



# ITALY'S DRAFT BUDGETARY PLAN

# 2023



MINISTERO DELL'ECONOMIA E DELLE FINANZE



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# 2023

Submitted by the Minister of Economy and Finance

**Daniele Franco**





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## **FOREWORD**

*This Draft Budgetary Plan (DBP) was submitted to the Council of Ministers, and approved by it, on 10 October 2022, in compliance with national and European regulations concerning economic financial planning.*

*The economic and public finance forecasts, as well as the updated progress on reforms and economic policy presented in this document, are based on existing legislation.*

*The next Government will set the policy public finance objectives for the three-year period 2023-2025 and, consequently, update the contents of this document before the presentation of the budget law.*



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## I. MACROECONOMIC FRAMEWORK AND BUDGET POLICY

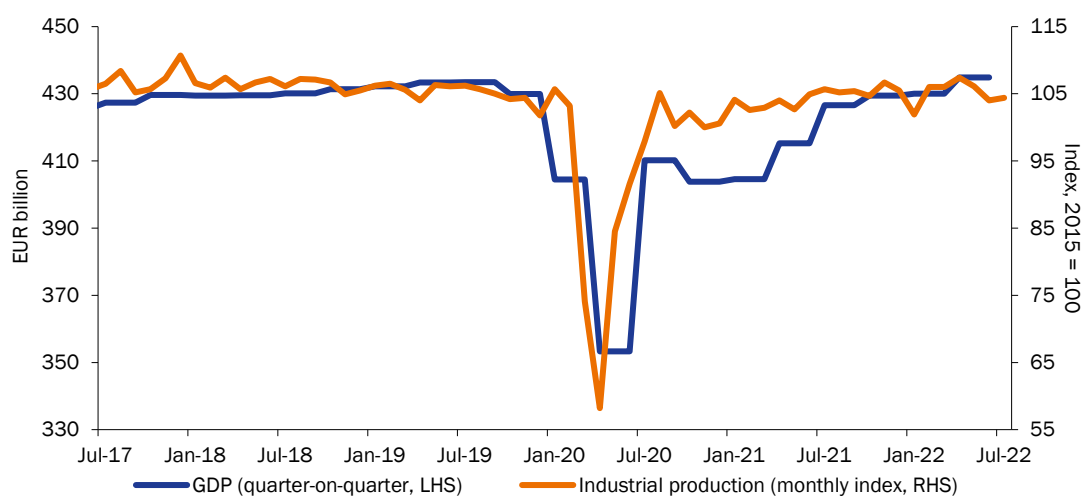
### I.1 RECENT TRENDS IN THE ECONOMY AND THE PUBLIC FINANCES

Gross domestic product (GDP) grew more than expected in the first half of the year, rising 0.6 percent above the average level of 2019, the year before the pandemic. After a cyclical slowdown to 0.1 percent in the first quarter (from 0.7 percent in the fourth quarter of 2021), a robust increase in GDP was recorded in the second quarter, up 1.1 percent over the previous period.

As a result of the good performance of the first half of the year, the GDP growth forecast for 2022 rises to 3.3 percent, up from the 3.1 percent in the Stability Programme, even though prospects for the second half are less favourable than anticipated in April<sup>1</sup>.

Indeed, amidst a weakening of global and European cyclical indicators, economic and inflation trends continue to be affected by the war in Ukraine and soaring prices of natural gas, electricity, fuels and food commodities, especially cereals.

**FIGURE I.1-1 : GROSS DOMESTIC PRODUCT AND INDUSTRIAL PRODUCTION**



Source: ISTAT.

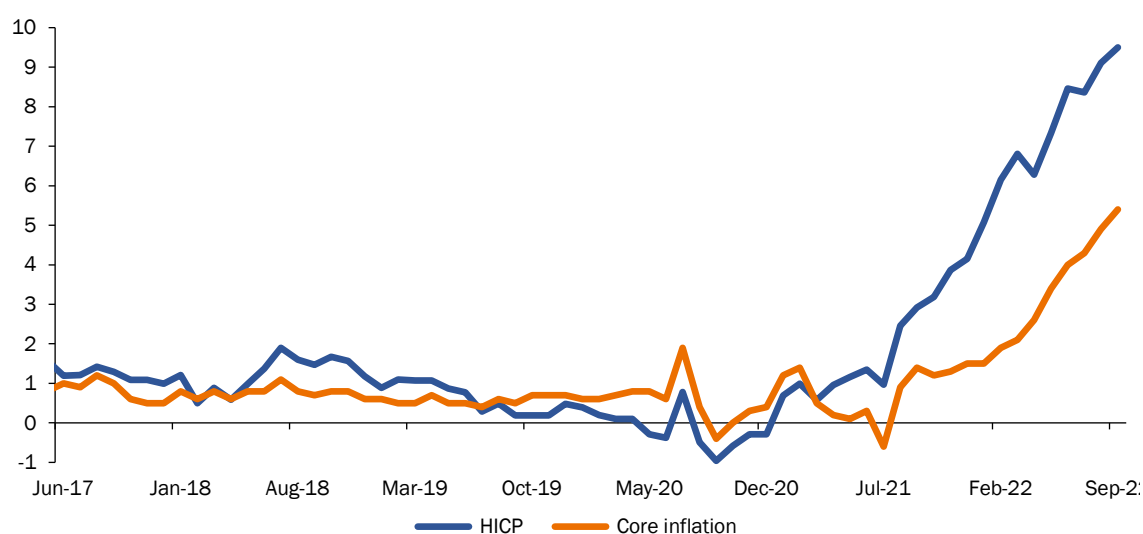
The measures implemented this year by the government to lower energy bills and fuel prices and the aids provided to households and businesses amounted to 57.1 billion (3.0 percent of GDP) in gross terms, including 3.8 billion already allocated by the budget law for 2022. Despite this, energy bills for Italian businesses and households continued to rise due to wholesale energy prices that in August peaked at

<sup>1</sup> Based on data for the second quarter, the carry-over on the quarterly average figure for the current year is 3.5 percent. Including in the calculations the projection of a slight cyclical decline in GDP in the second half of the year, the average growth now expected on the quarterly data is 3.4 percent. However, due to fewer working days than in 2021, this estimate translates into a slightly lower annual GDP growth of 3.3 percent.

12 times the average for the five-year period 2016-2020 in the case of natural gas and almost 11 times in the case of electricity - an unprecedented price shock. Oil prices also followed an upward trend until June, peaking at USD 128 per barrel on the Brent benchmark in early March, only to recently fall back below USD 90 per barrel.

Driven by energy and food prices, inflation continued to rise, reaching 9.5 percent in September in Italy and 10.0 percent in the euro area, according to the Harmonised Index of Consumer Prices. The price increase progressively propagated from energy and food to the other components of the index, bringing core inflation (net of energy and fresh food) to 6.1 percent in September in the euro area and 5.4 percent in Italy.

**FIGURE I.1-2 : CONSUMER PRICES (HARMONISED INDEX, % CHANGE Y/Y)**



Source: ISTAT.

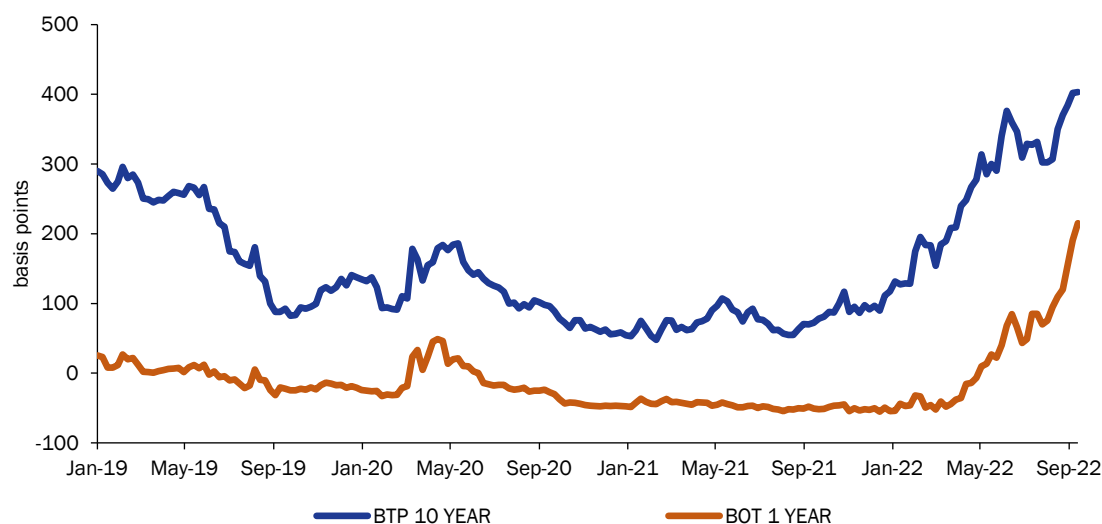
The sudden rise in inflation prompted the major central banks to adopt restrictive monetary policy measures. The resulting rise in interest rates has been accompanied by a marked flattening of the yield curve. The markets expect the rise in inflation and the resulting monetary tightening to last no longer than two years, also based on the expected fall in energy prices and a slowdown in global growth.

The European Central Bank (ECB) was a few months late in following the restrictive moves of the US Federal Reserve and the Bank of England, however, as of 1 July it terminated its programme of purchases of fixed-income securities on the open market (quantitative easing - QE) and then raised its key interest rates by a total of 125 basis points in two stages (July and September), raising the main refinancing operations rate from zero to 1.25 percent. The ECB's most recent macroeconomic forecast points to an inflation rate above the 2 percent target even over a two-year horizon, which would justify further increases in the key interest rates at the upcoming Governing Council meetings.

Aside from the surge in inflation, it should not be overlooked that the euro area unemployment rate fell to a new all-time low of 6.6 percent in July and August and the vacancy rate rose to 3.2 percent in the second quarter, while labour cost growth increased to 4.0 percent from 2.5 percent in the fourth quarter of 2021. In light of the stance on future monetary policy decisions communicated by the ECB itself, all

this leads markets to expect further policy rate hikes. As a result, euro swap rates are currently 2.8 percentage points higher on the one-year maturity and almost 2.5 percentage points higher on the ten-year maturity compared to their level at the beginning of 2022.

**FIGURE I.1-3 : YIELDS ON ITALIAN GOVERNMENT BONDS (1-YEAR BOTs AND 10-YEAR BTPS)**



Source: Bloomberg.

With regard to the Italian government bond market, the impact of the rise in euro rates was accompanied by the widening of the yield differential against the swap rate and the German Bund: the spread over the Bund on the ten-year maturity, which a year ago fluctuated around one percent, has recently risen to around 2.5 percent, and then fell back to around 2.3 percent, resulting in the yield on the ten-year BTP currently standing at 4.1 percent, against 0.7 percent a year ago (while the Bund went from -0.21 percent to 1.84 percent).

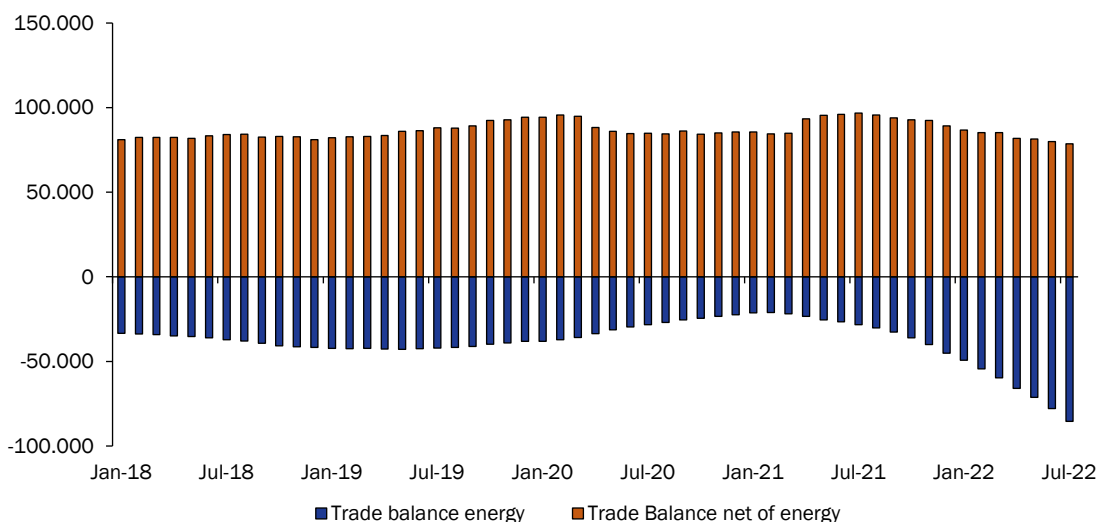
The energy shock also caused a sudden decline in Italy's trade balance, as well as that of high surplus countries such as Germany. In the first seven months of 2022, Italy's trade balance recorded a deficit of 13.7 billion, against a surplus of 37.5 billion in the same period last year, with the energy balance deteriorating to -60.0 billion from -19.4 billion in the first seven months of 2021. The non-energy trade balance, while remaining broadly in surplus from January to July (at 46.3 billion), also deteriorated by about 10 billion compared to the same period in 2021, due to both a decline in the terms of trade and a higher growth in import volumes than in export volumes<sup>2</sup>.

According to ISTAT data, export growth in nominal terms remained positive until the end of July. However, in terms of volumes, the performance of Italian goods exports was broadly positive in the first quarter, when exported volumes grew by 5.2 percent on a trend basis, only to slow down in the second quarter (-1.2 percent) and in July (-4.0 percent), mainly as a result of a slowdown in world trade.

<sup>2</sup> A decline in the terms of trade indicates a higher growth in import prices than in export prices. According to the latest ISTAT data, average unit export values in the first seven months grew by 1.1 percent on average.

Reflecting the decline in the trade balance, the balance of payments on current account in the first seven months of 2022 also recorded a deficit of 9.1 billion, against a surplus of 31.9 billion in the same period of 2021.

**FIGURE I.1-4 : ITALY'S TRADE BALANCE (LAST TWELVE MONTHS, EUR MILLION)**



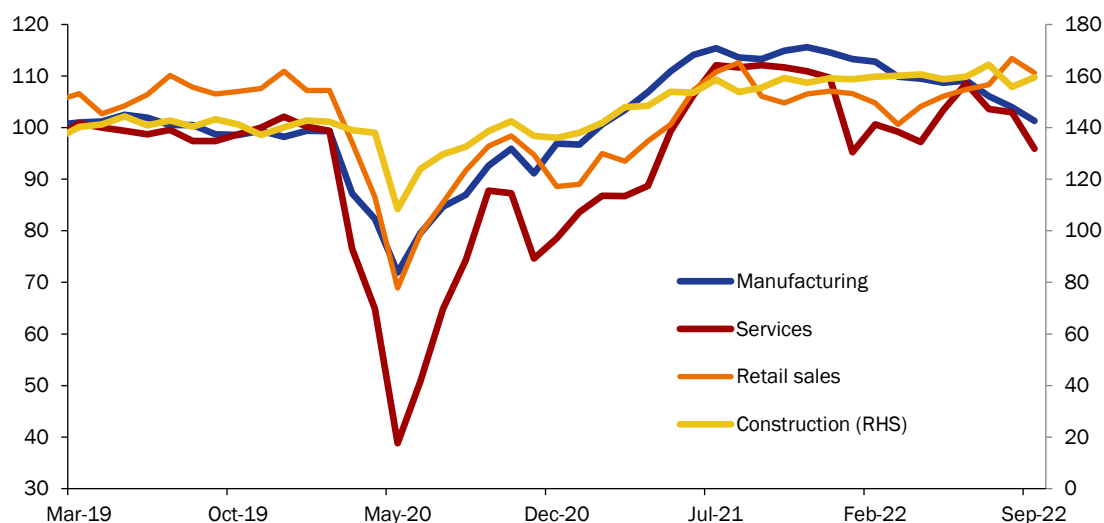
Source: Refinitiv.

As mentioned, the unemployment rate in the euro area (and in the European Union) dropped to its lowest level in decades. The unemployment rate in Italy also dropped to 7.9 percent in July, the lowest level since 2009. According to the ISTAT labour force survey, the number of people employed in June exceeded 23.3 million, the highest figure since June 2019 and up 2.4 percent compared to the corresponding month of 2021, before falling slightly below to 23.1 million in August. Due in part to the decline in the working-age population, the employment rate in June reached an all-time high of 60.3 percent, before slightly declining to 60.0 percent in August.

The results achieved so far in terms of GDP and employment growth were made possible not only by the dynamism of industry until the spring, but also by the considerable growth in the value added of the construction sector and the recovery of sectors that had previously been affected by social distancing measures. After peaking in January, new COVID-19 infections declined in the spring, only to rise again due to the spread of new sub-clusters of the Omicron variant. However, the rate of patients being hospitalised and in intensive care remained under control, allowing the process of normalisation of economic and social life to continue, with great benefits also in terms of foreign tourist arrivals.

As already mentioned, economic expectations and the performance of the manufacturing industry have worsened since the late spring. The most recent data point to a worsening of the international economic cycle during the third quarter: in August, the global PMI fell below the expansion threshold value of 50, more precisely to 49.3 from 50.8 in July and 53.5 in June, against the highest level of 58.5 reached since the beginning of the pandemic in May last year. In the euro area, the composite PMI fell below the threshold value of 50 back in July (to 49.9), before falling further to 48.9 in August and to 48.2 in September.

FIGURE I.1-5 : INDICES OF CONFIDENCE OF ITALIAN BUSINESSES



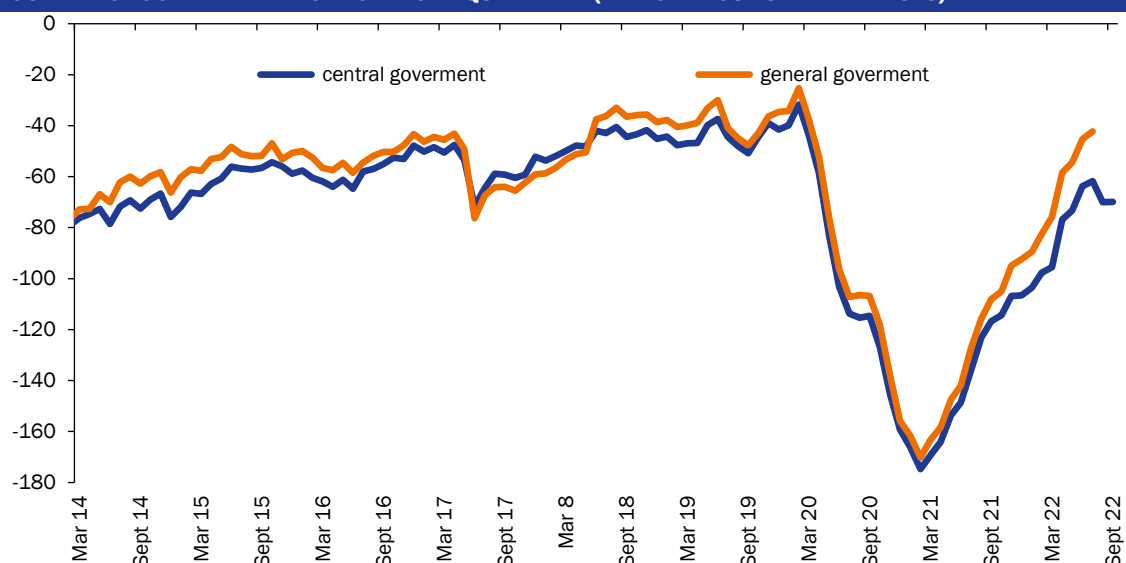
Source: ISTAT and MEF estimates for April 2020, when the survey was not published.

In Italy, the seasonally adjusted index of industrial production in June-July fell by 2.4 percent over the previous two months. Looking at the more recent information, the ISTAT economic survey of September reported that companies' confidence continued to decline, with a deterioration in assessment about current and expected levels of production and orders for the coming months. In September, the indices of confidence for services and retail trade were also down, while the index for constructions is slightly recovering.

In terms of public finance, ISTAT's institutional sector accounts indicate a sharp reduction of net borrowing of the general government in the first quarter, to 9.0 percent of GDP and to 3.1 percent of GDP in the second quarter, from 12.6 percent and 7.6 percent, respectively, of the corresponding period of 2021 (in non-seasonally adjusted terms)<sup>3</sup>. The revenue trend was particularly positive in the first seven months of the year, with tax revenues increasing by 13.2 percent and contribution revenues by 6.4 percent.

A marked improvement in public finance is also reported by the more recent borrowing requirement data, which amounted to 49.2 billion in the first nine months of the year, with an improvement of about 36.7 billion compared to 85.9 billion in the corresponding period last year. Even excluding from the comparison the grants received in August 2021 and April 2022 from the Recovery and Resilience Facility, the reduction in borrowing requirements in the first nine months of the year amounted to 37.7 billion (a decrease of about 43 percent). This is a very positive result also in light of the allocation of public resources for measures to lower energy prices and of aids to businesses and households carried out during the period in question.

<sup>3</sup> As mentioned in the report, quarterly debt figures are not seasonally adjusted. With the exception of 2020, an anomalous year as it was marked by the first phase of the pandemic and massive fiscal policy interventions, the first quarter normally records the highest levels of net borrowing for the whole year.

**FIGURE I.1-6 : GOVERNMENT BORROWING REQUIREMENT (12-MONTH CUMULATIVE VALUES)**

Source: MEF analysis on monthly data from the State General Accounting Department (*Ragioneria Generale dello Stato* - RGS) for central government, and from the Bank of Italy for general government.

## I.2 MEASURES TO LOWER ENERGY PRICES AND RELATED TO THE WAR IN UKRAINE

### Actions to lower energy prices

The package of measures adopted to mitigate the impact of inflation on households and businesses has a financial impact of about 62.6 billion (3.3 percent of GDP) on 2021 and 2022, of which 5.5 billion (0.3 percent of GDP) on 2021 and 57.1 billion (3.0 percent of GDP) on 2022, including 3.8 billion allocated under the 2022 budget law<sup>4</sup>.

This financial impact is expressed in gross terms, i.e., it is not reduced by the amount of revenue-raising measures or reductions in other expenditures simultaneously enacted in order not to impact the budget deficit. Furthermore, it is an *ex-ante* estimate, based on the financial impact included in the technical reports and summary tables of the financial effects of regulatory measures, and does not include the indirect effects in terms of higher revenue, led by the measures.

Temporary measures aimed at containing energy costs for households and businesses are factored in, as well as those aimed at safeguarding the purchasing power of lower incomes to cope with rising energy costs and the general increase in inflation.

The containment of bill costs is implemented through the reduction to zero of the rates of general system charges on electricity and gas bills, and the reduction to 5 percent of the VAT rate on gas bills.

<sup>4</sup> Decree law No. 41/2021 (*decreto 'Sostegni'*), D.L. No. 73/2021 (*decreto 'Sostegni bis'*), D.L. No. 130/2021, 2022 Budget law (law No. 234/2021), D.L. No. 4/2022 (*decreto 'Sostegni ter'*), D.L. No. 17/2022, D.L. No. 21/2022, D.L. No. 38/2022, D.L. No. 50/2022 (*decreto 'Aiuti'*), D.L. No. 80/2022, D.L. No. 115/2022 (*decreto 'Aiuti bis'*), D.L. No. 144/2022 (*decreto 'Aiuti ter'*), MEF-MITE Inter-ministerial decrees of March, April, June, July, August and September 2022.



Social bonuses for electricity and gas users, already in force since 2008, have been reinforced. They are intended for economically fragile families, or families with members in physical distress. They have been adjusted to minimise the impact of higher bills; moreover, the ISEE threshold for access to the bonuses has been increased from EUR 8,265 to EUR 12,000 (EUR 20,000 for large families), for the entire year 2022.

Tax credits for companies are aimed at compensating the extra costs incurred by companies for the purchase of energy or natural gas. Companies whose quarterly average costs have increased by at least 30 percent compared to the same quarter in 2019 are eligible. Initially introduced in favour of energy-intensive or natural gas-intensive businesses to cover 20 percent of expenses incurred in the relevant quarter, during the year these credits were extended to a wider range of businesses and increased to cover up to 40 percent of expenses incurred. Other tax credits are provided for specific sectors, such as transport, agriculture and fishing, in order to cover expenses for energy components or fuels.

Part of measures were aimed at the reduction in excise duties on fuels. Reductions in excise duties also include those arranged by MEF-MITE Inter-ministerial decrees to compensate for higher VAT revenues from the rise in international crude oil prices.

Lastly, among the measures aimed at countering the general rise in prices, the most notable is undoubtedly the disbursement of one-off monetary transfers (9.8 billion) to various categories of workers, pensioners and recipients of other social benefits: the first, worth EUR 200, disbursed in July to those with annual incomes up to EUR 35,000; the second, worth EUR 150, will be disbursed in November to those whose incomes are up to EUR 20,000<sup>5</sup>. Other measures include the transport bonus, an increase in social contributions exemption for employees originally introduced by the 2022 budget law, and a two-percentage point increase for pensions up to EUR 2,692 from October to December 2022.

### **Actions related to the war in Ukraine**

Other urgent measures introduced during 2022 include those related to the ongoing war in Ukraine, amounting to 1.1 billion<sup>6</sup>.

In response to the humanitarian emergency caused by Russian aggression, financial aid was given to Ukraine, also aimed at ensuring the continuity of essential services of the Ukrainian State, and resources were allocated to meet the exceptional reception needs of Ukrainian refugee citizens in Italy. The resources earmarked for reception amounted to approximately 0.8 billion, for 170,646 refugees who arrived in Italy from Ukraine, including 49,095 minors<sup>7</sup>.

These interventions were conducted as part of the international initiatives in support of Ukraine, coordinated at the level of the European Union and G7 level.

In addition, non-repayable grants were provided to companies that had suffered negative economic impacts resulting from the international crisis induced by

<sup>5</sup> Art. 18, decree law No. 144/2022, which provides for the payment of a monetary transfer of €150 in November 2022 to workers whose gross income in that month does not exceed EUR 1,538, corresponding to approximately EUR 20,000 per year (over thirteen months).

<sup>6</sup> D.L. No. 14/2022, D.L. No. 21/2022 e 'Aiuti' decree (D.L. No. 50/2022).

<sup>7</sup> Based on data from the Ministry of the Interior, updated on 21 September 2022.

the ongoing war in Ukraine and, in particular, the sanctions system adopted by the EU and other countries around the world aimed at financially isolating Russia and weakening its economy.

### **I.3 MACROECONOMIC FORECAST UNDER EXISTING LEGISLATION**

#### **Update of GDP forecast in light of new exogenous factors**

As already mentioned, the GDP growth forecast for the current year in the new scenario under existing legislation improved from 3.1 percent to 3.3 percent compared to the Stability Programme policy scenario. On the contrary, the forecast for 2023 fell substantially, from 2.4 percent to 0.6 percent. The forecasts for 2024 and 2025 remained unchanged, at 1.8 percent and 1.5 percent, respectively.

With regard to nominal GDP - a very relevant variable for public finance projections and deficit, debt and GDP ratios - the forecasts have been revised upwards compared to the Stability Programme, with the only exception being in 2023, when the drop in projected real growth exceeds the upward revision of GDP deflator growth projections.

More specifically, based on ISTAT data for the first two quarters of the year, the most up-to-date internal evaluations suggest a slightly negative change in GDP in the third quarter as a result of a cyclical contraction in the value added of the manufacturing and construction industries, only partially offset by an increase in the services sector. As for the fourth quarter, the most up-to-date estimates point to a slight contraction of real GDP, primarily attributable to the industry sector.

The expected performance in the second half of this year results in only a slight positive carryover (0.1 percentage points) on growth in 2023. A further decline in GDP is expected in the first quarter, which would then be followed by a pick-up in economic activity from the second quarter onwards, driven by an increase in global demand, a fall in the price of natural gas (albeit still higher than under 'normal' conditions) and an increasing contribution of the National Recovery and Resilience Plan (RRP) to GDP growth.

The lower GDP growth forecast for 2023 compared to the Stability Programme, equal to 1.8 percentage points, is due not only to the recent decline in business and household projections, but also and above all to changes in the main exogenous variables of the scenario. The growth forecast for world trade was significantly reduced in line with the most recent projections provided by Oxford Economics; the imports of Italy's main trading partners are now expected to grow by 1.5 percent in 2023, against the 3.4 percent forecast in the Stability Programme.

These forecasts do not take into account new economic policy measures that may be implemented with the next budget and other policy packages.

With regard to energy prices, TTF natural gas futures prices are significantly higher than the levels used for the Stability Programme projections<sup>8</sup>. Expected Brent oil prices are also higher than in April, though by a lesser extent than gas prices.

<sup>8</sup> TTF stands for Title Transfer Facility, a virtual gas market operated by the Dutch company Gasunie and which is considered the main reference price for the European market. Gas traded on the TTF network must have already entered the Gasunie transport system and all trades between counterparties must be reported to the market operator. Futures on the TTF are traded via the Intercontinental Exchange (ICE) telematic market.

As already mentioned, interest rates have risen sharply in recent months. Consequently, the forward rates and bond yields used for the projections have also risen, with an estimated negative impact on GDP that is marginal for this year but very significant for 2023 and the following years.

Of all the exogenous variables in the forecast, only the euro exchange rate is more competitive compared to the level used in the Stability Programme forecast and results in a more favourable impact on output growth. Overall, the impacts estimated with the ITEM model justify a downward revision of the real GDP growth forecast in 2023 by 1.9 percentage points.

Moreover, the most recent update of the public expenditure projections activated by the RRP with the resources of the Recovery and Resilience Facility (RRF) significantly lowers the estimate for 2022, while correspondingly increasing the expenditure projections in the final years of the Plan. Although the expenditure projection for 2023 is also slightly revised downward (while those for 2025-2026 go up), the expected change in 2023 expenditure tied to the RRP registers the highest upward revision compared to the data used in the Stability Programme (amounting to 12 billion). This leads to an estimated additional boost to GDP growth of 0.3 percentage points compared to the Stability Programme estimates.

**TABLE I.3-1 : RESOURCES UNDERLYING THE FORECAST, COMPARISON SEPTEMBER UPDATE – STABILITY PROGRAMME (EUR BILLION)**

	2020 - 2021	2022	2023	2024	2025	2026
<b>Sept. Update 2022</b>						
Total RRF	5.5	15.0	40.9	46.5	47.7	35.9
Annual change (levels)	5.5	9.5	25.9	5.6	1.3	-11.8
<b>Stability Programme 2022</b>						
Total RRF	4.3	29.4	43.3	47.4	41.7	25.5
Annual change (levels)	4.3	25.1	13.9	4.1	-5.7	-16.2
<b>Sept. Update - Stability Programme differential</b>						
Total RRF	1.2	-14.4	-2.4	-0.9	6.1	10.5
Annual change (levels)	1.2	-15.6	12.0	1.5	7.0	4.4

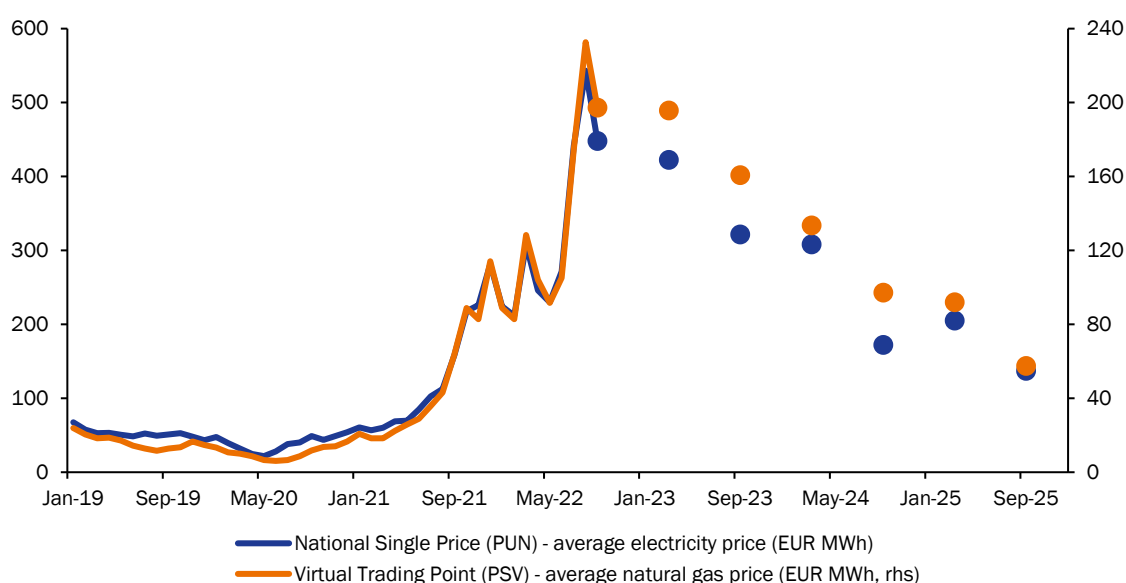
Source: MEF.

Overall, considering the change in exogenous factors and the RRP projections, the trend growth forecast for 2023 is expected to drop by 1.6 percentage points. A further 0.2 percentage point reduction, leading the new trend forecast at existing legislation to 0.6 percent from 2.4 percent of the Stability Programme is due to two factors: the first is that it is appropriate to take into account possible negative effects on the confidence of households and businesses in the complex geopolitical scenario expected for the coming months; the second is that the scenario presented is based on existing legislation and must take into account the fact that the measures to lower utility bills will only be in force until the end of 2022. A discontinuation of such measures would cause the cost of energy for businesses and households to rise at the beginning of 2023, which would have a negative impact on GDP, although simulations with the quarterly ITEM model indicate that GDP growth in 2023 will benefit from the delayed effects of the decree laws adopted in the second half of this year.

## Natural gas consumption and supply scenario

As already mentioned, the scenario under existing legislation is based on natural gas prices derived from futures contracts on monthly maturities for the upcoming months of 2022 and for the years 2023-2025. With regard to Italian national consumption, which, according to data from the Italian Ministry of Economic Development (MISE), fell by 1.9 percent in the first seven months of 2022, a projection consistent with such prices, with the macro-sectoral composition of GDP growth, and with the expected trends in the composition of national electricity production has been drawn up. A sharper drop in natural gas consumption in the period from August to December is expected to bring the annual contraction in national consumption to -3.2 percent.

**FIGURE I.3-1 : NATURAL GAS PRICE FOR 2019-2022 AND FORWARD PRICES FOR 2022-2025**



Source: GME - Gestore Mercati Energetici.

In 2023, a partial shift of electricity production towards other fossil fuels and biofuels and an increase in hydropower and other renewables, together with a decline in household consumption, would bring national gas consumption down by a further 4.4 percent, followed by a further slight decline of 0.3 percent in 2024.

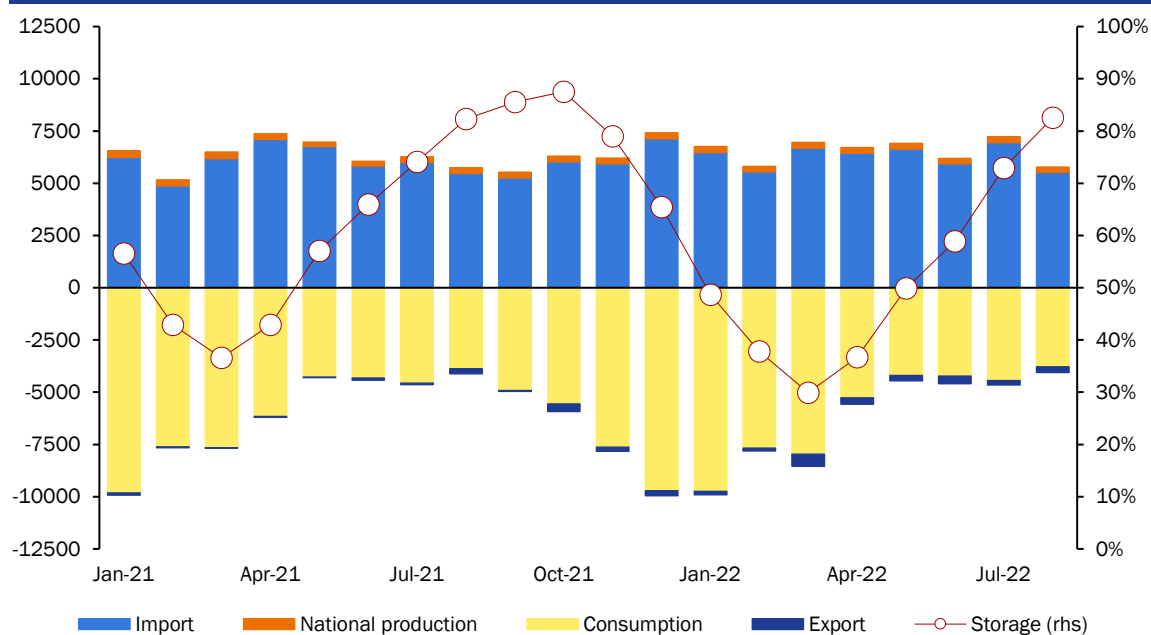
This would bring gross consumption in 2024 to a level almost 8 percent below that of 2021, which was at 76.1 billion standard cubic metres (SCM). In 2025, with the consolidation of the economic recovery, gross national consumption would increase by one percent over the previous year to a level just below 71 billion SCM.

With regard to the supply, the scenario under existing legislation predicts that imports of Russian gas will further decline, without a complete stop. However, an alternative scenario based on a complete interruption of inflows from Russia starting in October was elaborated, as discussed below.

In the baseline scenario, inflows from the Tarvisio gas entry point, through which most of the import from Russia passes, would fall from 29.1 billion SMC in 2021 to 12.9 billion SMC this year and then gradually to only 3.8 billion SMC in 2025. The replacement of Russian-sourced gas would occur, besides through lower consumption, through higher inflows from the two main southern gas pipelines

(Algeria and TAP), a strong increase in liquefied gas imports (due to the gradual but significant increase in regasification capacity) and a moderate increase in domestic production. The increase in regasification capacity would take place both by increasing the production of the three main existing plants and through the acquisition of two floating units: the first is expected to start production in spring 2023, and the second in early autumn 2024.

**FIGURE I.3-2 : GAS DEMAND, SUPPLY SOURCES AND STORAGE (MILLION SMC AND PERCENTAGE VALUES)**



Source: MEF calculations on SNAM e AGSI+ data

On 2 October, Italy's natural gas storage had a percentage of coverage of 91.2 percent. The 2022-2025 forecast scenario was constructed on a monthly basis for all variables of the national gas balance (production, imports, exports and consumption) by specifying volumes for all sources of supply in the national network and verifying that total storage does not fall below the level of the national strategic reserve (4.5 billion SCM) in any month of the year (the lowest level is normally reached at the end of winter). The projected import volumes for each access or regasification point are lower than the theoretical maximum capacity. However, the projection assumes that no major technical problems occur at any of the regasification plants and that a relatively high, albeit decreasing over time, gas inflow can be maintained from the Gries Pass entry point, through which gas from northern Europe arrives in Italy.

### **Inflation and other main variables in the forecast under existing legislation**

The main adjustments made compared to the Stability Programme concern inflation and external accounts. All these revisions are due to the sharp rise in energy and raw material prices, already extensively discussed, which has resulted in an acceleration of inflation even higher than expected and a sudden turnaround in the foreign trade balance - something that, moreover, affects Italy as well as other energy-importing countries.

The household consumption deflator and GDP deflator are revised upwards. As in the previous forecast, the average annual growth of the consumption deflator peaks in 2022, at 6.6 percent (from 5.8 percent in the Stability Programme), and then declines more slowly than previously forecast, experiencing a still high growth rate (4.5 percent) in 2023 and then falling to 1.9 percent in 2025. The deflator growth forecast for 2022 remains at 3.0 percent, up to 3.7 percent in 2023 (from 2.2 percent in the -Stability Programme) and then down to 1.9 percent in 2025 (1.8 percent in the Stability Programme).

More specifically, the inflation rate under existing legislation is expected to start falling in the fourth quarter of this year, as price index levels, especially for the energy component, will compare with the already quite high levels of the last months of 2021. Core inflation should rise until the first quarter of next year, given the delayed adjustment of prices of other goods and services, before following the downward trend of the overall index. Labour costs per employee unit (private sector), which is slow to respond to the rise in inflation given contractual wage adjustment mechanisms, are expected to accelerate from 1.0 percent in 2021 to 3.5 percent this year and 3.7 percent in 2023, before slowing in the following two years down to 2.8 percent in 2025.

**TABLE I.3-2 : MACROECONOMIC FORECAST UNDER EXISTING LEGISLATION (1) (PERCENTAGE CHANGES, UNLESS OTHERWISE INDICATED)**

	2021	2022	2023	2024	2025
GDP	6.7	3.3	0.6	1.8	1.5
GDP deflator	0.5	3.0	3.7	2.5	1.9
Consumption deflator	1.6	6.6	4.5	2.3	1.9
Nominal GDP	7.3	6.4	4.4	4.3	3.5
Employment (FTEs) (2)	7.6	4.3	0.4	1.1	1.0
Employment (LF) (3)	0.8	2.3	0.3	0.9	0.8
Unemployment rate	9.5	8.2	8.0	7.7	7.5
Labour cost per FTE (4)	1.0	3.5	3.7	3.3	2.8
Current account balance (% of GDP)	2.4	-0.8	-0.2	0.2	0.9

(1) Any inaccuracies are due to rounding.

(2) Employment expressed in terms of Full-Time Equivalents (FTEs).

(3) Number of employed people according to the Labour Force Survey (LFS).

(4) Private sector.

The forecasts for employment and unemployment are revised upwards, especially for this year, based on the data recorded in the first seven months of the year in terms of both growth in employment and drop in the unemployment rate. The latter is expected to fall from an average of 8.2 percent in 2022 to 7.5 percent in 2025.

The current account in the balance of payments is expected to be in deficit in 2022 and 2023, before returning to a slight surplus in the following two years due mainly to falling natural gas (and to a lesser extent oil) prices.

### Risks to the forecast

A number of risk scenarios for the main exogenous variables of the forecast are analysed, most notably a more pronounced fall in the growth of global GDP and world trade (which would imply a recession in Europe), a strengthening of the weighted

exchange rate of the euro in line with forward exchange rates, and a further widening of the spread between Italian government bonds and the Bund.

The results of the simulations show that if the first and third shocks mentioned (lower global growth and widening of the spread) were to occur at the same time, GDP would grow by 0.3 percentage points less than the forecast under existing legislation in 2023 (thus halving the growth forecast for the year), by 0.6 percentage points in 2024 (resulting in a lower growth rate for that year equal to 1.2 percent) and by 0.2 percentage points in 2025 (reducing growth to 1.3 percent). Even more unfavourable trends would occur if there were also a marked strengthening of the euro exchange rate, a scenario that could occur if, contrary to what has happened so far, the US economy and other economies outside the euro area were to experience a more pronounced fall in inflation - and, presumably, employment - than in the euro area itself.

In addition to these standard simulations, the issue of natural gas supplies already addressed in the Stability Programme was again addressed. Compared to the end of March, when two risk scenarios centred on a price shock with or without a gas shortage were elaborated, developments in recent months have been more similar to the price shock scenario elaborated at the time: Russian gas inflows have continued but have been accompanied by sharp price rises in the face of a storage campaign by all European countries.

At present, given that storage capacity is close to the target of 90 percent and that imports from Russia continued in September, albeit with much lower volumes than in the past, the highest risk scenario is that of a complete stop in supplies from October onwards. As in the scenario under existing legislation, it was assumed that the monthly level of storage would never fall below Italy's strategic reserve.

The gap that would be created by the stop in imports from Russia is partly filled by other sources of supply and partly by the contraction in consumption. Since in the scenario under existing legislation the volume of imports through the Tarvisio entry point drop from an estimated 14.3 billion SCM in 2022 to 6.4 billion in 2023 and then gradually down to 3.8 billion in 2025, in order to compensate for the disappearance of these inflows, a moderate increase in the use of other supply sources combined with a reduction in consumption amounting to 4 billion SCM from October 2022 to the end of 2023 was assumed with respect to the scenario under existing legislation.

Since the reduction in consumption is significant but not macroscopic (about 5.4 percent of estimated annual consumption in 2022), it was decided to model it as a price shock coupled with a high degree of compliance by citizens and businesses with the recently presented Ministry of Ecological Transition (MITE) Consumption Containment Plan<sup>9</sup>. This means that further demand contraction and additional gas imports are mainly activated by a higher price level than in the scenario under existing legislation.

In the simulation performed using the MACGEM model, it was assumed that the complete stop in inflows from Russia would lead to a 20 percent increase in average prices for natural gas, electricity and oil prices compared to the scenario under existing legislation in the fourth quarter of this year and in 2023. In 2024 and 2025,

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<sup>9</sup> Ministry of Ecological Transition (*Ministero della Transizione Ecologica*, MITE), National Plan for the Containment of Natural Gas Consumption (*Piano Nazionale di Contenimento dei Consumi di Gas Naturale*), 6 September 2022.

prices would be 10 percent and 5 percent higher, respectively. The simulation results indicate a cumulative contraction in the consumption of gas amounting to 4.9 percent in 2022 and 2023 (and 7.7 percent in 2022-2025), which is only slightly lower than what is considered necessary but could be supplemented by behavioural changes in response to the MITE Containment Plan.

With regard to macroeconomic impacts, the risk scenario described here yields lower GDP growth compared to the scenario under existing legislation amounting to 0.2 p.p. in 2022 and 0.5 p.p. in 2023, while it would be 0.4 p.p. higher in 2024 and 0.2 p.p. higher in 2025 due to a rebound effect. The nominal GDP growth rate would decline more moderately due to a stronger deflator, falling by 0.1 p.p. this year compared to the scenario under existing legislation, by 0.3 p.p. in 2023 and rising by 0.2 p.p. and 0.1 p.p. in 2024 and 2025, respectively. These impacts are much lower than those estimated in the Stability Programme risk scenarios. This reflects both the progress achieved, or expected in the next three years, in terms of alternative supplies and the inflows of natural gas from Russia in the first nine months of this year.

**TABLE I.3-3 : EFFECTS ON GDP STEMMING FROM RISK SCENARIOS (IMPACT ON GROWTH RATES)**

	2022	2023	2024	2025
1. Rise in prices of energy goods	-0.2	-0.5	0.4	0.2
2. World trade	0.0	-0.2	-0.2	0.3
3. Nominal effective exchange rate	0.0	-0.3	-0.7	-0.8
4. Financial conditions	0.0	-0.1	-0.4	-0.5

## I.4 BUDGETARY PROJECTIONS UNDER EXISTING LEGISLATION

### The expected performance of net borrowing of the general government

As already mentioned, the trend in tax and social security revenues in the first seven months of 2022 was surprisingly upward despite the government's impressive measures to mitigate the cost of energy, including through tax relief. The spike in imported energy prices and domestic inflation contributed significantly to the revenue growth, although the increase in GDP and employment also played their part.

The updated forecast of the general government account shows a growth in tax revenues in 2022 of 6.6 percent for direct taxes and 8.0 percent for indirect taxes. Social security contributions will rise by 7.9 percent. Due also to an increase in other current and capital revenues, total revenues will rise to 49.2 percent of GDP, up from 48.1 percent in 2021.

Regarding expenditure, contractual renewals in the public sector will lead to a 6.6 percent increase in expenditure on public wages and salaries. Intermediate consumption will increase by 6.3 percent, while social payments will rise by 2.9 percent and, among them, pension expenditure will rise by 3.9 percent. Other current expenditure (+29.3 percent) will increase significantly, mainly because of the resources allocated for the reduction of energy costs for households and businesses, as well as the interest payments (+17.9 percent). The increase in the latter is due to both the rise in the cost of debt at issuance and the adjustment of the notional for inflation-indexed securities. Public investments are expected to contract slightly, -3.3 percent in nominal terms, after the 19.1 percent increase recorded in 2021,



while private investment contributions will rise by 3.4 percent. Overall, primary expenditure (net of interest) is projected to fall to 50.3 percent of GDP, from 51.8 percent in 2021.

Given these forecasts, the primary balance in 2022 is projected to improve to -1.1 percent of GDP, from -3.7 percent in 2021, a better result than the -2.1 percent projected in the Stability Programme. On the other hand, interest expenditure is expected to increase to 4.0 percent of GDP, from 3.6 percent in 2021, significantly above the 3.5 percent estimated in the Stability Programme.

In summary, the projections show that net borrowing in 2022 will amount to 5.1 percent of GDP, half a percentage point lower than projected in the Stability Programme and certainly a very good result given the scale of the measures implemented by the government to support and help the economy and the increase in interest payments.

Looking at the trends based on existing legislation and forecast for the next three years, tax revenue growth is expected to slow in 2023 and the following years, with the exception of indirect tax revenues, which will accelerate in 2023. The total revenue to GDP ratio will rise slightly in 2023, up to 49.6 percent of GDP, and then decline in the following two years, down to 47.3 percent of GDP in 2025.

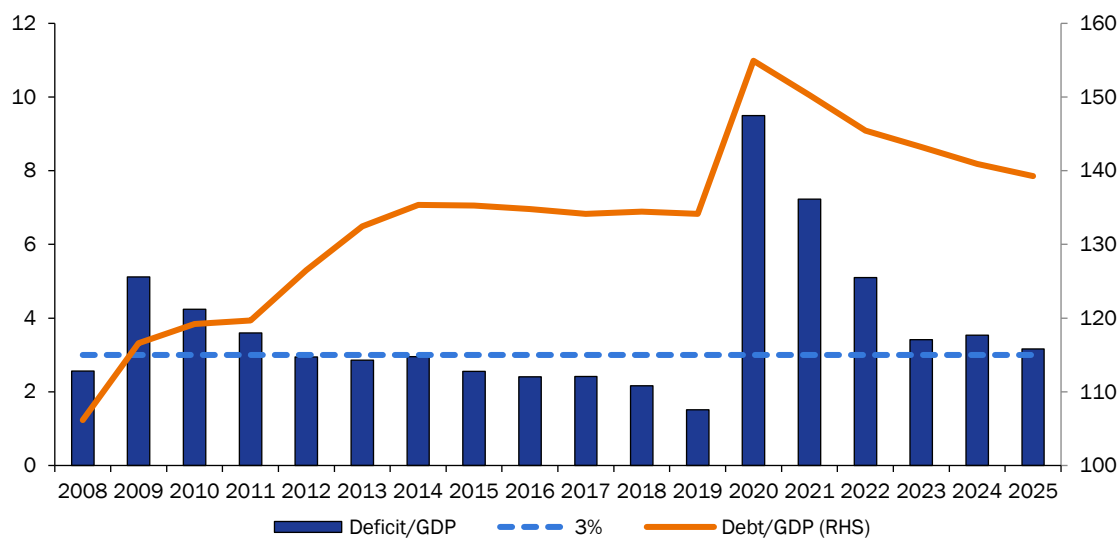
With regard to expenditure, in 2023 there will be a slight reduction in nominal terms in wages and intermediate consumption, while the adjustment for inflation this year will increase pension expenditure (+7.9 percent). Interest payments will grow, albeit less rapidly than this year (+3.7 percent). On the other hand, a strong increase in public investment is expected (+33.8 percent), mainly due to the launch of many RRP projects.

Overall, primary expenditure in 2023 will fall to 49.0 percent of GDP, below total revenues, thus bringing the primary balance to a surplus of 0.5 percent of GDP, a much better result than that projected in the Stability Programme (-0.8 percent of GDP). Although interest expenditure is projected at 3.9 percent of GDP, only slightly lower than the 2022 figure, the overall deficit will fall to 3.4 percent of GDP, half a percentage point lower than in the Stability Programme policy forecast.

With regard to the two-year period 2024-2025, the trend of primary current expenditure remains moderate overall and public investment remains high and is expected to rise to 3.7 percent of GDP in 2025, from an average of 2.7 percent in 2021-2022. Tax revenues are expected to rise mildly in 2024 (+1.8 percent) and more decisively in 2025 (+3.6 percent).

This will result in a slightly positive primary balance in 2024 (0.2 percent of GDP) and in 2025 (0.7 percent of GDP), and both results are better than the Stability Programme projections (-0.3 percent and 0.2 percent of GDP, respectively). However, with an interest expenditure equal to 3.8 percent of GDP in 2024 and 3.9 percent of GDP in 2025, net borrowing will amount to 3.5 percent of GDP in 2024 and 3.2 percent of GDP in 2025.

The projected deficits for 2024-25 are both expected to exceed the Stability Programme projections (3.3 and 2.8 percent, respectively) and the 3 percent threshold.

**FIGURE I.4-1 : NET BORROWING AND DEBT OF THE GENERAL GOVERNMENT SECTOR (% OF GDP)**

Source: ISTAT, Bank of Italy. From 2022 forecasts under the scenario at existing legislation.

### Debt-to-GDP ratio forecasts

The high nominal growth of the economy expected this year, the improvement in the primary balance and the favourable contribution of the so-called stock-flow component (also thanks to the grants received from the RRF) will result, according to the new projections, in a more pronounced decline in the gross debt-to-GDP ratio than that forecast in the Stability Programme, regardless of the fact that interest rates are expected to rise significantly more than what was assumed in April.

Indeed, the debt-to-GDP ratio is expected to fall from 150.3 percent in 2021 to 145.4 percent in 2022 (147.0 percent in the Stability Programme). The new projections of the debt-to-GDP ratio for the next three years are also about two percentage points lower than in the Stability Programme thanks to slightly stronger nominal GDP dynamics and an improvement in the primary balance. These positive factors more than offset the rise in the implicit cost of debt financing resulting from higher yields on fixed-income government bonds and higher inflation adjustments for securities indexed to consumer prices.

In the final year of the projection, 2025, the gross debt of the general government sector under the existing legislation scenario is 139.3 percent of the GDP, against the 141.4 percent projected in the Stability Programme.

## I.5 ENDORSEMENT OF OFFICIAL FORECASTS BY THE PBO

The Parliamentary Budget Office (PBO) validated the macroeconomic forecast under the existing legislation scenario for 2022 and 2023 of the Update of the Economic and Financial Document on 23 September 2022, at the end of the interlocutions provided for in the PBO-MEF Memorandum of Understanding of 13 May 2022.

The forecasts for 2024 and 2025 are not subject to validation at the time of the Update. This document confirms the forecasts of the September Update.

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## **II. REFORMS AND RECOMMENDATIONS OF THE COUNCIL OF THE EUROPEAN UNION**

### **II.1 FOREWORD**

In the closing months of the legislature, the government's reform efforts remained focused on the implementation of the Recovery and Resilience Plan (RRP). This chapter summarises the main results achieved since the publication of the 2022 Economic and Financial Document (*Documento di Economia e Finanza*, DEF), which was approved by the Council of Ministers on 5 April and included the Stability Programme and the National Reform Programme.

In June, the Council of the European Union issued three Country-specific recommendations (CSRs) to Italy. Consistent with the national guidelines for official policy documents, it was deemed appropriate to structure the illustration of progress achieved in terms of reforms and economic policy around the three CSRs.

The first Recommendation concerns the public finances and invites the country to follow a prudent fiscal policy in the face of a sharp rise in energy prices, concentrating budgetary resources on supporting the most vulnerable segments of the population, as well as the ecological and digital transition and energy security, also in light of the RePowerEU initiative. From 2023 onwards, Italy is also required to orientate fiscal policy toward a credible and gradual reduction of public debt, ensuring its sustainability in the medium term through a gradual consolidation of the public finances, as well as investments and reforms aimed at improving the economy's growth potential. To the same end, Italy is also urged to adopt and appropriately implement the enabling law on the tax reform.

The second Recommendation is to fully proceed with the implementation of the RRP and to finalise negotiations with the European Commission on the 2021-2027 cohesion policy programmes.

Finally, the third Recommendation concerns energy. The Council urges Italy to reduce its overall reliance on fossil fuels and to diversify energy imports. It also calls on Italy to overcome bottlenecks and to increase the capacity of internal gas transmission, to develop electricity interconnections, to accelerate the deployment of additional renewable energy capacity and to adopt measures to increase the energy efficiency of buildings and to promote sustainable mobility.

### **II.2 FISCAL POLICY AND TAXATION (CSR 1)**

The first chapter of this document reports on the debt reduction policy implemented by the outgoing government. The policy plan for 2023-2025 will be updated by the new government and illustrated in a subsequent document.

With regard to the topic of public investments for the green and digital transition and for energy security referred to in the CSR 1, in recent months a

number of important measures have been put in place. Recent decrees<sup>10</sup> aim to streamline procedures to increase national regasification capacity, while the enabling law for the reform of procurement code speeds up the approval process for energy infrastructure. Simplification measures were approved for the construction of power plants using renewable energy sources, and the program for the energy conversion of buildings continued. In the RRP, the green transition is also supported by other investments such as those for reducing CO2 emissions and combating hydrogeological risks. It is crucial that investments in the green transition go hand in hand with digital transformation, and thus the RRP is giving a significant boost to Italy's already positive performance in this sector, especially in terms of connectivity<sup>11</sup>. Through the RRP, internet access facilities and research infrastructure have become more widespread, with the next steps aiming to progressively support the growth of venture capital investment<sup>12</sup>.

With regard to the Council's request to Italy to properly adopt and implement the enabling law on tax reform, at the end of June, the draft of such law<sup>13</sup> was approved by the Chamber of Deputies. However, the Senate was unable to fully examine it as early general elections were called.

The draft aimed to simplify the tax system and set out principles for the revision of the personal income taxation system. It reaffirmed the goal of simplifying and streamlining the taxation of business income in addition to rationalising VAT and excise taxes and progressively abolishing the IRAP tax (regional tax on productive activities). The draft also required the government to change the discipline governing the cadastral system and implement a review of municipal and regional IRPEF (personal income tax) surcharges.

Some progress has also been made outside the scope of the enabling act, with the implementation of a number of proposals contained in the 'Report to Guide Government Actions'<sup>14</sup> of December 2021, aimed at combating tax evasion.

### **II.3 IMPLEMENTATION OF RRP AND COHESION POLICY (CSR 2)**

As of 30 June 2022, all 45 milestones and targets concerning the first semester had been correctly achieved, thus enabling the MEF to request the European Commission for payment of the second installment.

Following the entry into force of the enabling law reforming the Procurement Code<sup>15</sup> and the laws to strengthen tax compliance, the commitments regarding the justice and public administration sectors and the 'enabling reforms' were met. The milestones achieved as of the end of June also concern other areas including: culture

<sup>10</sup> Decree law No. 21/2022 and decree law No. 50/2022.

<sup>11</sup> In this regard, the country's improvement in the 2022 DESI index of the European Commission is to be noted.

<sup>12</sup> For details, see the Annual Report of the Ministry of Economic Development (MISE) on Innovative Start-ups and SMEs.

<sup>13</sup> Originally approved by the Council of Ministers on 5 October 2021.

<sup>14</sup> [Relazione-per-orientare-le-azioni-di-governo-volte-a-ridurre-l'evasione-fiscale-derivante-da-omessa-fatturazione.pdf](#)

<sup>15</sup> Law No. 78/2022.

and tourism; ecological transition<sup>16</sup>; hydrogen; decarbonisation technologies; schools, universities and research<sup>17</sup>; construction of temporary housing, post stations and urban regeneration projects; reduction of housing shortage in the suburbs; and interventions in the health sector. Contracts have been awarded for fast internet connections projects<sup>18</sup> and 750 million allocated<sup>19</sup> to strengthen the competitiveness of the most innovative and/or strategic production chains.

Another 55 milestones and targets are set for December, the achievement of which determines the payment of the third installment.

Actions to reform the judicial system which were accomplished within the agreed include the completed recruitment process for the strengthening of the case management office and the approval of the reform of the tax justice system and the law reforming the judicial system<sup>20</sup>. In addition, the draft legislative decree implementing the Directive (EU) 2019/1023 on restructuring and insolvency was approved, and the related Code<sup>21</sup> came into force on 15 July 2022.

The goals regarding the public administration (PA) reform set for 30 June 2022 have been timely completed: the 'PNRR bis' decree law completed the framework for the civil service reform launched in 2021<sup>22</sup> by impacting the access mechanisms and selection procedures, modifying the simplified procedure for public hiring procedures<sup>23</sup> and providing for an update of the related discipline<sup>24</sup>. Starting from 1 November 2022, it will be necessary to register with the InPA Portal<sup>25</sup>, which has been operational since July, to access all public competitions.

In May, the new Technical Commission for Performance (*Commissione tecnica per la performance*) took office to implement the interventions included in the RRP to strengthen the public administrations. Among the investments for the training of public employees is the 'Re-Training the PA Plan' (*'Piano Ri-Formare la PA'*), while the platform 'Capacity Italy' was launched to provide support to the administrations involved in the RRP. Lastly, in June, the ministerial decree defining the contents and model scheme of the integrated activity and organization plans (*Piani integrati attività e organizzazione - PIAO*) was signed, and the related portal became operational on 1 July.

The '2021 Annual Law for the Market and Competition' (*'legge annuale per il mercato e la concorrenza'*) adopted in August<sup>26</sup>, responds to the commitment made by the government in the RRP to respect the annual cadence of the law itself. One of the changes made during the parliamentary debate concerns beach concessions. It extends to 31 December 2023 - and in any case no later than 31 December 2024 - the

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<sup>16</sup> For example, in the context of strengthening the circular economy and managing waste, the National Strategy for the Circular Economy was adopted.

<sup>17</sup> The enactment of 'Aiuti ter' decree law launched the reform of technical and professional institutes.

<sup>18</sup> These are the five interventions 'Italia a 1 Giga', 'Italia 5G', 'Scola connessa' (Connected School), 'Sanità connessa' (Connected Health) and 'Collegamento isole minori' (Connecting Smaller Islands).

<sup>19</sup> For more details: <https://www.mise.gov.it/index.php/it/normativa/decreti-ministeriali/decreto-ministeriale-13-gennaio-2022-attuazione-dell-investimento-5-2-competitivita-e-resilienza-delle-filiere-produttive-del-piano-nazionale-di-ripresa-e-resilienza-pnrr>

<sup>20</sup> Law No. 71/2022.

<sup>21</sup> Introduced by legislative decree No. 14 of 2019.

<sup>22</sup> By decree laws No. 44 and No. 80 of 2021.

<sup>23</sup> Introduced by decree laws No. 44 del 2021.

<sup>24</sup> Defined by Presidential decree No. 487 of 1994.

<sup>25</sup> [www.InPA.gov.it](http://www.InPA.gov.it)

<sup>26</sup> Law No. 118 of 5 August 2022.

deadline for reforming licensing for tourism, recreation and sports purposes. The regulations on state concessions are to be reviewed within six months after the law comes into force. The law also updates legislation on ports, introducing the public evidence principle in the granting of concessions of state-owned port areas, and regulates the National Fuel Registry (*Anagrafe nazionale dei carburanti*)<sup>27</sup>. The enabling law for the reform of local public transport was also amended. Lastly, two draft legislative decrees on the reorganisation of the regulation of local public services of economic importance and on the mapping and transparency of concessionary regimes for public assets were recently approved in preliminary examination.

The reform of the Public Procurement Code defined in June<sup>28</sup> aims to stabilise and make structural the simplifications introduced in recent years, with particular reference to the speeding up of procedures, to alternative dispute resolution mechanisms, and to the elimination of restrictions on subcontracting. The law also affects the qualification of contracting authorities, incentivising a reduction in the number of active entities and their specialisation. Another key principle of the enabling law is the obligation for contracting authorities to use telematic platforms that are interoperable with the National Database of Public Contracts created by the National Anti-Corruption Authority (*Autorità Nazionale AntiCorruzione*, ANAC).

With regard to progress in the area of cohesion policy programming, it should be noted that on 15 July 2022, following the conclusion of formal negotiations initiated on 17 January 2022 by the Cohesion Policy Department, Italy's 2021-2027 Partnership Agreement was approved<sup>29</sup>. Respectively 8 national and 38 regional programs are connected to the Agreement. In order to support the process of defining and notifying the programs, the Cohesion Policy Department has implemented a monitoring and accompanying action for the administrations. At the current stage, all programs are formally notified to the European Commission and a number of them have been approved by Implementing Decision.

## **II.4 ENVIRONMENTAL POLICY, RENEWABLE ENERGIES AND DIVERSIFICATION GAS SUPPLY (CSR 3)**

Tensions in energy markets, which began as early as 2021 and were exacerbated by the war in Ukraine and the risk of Russian gas supply disruptions, have prioritized the need to reconcile energy security, decarbonisation goals, and support for households and businesses. Regarding the latter, the measures adopted<sup>30</sup> range from the provision of a one-time EUR 200 monetary transfer to specific categories of taxpayers to widespread interventions for households and businesses. The two decrees '*Aiuti bis*' and '*Aiuti ter*'<sup>31</sup> consolidated some of these actions through urgent measures regarding energy, water emergency, social and industrial

<sup>27</sup> Established by the 2017 Annual Law on Competition to ensure the streamlining of the fuel distribution system.

<sup>28</sup> Enabling law No. 78/ 2022.

<sup>29</sup> Decision C (2022) 4787. The Agreement concerns the support of the European Regional Development Fund (ERDF), the European Social Fund plus (ESF+), the Just Transition Fund (JTF), as part of the 'Investment for Jobs and Growth' objective<sup>29</sup>, as well as the European Maritime, Fisheries and Aquaculture Fund (EMFF), for the period from 1 January 2021 to 31 December 2027.

<sup>30</sup> Decree laws No. 21/2022, No. 50/2022, and No. 80/2022.

<sup>31</sup> These are decree laws No. 115/2022 and No. 144/2022 (so-called '*Aiuti bis and ter*' decrees).

policies and an additional monetary transfer to low-income households, scheduled for November.

In terms of strengthening energy availability, to increase imports via the gas pipeline network connecting Italy to Mediterranean countries, the government has entered into agreements with Algeria, signed a Memorandum for the development of energy programs in the area of renewable energy, and committed to expanding LNG supplies from Egypt.

The decree to contain energy costs<sup>32</sup> also introduced measures to enhance domestic natural gas production and increase its supply and storage. It was established<sup>33</sup> that works aimed at increasing national regasification capacity represent strategic public utility interventions, for which a priority route for environmental assessments is provided, and the SACE guarantee is extended to natural gas storage companies. To reduce reliance on fossil fuels, it is planned to encourage the development of electricity grids and connections and, at the same time, the green hydrogen supply chain, including through the introduction of a series of tax incentives to support its production and use.

The government has repeatedly reiterated how the development of renewable sources is the key way to reduce the country's dependence on imported fossil fuels. To this end, it has approved the Green Transition Plan (*Piano per la Transizione Ecologica*, PTE), streamlined sectoral regulations and expedited the approval of projects to generate wind and photovoltaic power.

The most recent measures<sup>34</sup> involved the production of energy from biogas and the approval of numerous simplification measures to encourage the construction of renewable energy production facilities and, in particular, ground-mounted photovoltaic systems.

A substantial portion of RRP resources is also devoted to improving the energy efficiency of buildings and to their requalification. The program to improve the energy performance of public buildings has been boosted and the regulations regarding the 110 percent Superbonus have been revised. In June 2022, one of the goals of the RRP aimed at simplifying and expediting procedures for the implementation of energy efficiency interventions based on four key actions including the launch of a national portal for energy efficiency in buildings<sup>35</sup> was achieved. In addition, the operational phase of the projects financed by the Central Government Energy Upgrading Program (*Programma di riqualificazione energetica della PA centrale*, PREPAC) was launched, and the Service for the Design of Public Assets and Buildings (*Struttura per la progettazione di beni ed edifici pubblici*) was created to support central and territorial administrations in the implementation of investments.

The Annex to the DEF, 'Infrastructure, Mobility and Logistics', provides the planning framework for mobility development, consistent with the Sustainable Development Goals of the UN 2030 Agenda and the European Green Deal.

To reinforce modal shift policies toward more sustainable modes of transport, the '*Aiuti*' decree law refinanced the so-called *marebonus* and *ferrobonus* subsidies for 2022, while in order to promote rail freight traffic in ports, the Port System Authorities were allowed to reduce concession fees. To promote private demand for sustainable mobility, the so-called *ecobonus* for the purchase of environmentally

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<sup>32</sup> Decree law No. 17/2022, converted with amendments by law No. 34/2022.

<sup>33</sup> Decree law No. 50/2022, art. 5.

<sup>34</sup> Decree law No. 21/2022 and No. 50/2022.

<sup>35</sup> Already established by legislative decree No. 48/2020: <http://pnpe2.enea.it/>.

friendly vehicles and the scrapping of the most polluting vehicles<sup>36</sup> have been reintroduced, using the resources allocated by the '*Aiuti bis*' decree law. The simplification of the regulations for the construction of electric vehicle charging points provided for in the '*Aiuti ter*' decree law will also encourage the spread of electric mobility. Furthermore, a fund was also established<sup>37</sup> by the Minister for Economic Development to encourage research and development and the technological transition of automotive companies.

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<sup>36</sup> The Prime Ministerial decree of 6 April 2022 allocates incentives for the purchase of electric, hybrid and low-emission vehicles, cars, and motorcycles, providing EUR 650 million for each of the years 2022-2023-2024.

<sup>37</sup> Decree law No. 17/2022.



### III. TABLES

**TABLE III.1-1 : BASIC ASSUMPTION (O.I)**

	2021	2022	2023
Short-term interest rate (annual average)	n.a.	0,2	2,0
Long-term interest rate (annual average)	0,8	3,2	3,9
USD/€ exchange rate (annual average)	1,2	1,1	1,0
Nominal effective exchange rate	1,0	-1,5	-0,8
World excluding EU, GDP growth	5,1	2,4	1,7
EU GDP growth	5,3	3,0	0,1
Growth of relevant foreign markets	11,2	4,9	1,5
World import volumes, excluding EU	6,5	4,0	2,0
Oil prices (Brent, USD/barrel)	70,8	101,5	89,9

Note: A comma is used as a decimal separator

**TABLE III.1-2 : MACROECONOMIC PROSPECTS UNDER EXISTING LEGISLATION (1.A)**

	ESA Code	2021	2021	2022	2023	2024	2025
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
<b>1. Real GDP</b>	B1*g	1.678.490	6,7	3,3	0,6	1,8	1,5
Of which							
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth							
1.2. Attributable to the estimated impact of NGEU funds on economic growth							
<b>2. Potential GDP</b>		1.718.001	0,1	1,0	0,7	1,1	1,1
contributions:							
- labour			-0,4	0,4	0,1	0,4	0,4
- capital			0,1	0,3	0,4	0,4	0,5
- total factor productivity			0,3	0,2	0,2	0,3	0,3
<b>3. Nominal GDP</b>	B1*g	1.782.050	7,3	6,4	4,4	4,3	3,5
<b>Components of real GDP</b>							
<b>4. Private final consumption expenditure</b>	P.3	985.186	5,2	3,9	0,6	1,3	1,4
<b>5. Government final consumption expenditure</b>	P.3	321.540	1,5	0,7	-1,8	-0,5	0,2
<b>6. Gross fixed capital formation</b>	P.51	336.498	16,5	9,2	3,0	4,1	2,7
<b>7. Changes in inventories and net acquisition of valuables (% of GDP)</b>	P.52 + P.53		0,3	0,2	0,0	0,1	0,1
<b>8. Exports of goods and services</b>	P.6	537.669	13,4	10,4	1,5	4,2	3,3
<b>9. Imports of goods and services</b>	P.7	504.780	14,7	14,3	1,9	4,3	3,4
<b>Contributions to real GDP growth</b>			0,0	0,0	0,0	0,0	0,0
<b>10. Final domestic demand</b>			6,3	4,1	0,7	1,6	1,5
<b>11. Changes in inventories and net acquisition of valuables</b>	P.52 + P.53		0,3	0,2	0,0	0,1	0,1
<b>12. External balance of goods and services</b>	B.11		0,1	-1,0	-0,1	0,0	0,0

Note: A comma is used as a decimal separator

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

	ESA Code	2021	2021	2022	2023	2024	2025
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		106,2	0,5	3,0	3,7	2,5	1,9
2. Private consumption deflator		104,6	1,6	6,6	4,5	2,3	1,9
3. HICP		105,0	1,9	7,8	4,8	2,3	1,9
4. Public consumption deflator		109,7	1,1	5,0	1,3	-0,8	0,0
5. Investment deflator		105,7	2,4	3,9	3,1	2,6	1,9
6. Export price deflator (goods and services)		108,3	5,0	11,2	4,3	1,3	0,9
7. Import price deflator (goods and services)		107,0	9,7	20,9	4,3	-0,2	-0,9

Note: A comma is used as a decimal separator

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

	ESA Code	2021	2021	2022	2023
		Level	rate of change	rate of change	rate of change
1. Employment, persons		25.092	0,6	1,6	0,3
2. Employment, hours worked		41.623.007	8,1	4,3	0,5
3. Unemployment rate (%)			9,5	8,2	8,0
4. Labour productivity, persons		66.893	6,1	1,7	0,3
5. Labour productivity, hours worked		40	-1,3	-1,0	0,2
6. Compensation of employees	D.1	732.783	7,9	8,1	3,1
7. Compensation per employee		44.144	0,7	3,2	2,6

Note: A comma is used as a decimal separator

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

	ESA Code	2021	2022	2023
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	3,0	-0,9	-0,3
<i>of which:</i>				
- Balance on goods and services		2,4	-0,9	-0,3
- Balance of primary incomes and transfers		0,7	0,1	0,1
- Capital account		-0,1	-0,1	-0,1
2. Net lending/net borrowing of the private sector	B.9	10,2	4,2	3,1
3. Net lending/net borrowing of general government	EDP B.9	-7,2	-5,1	-3,4
4. Statistical discrepancy				

Note: A comma is used as a decimal separator

**TABLE III.1-6 : GENERAL GOVERNMENT BUDGETARY UNDER EXISTING LEGISLATION BROKEN DOWN BY SUBSECTOR (2.A)**

	ESA Code	2022	2023	2024	2025
		% GDP	% GDP	% GDP	% GDP
<b>Net lending (+) / net borrowing (-) ( B.9) by sub-sector</b>					
<b>1. General government</b>	S.13	-5,1	-3,4	-3,5	-3,2
<b>1a. Central government</b>	S.1311	-5,2	-3,5	-3,6	-3,2
<b>1b. State government</b>	S.1312				
<b>1c. Local government</b>	S.1313	0,0	-0,1	-0,1	-0,1
<b>1d. Social security funds</b>	S.1314	0,1	0,1	0,1	0,1
<b>2. Interest expenditure</b>	EDP D.41	4,0	3,9	3,8	3,9
<b>3. Primary balance</b>		-1,1	0,5	0,2	0,7
<b>4. One-off and other temporary measures</b>		0,4	0,2	0,1	0,0
<b>5. Real GDP growth (%)</b>		3,3	0,6	1,8	1,5
<b>6. Potential GDP growth (%)</b>		1,0	0,7	1,1	1,1
<i>contributions :</i>					
- labour		0,4	0,1	0,4	0,4
- capital		0,3	0,4	0,4	0,5
- total factor productivity		0,2	0,2	0,3	0,3
<b>7. Output gap (% of potential GDP)</b>		0,0	-0,2	0,5	1,0
<b>8. Cyclical budgetary component (% of potential GDP)</b>		0,0	-0,1	0,3	0,5
<b>9. Cyclically-adjusted balance (% of potential GDP)</b>		-5,1	-3,3	-3,8	-3,7
<b>10. Cyclically-adjusted primary balance (% of potential GDP)</b>		-1,1	0,6	-0,1	0,2
<b>11. Structural balance (% of potential GDP)</b>		-5,5	-3,6	-3,9	-3,7

Note: A comma is used as a decimal separator

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

	ESA Code	2022	2023	2024	2025
		% GDP	% GDP	% GDP	% GDP
<b>1. Gross debt</b>		145,4	143,2	140,9	139,3
<b>2. Change in gross debt ratio</b>		-4,8	-2,2	-2,3	-1,6
<b>Contributions to changes in gross debt</b>					
<b>3. Primary balance</b>		1,1	-0,5	-0,2	-0,7
<b>4. Interest expenditure</b>	EDP D.41	4,0	3,9	3,8	3,9
<b>5. Stock-flow adjustment</b>		-0,9	0,5	0,0	0,0
<i>of which:</i>					
- Differences between cash and accruals		-1,7	0,0		
- Net accumulation of financial assets		0,8	0,3		
<i>of which:</i>					
- privatisation proceeds		0,0	0,0		
- Valuation effects and other		0,0	0,2		
<b>p.m.: Implicit interest rate on debt</b>		2,8%	2,8%		
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	2022	2023
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	49,2	49,6
Of which			
1.1. Taxes on production and imports	D.2	14,7	15,4
1.2. Current taxes on income, wealth, etc	D.5	15,0	13,8
1.3. Capital taxes	D.91	0,3	0,1
1.4. Social contributions	D.61	13,9	14,1
1.5. Property income	D.4	0,9	0,8
1.6. Other		4,4	5,3
<i>p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)</i>		43,9	43,4
2. Total expenditure at unchanged policies	TE	54,3	53,0
Of which			
2.1. Compensation of employees	D.1	9,9	9,5
2.2. Intermediate consumption	P.2	6,2	5,9
2.3. Social payments	D.62,D.632	24,3	24,0
<i>of which Unemployment benefits</i>		0,8	0,7
2.4. Interest expenditure	EDP D.41	4,0	3,9
2.5. Subsidies	D.3	3,1	2,1
2.6. Gross fixed capital formation	P.51	2,6	3,3
2.7. Capital transfers	D.9	1,7	1,7
2.8. Other		2,5	2,4

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	2022	2023
General government (S13)		% GDP	% GDP
<b>1. Total revenue target</b>	TR	49,2	49,6
<b>Of which</b>			
1.1. Taxes on production and imports	D.2	14,7	15,4
1.2. Current taxes on income, wealth, etc	D.5	15,0	13,8
1.3. Capital taxes	D.91	0,3	0,1
1.4. Social contributions	D.61	13,9	14,1
1.5. Property income	D.4	0,9	0,8
1.6. Other		4,4	5,3
<i>p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)</i>		43,9	43,4
<b>2. Total expenditure target</b>	TE	54,3	53,0
<b>Of which</b>			
2.1. Compensation of employees	D.1	9,9	9,5
2.2. Intermediate consumption	P.2	6,2	5,9
2.3. Social payments	D.62, D.632	24,3	24,0
<i>Of which Unemployment benefits</i>		0,8	0,7
2.4. Interest expenditure	EDP D.41	4,0	3,9
2.5. Subsidies	D.3	3,1	2,1
2.6. Gross fixed capital formation	P.51	2,6	3,3
2.7. Capital transfers	D.9	1,7	1,7
2.8. Other		2,5	2,4

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	2021	2021	2022	2023
		Level	% GDP	% GDP	% GDP
<b>1. Expenditure on EU programmes fully matched by EU funds revenue*</b>		5.110	0,3	0,8	1,9
1.a Of which investments fully matched by EU funds revenue**		2.300	0,1	0,1	0,6
<b>2. Cyclical unemployment benefit expenditure ***</b>		275	0,0	-0,1	-0,1
<b>3. Effect of discretionary revenue measures</b>		-10.438	-0,6	-1,1	0,0
<b>4. Revenue increases mandated by law</b>		0	0,0	0,0	0,0

\* The estimate for 2021 includes grants from Next Generation UE of 0.1% of GDP, 0,7% of GDP for 2022 and 1,6 % of GDP for 2023.

\*\* The estimate for 2022 includes grants from Next Generation UE of 0,1% of GDP and 0,4% of GDP for 2023.

\*\*\* 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 2018-2022, education expenditure as a percentage of GDP averages 3.9% (4.1% in 2021). As for mid/long-term trends, see the latest national baseline scenario projections carried out at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability <sup>1</sup> .
Health	In the period 2016-2020, health care expenditure as a percentage of GDP averages 6.6% (6.5% in 2019). As for the mid/long-term trends, see the latest national baseline scenario projections carried out at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability <sup>1</sup> .
Employment <sup>2</sup>	<p>As the change of scenario and the crisis generated as a result of the pandemic, expenditure on labor policies increased sharply in 2020, mainly attributable to passive policies and to a much lesser amount to active policies. Total estimated spending on active labor policies as a ratio of GDP was 0.25 percent in 2020, an increase from the 0.23 percent recorded in 2019, while passive policies increased from 1.29 percent to 2.59 percent.</p> <p>The largest expenditure introduced in active policies in 2020 (amounting to about 339 million euros) is the intervention called "Decontribution South," launched to contain the effects of the pandemic in the most disadvantaged areas (Decree Law 104/2020 art.27), for hiring from October 2020 until June 2021. In order to support and boost employment at the national level, a total exemption of contributions for 6 months for permanent hires has been provided (Art. 6, Decree-Law 104/2020), while the previously introduced intervention of contribution exemption aimed at hiring young people grows in 2020, with an expenditure of about 569 million euros (Law No. 205/2017).</p> <p>Currently, the available elements are not sufficient to predict a timely quantification of the expenditure in subsequent years. However, should be considered the continued implementation in 2021 (under a framework of growth recovery) of many labour-related interventions implemented to deal with the crisis generated in 2020.</p>

<sup>1</sup> Source: Ministero dell'Economia e delle Finanze - Ragioneria Generale dello Stato (2020), "Le tendenze di medio-lungo periodo del sistema pensionistico e socio-sanitario. Previsioni elaborate con i modelli della Ragioneria Generale dello Stato aggiornati a luglio 2020 - Rapporto n. 21".

<sup>2</sup> 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	Revenue/Expenditure	Budgetary impact			
					2022	2023	2024	2025
					% GDP	% GDP	% GDP	% GDP
<b>Measures to face the energy price hikes</b>								
Bills - reduction of general system charges and VAT	Motivation: Contain the effect of energy price increases on households and firms. Content of the measures: Reduction of VAT rates on gas, reduction/cancellation of general system charges applied to consumers and to the gas sector and fiscal measures for the corporate welfare.	Various, mainly D2 (R) e D3 (E)	Already adopted	R/E	0,774	-0,741	0,000	0,000
Bills - Social bonus	Motivation: Contain the effects of the increase in electricity bills on economically disadvantaged households and households in severe health conditions. Content of the measures: Reinforcement of social bonus for electricity and natural gas users.	D2 (R) e D7 (E)	Already adopted	R/E	0,148	-0,142	0,000	0,000
Tax credits for companies	Motivation: Contain the effects of the increase of the energy price hikes on companies. Tax credits in favor of companies for the purchase of electricity, gas and fuel.	D3	Already adopted	E	0,966	-0,925	0,000	0,000
One-time allowance	Motivation: Containment of the effects of inflation. Content of the measures: One-time allowances to employees, pensioners and other categories of individuals.	D62	Already adopted	E	0,518	-0,496	0,000	0,000
Reduction of excise duty rates and VAT rates on fuels	Motivation: Contain the effects of fuel price hikes. Content of the measures: Reduction of excise duty rates and VAT rates on some kind of fuels (petrol, diesel, etc.).	D2	Already adopted	R	0,407	-0,390	0,010	-0,010
Other measures	Motivation: Containment of the effects of inflation. Content of the measures: Advance of the pension revaluation to the last quarter of 2022, increase of the pensions under 2.692 euro for month for the period october-december, increase of social security contribution exemption for employees, various measures to face the effects of inflation.	Various, mainly D6 (R) e D6 (E)	Already adopted	R/E	0,198	-0,170	-0,019	0,000
<b>TOTAL</b>					<b>3,011</b>	<b>-2,864</b>	<b>-0,009</b>	<b>-0,010</b>
<b>Measures to face the Ukrainian crisis</b>								
Accommodation for Ukrainian refugees*	Motivation: Support for Ukrainian refugees in Italy. Content of the measures: Increase of the financial resources for accommodation, assistance and livelihood of refugees from Ukraine.	P2, D7	Already adopted	E	0,041	-0,039	0,000	0,000

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

List of measures	Detailed description	ESA Code	Adoption Status	Revenue/ Expenditure	Budgetary impact			
					2022	2023	2024	2025
					% GDP	% GDP	% GDP	% GDP
Other measures	Motivation: Face the exceptional consequences related to the ongoing war in Ukraine.  Content of the measures: Non-repayable grants to firms damaged by the Ukrainian crisis, participation of military personnel in the strengthening of NATO arrangements and other measures.	D1, P2, D9	Already adopted	E	0,020	0,018	-0,001	0,000
<b>TOTAL</b>					<b>0,060</b>	<b>-0,021</b>	<b>-0,001</b>	<b>0,000</b>

\* As of 21 September 2022, the refugees from Ukraine in Italy amount to 170.646, including 49.095 minors.

Note: A comma is used as a decimal separator



TABLE III.1-13 : COUNTRY-SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
<p><b>CSR No. 1</b> - In 2023, ensure prudent fiscal policy, in particular by limiting the growth of nationally-financed current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation; [...]</p>	With regard to the natural gas sector, as of 1 January 2023, the ' <i>Aiuti bis</i> ' decree law requires last resort suppliers and service operators to offer vulnerable customers the supply of natural gas at a price that reflects: the actual cost of supply in the wholesale market, the efficient costs of marketing service, and the contractual and service quality conditions, as defined by the Italian Regulatory Authority for Energy, Networks and Environment ( <i>Autorità di Regolazione per Energia Reti e Ambiente</i> , ARERA).	MEASURES TO ADDRESS THE CRISIS  Electricity supply
	The ' <i>Aiuti bis</i> ' decree law stipulates for 2022 that goods sold and services rendered to the employee and sums disbursed or reimbursed by the employer for the payment of domestic utilities for the integrated water service, electricity and natural gas will be excluded from taxable income for IRPEF purposes, up to a total limit of EUR 600.	MEASURES TO ADDRESS THE CRISIS  Domestic utilities
	The ' <i>Aiuti bis</i> ' decree law provides that until 30 April 2023, electricity and natural gas suppliers may not unilaterally change the general terms and conditions of contracts with regard to price setting. The term of the provisions effectiveness on the obligation to notify the MISE and MAECI of export operations, from the national territory outside the European Union, of 'critical raw materials' and ferrous scrap also not originally from Italy has been extended from 30 September to 31 December 2022.	MEASURES TO ADDRESS THE CRISIS  Energy costs
	With regard to the gas sector, with the ' <i>Aiuti bis</i> ' decree law the application of the VAT at a reduced rate of 5 percent is also extended to the supplies of thermal energy produced with methane gas used for combustion and for civil and industrial use, accounted for in the invoices issued for the estimated or actual consumption for October, November and December 2022.	MEASURES TO ADDRESS THE CRISIS  Reduced VAT in the gas sector
	With the ' <i>Semplificazioni</i> ' decree law the tax and financial benefits provided by the Third Sector Code ( <i>Codice del Terzo Settore</i> ) are extended to entities that, by registering in the national third sector register, have acquired ex novo the status of third sector entity. In addition, a fund has been established for the financing of contributions in favor of third sector entities and civilly recognised religious entities that manage social and health services aimed at people with disabilities and carried out in residential and semi-residential settings.	MEASURES TO ADDRESS THE CRISIS  Third sector
	Decree law No. 21/2022 grants to tourist accommodation businesses a subsidy, in the form of a tax credit, equal to 50 percent of the amount of the IMU municipal tax paid in the second installment for the year 2021, provided that the relevant owners are also managers of such activities and that a decrease in turnover or revenues in the second quarter of 2021 of at least 50 percent compared to the corresponding period in 2019 has been suffered by such entities. The ' <i>Semplificazioni</i> ' decree law extends the deadline for submitting the IMU declaration for the year 2021 from 30 June to 31 December 2022.	MEASURES TO ADDRESS THE CRISIS  Tourism enterprises
	The ' <i>Aiuti bis</i> ' decree law raises the resources of the tourism fund by EUR 10 million for each of the years 2022, 2023 and 2024 in order to finance investments aimed at increasing the Italy's tourist attractiveness, also in relation to events, including sports events, connoted by a pronounced tourism importance.	MEASURES TO ADDRESS THE CRISIS  Funding for Tourism
	The ' <i>Aiuti ter</i> ' decree law sets up a fund for sports organisations providing resources for EUR 50 million for 2022 in non-repayable grants aimed at amateur sports associations and clubs that operate sports facilities, which are most affected by the energy crisis. Up to 50 percent of the fund is earmarked for amateur sports associations and clubs that operate swimming facilities.	MEASURES TO ADDRESS THE CRISIS  Funding for sports organisations

TABLE III.1-13 : COUNTRY-SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
	<p>To cope with the emergency caused by the war in Ukraine, decree law No. 21/2022 provides for the reduction of excise rates for gasoline and diesel fuel until 2 August 2022. The excise tax on natural gas used for automotive purposes is also reduced to zero. Private employers can grant fuel vouchers to their employees that do not contribute to income. In addition, a tax credit equal to 20 percent of the expenditure incurred for the purchase of fuel made in the first quarter of the year 2022 is provided to companies engaged in agricultural and fishing activities. The 'Aiuti bis' decree law extends the tax credit to the third quarter of 2022. The 'Sostegni bis' decree law reduces to 5 percent the VAT rate applicable to natural gas supplies for motor vehicles. The 'Aiuti bis' decree law extends this measure to 30 September 2022 and also provides for the reduction of excise taxes applicable to certain energy products used as fuels. The 'Aiuti ter' Decree Law extends the above measure to the fourth quarter of 2022 and stipulates, from 18 to 31 October 2022, a reduction in the excise tax rates on gasoline, diesel, liquefied petroleum gas and natural gas used as fuels as well as in the VAT applied to natural gas used for motor vehicles.</p>	<p>MEASURES TO ADDRESS THE CRISIS</p> <p>Reduction of electric and gas bills</p>
	<p>The 'Aiuti' decree law provides for a one-off monetary transfer of EUR 200, to be paid to employees, pensioners and other categories of individuals. It also provides for a Fund, with a budget of EUR 500 million for 2022, to grant, for 2022, a one-off monetary transfer in favour of self-employed workers, including professionals enrolled in statutory social security schemes managed by private-law entities. The 'Aiuti bis' decree law extends this indemnity also to employees who were unable to receive it in July, as well as to graduate students and research fellows. A one-off indemnity of EUR 200 has been also provided for sports collaborators who have already received the indemnities provided for in the emergency measures adopted during the pandemic emergency in the 2020-2021 biennium. Lastly, the 'Aiuti bis' decree law increases by EUR 100 million the allocation of the Fund for the provision of a one-off allowance for self-employed workers in 2022. The 'Aiuti ter' decree law awards employees, excluding domestic workers, with a salary not exceeding EUR 1,538, a one-off monetary transfer in the amount of EUR 150 to be paid in November 2022. This allowance is also granted to pensioners and self-employed workers whose income is below EUR 20,000.</p>	<p>MEASURES TO ADDRESS THE CRISIS</p> <p>Allowance for workers</p>
	<p>The 'Aiuti' decree law provides for the disbursement of a voucher equal to 100 percent of the expenditure for the purchase of passes for LPT, regional and interregional transport services as well as for national rail transport services. It also increases by EUR 50 million for 2022 the fund to enable the provision, until 30 June 2022, of additional local public transport services for students. The 'Aiuti bis' decree law increases the fund's resources to EUR 180 million for the year 2022. The 'Aiuti ter' decree law increases the fund by EUR 10 million for 2022.</p>	<p>MEASURES TO ADDRESS THE CRISIS</p> <p>Bonus for transport services</p>
	<p>The 'Aiuti' decree law allocates EUR 100 million for 2022 to the National fund for supporting access to rental housing (<i>Fondo nazionale per il sostegno all'accesso alle abitazioni in locazione</i>).</p>	<p>MEASURES TO ADDRESS THE CRISIS</p> <p>Rental support</p>

TABLE III.1-13 : COUNTRY-SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
	The ' <i>Semplificazioni</i> ' decree law includes among the family units eligible for the orphan household allowance, those including at least one orphan who is an adult, has a severe disability and already holds a pension benefit. In addition, for 2022: the basic measure of the allowance under consideration for each dependent and disabled adult child is aligned with the general measure provided for each dependent minor child; the increase in the allowance provided for each dependent and disabled minor child is extended for adult children - dependent and disabled - under the age of twenty-one; and an additional amount equal to 120 euro is provided for households with at least one dependent child with a disability.	MEASURES TO ADDRESS THE CRISIS  Support for the vulnerable
	The ' <i>Semplificazioni</i> ' decree law provides for the establishment of a special fund to support families in providing educational opportunities for the well-being of their children. The fund has an initial allocation of EUR 58 million for 2022.	MEASURES TO ADDRESS THE CRISIS  Support for the vulnerable
	Law No. 21/2022 expands the number of beneficiaries of social bonuses for electricity and gas, raising, for the period between 1 April and 31 December 2022, the ISEE threshold value that economically disadvantaged households must have to access these bonuses from 8,265 to 12,000 euro. The ' <i>Aiuti</i> ' decree law also provides for compensation in case households have paid excess amounts in the current year due to their ISEE certification having been issued after the beginning of the year.	MEASURES TO ADDRESS THE CRISIS  Reduction of electric and gas bills
	Decree law No. 21/2022 provides for energy-intensive businesses a tax credit equal to 12 percent of the expenditure incurred for the purchase of the energy component, actually used in the second quarter of 2022, provided that there was an increase in the energy cost per kWh of more than 30 percent compared to the same quarter of 2019. The ' <i>Aiuti</i> ' decree raises the tax credit from 12 to 15 percent and provides a tax credit for the purchase of natural gas to companies other than gas-intensive businesses to partially offset the higher costs actually incurred for the purchase of such gas for non-thermoelectric uses. The decree also increases the tax credit for energy-intensive enterprises from 20 to 25 percent the share of expenses incurred for the energy component purchased and actually used in the second quarter of 2022. The ' <i>Aiuti bis</i> ' decree law extends to the third quarter of 2022 the 15 percent tax credits for non-energy enterprises and the 25 percent tax credit for the purchase of natural gas for non-energy enterprises, for non-thermoelectric uses. The decree also grants, under certain conditions, a tax credit in the amount of 40 percent of the expenditure incurred for the purchase of electricity and natural gas actually used in October and November 2022 to energy-intensive enterprises and natural gas-intensive enterprises. The same measure also applies to non-natural gas-intensive businesses, while for businesses with electricity meters with an available power of 4.5 kW or more other than the above, the tax credit is 30 percent.	MEASURES TO ADDRESS THE CRISIS  Reduction of energy costs for businesses
	Decree law No. 21/2022 allocates EUR 15 million for 2022 to support the road haulage sector against the rise in oil product prices. The ' <i>Aiuti</i> ' decree law provides for a tax credit covering 28 percent of the expenditure incurred, in the first quarter of 2022, for the purchase of diesel fuel for vehicles used in the freight transport activities. The ' <i>Aiuti ter</i> ' decree law allocates EUR 100 million for 2022 to support the transport sector (EUR 85 million for the road haulage sector and EUR 15 million for the road passenger transport services sector).	MEASURES TO ADDRESS THE CRISIS  Road transport sector

TABLE III.1-13 : COUNTRY-SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
CSR No. 1 - [...] Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. [...]	The ' <i>Aiuti</i> ' decree law raises to 40 percent the tax credit to cinemas for operating costs of the cinemas themselves in the case of large companies, or to 60 percent in the case of small or medium-sized companies. The ' <i>Aiuti ter</i> ' decree law allocates EUR 40 million for the year 2022 as contributions to cinemas, theatres, and cultural institutes and venues whose operating costs have risen significantly as a result of increased electricity and gas supply costs.	MEASURES TO ADDRESS THE CRISIS  Cinema sector
	The ' <i>Aiuti bis</i> ' and ' <i>Aiuti ter</i> ' decree laws introduce and extend the possibility of establishing areas of strategic national interest for the implementation of public or private investment plans or programmes for an amount of no less than EUR 400 million. The implementation of such plans or programmes will benefit from simplified and accelerated procedures.	AREAS OF NATIONAL STRATEGIC INTEREST  Public investment
	The ' <i>Aiuti bis</i> ' decree law established a fund with an allocation of EUR 40 million for 2022 for operators of local and regional public passenger transport services by road, lake, sea and rail, to cover the higher cost incurred in the second four months of 2022 for the purchase of fuel. For the same reason, EUR 15 million is allocated for 2022 for operators of road passenger transport services. EUR 15 million is allocated for 2022 in favour of the Italian railway infrastructure manager (RFI) for the purpose of continuing, from 1 April 2022 to 31 December 2022, to reduce the fee for the use of the railway infrastructure for rail freight services.	PUBLIC TRANSPORT  Public investment
	Decree law No. 68/2022 provides for simplification and acceleration measures for the implementation of the interventions included in the airport development plans.	ADMINISTRATIVE SIMPLIFICATION Airport sector
	The annual law for the market and competition provides that motorway concessionaires must select operators requesting to install charging stations through the use of highly innovative technologies using competitive, transparent and non-discriminatory procedures. Existing concessions that have not yet been renewed must also provide for service areas to be equipped with charging stations for electric vehicles. The ' <i>Aiuti ter</i> ' decree law also provides for the possibility for municipalities to allow, also free of charge, the construction and management of charging infrastructures to public and private entities, also by dividing them into lots to be assigned through competitive, transparent and non-discriminatory procedures.	ADMINISTRATIVE SIMPLIFICATION  Charging of electric vehicles
	The ' <i>Semplificazioni</i> ' decree law increases from 180 to 270 days the deadline within which sellers must confirm transactions for purchasing low-emission vehicles with eco-incentives (so-called <i>ecobonus</i> ).	ADMINISTRATIVE SIMPLIFICATION Ecobonus
	The decree law No. 21/2022 and the ' <i>Aiuti</i> ' decree law introduce simplifications in the production of energy from renewable sources.	ADMINISTRATIVE SIMPLIFICATION Renewable sources
	The ' <i>Aiuti bis</i> ' decree law adds to the Environment Code a new article on a single accelerated regional authorisation procedure for sectors of strategic importance.	ADMINISTRATIVE SIMPLIFICATION Environmental permits
	The decree law No. 73/2022 introduces a certification system for the tax credit for investments in research and development, ecological transition, technological innovation 4.0 and other innovative activities introduced by the 2020 budget law.	ADMINISTRATIVE EFFICIENCY Tax credit in R&D
	The ' <i>Aiuti</i> ' decree law increases from 20 to 50 percent the tax credits for investments in technologically advanced	PUBLIC INVESTMENTS

TABLE III.1-13 : COUNTRY-SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
	intangible capital goods functional to 4.0 transformation processes made from 1 January 2022 to 31 December 2022. The decree also increases the tax credit for the 'Training 4.0' ( <i>Formazione 4.0</i> ) programme for small and medium-sized enterprises (from 50 to 70 percent and, for medium-sized enterprises, from 40 to 50 percent for employee training expenses aimed at acquiring or consolidating skills in technologies relevant for the technological and digital transformation).	Tax credit for investment in intangible assets
	The Annual Competition Law sets out rules aimed at reducing the cost for the development of ultrabroad band networks and a series of measures aimed at streamlining interventions for the development of fibre access networks.	PUBLIC INVESTMENTS Broadband networks
	The 'Aiuti bis' decree law allocates EUR 400 million for 2022 to guarantee the continuity of the services provided by local authorities due to the higher expenditure for electricity and gas utilities arising from the energy crisis.	BUDGET SUSTAINABILITY Local Authorities
	The 'Aiuti bis' decree law extends to 2023 the suspension of the reimbursement of cash advances acquired by the regions affected by the 2016 earthquake for the payment of overdue PA debts. A number of interventions for the completion of public and private reconstruction of the territories affected by the earthquake of 20 and 29 May 2012 are also financed, for a total expenditure of EUR 94.9 million, for the period 2022-2024.	BUDGET SUSTAINABILITY Aid to earthquake-stricken regions
	The 'Aiuti bis' decree law contains various provisions on the distribution among regions of the financing of the Italian National Health Service. For the purpose of determining the standard health care requirements of the individual regions, it is extended to 2022 the principle whereby all the five best regions (identified on the basis of criteria such as quality of services provided, appropriateness and efficiency and on the principle of economic balance) are taken as reference regions. Also extended to 2022 is the provision whereby a 15 percent share of the funding in question is apportioned on the basis of regional resident population, and the remaining share, 85 percent, is used for the application of the division criterion based on regional standard health care requirements.	NATIONAL HEALTH SERVICE Standard health care requirements
CSR No. 1 - [...] For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms. [...]	The 'Aiuti' decree law establishes a fund of EUR 20 million for each of the years from 2022 to 2024, to be allocated to regions, provinces and metropolitan cities that have suffered a percentage reduction in 2021, compared to 2019, in revenues from the Provincial Transcription Tax ( <i>Imposta provinciale di trascrizione</i> , IPT) and Third-Party Motor Liability Insurance ( <i>RC Auto</i> ) tax. An additional fund of EUR 60 million for each of the years 2022, 2023, and 2024 is also established for the Metropolitan City of Rome for the purpose of managing current expenses.	BUDGET SUSTAINABILITY Fund for Regions
	The 'Aiuti' and 'Aiuti bis' decree laws increase the fund in favour of local authorities by EUR 170 million and EUR 400 million, respectively. The 'Aiuti ter' decree law further increases the resources of the fund by EUR 200 million for the year 2022, of which EUR 160 million to be allocated to municipalities and EUR 40 million to metropolitan cities and provinces in order to ensure the continuity of services provided.	BUDGET SUSTAINABILITY Fund for local authorities
	The Annual Law for the Market and Competition amends the regulations on the awarding management positions in a complex structure within the bodies and companies of the National Health Service making them more stringent. The annual law also provides for the possibility for regions or autonomous provinces to recognize the validity of second-level university master's degrees for certain positions in bodies and companies of the National Health Service.	NATIONAL HEALTH SERVICE Positions assignments to health care workers

TABLE III.1-13 : COUNTRY-SPECIFIC RECOMMENDATIONS (6.A)

Recommendations	List of measures	Policy Area
	To cope with the higher costs borne by NHS bodies due to the increase in energy prices, the 'Aiuti' decree law increases for 2022 the level of current funding of the National Health Service to which the State contributes for an amount of EUR 200 million.	NATIONAL HEALTH SERVICE  Funding to the Italian NHS
<b>CSR No. 1</b> - [...] In order to further reduce taxes on labour and increase the efficiency of the system, adopt and appropriately implement the enabling law on the tax reform, particularly by reviewing effective marginal tax rates, aligning the cadastral values to current market values, streamlining and reducing tax expenditures, also for VAT, and environmentally harmful subsidies while ensuring fairness, and by reducing the complexity of the tax code.	The 'Semplificazioni' decree law introduces measures on: (i) direct taxes, such as the repeal of the regulation on companies with systematic losses (to avoid the use of an automatic penalty mechanism in a period of persistent economic crisis), the repeal of the IRES surcharge for companies operating in the hydrocarbon sector, and the introduction of simplifications regarding the IRAP declaration; (ii) indirect taxes, by expanding, for example, the cases of exemption from the obligation of telematic communication ('esterometro') provided for the communication of data on cross-border transactions and deferring the deadline for the application of penalties for omitted or erroneous transmission of invoices relating to the same transactions. It is also provided that by order of the Director of the Revenue Agency, the cases of telematic payment of stamp duty may be extended.	ADMINISTRATIVE EFFICIENCY  Tax Simplifications
	The 'Semplificazioni' decree law introduces further simplifications to the relationship between taxpayers and tax authorities by providing, among other things: i) changes to the tax calendar, including by raising the threshold amounts that allow for facilitated payment methods of stamp duty on electronic invoices; ii) elimination of formal control on the data of the pre-filled tax return in the case of submission without changes through a tax assistance centre ( <i>Centro di Assistenza Fiscale</i> , CAF) or a professional; even in the case of changes, the control does not affect unmodified health care expenses.	ADMINISTRATIVE EFFICIENCY  Tax Simplifications
<b>Racc. 2</b> - Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation	With the law 78/2022 the delegated law reforming the Procurement Code entered into force, affecting the regulation of procurement and concessions contracts concerning the acquisition of services or supplies, or the execution of works and projects put in place by contracting authorities.	NRRP IMPLEMENTATION  Procurement Code
	With regard to culture and tourism, ministerial decrees to improve energy efficiency in cultural venues and to allocate resources for the attractiveness of villages to the more than 300 municipalities that have submitted their intervention programmes are approved.	NRRP IMPLEMENTATION  Measures for culture and tourism
	To boost the circular economy and waste management, the National Strategy for the Circular Economy has been adopted in June.	NRRP IMPLEMENTATION  Circular Economy
	The 'PNRR bis' decree law introduces a series of tax incentives for the development of hydrogen, and a special Research and Development Plan is established to promote hydrogen production and consumption.	NRRP IMPLEMENTATION  Development of hydrogen
	The 'PNRR bis' decree law introduces many measures concerning schools, universities and research with regard to teacher training, qualification and tenure. The decree adopting the School 4.0 ('Scuola 4.0') plan is also approved with the aim of fostering the digital transition of the Italian school system.	NRRP IMPLEMENTATION  School Sector

TABLE III.1-13 : COUNTRY-SPECIFIC RECOMMENDATIONS (6.A)		
Recommendations	List of measures	Policy Area
	The 'Aiuti ter' decree law launched the reform of technical and professional institutes, which aims to align the curricula of technical institutes with the demand for skills coming from businesses, especially by directing them toward the innovation introduced by the National 'Industry 4.0' (' <i>Industria 4.0</i> ') Plan, also with a view to full environmental sustainability.	NRRP IMPLEMENTATION  School Sector
	Law No. 71/2022 introduces the reform of the judicial system to improve its efficiency. With the ' <i>PNRR bis</i> ' Decree Law, administrative staff recruitments are made and the functioning of the Technical and Scientific Committee for Monitoring the Efficiency of Civil Justice ( <i>Comitato tecnico-scientifico per il monitoraggio sull'efficienza della giustizia civile</i> ) and the Committee for Monitoring the Efficiency of Criminal Justice ( <i>Comitato per il monitoraggio sull'efficienza della giustizia penale</i> ) is regulated. In order to speed up the procedures for recruiting new judges and, consequently, clearing the backlog, the 'Aiuti ter' decree law introduces the possibility of carrying out the written test of the competitive examination for the judiciary by means of IT tools.	NRRP IMPLEMENTATION  Judicial sector
	With regard to the PA reform, the ' <i>PNRR bis</i> ' decree law completes the framework for the civil service reform launched in 2021 by implementing a series of provisions on access mechanisms and personnel selection procedures. Lastly, with regard to digitization, a company is established to carry out the development, maintenance and management of software solutions and IT services in favour of social security agencies and central public administrations.	NRRP IMPLEMENTATION  PA reform
	In July 2022, Italy's 2021-2027 Partnership Agreement is approved, thus concluding the strategic programming phase of the 2021-2027 cycle of cohesion policy. The Partnership Agreement concerns support from the European Regional Development Fund (ERDF), the European Social Fund plus (ESF+), and the Just Transition Fund (JTF). Resources of the funds will be directed toward interventions aimed at achieving European goals for a climate-neutral economy (Green Deal) and for a fairer and inclusive society (Social Pillar), in line with the UN 2030 Agenda and the National Strategy for Sustainable Development. Lastly, the Partnership Agreement promotes coordinated programming between the Interreg Objective and the Investment for Jobs and Growth Objective, including in the context of the Macro-Regional (EUSAIR and EUSALP) and Sea Basin (WestMED) Strategies in order to seize the opportunities present in international markets for the benefit of Italian territories and to contribute to the implementation of the Strategies.	COHESION POLICY  Partnership Agreement
<b>CSR No. 3</b> - Reduce the reliance on fossil fuels and diversify energy import. Overcome bottlenecks to increase the capacity of internal gas transmission, develop electricity interconnections, accelerate the deployment of additional renewable energy capacities and adopt measures to increase energy efficiency and to promote sustainable mobility.	The 'Aiuti ter' decree law provides for administrative simplifications in relation to permit applications for works aimed at increasing Italian national regasification capacity.	ADMINISTRATIVE SIMPLIFICATION  Regasification works
	The Annual Law on Competition includes measures to adequately enhance the value of gas distribution networks owned by local authorities and to boost investment in the natural gas distribution sector, while also speeding up the procedures for conducting tenders for the distribution of natural gas provided for in the Regulation for the tender criteria and the evaluation of the offers for the assignment of the natural gas distribution service ( <i>Regolamento per i criteri di gara e per la valutazione dell'offerta per l'affidamento del servizio della distribuzione del gas naturale</i> ).	PUBLIC INVESTMENT  Gas distribution networks

**TABLE III.1-14 : IMPACT OF RECOVERY AND RESILIENCE FACILITY ON GENERAL GOVERNMENT BUDGETARY PROSPECT - GRANTS (9.A)**

	2020	2021	2022	2023	2024	2025
	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
<b>Revenue from RRF grants (% of GDP<sup>1</sup>)</b>						
RRF GRANTS as included in the revenue projections	0,0	0,1	0,5	1,1	0,8	0,7
Cash disbursements of RRF GRANTS from EU	0,0	0,5	1,1	0,6	0,4	0,4
<b>Expenditure financed by RRF grants (% of GDP<sup>1</sup>)</b>						
TOTAL CURRENT EXPENDITURE	0,0	0,0	0,0	0,2	0,2	0,2
Gross fixed capital formation P.51g	0,0	0,0	0,1	0,2	0,4	0,3
Capital transfers D.9	0,0	0,1	0,2	0,5	0,1	0,1
TOTAL CAPITAL EXPENDITURE	0,0	0,1	0,3	0,7	0,4	0,4
<b>Other costs financed by RRF grants<sup>2</sup> (% of GDP<sup>1</sup>)</b>						
Reduction in tax revenue	0,0	0,0	0,2	0,2	0,2	0,2
Other costs with impact on revenue	0,0	0,0	0,0	0,0	0,0	0,0
Financial transactions	0,0	0,0	0,0	0,0	0,0	0,0

<sup>1</sup> GDP at existing legislation.

<sup>2</sup> This covers costs that are not recorded as expenditure in national accounts.

Note: A comma is used as a decimal separator

**TABLE III.1-15 : IMPACT OF RECOVERY AND RESILIENCE FACILITY ON GENERAL GOVERNMENT BUDGETARY PROSPECT - LOANS (9.B)**

	2020	2021	2022	2023	2024	2025
	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
<b>Cash flow from RRF loans projected in the programme (% of GDP<sup>1</sup>)</b>						
Disbursements of RRF LOANS from EU	0,0	0,9	1,2	1,2	1,0	1,0
Repayments of RRF LOANS to EU	0,0	0,0	0,0	0,0	0,0	0,0
<b>Expenditure financed by RRF loans (% of GDP<sup>1</sup>)</b>						
TOTAL CURRENT EXPENDITURE	0,0	0,0	0,0	0,1	0,1	0,1
Gross fixed capital formation P.51g	0,1	0,1	0,2	0,9	1,3	1,4
Capital transfers D.9	0,0	0,0	0,0	0,0	0,0	0,0
TOTAL CAPITAL EXPENDITURE	0,1	0,1	0,3	0,9	1,3	1,4
<b>Other costs financed by RRF loans (% of GDP<sup>1</sup>)</b>						
Reduction in tax revenue	0,0	0,0	0,0	0,0	0,0	0,0
Other costs with impact on revenue	0,0	0,0	0,0	0,0	0,0	0,0
Financial transactions	0,0	0,0	0,0	0,0	0,0	0,0

<sup>1</sup> GDP at existing legislation.

<sup>2</sup> This covers costs that are not recorded as expenditure in national accounts.

Note: A comma is used as a decimal separator



**TABLE III.1-16 : CENTRAL GOVERNMENT GUARANTEES AT 30 JUNE 2022 (% OF GDP) (10)**

	Measures	Date of adoption <sup>1</sup>	Maximum amount of contingent liabilities (% of GDP)	Estimated take-up (% of GDP) <sup>2</sup>
<b>In response to COVID-19</b>	Central Guarantee Fund for SMEs	17/03/2020	13,7 <sup>3</sup>	8,6
	SACE- Italia Guarantee	08/04/2020	10,5	1,3
	Commercial credits insurance	19/05/2020	0,1	0,1
	Fund for first homes	26/05/2021		0,2
	<b>Subtotal</b>			<b>10,2</b>
<b>Others</b>	Central Guarantee Fund for SMEs		13,7 <sup>3</sup>	0,9
	TAV S.p.A.			0,0
	Guarantees assumed by local administrations			
	Aid to firms			0,0
	Italian banks			0,0
	GACS			0,7
	Bond issues by CDP S.p.A.		0,3	0,2
	Guarantee fund for first homes			0,7
	Guarantee for non-market risks in favour of SACE	08/04/2020	6,3	3,0
	State guarantees in favour of ILVA			0,0
	Green New Deal Guarantees	15/09/2020	0,1	0,1
<b>Subtotal</b>			<b>5,6</b>	
<b>Total</b>				<b>15,8</b>

<sup>1</sup> The date refers to the legislative measure or ministerial decree that introduced or revised the guarantee scheme.

<sup>2</sup> Any inaccuracies result from rounding.

<sup>3</sup> This amount is referred to the total portfolio (Covid and no covid period) and to the total limit both stock of guarantees as of 31/12/2021 and new guarantees of 2022.

Note: A comma is used as a decimal separator



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## **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 2022 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<sup>38</sup>.

### **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, of which 247 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.

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<sup>38</sup> In particular, see Chapters I-III.

### QUEST III - Italy

QUEST III with R&D is the latest version of the class of Dynamic Stochastic General Equilibrium (DSGE) models developed by the European Commission. It is an analysis and simulation tool to understand 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 Department of the Treasury is an extension of the DSGE model developed by the European Commission (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 analyze the impact of structural, growth-enhancing economic reforms. 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

The MACGEM-IT model was created by the Directorate I of the Department of the Treasury in collaboration with the Department of Economics and Law at the University of Macerata. MACGEM-IT is a Computable General Equilibrium (CGE) model built to reflect the institutional structure of the Italian economic system, with the goal of quantifying the aggregate and disaggregate as well as the direct and indirect impact of policy scenarios on macroeconomic aggregates.

MACGEM-IT formalizes the relationships among agents in the economy by modelling the behavioural functions (production, consumption and accumulation) that generate the interdependencies among productive activities, primary factors and institutional sectors.

The core structure of the model is the one of general equilibrium models with the inclusion of rigidities and imperfections regarding the behaviour of some agents and markets, such as the Public Administration and the labour market.

The impacts of policy measures are observed at a general level of analysis, namely within the income circular flow; are assessed through the performance of the main macroeconomic aggregates, expressed both in real and nominal terms; are broken down by commodity, activity and institutional sector.

MACGEM-IT is currently developed in static, dynamic and multi-regional versions, with a multi-output and multi-input connotation of the production side. Each agent is represented through its own objective function, which consists of maximum profit for productive activities, under the constraint of a given productive capacity, and maximum utility for institutional sectors (households, corporates, Public Administration and the rest of the world), under the constraint of exogenously determined resources. Productive activities realize the production of goods and services typically attributable to them, in addition to secondary productions (*multi-output production function*), through the multi-stage combination of factors of production. In this sense, it is possible to capture any phenomenon of substitutability and complementarity among primary factors and/or intermediate goods within the production process (multi-input production function).

The model devotes a large degree of detail to the role of the Public Administration and, in line to the current institutional setup, is able to outline the

complexity of the effects that regulatory provisions can generate on public sector's revenues and expenditures. The tax module is modeled with a broad level of disaggregation, based on current tax legislation, to comply with tax base and current tax rates. The peculiarity of the tax module is the differentiation between taxes on products, taxes on productive activities, and taxes related to the institutional sectors.

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. The simulation of tax policies to incentivize different types of final demand, to support specific activities of enterprise and/or production activity and/or product, or the evaluation of the effects of energy product price increases and gas rationing are just some of the possible applications of the MACGEM-IT model.

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

The methodology employed to estimate the Italian potential output and output gap is common to all member States of the EU<sup>39</sup>. The specifics are discussed and determined within the Output Gap Working Group (OGWG) constituted by the Economic Policy Committee (EPC-EU) of the European Council.

The estimates contained in the current document are obtained on the basis of the existing legislation macroeconomic framework underlying the present DBP for the 2022-2025 period.

For the estimates of the Non-Accelerating Wage Rate of Unemployment (NAWRU) and of the Total Factor Productivity (TFP) trend, the same initialization parameters used by the European Commission for the 2022 Spring Forecasts have been employed.

## **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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<sup>39</sup> For further details, see: Havik et al., 2014, '*The production function methodology for calculating potential growth rates and output gaps, European Economy*', (Economic Papers n. 535), [http://ec.europa.eu/economy\\_finance/publications/economic\\_paper/2014/pdf/ecp535\\_en.pdf](http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp535_en.pdf).

The publication  
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