ITALY'S DRAFT BUDGETARY PLAN

2021

MINISTERO DELL'ECONOMIA E DELLE FINANZE

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INDEX

I.	**MACROECONOMIC FORECAST AND BUDGET POLICY PLAN**	**1**
I.1	Recent trends in the economy	1
I.2	Macroeconomic scenario under unchanged legislation 2020-2023	4
I.3	Update of public finance forecast under unchanged legislation	6
	Adverse scenario of resurgence of the epidemic	7
I.4	Macroeconomic framework and public finance under policy scenario	8
I.5	Objectives for 2024-2026 and debt sustainability	13
I.6	Validation of official forecast by the PBO	15
II.	**STRUCTURAL REFORMS**	**17**
III.	**TABLES**	**19**
IV.	**METHODOLOGICAL NOTES**	**47**
IV.1	Brief description of the models used	47
	The Italian treasury econometric model (ITEM)	47
	Italian General Equilibrium Model (IGEM)	48
	QUEST III - Italy	48
	MACGEM-IT - A New CGE model for Italy	48
IV.2	Estimation of potential GDP, the output gap and structural balances	49
IV.3	Methodological note on the criteria for formulating macroeconomic and budgetary projections	50

INDEX OF THE TABLE

Table I.4-1 : Provisional summary framework of recovery plan resources utilization (billion at 2018 values)* 10
Table I.4-2 : Macroeconomic framework based on the policy scenario (1) (percentage changes unless otherwise indicated) 11
Table III.1-1 : Basic Assumptions (0.I) 19
Table III.1-2 : Macroeconomic prospects (1.A) 19
Table III.1-3 : Price developments (1.B) 20
Table III.1-4 : Labour market developments (1.C) 20
Table III.1-5 : Sectoral balances (1.D) 20
Table III.1-6 : General government budgetary targets broken down by subsector (2.A) 21
Table III.1-7 : General government debt developments (2.B) 21
Table III.1-8 : General government expenditure and revenue projections at unchanged policies broken down by main components (3) 22
Table III.1-9 : General government expenditure and revenue targets, broken down by main components (4.A) 23
Table III.1-10 : Amounts to be excluded from the expenditure benchmark (4.B) 23
Table III.1-11 : General government expenditure on education, healthcare and employment (4.C) 24
Table III.1-12 : Discretionary measures taken by General Government (5.A) 25
Table III.1-13 : Discretionary Measures taken by Central Government (5.B) 28
Table III.1-14 : Summary of the reform actions for the european council recommendations (csr) 2019 (6.A) 31
Table III.1-15 : Summary of the reform actions for the eu2020 targets (6.B) 42
Table III.1-16 : Divergence from latest stability programme (7) 46
Table III.1-17 : Assumption on revenue and expenditure of general government (S.13) in the context of the Recovery and Resilience Facility (RRF) 46
Table IV.2-1 : Initial parameters for the NAWRU estimate 50

INDEX OF THE FIGURE

Figure 1.1-1 : Gross domestic product and industrial production 1
Figure 1.1-2 : Confidence climate of italian businesses 2
Figure 1.2-1 : Recorded cases of coronavirus infections in Italy 4
Figure 1.4-1 : Real gdp forecast under unchanged legislation and under policy scenario (billion, chain linked values) 12
Figure 1.4-2 : Deficit and public debt as ratio to gdp – policy scenario 2020-2023 (%) 13
Figure 1.5-1 : Debt-to-GDP ratio path under policy scenario to 2026 and extrapolation to 2031, maintaining the 2026 structural primary balance unchanged 15

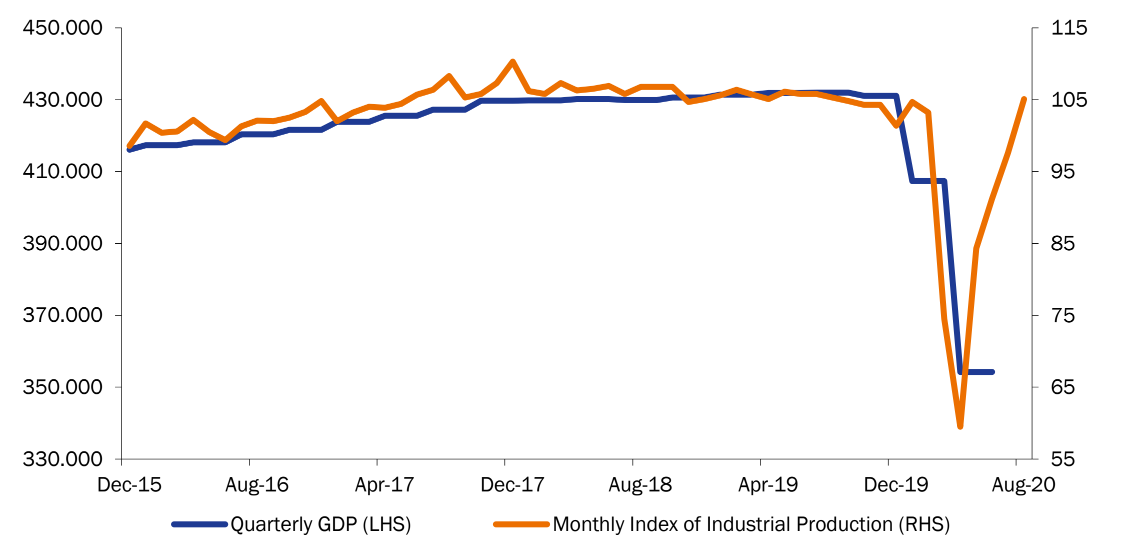
I. MACROECONOMIC FORECAST AND BUDGET POLICY PLAN

I.1 RECENT TRENDS IN THE ECONOMY

Since the last ten days of February, the trend of the Italian economy has been shocked by the Covid-19 epidemic. The necessary measures of social distancing and closure of productive sectors implemented from mid-March to early May have caused an unprecedented fall in economic activity. Since May, economic indicators have recovered, thanks to the gradual easing of measures to prevent infection and a series of powerful economic policy measures to support employment, incomes and the liquidity of households and businesses. Overall, these interventions amounted to EUR 100 billion (6.1 percentage points of GDP) in terms of the expected impact on net borrowing of the general government.

Although economic activity is recovering, it remains well below the 2019 levels. Some restrictions remain in force, for example in relation to major sporting and artistic events. More recently, the Government had to put in place new precautionary measures to reduce the risk of virus spread. In the meanwhile, the virus has continued to propagate globally, with a sharp acceleration in Europe, making precautionary measures necessary in all major countries of the world. Despite a strong recovery in the latest months, international trade and Italian exports remain lower than in normal times.

FIGURE 1.1-1 : GROSS DOMESTIC PRODUCT AND INDUSTRIAL PRODUCTION



Source: ISTAT.

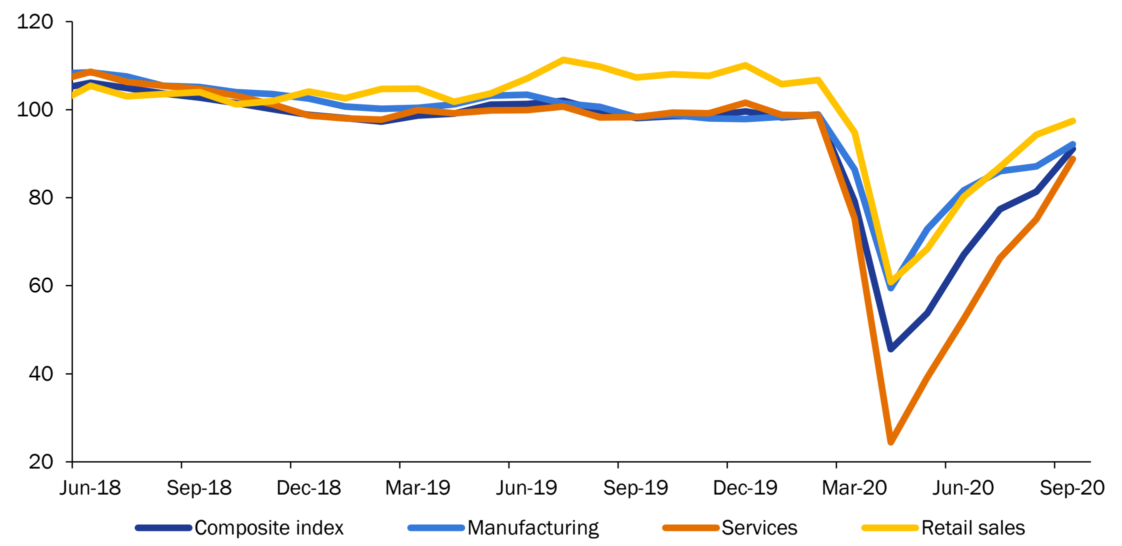
According to Istat's latest estimates, GDP fell by 5.5 per cent in the first quarter and 13.0 per cent in the second quarter, quarter-on-quarter (q/q). For the third quarter, the official estimate envisages a rebound of 13.6 per cent: the latest available indicators show, in fact, a growth trend of GDP in the summer months.

Notably, the index of industrial production increased in both July and August, posting an average level of the seasonally-adjusted index higher by 29.4 per cent than the second quarter. In July, the production of the construction sector also continued to recover (+3.5 per cent on June, with a carry-over on the third quarter of 41 percentage points). In addition, data on digital invoices indicate a marked recovery also of service turnover compared to previous months[1].

On the demand side, consumer confidence rose in the third quarter and in July and August retail sales posted an average level higher by 12.7 per cent than the second quarter average. In the summer quarter, the registrations of new cars also increased markedly, which in September were higher by 9.4 per cent than the previous year.

Business confidence indexes are also showing a sharp recovery, in all sectors of production. In particular, the confidence of manufacturing businesses producing capital goods and of businesses active in building and specialised works is rising. There is also a marked increase in confidence in services, in particular in tourist ones.

FIGURE 1.1-2 : CONFIDENCE CLIMATE OF ITALIAN BUSINESSES



Source: Istat and MEF estimates for April 2020, in which the survey was not publishe

Regarding the foreign trade balance, in the first seven months of the year, the trade surplus rose by EUR 3 billion compared with the same period in 2019, to EUR 32.7 billion, while the current account surplus fell slightly, mainly due to a higher

[1] To be precise, since the historical series of monthly data starts in January 2019, it is not possible to seasonally adjust the series. The data show that the trend contraction in the taxable amount of e-invoicing (corrected for working days) fell considerably in July compared to June, which is likely to result in a cyclical increase in turnover and value added.

deficit in services[2]. The latter was affected by the fall of the presence and expenditure of foreign tourists in Italy[3].

Inflation trend in the first nine months of the year reflected the weakness of demand and the fall in oil and commodity prices during the most acute global crisis period. In the last two months (August and September), the consumer price index has fallen by 0.5 percentage points compared to a year earlier, approaching the historical low previously recorded in January 2015[4].

In addition to the mentioned cyclical factors, a further downward pressure in prices has been added since June, due to the significant appreciation of the euro exchange rate of almost 8 percentage points vis-à-vis the dollar compared to the average trend during the first five months of the year. On average for the first eight months of the year, the average inflation rate according to the consumer price index for the whole nation was -0.1 per cent. The trend of the GDP deflator was more favourable, as it grew, on average for the first two quarters, by 1.4 per cent in trend terms.

On the labour market side, the fall in working hours in industry and market services (-26.5 per cent in the second quarter compared to the fourth quarter in 2019) was even higher than that of value added (-20.4 per cent). However, thanks also to the measures taken by the Government, such as the introduction of the Extended Supplementary Income Scheme (*Cassa Integrazione Guadagni in Deroga*), the number of employees fell much less than the fall in labour input (-2.4 per cent in the second quarter compared to the fourth quarter of 2019) and recovered part of the lost ground already in the third quarter. The monthly Istat labour force survey shows that employment increased in both July and August, with month-on-month increases of 0.4 per cent in both months and a quarterly drag-over of 0.5 percentage points.

[2] The current account surplus in the first seven months of the year amounted to EUR 20.6 billion, down from EUR 25.4 billion in the same period of 2019. However, the July figure improved compared to the corresponding month of 2019 (EUR 9.3 billion versus EUR 8.7 billion) thanks to the commodity component (with a surplus of EUR 9.8 billion versus EUR 8.0 billion in 2019).

[3] For example, in July the surplus for the 'travel' component of the services balance recorded a surplus of EUR 1.1 billion, compared with EUR 3.0 billion in July 2019. Credits (i.e. foreign spending in Italy) fell from EUR 6.0 billion in July 2019 to EUR 2.4 billion in July 2020.

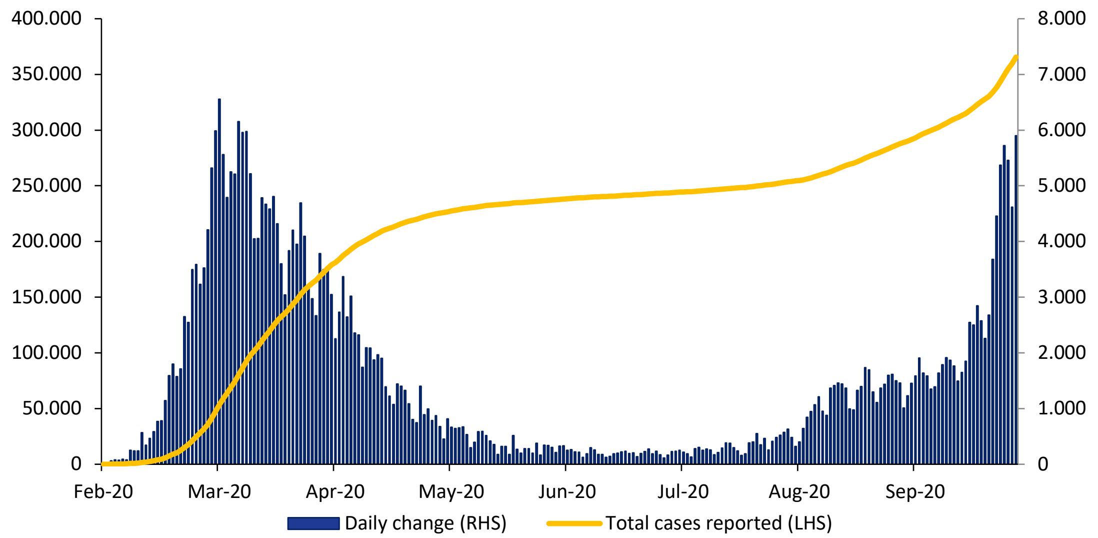
[4] Inflation measured on the basis of the consumer price index for the whole nation, before tobacco, marked a minimum of -0.6 percent in January 2015.

I.2 MACROECONOMIC SCENARIO UNDER UNCHANGED LEGISLATION 2020-2023

The official forecast of real GDP change in 2020 is lowered to -9.0 per cent (-9.1 per cent on average quarterly data), from -8.0 per cent of the Stability Programme forecast (-8.1 per cent on average quarterly data). The main reason for the downward revision is the sharpest contraction of GDP in the second quarter, explained by the length of the period of partial closure of production activities in Italy and by the spread of the epidemic on global scale higher than assumed in April. In addition, a much more cautious forecast of GDP growth in the fourth quarter (now cited at 0.4 per cent, compared with 3.8 per cent foreseen in the Stability Programme) was adopted.

Caution about the increase in GDP in the fourth quarter reflects, on the one hand, the strong rebound estimated for the summer quarter and, on the other hand, the recent recovery of Covid-19 infections, both in absolute terms and as a ratio of daily swab tests. Compared to the minimum achieved in the second half of July, the number of hospitalized Covid-19 patients in Italian hospitals and deaths also rose. Outside our country, the pandemic continues to expand and in some European countries social distancing measures and selective lockdown have been reintroduced, albeit less drastic compared to last spring. All this could slow down the recovery of Italian exports observed in recent months.

FIGURE 1.2-1 : RECORDED CASES OF CORONAVIRUS INFECTIONS IN ITALY



Source: Refinitiv.

The availability of increasingly reliable rapid tests and the high number of daily swabs will make it possible to monitor the epidemic more and more effectively. However, to be able to detect and circumscribe new local outbreaks, it is necessary to contain the number of new infections. The forecast for the next two quarters therefore takes into account the need to maintain prudential rules of behaviour and the high probability that inflows of foreign tourists will remain far below pre-crisis levels.

Meanwhile, the development of Covid-19 vaccines by numerous pharmaceutical companies is continuing and major advances are being made in the development of monoclonal antibodies therapies. The European Commission has already signed two agreements on the supply of vaccines and is discussing four more with as many pharmaceutical companies[5]. The production of some vaccines is already in progress while third stage clinical trials are being carried out. At the end of this phase, vaccines will have to be approved by the European Medicines Agency (EMA), which assesses their efficacy and safety.

The basic assumption adopted for the macroeconomic forecast remains unchanged with respect to the Stability Programme, i.e. that the distribution of one or more vaccines begins by the first quarter of 2021 and that in mid-year the availability of new therapies and vaccines is such that the Government can relax most, if not all, restrictive measures. As a result, the recovery of the economy is expected to regain momentum during 2021, also giving rise to a significant carry-over effect on 2022.

GDP growth rates in the new forecast under unchanged legislation are 5.1 per cent for 2021, 3.0 per cent for 2022 and 1.8 per cent in 2023. These increases seem to be high if compared to the results of the last twenty years, but it should be borne in mind that the starting point is an unprecedented fall in GDP. Moreover, in this scenario, quarterly GDP would not return to end-2019 levels until the second quarter of 2023; indeed, on year average, the level of real GDP in 2023 would be higher than in 2019 by only 0.3 percentage points.

Focusing on the main components of aggregate demand, the fall in GDP this year affects all components with the exception of the general government consumption. The fall in household consumption would be in line with that of GDP, while gross fixed capital formation would fall much more strongly. Exports of goods and services are expected to fall more than imports on average in the year, which would result in a net contribution to the growth of foreign trade of a negative sign.

Over the next three years, the recovery of the economy will be supported both by domestic demand and by foreign trade and, to a lesser extent, by the increase in inventories. The expected increases in household consumption are consistent with a gradual decline in the savings rate in the three-year period 2021-2023 after the marked increase estimated for this year. The expected recovery in investment, foreseen in the unchanged legislation scenario, is characterised by higher growth rates over the next three years than in consumption, but their recovery in 2021 would be lower and would gain more momentum (relating to the overall performance of the economy) over the following two years. The projection of growth in exports follows roughly the expected evolution of international trade, while the trend of imports is consistent with that of domestic demand and production. In line with the recovery in exports of goods and services, the current account surplus is expected to rise, of which, as already mentioned, the first signals are already shown by the figures for July 2020.

[5] Coronavirus: the Commission signs second contract to ensure access to a potential vaccine, Press release, Brussels, 18 September 2020. The agreement signed by the European Commission and AstraZeneca states the possibility for the EU to acquire up to 300 million doses of the anti-Covid-19 vaccine, with an option on an additional 100 million doses. The agreement between the Commission and Sanofi-GSK provides for further 300 million. The Commission is negotiating further agreements with other vaccine manufacturers, Johnson & Johnson, CureVac, Moderna and BioNTech.

Regarding inflation, a moderate recovery is expected after the average flat trend estimated for this year. The forecast is mainly explained by the cyclical recovery and the ongoing recovery of commodity and oil prices.

Finally, with regard to employment, labour units are expected to grow only slightly below GDP, resulting in a moderate increase in productivity. The number of employees will increase significantly less and the resumption of working hours will mainly take place through the reabsorption of the workers for whom in 2020 the companies have benefited from the Supplementary Income Scheme.

I.3 UPDATE OF PUBLIC FINANCE FORECAST UNDER UNCHANGED LEGISLATION

The forecasts based on the unchanged legislation scenario of this Document update those previously outlined in the Update of the Economic and Financial document (Nadef) 2020. Additional information has become recently available from monitoring activities, which show an improvement of deficit forecast for the current year of about EUR 2,000 million overall, reflecting lower expenditure for intermediate consumption and investment and incremental revenues related to social contributions. These trends produce positive carry-over effects on the following year. Moreover, new information has been received on dividends that would be cashed by the State next year, which leads to an upward revision of about 800 million for 2021. Finally, on the basis of the latest information available from INPS on the actual use of measure aimed at supporting wages, in the current year there is a lower take-up of about EUR 3,000 million compared to the assessment underlying the Update of the Economic and Financial document. These resources will be used in 2021. The updated trend forecast takes into consideration this situation that, in light of the aforementioned trends, leaves the general government balance unchanged in 2021. It also includes the impact of the recent decree law that postpones the suspension of notification activities for new tax bills, of payments of tax bills previously notified and of other deeds of the Collecting Agency up to 31 December 2020.

The revised forecast calls for a general government net borrowing at 10.5 per cent of GDP in 2020. As already mentioned above, the expected ex ante impact of all support measures introduced in response to the pandemic crisis was 6.1 percentage points of GDP. However, the new estimate of net borrowing is approximately 1.6 p.p. of GDP lower than the level deducible from the estimate of the Stability Programme considering the downward revision of the estimate of GDP and the amounts of interventions carried out in May and August. This is due not only to a lesser use of some measures, but also to a better than expected revenue performance, also due to a number of technical factors (e.g. the share of taxpayers who preferred to continue to make payments on the basis of the 'historic' rather than 'forecast' method).

Looking forward, the deficit based on unchanged legislation is projected to fall to 5.7 per cent of GDP in 2021 and then to 4.1 per cent in 2022 and to 3.3 per cent in 2023. The primary balance would significantly improve in 2021 to -2.4 per cent of GDP, then it would further converge towards the balance over the following two years, reaching -0.1 per cent of GDP in 2023.

Due to the low level of current and expected government bond yields (according to the methodology usually used in official projections), interest expenditure would slightly decrease in absolute terms in 2021-2022 and then slightly increase in 2023. As a ratio to GDP, it would fall from 3.5 per cent this year, to 3.3 pe rcent in 2021 and to 3.2 per cent in 2022 and 2023.

Adverse scenario of resurgence of the epidemic

In the Update of the Economic and Financial document, the usual analysis on the risk scenarios is presented linked to the exogenous forecast variables (euro exchange rate, oil price, BTP spread and financial conditions), but also a more unfavourable scenario regarding the current Covid-19 epidemic. This alternative scenario has been formulated in terms of the evolution of the disease, the effectiveness of the new rapid diagnostic tools, medicines and vaccines, as well as the timing of the mass distribution of the vaccines.

In the risk scenario, unlike what was assumed in the baseline scenario under unchanged legislation, the recovery of infections observed from August would increase significantly in the final months of 2020, also leading to a significant increase in hospitalizations. This would lead the Government to reintroduce precautionary measures, albeit less drastic than last spring. After the rebound of the summer period, the GDP would suffer another fall in the fourth quarter. Assuming the continuation of some restrictive measures in the first few months of next year, the GDP would continue to fall, even if to a much lower extent than in the first half of 2020 (also thanks to the know-how and protective instruments acquired in the meantime). The trend of the epidemic would improve in the spring months, but the mass distribution of vaccines would take place later than assumed in the baseline scenario. Economic activity would resume in the second quarter. Nevertheless, the return towards the pre-crisis situation would be slower than in the baseline scenario and in the last quarter of 2021 real GDP would be more than one percentage point lower the baseline.

The upsurge of the Covid-19 crisis would be accompanied by similar if not worse developments in other countries. The Italian economy would therefore also be impacted by lower exports of goods and services. This effect is modeled separately based on the assessments for the global economy made by Oxford Economics. The overall impact of domestic and international factors related to the pandemic risk scenario would bring to a fall in the GDP yearly forecast of -10.5 per cent (1.5 p.p higher than the scenario under unchanged legislation). GDP growth in 2021 would stop at 1.8 percent, compared with 5.1 percent of the baseline. Conversely, following a recovery path (although partial and delayed), the GDP would then grow by 6.5 per cent in 2022 (compared to 3.0 per cent of the baseline) and by 2.3 per cent in 2023 (compared to 1.8 per cent).

From the point of view of public finance, it can be estimated that, ceteris paribus (e.g. given the level of government bond yields), the government deficit would be around 11.2 per cent of GDP in 2020 and 7.8 per cent of GDP in 2021. The subsequent rebound of GDP would result in a marked decline in the deficit in 2022 and 2023. However, the final point would be a ratio of the public deficit to GDP higher by about half a percentage point in 2023. These assessments do not include the possible impact on the budget balance and on the debt of any additional interventions that might be needed in the scenario of strong resurgence of the epidemic in Italy. However, the policy scenario discussed in the following paragraph provides additional resources to support the economy in 2021.

I.4 MACROECONOMIC FRAMEWORK AND PUBLIC FINANCE UNDER POLICY SCENARIO

The policy scenario is built in the light of the important novelty of the European Recovery Plan, called Next Generation EU (NGEU), a package of tools for the relaunch and resilience of the economies of the European Union that will be equipped with EUR 750 billion resources in the period 2021-2026.

The Government has assumed the leading role for the drafting of the National Recovery and Resilience Plan (NRRP) provided for by the decision of the European Council of last 21 July[6] through the Interministerial Committee for European Affairs (*Comitato Interministeriale per gli Affari Europei,* CIAE). In turn, the CIAE has entrusted the carrying out of activities to its Subcommittee, the Technical Evaluation Committee (TEC). In August, the latter launched an intensive collection activity of proposals, for projects to be financed through the Recovery and Resilience Facility (RRF), which is the most relevant component of the NGEU. On 9 September, the CIAE approved and subsequently sent to Parliament the Guidelines for the definition of Italy's NRRP.

Following the outcome of the parliamentary examination and taking into account the policy advice that Parliament will want to formulate, as well as the Guidelines for the compilation of NRRP in the meantime published by the European Commission, the Government will shortly draw up a Scheme of the Italian NRRP. In the following months, the latter will be the subject of interlocutions with the European Commission, which in turn will provide further elements for the final drafting of the NRRP. The final version of the Plan is to be presented at the beginning of 2021 and in any case no later than the end of April as scheduled by the European Semester.

As it is known, the RRF provides for a package of grants and loans. Budgetary planning will incorporate both components and is therefore more complex than in the past. The exploitation of the grant component is particularly important as it makes it possible to significantly increase the tangible and intangible public investments, increase expenditure on research, education and training, and stimulate more private investment, without this leading to additional government borrowing.

The NRRP and the financial programming should therefore be fully consistent to each other. To this end, although this Draft Budgetary Plan (DBP) refers to the three-year period 2021-2023, the Government has also developed six-year macroeconomic and public finance projections, which will form the basis for assessing both the impacts of the investment programme and other NGEU-funded interventions, as well as for achieving public finance targets.

The main objectives of budgetary policy for 2021-2023 can be summarised as follows:

- In the short term, support workers and productive sectors most affected by the pandemic as long as the Covid-19 crisis continues;
- Continue the strengthening of the national healthcare system in terms of both personnel and financial resources, to improve the ability to face the ongoing pandemic;

[6] This decision also approved the Multiannual Financial Framework (MFF) 2021-2027.

- Support the education system in the effort of developing school activities during the current difficult situation, by earmarking resources to remote teaching and for the hiring of special ed teachers.
- Invest in university and research, especially for the right to education, university buildings and research projects;
- In line with public finance objectives, fully exploit the resources made available by the NGEU to implement a comprehensive programme of investments and reforms of unprecedented scope and depth and bring the Italian economy on a sustained and balanced growth path;
- Strengthen interventions to support the recovery of the Southern regions and inland areas, to improve territorial cohesion and to prevent that the Covid-19 crisis accentuates disparities between the different areas of the country.
- Implement a comprehensive tax reform that improves the fairness, efficiency and transparency of the tax system by also reducing the tax burden on middle and low incomes, coordinating it with the introduction of a single and universal child allowance (unified family support scheme);
- Relaunch public investment, by accelerating the spending ability of Ministries thanks to the immediate endowment of funds that will be made available for multiannual expenditure commitments on 1 January 2021, for a total amount of EUR 50 billion spread over 15 years;
- Ensure a qualitative improvement in public finance, shifting resources towards the most appropriate uses to ensure an improvement in the well-being of the citizens, and in the fairness and the productivity of the economy;
- Assuming that the crisis is gradually overcome over the next two years, the general government net borrowing should be reduced to levels compatible with a continuous and significant reduction in the public debt-to-GDP ratio.

Starting from the public finance scenario under unchanged legislation, the 2021-2023 manoeuvre of the next Budget Law will aim to support the recovery of the economy with a further fiscal boost in 2021, which will be reduced in 2022 and then aim at a significant improvement in the budget balance in 2023. As a result, government net borrowing objectives are set at 7.0 per cent in 2021, 4.7 per cent in 2022 and 3.0 per cent in 2023. For the following years, a further significant improvement in the budget balance is expected so as to ensure a reduction in the public debt-to-GDP ratio throughout the forecast years.

Net borrowing objectives are also based on the fall in the primary deficit, which is expected to fall from 7.0 per cent of GDP this year to 3.7 per cent in 2021 and 1.6 per cent in 2022, and then turn into a slight surplus (0.1 per cent of GDP) in 2023. Under the policy scenario, interest expenditure (calculated on the basis of the same assumption on the implicit cost of debt financing used in the unchanged legislation scenario) would fall from 3.5 per cent this year to 3.1 per cent in 2023.

In terms of the main fields of the manoeuvre, it provides for the refinancing of the so-called unchanged policies not covered by existing legislation (peace missions, refinancing of certain investment funds, business crisis fund, etc.). Secondly, significant resources are provided for to support workers' employment and incomes, particularly in the sectors most affected by the Covid-19 emergency and with particular reference to the first programming year, the 2021. Thirdly, the financing of the cut of the tax wedge on employees (the so-called EUR 100 measure) is completed and the social contributions cut to the South, introduced by the decree-law of August for the second half of 2020 only, is financed.

A major component of the three-year planning is the introduction of a comprehensive tax reform, which the Government intends to implement on the basis of an enabling law that will be an integral part of the NRRP and its intermediate objectives. The reform will be in line with the introduction of a single and universal child allowance.

A further, important component of budgetary policy for 2021-2023 will be, as already mentioned, the full use of NGEU grants and loans to increase public investment by a magnitude not seen beforeand increase resources for research, training, digitalisation and the conversion of the economy in terms of environmental sustainability. For this purpose, the Budget Law advances to the administrations the necessary appropriations, by entering them specifically in the budget, taking also into account the procedures and timing scheduled at the European level for undertaking the commitments and the payment of resources.

The 2021-2023 policy scenario assumes the full use of grants under the first phase of the European Recovery Plan, representing 70 per cent of the total amount estimated for Italy, and of a first part of the remaining 30 per cent (limited to 2023). In addition, it assumes a partial recourse to RRF's loans in deficit. The remaining part of the RRF and the other components of the NGEU will be used in the period 2024-2026, as illustrated in Table I.4-1 below.

TABLE I.4-1 : PROVISIONAL SUMMARY FRAMEWORK OF RECOVERY PLAN RESOURCES UTILIZATION (BILLION AT 2018 VALUES)*

	Recovery and Resilience Facility			Act EU	Total RRF and React EU	Rural Development	Just Transition Fund	Other programmes	Total NGEU
	Subsidies	Loans	Total						
2021	10.0	11.0	21.0	4.0	25.0	..	..	..	..
2022	16.0	17.5	33.5	4.0	37.5	..	..	..	..
2023	26.0	15.0	41.0	2.0	43.0	..	..	..	..
2024	9.5	29.9	39.4	0.0	39.4	..	..	..	..
2025	3.9	26.7	30.6	0.0	30.6	..	..	..	..
2026	0.0	27.5	27.5	0.0	27.5	..	..	..	..
Totale	65.4	127.6	193.0	10.0	203.0	0.85	0.54	0.60	205.0

(*) Preliminary assessment. The amounts may vary as a result of ongoing negotiations.

It should be reiterated that grants will increase expenditure on public investment, support for private investment and expenditure on research, innovation, digitalisation, training and education according to the 'Missions' identified by the NRRP for an equal amount. Loans will play the same role, but will not result in an equivalent increase in net borrowing as they can partly replace existing expenditure programmes (even current expenditure) and partly be offset by deficit-reducing measures. The share of loans that translates into higher deficit is determined for each year according to the net borrowing objectives.

As to the compensating measures, the budgetary policy scenario for 2021-2023 foresees, on the expenditure side, the launch of a programme to review and redevelop current expenditure; on the revenue side, additional revenue deriving from the higher GDP growth generated by the investment programme previously described. This tax feedback, however, has been prudently included in the estimates only from 2022 onwards, also in order to take into account the time lags with which revenues respond to increases in economic activity.

Moreover, the Government will continue to pursue policies to combat fraud and tax evasion and, in general, to improve tax compliance, which in recent years have achieved remarkable and exceeding expectations results. In a conservative view, the policy-scenario projections do not include further increases in revenue from tax evasion fight activity. However, a new fund will be set up financed with the revenue actually generated by this activity, which will be earmarked for the financing of fiscal reform measures and the reduction of public debt.

By excluding the Recovery Plan, the fiscal impulse to economic growth will be high in 2021 and will then be reduced in order to allow a gradual reduction of the deficit. The Recovery Plan, however, will have a positive and increasing impact on GDP over the three-year period, because of both the increased resources deployed and composition effects (increasing the share of public investment on the share of used resources) and time lags in the impact on GDP.

The real GDP path consistent with these estimates predicts a growth rate of 6.0 per cent in 2021, 3.8 per cent in 2022 and 2.5 per cent in 2023. Quarterly GDP in the policy scenario recovers the level of the last pre-crisis quarter (fourth in 2019) in the third quarter of 2022.

TABLE I.4-2 : MACROECONOMIC FRAMEWORK BASED ON THE POLICY SCENARIO (1) (PERCENTAGE CHANGES UNLESS OTHERWISE INDICATED)

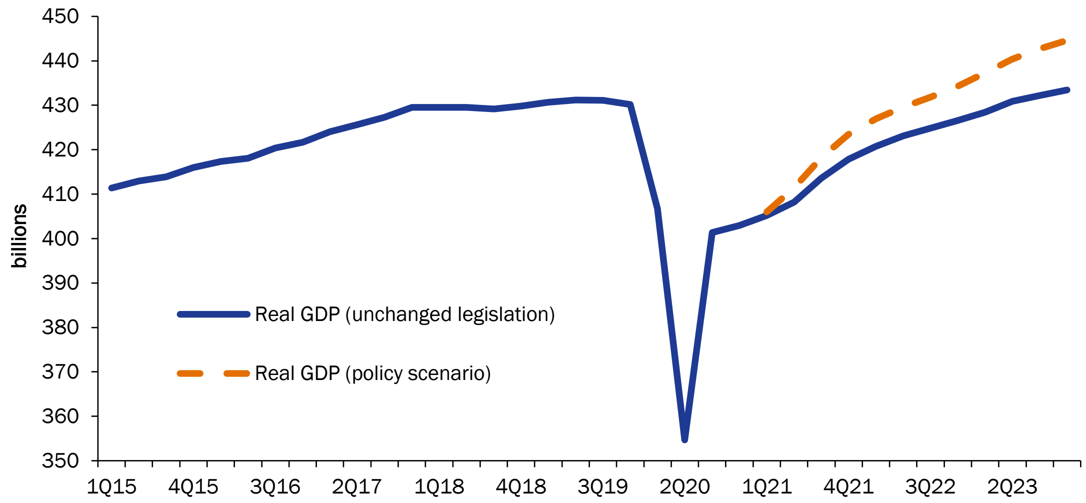
	2019	2020	2021	2022	2023
GDP	0.3	-9.0	6.0	3.8	2.5
GDP deflator	0.7	1.1	0.8	1.3	1.2
Consumption deflator	0.5	0.0	0.7	1.2	1.2
Nominal GDP	1.1	-8.0	6.8	5.1	3.7
FTE employment (2)	0.2	-9.7	5.6	3.4	2.2
LF Employment (3)	0.6	-1.6	0.5	1.7	1.5
Unemployment rate	10.0	9.3	9.8	9.0	8.2
Current account balance (% of GDP)	3.0	2.5	2.6	2.4	2.3

(1) Any inaccuracies result from rounding.
(2) Employment expressed in terms of full time equivalent units (FTE).
(3) Number of persons employed based on the Continuing Labour Forces Survey (LFS).

The highest growth compared to the unchanged legislation scenario is mainly driven by gross fixed capital formation. The latter, in turn, have a multiplier effect on production and increase the households disposable income, resulting in increasing private sector investment and household consumption expenditure. Exports are slightly affected by the impact of the rise in domestic costs and prices, but over time they benefit from the higher competitiveness of the economy achieved through increased investment.

In view of these forecasts, it should be reiterated that, in the first part of the three-year period, the growth differential compared to the unchanged legislation scenario is ensured by the more expansive approach of fiscal policy, also motivated by the need to support incomes and employment at a time when the Covid-19 epidemic will still adversely affect economic activity.

FIGURE 1.4-1 : REAL GDP FORECAST UNDER UNCHANGED LEGISLATION AND UNDER POLICY SCENARIO (BILLION, CHAIN LINKED VALUES)



Source: Istat and MEF computations.

In the second part of the period, however, the most significant boost to growth will come from the NRRP and in particular the grants component. Therefore, the forecasts are based to a significant extent on the success of the NRRP itself. Less growth fueled by the NRRP would also affect the performance of the public finance, even without jeopardising its sustainability.

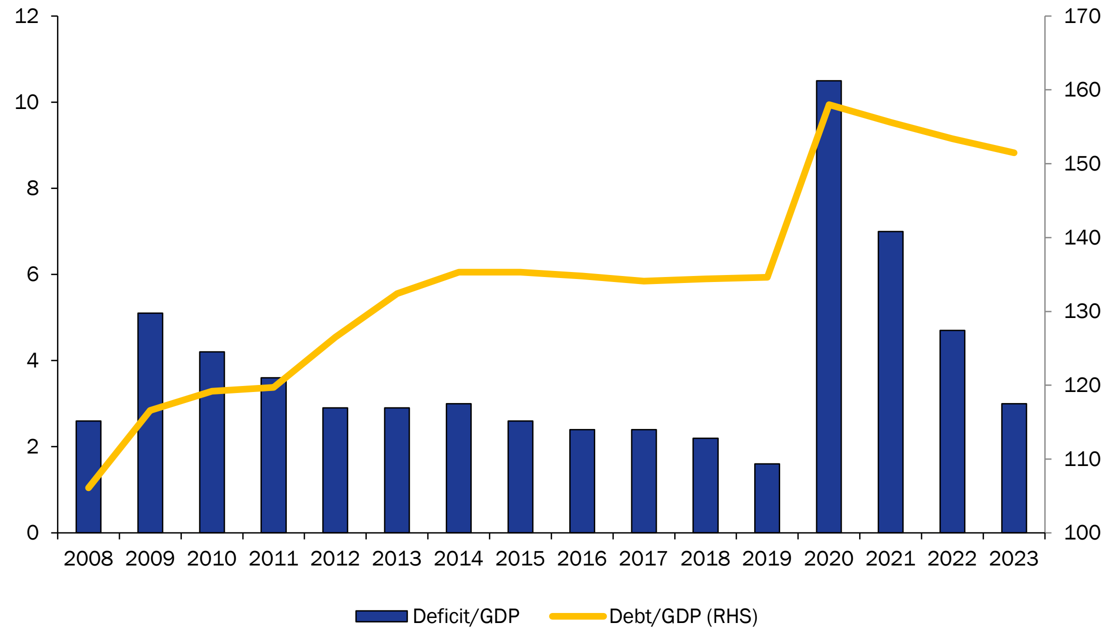
On the other hand, the policy scenario forecast was set on the basis of conservative impact estimates. Furthermore, the forecast does not take into account neither the favourable impact on growth of the broad reforms programme, which will be an integral part of the NRRP, nor the favourable impact of the Recovery Plan on the average debt financing cost[7]. Overall, therefore, the forecast appears balanced although the level of economic uncertainty remains very high and there is a risk of implementation in relation to the NRRP (also considering that the relevant regulations still have to be approved).

In the light of the macroeconomic policy framework, although the trend of potential GDP is more favourable, the output gap closes more rapidly over the three-year forecast. Nevertheless, the structural balance significantly improves in each year. In particular, also thanks to the lower nominal deficit, the improvement in the structural balance is more marked in 2023 compared to the unchanged legislation scenario.

As regards the development of the general government debt-to-GDP ratio, the policy scenario foresees a significant decline. From 158.0 per cent estimated for this year, in fact, it would fall to 151.5 per cent in 2023.

[7] The decrease in the public debt financing cost would result both from the lower yield paid on loans under the RRF compared to government bonds, and from the reduction in the spread on government bonds induced by the success of the programme in terms of increasing potential growth and improving debt sustainability.

FIGURE 1.4-2 : DEFICIT AND PUBLIC DEBT AS RATIO TO GDP – POLICY SCENARIO 2020-2023 (%)



Source: Istat and MEF computations.

I.5 OBJECTIVES FOR 2024-2026 AND DEBT SUSTAINABILITY

The longer-term objective is to bring again the general government debt below the pre-Covid-19 level by the end of the decade through a further improvement in the primary balance and the maintenance of an economic growth trend significantly higher than that of the past decade.

As already mentioned, although the forecast horizon of the DBP is three years, in light of the fact that the NRRP and the resources made available by the European Recovery Plan cover the period 2021-2026, the Government has also drawn up a preliminary scenario for the period 2024-2026. This ensures consistency between the assumptions made by the NRRP, the 2021-2023 Budget and the public debt-to-GDP reduction strategy.

The starting point for the construction of the 2020-2026 policy scenario was to extend the unchanged legislation macroeconomic framework and the related public finance projections to 2024-2026. It has been postulated that GDP growth converges towards the estimated potential growth rate with the "T+10" methodology traditionally adopted by the European Commission[8]. With this growth rate of 1.1 per cent, the effective growth rate is set equal to 1.5 per cent in 2024 (decreasing from 1.8 per cent in 2023) and then 1.1 per cent in 2025 and 2026.

In the light of the public finance estimates based on unchanged legislation, the so-called unchanged policies have been projected to reach balances under the no-

[8] The estimate mentioned in the text starts from the macroeconomic framework based on unchanged legislation for 2021-2023 of this DBP, extrapolates potential growth until 2031 and results in real growth in line with the mechanical closure of the output gap. For the years 2024-2026 the estimated growth is about 1.1 percent per year and in subsequent years, it decreases to 0.6 percent in 2030-2031.

policy change assumption. On this baseline, the assumptions for the NRRP have been included and its net impact on GDP is estimated. This impact is positive throughout the period, but slightly decreasing, as the differential of increased expenditure for public investment and other policies financed by the RRF peaks between 2023 and 2024 and therefore its marginal impact on GDP is reduced in the final two years of the forecast scenario (although distributed lags of impacts soften this effect).

In view of these results, the general government primary balance objectives have been set. The policy scenario primary surplus rose from 0.1 per cent of GDP in 2023 to 0.6 per cent in 2024, 1.7 per cent in 2025 and 2.5 per cent in 2026. These objectives make emerge the scale of the manoeuvre required to achieve them; the manoeuvre feedback on the budget are calculated too. Real GDP growth in the 2024-2026 policy scenario is equal to 1.8 per cent in 2024, 1.5 per cent in 2025 and 1.4 per cent in 2026.

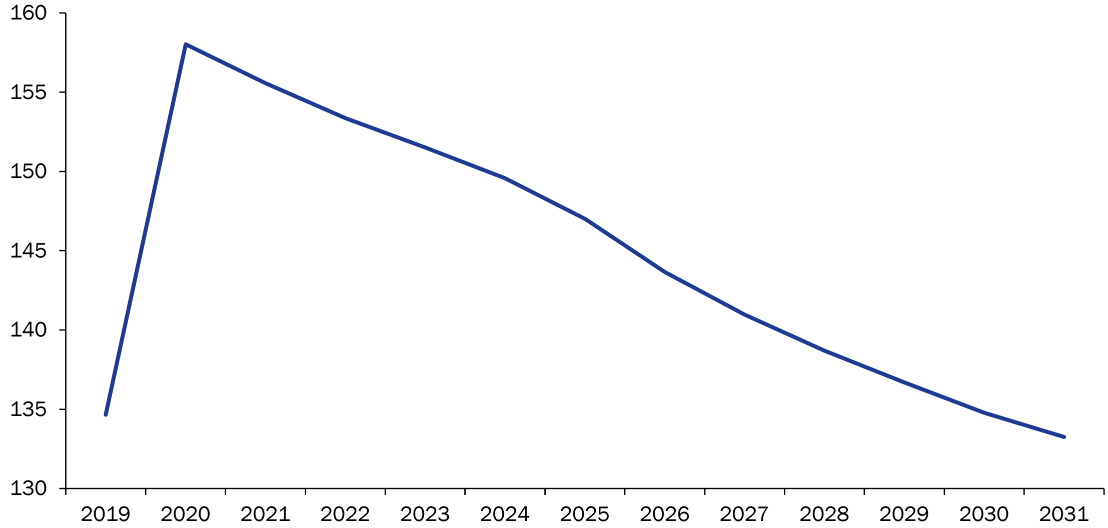
The primary surplus for the final year of the projection, given the estimated interest expenditure, corresponds to a general government net borrowing (deficit) of 0.5 per cent of GDP. The scale of the manoeuvre required is just over 0.4 per cent of GDP in 2024 and a further tenth of a percentage point of GDP in 2025. The fiscal tightening required to achieve the net borrowing objective of 0.5 percent of GDP in 2026 is therefore relatively low, confirming that the proposed scenario is reliable, as it does not require a markedly restrictive fiscal policy, which in the past has proved either unsustainable or counterproductive for the country's economic and social stability.

A Debt Sustainability Analysis (DSA) extended until 2031 was also carried out in light of the 2021-2026 policy scenario. This analysis is normally conducted starting from the primary balance of the final three-year forecast year (in this case 2023). Starting from this balance, the structural primary balance (i.e. net of temporary measures and cyclical component) is calculated and projected over a ten-year horizon, by assuming that: i) the economy follows the path of potential growth; ii) the deflator converges towards the ECB's target inflation rate andiii) that the debt financing cost follows an evolution consistent with the forward yields calculated by recent market levels.

In the modified DSA variant summarised here, it is assumed, instead, that the primary balance follows the policy-scenario path until 2026 and then remains at that level in structural terms in the following five years. Based on this assumption, by applying the rest of the DSA methodology, the path of the debt-to-GDP ratio represented in Figure I.5-1 is obtained. The debt ratio steadily declines and falls below the level recorded last year by 2031[9].

[9] For more details, cfr. Section III.5 of the Update of the Economic and Financial Document, approved by the Council of Ministers on 5 October 2020.

FIGURE 1.5-1 : DEBT-TO-GDP RATIO PATH UNDER POLICY SCENARIO TO 2026 AND EXTRAPOLATION TO 2031, MAINTAINING THE 2026 STRUCTURAL PRIMARY BALANCE UNCHANGED



Source: MEF computations

Reabsorbing an increase in the debt-to-GDP ratio such as that expected for this year (over 23 percentage points) over a decade would be a great result. However, it could be argued that in order to protect public finance from other risks that could emerge in the coming years, it would be appropriate to plan a quicker adjustment, also in view of the fact that the debt reduction rule would not be fully met during the forecast period. Given that the European fiscal rules will be reconsidered again once the pandemic emergency has been overcome, it is clear that if the recovery of the economy in the coming years will exceed expectations, then it would be possible to consider a path of even greater improvement in the primary balance, which would, under the same conditions, speed up the decline of public debt-to-GDP ratio.

In any case, the projection shown here confirms that an effective use of the Recovery Plan and a wise but non-restrictive management of public finance will allow attaining a high degree of debt sustainability. In the next future, the Government's efforts will focus on the preparation of a wide-ranging and effective NRRP. On a longer-term horizon, it will be important to keep a constant focus on improving public finance, whose resilience is crucial to respond to unexpected shocks such as those caused by the current pandemic.

I.6 VALIDATION OF OFFICIAL FORECAST BY THE PBO

The Parliamentary Budget Office (PBO) validated the 2020-2021 macroeconomic forecast under unchanged legislation of the Update of the Economic and Financial document on 21 September 2020. The PBO subsequently validated the policy scenario macroeconomic forecast on 12 October 2020. The forecasts for 2022-2023 are not subject to validation at the time of the Update.

This Document confirms the policy scenario of the Update by only introducing slight revisions to the components in 2021-2023 linked to labour and incomes, in light of the data released by Istat in the meanwhile. The PBO was preventively informed about these changes.

II. STRUCTURAL REFORMS

The Government intends to seize every opportunity to relaunch the country's growth in terms of environmental and social sustainability and to emerge from the deep recession caused by the still ongoing pandemic crisis. Over the past few months, an unprecedented effort has been made to limit the impact of the health crisis on household incomes, employment levels and the resilience of the productive system by ensuring economic support and liquidity to the system. At the same time, all the necessary resources for the healthcare system for the containment of the pandemic have been guaranteed. These efforts should continue until the crisis is over, and the new interventions are moving in this direction.

With the Budget Law for 2021, however, it is now essential to enter into a structural planning that can accelerate the recovery of the economy and lay the foundations for a medium-term economic policy aimed at increasing the country's potential. The choices made today will be the starting point to define a national model of development based on technological innovation, digitisation, sustainability and equity. These goals must be achieved through an important national investment plan accompanied by the crucial opportunity offered by the European funds provided by the Next Generation EU (NGEU). However, investing is not sufficient if we do not complement the Plan with a series of structural reforms addressing the structural nodes that have been holding back the country for long time, such as high bureaucracy, low productivity, heavy debt, an unbalanced tax system and a labour market that is too static with skills shortages as compared to the scenarios of technological change that we are facing. The reform proposals and priorities stated in the Update Note of the Economic and Financial Document are based on the challenges, missions and actions set out in the Guidelines of the National Recovery and Resilience Plan (NRRP) that will materalise in the NRRP Scheme, to be discussed with the European Commission and the Parliament in view of the preparation of the final plan at the beginning of next year.

The measures that the Government will undertake in the coming months will look at both the support of families and businesses in the sectors most impacted by the crisis and at the implementation of the four general objectives defined in the Guidelines: improving Italy's resilience, reducing the social and economic impact of the pandemic crisis, supporting the green and digital transition, as well raising the growth potential of the economy and creating jobs. In addition to interventions aimed at accelerating the green and digital transition and increasing the competitiveness and resilience of Italian companies, particular attention will be paid to territorial cohesion, through a favourable tax regime, infrastructure investments and the strengthening of growth's enabling factors. Particular efforts and resources will also be directed towards investment in education and research, with the aim of making a significant leap in the amount of funds and the quality of policies, and to the strengthening and modernisation of the health system. A crucial role will be played by public investments not only thanks to the increased available resources, but also through the improvement of the planning, implementation and spending capacities of the Public Administration, with the aim of bringing them back in line with the European average. It is in the Government's objectives to channel greater private investment both towards technological innovation and innovative and green investments. The Government also intends to implement – over the next three years – a tax reform aimed at streamlining and transparency, improving fairness and efficiency of the tax levy and reducing the tax burden. The reform will be consistent with the enabling law on the single allowance (Assegno Unico), also to promote the female participation in the labour market and increase population growth. In fact, the Government intends to establish a tax pact with citizens that rewards companies and workers' fiscal and contributory loyalty, while encouraging it.

These measures will be complemented by specific actions to improve the labour market in terms of skills and active policies. Finally, other reforms will be implemented in order to address the bottlenecks in various areas such as justice, in order to overcome the slowness and complexity of the system, and the Public Administration, to modernise, digitise and renew the sector.

The interventions that the Government is planning as part of the European Recovery Plan, together with those envisaged with the next Budget Law, will allow to increase the growth rate of the economy, in the short term, and the level of potential GDP, in the medium to long term, with a permanent benefit on the country's infrastructure endowment thanks to increased public and private investment. They will also allow the implementation of major reforms within a plan of relaunch and transition to a more innovative and digital economy, more sustainable from an environmental point of view and socially inclusive. A more dynamic growth than in the past will ultimately contribute to the credible reduction of public debt.

The reform projects and initiatives defined under the NRRP will be aligned with the CSRs (2019 and 2020) and with the policy challenges and priorities identified in the European Semester, in particular those related to the green and digital transition. In order to reflect the new socio-economic situation resulting from the health emergency, priorities have been identified this year in investment in the health sector, income support for workers affected by the crisis, liquidity to businesses (in particular small and medium-sized enterprises) and measures to support a symmetrical recovery and safeguard the integrity of the Single Market.

III. TABLES

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

	2019	2020	2021
Short-term interest rate (annual average)	n.d.	-0,1	-0,1
Long-term interest rate (annual average)	1,9	1,3	1,3
USD/€ exchange rate (annual average)	1,1	1,1	1,2
Nominal effective exchange rate	-0,7	1,9	1,4
World excluding EU, GDP growth	3,0	-6,5	6,6
EU GDP growth	1,4	1,3	1,5
Growth of relevant foreign markets	1,6	-9,9	8,9
World import volumes, excluding EU	0,1	-12,3	5,2
Oil prices (Brent, USD/barrel)	64,3	42,4	48,1

A comma is used as decimal separator

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

	ESA Code	2019	2019	2020	2021	2022	2023
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	1.726.724	0,3	-9,0	6,0	3,8	2,5
Of which							
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					0,6	0,4	-0,1
1.2. Attributable to the estimated impact of NGEU funds on economic growth					0,3	0,4	0,8
2. Potential GDP		1.720.224	-0,1	-0,2	-0,1	0,9	1,3
contributions:							
- labour			-0,7	-0,7	-0,7	0,2	0,4
- capital			0,0	-0,2	0,0	0,1	0,2
- total factor productivity			0,6	0,6	0,6	0,6	0,6
3. Nominal GDP	B1*g	1.789.747	1,1	-8,0	6,8	5,1	3,7
Components of real GDP							
4. Private final consumption expenditure	P.3	1.048.550	0,4	-8,8	5,7	3,7	2,3
5. Government final consumption expenditure	P.3	318.332	-0,2	2,9	0,8	-0,2	-0,4
6. Gross fixed capital formation	P.51	315.217	1,6	-14,0	10,6	8,3	5,9
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-0,7	-0,1	0,2	0,0	0,0
8. Exports of goods and services	P.6	545.214	1,0	-17,3	9,6	5,7	3,5
9. Imports of goods and services	P.7	504.464	-0,6	-13,8	8,8	6,0	3,8
Contributions to real GDP growth							
10. Final domestic demand		-	0,5	-7,4	5,5	3,7	2,4
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	-0,7	-0,1	0,2	0,0	0,0
12. External balance of goods and services	B.11	-	0,5	-1,5	0,3	0,0	0,0

A comma is used as decimal separator

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

	ESA Code	2019	2019	2020	2021	2022	2023
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		103,6	0,7	1,1	0,8	1,3	1,2
2. Private consumption deflator		102,7	0,5	0,0	0,7	1,2	1,2
3. HICP		103,2	0,6	-0,2	0,7	1,2	1,2
4. Public consumption deflator		105,3	0,4	2,6	-1,0	0,3	-0,2
5. Investment deflator		102,5	0,7	0,5	0,7	1,3	1,2
6. Export price deflator (goods and services)		103,4	0,5	-0,4	0,6	1,1	1,2
7. Import price deflator (goods and services)		101,6	-0,1	-3,5	1,1	1,1	1,3

A comma is used as decimal separator

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

	ESA Code	2019	2019	2020	2021
		Level	rate of change	rate of change	rate of change
1. Employment, persons		25.503	0,5	-2,2	0,5
2. Employment, hours worked		43.804.247	0,4	-12,4	5,4
3. Unemployment rate (%)			10,0	9,3	9,8
4. Labour productivity, persons		67.708	-0,2	-6,9	5,4
5. Labour productivity, hours worked		39	0,0	3,9	0,5
6. Compensation of employees	D.1	720.102	1,8	-6,2	6,5
7. Compensation per employee		41.953	1,5	2,0	1,3

A comma is used as decimal separator

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

	ESA Code	2019	2020	2021
	B.9	% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world		2,8	2,4	2,6
of which:				
- Balance on goods and services		3,1	2,5	2,6
- Balance of primary incomes and transfers		-0,1	0,1	0,1
- Capital account		-0,1	-0,1	-0,1
2. Net lending/net borrowing of the private sector	B.9	4,4	12,9	9,6
3. Net lending/net borrowing of general government	EDP B.9	-1,6	-10,5	-7,0
4. Statistical discrepancy				

A comma is used as decimal separator

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

	ESA Code	2020	2021	2022	2023
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-10,5	-7,0	-4,7	-3,0
1a. Central government	S.1311	-10,7	-7,3	-4,9	-3,2
1b. State government	S.1312				
1c. Local government	S.1313	0,0	0,0	0,0	0,0
1d. Social security funds	S.1314	0,2	0,2	0,2	0,2
2. Interest expenditure	EDP D.41	3,5	3,3	3,1	3,1
3. Primary balance		-7,0	-3,7	-1,6	0,1
4. One-off and other temporary measures		0,2	0,2	0,2	0,1
5. Real GDP growth (%)		-9,0	6,0	3,8	2,5
6. Potential GDP growth (%)		-0,2	-0,1	0,9	1,3
contributions :					
- labour		*-0,7*	*-0,7*	*0,2*	*0,4*
- capital		*-0,2*	*0,0*	*0,1*	*0,2*
- total factor productivity		*0,6*	*0,6*	*0,6*	*0,6*
7. Output gap (% of potential GDP)		-8,4	-2,9	-0,1	1,1
8. Cyclical budgetary component (% of potential GDP)		-4,6	-1,6	-0,1	0,6
9. Cyclically-adjusted balance (% of potential GDP)		-5,9	-5,4	-4,6	-3,6
10. Cyclically-adjusted primary balance (% of potential GDP)		-2,4	-2,2	-1,5	-0,5
11. Structural balance (% of potential GDP)		-6,1	-5,7	-4,8	-3,6

A comma is used as decimal separator

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

	ESA Code	2020	2021	2022	2023
		% GDP	% GDP	% GDP	% GDP
1. Gross debt		158,0	155,6	153,4	151,5
2. Change in gross debt ratio		23,4	-2,4	-2,2	-1,9
Contributions to changes in gross debt					
3. Primary balance		7,0	3,7	1,6	-0,1
4. Interest expenditure	EDP D.41	3,5	3,3	3,1	3,1
5. Stock-flow adjustment		1,2	0,6	0,6	0,6
of which:					
- Differences between cash and accruals		0,0	0,0		
- Net accumulation of financial assets		1,1	0,9		
of which:					
- privatisation proceeds		0,0	0,0		
- Valuation effects and other		0,1	-0,3		
p.m.: Implicit interest rate on debt		2,4	2,2		
Other relevant variables					
6. Liquid financial assets					
7. Net financial debt					
8. Debt amortization (existing bonds) since the end of the previous					
9. Percentage of debt denominated in foreign currency					
10. Average maturity					

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

	ESA Code	2020	2021
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	47,7	47,8
Of which			
1.1. Taxes on production and imports	D.2	13,9	14,5
1.2. Current taxes on income, wealth, etc	D.5	14,9	14,8
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,7	13,6
1.5. Property income	D.4	1,2	1,0
1.6. Other		4,1	3,8
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		42,5	43,0
2. Total expenditure at unchanged policies	TE (3)	58,2	53,5
Of which			
2.1. Compensation of employees	D.1	10,8	10,4
2.2. Intermediate consumption	P.2	6,7	6,1
2.3. Social payments	D.62,D.632	27,6	25,3
of which Unemployment benefits		2,0	1,2
2.4. Interest expenditure	EDP D.41	3,5	3,3
2.5. Subsidies	D.3	2,4	1,6
2.6. Gross fixed capital formation	P.51	2,7	2,7
2.7. Capital transfers	D.9	1,8	1,5
2.8. Other		2,6	2,6

A comma is used as decimal separator

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

	ESA Code	2020	2021
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	47,7	47,7
Of which			
1.1. Taxes on production and imports	D.2	13,9	14,4
1.2. Current taxes on income, wealth, etc	D.5	14,9	14,6
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,7	13,1
1.5. Property income	D.4	1,2	1,0
1.6. Other		4,1	4,5
p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)		42,5	42,2
2. Total expenditure target	TE (3)	58,2	54,8
Of which			
2.1. Compensation of employees	D.1	10,8	10,5
2.2. Intermediate consumption	P.2	6,7	6,2
2.3. Social payments	D.62, D.632	27,6	25,3
Of which Unemployment benefits		2,0	1,2
2.4. Interest expenditure	EDP D.41	3,5	3,3
2.5. Subsidies	D.3	2,4	1,8
2.6. Gross fixed capital formation	P.51g	2,7	3,4
2.7. Capital transfers	D.9	1,8	1,7
2.8. Other		2,6	2,6

A comma is used as decimal separator

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

	ESA Code	2019	2019	2020	2021
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue *		1.169	0,1	0,4	0,9
1.a of which investments fully matched by EU funds revenue **		764	0,0	0,3	0,7
2. Cyclical unemployment benefit expenditure ***		1.133	0,1	0,1	0,1
3. Effect of discretionary revenue measures		3.918	0,2	-0,6	0,3
4. Revenue increases mandated by law		0	0,0	0,0	0,0

* The estimate for 2021 includes grants from Next Generation UE of 0.8% of GDP.

** The estimate for 2021 includes grants from Next Generation UE of 0,6% of GDP.

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

A comma is used as decimal separator

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

Expenditure category	Available information ☐
Education	Education expenditure as a percentage of GDP averages at 3.5% in the five-year period 2016-2020 (3.5% in 2019). As for the mid-long term trends, see the latest forecasts carried out based on the national and the one elaborated at the European level within the Economic Policy Commttee - Working Group on Ageing Populations and Sustainability scenarios[1]
Health	Health care expenditure as a percentage of GDP averages at 6.6% in the five-year period 2016-2020 (6.5% in 2019). As for the mid-long term trends, see the latest forecasts carried out based on the national and the one elaborated at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability scenarios[1]
Employment[2]	Spending on active labour market policies as a share of GDP grew in the five-year period 2014-2018, from 0.30% to 0.38%. As far back as 2015, expenditure had recorded an increase due to the implementation of the provisions of Law No. 183/2014 and the greater incidence of vocational training. The majority of spending in the five-year period 2014-2018 related to social security contributions relief for permanent hires in 2015 (Law No. 190/2014): about 6.36 billion euros in 2016, 5.42 billion euros in 2017 and 2.7 billion euros in 2018. In addition, there was the cost of the two-year bonus (Article 1(178) of Law No. 208/2015) for new hires in 2016: about 0.35 billion euros in 2016, 0.97 billion euros in 2017 and 0.52 billion euros in 2018, as well as spending on the "Youth Guarantee" program.

[1] Source: Ministry of Economy and Finance, State General Accounting Department (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*", Report n.

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

Source: Ministry of Labour and Social Policy

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2021	2022	2023
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Completion of the tax wedge cut	Motivation: Reducing tax and labour costs. Content of the measures: stabilization of tax deduction for incomes over 28.000 and up to 40.000 euros provided by Legislative Decree No. 3/2020.	D.5	immediately effective	R	-0,122	0,020	0,004
Building rennovation and eco-bonus tax deductions	Motivation: promoting investments in the built heritage, also to increase resilience and sustainability and to support the recovery of the construction sector. Content of the measures: a) Extension to December 31, 2021 of the personal income tax (PIT) deduction at a 50% rate for building restoration. b) Extension to December 31, 2021 of the deduction for energy riqualification interventions with the same rates applied in 2020 (at a 50% rate for fixtures, biomass and solar shading and at a 65% rate for other types). c) Extension to December 31, 2021 of the PIT deduction at a 50% rate for expenditures incurred for the furnishing of renovated buildings. d) Extension to December 31, 2021 of the 90% deduction for the renovation of the exterior facades of buildings ("Facades bonus"). e) Extension to December 31, 2021 of the PIT deduction at a 36% rate for expenditures for green areas, green roofing and hanging gardens.	D.5	immediately effective	R/E	0,002	-0,039	-0,026
Incentives for the South	Motivation: promoting territorial cohesion, closing regional development gaps, support employment. Content of the measures: a) The exemption of 30% social security and welfare contributions paid by private non-agricultural employers of the South for their employees has been made permanent. b) Extension to December 31, 2021 of the tax credit for the investments in the southern regions.	D.61 and D.92	immediately effective	R	-0,385	0,152	-0,014
Measures at the local level	Motivation: measures at the local level . Content of the measures: resources for local public transport, particularly for school transport, increase of the resources of the municipal solidarity fund to improve social services, other interventions.	various (mainly D.3 and P.2)	immediately effective	E	-0,055	0,017	-0,001
Various interventions - Ministries	Various interventions - Ministries. It comprises, among the others, resources for: University, Research, enhancement of disadvantaged areas, allowances for health workers, etc..	various	immediately effective	E	-0,292	0,081	0,044
Unchanged policies	Motivation: Ensuring continuity of interventions whose funding decision is proposed annually. Content of the measures: it comprises, among other things, the refinancing of peace missions, 'Safe Roads Operation', 'Enterprises crisis fund' and additional resources allocated to funds.	various	immediately effective	E	-0,079	0,010	0,013

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2021	2022	2023
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Family policies	Motivation: Promoting family support policies. Content of the measures: confirmed for the year 2021 the birth allowance and the extension to 7 days for paternal leave, and up to the end of June 2021 the 'vacation bonus'.	D.62	immediately effective	E	-0,005	-0,004	0,008
Spending revision and re-modulation	Motivation: Rationalisation and revision of public administration expenditure. Content of the measures: a) Savings due to the review of administrative or organisational procedures, defunding of projects in relation to their effectiveness or priority, and the review of the mechanisms or parameters that determine spending needs. b) Re-modulation of other expenses based on priorities and on the timing of transfers to various institutions based on their actual needs, keeping the overall amount of expenses unchanged.	various	immediately effective	E	0,000	0,000	0,052
Tax reform	Motivation: revision of the tax system in order to improve its equity, efficiency and trasparency, Content of the measures: allocation of resources for the tax reform, introduction of the 'Assegno unico', tax expenditures revision.	D.5 and D.6	subsequent legislation	R	-0,171	-0,262	0,067
Health	Motivation: Financing the National Health System. Content of the measures: resources for the National Health Fund, setting up a fund to purchase vaccines and for other expenses related to the COVID emergency.	various	immediately effective	E	-0,080	0,080	0,000
Supporting investments	Motivation: supporting public administration investments. Content of the measures: resources for public administration investments, including those for the 'Development and cohesion fund'. Are included, among others, resources for: healthcare construction, research, school construction and digitalization, protection of the cultural and environmental heritage, etc..	P.51	immediately effective	R	-0,094	-0,025	-0,014
Supporting enterprises	Motivation: support for enterprises in difficulty due to the COVID emergency and support to entering international markets. Content of the measures: setting up a fund to sustain enterprises in difficulty due to the COVID pandemic, extention of mortgage suspensions, additional resources to the *'Fondo per l'internazionalizzazione delle imprese'*, extention of the measures for the re-capitalization of the small and medium enterprises (SMEs), new resources for the 'SMEs guarantee fund'.	D.3 and D.92	immediately effective / to be distributed through a decree of the President of the Council of Ministers	E	-0,299	0,188	0,056
Promoting employment	Motivation: promoting employment, also because of the COVID emergency. Content of the measures: additional weeks of the Extended Supplementary Income Scheme (*Cassa integrazione guadagni*) are financed. Three years decontribution at the 100% rate for hiring youngs up to 35 years of age.	D.6	immediately effective	E	-0,020	-0,018	0,001

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2021	2022	2023
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Other revenue / restraning measures	Other revenue / restraning measures	various		R	0,006	0,000	0,000
Other revenue second round fiscal effects / restraning measures	Other revenue second round fiscal effects / restraning measures	various		R	0,000	0,698	0,372
Other revenue EU funds/ restraining measures	Other revenue EU funds/ restraining measures - european resources from Next Generation EU	various		R	0,199	-0,010	-0,007
Other revenue / expansion measures	Other revenue / expansion measures	various		R	-0,044	0,036	-0,013
Other expenditure / restraining measures	Other expenditure / restraining measures	various		E	0,129	-0,108	0,051
Other expenditure / expansion measures	Other expenditure / expansion measures	various		E	-0,095	-0,069	0,264
				TOTAL	-1,403	0,746	0,860

A comma is used as decimal separato

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2021	2022	2023
					% GDP	% GDP	% GDP
Completion of the tax wedge cut	Motivation: Reducing tax and labour costs. Content of the measures: stabilization of tax deduction for incomes over 28.000 and up to 40.000 euros provided by Legislative Decree No. 3/2020.	D.5	immediately effective	R	-0,122	0,020	0,004
Building rennovation and eco-bonus tax deductions	Motivation: promoting investments in the built heritage, also to increase resilience and sustainability and to support the recovery of the construction sector. Content of the measures: a) Extension to December 31, 2021 of the personal income tax (PIT) deduction at a 50% rate for building restoration. b) Extension to December 31, 2021 of the deduction for energy riqualification interventions with the same rates applied in 2020 (at a 50% rate for fixtures, biomass and solar shading and at a 65% rate for other types). c) Extension to December 31, 2021 of the PIT deduction at a 50% rate for expenditures incurred for the furnishing of renovated buildings. d) Extension to December 31, 2021 of the 90% deduction for the renovation of the exterior facades of buildings ("Facades bonus"). e) Extension to December 31, 2021 of the PIT deduction at a 36% rate for expenditures for green areas, green roofing and hanging gardens.	D.5	immediately effective	R/E	0,002	-0,039	-0,026
Incentives for the South	Motivation: promoting territorial cohesion, closing regional development gaps, support employment. Content of the measures: a) The exemption of 30% social security and welfare contributions paid by private non-agricultural employers of the South for their employees has been made permanent. b) Extension to December 31, 2021 of the tax credit for the investments in the southern regions.	D.61 and D.92	immediately effective	R	-0,385	0,152	-0,014
Various interventions - Ministries	Various interventions - Ministries. It comprises, among the others, resources for: University, Research, enhancement of disadvantaged areas, allowances for health workers, etc..	various	immediately effective	E	-0,292	0,081	0,044
Unchanged policies	Motivation: Ensuring continuity of interventions whose funding decision is proposed annually. Content of the measures: it comprises, among other things, the refinancing of peace missions, 'Safe Roads Operation', 'Enterprises crisis fund' and additional resources allocated to funds.	various	immediately effective	E	-0,079	0,010	0,013
Family policies	Motivation: Promoting family support policies. Content of the measures: confirmed for the year 2021 the birth allowance and the extension to 7 days for paternal leave, and up to the end of June 2021 the 'vacation bonus'.	D.62	immediately effective	E	-0,005	-0,004	0,008

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2021	2022	2023
					% GDP	% GDP	% GDP
Spending revision and re-modulation	Motivation: Rationalisation and revision of public administration expenditure. Content of the measures: a) Savings due to the review of administrative or organisational procedures, defunding of projects in relation to their effectiveness or priority, and the review of the mechanisms or parameters that determine spending needs. b) Re-modulation of other expenses based on priorities and on the timing of transfers to various institutions based on their actual needs, keeping the overall amount of expenses unchanged.	various	immediately effective	E	0,000	0,000	0,026
Tax reform	Motivation: revision of the tax system in order to improve its equity, efficiency and trasparency, Content of the measures: allocation of resources for the tax reform, introduction of the 'Assegno unico', tax expenditures revision.	D.5 and D.6	subsequent legislation	R	-0,171	-0,262	0,067
Supporting investments	Motivation: supporting public administration investments. Content of the measures: resources for public administration investments, including those for the 'Development and cohesion fund'. Are included, among others, resources for: healthcare construction, research, school construction and digitalization, protection of the cultural and environmental heritage, etc..	P.51	immediately effective	R	-0,094	-0,025	-0,014
Supporting enterprises	Motivation: support for enterprises in difficulty due to the COVID emergency and support to entering international markets. Content of the measures: setting up a fund to sustain enterprises in difficulty due to the COVID pandemic, extention of mortgage suspensions, additional resources to the '*Fondo per l'internazionalizzazione delle imprese*', extention of the measures for the re-capitalization of the small and medium enterprises (SMEs), new resources for the 'SMEs guarantee fund'.	D.3 and D.92	immediately effective / to be distributed through a decree of the President of the Council of Ministers	E	-0,299	0,188	0,056
Promoting employment	Motivation: promoting employment, also because of the COVID emergency. Content of the measures: additional weeks of the Extended Supplementary Income Scheme (*Cassa integrazione guadagni*) are financed. Three years decontribution at the 100% rate for hiring youngs up to 35 years of age.	D.6	immediately effective	E	-0,020	-0,018	0,001
Other revenue / restraning measures	Other revenue / restraning measures	various		R	0,006	0,000	0,000
Other revenue second round fiscal effects / restraning measures	Other revenue second round fiscal effects / restraning measures	various		R	0,000	0,698	0,372
Other revenue EU funds/ restraining measures	Other revenue EU funds/ restraining measures - european resources from Next Generation EU	various		R	0,199	-0,010	-0,007
Other revenue / expansion measures	Other revenue / expansion measures	various		R	-0,044	0,036	-0,013

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2021	2022	2023
					% GDP	% GDP	% GDP
Other expenditure / restraining measures	Other expenditure / restraining measures	various		E	0,129	-0,108	0,051
Other expenditure / expansion measures	Other expenditure / expansion measures	various		E	-0,095	-0,069	0,264
				TOTAL	**-1,268**	**0,650**	**0,834**

A comma is used as decimal separator

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
CSR 1 — In line with the general escape clause, take all necessary measures to effectively address the pandemic, sustain the economy and support the ensuing recovery.[...]	As for the public finance targets, see previous tables.	PUBLIC FINANCE BALANCES Public Finance
	Abolition of safeguard clauses (VAT and excise increases) starting from 1 January 2021.	MEASURES TO SUPPORT THE ECONOMY Fiscal policy
	Revision of the 'Bonus IRPEF' (increase in the amount and extension of the number of recipients).	IRPEF BONUS Fiscal policy
	The resources of the Development and Cohesion Fund for programming cycles 2000-2006, 2007-2013 and 2014-2020, can be allocated, from 1 February 2020 and for the years 2020 and 2021, to any type of national, regional or local intervention connected to the emergency.	MEASURES TO SUPPORT THE ECONOMY Measures to face the emegency
	Introduction of contributions and funds for the implementation of the fundamental functions of local authorities and for the compensation of the loss of tax revenues related to the health emergency	MEASURES TO SUPPORT LOCAL ENTITIES Measures to face the emegency
	Moratorium for local authorities in order to participate in the new mortgage renegotiation plan through CDP.	MORTGAGE RENEGOTIATION PLAN Measures for local authorities
	Reinstatement of the municipal solidarity fund, following the food emergency,	MEASURES TO SUPPORT MUNICIPALITIES Measures for local authorities
	Introduction of a draft delegated law containing measures to support and enhance the family (see Table 6b).	FAMILY ACT Social protection for families
	Parental leave, voucher and safeguards for quarantine periods. (see CSR 2)	MEASURES TO SUPPORT FAMILIES Measures to face the emegency
	Extension of the Family Card for health emergency. (see Table 6b)	MEASURES TO SUPPORT FAMILIES Measures to face the emegency
	The Plan for non-self-sufficient persons and the resources for the inclusion of people with disabilities have been increased. (see Table 6b)	MEASURES TO SUPPORT FAMILIES Social protection for families
	Introduction for the year 2020 of the Emergency Income scheme. (see Table 6b)	MEASURES TO SUPPORT FAMILIES Measures to face the emegency
	Increase of the resources for the Fund for first-home mortgages and for the Fund for non-guilty tenants in arrears. (see Table 6b)	MEASURES TO SUPPORT FAMILIES Social protection for families
	Fiscal measures that will be introduced with the Budget Law for 2021: i) Extension to 31 December 2021 of the 50 per cent personal income tax deduction of expenditures for building restoration; ii) Extension to 31 December 2021 of the personal income tax deduction of expenditures incurred for energy efficiency, at the same rates as for 2020 (50 per cent for windows, biomass and solar shielding, 65 per cent for the remaining categories); iii) Extension to 31 December 2021 of the 50 per cent	MEASURES TO SUPPORT THE ECONOMY

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	personal income tax deduction of the costs incurred for the purchase of furniture for renovated buildings; iv) Extension to 31 December 2021 of the 90 per cent personal income tax deduction of the costs incurred for the renovation of building facades; v) Extension to 31 December 2021 of the 36 per cent personal income tax deduction of expenditure incurred for green areas, green roofing and hanging gardens..	Tax incentive
CSR 1 — [...] When economic conditions allow, pursue fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability while enhancing investment [...]	Elaboration of a comprehensive fiscal reform is currently undergoing.	TAX REGULATION AND LITIGATION REDUCTION Tax policy
	Full use of NGEU Funds over the 2021-2026 horizon for a total of EUR 205 billion of which EUR 65.4 billion in grants and the remaining amount in loans.	RECOVERY PLAN Public investment
	The process of increasing efficiency of public spending will continue in the light of the productivity gains that can be achieved through digitisation and streamlining of bureaucratic procedures.	SPENDING REVIEW Public finance
	Introduction of legal provisions on the accounting management of the State Budget to ensure the availability of financial resources consistent with the timing of the investments.	ACCOUNTING SIMPLIFICATIONS Public finance
	Review of the consolidated law on publicly owned companies in order to identify appropriate criteria for measuring their management capacity, increase their efficiency, improve the quality of the services offered and encourage investment in infrastructure.	INVESTED COMPANIES Public finance
	On the basis of the Extraordinary Plan for Real Estate disposalsthe sale of properties included in the Real Estate Dispossession Programme is continuing, aimed at recovering expenditure, reducing public debt and improving management efficiency of the assets.	PUBLIC REAL ESTATE ENHANCEMENT Public finance
	Combating tax evasion: i) the fiscal Synthetic Reliability Index (ISA) has been introduced as well as the general obligation for electronic invoicing and electronic transmission of fees; ii) the 'Italy Cashless' Plan has been launched, encouraging electronic payments with premia; iii) the penalties for large tax evaders and the fight against the illicit administration supply of labour have been tightened, as well as the rules for contrasting the non-compliance with public procurement procedures by cooperatives or fictitious enterprises. Future actions: iv) measures against the illegal transfer of capital across borders and the fictitious residence abroad of natural persons and companies will be strengthened: v) instruments to combat fraud in the fuel sector, illegality in the gaming sector and the counterfeiting of trademarks, patents and industrial designs of Made in Italy will be strengthened. In particular, a draft law to contrast illegality in the gaming sector is planned	CONTRAST TAX EVASION Fiscal policy
	The following funds were set up by the Budget Law for 2020: Central Government Investment Fund (allocated EUR 20.8 billion from 2020 to 2034), the Green New Deal Fund (4.24 billion for the period 2020-2023) and the Fund for relaunching investments for the sustainable and infrastructural development of municipalities (4 billion from 2025 to 2034). In addition to these funds, grants are assigned to municipalities for investments in urban regeneration projects (8.5 billion in 2021-2034) and for building and land security (8.8 billion in 2021-2034), as well as to the Regions (approximately 3.3 billion in 2021-2034) for road and safety measures and for the development of public transport systems.	INCENTIVES AND CONTRIBUTIONS Public investment

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	Communications infrastructure: renovation and development of telecommunications and transport infrastructure (5G and fiber optic, spread data centers for edge cloud computing, railways, roads, bridges, airports, ports and intermodality). With regard to telecommunications: accelerating the development of building sites in the so-called white areas to implement the Ultrabroad Band Plan (see Table 6b); strengthening policies to support the rapid development of the 5G network (see Table 6b). Extension of the high-speed rail network to the whole country, in particular to the Southern Regions (Calabria, Basilicata, Puglia, Sicily) within a smart mobility plan. Conversion of public road transport to low-emission vehicles.	COMMUNICATION AND TELECOMMUNICATIONS INFRASTRUCTURE Public investment
	Revision, expansion and extension of the Special Commissioners' regulation provided for by the 'Sblocca Cantieri' decree (unlock building sites): special commissioners will also be able to re-elaborate projects not yet contracted by replacing any other authorisation phase, with the exception of authorisations relating to the protection of cultural and landscape heritage and environmental heritage.	SIMPLIFICATION OF PROCEDURES Public investment
	Monitoring of public projects: a new platform is in the completion phase that will serve approximately 11 thousand entities currently connected to the existing monitoring system of the General Accounting Department, allowing them to directly access the platform for requesting financial resources.	DIGITISATION OF PROCEDURES Public investment
	The South Plan 2030 was presented with the aim of relaunching public investment in southern Italy. Investments will focus on education, material and social infrastructure, strengthening Green New Deal commitments in the South and inland areas, developing innovation and strengthening Special Economic Zones(ZES).	PLAN FOR THE SOUTH Public investment
CSR 1 – [...] Strengthen the resilience and capacity of the health system, in the areas of health workers, essential medical products and infrastructure; enhance coordination between national and regional authorities.	Increased the National Emergency Fund aimed also at the research and the purchase of vaccines from industries in the sector, possibly also with the acquisition of capital shares onmarket terms.	ESSENTIAL MEDICAL PRODUCTS Measures to deal with the emergency
	Activation of additional scholarships for general practitioners, with an appropriation of 20 million in 2021. Increase in the number of specialist training contracts for doctors, with an allocation of EUR 25 million per year from 2022 to 2023 and EUR 26 million per year from 2024-2026.	HEALTHCARE PROFESSIONALS Measures to deal with the emergency
	Possibility for the Regions to increase for 2020 the amounts already allocated by decree lawno 18/2020 for the remuneration of overtime work of health workers.	HEALTHCARE PROFESSIONALS Measures to deal with the emergency
	Strengthening of the hospital health facility (increase intensive and semi-intensive beds, renovation of 651 Emergency Room, consumables and sanitary equipment, sanitary means of transport). Additional health personnel, also on a temporary basis, for 9,600 units.	HEALTH INFRASTRUCTURE Measures to deal with the emergency
	Strengthening territorial assistance, through infrastructures and digital systems for home and residential care and for remote monitoring.	TERRITORIAL HEALTH CARE Measures to deal with the emergency
	A draft law to accompany the Budget Law is planned, for reorganising the regulation of health and safety in the workplace	HEALTH AND SAFETY AT WORK Work and welfare

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
CSR 2 — Provide adequate income replacement and access to social protection, notably for atypical workers; mitigate the employment impact of the crisis, including through flexible working arrangements and active support to employment.[...]	The duration of the 'derogating' Covid-19-specific Wage Supplementation Scheme (CIG) has been extended for a total of 18 weeks to 31 December 2020. To support of employees who are not covered by the ordinary CIG scheme, an additional wage integration benefit is envisaged. If necessary, these measures will be extended selectively in the course of 2021 based on the evolution of the pandemic crisis.	EXTENSION OF THE CIG SCHEME Measures to deal with the emergency
	To support employment in 2020, tax wedge relief measures have been introduced: i) 4-month exemption in place of the ordinary Covid-19-specific CIG scheme; ii) cut in SSCs for enterprises in the South; iii) 6-month exemption for open-ended contracts concluded by 31 December 2020; iv) 3-month exemption for fixed-term contracts in the tourism sector (see Table 6b). In 2021, a 100% decontribution for 3 years is planned for the recruitment of young people up to 35 years old.	EMPLOYMENT INCENTIVES Measures to deal with the emergency
	The fund for the Last Resort Income was set up in 2020 to ensure income support for self-employed and employees affected by the Covid-19 emergency.	LAST RESORT INCOME Measures to deal with the emergency
	One-off allowances for self-employed persons, and employees in tourism, agriculture, household services, as well sport and entertainment activities.	SECTORAL INCOME SUPPORT Measures to deal with the emergency
	The Air Transport Solidarity Fund has been financed, in the context of the Covid emergency, to finance the unemployment benefit scheme (i.e. NASpI) and the CIG scheme for air transport, in order to ensure protection for workers in the event of employment termination.	INCOME SUPPORT IN AIR TRANSPORT SECTOR Measures to deal with the emergency
	As an emergency measure, individual dismissal proceedings for justified objective reasons shall be precluded, except in cases of winding-up of businesses or agreements with the Trade Unions.	BLOCKING DISMISSAL PROCEDURES Measures to deal with the emergency
	In order to avoid adverse consequences for existing fixed-term contracts, the terms for renewal or extension of contracts were first extended until 30 August 2020. Thereafter, fixed-term contracts can be renewed, until 31 December 2020, only once for 12 months, within the limit of total 24 months.	RENEWALS OF EMPLOYMENT CONTRACTS Measures to deal with the emergency
	The beneficiaries of the social safety net beneftis and of the Citizenship Income (RdC) scheme are allowed to enter into fixed term contracts with employers in the agricultural sector for a period of no more than 30 days.	CHANGES TO THE CITIZENSHIP INCOME (RDC) Work and welfare
	An investment plan for the redevelopment of the job search service network and social services is under consideration, in order to strengthen PES centres. Special attention will also be paid to the operation of the GEPI information platform for the coordination of municipalities.	ACTIVE LABOUR MARKET POLICIES Work and welfare
	The 'Fund for new competences' bas been established to finance training and workers' redeployment paths, in order to enable the Social Partners to achieve an understanding for redeploying time schedules by allocating part of worked hours to training activities.	WORKERS' TRAINING Work and welfare
	In February 2020, the three-year plan to fight against labour exploitation in agriculture and the 'caporalato' over the 2020-2022 period was launched, which strengthens prevention and surveillance measures, including through the development of an information system facilitating the match between labour supply and demand.	FIGHT AGAINST UNDECLARED WORK Work and welfare
	In the context of the Covid emergency, there is the possibility for employers to conclude a contract with foreign nationals living on national territory or to declare the existence of an irregular employment relationship.	FIGHT AGAINST UNDECLARED WORK Work and welfare

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	Equalisation to sickness leave of the period spent in quarantine or in trustee homestay is also envisaged in the private sector. Provision is made for special parental leave due to the closure of educational school services. Further leave is provided for the quarantine period of children during school attendance. Increase in the number of days off according to the Law No.104/1992.	PARENTAL LEAVE AND SAFEGUARDS FOR PERIODS SPENT IN QUARANTINE Measures to deal with the emergency
	Bonus to attend summer centres and childcare services (see Table 6b).	KINDERGARTEN BONUS Support for women's work
	The extension of compulsory 7-day paternity leave, already in force in 2020, will be confirmed for 2021.	COMPULSORY PARENTAL LEAVE Support for women's work
	The expiring mandates of listed companies' upper-level bodies are extended from 3 to 6 months, provisions are enacted to protect the least represented gender.	GENDER EQUALITY Work and welfare
CSR 2 — [...] Strengthen distance learning and skills, including digital ones.]	To ensure adequate distance learning, the following measures have been taken: i) permanent training of teaching and administrative (ATA) staff on new resources and technology tools; ii) strengthening of the connectivity and of the provision of technological devices throughout the national territory; iii) the implementation of a proprietary ministerial digital platform for digital learning; iv) the establishment of a Fund for the dissemination and implementation of technological innovation and digitalisation in the educational field.	DISTANCE LEARNING Education and skills
	To offer the opportunity to all students to benefit from distance learning, the resources for the School Plan under the Ultra Broadband Plan have been increased and actions to strengthen the connectivity have been planned. The Plan provides for optical fiber connection for all state schools within two years. It also provides for free connectivity for 5 years and the maintenance of networks, and vouchers for families for purchasing electronic devices assigned according to income. The National Digital School Plan will also be upgraded (see Tab. 6b).	SCHOOL PLAN Education and skills
	Increased resources under the 2021-2027 PON School Programme for the creation of more appropriate learning environments, both structurally and technologically, for the 0-6 age group. The interventions aim to enabling schools to participate in European and international projects and to improve knowledge of foreign cultures and languages, starting with nursery and primary school.	EARLY SCHOOL LEAVING Education and skills
	Stabilisation of 16,000 teachers and the recruitment of 4,000 new researchers are planned in order to ensure the resumption of school activities and adequately tackle the epidemiologic emergency. Ordinary and one extraordinary competitions for secondary school staff with at least three years of service are provided, accompanied by an extraordinary certification procedure. For newly recruited teachers it will be mandatory to stay for 5 years in the same place of employment.	TEACHING AND RESEARCH STAFF Measures to deal with the emergency
	Reconfigured the current model of evaluation and in-service training of school managers based on experience in the areas.	SCHOOL MANAGER Education and skills
	Specific measures to increase school inclusion have been introduced. (see Table 6b)	SCHOOL INCLUSION Education and skills
	Teaching qualification courses for the secondary school of first and second degree, in order to achieve a standard of pedagogical, didactic and disciplinary training, also for communication for teaching.	TEACHING QUALIFICATION PATHWAYS Education and skills

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	For tertiary education, established the 'Fund for the Emergency Needs of the University System', to support distance teaching and the purchase of digital devices or digital platforms for research. Additional resources have been earmarked to broaden the audience of university students benefitting from total or partial exemption from the annual all-inclusive contribution and other benefits for the right to study. Extensions are provided for PhD students with scholarships and holders of research grants.	RESOURCES FOR THE UNIVERSITY SYSTEM Education and skills
	Planned interventions for school construction to ensure seismic adaptation, securing and maintenance of existing buildings and construction of new schools throughout the country, with cutting-edge classrooms, innovative laboratories and efficient energy consumption. The Budget Law for 2020 has allocated resources for the period 2020-2023.	SCHOOL BUILDING Education and skills
CSR 3 — Ensure effective implementation of measures to provide liquidity to the real economy, especially to small and medium-sized enterprises, innovative firms and the self-employed, and avoid late payments. Front-load mature public investment projects and promote private investment to foster the economic recovery. [...]	Freezing, until 31 January 2021, of current account credit lines, of loans for advances on credit securities as well as of the maturities of short-term loans and instalments of loans and fees due for micro-enterprises (so-called 'partite IVA'), professionals, individual firms and small and medium-sized enterprises. The moratorium is extended until 31 March 2021 for loans of companies in the tourism sector.	MORATORIUM ON LOANS Measures to tackle the emergency
	Set up of a Fund, with an endowment of EUR 12 billion, to grant advances to Regions, autonomous Provinces and local Authorities in need of liquidity, in order to meet the payment of their certain, liquid and payable commercial debts. Extension of the deadlines from 20 September to 9 October 2020, for granting liquidity advances by local authorities, to facilitate the payment of the stock of debts at 31 December 2019 towards companies.	PAYMENTS OF PUBLIC ADMINISTRATIONS' DEBT Liquidity to firms
	Established a Task Force to ensure the efficient and rapid use of liquidity support measures adopted by the Government.	GUARANTEES ON LOANS Measures to tackle the emergency
	Strengthening of the Central Guarantee Fund for SMEs, including for the renegotiation of existing loans, until 31 December 2020: all companies have access to government-guaranteed loans for up to 90 per cent of the amount, and for smaller companies for up to 100 per cent. A State guarantee in favour CDP is foreseen to provide funds to banks financing medium-big enterprises that do not benefit from the SME Fund. The Fund was further refinanced for the years 2023, 2024 and 2025.	GUARANTEES ON LOANS Measures to tackle the emergency
	Support to the internationalisation of the production system: establishment of a new Fund for the Integrated Promotion towards Foreign Markets and refinancing of the Fund providing subsidised loans for the internationalisation of firms. A co-insurance system is introduced whereby the commitments deriving from SACE's insurance business are assumed by the State for 90 per cent and by the company itself for the remaining 10 per cent, thus freeing up to a further EUR 200 billion of resources to be allocated to the expansion of exports. The reorganization of the SACE Group is also planned.	EXPORT SUPPORT Internationalisation
	Assigned to SACE S.p.A. the task of providing guarantees in favour of banks for new loans granted in any form to companies. Leasing, factoring and bond loans are also eligible for the SACE's guarantee. SACE manages the risks coverage requests through the 'Garanzia Italia' programme, which benefits from the counter-guarantee from the State.	GUARANTEES ON LOANS Providing liquidity to firms

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	Introduced a non-repayable contribution/grant - provided by the Revenue Agency - in favour of subjects carrying out business activities and self-employed, holders of VAT number, with a turnover in the last tax period of less than 5 million and who have suffered at least a 33 per cent fall in revenues in April 2020 as compared to the same month of 2019 (EUR 1,000 for individuals and EUR 2,000 for legal entities).	NON REPAYABLE CONTRIBUTION Measures to tackle the emergency
	Three measures to facilitate the capitalisation of non-financial enterprises: 1) tax credit equal to 20 per cent of the investment to entities making cash contributions by participating in the share capital increase; 2) tax credit equal to 50 per cent of losses exceeding 10 per cent of shareholders' equity, before losses, up to 30 percent of the capital increase carried out, recognised following the approval of the financial statements for the financial year 2020; 3) established a fund to support and relaunch the Italian economic productive system, called *Fondo Patrimonio PMI*, targeting companies with an amount of revenues exceeding EUR 10 million and with less than 250 employees. The purpose of the Fund is to subscribe by 31 December 2020 newly issued bonds or debt securities issued by companies.	CAPITAL STRENGHTENING Measures to tackle the emergency
	Cassa Depositi e Prestiti S.p.a. is authorised to set up a fund, called '*Patrimonio Rilancio*' to invest in large companies assets. Allocated EUR 1.5 billion for the capital strengthening of state-owned companies, through capital increase or alternative forms of capitalisation, with the aim of supporting their soundness and relaunch and development programmes.	LARGE COMPANIES AND STATE-OWNED ENTERPRISES Measures to tackle the emergency
	Introduction of several corporate tax credits, equal to: i) 60 per cent of the expenditure incurred in 2020, up to a maximum of EUR 80,000, for the adaptation of workplaces and a tax credit amounting to 60 per cent, up to a maximum of EUR 60,000 of per beneficiary, of the expenditure incurred in 2020 for the sanitisation of working environments and the purchase of personal protective equipment,; ii) 60 per cent of the monthly amount of the rent of non-residential properties intended for the performance of the work, for subjects carrying out business activities, art or profession, who have suffered in March, April and May a decrease in turnover or fees of at least 50 per cent compared to the same month of the previous tax period and with revenues or compensation not exceeding EUR 5 million in the previous tax period; iii) expenses incurred for participation in trade fairs and trade events abroad, if cancelled.	TAX CREDITS (RENTS, FAIRS AND EVENTS, SANIFICATION) Measures to tackle the emergency
	Allocation of approximately EUR 600 million to reduce the fixed quotas of electricity bills for small and medium-sized enterprises powered by low voltage, for a period of three months starting from May 2020.	REDUCTION OF ELECTRICTY BILLS Measures to tackle the emergency
	Facilitated tax regime for investments in innovative start-ups and SMEs, with a tax deduction equal to 50 per cent of the amount invested by the taxpayer in the share capital of one or more innovative start-ups. A delegation law is expected to be approved in 2021 for the reorganization of start-ups and innovative SMEs.	SUPPORT TO INNOVATIVE FIRMS Promoting private investment
	Set up of a Technology Transfer Fund for the promotion of innovative start-up initiatives and investments. The 'Smart & Start Italia' measure for public support to innovative start-ups is also strengthened.	SUPPORT TO INNOVATIVE FIRMS Promoting private investment
	The following delegation laws are envisaged regarding the statute of companies, the revision of firm incentives and provisions for the development of supply chains and to encourage business aggregation.	BUSINESS SUPPORT Promoting private investment

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	With the Budget Law for 2021 the tax credit for investments in the South will be extended.	CREDIT FOR INVESTMENTS IN THE SOUTH Promoting private investments
	Incentives for investments in the real economy are envisaged through the introduction of a new type of PIR (Super-PIR), with specific constraints if the investment is direct, for more than 70 per cent of the total value of the plan, to the benefit of SMEs of limited dimension. In the meantime, the PIRs have been strengthened by raising the tax-free annual investment threshold from EUR 150,000 to EUR 300,000 for long-term investments.	PIR Promoting private investments
	Refinancing by EUR 64 million of the 'New Sabatini' programme, granting subsidies to SMEs on plant investments equal to the interest calculated on a 5-year loan. Refinancing of EUR 500 million development contracts as a support measure for the realisation of major productive investments and for the implementation of national industrial policies. Refinancing of a further EUR 50 million for 2021 of the Voucher for consulting and innovation (so called Voucher Innovation Manager). Refinancing of EUR 950 million for the IPCEI Fund to support companies participating in the implementation of major projects of European interest.	INCENTIVES TO INVESTMENTS Promoting private investment
	Exemption from the payment of IRAP's balance due for 2019 and the first instalment of IRAP's advance due for 2020 for taxpayers with a volume of revenue or compensation up to EUR 250 million. The obligation to pay the advance due for the tax period shall remain unaffected. Suspension or extension of certain payments or fiscal deadlines: possibility of benefiting from further instalments for suspended payments, in March, April and May: 50 per cent of the total due may be paid, without penalties or interest, in a single solution by 16 September 2020 or by instalment (up to 4 monthly instalments of the same amount) with the payment of the first instalment by 16 September. The remaining 50 per cent shall be paid, without penalties and interest, in installments for a maximum of 24 monthly instalments of the same amount, with the payment of the first instalment by January 16, 2021. Post-ponement of payments for ISA taxpayers and flat-rate taxpayers who have suffered a decrease in turnover or fees by at least 33 per cent in the first half of 2020 compared with the same period of 2019: for those, the payment period for the second or single instalment of income tax and IRAP is extended to 30 April 2021. Suspension of the plastic and sugar tax.	TAX RELIEFS AND EXEMPTIONS Measures to tackle the emergency
	Introduced a simplified procedure for signing bank contracts. Incentive to banking and industrial companies to divest their stranded or non-performing loans by converting their Deferred Tax Assets (DTA) into tax credits. Provisions on GACS to facilitate any changes to the securities or contracts regulations agreed between the parties to the transaction. Strengthening of Confidi for micro enterprises.	BANKING SECTOR Providing liquidity to firms
	EUR 600 million allocated to support restaurant and catering activities, whose turnover for the months from March to June 2020 has been less than three-quarters of the turnover for the same period of 2019, in the form of a non-repayable grant for the purchase of agricultural, food and wine products from Italian productions. Exemption from the payment of the tax for the occupation of public spaces and areas (TOSAP), from 1 May until 31 December 2020, in favour of public services companies, owners or applicants for public land concessions.	SECTORAL MEASURES - RESTAURANTS AND CATERING SERVICES Measures to tackle the emergency

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	Measures to support companies operating in the transport sector, in order to compensate for the loss deriving from the reduction in demand and to support forms of sustainable mobility. The Fund for state incentives for those who buy and register low Co2-emission cars in Italy has been increased by EUR 500 million, to sustain the relaunch ofthe automotive sector. Resources to support various transport activities, including taxis and rental with driver (NCCs), trucking, tour buses and passenger and cruise services have been enhanced.	SECTORAL MEASURES - TRANSPORT Measures to tackle the emergency
	Specific measures for tourism companies: dedicated funds to support the tourism and cultural sectors. Compensation to museums and cultural places; non-repayable contribution of a minimum of EUR 1,000 for individuals and EUR 2,000 for non-individuals in favour of operators of the tourism sector in historical centers that have recorded a significant decline in foreign tourists, and who have recorded a turnover in June 2020 two thirds below that achieved in the corresponding month of 2019; a tax credit of 60 per cent of the monthly rent or lease or concession for thermal bath facilities; some categories of properties are exempted from paying the second instalment of the real estate property tax (IMU) 2020, including bathing establishments and spas, hotels and guesthouses and tourist accommodation facilities; cinemas and theaters exempted from the payment of the IMU also for 2021 and 2022; fund to support travel agencies, tour operators and tourist guides; increase in the tax credit from 30 to 65 per cent for redevelopment and improvement costs carried out by companies in the hospitality and thermal bath sectors; the Emergency Fund for enterprises and cultural institutions and the cinema, entertainment and audiovisual sectors has been increased. A total of EUR 90 million is allocated to museums and to the implementation of the interventions under the "Cultural Heritage Major Projects" Strategic Plan. A draft bill on entertainment, cultural and creative industries and tourism is expected for 2021.	SECTORAL MEASURES – TOURISM AND CULTURE Measures to tackle the emergency
	For the agricultural and fisheries sector: increase from 50 to 70 per cent in the percentage of advances due to companies entitled to access CAP contributions; allocation of EUR 100 million, in order to ensure the continuity of agricultural, fishing and aquaculture businesses; allocation of EUR 350 million to ISMEA for the granting of guarantees in favour of agricultural and fishing enterprises; establishment of the 'Emergency Fund for the protection of supply chains in crisis', with an endowment of EUR 500 million, aimed at implementing recovering measures for the sectors that have been most affected by the crisis. A draft law on the support and valorisation of agriculture and fisheries is planned in the contex of the Budget Law.	SECTORAL MEASURES - AGRICOLTURE AND FISHERIES Misure per fronteggiare l'emergenza
	Energy efficiency, seismbonus, photovoltaics and recharging columns, in order to encourage the relaunch of the construction sector (see Table 6b).	SECTORAL MEASURES - CONSTRUCTION Promoting private investment
	Specific measures to support publishing: tax credit for advertising investments and digital services, as well as recovering measures for newsagents.	SECTORAL MEASURES - PUBLISHING Providing liquidity to firms
	Green and Innovation Deal for the mobilisation of public and private investments linked to the objectives of environmental and social sustainability, innovation and the circular economy. The Fund, designed to create a leverage effect, has a budget of EUR 470 million for 2020, EUR 930 million for 2021 and EUR 1,420 million for each of the years 2022 and 2023, totalling EUR 4.24 billion. Part of these funds – not less than EUR 150 million for each of the years from 2020 to 2022 – will be earmarked	GREEN AND INNOVATION DEAL

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
CSR 3 — [...] Focus investment on the green and digital transition, in particular on clean and efficient production and use of energy, research and innovation, sustainable public transport, waste and water management as well as reinforced digital infrastructure to ensure the provision of essential services.	for measures aimed at reducing greenhouse gas emissions, promoting the circular economy, reducing pollution and its impact on firms' productivity and their exposure to the risk arising from factors related to environmental, social and governance (ESG) and health issues. These funds will be coordinated with the European NGEU funds acting on the same areas.	Green Investments
	A draft law for the reorganisation of environmental legislation, the promotion of the green economy and the circular economy has been scheduled.	GREEN GENERATION Green Investments
	The drafting of the Integrated National Energy and Climate Plan (NECP) has been completed (see Table 6b).	NECP Environmental policies
	Shortening of the existing deadlines for the validation of environmental impact assessment (VIA) documents and for the issue of the Single Environmental Permit. Introduction of a specific framework for the environmental assessment of projects for the implementation of the National Energy and Climate Plan (NECP). A specific procedure has been established for accelerating and simplifying environmental and landscape permits for existing roads, motorways, rails and water infrastructure measures falling within the scope of the EIA. The Environmental Code has been amended to broaden and simplify certain interventions on sites that are being reclaimed, including those of national interest.	ENVIRONMENTAL IMPACT ASSESSMENT, ENVIRONMENTAL AUTHORISATIONS, ENVIRONMENTAL CODE Simplifications for investment
	Resources for Regions, Metropolitan Cities and Local Authorities to purchase new ecological buses for local public transport (see Table 6b).	STRATEGIC NATIONAL PLAN FOR SUSTAINABLE MOBILITY Sustainable mobility
	Construction of charging infrastructures for electric vehicles (see Table 6b).	ELECTRIC VEHICLES CHARGING Sustainable mobility
	EUR 3.7 billion allocated for the completion of metro lines and the construction of new tram and trolley lines throughout the country.	METRO LINES, TRAMWAYS, TROLLEYWAYS Green Investments
	Procedural simplifications addressed to network infrastructures forming part of the national electricity transmission network and the national natural gas transport network.	ELECTRICITY AND NATURAL GAS Simplifications for investment
CSR 4 — Improve the efficiency of the judiciary system.[...]	A draft law is being approved concerning the reform of the High Council for the Judiciary (CSM) and the judicialsystem.	CSM REFORM Justice system
	Measures for extending the platform of the Digital Civil Proceeding to both the Offices of the Supreme Court of Cassation and the Offices of the Justice of Peace and for implementing the Digital Criminal Proceeding have been foreseen.	DIGITALIZATION OF THE JUDICIAL SYSTEM Justice system
	Organisational measures such as the completion of the recruitment programme of magistrates and administrative staff have been foreseen.	SHORTENING THE LENGTH OF PROCEEDINGS Justice system
	Introduction of measures to favour digital proceeding and to hold hearings remotely in the civil sector. Measures to use videoconferencing tools and to hold hearings remotely in criminal hearings in which either pre-trial detainees or convicted prisoners are involved. Measures to allow the electronic filing of applications and acts at the Public Prosecutor office during the preliminary investigations are foreseen for both lawyers and the judicial police.	DIGITAL PROCEEDINGS Measures to face the emegency
	Approval of a draft delegation law for reforming the civil process.	REFORM OF CIVIL JUSTICE Civil Justice

TABLE III.1-14 : SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
	Approval of a draft delegation law to intervene on the efficiency of criminal proceedings and provisions for the rapid definition of pending judicial proceedings in the Courts of Appeal.	REFORM OF CRIMINAL PROCEEDINGS Criminal Proceedings
CSR 4 — [...] Improving the effectiveness of the Public Administration.	Implementation of the 'Simplification Agenda for the period 2020-2023' containing guidelines and a set of streamlining procedures for the recovery post covid-19 emergency.	SIMPLIFICATION AGENDA Efficiency of the PA
	Regulatory simplification and streamlining of authorisation and control procedures in areas with excessive regulatory and bureaucratic burdens. An appropriate draft law is planned on these subjects in 2021. There is also another draft law for the simplification of administrative procedures relating to the containment of hydrogeological instability.	REGULATORY SIMPLIFICATION Efficiency of the PA
	Introduction of amendments to the rules governing the administrative procedure in order to ensure greater certainty and speed of administrative action as regard responsibility of public officials.	SIMPLIFICATIONS AND ADMINISTRATIVE CAPACITY Reform of the PA
	Introduction of a special simplified procedure aimed at detecting serious irregularities and delays in the payment of contributions to support and revitalising the national economy, for the ongoing control of the Court of Auditors on the state Public Administrations.	SIMPLIFICATIONS AND ADMINISTRATIVE CAPACITY Efficiency of the PA
	Introduction of an 'Extraordinary Conference of Services' procedure, which allows public administrations to proceed through the transmission of the documents necessary for the administrative procedure by electronic means.	EXTRAORDINARY CONFERENCE OF SERVICES Efficiency of the PA
	Amendment of the statute of companies by providing that, where State legislation introduces a new burden not compensated by an equal reduction in charges, that burden shall be classified as tax deductible.	CHANGES IN THE STATUTES OF COMPANIES Efficiency of the PA
	Implementation and improvement of legislation on the prevention of corruption and transparency in Public Administrations with the strategic objective of strengthening a trust between administrations and citizens and fostering an ethical style of the Public Administration as a whole and within it. A draft law will be provided to regulate these areas.	ANTICORRUPTION RULES Reform of the PA
	Reform of communication and information of Public Administrations aimed at ensuring transparency and impartiality of administrative action.	TRANSPARENCY Reform of the PA
	Amendment of the rules governing the offence of abuse of office, where the objective element of the case is limited to the violation of specific rules of conduct expressly provided by law.	REFORM OF ABUSE OF OFFICE Efficiency of the PA
	Development and strengthening of the National Digital Data Platform aimed at achieving interoperability of information systems and databases of Public Administrations and Service Manager.	DIGITAL DATA PLATFORM Digitisation of PA
	Construction of a highly reliable infrastructure distributed throughout the country, designed to rationalise and consolidate the Processing Information Centres (EDCs) of the Public Administration.	INNOVATION AND DIGITISATION OF THE PA Digitisation of PA
	A draft law has been planned on regulating the smart working in the Public Administrations	SMART WORKING Reform of the PA

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

EU2020 Target	Reform actions	Policy area
1 - Employment in 2020 target [64-69%]	The length of the Covid-19 'derogating' Wage Supplementation Scheme (CIG) has been extended by further 9 weeks (for a total of 18 weeks) to be used over the 13 July/31 December 2020 period. In this period, the utilisation of the first 9 weeks will not entail any cost, whereas an additional contribution is foreseen for the subsequent 9 weeks for employers who suffered revenue losses lower than 20 per cent in the first semester of 2020. Firms giving up to 'derogating' CIG scheme in 2020 will benefit from a contribution exemption of up to 4 months. The measure will be selectively extended for 2021 based on the pandemic evolution.	COVID CONTRIBUTION EXEMPTION Labour costs
	A 50 per-cent social contributions reduction for private employers hiring *under*-35 years old employees over the 2019-2020 period. From 2021, the reduction will be increased to 100 per cent for 3 years. .	YOUTH EMPLOYMENT EXEMPTION Labour costs
	Re-determination of the 'Bonus IRPEF' (increase in the amount and broadening of the recipients) (see CSR. No. 1).	REDUCTION IN TAX WEDGE Labour costs
	A 100 per cent three-year contribution exemption to hire apprentices for firms with up-to-9 employees. The measure will be extended in 2021.	APPRENTICESHIP Labour costs
	A 30 per cent contribution reduction is foreseen for all employees of firms located in southern Italy and the Islands, from 1 October 2020 to 31 December 2020. The measure will be extended for 2021.	SOUTH CONTRIBUTON EXEMPTION Labour costs
	100 per cent social contribution exemption for hiring under-35 employees' with permanent contract in the South, for a maximum of EUR 8,060 per year. The measure will be extended for 2021.	SOUTH YOUTH EMPLOYMENT EXEMPTION Labour costs
	Contributive exemptions have been foreseen for hiring in the sectors most affected by the crisis (such as tourism and agriculture) (See Table 6a).	SECTORAL CONTRIBUTION CUT Labour costs
2 – R&D target [1,53% of GDP]	The '*Transizione 4.0*' Plan revised by the Budget Law for 2020 as a single tax credit for different incentives, will be extended to 2021. In particular, the incentive consists of three benefits: i) tax credit for investment in capital goods in order to support and encourage companies investing in new, tangible and intangible capital goods, functional to the technological and digital transformation of production processes destined to productive structures located in the national territory; ii) tax credit for research, development, innovation and design, in order to stimulate private expenditure in research, development and technological innovation, to support the competitiveness of enterprises and to promote the processes of technological transition in the circular economy and in the environmental sustainability; iii) tax credit in '*Formazione* 4.0' to stimulate investment in staff training on technologies relevant to the technological and digital transformation of enterprises. Measures to strengthen ITS.	*TRANSIZIONE* 4.0' PLAN R&D
	Measures will be introduced to strengthen the Competence Center in order to make the technology transfer network - made up of other qualified technology transfer centres (universities and public research bodies) and the Digital Innovation Hubs of the employers' associations and the PIDs (Digital Enterprise Points) of the chamber system - more efficient.	COMPETENCE CENTER R&D
	Measures to strengthen distance learning and the creation of technological teaching environments. (see CSR. 2)	DISTANCE LEARNING R&D
	A proposal for the Italian Strategy on Artificial Intelligence has been presented, while the proposal for Blockchain is in the consultation phase. The main deployments and areas of application of the Blockchain technology could be an effective tool for the protection and valorisation of the Made in Italy production chains and for the fight against counterfeiting products.	AI STRATEGY AND BLOCKCHAIN R&D

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

EU2020 Target	Reform actions	Policy area
	Measures are planned to accelerate the development of construction sites in the so-called white areas and for the activation of ultrafast services in all areas of the country and the spread of broadband infrastructure in the so-called grey areas with technological failure. (see CSR. 1)	ULTRABROAD BAND PLAN R&D
	The Development Contracts instrument for supporting innovation in organisation, processes and environmental protection has been confirmed. Provisions are being considered to strengthen this measure by intervening not only on procedures but also on the budget, in order to ensure its continuity. EUR 100 million have been allocated for each of the years 2020 and 2021 for granting the concessions provided in development contracts.	DEVELOPMENT CONTRACTS R&D
	Increased funding to support the Important Projects of Common European Interest (IPCEI) in areas relevant for the future. The projects currently underway are in the field of microelectronics and batteries.	IPCEI R&D
	Increased the tax credit for investments in R&D activities in the South (from 12 to 25 per cent for large companies, from 12 to 35 per cent for medium-sized enterprises and from 12 to 45 per cent for small enterprises) with a total burden of EUR 106,4 million for each of the years from 2021 to 2023.	TAX CREDIT FOR R&D IN THE SOUTH R&D
3 – Objective to reduce greenhouse gas emissions [-13 %]*	Incentives for low- and zero-emission vehicles as well as for the scrapping of the older and polluting car fleet have been foreseen.	INCENTIVES FOR FREE-EMISSION VEHICLES Sustainable mobility
	Measures to strengthen support for research and early industrialisation in the fields of alternative propulsion systems, batteries and other components for low-emission and electric vehicles are being considered.	SUPPORT FOR RESEARCH Emission reductions
	Established Fund for the Development of Urban Cycle Networks with a budget of 150 million for the three-year period 2022-2024, to finance 50 percent of the construction of new urban cycle lanes by local authorities. In addition, a number of incentives have been implemented for sustainable mobility and the financing of road infrastructure and cycle lanes projects.	CYCLE LANES Sustainable mobility
	National Strategic Plan for Sustainable Mobility (2019-2023).	NATIONAL STRATEGIC PLAN FOR SUSTAINABLE MOBILITY Sustainable mobility
4 – Renewable energy target [17 %]	National Integrated Energy and Climate Plan (PNIEC): issued the Ministerial Decree FER1, which supports the production of energy from renewable sources.The measure provides incentives for the diffusion of photovoltaic, wind, hydroelectric and gas purification plants.	PNIEC Environmental policies
	Promotion of decarbonisation under the PNIEC, accelerating the transition from traditional fuels to renewable sources, through the abandonment of coal for electricity generation as of 2025 in favour of an electric mix based on an increasing share of renewables.	PNIEC Environmental investment
	To accelerate interventions for the development of renewable energy and sustainable mobility, the 'Simplification' Decree has: i) simplified and streamlined administrative procedures for the construction of renewable energy installations; ii) introduced accelerating mechanisms for the upgrading or reconstruction of obsolete installations; iii) ensured conditions of certainty and stability for long-term investments, by disciplinating controls and sanctions.	RENEWABLE ENERGY Simplifications

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

EU2020 Target	Reform actions	Policy area
	Approved the National Plan for the research of electrical system that promotes projects related to new network architectures, aimed at making the electrical system more flexible and to ensure safe management.	NATIONAL PLAN FOR THE RESEARCH OF ELECTRICAL SYSTEM Environmental policies
5 – National energy efficiency objective [20 Mtoe/year]**	Deductions for building renovation (50 per cent), energy renovation (50 per cent or 65 per cent), the so-called *Bonus Facciate (*facades) and the bonus for the greening of buildings and terraces (i.e roof gardens) will be extended to 2021. The strengthening of the tax incentives system in the fields of energy requalification, seismic safety of buildings, installation of photovoltaic systems, storage systems and columns for charging electric vehicles is particularly significant through the elevation to 110 percent (in case of coexistence of several main interventions and under certain conditions) of the deduction rates of the eco- and seismic- bonuses. In addition, the transferability of the accrued tax credit was introduced. As part of the public housing recovery program, IACPs (Autonomous Institute of Social Housing) will also be eligible for tax incentives.	FISCAL INCENTIVES Environmental sustainability
	Introduction of a bonus for the purchase of bicycles, including pedal assisted ones, as well as mainly electric powered vehicles for personal mobility. From 2021 to 2024 the contribution can only be made against the scrapping of an obsolete vehicle.	MOBILITY BONUS Sustainable mobility
6 – School drop-out rates [16%]	Modification of the National Digital School Plan is under consideration, in order to strengthen actions directed to schools, to achieve a full development of the digital skills of students according to the European digital skills framework.	NATIONAL DIGITAL SCHOOL PLAN Education
	Provisions to make education and training systems more synergic with the labour market, through the improvement of the processes for the recognition of all skills, the adaptation of curricula, and the exploitation of learning systems such as dual system or the strengthening of the apprenticeship institution.	SCHOOL DROP-OUT Education
	Increase in the number of permanent support teachers, also through stabilisation of a substantial proportion of support teaching jobs. Initiatives to enable teachers to acquire skills in the field of teaching and inclusive methodology.	SCHOOL INCLUSION Education
	A series of initiatives were undertaken to train students in new renewable technologies and on new orientation paths in schools that have a green trajectory and environmental sustainability.	SUSTAINABILITY MEASURES Education
7 – Tertiary Education [26-27%]	With regard to the inter-university mobility of professors and researchers, new provisions concerning the assignments were introduced. Provision are made for the renewal of research grants and the transition of 'type B' fixed-term researchers to associate professors from the first year of the contract.	REFORM OF THE UNIVERSITY SYSTEM Education
	Envisaged in the Budget Law for 2021 a draft law regarding university degrees.	QUALIFYING DEGREES Education
	Planned in the Budget Law for 2021 a draft law for reorganising the sector of High Artistic and Musical Training (AFAM).	UNIVERSITY EDUCATION Education
8 - Poverty / social exclusion [Reduction of 2,200,000 people in or at risk of poverty, deprivation and social exclusion].	The Emergency Income (REM) was set up for households in difficulty and hitherto excluded from subsidies currently in-force. The REM amounts to EUR 400 and resources of EUR 960 million were allocated in 2020.	EMERGENCY INCOME Poverty and exclusion
	A delegation law to ensure measures to support families and to promote gender equality are being considered.	FAMILY ACT Poverty and inclusion
	All families with at least one dependent child can obtain the family card to take advantage of discounts on purchases in affiliated stores/websites.	FAMILY CARD Poverty and inclusion

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

EU2020 Target	Reform actions	Policy area
	Under the delegation law a comprehensive allowance for families with dependent children has been foreseen.	SINGLE ALLOWANCE FOR FAMILIES WITH CHILDREN Poverty and inclusion
	Extension to 2021 of support to families for paying the attendance fees of public and private kindergartens and home-care services for less-than-three-year aged children suffering from severe chronic diseases.	KINDERGARTEN BONUS Poverty and inclusion
	The extension of increased civil disability benefits already granted to over-60 people is foreseen also for 18-year-old beneficiaries since 20 July 2020.	DISABILITY Poverty and inclusion
	A draft delegation law on disability will be drawn up, containing several measures for disabled persons' protection and social inclusion with the use of the resources coming from the 'Fund for Disability and Non-self-sufficiency'.	DISABILITY Poverty and inclusion
	The Prime Minister's Decree of 21 November 2019 has launched the 2019-2021 three-year Plan for non-self-sufficiency, in order to strengthen interventions in favour of disabled people, while defining essential service levels. The 'Fund for Disability' has been refinanced through the Budget Law for 2021.	PLAN FOR NON-SELF SUFFICIENCY Poverty and inclusion
	Refinancing, extension to self-employed workers and simplification of the 'Fund for primary residence loans'. Introduction of measures to ensure the immediate availability of the resources provided for by the 'National Fund to support access to rented dwellings' and by the 'Fund for guiltless defaulted tenants (*'morosi incolpevoli'*). The 'National Fund to support access to rented dwellings' is refinanced through the Budget Law for 2021.	ACCESS TO PROPERTY Poverty and inclusion
	The additional contribution paid by households to access the National Health services (*Superticket*) has been abolished from 1 September 2020.	SUPERTICKET' Poverty and inclusion

* The Italian target of reducing emissions by 13 % compared to 2005 to 2020 concerns non-ETS sectors.
** The energy efficiency target is detected in end-use savings as required by the EU Directive.

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

	ESA Code	2019	2020	2021
		% GDP	% GDP	% GDP
Target General Government net lending/borrowing	B.9			
Stability Programme *		-1,6	-10,4	-5,7
Draft Budgetary Plan		-1,6	-10,5	-7,0
Difference		0,0	0,1	1,3
General Government net lending projection at unchanged policies	B.9			
Stability Programme		-1,6	-7,1	-4,2
Draft Budgetary Plan		-1,6	-10,5	-5,7
Difference		0,0	3,4	1,5

* References the values of the new policies scenario.
A comma is used as decimal separator

TABLE III.1-17 : ASSUMPTION ON REVENUE AND EXPENDITURE OF GENERAL GOVERNMENT (S.13) IN THE CONTEXT OF THE RECOVERY AND RESILIENCE FACILITY (RRF)

1. Financing to be received from the RRF included in Draft Budgetary Plan

Millions of national currency	2020	2021	Comment
RRF grants - cash basis	-	*10.000*	
RRF grants included in general government revenue projections (accrual basis)	-	*10.000*	
RRF loans	-	*11.000*	

2.1 Expenditure to be financed by grants or loans from the RRF included in Draft Budgetary Plan

Millions of national currency (accrual basis)	2020	2021	Comment
RRF-related expenditure included in general government expenditure projections			
of which: Compensation of employees D.1	-	-	
of which: Intermediate consumption P.2	-	-	
of which: Social payments D.62+D.632	-	-	
of which: Interest expenditure D.41	-	-	
of which: Subsidies D.3	-	-	
of which: Current transfers D.7	-	-	
of which: Gross fixed capital formation P.51	-	*10.000*	
of which: Capital transfers D.9	-	-	
of which: Other (please specify under 'Comment')	-	-	

2.2 RRF-related tax expenditures, acquisition of financial assets and other costs included in DBP

Millions of national currency	ESA category	2020	2021	Comment
Detail 1 (please specify)		-	-	
Detail 2 (please specify)		-	-	
Detail 3 (please specify)		-	-	

A comma is used as decimal separator

IV. METHODOLOGICAL NOTES

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

1) A note containing a brief description of the models used in the DBP[10] for the macroeconomic framework and the impact of structural reforms;
2) A methodological note on the forecasting criteria provided as an exhibit to the 2020 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[11].

IV.1 BRIEF DESCRIPTION OF THE MODELS USED

The Italian treasury econometric model (ITEM)

The Italian Treasury Econometric Model (ITEM) has been developed and used in the Treasury Department of the Italian Ministry of Economy and Finance. ITEM describes the behaviour of key aggregates for the Italian economy at the macroeconomic level and it is a medium-scale model. The model includes 371 variables (247 of which are endogenous), and is based on 36 behavioural equations and 211 identities. It is an economic quantitative analysis tool used for both forecasting (it computes medium- term projections conditioned on the international economic framework) and assessing the macroeconomic impact of economic policy measures or changes in international economic variables. One of ITEM's key features is the joint and explicit representation of the economic environment on both the demand and the supply side. However, the demand conditions influence the responses for the short term, whereas the conditions on the supply side determine the level of equilibrium of the economy in the medium term.

In 2016 an important revision of the ITEM econometric model has been carried out, both following the introduction of the new European System of Account (ESA 2010), and to take into account the need of an updated estimation sample including most recent data. Indeed, the prolonged and severe recession of the Italian economy after the financial crisis has requested to check whether it has led to structural changes in the relations between the variables underlying the different equations of the model. The ITEM model was then re-estimated using the time series of national accounts built according to ESA 2010, considering an estimation sample between 1996: Q1 (starting date of time series defined with ESA 2010) and 2013: Q4. It has been necessary to introduce, in the specification of the different equations, innovations and improvements to capture more appropriately the relationships

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

11 In particular, see Chapters I-III.

between the different aggregates, taking into account both the new system of accounts and the updated estimation sample.

Italian General Equilibrium Model (IGEM)

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

QUEST III - Italy

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

MACGEM-IT - A New CGE model for Italy

MACGEM-IT is a static Computable General Equilibrium Model (CGE) for the Italian economy developed by the Direction I at the Treasury Department. Built to reflect the characteristics of the Italian economy, MACGEM-IT is able to quantify the disaggregated, direct and indirect impacts of fiscal policies.

The model is based on the economic flows identified by the national accounting system and it follows the assumptions on functions and exogenous parameters that are generally accepted. The MACGEM-IT model formalizes the relationships among agents in the economy by modelling the behavioural functions (production, consumption and accumulation) which represent the interdependencies among activities, primary factors and institutional sectors. Although its framework traces the general equilibrium model, MACGEM-IT includes proper rigidities and imperfections regarding the behaviour of some agents and markets, such as the Government and the labour market.

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

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

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

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

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

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

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

The method used for estimating Italy's potential GDP and output gap is the one agreed at the EU level[12], whose specifications are discussed and decided by the Output Gap Working Group (OGWG), which is part of the European Council's Economic Policy Committee.

The estimates in this document have been produced on the basis of the macroeconomic policy scenario underlying the present DBP for the years 2020-2023. The parameters reported in table IV.2-1 were used for the computation of the Non-Accelerating Wage Rate of Unemployment (NAWRU). They are in line with those employed by the European Commission in the 2020 Spring Forecasts.

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

The priors of the Bayesian model for the trend estimation of the Total Factor Productivity (TFP) have been slightly changed compared to those used by the European Commission in the Spring Forecasts 2020, in order to take into account the underlying macroeconomic scenario.

More specifically, the mean of the innovation process driving the variance of the cycle equation has been set at 0.00156, its standard deviation at 0.00142 the mean and the standard deviation of the cycle amplitude have been set at 0.632 and 0.215 respectively; the mean and the standard deviation of the trend have been set at 3.539e-007, the mean of the trend drift is equal to 0.0175 and its standard deviation is equal to 0.004591, the mean of the trend slope is equal to 0.69 and its standard deviation is 0.0781[13].

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

	Value
LB Trend innovation variance	0
LB Trend slope variance	0,006
LB Cycleinnovation variance	0
LB Innovation variance 2nd eq.	0
UB Trend innovation variance	0,1
UB Trend slope variance	0,045
UB Cycle innovation variance	0,175
UB Innovation variance 2nd eq.	0,00081614
NAWRU Anchor	9,36

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).

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

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