MINISTERO DELL'ECONOMIA E DELLE FINANZE

ITALY'S DRAFT BUDGETARY PLAN 2019

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Submitted by Minister of Economy and Finance
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I. MACROECONOMIC OUTLOOK AND FISCAL POLICY

Recent trends and economic outlook

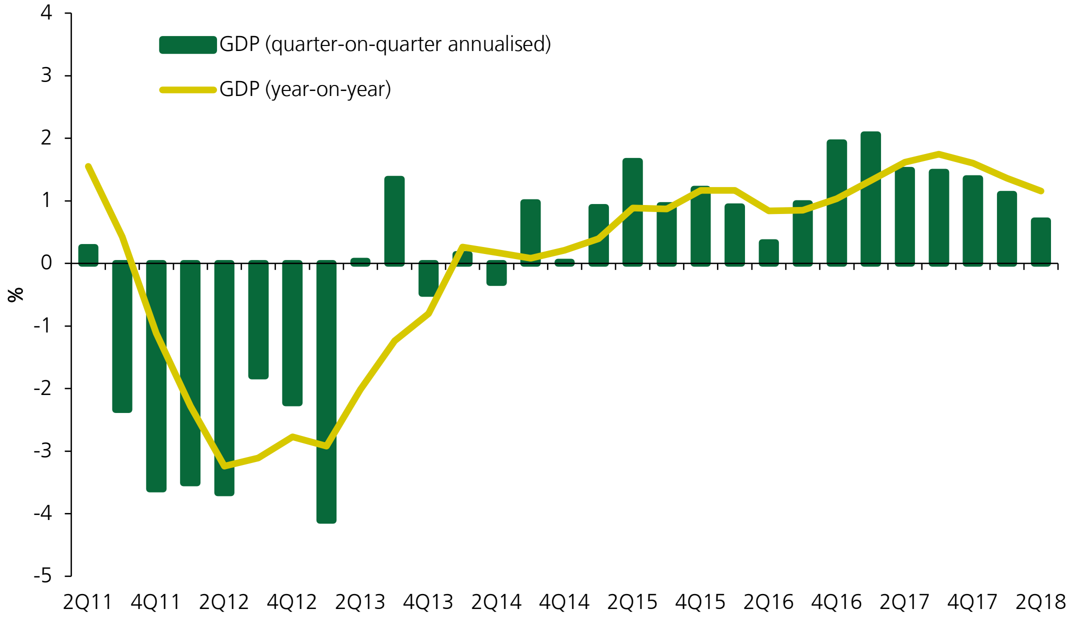
Italy's economic recovery continues, albeit at a slower pace than in 2017. Real GDP in the first half of this year grew at a 1.0 percent annualized rate (Q2 over Q4), down from 1.6 percent in 2017. As a result of this deceleration and in light of most recent economic indicators, the official real GDP growth forecast for 2018 has been lowered to 1.2 percent, from 1.5 percent in the Stability Program (SP).

On the other hand, the GDP deflator has so far evolved in line with the official forecast. The annual projection remains unchanged at 1.3 percent, which implies a nominal GDP growth rate of 2.5 percent (down from 2.9 percent in the Stability Program).

Inflationary pressures remain low. The HICP[1] inflation forecast for this year has been revised up to 1.3 percent, from 1.1 percent, but that is mostly due to higher-than-expected oil prices. While headline inflation stood at 1.6 percent in September, core HICP remained quite low, at 0.7 percent.

On the demand side, the recent deceleration in real GDP growth is due to a loss of momentum in private consumption and a decline in exports. The fall in exports has been particularly pronounced for markets and products that have been interested by protectionist trade and industrial policies. A negative influence came also from the more modest economic activity of relevant export markets and the strong appreciation of the euro. The GDP forecast exogenous risks underlined in the EFD 2018 have thus already occurred in the first half of the year.

FIGURE 1.1-1 REAL GDP GROWTH (% GROWTH RATE)



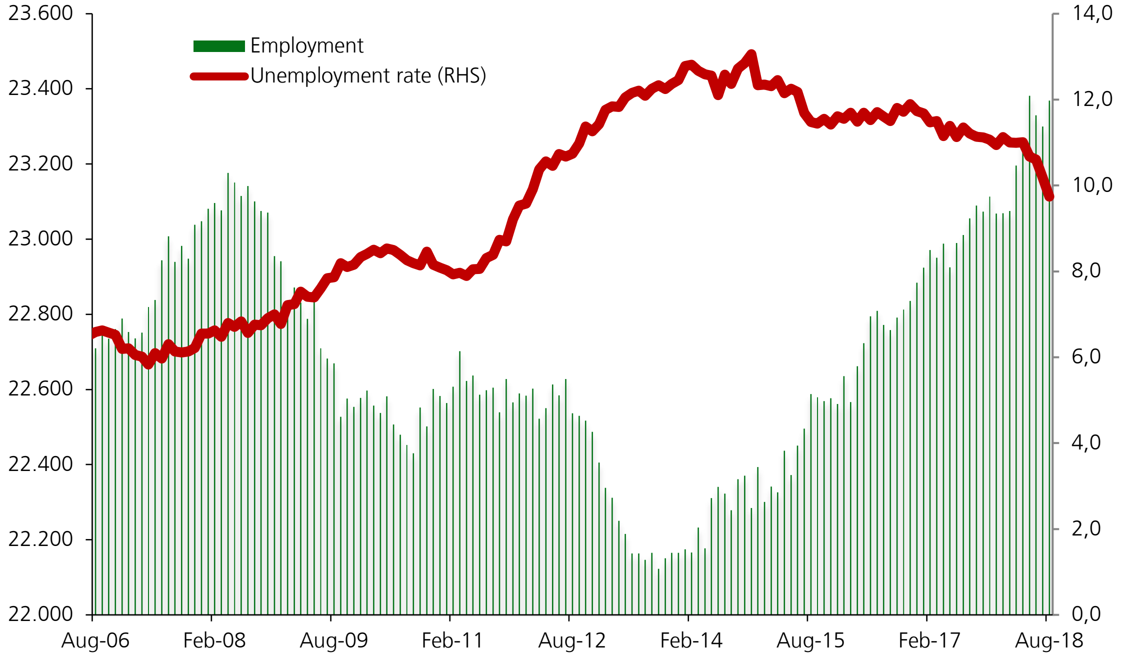
Source: ISTAT.

[1] Harmonised index of consumer prices.

Gross fixed investment continued to expand, especially the plant, machinery and transportation equipment component (+8.8 percent, Q2/Q4 at an annualized rate). Growth in construction investment remained moderate (1.4 percent, Q2/Q4 annualized).

On the supply side, consistent with the decline in exports, growth in industrial output and value added slowed down, while growth in services continued to expand at a moderate pace. The latter is the result of commerce, transportation and lodging, and the real estate components, showing above-average growth rates, while information and communications and, to a lesser degree, finance, banking and insurance continued to contract. Other components of services, e.g. professional and support services, posted weak output growth.

FIGURE 1.1-2 EMPLOYMENT AND UNEMPLOYMENT RATE (ABSOLUTE VALUES, THOUSANDS, AND PERCENTAGES)



Source: ISTAT.

Employment trends in the first half of 2018 remained positive, with a 1.2 percent year-on-year growth in the number of people in employment. The performance of the labor market improved markedly in the second quarter, when employment and hours worked grew by 1.7 and 1.5 percent year-on-year, respectively. In August, the employment ratio and the unemployment rate reached 59.0 percent and 9.7 percent — the best combined result in recent times. However, reliance on fixed-term labor contracts continued to increase, new legislation (the so called DL Dignità) was issued by the new Government on these matters[2].

On the external front, the trade balance in the first seven months of the year posted a €24.7 billion surplus (from €25.6 billion in the same period of 2017) despite the apparent slowdown in export volumes and the increase in oil prices, which boosted the value of imports. In the same period, the current account of the balance

[2] D.L. n. 87 of 12 July 2018, converted with modifications.

of payments recorded a €24.2 billion surplus, up from 22.7 in January-July 2017. The annual forecast for the current account surplus was revised up from 2.5 to 2.8 percent of GDP, the same level recorded in 2017.

As far as the public finances are concerned, net lending of the general government in 2018 is now projected at -1.8 percent of GDP, 0.2 percentage points worse than the estimate featured in the Stability Program. The revision is due to the projected impact of weaker nominal GDP growth and higher interest payments of about 1.9 billion euros (0.11 percentage points of GDP). This year's expected outturn would still mark a significant improvement over 2017, when the budget deficit was equivalent to 2.4 percent of GDP (2.0 percent net of banking-sector interventions).

Fiscal targets and macroeconomic forecasts

The macroeconomic and fiscal projections for 2019-2021 were developed starting from a baseline forecast under existing legislation. The fiscal policy measures and the new deficit targets that are featured in the present document were then applied to the baseline in order to arrive at the macroeconomic forecast of the policy scenario.

The baseline forecast includes indirect tax hikes that were legislated with the 2018 Budget and are due to go into effect at the beginning of each of the next three years. The projected macroeconomic effect of the tax hikes is to weaken domestic demand by boosting the deflator of private consumption and reducing the households' disposable income in real terms.

Compared to the Stability Program, the key exogenous variables of the forecast are less supportive of GDP growth: indeed, Brent oil futures prices are higher than in March, world trade forecasts have been lowered, the trade-weighted exchange rate of the euro has firmed and Italian bond yields have risen. In addition, as far as 2019 is concerned, the growth carryover from 2018 will be smaller than previously expected due to the downward revision of real GDP growth in the second half of this year.

As a result of these changes, the 2019 real GDP growth forecast under the baseline scenario declines from 1.4 to 0.9 percent, the 2020 projection edges down from 1.3 to 1.1 percent and the 2021 one is marginally reduced from 1.2 to 1.1 percent.

Compared to the Stability Program, the general government deficit in the baseline scenario worsens from 0.8 to 1.2 on account of the lower GDP growth and higher interest payments.[3] The deficit would then fall to 0.7 percent of GDP in 2020 and 0.5 in 2021. These levels are worse than in the Stability Program for the same reasons cited for 2019, namely lower GDP growth and higher interest payments.

All in all, starting from a baseline deficit of 1.2 percent of GDP, 0.7 percent in 2020 and 0.5 in 2021, the 2019 Budget will target a deficit of 2.4 percent of GDP in 2019 and then a gradual decrease to 2.1 percent in 2020 and 1.8 in 2021.

These new nominal targets alter significantly the path of the structural deficit in the next three years compared to the Stability Program. Following an estimated improvement of 0.2 percentage points this year, the structural balance would worsen

[3] The baseline forecast is based on actual levels of the sovereign yield curve in the weeks preceding the closing of the forecast. Forward yields are calculated from the chosen levels of the spot curve. Compared to the 2018 Stability Program, the yield curve has shifted upward to an extent that exceeds one precentage point on certain maturities.

by 0.8 points in 2019. The government intends to bring the structural balance back onto a declining path from 2022 onward. If real GDP and employment (in terms of labor units) were to return to pre-crisis levels before 2021, the structural adjustment in the budget could be hastened.

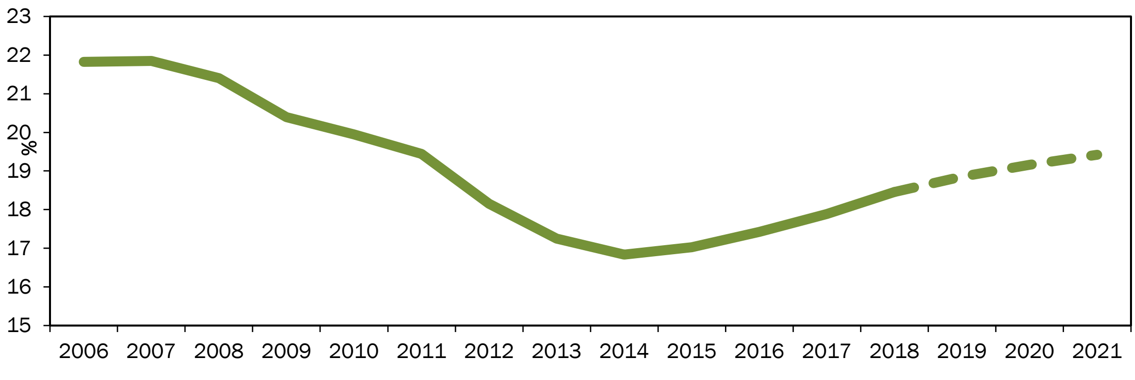
Turning to the macroeconomic forecast under the policy scenario, a more supportive fiscal stance and a different composition of the budget lead to a significant difference in growth projections compared with the baseline forecast. Real GDP is expected to grow by 1.5 percent in 2019, 1.6 in 2020 and 1.4 in 2021. Nominal GDP levels are also higher than the baseline throughout the three-year plan.

Real GDP growth in the next three years will be led by domestic demand and a recovery in exports. Household consumption, which is projected to grow by 1.1 percent this year, down from 1.5 percent in 2017, will pick up to 1.3 percent in 2019 and 1.6 percent in the two following years, thanks to an expansion in labor income and increased social transfers. Compared with the baseline scenario, households' purchasing power will also be supported by the repeal of indirect tax hikes—complete in 2019 and partial in 2020 and 2021. The saving rate is expected to increase in 2019, to around 9 percent of disposable income – a level broadly in line with the average of the past ten years – and then stabilize around 8.5 percent in the two following years.

Turning to gross fixed investment, the machinery and equipment component is expected to remain dynamic, thanks also to the incentives on innovation and capital equipment mentioned above. Growth in construction investment should accelerate, courtesy of the planned increase in public investment, while the residential component will expand moderately.

On the whole, the forecast envisages a further rise in the investment-to-GDP ratio, although the latter will remain below pre-crisis levels. As was mentioned above, should additional fiscal space materialize as a result of higher-than-expected GDP growth or lower interest payments on public debt, public investment and incentives on private investment would be stepped up.

FIGURE 1.1-3 GROSS FIXED INVESTMENT AS A % OF GDP



Source: MEF calculations on ISTAT data. Estimates from 2018 onwards.

Turning to international trade, exports of goods and services are expected to regain momentum compared to this year, rising by 2.6 percent in 2019, 3.3 in 2020 and 3.6 in 2021. The forecast is predicated on the projected path in world trade growth and the real, trade-weighted exchange rate. On their part, imports are expected to follow the path of domestic demand. The contribution of net foreign trade to GDP growth in the policy scenario is projected to be slightly negative over the next three years, while domestic final sales will raise real GDP by 1.8 percentage points in 2019 (from 1.4 points this year), 1.7 in 2020 and 1.6 in 2021.

The expected improvement in economic activity will positively affect the labour market. Employment will grow on average by 1.1 percent per annum over the 2019-2021 period, and the unemployment rate is projected to decline to 8.6 percent in 2021. Productivity (in terms of GDP per person employed) is expected to grow by 0.5 percent in 2019 and only marginally less in the two following years. Wages are expected to rise moderately. As a result, unit labour costs are expected to increase by 0.9 percent in 2019 and only slightly above 1 percent in 2020-2021.

On the inflation front, growth in the GDP deflator is expected to accelerate in the next two years given the supportive fiscal policy stance and the related pickup in real economic activity. However, the rise in inflation, including at the consumer level, should be moderate in 2019, in light of the fact that indirect taxes will not be raised at all. On the other hand, due also to the remaining safeguard clauses for 2020 and 2021, inflation is expected to moderately rise in the two following years.

2019 budget policy promotes investment, support for small and medium-sized enterprises and the fight against poverty

The main measures envisaged by the Budget Law (BL 2019) include the total sterilization of the safeguard clauses (VAT increases) for 2019 and the reduction of those expected for 2020 and 2021, relaunch of public and private investments, the introduction of the flat tax for small businesses and for self-employed workers, reform of the pension system in order to support youth employment and the establishment of the Citizens basic Income.

The BL 2019 allocates additional resources for public investments. Additional measures will introduce organizational and regulatory improvements, revise the regulatory framework and simplify administrative procedures. Moreover, for the year 2019 1 billion euros are specifically dedicated to an extraordinary maintenance program of the road network that the Government has set up after the collapse of the Morandi bridge in Genoa.

The Introduction of a flat tax starting in 2019 is initially aimed only for individual entrepreneurs, artisans and self-employed workers extending the possibility of substituting IRPEF and Irap, with a rate of 15 per cent. The decree law on "fiscal peace" provides simple definition of taxpayers' debts and the closing of pending litigation, five years period for debt payment and an reduced interest rate.

The BL 2019 also contains a set of rules revising the pension system so as to facilitate generational turnover and enable young people to enter the labor market. In order to retire, the so-called "quota 100" must be reached, defined as the sum of the age (62 years) and the years of contributions to social security (minimum 38 years). For the strengthening of the fight against poverty a Citizen basic Income is introduced, aimed at supporting those who are below the poverty line and, at the same time, favoring their reintegration into the labor market through a binding training path.

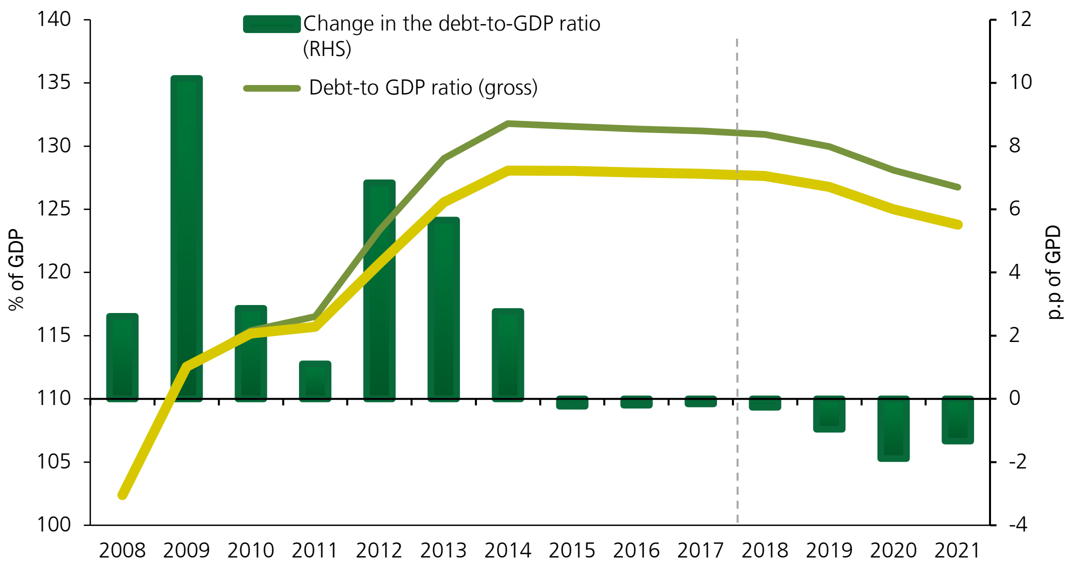
Evaluation of the Parliamentary Budget Office

The Parliamentary Budget Office (PBO) did not validate the macroeconomic forecasts for the year 2019 contained in this Draft Budgetary Plan, observing that the estimates are outside the acceptable range given the information currently available. The Government deemed it appropriate to confirm its programmatic forecast and reported to the Parliament the motivations supporting this choice ('comply or explain' procedure). First of all, the Government recalled that the subject of discussion should be solely the assessment of the impact on the macroeconomic framework of the public finance maneuver, and not the extent to which the official forecast deviates from those formulated by other analysts, published at different times and based on partial or obsolete information. Recalling the overall size of the maneuver and the main measures of the policy framework, the Government noted that the official estimates consider an average multiplier of the maneuver on real GDP equal to 0.5 per cent in the first year, a value completely in line with those obtained by others models used by international institutions. Finally, the Government confirmed that the revival of public investment and new social inclusion policies are a priority of its action and economic growth will benefit from the expansive effects of these measures. The complete text of the Minister of Economy's speech is available at http://www.mef.gov.it/ufficio-stampa/articoli/article.html?v=/ufficio-stampa/articoli/2018_2023-Giovanni_Tria/article_0031.html

Public debt-to-GDP ratio to decline this year and more rapidly in 2019-2021

Regarding the debt-to-GDP ratio, the policy scenario envisages further privatization or alternative revenue earmarked to the public debt amortisation Fund worth 0.3 per cent of GDP in 2018- 2020. Taking also into account these revenues, the general government debt ratio is expected to decline by 0.9 per cent of GDP in 2019, 1.9 in 2020 and 1.3 in 2021. The debt ratio will decline from 131.2 per cent in 2017 to 126.7 in 2021.

FIGURE 1.1-4 KEY DRIVERS OF THE DEBT/GDP RATIO IN THE POLICY SCENARIO (% CHANGES Y/Y AND PERCENTAGE POINTS OF GDP)



Source: MEF calculations on ISTAT data and Government projections for 2018-2021.

Exceptional events

Budget plan include expenditures of an exceptional nature for about 0.05 per cent of GDP for the next year. The collapse of the Morandi bridge in Genoa highlighted the need to undertake an extraordinary maintenance program for the road network and connections. To this end, the new Budget Law dedicates 1 billion euros for the year 2019 specifically to the safety and maintenance of infrastructure of the road network such as viaducts, bridges, tunnels. The interventions will concern works realized in the same period or before the Morandi bridge, or those with specific maintenance needs. The plan will be treated in the same way as an emergency intervention, using procedures provided for by the legislation in force - in particular the negotiated procedure - which will significantly reduce the time required to entrust the work. The use of these modalities and the particular interest of the Government in the realization of the program guarantee that the works will be realized rapidly. This will make it possible to use the financial resources allocated on time, leading to an acceleration of spending compared to the past. Effective implementation of the interventions will be subject to specific and careful monitoring. Considering the exceptional and urgent characteristics of the planned interventions, the Government asks the European Commission to recognize budget flexibility for these purposes.

II. STRUCTURAL REFORMS

Reform actions envisaged in the Government program

The NRP presented to Parliament at the end of April, drafted by a resigning Government, presented only a snapshot of the reforms and policies already legislated and being implemented. With the Update of the Economic and Financial Document, the current Government has anticipated the lines of its program and the consequent reform guidelines, which will be further specified at the presentation of the next Economic and Financial Document (EFD).

The recommendations addressed this year to Italy by the European Council revolve, as in 2017, around four main areas: fiscal policy in its broadest sense, that is budgetary policy, reduction of the Public debt-to-GDP ratio, public spending and taxation; public and private sector governance (competition policy); the rehabilitation of the banking system and the improvement of corporate restructuring and credit recovery procedures; improving labour market efficiency through active policies, the improvement of education and the overcoming of the discrepancy between the demand and the offer of professionalism, combined with a reallocation of social expenditure from pensions to other inclusion policies.

The updated version of the timeline illustrates the reforms adopted and their implementation status. For more details, see the Update of the Economic and Financial Document 2018.

TABLE II.1-1 STRATEGIC ACTIONS OF THE 2018 NRP

	Areas	Policy area	Actions	Timetable
1	Debt and public finance	Public finances	Debt reduction and stabilisation of structural deficit .	2018-2021
2		Public finances	Spending review	2018-2020
3		Public finances	Reducing delays in payments by the Public Administration	2018-2020
4		Public finances	Strengthening the strategy for reducing public debt through privatizations, disposal of real	2018-2020
5	Taxes and spending review and fight against tax evasion	Tax policies	Reduction of the tax burden to support growth (*flat tax, tax expenditures*, excises, tax wedge)	2018-2020
6		Tax policies	Coordination, strengthening and simplification of the tax administration ('*pace fiscale*')	2018-2020
7		Tax policies	Investments in ICT and human resources to support the fight against tax evasion and to encourage tax compliance	2018-2020
8		Tax policies	Reducing tax disputes and improving collection effectiveness	2018-2020
9	Credit	Banks and Loans	Continue to reduce the stock of non-performing loans (NPL)	2018-2019
10		Banks and Loans	Reform of the legislation on company crises and insolvency (Enabling Law)	By 2018
11		Banks and Loans	Extraordinary administration of large companies in state of insolvency	By 2018
12		Banks and Loans	Attraction of foreign direct investments and monitoring of alternative measures to bank credit	2018-2020
13	Labour, welfare and productivity	Labour and welfare	Strengthening of labor services	2018-2020
14		Labour and welfare	Basic income	2018-2020
15		Labour and welfare	Family and disability supporting measures	2018-2020
16		Labour and welfare	Support of female and youth employment and policies in favour of second-earners	2018-2020
17		Labour and welfare	Measures to strengthen the equity of the pension system	2018-2020
18		Labour and welfare	Provisions for the dignity of workers and businesses	2018-2020
19		Labour and welfare	Policies for staff in the health sector	2018-2020
20		Education and skills	National Plan to boost teachers' competences	2018-2020
21		Education and skills	Complete the implementation of the National Plan for Digital Education	2018-2020
22		Education and skills	National Plan for Inclusive Education	2018-2020
23		Education and skills	National Research Program	2018-2020
24	Investments and territorial rebalancing	Investments	National plan for public investment and strengthening PPP	2018-2020
25		Investments	Update of procurement legislation and monitoring of the effectiveness of measures	2018-2020
26		Restoring territorial balance	Implementation of the 'Territorial Pacts for Southern Italy' and release of investments	2018-2020
27		Restoring territorial balance	Tax credit on private investments and incentives for capital expenditure in favour of the South	2018-2020
28	Competitiveness	Competitiveness	Implementation of the reform of Ports and of the National Strategic Plan for Ports and	2018-2020
29		Competitiveness	Hydrogeological and seismic risk (Casa Italia)	2018-2020
30		Competitiveness	Growth and business development: 'Impresa 4.0' and contrast to relocations	2018-2020
31		Competitiveness	Internationalization and competitiveness, Made in Italy protection	2018-2020
32		Competitiveness	Start up and innovative SMEs, *Blockchain* and Artificial intelligence	2018-2020
33		Competitiveness	Strategic plan for tourism and cultural heritage	2018-2020
34		Competitiveness	Protection of biodiversity, sustainable mobility, integrated water service and implementation of measures for circular economy	2018-2020
35		Competitiveness	Liberalization and competition	2018-2020
36		Health	Implementation of Health Pact and Digital Health Pact	2018-2020
37		PA	Legislative and administrative simplifications for businesses and citizens	Entro il 2019
38		PA	Rationalization of State-owned companies	Entro il 2019
39		PA	Reform of local public services in terms of quality and reliability	2018-2020
40		PA	Reform of public management	Entro il 2019
41		PA	Complete the implementation of the Agenda on simplification, start the Three-year Plan for ICT in the Public Administration and ensure greater cyber security	2018-2020
42		Judicial system	Reform of criminal justice and norms on the statute of limitations	2018-2019
43		Judicial system	Fight against organized crime and illicit assets	2018-2020
44		Judicial system	Detention reform	2018-2020
45		Judicial system	Crimes against the PA and fight against corruption	2018-2020
46		Judicial system	Efficiency of civil trials	2018-2020
47		Immigration and security	Contrast to irregular immigration and protection of citizens' safety	2018-2020
48		Constitutional Reforms	Reduction of parliamentarians, suppression of CNEL, strengthening of instruments of direct democracy	2018-2020

III. TABLES

TABLE III.1-1 BASIC ASSUMPTIONS (0.I)

	2017	2018	2019
Short-term interest rate (annual average)	n.d.	0.2	1.0
Long-term interest rate (annual average)	2.1	2.7	3.3
USD/€ exchange rate (annual average)	1.13	1.18	1.16
Nominal effective exchange rate	1.1	2.8	0.7
World excluding EU, GDP growth	3.9	3.9	3.6
EU GDP growth	2.5	2.1	1.8
Growth of relevant foreign markets	6.1	4.3	4.0
World import volumes, excluding EU	5.3	4.2	3.6
Oil prices (Brent, USD/barrel)	54.2	72.6	73.8

TABLE III.1-2 MACROECONOMIC PROSPECTS (1.A)

	ESA Code	2017	2017	2018	2019	2020	2021
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	1,599,774	1.6	1.2	1.5	1.6	1.4
Of which							
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					0.6	0.5	0.3
2. Potential GDP		1,638,179	0.4	0.7	0.9	1.0	1.0
contributions:							
- labour			0.3	0.4	0.5	0.5	0.4
- capital			0.0	0.1	0.1	0.2	0.2
- total factor productivity			0.1	0.2	0.2	0.3	0.3
3. Nominal GDP	B1*g	1,724,954	2.1	2.5	3.1	3.5	3.1
Components of real GDP							
4. Private final consumption expenditure	P.3	963,080	1.5	1.1	1.3	1.3	1.2
5. Government final consumption expenditure	P.3	312,960	-0.1	0.4	1.1	0.8	0.5
6. Gross fixed capital formation	P.51	286,204	4.3	4.4	3.7	3.2	2.8
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-0.4	0.1	-0.1	0.1	0.1
8. Exports of goods and services	P.6	507,130	5.7	0.4	2.6	3.4	3.6
9. Imports of goods and services	P.7	472,736	5.2	1.7	3.0	3.8	4.0
Contributions to real GDP growth							
10. Final domestic demand			1.6	1.4	1.6	1.6	1.4
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		-0.3	0.1	-0.1	0.1	0.1
12. External balance of goods and services	B.11		0.3	-0.3	-0.1	-0.1	-0.1

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

	ESA Code	2017 Level	2017 rate of change	2018 rate of change	2019 rate of change	2020 rate of change	2021 rate of change
1. GDP deflator		107.8	0.5	1.3	1.6	1.9	1.7
2. Private consumption deflator		108.9	1.1	1.3	1.4	2.2	1.7
3. HICP		101.3	1.3	1.3	1.4	2.2	1.7
4. Public consumption deflator		102.2	1.1	2.5	0.4	0.2	0.1
5. Investment deflator		106.2	0.4	0.5	1.8	2.5	2.2
6. Export price deflator (goods and services)		106.1	1.6	1.8	1.7	1.6	1.6
7. Import price deflator (goods and services)		102.8	3.5	2.0	1.8	1.7	1.7

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

	ESA Code	2017	2017	2018	2019
		Level	rate of change	rate of change	rate of change
1. Employment, persons		25,113	1.2	0.9	1.0
2. Employment, hours worked		43,197,298	1.1	1.0	1.0
3. Unemployment rate (%)			11.2	10.6	9.8
4. Labour productivity, persons		63,704	0.4	0.3	0.5
5. Labour productivity, hours worked		37	0.5	0.1	0.5
6. Compensation of employees	D.1	684,277	2.3	2.9	2.7
7. Compensation per employee		40,399	0.2	1.7	1.5

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

	ESA Code	2017	2018	2019
	B.9	% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world		2.7	2.6	2.5
of which:				
- Balance on goods and services		3.0	2.6	2.5
- Balance of primary incomes and transfers		-0.3	0.1	0.1
- Capital account		-0.1	-0.1	-0.1
2. Net lending/net borrowing of the private sector	B.9	5.0	4.5	5.0
3. Net lending/net borrowing of general government	EDP B.9	-2.4	-1.8	-2.4
4. Statistical discrepancy				

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

	ESA Code	2018	2019
		% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector			
1. General government	S.13	-1.8	-2.4
1a. Central government	S.1311	-2.1	-2.6
1b. State government	S.1312		
1c. Local government	S.1313	0.1	0.1
1d. Social security funds	S.1314	0.1	0.1
2. Interest expenditure	EDP D.41	3.6	3.7
3. Primary balance		1.8	1.3
4. One-off and other temporary measures		0.1	-0.1
5. Real GDP growth (%)		1.2	1.5
6. Potential GDP growth (%)		0.7	0.9
contributions :			
- labour		*0.4*	*0.5*
- capital		*0.1*	*0.1*
- total factor productivity		*0.2*	*0.2*
7. Output gap (% of potential GDP)		-1.9	-1.2
8. Cyclical budgetary component (% of potential GDP)		-1.0	-0.7
9. Cyclically-adjusted balance (% of potential GDP)		-0.8	-1.8
10. Cyclically-adjusted primary balance (% of potential GDP)		2.8	1.9
11. Structural balance (% of potential GDP)		-0.9	-1.7

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

	ESA Code	2018	2019	2020	2021
		% GDP	% GDP	% GDP	% GDP
1. Gross debt		130.9	130.0	128.1	126.7
2. Change in gross debt ratio		-0.3	-0.9		
Contributions to changes in gross debt					
3. Primary balance		1.8	1.3		
4. Interest expenditure	EDP D.41	3.6	3.7		
5. Stock-flow adjustment		1.0	0.6	0.5	0.8
Of which:					
- Differences between cash and accruals		0.5	0.5		
- Net accumulation of financial assets		0.0	0.0		
Of which:					
- Privatisation proceeds		*-0.3*	*-0.3*		
- Valuation effects and other		*0.5*	*0.2*		
p.m.: Implicit interest rate on debt		2.8	2.9		
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					

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

	ESA Code	2018	2019
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	46.2	46.3
Of which			
1.1. Taxes on production and imports	D.2	14.4	15.0
1.2. Current taxes on income, wealth, etc	D.5	14.1	13.8
1.3. Capital taxes	D.91	0.1	0.1
1.4. Social contributions	D.61	13.3	13.3
1.5. Property income	D.4	0.8	0.6
1.6. Other		3.5	3.5
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		*41.9*	*42.2*
2. Total expenditure at unchanged policies	TE	48.0	47.5
Of which			
2.1. Compensation of employees	D.1	9.6	9.4
2.2. Intermediate consumption	P.2	5.5	5.4
2.3. Social payments	D.62,D.632	22.4	22.3
of which Unemployment benefits		*0.8*	*0.8*
2.4. Interest expenditure	EDP D.41	3.6	3.6
2.5. Subsidies	D.3	1.5	1.5
2.6. Gross fixed capital formation	P.51	1.9	1.9
2.7. Capital transfers	D.9	1.3	1.2
2.8. Other		2.2	2.2

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

	ESA Code	2018	2019
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	46.1	45.8
Of which			
1.1. Taxes on production and imports	D.2	14.4	14.3
1.2. Current taxes on income, wealth, etc	D.5	14.1	14.1
1.3. Capital taxes	D.91	0.1	0.1
1.4. Social contributions	D.61	13.3	13.3
1.5. Property income	D.4	0.8	0.6
1.6. Other		3.5	3.5
p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)		*41.8*	41.8
2. Total expenditure target	TE	48.0	48.3
Of which			
2.1. Compensation of employees	D.1	9.6	9.4
2.2. Intermediate consumption	P.2	5.5	5.4
2.3. Social payments	D.62, D.632	22.4	22.9
Of which Unemployment benefits		*0.8*	*0.7*
2.4. Interest expenditure	EDP D.41	*3.6*	*3.7*
2.5. Subsidies	D.3	*1.5*	*1.4*
2.6. Gross fixed capital formation	P.51g	*1.8*	*2.1*
2.7. Capital transfers	D.9	1.3	1.2
2.8. Other		2.2	2.3

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

	ESA Code	2017	2017	2018	2019
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		2,462	0.1	0.1	0.2
1.a Of a which investments fully matched by funds revenue		1,513	0.1	0.1	0.1
2. Cyclical unemployment benefit expenditure *		1,915	0.1	0.1	0.0
3. Effect of discretionary revenue measures		179	0.0	0.1	-0.1
4. Revenue increases mandated by law		0	0	0	0

* computed on the basis of unemployment gap

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

Expenditure category	Available information
Education	Education expenditure[1] averages on 3.6% as a share of GDP in the five year-period 2014-2018 (3.5% under unchanged legislation in 2019). As for the mid-long term trends, see the latest forects carried out based on the methodology and the long term scenario elaborated at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability[2]
Health	Health care expenditure as percentage of GDP averages on 6.7% in the five-year period 2014-2018 (6.5% under unchanged legislation in 2019). As for the mid-long term trends, see the latest forecasts carried out based on the national scenario and that elaborated at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability[2]
Employment[3]	The employment expenditure to GDP ratio increased growing from 0.32% in 2014 to 0.44% in 2015 also in light of the implementation of the new active labour policy provisions envisaged by the Delegated Law. 183 / 2014. In particular, the introduction of measures related to the tax relief for permanent employment, which came into force in 2015 for one year (Law No. 190/2014, 2015 Stability Law), as well as measures related to the start of the "Youth Guarantee" program in the two year period 2014-2015. In 2016, although the overall figure for active policies is not available, it is possible to record a substantial increase in expenditure attributable to the three-year contributory bonus: from € 2 billion 224 million in 2015 to € 6 billion 360 million 2016. To this is added with about 355 million of expenditure the extension until December of the contribution exemption (equal to 40%) required by the 2016 Stability Law with a validity of 2 years. The elements currently available make it possible to observe despite the partial data, a growth in the 2016, compared to 0.44% in 2015.

[1] Ageing Working Group definition: the aggregate includes educational levels ISCED 1-8 according to the OECD classification. It does not include Lifelong training and pre-primary level of education.

[2] Source: Ministero dell'economia e delle finanze (2018), "Nota di aggiornamento del documento di economia e finanza 2018".

[3] The employment expenditure contains government spending related to active labour market policies including public employment services

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Decommissioning of the safeguard clauses of the previous stability laws	Motivation: Reducing tax pressure Content of the measures: Complete deactivation of the increases in excise duties throughout the three-year period and of the VAT increases for 2019; partial deactivation of VAT increases for 2020 and 2021	D.2	immediately effective	R	-0,68	-0,29	-0,21
Facilitation on open tax payment positions	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: Completion of the closing of the tax positions which are still open to allow for a more efficient ordinary revenue collection activity, according to the detailed rules laid down in the previous facilitation measures referred to in article 6 of DL no 193/ 2016 and article 1 of DL No 148/2017. The payment terms are extended compared to previous measures and up to a maximum of 10 instalments in 5 years, in this case with a reduced interest rate	D.91	immediately effective	R	0,00	0,06	0,07
Other fiscal peace measures	Motivation: Simplifying the tax system and increasing tax compliance Content of measures: closure of pending litigations, facilitated schemes for contraventions and other minor measures.	D.91	immediately effective	R	0,01	0,01	0,01
Strengthening electronic invoicing between private companies	Motivation: Simplifying the tax system and increasing tax compliance Contents of the measure: Electronic invoicing between private companies was made compulsory by the 2018 budget law, starting since January 2019. It is strengthened by the obligation to memorise and electronically transmit receipts to the Revenue Agency to help counteract the avoidance of invoicing (the so-called tax evasion "with consent"). The new obligation starts from July 2019 for companies with turnover greater than 400,000 euro and from January 1, 2020 for all companies. The measure is accompanied by a flat-rate tax credit of 50% for the purchase, replacement or adaptation of fiscal meters and simplification in the operational procedures.	D.2	immediately effective	R	0,02	0,06	0,10
Facilitated taxation of reinvested profits for companies	Motivation: Simplifying business taxation and encouraging the investment of profits Content of the measure: From the 2019 tax period, companies investing and hiring workers can benefit from a subsidised scheme which reduces the IRES (corporate income tax) rate from 24% to 15% for the share of earnings reinvested in new capital goods and new employment. The measure is conditional to the destination of the profits to productive investments and not a mere financial and capital strengthening of the company (as was the case for the ACE - the previous aid to the growth of enterprises measure, which is repealed), so as to contribute to overall plant renewal and development of the production sector.	D.5	immediately effective	R	0,01	0,02	-0,02

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Flat tax	Motivation: Reducing tax pressure Content of the measures: The scope of the facilitation scheme is extended thanks to a substitute income tax rate of 15% for all business activities with a threshold of revenues and compensation of up to 65,000 euro, regardless of the economic activity. The coefficients of profitability according to the activity's ATECO are reviewed; they are applied to the amount of revenues or compensation received to determine the taxable income.	D.5	immediately effective	R	-0,03	-0,10	-0,07
Repeal of the business tax (i.e, IRI)	Motivation: Simplifying business taxation and encouraging the investment of profits Content of the measures: the business income tax (IRI), which harmonised the tax treatment of businesses and corporate companies (24%) as from 1 January 2019, is repealed. The optional IRI regime is de facto overcome by the introduction of the flat tax, which applies a more favourable rate to small businesses and self-employed persons, and it is accompanied by the facilitation scheme for companies reinvesting profits.	D.5	immediately effective	R	0,11	0,07	0,06
Anticipated retirement measures (so-called "100 threshold")	Motivation: Fostering generational change in the labour market The minimum threshold for early retirement is 62 years of age and 38 years of contributions, which can be accessed during four "windows" a year.	D.62p	immediately effective	E	-0,37	-0,37	-0,36
Citizenship income	Content of the measures: A basic income measure is introduced to guarantee the attainment, also through integration, of an annual income calculated on the basis of the relative poverty indicator of the EU. Adults residing in Italy for at least 5 years unemployed or unoccupied (including pensioners). This measure replaces the so-called inclusion income measure from 1 January 2019 and is it accompanied by a reform of the employment offices.	D.62p	immediately effective	E	-0,37	-0,36	-0,35
Eco-bonus	Motivation: Encouraging investment and safeguarding the territory Contents of the measures: 1) Extension to December 31, 2018 of the deduction for building restructuring at a 50% rate (divided into 10 annual instalments). 2) Extension to 31 December 2018 of the deduction for energy efficiency (divided into 10 annual instalments), at a 50% instead of 65% rate in case of the replacement of fixtures, solar shading, winter air conditioning by means of condensation and biomass boilers, applicable also to social housing agencies 3) Extension to 2019 of the deduction for the purchase of furniture and large appliances of high energy class in building being restructured 5) Extension to 2019 of the deduction at a 36% rate for care, restructuring and irrigation of private green areas	D.5	immediately effective	R	0,00	-0,02	-0,05

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Super-and hyper-amortization	Motivation: Making business more competitive and encouraging investments Content of the measures: Extension to all 2019 of the tax bonus on depreciation related to investments in machinery and equipment to contribute to the renewal of the productive capital of businesses, with some changes in in the dimension of the bonus.	D.5	immediately effective	R	0,00	-0,02	-0,04
Compensation scheme for savers damaged by banks	Content of the measures: Increase in the financial envelope for the compensation scheme for savers damaged by banks based in Italy who have been subjected to resolution or have been liquidated after 16 November 2015 and before January 1, 2018, to complete the process initiated by Decree-law 91/2018 with subsequent modifications. In order to facilitate the compensation mechanism, simplified modalities are also introduced.	D.99p	immediately effective	E	0,00	-0,02	-0,02
Banks	Content of measures: Fiscal measures on banks	D.5	immediately effective	R	0,07	0,05	0,03
Reassessment of insurance tax advance	Content of the measures: The rate of the advance of the tax on insurance premiums, currently determined by 59 per cent for the year 2019 and 74 per cent for the following years, is redetermined to 75 per cent for the year 2019 and to 90 per cent for the year 2020 and to 100 per cent in 2021 and for the following years	D.91	immediately effective	R	0,05	0,00	0,02
Deferment of the deduction of write-downs and credit losses	Content of the measure: The 10% share deduction of negative components (write-downs and credit losses) of credit and financial institutions on corporate income tax and regional tax on production activity is deferred to December 31, 2026.	D.5	immediately effective	R	0,05	0,00	0,00
Tax treatment of devaluation due to new accounting principles	Contents of the measure: The deductibility on IRES (corporate income tax) and regional tax on production activity of the reduction of the value of claims and other financial assets arising from the adoption of the Fund for expected loss coverage must be applied retrospectively, a 10 percent share in the tax period of first-adoption of International Financial Reporting Standard 9 and the remaining 90 percent share in equal parts the nine following tax periods.	D.5	immediately effective	R	0,06	-0,01	-0,01
Public Employment	Content of measures: Resources aimed at hiring and remaining items concerning renewal of contracts for civil servants.	D.1	immediately effective	E	-0,03	-0,04	-0,04
Rationalization of Ministries expenditures	Motivation: Rationalisation and revision of public expenditure Content of the measures: Savings produced through: i) the revision of administrative or organizational procedures; (ii) defunding previously envisaged projects in relation to their effectiveness or priority; (iii) the revision of the mechanisms or parameters determining expenditure needs.	various	immediately effective	E	0,14	0,06	0,06

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Reprogramming transfers to various entities	Motivation: Rationalisation and revision of public expenditure Content of the measures: Revision of the timing of transfers to various entities based on the actual progress of the projects and still maintaining the total over time	D.92p	immediately effective	E	0,06	0,00	0,00
Boosting national investments	Motivation: Encouraging investment and safeguarding the territory Content of the measures: Fund to finance investments and infrastructural development.	P.51 and D.92p	immediately effective	E	-0,12	-0,16	-0,18
Boosting local investments	Motivation: Encouraging investment and safeguarding the territory Content of the measures: Establishment of a fund for the investments of local authorities, to be realized through the use of their budget surpluses and additional resources to be assigned to specific projects.	D.92p	immediately effective	E	-0,07	-0,14	-0,15
Unchanged policies	Interventions whose financing decision is annually reproposed.	various (mostly P.2)	immediately effective	E	-0,07	-0,17	-0,15
Other revenue / restraning measures	Other revenue / restraning measures	various		R	0,06	0,05	0,04
Other expenditure / restraining measures	Other expenditure / restraining measures	various		E	0,00	0,03	0,06
Other revenue / expansion measures	Other revenue / expansion measures	various		R	-0,03	-0,01	-0,02
Other expenditure / expansion measures	Other expenditure / expansion measures	various		E	-0,07	-0,12	-0,10
				TOTAL	-1,20	-1,43	-1,30

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue / Expenditure	% GDP	% GDP	% GDP
Decommissioning of the safeguard clauses of the previous stability laws	Motivation: Reducing tax pressure Content of the measures: Complete deactivation of the increases in excise duties throughout the three-year period and of the VAT increases for 2019; partial deactivation of VAT increases for 2020 and 2021	D.2	immediately effective	R	-0,68	-0,29	-0,21
Facilitation on open tax payment positions	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: Completion of the closing of the tax positions which are still open to allow for a more efficient ordinary revenue collection activity, according to the detailed rules laid down in the previous facilitation measures referred to in article 6 of DL no 193/ 2016 and article 1 of DL No 148/2017. The payment terms are extended compared to previous measures and up to a maximum of 10 instalments in 5 years, in this case with a reduced interest rate	D.91	immediately effective	R	0,00	0,06	0,07
Other fiscal peace measures	Motivation: Simplifying the tax system and increasing tax compliance Content of measures: closure of pending litigations, facilitated schemes for contraventions and other minor measures.	D.91	immediately effective	R	0,01	0,01	0,01
Strengthening electronic invoicing between private companies	Motivation: Simplifying the tax system and increasing tax compliance Contents of the measure: Electronic invoicing between private companies was made compulsory by the 2018 budget law, starting since January 2019. It is strengthened by the obligation to memorise and electronically transmit receipts to the Revenue Agency to help counteract the avoidance of invoicing (the so-called tax evasion "with consent"). The new obligation starts from July 2019 for companies with turnover greater than 400,000 euro and from January 1, 2020 for all companies. The measure is accompanied by a flat-rate tax credit of 50% for the purchase, replacement or adaptation of fiscal meters and simplification in the operational procedures.	D.2	immediately effective	R	0,02	0,06	0,10
Facilitated taxation of reinvested profits for companies	Motivation: Simplifying business taxation and encouraging the investment of profits Content of the measure: From the 2019 tax period, companies investing and hiring workers can benefit from a subsidised scheme which reduces the IRES (corporate income tax) rate from 24% to 15% for the share of earnings reinvested in new capital goods and new employment. The measure is conditional to the destination of the profits to productive investments and not a	D.5	immediately effective	R	0,01	0,02	-0,02

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue / Expenditure	% GDP	% GDP	% GDP
	mere financial and capital strengthening of the company (as was the case for the ACE - the previous aid to the growth of enterprises measure, which is repealed), so as to contribute to overall plant renewal and development of the production sector.						
Flat tax	Motivation: Reducing tax pressure Content of the measures: The scope of the facilitation scheme is extended thanks to a substitute income tax rate of 15% for all business activities with a threshold of revenues and compensation of up to 65,000 euro, regardless of the economic activity. The coefficients of profitability according to the activity's ATECO are reviewed; they are applied to the amount of revenues or compensation received to determine the taxable income.	D.5	immediately effective	R	-0,03	-0,10	-0,07
Repeal of the business tax (i.e, IRI)	Motivation: Simplifying business taxation and encouraging the investment of profits Content of the measures: the business income tax (IRI), which harmonised the tax treatment of businesses and corporate companies (24%) as from 1 January 2019, is repealed. The optional IRI regime is de facto overcome by the introduction of the flat tax, which applies a more favourable rate to small businesses and self-employed persons, and it is accompanied by the facilitation scheme for companies reinvesting profits.	D.5	immediately effective	R	0,11	0,07	0,06
Anticipated retirement measures (so-called "100 threshold")	Motivation: Fostering generational change in the labour market The minimum threshold for early retirement is 62 years of age and 38 years of contributions, which can be accessed during four "windows" a year.	D.62p	immediately effective	E	-0,37	-0,37	-0,36
Citizenship income	Content of the measures: A basic income measure is introduced to guarantee the attainment, also through integration, of an annual income calculated on the basis of the relative poverty indicator of the EU. Adults residing in Italy for at least 5 years unemployed or unoccupied (including pensioners). This measure replaces the so-called inclusion income measure from 1 January 2019 and is it accompanied by a reform of the employment offices.	D.62p	immediately effective	E	-0,37	-0,36	-0,35

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue / Expenditure	% GDP	% GDP	% GDP
Eco-bonus	Motivation: Encouraging investment and safeguarding the territory Contents of the measures: 1) Extension to December 31, 2018 of the deduction for building restructuring at a 50% rate (divided into 10 annual instalments). 2) Extension to 31 December 2018 of the deduction for energy efficiency (divided into 10 annual instalments), at a 50% instead of 65% rate in case of the replacement of fixtures, solar shading, winter air conditioning by means of condensation and biomass boilers, applicable also to social housing agencies 3) Extension to 2019 of the deduction for the purchase of furniture and large appliances of high energy class in building being restructured 5) Extension to 2019 of the deduction at a 36% rate for care, restructuring and irrigation of private green areas	D.5	immediately effective	R	0,00	-0,02	-0,05
Super-and hyper-amortization	Motivation: Making business more competitive and encouraging investments Content of the measures: Extension to all 2019 of the tax bonus on depreciation related to investments in machinery and equipment to contribute to the renewal of the productive capital of businesses, with some changes in in the dimension of the bonus.	D.5	immediately effective	R	0,00	-0,02	-0,04
Compensation scheme for savers damaged by banks	Content of the measures: Increase in the financial envelope for the compensation scheme for savers damaged by banks based in Italy who have been subjected to resolution or have been liquidated after 16 November 2015 and before January 1, 2018, to complete the process initiated by Decree-law 91/2018 with subsequent modifications. In order to facilitate the compensation mechanism, simplified modalities are also introduced.	D.99p	immediately effective	E	0,00	-0,02	-0,02
Banks	Content of measures: Fiscal measures on banks	D.5	immediately effective	R	0,07	0,05	0,03
Reassessment of insurance tax advance	Content of the measures: The rate of the advance of the tax on insurance premiums, currently determined by 59 per cent for the year 2019 and 74 per cent for the following years, is redetermined to 75 per cent for the year 2019 and to 90 per cent for the year 2020 and to 100 per cent in 2021 and for the following years	D.91	immediately effective	R	0,05	0,00	0,02
Deferment of the deduction of write-downs and credit losses	Content of the measure: The 10% share deduction of negative components (write-downs and credit losses) of credit and financial institutions on corporate income tax and regional tax on production activity is deferred to December 31, 2026.	D.5	immediately effective	R	0,05	0,00	0,00

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2019	2020	2021
				Revenue / Expenditure	% GDP	% GDP	% GDP
Tax treatment of devaluation due to new accounting principles	Contents of the measure: The deductibility on IRES (corporate income tax) and regional tax on production activity of the reduction of the value of claims and other financial assets arising from the adoption of the Fund for expected loss coverage must be applied retrospectively, a 10 percent share in the tax period of first-adoption of International Financial Reporting Standard 9 and the remaining 90 percent share in equal parts the nine following tax periods.	D.5	immediately effective	R	0,06	-0,01	-0,01
Public Employment	Content of measures: Resources aimed at hiring and remaining items concerning renewal of contracts for civil servants.	D.1	immediately effective	E	-0,03	-0,04	-0,04
Rationalization of Ministries expenditures	Motivation: Rationalisation and revision of public expenditure Content of the measures: Savings produced through: i) the revision of administrative or organizational procedures; (ii) defunding previously envisaged projects in relation to their effectiveness or priority; (iii) the revision of the mechanisms or parameters determining expenditure needs.	various	immediately effective	E	0,14	0,06	0,06
Reprogramming transfers to various entities	Motivation: Rationalisation and revision of public expenditure Content of the measures: Revision of the timing of transfers to various entities based on the actual progress of the projects and still maintaining the total over time	D.92p	immediately effective	E	0,06	0,00	0,00
Boosting national investments	Motivation: Encouraging investment and safeguarding the territory Content of the measures: Fund to finance investments and infrastructural development.	P.51 and D.92p	immediately effective	E	-0,12	-0,16	-0,18
Unchanged policies	Interventions whose financing decision is annually reproposed.	various (mostly P.2)	immediately effective	E	-0,07	-0,17	-0,15
Other revenue / restraning measures	Other revenue / restraning measures	various		R	0,06	0,05	0,04
Other expenditure / restraining measures	Other expenditure / restraining measures	various		E	0,00	0,03	0,06
Other revenue / expansion measures	Other revenue / expansion measures	various		R	-0,03	-0,01	-0,02
Other expenditure / expansion measures	Other expenditure / expansion measures	various		E	-0,07	-0,12	-0,10
				TOTAL	-1,13	-1,29	-1,15

A comma is used as decimal separator

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS 2018 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
Rec. 1 - Ensure that the nominal growth rate of net primary government expenditure does not exceed 0.1% in 2019, corresponding to an annual structural adjustment of 0.6 % of GDP. [...]	For the public finances targets, see previous tables.	GOVERNMENT FINANANCE BALANCES Public Finance Spending Review
Rec. 1- [...] Use windfall gains to accelerate the reduction of the general government debt ratio. [...]	For 2018, revenues from real estate dismissals and privatization will amount to about EUR 600 mn, out of which EUR 50 mn from the sales of real estate assets belonging to the Central Administration, EUR 380 mn from assets belonging to Local administrations and 170 mn from Pension Funds. The 2009-2020 privatization targets are set to EUR 640 mn and EUR 600 mn, respectively. Valorization of public assets through their dismissal or a more efficient management.	PUBLIC DEBT Government participation and privatizations
	Revenues from privatization and other sources amounting to 0.3 per cent of GDP for both 2019 and 2020.	PUBLIC DEBT Government participation and privatizations
	Reorganization of the concession framework: *i*) finalization of a databank for mapping the concession agreements by 2019; *ii*) codification law for the existing typologies of concessions.	CONCESSIONS Public Finance Spending Review
Rec. 1 - [...] Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. Step up efforts to tackle the shadow economy, including by strengthening the compulsory use of e-payments through lower legal thresholds for cash payments. [...]	First phase of the Flat Tax application: increasing minimum thresholds for the simplified tax regime for small businisses, self-employed professionals and craftworkers. VAT exemption for tax payers adopting the simplified tax regime. Abolition of the tax on entrepreneural income ('IRI').	FLAT TAX Tax policy
	Tax breaks for firms on profits used to raise capital expenditure and employment. Abrogation of the 'Aid to Economic Growth' tax regime ('ACE').	REDUCED 'IRES' Tax policy
	Abolition of the VAT increases planed for 2019.	VAT RATES Tax policy
	Rationalisation of the tax expenditures following the introduction of a generalized Flat Tax.	RATIONALIZING TAX EXPENDITURES Tax policy
	New technologies to fight tax evasion: introduction of the mandatory electronic invoice as of 1 January 2019 by selling fuels to entrepreneurs with a VAT number. Revision of the '*Redditometro*' tool, postponement of the '*Spesometro*' tool and abrogation of the split payment for professionals. Introduction of further measures related to tax simplifications and reduction of the administrative burden on tax payers.	FIGHT AGAINST TAX EVASION Tax policy
	Law-Decree on the 'Tax Peace': final closure of already opened debt positions, in order to allow increasing efficiency in the ordinary tax collection. The same efficiency target will be pursued for disputed amounts, by favouring the closure of outstanding litigations.	TAX PEACE' Tax policy

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS 2018 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	Tax measures related to environment ('Ecobonus' e green 'Ires'). Details in the Table 6.b.	ENVIRONMENTAL TAX Tax policy
Rec. 1 - [...] Reduce the share of old-age pensions in public spending to create space for other social spending.	Revising requisites to access to pension aimed at easing the generational change. Measures for women with a discontinued working career.	PENSIONS Employment and welfare
	Introduction of the 'Citizen Pension' (EUR 780 per month). Detals in Table 6.b.	CITIZEN PENSION' Employment and welfare
CSR 2 - Reduce the length of civil trials at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator [...]	Modifications of the ordinary civil ceremony on the model of the current non-precautionary summary rite.	SIMPLIFIED SINGLE CIVIL PROCEDURE Civil Justice
	Enhancement of the telematic process and increase of judges and administrative staff.	EFFICIENCY OF THE JUSTICE SYSTEM Justice
	Improvement of the penitentiary system and strengthening of the Penitentiary Police	PENITENTIARY SYSTEM Improvement of the penitentiary system
CSR 2 - [...] Achieve more effective prevention and repression of corruption by reducing the length of criminal trials and implementing the new anti-corruption framework [...].	Draft law to fight corruption ('*Spazzacorrotti* decree'): *i)* ban to access public contracts and offices in case of crimes against the public administration; *ii)* broader definition of the crime of corruption and introduction of stricter penalties; *iii)* measures for whistleblower; *iv)* transparency norms in the political party funding.	'SPAZZACORROTTI' DECREE Fight against corruption
	Reform of the prescription and guarantee of the reasonable duration of the process.	STATUTE OF LIMITATION Fight against corruption
	Fight against Mafia and organised crime: confiscation and management of illegal assets.	FIGHT AGAINST ORGANIZED CRIME Safety
	Fighting against the illegal immigration (L.D. No. 113/2018): *i)* revising policies limiting migration flows toward Europe; *ii*) redefining eligibility criteria for humanitarian protection; *iii*) revising procedures of applications for international protection; *iv*) reforming first reception services for refugees; *v*) modifying measures for volonteer assisted repatriation programmes.	ILLEGAL IMMIGRATION Safety
CSR 2 - [...] Ensure enforcement of the new framework for publicly-owned enterprises and increase the efficiency and quality of local public services. [...].	Draft-Law to enhance the efficiency of the Public Administration: *i*) freezing of the turn over and generational mobility; *ii*) fighting against absenteism.	'*CONCRETEZZA*' DARFT LAW Public Administration Efficiency
	Ensuring consistency in the adminstrative procedures at the national level. Implementing the agenda for the P.A. Launching of the three-year plan for the ICT in the P.A. Reforming public managers' contracts and strengthening local public mangers' skills.	P.A. MODERNIZATION P.A. reform
	Minimum efficiency and quality standards established at national level for local public transport services. Upgrade of the bus and train fleets, to be financed through a specific program.	PUBLIC TRANSPORT SERVICES Local public services
	Conclusion of the process of extraordinary survey of state-owned enterprises (SOEs), as foreseen by	SOEs

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS 2018 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	the SOE reform. Monitoring the implementation of measures declared in rationalization plans (dismissal of participations and liquidation of companies). Annual revision of State owned shares (by 2018).	Public Administration efficiency
CSR 2 - [...] Address restrictions to competition, including in services, also through a new annual competition law.	Enacting a new annual competition and liberalization law in sectors still characterized by monopoly rents and competition obstacles.	COMPETITION ANNUAL LAW Competition
	Protecting 'Made in Italy': *i*) fighting against counterfeiting; *ii*) supporting firm internationalization.	PROTECTION OF 'MADE IN ITALY' Competition
CSR 3 - Maintain the pace of reducing the high stock of non-performing loans and support further bank balance sheet restructuring and consolidation, including for small and medium-sized banks, and promptly implement the insolvency reform. Improve market-based access to finance for firms.	Consolidation and write-off of non-performing loans (NPL). Revision of the legislation relative to the securitization of non-performing loans (GACS): possible extension of the securitization to loans classified as unlikely to pay.	NON-PERFORMING LOANS Banks and credit
	Extension of the repayment to savers who invested in bank instruments subject to resolution actions following to the violation of rules on the provision of investment services.	SAVINGS PROTECTION Banks and credit
	The reform of the cooperative banks and mutual banks (*banche popolari*) will be completed.	MUTUAL BANKS Banks and credit
	Reform of corporate crisis and insolvency procedures (Draft Law) and extraordinary administration of large companies in a state of insolvency.	INSOLVENCY Banks and credit
	Use of new technologies ('*Fintech*') in coordination with the European Union and relevant international stakeholders. Strengthening venture capital in particular for high-potential SMEs: creation of a public platform for channeling savings of pension funds and pension plans towards innovative investments. Strengthening of the SME Guarantee Fund and establishment of an Investment Bank.	BUSINESSES FINANCING Financial market access
	The Individual Long-term Savings Plans (PIR) will be extended to start up and unlisted companies.	INDIVIDUAL LONG-TERM SAVINGS PLAN Banks and credit
CSR 4 - Step up implementation of the reform of active labour market policies to ensure equal access to effective job-search assistance and training. Encourage labour market participation of women through a comprehensive strategy, rationalising family-support policies and increasing the coverage of childcare facilities. [...]	Introduction of the Citizenship Income, tax incentives for youth employment and restructuring of Job Placement centres. Details in Table 6.b.	CITIZENSHIP INCOME Employment and welfare
	Enhancement of the network of services to support the family, incentives for parenting and birth and enhancement of the support role of Family Consultors and Centers for the family.	SUPPORT TO HOUSEHOLDS Employment and welfare
	Reform and reorganization of the discipline on the subject of protection and promotion of the rights of persons with disabilities.	DISABILITY Employment and welfare
	Social housing measures for young people.	*SOCIAL HOUSING* Employment and welfare
	Introduction of a new regulatory framework for the	HEALTH SYSTEM

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS 2018 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	health sector management: i) completion of recruitment processes and workers' stabilization; ii) increasing sholarships available to young doctors; iii) revising the rules of managers' contracts in the health sector.	Employment and welfare
CSR 4 - [...] Foster research, innovation, digital skills and infrastructure through better-targeted investment and increase participation in vocational-oriented tertiary education.	Fight against school drop-out and strengthening the Integrated Education and School System. Increased resources for the scholarships of economically disadvantaged honor students and simplified administrative procedures for benefits disboursements. Details in Table 6.b.	SCHOOL DROP-OUT Education and skills
	Creation of new secondary education technical courses ('ITS').	TECHNICAL EDUCATION Education and skills
	Measures to assure the full education inclusion and the implementation of the right to study of disabled students and of students with special educational needs both in the primary and secondary education, as well in the tertiary. Improving the initial training of teaching assistants.	RIGHT TO STUDY Education and skills
	Multi-annual investment plan financed with both Italian and European resources and targetted to realize safe and thecnologically advanced school- and university- buildings. Measures for the certification and safety of school buildings.	SAFE SCHOOL Education and skills
	Implementation of the National Plan for the Digital School.	DIGITAL SCHOOL Education and skills
	Multi-annual Strategic Plan for universities and 2015-2020 National Research Plan. Details in the Table 6.b.	RESEARCH AND DEBELOPMENT Education and kills
	Fighting against firm relocations ('Dignity Decree' - L.D. No. 87/2018). Revising investment-linked benefits received by firms in case of: *i*) failure to comply with employment targets; *ii*) relocation outside the European Economic Area; *iii*) any relocation if the investment is linked to a specific area.	FIRM RELOCATION Investment incentives
	Innovative start-ups; development of the blockchain technology, investment in the Artificial Intelligence and strengthening of the 'Impresa 4.0' Plan. Details in Table 6.b.	INNOVATION Investment
	National strategy for the Ultra-Broadband Network: simplifying its governance. Developing the 5G network and testing new-generation digital platforms. Developing fiber-optic network: new Public-Private Partnership (PPP) models.	BROADBAND NETWORK Technological infrastructure
	Revising the Public Procurement Code. Establishing a task force to collect data about ongoing public works. Enhancing the Public-Private Partnership (PPP) by defining a standard contract.	INVESTMENT Competitiveness
	Strengthening the cost-benefit analysis and the monitoring system of ongoing large public works.	STRATEGIC INVESTMENT Competitiveness
	Emergencies Decree' - Law decree 109/2018: *i*) reconstruction of the 'Morandi' bridge in Genoa and measures supporting citzens and firms damaged by the collpase; *ii*) new rules to monitor risky infrastructures.	EMERGENCIES DECREE Infrastructure and transport

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS 2018 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	Adopting the Building Information Modeling (BIM) for public works. Strengthening urban rigeneration processes and stabilizing financial measures both for energy efficiency and for seismic retrofitting (respectively, 'ecobonus' and 'sisma bonus').	PUBLIC WORKS Infrastructure and transport
	Enhancing the regional rail transport by integrating it with other local and regional transport services: defining minimum efficiency- and quality standards within the country.	RAIL TRANSPORT Infrastructure and transport
	Implementing the reform of the harbor system and the 2018-2020 National Harbor and Logistics Plan. Plan to assure airport efficient infrastructures and services also in peripheral areas. National Plan to enlarge and complete the existing reservoirs.	STRATEGIC INFRASTRUCTURE Infrastructure and transport
	Road transport: *i*) measures against illegal exececise of this business; *ii*) monitoring road haulage services provided by foreign firms; *iii*) introducing administrative simplifications relative to roadworthiness testing for vehicles used by road hauliers.	ROAD TRANSPORT Infrastructure and transport
	Measures to support the tourism sector: *i*) rationalizing tax credits to buildings' renovation and digitalization; *ii*) redefining the tourist tax; *iii*) introducing new rules for short term rents.	TOURISM SECTOR Investment

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EU2020 TARGETS (6.B)

EU2020 Target	Reform actions	Policy area
1 - Employment rate [67-69%]	Dignity Decree (L.D. No. 87/2018) aimed at stabilizing workers, fighting precarious work and safeguarding occupational level by: - changing the legislation on fixed-term contracts, employment provision, occasional work, compensation for unlawful dismissal; - providing fiscal incentives – in the form of reduction of social security contributions –to firms hiring workers under 35 without previous fixed-term contracts; - removing or cutting the benefits to firms that reduce their employment levels over certain percentages as a consequence of relocation; - introducing the obligation for Regions - over the period 2019-2021 - to allocate a portion of their recruitments to reinforce the staff of the Job-placement Centers with the aim of ensuring their full operation.	EMPLOYMENT Fiscal policy and employment protection
	Job-placement Centers Reform (Draft law linked to the 2019 Budget Law), aimed at introducing the income support –scheme (s.c. Citizenship Income): i) additional resources for the Job-placement Centres to strengthen their competences and make their service homogeneous nationwide. Recruitment plan for to the Job-placement Centres in order to hire qualified personnel. Setting up of the Single Informative System and development of advanced services for businesses so as to facilitate the relocation of unemployed people.	EMPLOYMENT Employment protection and active labour market policies
	Lifting of the turnover restrictions for Public Administration in order to sustain youth employment	EMPLOYMENT Turnover in Public Administration
	Revision of the requirements to access pensions and measures for female workers. More details in Table 6.a.	PENSION SYSTEM Incentives to generational turnover and female employment
2 - R&D [1,53% of GDP]	Promotion of national strategies on blockchain technology and Artificial Intelligence supported by dedicated working groups and public and private investments in the A.I. and related technologies.	INNOVATION R&D
	Strengthening the venture capital and “Industry 4.0 Plan”. Promotion of technological innovations to support firms in their R&D activities.	INDUSTRY 4.0 PLAN R&D
	Draft law containing measures for innovative start-ups (the so-called “venture capital Fund for innovative start-ups”) attached to the 2019 Budget Law. Administrative simplifications (also with the use of ICT tools): costs reductions for the entire duration of the registration of the firm in the special section of the registry of businesses.	INNOVATIVE START UP R&D
	Increase of resources for universities and research institutes. Multiannual Strategic Plan for University and research. Measures to improve the researchers careers: incentives to new recruitments (extraordinary recruitment plan) and to the professional progression of professors and researchers. Measures to facilitate the return of highly skilled students in Italy.	RESOURCES FOR UNIVERSITIES AND RESEACH INSTITUTES R&D

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EU2020 TARGETS (6.B)

EU2020 Target	Reform actions	Policy area
	Ongoing work on the Update of the 2015-2020 National Research Program.	NATIONAL REASEARCH PROGRAM R&D
3 - Greenhouse gas emissions [-13%]*	Promotion of the 'circular economy': rationalisation and harmonisation of the legislative framework about the waste management. Measures to maximise the efficiency of the recycling. Development of the ecological work and production decarbonization and defossilization. Implementation of administrative simplification rules in the environmental sector.	CIRCULAR ECONOMY GhG Emission reduction
	Integrated National Plan for Energy and Climate - under definition and to be presented to the EU Commission by the end of 2019 - with particular attention to sustainable mobility (in particular electric mobility).	NATIONAL PLAN FOR ENERGY AND CLIMATE Environmental policies
	Draft Law on sustainable mobility to facilitate the transition to electric vehicles and National infrastructural plan for charging electric vehicles.	SUSTAINABLE MOBILITY GhG Emission reduction
	Draft Law aiming at introducing a lower corporation tax (IRES) rate for firms engaged in reducing pollution ('green IRES').	GREEN CORPORATE TAX Environmental policy
4 - Energy from renewables [17%]	Commitment to achieve an energy system fully based on renewables by 2050. Unlocking the national market for renewables and fighting against energy poverty (as foreseen in the National Energy and Climate Plan).	RENEWABLES Environmental policies
5 - Energy efficiency [15,5 Mtoe/year]**	Extension of the tax credit on interventions boosting energy efficiency of buildings (so called 'ecobonus') and building renovation. Energy efficiency and seismic upgarding of Governmental buildings.	ENERGY EFFICIENCY OF BUILDINGS Environmental policy
	Making fully operational the National Fund for Energy Efficiency (as established by the Ministerial Decree of 22 December 2017). Using the revolving funds to support public policy and investment to increase the energy efficiency of buildings, especially in the context of social housing.	ENERGY EFFICIENCY OF BUILDINGS Environmental policy
6 - School drop-out rates [16%]	Specific measures to improve the inclusiveness of the educational system: strengthening of the Educational Integrated System for the 0-6-year old children; continuous training and professional enhancement of teachers; revision of the recruitment system paying attention to mobility issues.	IMPROVEMENT OF EDUCATIONAL SYSTEM Education
	Increase of educational opportunities at national level. Use of European Funds for basic competences and fight against school drop-out by offering learning opportunities in places and timetable additional with respect to the ordinary activities of schools. Incentives - where possible - to the full and extented timetable in the primary school.	EDUCATIONAL OPPORTUNITIES Education

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EU2020 TARGETS (6.B)

EU2020 Target	Reform actions	Policy area
	Incentives to early access to primary education in the context of the Integrated Educational System. Strengthening of the 0-6 year educational segment by integrating the current legislative framework and by taking into greater account the needs of early childhood, especially in regions with a lower access to educational services comparated to the national average.	INTEGRATED EDUCATIONAL SYSTEM Education
7 - Tertiary Education [26-27%]	Reform (Draft law linked to the 2019 Budget Law) of primary, secondary and tertiary education, high artistic, musical and dance education, research and school- and university sport actvity, as well as measures to simplify and coordinate the regulatory framework in these sectors.	REFORM OF EDUCATIONAL SYSTEM Tertiary education
	Support to the university inclusion of disabled students, also by providing distance learning courses. Provision of specific facilitations to university students related to family assistance activities.	INCLUSIVENESS Tertiary education
	Revision of the enrolment rules to access university courses characterized by restricted access.	ACCESS TO TERTIARY EDUCATION Tertiary education
	Extension of the 'No tax area' in order to increase the number of students eligible to application fees exemption. Incentives to Regions to stabilize the Integrative Governmental Fund to grant scholarships.	TAX MEASURES Tertiary education
8 - Poverty / social exclusion [Reduction of 2,200,000 people in or at risk of poverty, deprivation and social exclusion].	Introduction of the Citizenship Income (proposed law related to the Budget Law). The implementation criteria are delegated to a subsequent non-regulatory decree.	CITIZENSHIP INCOME Poverty and inclusion
	Introduction of the 'Citizenship Pension'. The implementation criteria are delegated to a subsequent non-regulatory decree.	CITIZENSHIP PENSION Poverty and inclusion
	Measures to support parenthood and family.	SUPPORT TO HOUSEHOLDS Poverty and inclusion
	Reform of the legislation on disability.	HOUSEHOLDS AND DISABILITY Poverty and inclusion

* The Italian target of 13 per cent for reduction in emissions compared to 2005, in 2020 concerns the non-ETS sectors.
** The energy efficiency target is detected in savings on end-use as required by the EU Directive.

TABLE III.1-16 DIVERGENCE FROM LATEST STABILITY PROGRAMMETABLE (7)

	ESA Code	2017	2018	2019
		% GDP	% GDP	% GDP
Target General Government net lending/borrowing	B.9			
Stability Programme [1]		-2,3	-1,6	-0,8
Draft Budgetary Plan		-2,4	-1,8	-2,4
Difference		-0,1	-0,2	-1,6
General Government net lending projection at unchanged policies	B.9			
Stability Programme		-2,3	-1,6	-0,8
Draft Budgetary Plan		-2,4	-1,8	-1,2
Difference		-0,1	-0,2	-0,4

[1]The 2018 Stability Programme included only a current legislation scenario.

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[4] for the macroeconomic framework and the impact of structural reforms;
2) A methodological note on the forecasting criteria provided as an exhibit to the 2018 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[5].

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 Department of Treasury of the Italian Ministry of the Economy and Finance. ITEM describes the behaviour of key aggregates for the Italian economy at a macroeconomic level. 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 near term, whereas the conditions on the supply side determine the level of equilibrium of the economy in the medium term.

Recently (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 update 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 of the new system of accounts and the estimation sample updated with recent data.

[4] For additional information, see: http://www.dt.mef.gov.it/it/analisi_programmazione_economico_finanziaria/modellistica/

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

Italian General Equilibrium Model (IGEM)

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, has been used to evaluate alternative economic-policy measures, to study the response to temporary shocks of a varying nature and also for effecting long-term analyses (structural reforms). IGEM has all of 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 transmission of fiscal policies and the effects thereof 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 model used at the Department of Treasury 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 (CGE) for the Italian economy created by the Direction I at the Treasury Department in cooperation with the Department of Economics and Law of the University of Macerata. Built to reflect the characteristics of Italian economy, MACGEM-IT is able to quantify the disaggregated, direct and indirect impacts of fiscal policies.

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. MACGEM-IT model formalizes the relationships among agents in the economy by modelling the functions of behaviours (production, consumption and accumulation) which are able to 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 main macroeconomic aggregates' performance, 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 for activities; the maximum utility given the resources exogenously determined for Institutional Sectors (Households, Firms, Government and Rest of the World).

As mentioned, 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.

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 EU level, and is based on a Cobb-Douglas[6] production function whose specifications are to be 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 scenario contained in the Update to the 2018 EFD for the years 2018-2021 for the policy scenario.

The parameters reported in the following table were used for the computation of the Non-Accelerating Wage Rate of Unemployment (NAWRU). They differ from those employed by the European Commission in the 2018 Spring Forecasts.

The initialization priors of the trend-cycle decomposition model for Total Factor Productivity (TFP) have also been revised in order to take into account the different underlying macroeconomic scenario.

More specifically, the mean and the variance of the innovation process driving the variance of the cycle equation have been set at 0.0014, the mean and the standard deviation of the cycle amplitude at 0.632 and 0.215, respectively. For what concerns the trend, the mean and standard deviation of the innovation have been calibrated

[6] 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.

on the value of 3.539e-007, the mean of the drift has been set at 0.0175 and its standard deviation at 0.004591, the mean of the slope at 0.72 and its standard deviation at 0.0781. For what concerns the second equation, the mean and variance of the variance of the error component have been revised to 0.00555, the mean of the coefficient to at 1.4 and its standard deviation to 0.705[7].

TABLE IV.2-1 INITIAL PARAMETERS FOR THE NAWRU ESTIMATE

Unchanged Policies and Policy Scenario	
	Value
LB Trend innov var	0
LB Trend slope var	0.045
LB Cycle innov var	0
LB Innovation var 2nd eq.	0
UB Trend innov var	0.07
UB Trend slope var	0.06
UB Cycle innov var	0.175
UB Innovation var 2nd eq.	0.000816
NAWRU anchor	9.07

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)

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

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