowdown in sequential growth in the fourth quarter of 2021.

FIGURE I.2-1 : OBSTACLES TO PRODUCTION IN INDUSTRY (PERCENTAGE CHANGES Y/Y)



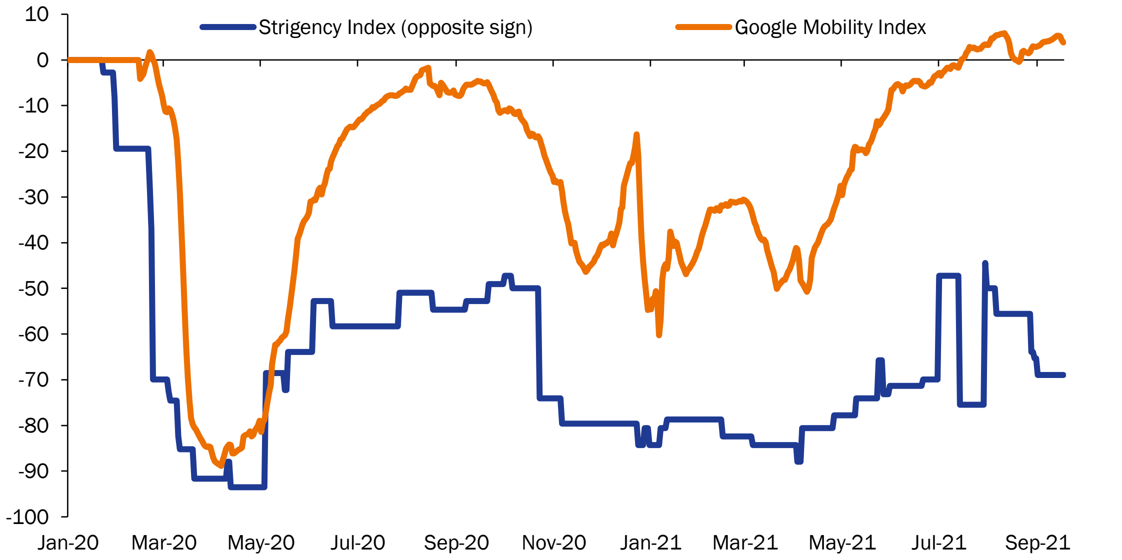
Source: Istat.
The figure for March 2020 is set equal to that of December 2019 as the survey was not carried out.

From the point of view of the impetus provided by the RRP, the final version of the Plan outlined with the European Commission involves a shift of expenditure flows from the first three years of the Plan to the second ones. However, the year most affected by the downward revision is 2021, for which the projected GDP growth is widely obtained. The momentum coming from the RRP-activated spending is slightly lower in 2022 and 2023, while it is significantly higher in 2024. This has been considered when revising the forecast of investment expenditure. The impact of the reforms provided for by the RRP is indirectly embedded into the forecast, that is, through the potential output growth rate towards which GDP growth tends to converge in the medium term. This is also given the fact that the related impacts will take place over a longer time frame than 2022-2024.

As noted above, the real GDP growth estimate for 2021 rises from 4.5 percent to 6.0 percent. On the other hand, 2022 growth is revised downward from 4.8 percent to 4.2, not only due to the higher starting point, but also due to the above-mentioned obstacles to production.

Overall, the 2021-2022 period will record a more marked recovery in output than that forecast in the SP, with a level of real GDP that already in 2022 would be slightly higher than in 2019. For the following two years, considering the combined effect of the revision of the exogenous factors and the assumptions regarding the RRP, SP forecasts are substantially confirmed, with a growth which, although slowing with respect to 2021-2022, would be well above the pre-crisis trend.

FIGURE I.2-2 : RESTRICTION AND MOBILITY INDEXES



Source: Oxford University and Google

The expected GDP trend reflects, first, a recovery in consumption initially greater than the expansion of income, given the assumption of a fall in the rate of household savings compared with the pandemic peak - fall that is also supported by the wealth effect produced by the rise in share and bond prices. However, the hallmark of the recovery expected for the 2022-2024 year is the strong increase in gross fixed investments fueled by the RRP. Public investment is expected to rise from 2.3 percent of GDP in 2019 to 3.4 percent in 2024. In terms of foreign trade, exports will grow at a slightly higher rate than world trade and imports from Italy's trading partners, also supported by expected gains in competitiveness vis-à-vis EU partners, due to a more moderate trend in prices and wages. A cautious growth projection roughly in line with that of world trade was adopted for the 2023-2024 biennium.

In 2021, employment is projected to grow slightly more than GDP in terms of Full-Time Equivalent (FTEs) and hours worked, while for subsequent years the forecast expects a moderate productivity growth. The number of employed people, according to the labor force survey, would rise above pre-crisis levels as early as 2022, and then witness a real expansion in the following two years.

Regarding inflation, the forecast for the current year has been revised upwards in view of the stronger-than-expected increases registered in consumer prices. The following years are expected to register an average increase in the consumption deflator in 2022 slightly higher than in 2021, due to the carryover effect of the current energy price increases and, afterwards, a moderation phase. However, the underlying inflation trend would be more sustained than in past years, due to both global factors and the dynamism of aggregate demand. Wage growth can also be expected to respond gradually, in the medium term, to the decline in the unemployment rate and the moderate rise in the cost of living.

The risks to the GDP growth forecast appear balanced. On the one hand, the expected economic recovery could be interrupted by a new escalation of the pandemic and the bottlenecks or disruptions to international supply chains may prove to be more persistent than assumed in the forecast. Also, the trend forecast is based on the full implementation of the RRP - without which the GDP growth rate would be considerably lower. On the other hand, the high level of liquidity accumulated by households and businesses, as well as the expansionary monetary and financial conditions and the momentum to growth provided by the Next Generation EU (NGEU) not only in Italy but throughout the EU, could lead to higher-than-expected GDP growth.

Regarding the inflation forecast, upward risks appear significant, especially since the prices of oil futures, which are used to project the trend in the coming years, assume a rapid reversal of the climatic and geopolitical factors that have caused the spike in energy costs in the last six months. In a context in which signs of an expansion of the inflationary process are emerging, the failure of these factors to reverse could lead to a more significant and persistent rise in inflation. To the extent that this also boosted the GDP deflator, it would result in faster nominal output growth, with favorable implications for the public finances and the public debt/GDP ratio. However, a higher-than-expected rise in inflation, not only in Italy but also in the Euro area, could also lead to a greater rise in interest rates than assumed in the baseline forecast and/or a financial market correction of macroeconomic relevance.

I.3 UPDATED OUTLOOK FOR THE PUBLIC FINANCES UNDER EXISTING LEGISLATION

The public finance framework based on the scenario under existing legislation of this Document updates the one presented in the Update of the Economic and Financial Document - Stability Program 2021 (henceforth Update).

First, revenues and expenditure items of the general government account have been revised to include the impact of decree-law No. 130/2021 (so called electricity bills decree). This leads to a downward revision of about 2.8 billion of both total final revenues and expenditures, while leaving unchanged the nominal net borrowing estimate for the current year.

Second, subsequent information points to an improvement in the outlook of public finances in the current year. In particular, the monitoring activity on revenues paid with the F24 and received through the end of September, also inclusive of the self-settlement taxes of ISA (*Indici Sintetici di Affidabilità*) taxpayers postponed to 15 September, indicates that the final revenue for 2021 may be higher than the Update estimates by approximately 800 million. Based on the most recently available monitoring information, social contributions also show results more favorable than estimated in the Update of the Stability Program. Consequently, the forecast of social contributions for the current year is revised upwards, compared to the Update, by approximately 300 million. These trends determine carry-over effects on the whole forecast period.

The following table shows the updated forecast for the period 2022-2024 of the general government budgetary prospect.

TABLE I.3-1 : GENERAL GOVERNMENT BUDGETARY PROSPECTS UNDER EXISTING LEGISLATION (EURO MILIONS)

	2020	2021	2022	2023	2024
COMPONENTS OF EXPENDITURE					
Compensation of employees	173.767	179.401	188.787	183.289	183.843
Intermediate consumption	150.881	161.930	153.614	154.048	153.753
Social benefits	399.171	403.970	403.750	410.400	418.970
of which: Pensions	*281.451*	*287.640*	*296.240*	*304.730*	*312.420*
Other social benefits	*117.720*	*116.330*	*107.510*	*105.670*	*106.550*
Other current expenditure	74.657	86.945	80.831	79.673	79.362
Total current expenditure net of interest	**798.476**	**832.246**	**826.981**	**827.410**	**835.927**
Interest expenditure	57.252	60.480	55.282	52.448	50.445
Total current expenditure	**855.728**	**892.725**	**882.263**	**879.858**	**886.373**
of which: Health expenditure	*123.474*	*129.449*	*125.708*	*123.554*	*124.428*
Total capital expenditure	**88.758**	**105.194**	**93.577**	**94.895**	**94.937**
Gross fixed capital formation	42.595	50.648	59.000	65.185	69.654
Capital contributions	17.617	24.588	26.976	24.548	20.645
Other transfers	28.546	29.959	7.601	5.162	4.637
Total final expenditure net of interest	**887.234**	**937.440**	**920.558**	**922.305**	**930.864**
Total final expenditure	**944.486**	**997.919**	**975.840**	**974.753**	**981.309**
COMPONENTS OF REVENUE					
Total tax revenues	479.482	511.526	539.635	558.022	573.196
Direct taxes	250.977	262.162	266.561	275.917	282.849
Indirect taxes	227.546	247.881	271.558	280.568	288.795
Capital taxes	959	1.484	1.516	1.537	1.552
Social contributions	228.641	233.106	252.674	260.760	269.555
Actual contributions	224.262	228.626	248.136	256.167	264.905
Imputed contributions	4.379	4.480	4.538	4.593	4.650
Other current revenues	74.747	78.194	84.234	83.485	81.296
Total current revenues	**781.911**	**821.343**	**875.027**	**900.730**	**922.495**
Non-tax capital revenues	**3.175**	**8.428**	**17.566**	**26.247**	**16.530**
Total final revenues	**786.045**	**831.256**	**894.109**	**928.515**	**940.578**
Memo: Tax burden	*42,8*	*41,8*	*42,1*	*41,8*	*41,6*
BALANCES					
Primary balance	-101.189	-106.184	-26.449	6.210	9.714
as % of GDP	*-6,1*	*-6,0*	*-1,4*	*0,3*	*0,5*
Current balance	-73.817	-71.382	-7.235	20.872	36.123
as % of GDP	*-4,5*	*-4,0*	*-0,4*	*1,1*	*1,8*
Net borrowing	**-158.441**	**-166.664**	**-81.730**	**-46.239**	**-40.732**
as % of GDP	*-9,6*	*-9,4*	*-4,3*	*-2,4*	*-2,0*
Trend nominal GDP (x 1,000)	***1.653,6***	***1.779,3***	***1.883,4***	***1.959,7***	***2.025,5***

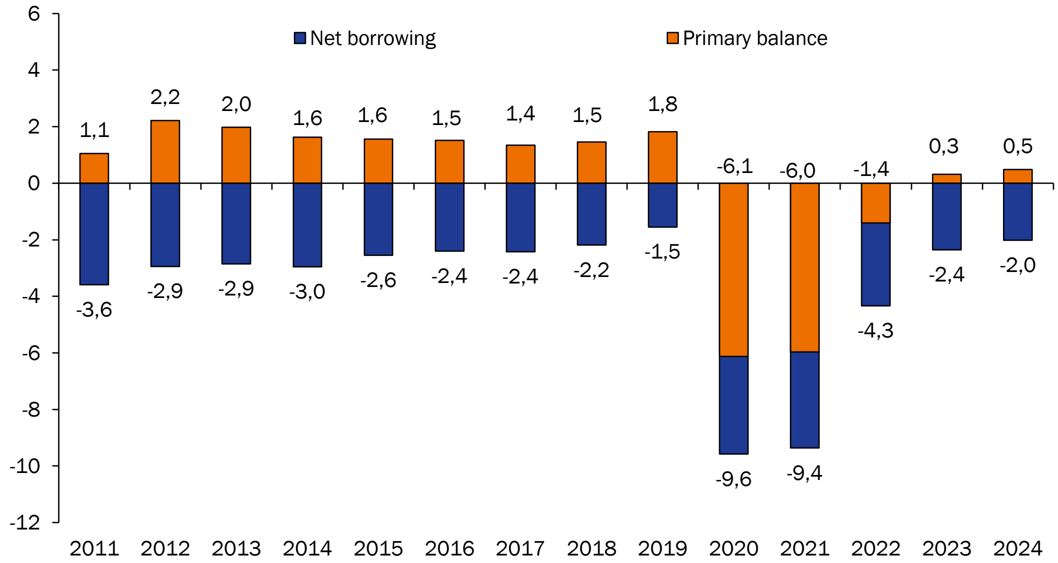
Note: Any inaccuracies result from rounding. A comma is used as decimal separator.

The new projection confirms a general government deficit forecast of 9.4 percent of the GDP for 2021, lower than the 9.6 percent recorded in 2020 and the 11.8 percent forecasted in the Stability Program.

The significant improvement compared to the April projection is linked to the more positive macroeconomic and health situation, which is reflected in public accounts resulting in higher revenues and lower spending needs, in particularly those relating to interventions to support the economy.

In the coming years, the deficit based on unchanged legislation is expected to reduce to 4.3 percent of the GDP in 2022 and then to 2.4 percent in 2023 and 2.0 percent of the GDP in 2024. The primary balance will mark a further worsening of around €5 billion in 2021, but as a ratio to GDP will drop by 0.1 p.p., to -6.0 percent. From 2022, the primary balance will markedly improve by shifting from -1.4 percent of the GDP in 2022 to a 0.3 percent surplus in 2023 and a 0.5 percent surplus in 2024. Interest expenditure will be subject to a nominal increase in 2021, followed by subsequent reductions. The 2021 increase is connected to the inflation trend resulting in higher interest expenditure for inflation-linked securities. However, the ratio of interest expenditure to GDP will show a first slight reduction to 3.4 percent already in the current year and will gradually drop to 2.5 percent of GDP at the end of the forecast horizon. This pattern is close to the one reported in the Stability Program and reflects higher BTP yields than in April for 2021 and a less steep interest rate curve in subsequent years.

FIGURE I.3-1 : NET BORROWING AND PRIMARY BALANCE (% OF GDP)



Source: ISTAT. From 2021, MoF trend forecasts.

I.4 MACROECONOMIC FORECAST AND BUDGET OUTLOOK-POLICY SCENARIO

In the light of the commitments on reforms undertaken by the Country with the RRP, the Recommendations issued by the Council of the European Union this year focus on the budgetary policy. The first recommendation invites Italy to fully use the funds of the Recovery and Resilience Facility – RRF to finance additional investments to support recovery without replacing the existing public investment programmes and by limiting the increase in the current public expenditure.

The second recommendation invites our Country to adopt a prudent budget policy as soon as the economic situation will allow it, so as to ensure the full sustainability of public finance in the medium term. Moreover, the advice reiterates the need for increased investments to improve the economic growth potential.

Lastly, the third recommendation concerns the quality of public finances and of economic policy measures. These elements aim to boost growth and improve environmental and social sustainability. Italy is called to strengthen the long-term sustainability of public finances also by improving the coverage, adequacy, and sustainability of the social security and healthcare systems.

The Government confirms the general approach of the budgetary policy as shown in the Stability Program (SP), approved by the Parliament through the resolutions of last 22 April. The funds allocated by the Decree Law Sostegni-bis at the end of May are providing adequate support to the people and productive sectors which mostly suffered from the prevention measures adopted. If necessary, further extraordinary measures to support the workers and businesses affected by the pandemic impacts will be promptly introduced.

Assuming a gradual decrease of the restrictions imposed on economic and social activities due to Covid-19, fiscal policy will remain supportive until GDP and the employment rate will, not only return to the pre-crisis level (2019 level), but also to the pre-crisis trend. This condition is expected to be fulfilled from 2024 onwards[3].

From 2024, budget policy will aim to reduce the structural deficit and to bring the debt-to-GDP ratio to the pre-crisis level by 2030.

The consolidation strategy of public finance will primarily rely on the GDP growth boosted by the investments and reforms included in the RRP. It will also be necessary to achieve adequate surpluses in the primary budget in the medium term. To this extent, the focus will be put on mitigating current public expenditure dynamics and increasing tax returns by tackling tax evasion. The revenues resulting from the revision of environmental taxes and environmentally harmful subsidies will be used to reduce other burdens on productive sectors. Budget resources will be increasingly directed towards investments and research, innovation, and education expenditure.

In line with this approach, the measures contained in the 2022-2024 Budget and accompanying acts aim to significantly reduce the net borrowing from 9.4 percent forecast for this year to 3.3 percent of the GDP in 2024. Compared to the SP, the 2022 deficit objective drops from 5.9 percent of GDP to 5.6 percent. The net borrowing targets for the two following years also decline to 3.9 percent of GDP in 2023 and 3.3 percent in 2024 (compared to 4.3 percent in 2023 and 3.4 percent in 2024 in the SP).

Compared to the baseline scenario, the net borrowing targets for the next three years are more than one percent of GDP higher (1.3 percent in 2022, 1.5

[3] Based on the growth rates forecasted for 2020-2022 in the Update of the Stability Program 2019 and assuming a subsequent convergence towards the potential growth rate forecasted at that time (0.6 percent), according to the forecast of this document, real GDP will exceed the pre-crisis trend after 2023. This points to 2024 as the year in which the policy stance should be geared towards budget consolidation.

percent in 2023 and 1.3 percent in 2023). The positive impact on real GDP growth is estimated to be worth 0.5 percentage points in 2022, and 0.2 percentage points in 2023. In the final year, with the deficit differential decreasing to 1.3 percentage points, the differential between growth rates in the two scenarios is around zero[4].

TABLE I.4-1 : MACROECONOMIC IMPACT OF POLICY MEASURES COMPARED TO THE TREND SCENARIO (IMPACT ON GDP GROWTH RATES)

	2022	2023	2024
Expansionary policies on the expenditure side	0,4	0,1	0,0
Lower revenues and fiscal incentives	0,1	0,1	0,0
Totale	0,5	0,2	0,0

Note: A comma is used as decimal separator

As a result, the GDP growth in the policy scenario is equal to 4.7 percent in 2022, 2.8 percent in 2023, and 1.9 percent in 2024. Employment growth is also higher in the policy scenario, entailing the reduction of the unemployment rate. The price dynamics are slightly higher; the surplus on the current account declines slightly.

TABLE I.4-2 : MACROECONOMIC FRAMEWORK UNDER THE POLICY SCENARIO (PERCENTAGE CHANGES, IF NOT ELSE SPECIFIED)

	2020	2021	2022	2023	2024
GDP	-8,9	6,0	4,7	2,8	1,9
GDP deflator	1,2	1,5	1,6	1,5	1,7
Private Consumption deflator	-0,3	1,5	1,6	1,4	1,7
Nominal GDP	-7,9	7,6	6,4	4,3	3,6
Employment (FTEs) (1)	-10,3	6,5	4,1	2,5	1,7
Employment (LFS) (2)	-2,9	0,8	3,3	2,4	1,9
Unemployment ratio	9,3	9,6	9,1	8,4	7,7
Current account balance (% of GDP)	3,5	3,6	3,1	2,7	2,5

(1) Employment measures in terms of Full Time Equivalents (FTEs
(2) Number of persons employed according to the Labour Force Survey (LFS).
Note: Any inaccuracies result from rounding. A comma is used as decimal separator

I.5 BUDGET POLICY FOR 2022-2024

The Budget aims to support growth, by sustaining the economy in the exiting phase of the pandemic to return to the pre-crisis level of GDP in 2022, and setting the conditions for increasing the growth rate of output in the medium term. The aim is also to reduce the tax burden on households and businesses.

The Budget was preceded by a decree law containing several measures in the field of taxation and labour safety. To safeguard the taxpayers most in difficulty due to the Covid emergency, some tax payment deadlines have been postponed. The decree also provided the refinancing for the Covid wage supplementation scheme, resources for the Citizenship Income and extended the wage support scheme for Alitalia employees. The eco-bonus for non-polluting cars was refinanced and a package of measures was prepared to strengthen workplace safety. Finally, some

[4] It should also be noted that the forecast of the budget balances does not include any second-round effect from the higher level of nominal GDP in the policy scenario. Such feedback would improve the budget balance, reducing the need for hedging measures for the same nominal balance, which would have positive effects on real GDP growth.

spending authorisations were brought forward with the aim of accelerating the execution of infrastructural works and renew national defence.

The policy scenario for the 2022-2024 period makes it possible to refinance ongoing policies and measures of economic and social importance. Thanks to the resources put in place with the Budget, it will be possible to implement the reform of the social safety net and a first stage of the tax reform. The Budget refinances the investment funds of the State and local administrations and extends the incentives for the energy efficiency of buildings and for building renovations to stimulate public and private investment. Tax incentives linked to Transition 4.0 and the contribution in favour of SMEs for the purchase of capital goods (so-called 'New Sabatini') are extended to support businesses. Furthermore, additional resources are foreseen for the fund for the internationalisation of enterprises and the Central Fund for guarantees in favour of SMEs. In the healthcare sector, the refinancing of the national healthcare fund and the purchase of Covid vaccines is envisaged. New resources are addressed to regions and local authorities, as well as for the education, university, and research sectors. In the field of social policies and equal opportunities, on top of the reform of social safety net, the 10-day paternity leave becomes a permanent measure, the resources for Citizenship Income and the Employment fund are increased and interventions are planned in the field of pensions to ensure a gradual and balanced transition to the ordinary scheme.

I.6 DEBT-TO-GDP RATIO FORECAST UNDER THE POLICY SCENARIO

The latest estimates of the Bank of Italy and ISTAT5 slightly reduced the debt-to-GDP ratio over the last two years, following the upward revision of the nominal GDP of almost 4 billion in 2019 and 2 billion in 2020.

The 2019 debt-to-GDP ratio drops to 134.3 percent compared to the 134.6 percent indicated in March; the same figure for year 2020 drops to 155.6 percent compared to the previous level of 155.8 percent. The increase in the 2020 debt-to-GDP ratio was, therefore, of 21.4 p.p. compared to 2019. The debt-to-GDP ratio is expected to decrease this year, to 153.5 percent from its peak of 155.6 in 2020.

The so-called snow-ball effect, which greatly contributed to the exceptional increase in the debt-to-GDP ratio in 2020, in fact returns to contribute to the reduction of the ratio. The projected robust economic growth, the containment of primary deficit at lower levels compared to the SP, and the maintenance of low yields over the curve of government securities will support the reduction of the debt-to-GDP ratio over the next three years.

In 2022, the debt-to-GDP target is revised at 149.4 percent. The expected reduction will result from the decrease of public sector borrowing requirement (about -3.7 percent of the GDP vs. 2021) and the robust growth of nominal GDP (+6.4 percent), which is affected by the expansionary impact of the tax measures envisaged in the 2022-2024 Budget.

In 2023, a further decrease in the debt-to-GDP ratio is expected at 147.6 percent. The reduction pace will be slightly slower than the previous year due to the

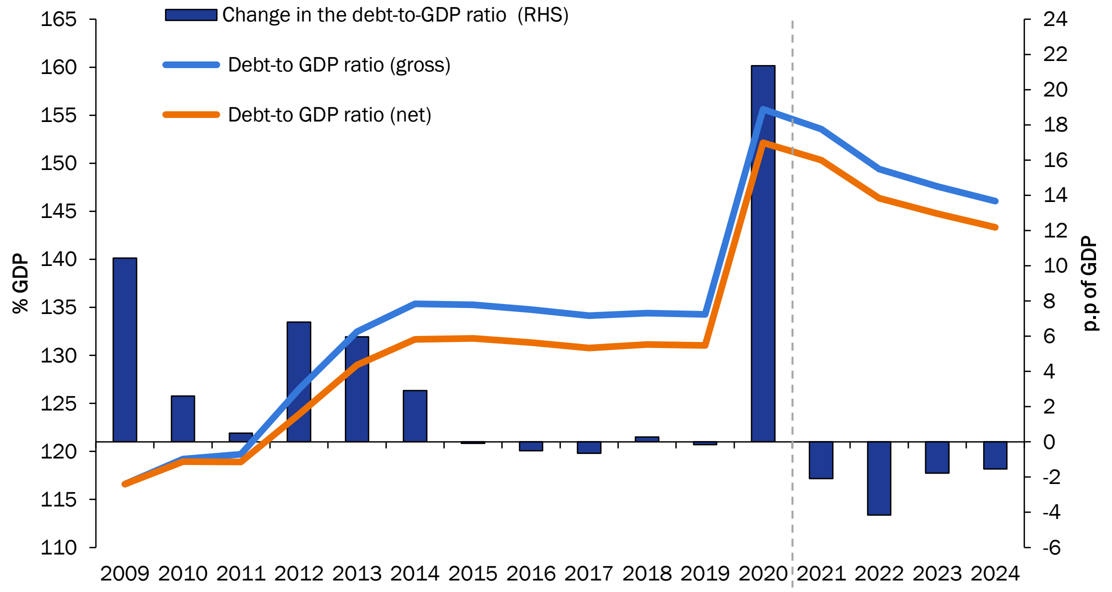
[5] Banca d'Italia, 'Bollettino statistico Finanza Pubblica, fabbisogno e debito', 15 September 2021; ISTAT, 'Conti Economici Nazionali', 22 September 2021.

nominal growth effect (equal to 4.3 percent) and a modest decrease of public sector borrowing requirement (about -0.5 percent of the GDP).

In 2024, the net borrowing-to GDP ratio will converge at -3.3 percent, thus reducing the debt-to-GDP ratio to 146.1 percent.

Net of Italy's share in loans to Member States of the EMU, both bilateral and through the ESFS, and the capital contribution to the ESM, the 2020 estimate of the debt-to-GDP ratio was equal to 152.1 percent, while the forecast for 2024 is 143.3 percent.

FIGURE I.6-1 : DEBT-TO-GDP RATIO DEVELOPMENT, GROSS AND NET OF LOANS TO EMU MEMBERS



Source: ISTAT and Bank of Italy. From 2021, policy scenario forecasts.

I.7 ENDORSEMENT OF MACROECONOMIC FORECASTS BY THE PBO

The Parliamentary Budget Office (PBO) endorsed the macroeconomic trend forecast 2021-2022 of the Update of the Economic and Financial Document - Stability Program on 24 September 2021. The PBO subsequently endorsed the macroeconomic forecast based on the policy scenario on 5 October 2020. The forecasts for 2023-2024 are not subject to endorsement for the Update. This document confirms the policy scenario forecasts of the Update.

II. STRUCTURAL REFORMS

The Italian National Recovery and Resilience Plan (RRP) is a unique opportunity to overcome the country's significant shortcomings and to relaunch its growth in the aftermath of the pandemic crisis.

By implementing the reforms and investments provided for in the RRP, the Italian Government seeks to create a country that is more innovative and digitalised, more respectful of the environment, more inclusive of people with disabilities, more open to young people and women, and more territorially cohesive[6]. Acting on the regulatory and structural context the reform strategy is an integral part of the Plan and, at the same time, a necessary condition for its effective implementation. Furthermore, the resources allocated in the RRP will also serve to address the macroeconomic imbalances revealed by the In-depth Review carried out by the European Commission as part of the Macroeconomic Imbalance Procedure (MIP) and to respond to the Country Specific Recommendations (CSR)[7].

The wide range of reforms envisaged in the RRP allows to address many of the structural problems of the Italian economy through long-awaited measures, including Public Administration (PA) and Justice reforms and the simplification agenda. The first two are the so-called horizontal or contextual reforms and pertain to all the Plan's Missions. The simplification measures fall within the enabling reforms, which are aimed at ensuring the implementation of the RRP through the removal of administrative, regulatory, and procedural obstacles; they include the annual law on competition, the enabling law on corruption, fiscal federalism (to be implemented by March 2026), and the reduction of PA payment times (by 2021) and of the tax gap (by 2022).

In addition, sectoral reforms are envisaged, with interventions in specific economic sectors or activities, also based on legislative changes to improve the regulatory framework.

Further measures that do not fall within the operational scope of the Plan but may contribute to achieving its general objectives include interventions for the rationalisation and fairness of the tax system and the extension and strengthening of the social safety nets.

With the first Monitoring Report[8] presented in September, the Government gave initial feedback on the implementation status of the measures foreseeing

[6] The interventions are divided into sixteen Components, grouped into six Missions. All six Missions have three common core priorities: gender equality, protection, and empowerment of young people, and overcoming territorial disparities.

[7] In addition to the 2019 and 2020 Recommendations, which are addressed in the RRP, in 2021 the European Commission provided Italy with qualitative Recommendations on fiscal policy.

[8] The Report was presented by the Undersecretary to the Presidency of the Council of Ministers and by the Minister for the Economy.
https://www.governo.it/sites/governo.it/files/MONITORAGGIO_E_STATO_DI_ATTUAZIONE_DELLE_MISURE_PREVISTE_DAL_PNRR_NEL_2021.pdf

milestones and targets (M&T) to be achieved by the end of 2021: specifically, 51 measures, divided between reforms and investments[9].

As of today, 21 M&T have already been achieved, corresponding to 41 percent of the total M&T to be completed by the end of the year. For the remaining M&T the procedures that will assure their implementation by the end of the year have already been activated.

In line with the RRP's timetable, a number of initial actions have already been taken by the Government to reform the PA and the justice system. As regards the PA, governance, simplification and recruitment were the first 'goals' achieved through the prompt issuance of the relevant decrees between the first and second half of 2021.

First, to ensure the most effective implementation of the investments envisaged in the RRP, provisions have been approved[10] for the management and governance of the Plan, regarding the roles of the different administrations involved, the monitoring procedures and the dialogue with European institutions. The same decree introduces important measures to simplify procedures affecting some of the areas covered by the RRP (including ecological transition and digitisation) to facilitate the full implementation of the projects.

The simplification process also applies to the public procurement sector and refers to the authorisation and procedural barriers that hinder the implementation of projects and jeopardise the viability of works.

A new governance for Special Economic Zones has also been approved, in which the Extraordinary Commissioner can act as a contracting authority and exercise extraordinary powers for public contracts related to the RRP. A single authorisation has also been introduced, which may derogate from urban and regional planning instruments.

Then, the organisational measures necessary to ensure a stable administrative capacity within the PA were introduced[11], defining the modalities for recruiting staff for the RRP and for strengthening the functional capacity of the PA as well as the organisational measures to support the Plan and its projects.

The recently approved reforms of the justice system follow the lines repeatedly indicated by the European Commission in the Country Specific Recommendations and aim at speeding up the functioning of the courts and stimulating a culture of consensual conflict resolution - as far as civil justice is concerned - and at reducing the number of criminal proceedings requiring a trial, as well as the time required for preliminary investigations while increasing the use of procedural alternatives to the ordinary proceeding.

As regards environmental policies, the criteria for selecting projects relating to waste collection and recycling plants were defined. An operational plan was also approved to provide the country with technologically advanced monitoring and prevention tools to safeguard the territory and infrastructures.

Alongside the implementation of the timetable, the Government is also proceeding to draw up reforms to accompany the RRP to speed up the ongoing

[9] Investments also include the adoption of primary and secondary legislation or administrative acts aimed at regulating specific sectors and which determine whether dedicated financial resources can be used for lines of action.
Specifically, of the 51 measures, 24 relate to investments and 27 to reforms to be adopted.

[10] Decree Law No. 77/2021.

[11] Decree Law No. 80/2021.

recovery. A draft enabling law on taxation has just been approved, based on four key principles: greater efficiency of the tax system and lower tax burden on factors of production; reduction of obligations and elimination of micro-taxes; progressivity of the tax system, which is to be preserved, following the provisions of the Constitution calling for a general principle of justice and equity; and fight against tax evasion and tax avoidance.

More in detail, the following is envisaged: the personal income tax (IRPEF) reform with the establishment of a proportional tax for capital income and a readjustment of the effective tax rates for labour income; the replacement of regional and municipal additionals to the IRPEF with corresponding surcharges; the modification of corporate income tax (IRES) to align it with the taxation of capital income; the rationalisation of VAT, including with regard to the levels of rates and the distribution of taxable bases across the rates; the gradual elimination of the regional income tax (IRAP); the introduction of regulatory and operational changes to the cadastral system to ensure that real estate and unregistered lands are detected; the reform of the tax collection system and the adoption of new organisational models; the reorganisation of all tax rules within single Codes.

The Government intends to guarantee the annual presentation of the Law for the Market and Competition, whose contents are an enabling condition for the RRP. The law for 2021 will be presented to the Parliament by the end of the year, with the aim of obtaining a final approval by 2022.

The reforms that will follow, in line with the commitments undertaken in the RRP, will concern important sectors of the economy and in particular the spending review framework, tertiary education, the promotion of the production and consumption of renewable gas, the management and sustainable use of the water system, the Customs one-stop shop, support for tourist businesses, active labour market policies, disability, the national air pollution control programme, student housing and Special Economic Zones (with reference to the ministerial decrees approving the operational plan).

Further sectoral interventions will take place with the implementation of the simplification decree and will facilitate infrastructure projects, for the safety and monitoring of bridges and viaducts.

III. TABLES

TABLE III.1-1 : BASIC ASSUMPTION (0.I)

	2020	2021	2022
Short-term interest rate (annual average)	0,1	-0,5	-0,5
Long-term interest rate (annual average)	1,3	0,8	0,9
USD/€ exchange rate (annual average)	1,1	1,2	1,2
Nominal effective exchange rate	1,8	1,0	-0,3
World excluding EU, GDP growth	-2,9	7,7	5,8
EU GDP growth	-6,1	4,8	4,5
Growth of relevant foreign markets	-6,3	10,8	5,7
World import volumes, excluding EU	-9,3	5,9	4,0
Oil prices (Brent, USD/barrel)	41,7	67,9	66,0

Note: A comma is used as a decimal separator

TABLE III.1-2 : MACROECONOMIC PROSPECT (1.A)

	ESA Code	2020	2020	2021	2022	2023	2024
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	1.573.153	-8,9	6,0	4,7	2,8	1,9
Of which							
1.1. Aggregate to the estimated impact of aggregated budgetary measures on economic growth					0,5	0,2	0,0
2. Potential GDP		1.730	0,4	0,5	1,1	1,4	1,5
contributions:							
- labour			0,1	0,0	0,5	0,6	0,6
- capital			-0,1	0,1	0,3	0,3	0,4
- total factor productivity			0,4	0,4	0,4	0,4	0,4
3. Nominal GDP	B1*g	1.653.577	-7,9	7,6	6,4	4,3	3,6
Components of real GDP							
4. Private final consumption expenditure	P.3	933.689	-10,7	5,2	5,0	2,7	2,0
5. Government final consumption expenditure	P.3	322.875	1,9	0,7	1,7	0,4	-0,2
6. Gross fixed capital formation	P.51	283.500	-9,2	15,5	6,8	4,9	4,3
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-0,4	-0,1	0,2	0,2	0,1
8. Exports of goods and services	P.6	471.451	-14,0	11,4	6,0	4,1	3,1
9. Imports of goods and services	P.7	436.412	-12,9	11,6	6,9	4,8	4,0
Contributions to real GDP growth							
10. Final domestic demand		-	-7,8	5,9	4,6	2,7	2,0
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	-0,4	-0,1	0,2	0,2	0,1
12. External balance of goods and services	B.11	-	-0,7	0,2	-0,1	-0,1	-0,2

Note: A comma is used as a decimal separator

TABLE III.1-3 : PRICE DEVELOPMENTS (1.B)

	ESA Code	2020	2020	2021	2022	2023	2024
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		105,1	1,2	1,5	1,6	1,5	1,7
2. Private consumption deflator		102,4	-0,3	1,5	1,6	1,4	1,7
3. HICP		103,0	-0,1	1,6	1,6	1,4	1,7
4. Public consumption deflator		107,0	1,3	2,2	1,1	-0,5	-0,3
5. Investment deflator		103,6	0,7	1,0	1,8	1,5	1,4
6. Export price deflator (goods and services)		103,1	-0,5	3,2	2,1	1,3	1,2
7. Import price deflator (goods and services)		97,4	-4,1	7,1	2,6	1,2	1,2

Note: A comma is used as a decimal separator

TABLE III.1-4 : LABOUR MARKET DEVELOPMENTS (1.C)

	ESA Code	2020	2020	2021	2022
		Level	rate of change	rate of change	rate of change
1. Employment, persons		24.975	-2,1	1,0	2,1
2. Employment, hours worked		38.836.144	-11,0	7,7	4,3
3. Unemployment rate (%)			9,3	9,6	9,1
4. Labour productivity, persons		62.990	-7,0	4,9	2,5
5. Labour productivity, hours worked		40,5	2,3	-1,6	0,3
6. Compensation of employees	D.1	673.186	-6,7	7,6	5,4
7. Compensation per employee		43.247	2,8	1,3	1,2

Note: A comma is used as a decimal separator

TABLE III.1-5 : SECTORAL BALANCES (1.D)

	ESA Code	2020	2021	2022
	B.9	% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world		3,7	3,3	2,5
of which:				
- Balance on goods and services		3,7	2,9	2,5
- Balance of primary incomes and transfers		0,1	0,5	0,0
- Capital account		0,0	0,0	0,0
2. Net lending/net borrowing of the private sector	B.9	13,3	12,7	8,1
3. Net lending/net borrowing of general government	EDP B.9	-9,6	-9,4	-5,6
4. Statistical discrepancy				

Note: A comma is used as a decimal separator

TABLE III.1-6 : GENERAL GOVERNMENT BUDGETARY TARGETS BROKEN DOWN BY SUBSECTOR (2.A)

	ESA Code	2021	2022	2023	2024
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-9,4	-5,6	-3,9	-3,3
1a. Central government	S.1311	-9,3	-5,6	-3,9	-3,4
1b. State government	S.1312				
1c. Local government	S.1313	-0,1	-0,1	0,0	0,0
1d. Social security funds	S.1314	0,1	0,1	0,1	0,1
2. Interest expenditure	EDP D.41	3,4	2,9	2,7	2,5
3. Primary balance		-6,0	-2,6	-1,2	-0,8
4. One-off and other temporary measures		0,4	0,3	0,2	0,0
5. Real GDP growth (%)		6,0	4,7	2,8	1,9
6. Potential GDP growth (%)		0,5	1,1	1,4	1,5
contributions :					
- labour		*0,0*	*0,5*	*0,6*	*0,6*
- capital		*0,1*	*0,3*	*0,3*	*0,4*
- total factor productivity		*0,4*	*0,4*	*0,4*	*0,4*
7. Output gap (% of potential GDP)		-4,1	-0,7	0,6	1,0
8. Cyclical budgetary component (% of potential GDP)		-2,2	-0,4	0,3	0,6
9. Cyclically-adjusted balance (% of potential GDP)		-7,2	-5,1	-4,2	-3,8
10. Cyclically-adjusted primary balance (% of potential GDP)		-3,8	-2,2	-1,5	-1,3
11. Structural balance (% of potential GDP)		-7,6	-5,4	-4,4	-3,8

Note: A comma is used as a decimal separator

TABLE III.1-7 : GENERAL GOVERNMENT DEBT DEVELOPMENTS (2.B)

	ESA Code	2021	2022	2023	2024
		% GDP	% GDP	% GDP	% GDP
1. Gross debt		153,5	149,4	147,6	146,1
2. Change in gross debt ratio		-2,1	-4,2	-1,8	-1,5
Contributions to changes in gross debt					
3. Primary balance		6,0	2,6	1,2	0,8
4. Interest expenditure	EDP D.41	3,4	2,9	2,7	2,5
5. Stock-flow adjustment		-0,5	-0,5	0,6	0,3
of which:					
- Differences between cash and accruals		-1,7	-1,0		
- Net accumulation of financial assets		1,1	0,7		
of which:					
- privatisation proceeds		*0,0*	*0,0*		
- Valuation effects and other		*0,0*	*-0,2*		
p.m.: Implicit interest rate on debt		0,0	0,0		
Other relevant variables					
6. Liquid financial assets					
7. Net financial debt					
8. Debt amortization (existing bonds) since the end of the previous year					
9. Percentage of debt denominated in foreign currency					
10. Average maturity					

Note: A comma is used as a decimal separator

TABLE III.1-8 : GENERAL GOVERNMENT EXPENDITURE AND REVENUE PROJECTIONS AT UNCHANGED POLICIES, BROKEN DOWN BY MAIN COMPONENTS (3)

	ESA Code	2021	2022
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	46,7	47,5
Of which			
1.1. Taxes on production and imports	D.2	13,9	14,4
1.2. Current taxes on income, wealth, etc	D.5	14,7	14,2
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,1	13,4
1.5. Property income	D.4	1,0	0,9
1.6. Other		3,9	4,5
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		*41,8*	*42,1*
2. Total expenditure at unchanged policies	TE	56,1	51,8
Of which			
2.1. Compensation of employees	D.1	10,1	10,0
2.2. Intermediate consumption	P.2	6,5	5,7
2.3. Social payments	D.62,D.63	25,3	23,9
of which Unemployment benefits		*1,3*	*0,9*
2.4. Interest expenditure	EDP D.41	3,4	2,9
2.5. Subsidies	D.3	2,1	1,7
2.6. Gross fixed capital formation	P.51	2,8	3,1
2.7. Capital transfers	D.9	3,0	1,8
2.8. Other		2,8	2,6

Note: A comma is used as a decimal separator

TABLE III.1-9 : GENERAL GOVERNMENT EXPENDITURE AND REVENUE TARGET, BROKEN DOWN BY MAIN COMPONENTS (4.A)

	ESA Code	2021	2022
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	46,7	47,1
Of which			
1.1. Taxes on production and imports	D.2	13,9	14,2
1.2. Current taxes on income, wealth, etc	D.5	14,7	14,0
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,1	13,4
1.5. Property income	D.4	1,0	0,9
1.6. Other		3,9	4,5
p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)		*41,9*	41,7
2. Total expenditure target	TE	56,1	52,6
Of which			
2.1. Compensation of employees	D.1	10,1	10,1
2.2. Intermediate consumption	P.2	6,5	5,9
2.3. Social payments	D.62, D.632	25,4	24,1
Of which Unemployment benefits		*1,3*	*1,1*
2.4. Interest expenditure	EDP D.41	*3,4*	*2,9*
2.5. Subsidies	D.3	*2,1*	*1,8*
2.6. Gross fixed capital formation	P.51	*2,9*	*3,1*
2.7. Capital transfers	D.9	2,9	2,1
2.8. Other		2,8	2,6

Note: A comma is used as a decimal separator

TABLE III.1-10 : AMOUNTS TO BE EXCLUDED FROM THE EXPENDITURE BENCHMARK (4.B)

	ESA Code	2020	2020	2021	2022
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue*		1.306	0,1	0,5	1,1
1.a Of which investments fully matched by EU funds revenue**		848	0,1	0,2	0,3
2. Cyclical unemployment benefit expenditure ***		1.308	0,1	0,1	0,0
3. Effect of discretionary revenue measures		-4.756	-0,3	-0,8	0,0
4. Revenue increases mandated by law		0,0	0,0	0,0	0,0

* The estimate for 2021 includes grants from Next Generation UE of 0.4% of GDP and 1% of GDP for 2022.

** The estimate for 2021 includes grants from Next Generation UE of 0,1% of GDP and 0,3% of GDP for 2022

*** Computed on the basis of the unemployment gap.

Note: A comma is used as a decimal separator

TABLE III.1-11 : GENERAL GOVERNMENT EXPENDITURE ON EDUCATION, HEALTHCARE AND EMPLOYMENT (4.C)

Expenditure category	Available information ☐
Education	In the period 2017-2021, education expenditure as percentage of GDP averages 3.6% (3.9% in 2020 as a consequence of the drop in GDP levels due to the macroeconomic impact of Covid-19 pandemic). As for the mid-long term trends, see the latest projections carried out on the basis of baseline scenario elaborated at the European level within the Economic Policy Commttee - Working Group on Ageing Populations and Sustainability[1]
Health	In the period 2017-2021, health care expenditure as percentage of GDP averages 6.8% (7.5% in 2020 as consequence, respectively, of the measures aadopted to face the Covid-19 contagion and of the drop in GDP levels). As for the mid-long term trends, see the latest projections carried out on the basis of the national scenario and those elaborated at the European level within the Economic Policy Commttee - Working Group on Ageing Populations and Sustainability[2]
Employment[2]	In 2019, total spending on active labour policies as a ratio of GDP was 0.23%, a decrease from the 0.38% recorded in 2018. The decrease is attributable to the ending of the measures that in the 2014-2018 five-year period had contributed most to the growth in spending, in particular, the social security contribution relief for permanent hires (Law No. 190/2014) and the two-year Bonus (Article 1(178) of Law No. 208/2015) for hires made in 2016. In 2019, the most substantial employment incentives in terms of expenditure are the social security contribution exemption for new hires of young people on permanent contracts (Law No. 205/2017), amounting to 417 million euros, the “Employment in the South” incentive aimed at young people in underdeveloped areas, totalling about 262 million euros, and measures related to the "Youth Guarantee" program. Currently, the available data are not sufficient to provide a precise quantification of expenditure up to 2022, considering that the change of scenario from 2020 has entailed the adoption of numerous labour market measures to deal with the employment emergency linked to the pandemic, in particular, social security contribution relief in order to encourage salaried employment in the private sector.

[1] Source: Ministero dell'economia e delle finanze - Ragioneria Generale dello Stato (2021), "Le tendenze di medio-lungo periodo del sistema pensionistico e socio-sanitario. Previsioni elabrate con i modelli della Ragioneria Generale dello Stato aggiornati a luglio 2021 - Rapporto n. 22".

[2] The employment expenditure contains government spending related to active labour market policies including public employment services. Source: Ministry of Labour and Social Policy

TABLE III.1-12 : DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu / Expenditure	Effetti finanziari			
					2021	2022	2023	2024
					% GDP	% GDP	% GDP	% GDP
Postponement of tax notice deadlines	Motivation: Protection of taxpayers in difficulty due to the Covid emergency. Content of the measures: postponement of some tax notices deadlines.	Various (mainly D.5 and D.6)	Immediately effective	R	-0,009	0,017	-0,008	0,000
Eco-bonus for non-polluting cars	Motivation: Support the "Green economy". Content of the measures: Refinancing of Eco-bonus for non-polluting cars.	P.5	Immediately effective	E	-0,006	0,006	0,000	0,000
Labour measures	Motivation: Supporting workers during the Covid emergency. Content of the measures: Extension of Covid, wage supplementation scheme equating Covid quarantine to illness, extension of wage subsidies for Alitalia employees, recalculation of contribution exemption for permanent hires with re-employment contract.	Various (mainly D.6)	Immediately effective	R/E	-0,009	-0,001	0,009	0,002
Strengthening of health and safety in the workplace	Motivation: Strengthen health and safety in the workplace. Content of the measures: Strengthening of the National Labour Inspectorate, recruitment in the Carabinieri force to enhance surveillance and safety at work activities.	Various (mainly P.2 and D.1)	Immediately effective	R/E	0,000	-0,002	0,000	0,000
Advancing expenditure authorisations	Motivation: Accelerate the implementation of infrastructure works and renew national defence. Content of the measures: advancing various spending authorizations.	P.5	Immediately effective	E	-0,105	0,105	0,000	0,000
Relaunch State and local government investment	Motivation: Allocate new resources at the central and local level for public investment to improve the country's infrastructure network and support the economic system. Content of the measures: Refinancing of state and local government investment funds, including the planning phase, refinancing of the infrastructure equalisation fund (fondo perequativo) and of the Development and Cohesion Fund (FSC).	P.5 and D.92	Immediately effective / to be distributed through a decree of the President of the Council of Ministers/ Subsequent administrative acts	E	0,000	-0,108	-0,023	-0,005
Measures at the local level	Motivation: Measures at the local level. Content of the measures: resources for local public transport, reduction of the contribution to public finance of special statute regions, other interventions.	Various (mainly P.2, D.3 and D.92)	Subsequent administrative acts	E	0,000	-0,071	0,002	0,000

TABLE III.1-12 : DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu / Expenditure	Effetti finanziari 2021 % GDP	2022 % GDP	2023 % GDP	2024 % GDP
Family policies	Motivation: Support families and promote the birth rate. Content of the measures: A 10 days paternity leave is made permanent to, new resources for kindergartens and preschools, guarantees and tax exemptions to facilitate the purchase of the first home, especially for young people,other measures.	Various	Immediately effective	R/E	0,000	-0,022	0,014	-0,001
Social safety net reform	Motivation: To have a more effective and efficient social safety net system Content of the measures: Implementation of the social safety nets reform.	D.6	Subsequent legislation	E	0,000	-0,079	0,003	0,000
Tax reform	Motivation: Revision of the tax system to improve its fairness, efficiency, and transparency. Content of the measures: Implementation of the first phase of the tax reform.	Various	Subsequent legislation	E	0,000	-0,317	-0,037	0,012
Tax deductions for building renovations and Eco-bonus	Motivation: Promote investment in the building stock to increase energy efficiency and seismic resilience. Content of the measures: Extension of bonuses for building renovation, energy requalification, furniture, earthquake, green areas.	D.5	Immediately effective	E	0,000	0,002	-0,028	-0,136
Health	Motivation: Financing the National Health Service. Content of measures: As compared to 2021, increase of two billions per year of the National Health Fund up to the year 2024, funding of the fund for the purchase of innovative drugs, purchase of vaccines for Covid 19 and drugs.	Various (mainly P.2)	Immediately effective	E	0,000	-0,220	0,040	-0,043
University and Research	Motivation: Strengthen university and research. Content of the measures: Refinancing of the Fund for ordinary financing of universities, of the Fund for science and research institutes, setting up a technology fund.	Various (mainly P.2 and D.1)	Immediately effective	E	0,000	-0,021	-0,022	-0,015

TABLE III.1-12 : DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu / Expenditure	Effetti finanziari 2021 % GDP	2022 % GDP	2023 % GDP	2024 % GDP
Supporting enterprises	Motivation: Supporting firms and supporting the access to international markets to strengthen the consolidation of the economic recovery. Content of the measures: Extension of tax incentives related to Transition 4.0, resources to support internationalization, extension of the contribution in favor of SMEs for the purchase of capital goods (so-called new Sabatini), new resources for the SME guarantee fund.	D.3 and D.92	Immediately effective	R/E	0,000	-0,218	0,110	-0,006
Citizenship Income (RdC)	Motivation: Provide support to citizens and families in economic difficulty. Content of the measures: Integration of resources for citizenship income.	D.62	Immediately effective	E	-0,011	-0,042	0,002	0,002
Disability	Motivation: Support disabled citizens. Content of the measures: Interventions to support disabled and non-self-sufficient citizens.	Various	Immediately effective	E	0,000	-0,002	-0,003	-0,004
Contrast to rising energy bills	Motivation: Support the families and enhance the economic recovery. Content of the measures: Setting up a fund to contrast the rising cost of energy on bills.	Various	Immediately effective	E	0,000	-0,106	0,106	0,000
Pension measures	Motivation: Making the pension system more flexible. Content of the measures: pension interventions.	D.62	Immediately effective	E	0,000	-0,032	-0,024	-0,027
Unchanged policies and Ministries	Motivation: Ensuring continuity of interventions whose funding decision is proposed annually. Content of the measures: it comprises, among other things, the refinancing of peace missions, of the fund for legislative provisions and additional resources allocated to funds.	Various	Immediately effective	E	0,000	-0,171	-0,062	0,051
Other revenue / restraning measures	Other revenue / restraning measures	Various	Immediately effective	R	0,000	0,225	-0,094	-0,015
Other revenue / expansion measures	Other revenue / expansion measures	Various	Immediately effective	R	0,000	-0,073	0,023	0,007
Other expenditure / restraining measures	Other expenditure / restraining measures	Various	Immediately effective	E	0,167	0,012	-0,155	0,068
Other expenditure / expansion measures	Other expenditure / expansion measures	Various	Immediately effective	E	-0,015	-0,128	-0,137	0,370
				TOTALE	0,013	-1,245	-0,285	0,261

Note: A comma is used as a decimal separator

TABLE III.1-13 : DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu / Expenditure	Effetti finanziari			
					2021	2022	2023	2024
					% GDP	% PIL	% PIL	% PIL
Relaunch State and local government investment	Motivation: Allocate new resources at the central and local level for public investment to improve the country's infrastructure network and support the economic system. Content of the measures: Refinancing of state and local government investment funds, including the planning phase, refinancing of the infrastructure equalisation fund (fondo perequativo) and of the Development and Cohesion Fund (FSC).	P.5 and D.92	Immediately effective / to be distributed through a decree of the President of the Council of Ministers/ Subsequent administrative acts	E	0,000	-0,108	-0,023	-0,005
Family policies	Motivation: Support families and promote the birth rate. Content of the measures: A 10 days paternity leave is made permanent to, new resources for kindergartens and preschools, guarantees and tax exemptions to facilitate the purchase of the first home, especially for young people,other measures.	Various	Immediately effective	R/E	0,000	-0,022	0,014	-0,001
Social safety net reform	Motivation: To have a more effective and efficient social safety net system. Content of the measures: Implementation of the social safety nets reform.	D.6	Subsequent legislation	E	0,000	-0,079	0,003	0,000
Tax reform	Motivation: Revision of the tax system to improve its fairness, efficiency, and transparency. Content of the measures: Implementation of the first phase of the tax reform.	Various	Subsequent legislation	E	0,000	-0,317	-0,037	0,012
Tax deductions for building renovations and Eco-bonus	Motivation: Promote investment in the building stock to increase energy efficiency and seismic resilience. Content of the measures: Extension of bonuses for building renovation, energy requalification, furniture, earthquake, green areas.	D.5	Immediately effective	E	0,000	0,002	-0,028	-0,136
Supporting enterprises	Motivation: Supporting firms and supporting the access to international markets to strengthen the consolidation of the economic recovery. Content of the measures: Extension of tax incentives related to Transition 4.0, resources to support internationalization, extension of the contribution in favor of SMEs for the purchase of capital goods (so-called new Sabatini), new resources for the SME guarantee fund.	D.3 and D.92	Immediately effective	R/E	0,000	-0,218	0,110	-0,006

TABLE III.1-13 : DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu / Expenditure	Effetti finanziari			
					2021	2022	2023	2024
					% GDP	% PIL	% PIL	% PIL
Citizenship Income (RdC)	Motivation: Provide support to citizens and families in economic difficulty. Content of the measures: Integration of resources for citizenship income.	D.62	Immediately effective	E	-0,011	-0,042	0,002	0,002
Disability	Motivation: Support disabled citizens. Content of the measures: Interventions to support disabled and non-self-sufficient citizens.	Various	Immediately effective	E	0,000	-0,002	-0,003	-0,004
Contrast to rising energy bills	Motivation: Support the families and enhance the economic recovery. Content of the measures: Setting up a fund to contrast the rising cost of energy on bills.	Various	Immediately effective	E	0,000	-0,106	0,106	0,000
Pension measures	Motivation: Making the pension system more flexible. Content of the measures: pension interventions.	D.62	Immediately effective	E	0,000	-0,032	-0,024	-0,027
Unchanged policies and Ministries	Motivation: Ensuring continuity of interventions whose funding decision is proposed annually. Content of the measures: it comprises, among other things, the refinancing of peace missions, of the fund for legislative provisions and additional resources allocated to funds.	Various	Immediately effective	E	0,000	-0,171	-0,062	0,051
Other revenue / restraning measures	Other revenue / restraning measures	Various	Immediately effective	R	0,000	0,225	-0,094	-0,015
Other revenue / expansion measures	Other revenue / expansion measures	Various	Immediately effective	R	0,000	-0,073	0,023	0,007
Other expenditure / restraining measures	Other expenditure / restraining measures	Various	Immediately effective	E	0,167	0,012	-0,155	0,068
Other expenditure / expansion measures	Other expenditure / expansion measures	Various	Immediately effective	E	-0,015	-0,128	-0,137	0,370
				TOTAL	0,037	-0,961	-0,296	0,318

Note: A comma is used as a decimal separator

TABLE III.1-14 : COUNTRY SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
CSR 1 - In 2022, use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. […]	The RRF contributes decisively to the recovery of the PA gross fixed capital formation by around 0.4 percent of GDP in 2021, 0.9 in 2022, 1.1 in 2023 and 1.6 in 2024.	PUBLIC INVESTMENT RRF
	The 'Permanent Table for Economic, Social and Territorial Partnership' has been established, formed by representatives of regional and local Authorities, social Partners and the Third Sector with consultative functions to facilitate the effective and swift implementation of RRP interventions.	PUBLIC INVESTMENT RRF
	The governance of the RRP assigns steering functions to the Prime Minister's Office, where a Steering Committee has been established with the support of a Technical Secretariat. In order to ensure a simpler and broader consultation on the state of play of measures and projects, the portal 'Italiadomani.gov.it' has been activated, while the monitoring and reporting of the Plan are entrusted to the RRP Central Service, established at the MEF.	PUBLIC INVESTMENT RRF
	The financial implementation of the RRP has been launched by a MEF decree, which allocates resources to the Administrations and identifies the initial, intermediate and final objectives according to the financial timetable for each intervention or programme.	PUBLIC INVESTMENT RRF
	The Prime Minister's Office may activate substitutive powers in the event of non-compliance by an implementing entity (a PA) jeopardising the achievement of the intermediate and final RRP objectives.	PUBLIC INVESTMENT RRF
	The projects of strategic importance included in the RRP, which must be carried out in accordance with the timetable, have been subject to a special authorisation procedure by the Ministry of Infrastructure and Sustainable Mobility (MIMS). In addition, until 31 December 2026, a special committee will operate at the Higher Council of Public Works to express opinions on projects.	RRF PUBLIC INVESTMENT
CSR 1 — […] Preserve nationally financed investment. […]	In May 2021, a Complementary Fund has been approved, to implement 30.6 billion investments from national resources. The Fund's interventions may also concern areas that have not been covered by the RRP, after assessing the relevance of the interventions in relation to the categories allowed by European standards.	PUBLIC INVESTMENT National funds
	In August, the Joint State-Regions-Local Authorities Conference approved five draft decrees of the MIMS for interventions in the transport sector to which the resources of the Complementary Fund can be allocated.	PUBLIC INVESTMENT National funds
CSR 1 — […]Limit the growth of nationally financed current expenditure	Legislative dispositions strengthening the role of the Ministry of Economy and Finance in expenditure evaluation and monitoring processes will entry into force by 2021.	SPENDING REVIEW Public finance
CSR 2 - When economic conditions allow, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term. […]	For the public finance targets, see previous tables.	PUBLIC FINANCE BALANCES Public finance
CSR 2 - […] At the same time enhance investment to boost growth potential.	In September 2021, a draft enabling law for the reform of the criminal proceedings was definitively approved, which foresees, inter alia, a reduction in the number of criminal proceedings requiring a trial, the extension of the use of procedural rites alternative to the ordinary proceeding and a reduction of the time required for preliminary investigations.	RAISING GROWTH POTENTIAL Criminal Justice
	The Government amended the draft enabling law for the reform of civil justice which had been submitted to Parliament in January 2020. After the approval of the	RAISING GROWTH POTENTIAL

TABLE III.1-14 : COUNTRY SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
	Senate, the text is now being examined by the Chamber of Deputies. It aims to speed up the justice decisions in ordinary rites and stimulate the use of Alternative Dispute Settlement Methods. An efficient judicial system strengthens the economic system and constitutes a necessary condition for the correct functioning of markets.	Civil Justice
	In August, the Government approved a decree containing urgent measures for corporate crisis and corporate restructuring which, inter alia, postpones the entry into force of the Corporate Crisis Code until May 2022, amends the bankruptcy law and introduces the institution of negotiated crisis composition to facilitate the recovery of firms in difficulty.	RAISING GROWTH POTENTIAL Insolvency
	Some of the measures provided for in legislative decree no. 34/2021 that can be applied to RRP projects relate to: i) an increase of anticipation on the value of the contract up to 30 percent; ii) preferential access to negotiated procedures without prior publication of a contract notice; iii) the application of the provisions of the Code of Administrative Process concerning disputes relating to strategic infrastructure. Further simplifications are provided for the procedures relating to the purchase of goods and IT services instrumental to the implementation of the Plan.	PUBLIC INVESTMENT Simplification
	In relation to RRP investments, a number of measures to simplify public investment introduced by decree law no.76/2020 have been extended: i) extension from 31 December 2021 to 30 June 2023 of the simplified procedure for the award of public contracts below threshold; ii) the limit for direct entrustment has been raised to EUR 139,000, even without consulting more than one economic operator; iii) a negotiated procedure with 5 operators for works over EUR 150,000 and up to one million is envisaged; iv) extension from 31 December 2021 to 30 June 2023 of the adoption date of the Contracting Authority Decision by which the simplified award procedures and the rules governing the performance of the contract are adopted.	PUBLIC INVESTMENT Simplification
	To allow the immediate start of the interventions on the national railway network, the 2017-2021 Programme contract - Investment Part between the MIMS and *Rete Ferroviaria* S.p.A. can be approved by the Inter-ministerial Committee for Economic Planning and Sustainable Development (CIPESS). In this way, the appropriations can be immediately committed by *Rete Ferroviaria Italiana* S.p.A.	PUBLIC INVESTMENT Simplification
	The simplification measures introduced by decree law no.77/2021 amend: i) the law on administrative procedure, in order to make RRP procedures and, more generally, relations between the PA, citizens and businesses more rapid and efficient; ii) the discipline of silence; iii) the establishment of the self-protection procedure for cancellation of administrative measures.	PUBLIC INVESTMENT Simplification
	The Government has amended the Electronic Communications Code in force, to include the promotion of investment in fixed and mobile networks at very high speed and, consequently, promote a sharp reduction in investment costs. The amendments include the simplification of the administrative procedures for authorising the deployment of electronic communications networks and infrastructures, and the provision of incentives for cooperation and creation of synergies between operators.	PUBLIC INVESTMENT Simplification
CSR 3 -Pay particular attention to the composition of public	On 5 October 2021, the Council of Ministers approved the draft enabling law for tax reform. The main innovations	FISCAL ENABLING LAW

TABLE III.1-14 : COUNTRY SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
finances, both on the revenue and expenditure sides of the budget, and to the quality of budgetary measures, to ensure a sustainable and inclusive recovery. [...]	include: i) a proportional substitute tax on capital and business incomes; ii) the reduction of effective rates and the reorganisation of marginal rates on incomes subjected to IRPEF (the Italian PIT), as well as the reform of regional and municipal IRPEF surcharges; iii) the rationalisation of VAT with regard, inter alia, to the levels of rates and the distribution of tax bases among those rates; iv) the gradual overrun of IRAP; v) the introduction of regulatory and operational changes to the cadastral system; vi) the reform of the collection system and the adoption of new organisational models.	Public finance
CSR 3 -[...] Prioritise sustainable and growth-enhancing investment, notably supporting the green and digital transition. [...]	Strengthening the Ecobonus and Sismabonus benefits for energy efficiency and building security.	ECOBONUS AND SISMABONUS Green transition
	In September two decrees of the Ministry of Ecological Transition were approved to improve and digitise the management of municipal waste and strengthen the infrastructure for separate collection. These objectives were pursued by both modernising the treatment plants (paper, glass, organic, wastewater and leather waste) and creating new ones, so as to bridge the gap between the regions of the North and those of the Centre-South.	WASTE MANAGEMENT Green transition
	Stricter authorisation procedures are provided for works relating to 5G and biomethane. Simplifications for PNIEC works have been extended to all infrastructure works necessary for the introduction of biomethane into the existing natural gas transmission and distribution grid.	PUBLIC INVESTMENT Green transition
	A National Sustainable Dredging Plan has been envisaged to enable the development of maritime accessibility and resilience of port infrastructure to climate change and the maintenance of reservoirs and water basins.	NATIONAL DREDGING PLAN Green transition
	Measures to prevent, mitigate and combat hydrogeological failure are classified as works of primary national interest with priority nature. The Minister for the Ecological Transition is expected to submit a yearly report to the Parliament indicating the interventions.	INTERVENTIONS TO MITIGATE HYDROGEOLOGICAL FAILURE Green transition
	In September, a decree of the Ministry of Ecological Transition was approved to develop, through the use of advanced technologies, a monitoring system allowing to identify and predict risks in the territory, in particular hydrogeological risks, to develop effective prevention plans and appropriate land planning tools.	MONITORING TO PREVENT RISKS ON THE TERRITORY Green transition
	For projects covered by the RRP and PNIEC, the environmental impact assessment will be carried out by the RRP-PNIEC Technical Commission, giving priority to projects above 5 million and with a higher employment impact (more than 15 units).	PUBLIC INVESTMENT Green transition
	Simplifications for the acquisition of IT goods and services for the implementation of the RRP have been provided, including the use of direct award for all contracts aimed at the procurement of such goods and services, up to the EU threshold and in the case of rapid technological obsolescence.	PUBLIC INVESTMENT Digital transition
	Expected submission to Parliament of the Competition Law by 2021.	COMPETITION LAW Competition
	Regarding the promotion of renewable energy sources, provisions have been enacted to strengthen the rights of final customers, to complete the liberalisation of the market and to open the market for services to new entities.	RENEWABLE ENERGY SOURCES Liberalisation
	The decree law no. 80/2021 introduces a number of provisions on the recruitment of staff. In particular, the following measures are introduced: i) simplified procedures for the recruitment of technicians for the implementation of the RRP; ii) the doubling of the shares	RECRUITMENT OF STAFF

TABLE III.1-14 : COUNTRY SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
	currently effective for the assignment of managerial positions to individuals not belonging to public management staff, only for the implementation of the RRP; iii) the establishment of a new staff area for the classification of highly qualified staff (so-called 'fourth area'); iv) reform of competitions for access to senior management; v) new recruitments for the governance and implementation of the RRP, the reduction of trial time in judiciary system, the strengthening of the judiciary system and the digital and ecological transition.	Public Administration
	The decree law no. 80/2021 simplified the planning and monitoring activities by merging into the 'Integrated Plan of Activities and Organisation' several plans included in the current legislation, namely performance, smart working, gender equality and anti-corruption plans.	INTEGRATED PLAN OF ACTIVITY AND ORGANISATION Public Administration
CSR 3 - [...] Give priority to fiscal structural reforms that will help provide financing for public policy priorities and contribute to the long-term sustainability of public finances, including by strengthening the coverage, adequacy, and sustainability of health and social protection systems for all.	Active labour market policies will be reformed: i) activation of the 'Employability Guarantee' (GOL) programme devoted to social safety net beneficiaries, to people benefitting from the Citizenship Income, to the NEET people, as well as to disadvantaged and vulnerable people; ii) National Plan for New Skills (PNC) for the reskilling of workers already employed in businesses; iii) Extraordinary Plan to strengthen the Public Employment Services.	REFORM OF ACTIVE LABOUR MARKET POLICIES Social protection
	Established on an experimental basis from 1 July 2021 to 31 October 2021, the re-employment contract, through which unemployed people can re-enter into the labour market through an individual project and a reduction in employers' SSC.	RE-EMPLOYMENT CONTRACT Social protection
	A Ministerial Decree setting-up a Fund for the enhancement of skills and retraining is foreseen, intended to finance training projects for workers benefitting from the CIG (the Italian Wage Supplementation Scheme) for more than 30 percent of working time and to recipients of NASpI (the Italian Unemployment Benefit scheme).	SKILLS ENHANCEMENT FUND Social protection

TABLE III.1-15 : DIVERGENCE FROM LATEST STABILITY PROGRAMME (7)

	ESA Code	2020	2021	2022
		% GDP	% GDP	% GDP
Target General Government net lending/borrowing	B.9			
Stability Programme		-9,5	-11,8	-5,9
Draft Budgetary Plan		-9,6	-9,4	-5,6
Difference		-0,1	2,4	0,3
General Government net lending/borrowing projection at unchanged policies	B.9			
Stability Programme		-9,5	-9,5	-5,4
Draft Budgetary Plan		-9,6	-9,4	-4,3
Difference		-0,1	0,1	1,1

Note: A comma is used as a decimal separator

TABLE III.1-16 : IMPACT OF RECOVERY AND RESILIENCE FACILITY ON GENERAL GOVERNMENT BUDGETARY PROSPECT - GRANTS (9.A)

	2020 [1]	2021	2022
Revenue from RRF grants (% of GDP[2])			
RRF GRANTS as included in the revenue projections	0,0	0,3	0,7
Cash disbursements of RRF GRANTS from EU	0,0	0,5	1,1
Expenditure financed by RRF grants (% of GDP[2])			
TOTAL CURRENT EXPENDITURE	0,0	0,1	0,2
Gross fixed capital formation P.51g	0,0	0,1	0,2
Capital transfers D.9	0,0	0,1	0,3
TOTAL CAPITAL EXPENDITURE	0,0	0,2	0,5
Other costs financed by RRF grants[3] (% of GDP[2])			
Reduction in tax revenue	0,0	0,0	0,1
Other costs with impact on revenue	0,0	0,0	0,0
Financial transactions	0,0	0,0	0,0

[1] MoF estimate.

[2] Policy scenario GDP.

[3] This covers costs that are not recorded as expenditure in national accounts.

Note: A comma is used as a decimal separator

TABLE III.1-17 : IMPACT OF RECOVERY AND RESILIENCE FACILITY ON GENERAL GOVERNMENT BUDGETARY PROSPECT - LOANS (9.B)

	2020 [1]	2021	2022
Cash flow from RRF loans projected in the programme (% of GDP)			
Disbursements of RRF LOANS from EU	0,0	0,9	1,2
Repayments of RRF LOANS to EU	0,0	0,0	0,0
Expenditure financed by RRF loans (% of GDP)			
TOTAL CURRENT EXPENDITURE	0,0	0,0	0,0
Gross fixed capital formation P.51g	0,1	0,3	0,6
Capital transfers D.9	0,0	0,1	0,0
TOTAL CAPITAL EXPENDITURE	0,1	0,4	0,6
Other costs financed by RRF loans (% of GDP)			
Reduction in tax revenue	*0,0*	*0,0*	*0,0*
Other costs with impact on revenue	*0,0*	*0,0*	*0,0*
Financial transactions	*0,0*	*0,0*	*0,0*

[1] MoF estimate.

[2] Policy scenario GDP.

[3] This covers costs that are not recorded as expenditure in national accounts.

Note: A comma is used as a decimal separator

TABLE III.1-18 : CENTRAL GOVERNMENT GUARANTEES AT 30 JUNE 2021 (% OF GDP) (10)

	Measures	Date of adoption[1]	Maximum amount of contingent liabilities1 (% of GDP)	Estimated take-up (% of GDP)[2]
In response to COVID-19	Central Guarantee Fund for SMEs	17/03/2020	n.a.	7,36
	SACE- Italia Guarantee	08/04/2020	11,24	1,35
	Commercial credits insurance	19/05/2020	0,11	0,11
	Subtotal			**8,83**
Others	Central Guarantee Fund for SMEs			1,30
	TAV S.p.A.			0,05
	GACS			0,69
	Bond issues by CDP S.p.A.			0,17
	Guarantee fund for first homes			0,55
	Guarantee for non-market risks in favour of SACE			2,84
	State guarantees in favour of ILVA			0,02
	Green New Deal Guarantees			0,02
	Subtotal			**5,64**
	Total			**14,46**

[1] The date refers to the legislative measure or ministerial decree that introduced or revised the guarantee scheme.

[2] Any inaccuracies result from rounding

Note: A comma is used as a decimal separator

IV. METHODOLOGICAL NOTES

Two notes are provided with reference to the methods and models used for the estimates contained in the DBP:

1. A note containing a brief description of the models used in the DBP for the macroeconomic framework and the impact of structural reforms;
2. A methodological note on the forecasting criteria provided as an exhibit to the 2021 Economic and Financial Document, with detailed information supplied about the methodology, the forecasting process, and the models used for the macroeconomic and public finance forecasts[12].

IV.1 BRIEF DESCRIPTION OF THE MODELS USED

The Italian treasury econometric model (ITEM)

The Italian Treasury Econometric Model (ITEM) has been developed and used in the Treasury Department of the Italian Ministry of Economy and Finance. ITEM describes the behaviour of key aggregates for the Italian economy at the macroeconomic level and it is a medium-scale model. The model includes 371 variables (247 of which are endogenous), and is based on 36 behavioural equations and 211 identities. It is an economic quantitative analysis tool used for both forecasting (it computes medium- term projections conditioned on the international economic framework) and assessing the macroeconomic impact of economic policy measures or changes in international economic variables. One of ITEM's key features is the joint and explicit representation of the economic environment on both the demand and the supply side. However, the demand conditions influence the responses for the short term, whereas the conditions on the supply side determine the level of equilibrium of the economy in the medium term.
In 2016 an important revision of the ITEM econometric model has been carried out, both following the introduction of the new European System of Account (ESA 2010), and to take into account the need of an updated estimation sample including most recent data. Indeed, the prolonged and severe recession of the Italian economy after the financial crisis has requested to check whether it has led to structural changes in the relations between the variables underlying the different equations of the model. The ITEM model was then re-estimated using the time series of national accounts built according to ESA 2010, considering an estimation sample between 1996: Q1 (starting date of time series defined with ESA 2010) and 2013: Q4. It has been necessary to introduce, in the specification of the different equations, innovations and improvements to capture more appropriately the relationships between the different aggregates, taking into account both the new system of accounts and the updated estimation sample.

[12] In particular, see Chapters I-III.

IGEM – Italian General Equilibrium Model

IGEM is a medium-scale Dynamic General Equilibrium (DGE) model specifically designed for the Italian economy. The model, which is based on explicit microeconomic foundations, can be used to evaluate alternative economic policy measures, to study the response to temporary shocks of a varying nature and also to make long-term analyses (structural reforms). IGEM has all the main characteristics of a New Keynesian (NK) model, such as the presence of real and nominal rigidities, but it is extended and adapted to the Italian labour market, which incorporates a heterogeneous mix of contracts and professional positions. This heterogeneity is an essential factor in pinpointing some of the key mechanisms for the transmission of fiscal policies and their effects on GDP and employment. As a result of the flexibility with which IGEM was designed, the additional differentiation allows for simulating a vast array of economic policy measures, including from a demand perspective, and for replicating the main stylised facts in line with current literature.

QUEST III - Italy

QUEST III with R&D is one of the latest versions of the class of Dynamic Stochastic General Equilibrium (DSGE) models developed by the European Commission. The QUEST model is a simulation tool to analyse the effects of structural reforms and the response of the economy to a variety of shocks or policy measures. In particular, the version of the model used at the Treasury Department is an extension of the DSGE model developed at the DG ECFIN for quantitative policy analysis and modified for endogenous growth. The Department of Treasury's simulation exercises use the version of the model calibrated for Italy, already employed by the European Commission in multi-country analyses of structural reforms. The endogenous growth version of QUEST III is particularly well-suited to analysing the impact of structural, growth-enhancing economic reforms in relation to the Lisbon Strategy. By including several nominal and real rigidities and imperfectly competitive markets, the model can be used, for example, to study the effect of policies to stimulate competition and reforms aimed at upgrading the quality of human capital.

MACGEM-IT - A New CGE model for Italy

MACGEM-IT is a static Computable General Equilibrium Model built to reflect the characteristics of the Italian economy to quantify the disaggregated, direct and indirect impacts of fiscal policies and reforms scenarios.

The model is based on the economic flows identified by the national accounting system and it follows the assumptions on functions and exogenous parameters that are generally accepted. The MACGEM-IT model formalizes the relationships among agents in the economy by modelling the behavioural functions (production, consumption and accumulation) which represent the interdependencies among activities, primary factors and institutional sectors.

Although its framework traces the general equilibrium model, MACGEM-IT includes proper rigidities and imperfections regarding the behaviour of some agents and markets, such as the Government and the labour market.

The impacts of policy measures are observed within the income circular flow and are assessed through the performance of the main macroeconomic aggregates, expressed both in real and nominal terms, and are broken down by commodity, activity and Institutional Sector.

In its current version, MACGEM-IT is a static and disaggregated model with multi-input and multi-output production functions. Each agent maximises its own objective function, represented by the maximum profit given the production capacity and the maximum utility for Institutional Sectors (Households, Firms, Government and Rest of the World) given the exogenously determined resources.

The production of goods and services by activity (multi-output production function) is modelled using a nested production function, in order to capture the substitutions and complements across primary factors and/or intermediate goods in the production process (multi-input production function).

Flows that refers to Government are fully detailed in MACGEM-IT. It takes into consideration the current institutional and regulatory framework, outlining the complex transmission mechanisms of the policy measures with respect to the creation of Government revenues and expenditures.

More specifically, taxes are modelled in detail according to the current fiscal regulation, in order to reflect the actual tax bases and tax rates. They also include taxes on products, taxes on activities and taxes on incomes.

Given its characteristics, the MACGEM-IT model is functional to the estimation of those policies that have a sectoral feature, on the production or income side, of which the general and sectoral impacts must be evaluated. Possible applications of the MACGEM-IT model include the simulation of fiscal policies aimed at encouraging different types of final demand, to support specific business activities, production and product activities.

IV.2 ESTIMATION OF POTENTIAL GDP, THE OUTPUT GAP AND STRUCTURAL BALANCES

The method used for estimating Italy's potential GDP and output gap is the one agreed at the EU level[13], whose specifications are discussed and decided by the Output Gap Working Group (OGWG), which is part of the European Council's Economic Policy Committee.

The estimates in this document have been produced on the basis of the macroeconomic policy scenario underlying the present DBP for the years 2021-2024.

For the estimation of the structural unemployment rate (Non Accelerating Wage Rate of Unemployment - NAWRU) and the Total Factor Productivity trend, the initialisation parameters are the same ones used by the European Commission in the 2021 Spring Forecasts[14].

[13] For additional details, see: Havik K. et al. (2014), “The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps”, European Economy, Economic Papers n. 535, http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp535_en.pdf

[14] For details on the methodology and the parameters employed, see the document “Nota metodologica sui criteri di formulazione delle previsioni tendenziali” (in Italian only)”.

IV.3 METHODOLOGICAL NOTE ON THE CRITERIA FOR FORMULATING MACROECONOMIC AND BUDGETARY PROJECTIONS

See the document ‘Nota metodologica sui criteri di formulazione delle previsioni tendenziali’ (in Italian only).

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