ITALY'S DRAFT BUDGETARY PLAN

2024

MINISTERO DELL'ECONOMIA E DELLE FINANZE

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Submitted by the Minister of Economy and Finance

Giancarlo Giorgetti

MINISTERO DELL'ECONOMIA E DELLE FINANZE

to the Cabinet on 16 October 2023

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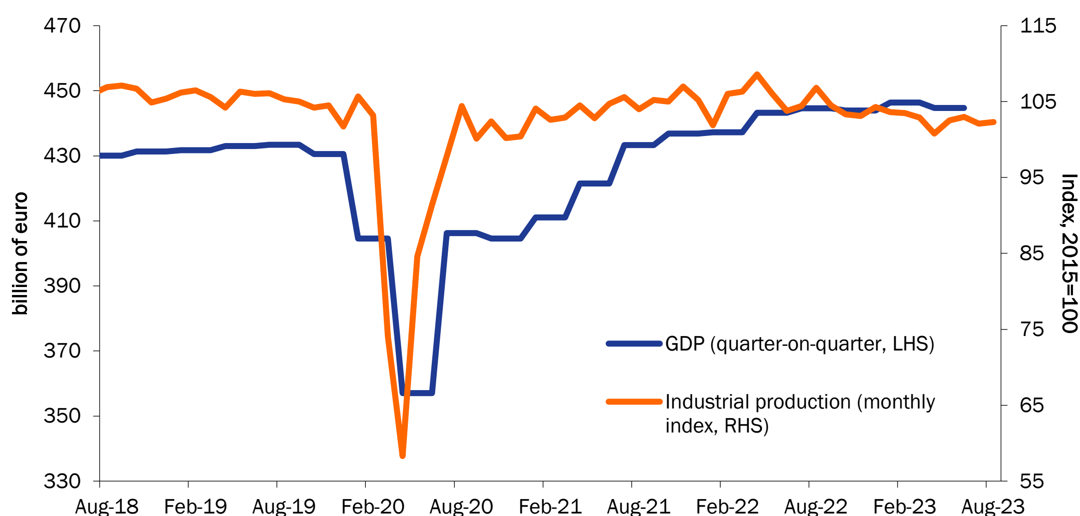
I. MACROECONOMIC OUTLOOK AND FISCAL POLICY

I.1 RECENT TRENDS IN THE ECONOMY AND THE PUBLIC FINANCE

In the first half of 2023, the Italian economy was affected by the weakening in in international economic cycle. The result marked in Q1, characterised by a substantial increase (+0.6 percent), was followed by a GDP drop in Q2. Compared to the same quarter of the previous year, GDP grew by 0.3 percentage points. This figure shows a deceleration in GDP growth rate. After a sharp increase until up the first months of the year, services slowed down, failing to compensate for the contraction in the industry that started in the second half of last year. Although temporarily, internal demand and investment growth has stopped.

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

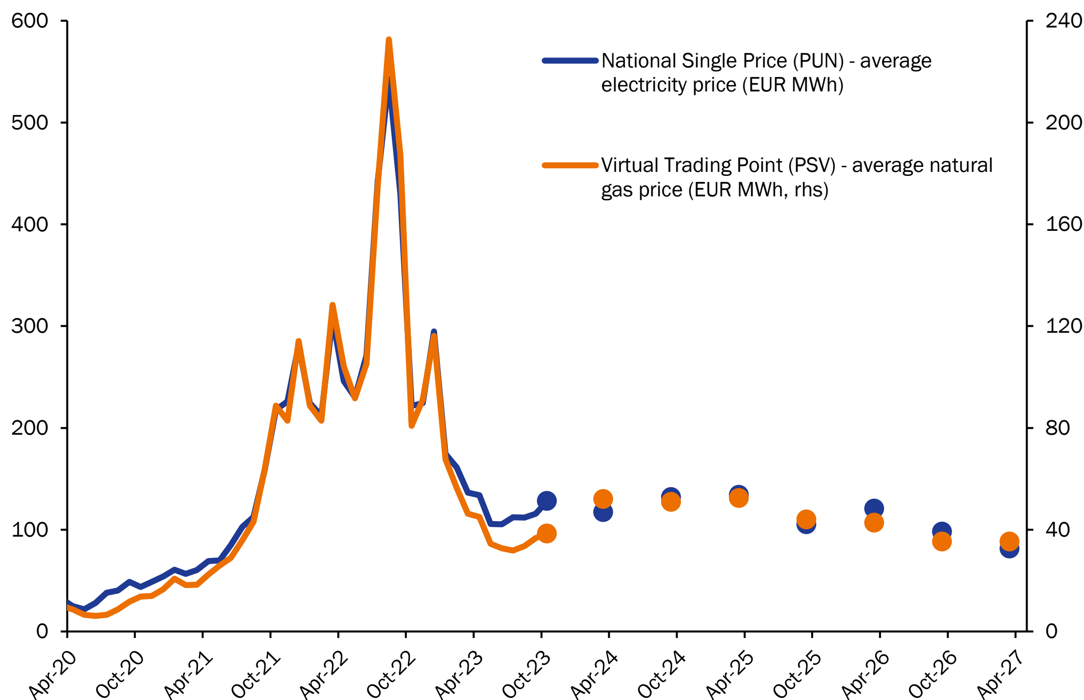


Source: ISTAT.

The latest short-term indicators foreshadow a slight recovery starting from Q3. The Manufacturing PMI is taking distance from the lows marked in June and industrial production is expected to mildly recover in Q3 as a whole, also given the increase in August. Moreover, the electricity consumption by energy-intensive firms and energy production are recovering in recent months, also thanks to the decline in energy prices; this is consistent with the gradual deceleration in inflation and the consequent recovery in the households' purchasing power. Internal analyses, based on statistical models fed by high-frequency indicators, foresee a gradual resumption in growth by the end of the year.

Concerning energy, the reduction in consumption[1] and the diversification of supply sources allowed for easing the tensions that emerged in the summer of 2022 due to the rise of natural gas prices.

FIGURE I.1-2 : NATURAL GAS PRICE 2020-2023 AND FORWARD PRICES 2023-2026



Source: GME - Gestore Mercati Energetici.

Despite the share of gas imported from Russia is now representing a small part of total gas imports[2], gas storage remained at high levels with a fill rate above 97 percent.

In 2023, the measures adopted to moderate bills and energy costs showed a sharp decline compared to 2022, due to the general downward trend of prices; earmarked resources amount to approximately 1.3 percent of GDP in gross terms (2.8 percent in 2022). Such measures allowed limiting the impact of price hikes on households and firms, specifically the most vulnerable ones. Despite the above, private consumption marked a slowdown.

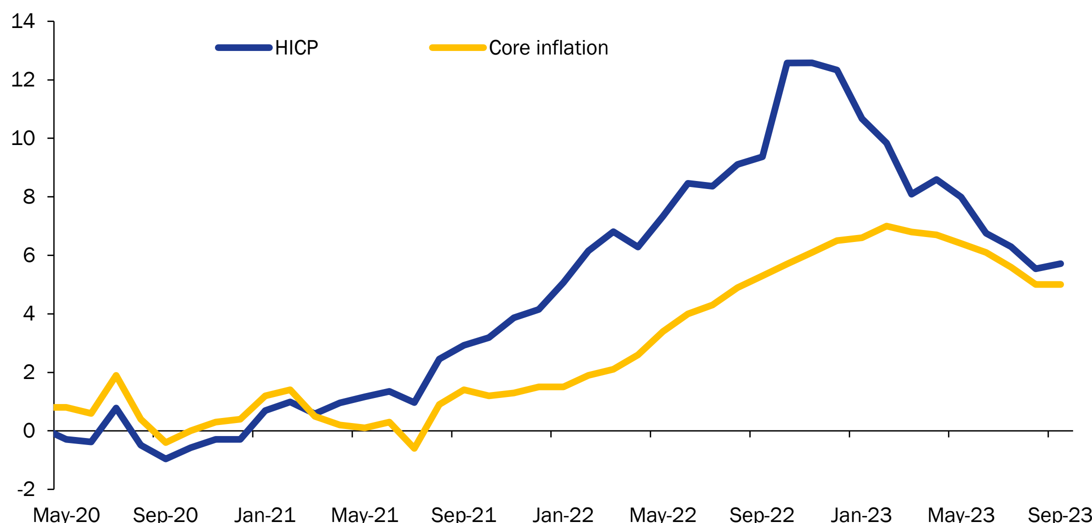
The drop in energy goods was reflected in the gradual deceleration of the harmonised index of consumer prices (HICP), which reached 5.7 percent in September. This figure slightly higher than August captures seasonal factors and will further decrease over the last months of the year, in particular in October.

[1] Over the first seven months of the year, national gas consumption was -15.1 percent compared to the same period in 2022.

[2] Over the first seven months of the year, the gas inflow from the Tarvisio access point, where most of the imports from Russia arrive, declined from 10.5 billion of standard cubic metres (SCM) of 2022 to 2.3 billion of SCM, with a share of 6 percent out of the total (previously 24 percent). The gas imports from Russia were replaced by increased inflows from the Italy-Algeria pipeline (TransMed pipeline) and increased liquefied natural gas imports.

Core inflation (net of energy and fresh food), although with delay, followed the headline inflation dynamics: after a peak reached in February (7.0 percent), it gradually slowed down to 5.0 percent in September.

FIGURE I.1-3 : CONSUMER PRICES (HARMONISED INDEX, PERCENTAGE CHANGES Y/Y)



Source: ISTAT.

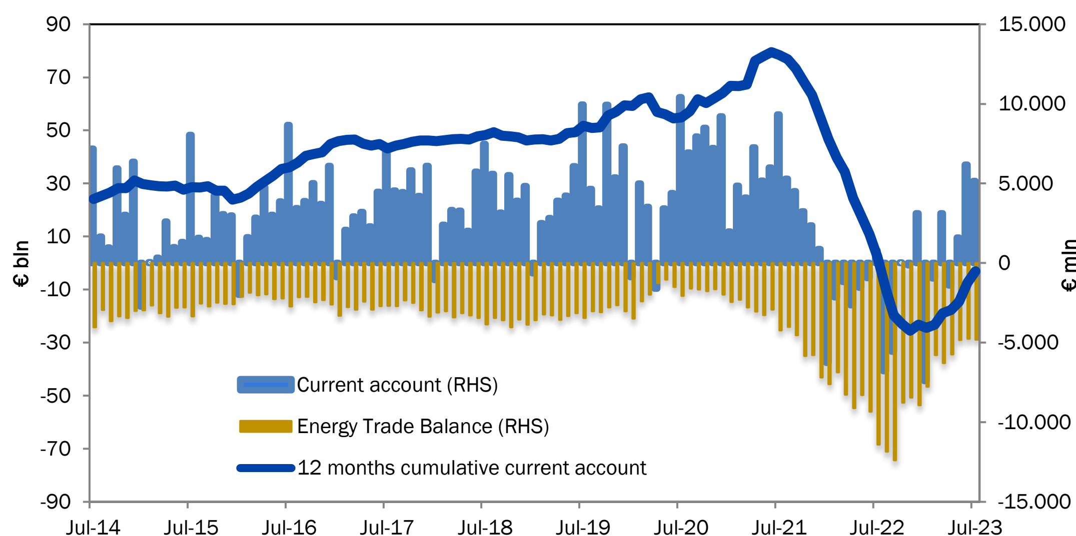
Despite the high inflation and the slowdown in business cycle, the labour market proved to be resilient. The unemployment rate reached a historically low level of 7.3 percent in August.

According to the Labour Force Survey (LFS), employees have exceeded 23.5 million, thus consolidating the increasing started in November 2022. Consequently, in August the employment rate reached the record value of 61.5 percent.

Regarding foreign trade, the combined effects of restrictive monetary policies and high inflation over the last two years are curbing global demand. Italian exports have been affected by this situation. Over the two quarters of the year, the export of goods and services experienced a cyclical fall after the strong recovery in 2021-2022 (in which they reached a level higher than the pre-pandemic by more than 10 percentage points).

However, imports have also declined due to the slowdown of internal demand. Moreover, the mitigation of tensions in the gas market and the drop in raw materials price compared to the first half of 2022, paired with a decline in volumes, led to a marked improvement in the trade balance. Over the first seven months of the year, the Italian trade balance marked a surplus of 16.2 billion, compared to the deficit of about 15 billion in the same period of the previous year. In line with the trade balance, the current account deficit stood at -3.0 billion for the 12 months ending in July, a clear improvement compared to 2022 (-23.3 billion).

FIGURE I.1-4 : ITALY'S BALANCE OF PAYMENTS CURRENT ACCOUNT BALANCE



Source: Refinitiv.

The internal developments of the Euro Area are, among all international factors, those able to affect the Italian economy and public finance in the most relevant way. At this stage, there are dynamics like the Italian ones. Core inflation, which has marked a slowdown since March, reached 5.5 percent in September. The energy price decline and the restrictive monetary policy should favour the inflation convergence towards values consistent with price stability. The European Central Bank (ECB) foresees that the inflation rate in 2025 will decline to a level in line with the target of 2 percent.

The restrictive policies implemented by the ECB start having effects on the financial conditions and, consequently, real growth. The rise of interest rates is transmitting on the average interest rates charged to households and companies. The credit volumes have been in contraction since the beginning of the year. Considering the current international economic framework, the consequent weakening of internal demand might not find an appropriate counterbalance in the export channel.

Despite the economy's slowdown, the Euro Area labour market conditions remain positive. The unemployment rate declined to 6.4 percent in August, a new historic low, while the increase in labour cost remains lower than consumer price increase.

Against this backdrop, the increase in policy rates and the calm restored on financial markets after some isolated bank crises in March set the conditions for long-term interest rates to rise back to the values recorded at the beginning of the year. The market expectations for future monetary policies seem to converge towards a first-rate cut of the ECB deposits, currently at 4 percent, in the next summer.

As for sovereign debts, the substantial spread stability among the Euro Area Member States suggests that the yields are determined by basic common factors, firstly monetary policy.

On the Italian Government bond market, there was a moderate reduction in the mid-year spread compared to the German Bund, which was lower than 1.7 percent on average in the June-August period in relation to the ten-year maturity. More recently, the spread upward trend led the 10-year BTP yield to above 4.6 percent,

compared to an annual average of 4.2 percent (the same figures for the Bund are 2.7 and 2.4 percent).

As for public finance, the national accounts by institutional sector from ISTAT indicate a reduction in the general government net borrowing in the second quarter, equal to 5.4 percent of GDP vs. 5.7 percent of the same period in 2022[3]. However, the revenue trend was positive in the first seven months of the year, with a growth of 7.9 percent for tax revenues and 4.8 percent for social security contributions.

Moreover, according to the provisional data related to the first nine months of the year, the borrowing requirement jumped to 102 billion, with an increase of 51 billion vs. 51 billion recorded in the same period in 2022. In this comparison, it must be considered that the outcome of the previous year had favourably affected the allocation of the first instalment of subsidies from the Recovery and Resilience Facility equal to 10 billion in the month of April; the payment of the third instalment disbursed in October and of the fourth one will help to improve the borrowing requirement.

Among the factors that negatively affect the borrowing requirement of the current year, the high amount of tax credits related to incentives for the construction sector must be noted in particular; this factor also impacts the cash flow projections for future years.

I.2 MACROECONOMIC SCENARIO UNDER EXISTING LEGISLATION

With the recent update of the National Economic Accounts for 2020-2022, ISTAT revised upwards the real GDP growth in 2021 at 8.3 percent (previously 7.0 percent) and confirmed 3.7 percent for 2022[4], proving the strong recovery of the Italian economy after the pandemic period. Therefore, the GDP level in 2022 resulted higher. More specifically, the GDP at current prices in 2021 is 34.7 billion higher than that estimated in March.

As mentioned, over 2023, economic growth slowed down. In the new existing legislation scenario, described in the Update of the 2023 Stability Program (henceforth, Update) and confirmed in this document, real GDP growth for the current year stands at 0.8 percent, from 1.0 percent previously stated in the 2023 Stability Program policy scenario. Primarily because of the carry-over effect stems for the current slowdown, the revision is wider in 2024, shifting from 1.5 percent to 1.0 percent. Projected growth remains unchanged for 2025, with marginal upward projections made in the last year.

In detail, having acquired GDP and component levels in the first half of the year, the projected growth profile for the current year reflects only a slight

[3] Note that the quarterly data reported are not seasonally-adjusted.

[4] In line with the statistical revision policy recommended by the European Commission for EU Member States, on 22 September 2023, ISTAT issued an update of the National Economic Accounts for the three-year period 2020-2022, revising the estimates made in April after the introduction of new statistical sources related to the economic accounts of businesses. The extent of the revision resulted to be exceptional for 2021 and similar situations have occurred also in other countries. As for 2022, the level of nominal GDP has not been affected by revisions of the growth rate, although it resulted to be 37.3 billion higher than that estimated in April. Further details are available in the ISTAT press release (https://www.istat.it/it/archivio/288173).

expansion in activity in the last two quarters, mainly supported by the recovery in industry and services.

The recovery is expected to continue in the remaining quarters, enhanced by the boost to private investment provided by the National Recovery and Resilience Plan (RRP) and the return of inflation to the ECB's statutory target. The revision of the GDP growth estimate compared to the Stability Program is explained not only by the negative figure of the second quarter of 2023 but also by the deterioration of the international scenario.

The growth forecast for foreign trade relevant to Italy has been revised downwards for the current year, where a contraction is expected, and for 2024. In contrast, in the final two-year forecast period, the dynamic is livelier.

As far as energy prices are concerned, the profile traced by natural gas futures contracts TTF is higher than what is expected in the Stability Program[5] except for 2023. The same applies to expected Brent oil prices.

Due to the ECB's monetary policy decisions, short-term interest rates are higher for this year and 2024, with no significant change in long-term yields.

Finally, the EUR exchange rate is less competitive than the levels used for the Stability Program forecasts.

At the same time, with the update of the projections on utilising the funds linked to the RRP, their allocation over time was reshaped, resulting in a more significant expenditure in the final years of the Plan. For prudential reasons, the macroeconomic forecast only partially incorporates the effects on growth related to the implementation of the RRP.

As for the detail of the revision, investment - although supported by RRP-related funds - will be less dynamic in the short term than projected in the Stability Program, due to worsening in credit conditions and rising prices. Household consumption is subject to a more moderate revision and will resume growing in the second half of 2023, thanks to a gradual recovery in purchasing power allowed by the deceleration in inflation. The latter is expected to fall sharply in the fourth quarter of this year, as price levels for energy goods will compare with those of the last months of 2022 when they peaked. Core inflation, confirming the downward path, would show a less pronounced slowdown, due to the persistence of prices in the services sector, which will be above overall inflation in 2024.

Labour cost growth, which reflects the rise in inflation with a lag given the contractual wage adjustment mechanisms, is expected at 4.0 percent this year (3.1 percent in the Stability Program), slowing to 2.3 percent in 2024, in line with the previous forecast.

Concerning labour market, employment is revised upwards for the current year, together with a decline in the unemployment rate. From 2024 employment growth would decelerate, affected by the broader slowdown expected for GDP. Employment growth, measured in full time equivalent, has been adjusted upwards by 0.4 percentage points, to 1.4 percent, in 2023 before falling to 0.6 percent (previously 1.1 percent) in 2024. The unemployment rate is expected to fall from an average of 7.6 percent in 2023 to 7.2 percent in 2026.

[5] TTF stands for the Title Transfer Facility, a virtual gas market operated by the Dutch company Gasunie. The price determined there is considered the main reference for the European market. Gas traded on the TTF must have already entered the Gasunie transmission system and all trades between counter parties must be reported to the market operator. Futures on the TTF are traded on the Intercontinental Exchange (ICE).

Finally, the current account is expected to be in surplus from 2023 to 2026, benefiting from the recovery of the terms of trade.

The growth outlined here is based on a prudential approach: the scenario presented takes into account the risks associated with the forecasts, in particular those related to the implications that a complex geopolitical framework, the central banks' stance and the slowdown in world trade may exert on the choices of households and businesses. However, it should be emphasised that, since the scenario presented is at existing legislation, possible economic policy interventions may represent a factor supporting growth and mitigating the risks to which the economy is exposed.

I.3 UPDATE OF THE PUBLIC FINANCE OUTLOOK UNDER EXISTING LEGISLATION

The outlook of public finance presented in this Document, even considering the changes in the reference context, confirms the forecasts presented in the Update. The downward revision of economic growth, by about 2-tenths of a percentage point in 2023 and 5-tenths in 2024, implies less dynamism in the revenue profile. It should also be noted that the collection of more complete and detailed information led to a further upward revision of tax credits related to building renovation incentives. On 22 September 2023, ISTAT revised the cost of the incentives for 2022 upwards from 2.6 to 2.8 percent of GDP. Meanwhile, the Update also revises the existing legislation forecast of the deficit in 2023 upwards by 0.7 percentage points of GDP compared to the target set in the Stability Program by including new estimates of the Superbonus cost coming from monitoring activity (+1.1 percent of GDP). In the absence of the revised Superbonus cost, the planned 2023 target would have been more than achieved.

Tax revenues at existing legislation are expected to rise in the current year to 29.3 percent of GDP and then fall in the following three years, reaching 28.3 percent in 2026. Social security contributions as a ratio to GDP will fall to 13.1 percent in the current year and remain broadly stable at an average of 13.6 percent in the following three years.

Inflation significantly affects public expenditure in the current year and in 2024, mainly due to the indexation of pensions to the previous year's inflation, as measured by the consumer price index. The macroeconomic scenario assumes a slowdown in price growth from 2024 onwards. Consistently, social payments under existing legislation scenario will increase by 5.9 percent in 2024 and will grow at a lower rate, 2.5 percent per year on average, in the two-year period 2025-2026; in the same period, pension growth is 7.3 percent in 2024 and is expected to slow to an average rate of 3.0 percent in 2025-2026. Against this trend, social payments as a ratio of GDP will peak at 21.1 percent in 2024 and decline to 20.7 percent in 2026.

In 2023, the level of interest expenditure at existing legislation will decrease compared to 2022 due to a lower revaluation of securities indexed to past inflation as a result of the progressive reduction in the inflation rate at a national and Euro Area level. Progressive increases in interest expenditure will follow in the years 2024-2026 due to the rise in the cost of debt on new issues, while the expenditure component linked to inflation-indexed securities will continue to shrink due to the decline in inflation.

The dynamics of public investment is affected by the new assumptions on expenditure flows financed with RRF grants and loans, revised downwards in 2023 and to a lesser extent in 2024 and more concentrated in 2025 and 2026. The effect of the new hypotheses implies a ratio of gross fixed capital formation to GDP of 2.9 percent and 3.2 percent in 2023 and 2024, respectively, and then 3.4 percent in 2025 and 3.2 percent in 2026.

The capital transfers are also affected by the higher financial impact of the Superbonus resulting from the latest monitoring data. According to the new accounting criteria adopted by ISTAT in March, in agreement with Eurostat, the higher cost that emerged is recorded within this expenditure item in 2023 for the total amount. Furthermore, a reclassification of the tax credits related to the Superbonus from payable to non-payable is made for the following two-year period.

Given these projections and taking into account the upward revision of the level of nominal GDP in 2021 and 2022 made by ISTAT and those made to the estimates of the general government account[6], the primary balance at existing legislation is projected to improve to -1.4 percent of GDP in 2023, from -3.8 percent in 2022.

In 2024, the primary balance would return to surplus at 0.6 percent of GDP, a level higher than the 0.4 percent projected in April. The primary surplus would gradually strengthen, reaching 0.9 percent of GDP in 2025 and then 1.4 percent of GDP in 2026 (compared to a target of 2.0 percent expected in April).

Interest expenditure as a ratio to GDP is projected to fall to 3.8 percent in 2023 and then rise again to 4.6 percent in 2026. In terms of the ratio to GDP, the upward revision compared with the estimates in the Stability Program is limited, amounting to one-tenth of a point of GDP per year until 2026; this confirms the fact that the long average maturity of Italy's public debt allows the impact of interest rate rises on the implicit cost of debt to be smoothed over time, including those not expected when the Stability Program was drawn up. It should also be noted that the forecasting process used, based on forward yields calculated from the current yield curve, produces a significant increase in the financing cost at issuance that could be vastly overstate.

To summarise these projections, the general government net borrowing at existing legislation is foreseen to fall to 5.2 percent of GDP in 2023, 3.6 percent in 2024, 3.4 percent in 2025 and 3.1 percent in 2026.

These forecasts are higher than the targets set in the Stability Program over the entire forecast horizon, except for 2024, where the estimate at existing legislation is slightly below the target. As explained, the upward revision of the interest expenditure forecast, the reshaping of spending financed by RRP funds, the higher costs that emerged for building renovation bonuses and the slowdown in economic growth expected in particular for the current year and for 2024 contribute to the revision.

I.4 MACROECONOMIC FORECAST AND BUDGET OUTLOOK – POLICY SCENARIO

The budget manoeuvre for the next three-year period 2024-2026 will continue to be oriented towards prudent principles, seeking the right balance among the

[6] ISTAT, '*National Economic Accounts*', 22 September 2023.

objectives of providing the necessary support to the economy in the immediate term through targeted measures, of ensuring the deficit returns below the 3 percent of GDP threshold and of the achievement of a plausibly and continuously declining path of the debt-to-GDP ratio.

Given the high uncertainty in the economic framework, the Government has requested Parliament's authorisation, with the Report accompanying the Update of the 2023 Stability Program, to set a new programming path for the general government net borrowing. The new deficit-to-GDP targets are set at 5.3 percent in 2023, 4.3 percent in 2024, 3.6 percent in 2025 and 2.9 percent in 2026.

The economic policy set by the Government since it took office is consistent with the guidelines expressed by the European Commission (EC), aimed primarily at continuing to mitigate in a temporary and targeted manner the impacts on households and economic activities of the increase in the prices of energy goods. In the current phase of gradual decline and stabilisation of energy commodity prices, started at the end of 2022, and in the absence of any new shock, the support measures will be gradually withdrawn by 2024, maintaining a prudent fiscal policy, also in light of the deactivation of the general escape clause of the Stability and Growth Pact scheduled for the end of this year.

The budgetary margins with respect to the existing legislation scenario forecast have been approved by Parliament on 11 October[7] and are intended to be allocated to the public finance measures for the three years 2024-2026 as detailed in this Document.

Continuing along the policy lines set out in the Stability Program, the Government will continue to support private demand and counter the decline in the purchasing power of wages caused by inflation through targeted interventions. A large part of the additional resources for 2024 will be used to reduce the tax wedge, to support large households. The sums allocated to the Fund for the reduction of the tax burden will be used to start the tax system reform. These measures aim to reduce the tax burden, increase disposable income and support consumption.

Reducing the tax wedge can also give further impetus to the labour market and help preserve and consolidate the progress achieved in recent years. Moreover, supporting workers' incomes can help limit wage pressures and the consequent effects on prices, thereby mitigating inflationary expectations of both economic agents and financial markets. As anticipated in the Stability Program, the foundations are being laid for the Government's ambitious medium-to long-term program, which includes, in particular, the comprehensive reform of the tax system, in which specific attention will be paid to changing the tax regime of the households.

On the side of deficit-reducing measures, budget balances will be brought back to target values through expenditure control measures and tax-gap reductions. Thanks also to the Government's activation of a new phase of public spending review and the further expenditure reduction measures planned in the public finance manoeuvre for the three-year period 2024-2026, the forecasts indicate substantial compliance with the fiscal recommendations received for 2024.

Considering the impact of these fiscal policy actions, the real GDP growth rate forecast in the policy scenario rises to 1.2 percent in 2024, to 1.4 percent in 2025

[7] The request for higher net borrowing is made with respect to the deficit targets set in April at 4.5 percent in 2023, 3.7 percent in 2024, 3.0 percent in 2025 and 2.5 percent in 2026.

and decreases by two-tenths of a point compared to the existing legislation scenario to 1.0 percent in 2026.

TABLE I.4-1 : MACROECONOMIC FORECAST UNDER EXISTING LEGISLATION (1) (PERCENTAGE CHANGES, UNLESS OTHERWISE INDICATED)

	2022	2023	2024	2025	2026
GDP	3.7	0.8	1.2	1.4	1.0
GDP deflator	3.0	4.5	2.9	2.1	2.1
Consumption deflator	7.2	5.6	2.3	2.0	2.1
Nominal GDP	6.8	5.3	4.1	3.6	3.1
Employment (FTEs) (2)	3.5	1.4	0.7	1.1	0.7
Employment (LF) (3)	2.4	1.6	0.8	0.9	0.7
Unemployment Rate	8.1	7.6	7.3	7.2	7.1
Current account balance (% of GDP)	-1.2	0.8	1.3	1.8	1.9

(1) Any inaccuracies are due to rounding.
(2) Employment expressed in terms of Full-Time Equivalents (FTEs).
(3) Number of employed people according to the Labour Force Survey (LFS).

Despite the slowdown in economic growth and the worsening budgetary outlook, the sustainability of public finances remains sound in the medium term.

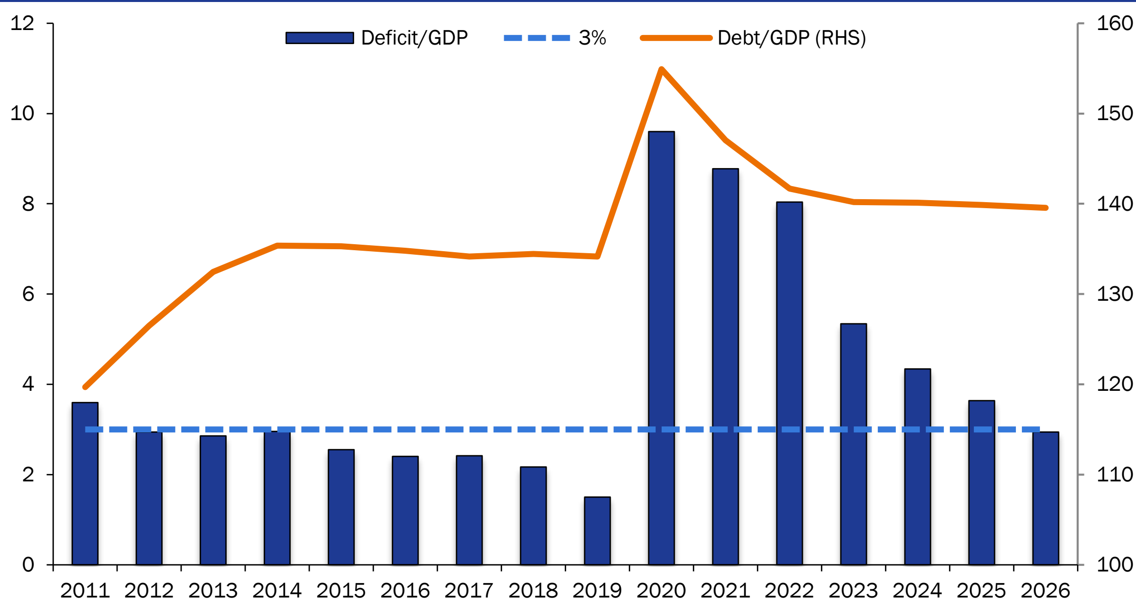
As previously explained, by 2026 the general government net borrowing will be adjusted to meet the 3 percent limit set by the Stability and Growth Pact. This threshold remains the European benchmark for opening an excessive deficit procedure at the European level, also in the context of the planned revision of the fiscal rules.

Consistent with this objective, fiscal policy will become slightly restrictive in 2026 compared to the existing legislation scenario, leading to a more substantial improvement in the primary balance in that year.

As a whole, the public finance outlook updated in this Document appears consistent with the guidance provided by the European Commission for 2024. Net primary expenditure is below the pre-set limit, and the Government will carefully monitor public spending, preserving the improvements in budget balances outlined here. Fiscal policy will also continue to boost public investment, also in line with the EC's recommendations.

Finally, it should be noted that the changes in the structural primary balance are congruous and capture the spirit of the proposed reform of European economic governance, as also highlighted in the medium-term debt-to-GDP ratio scenarios in Section I.7.

FIGURE I.4-1 : GENERAL GOVERNMENT NET BORROWING AND GROSS DEBT AS A RATIO OF GDP



Source: ISTAT, Bank of Italy. From 2023, policy scenario forecasts..

I.5 BUDGET POLICY FOR 2024

In the context of uncertainty about future scenarios and slowdown in the global economic cycle, fiscal policy, in line with the policy targets set out in the Update of the 2023 Stability Program, will be aimed at fostering the growth of the national economy while ensuring the sustainability of public finance and socio-economic balance. The main measures are aimed at reducing the tax burden, supporting parenthood and strengthening the national health system. Measures aimed at supporting domestic demand place special emphasis on protecting the purchasing power of workers and in particular households with children.

The public finance manoeuvre includes, in addition to the provisions contained in the draft budget law for 2024-2026, those provided for in a proper decree-law accompanying the draft budget law, as well as the measures contained in the first two draft legislative decrees implementing the enabling law for the tax reform.

The decree-law contains urgent measures also of a fiscal nature, the regulation of relations with local governments and interventions in the field of pensions and public employment, also aimed at countering the effects of inflation already in the current year. Regarding pensions, the adjustment for the revaluation of pension benefits to the inflation rate in 2022, which was planned under existing legislation as for 1 January 2024, is brought forward to 2023. The decree also provides for interventions related to the management of certain emergencies, such as the continuation of contingency activities related to the Russian-Ukrainian crisis, immigration and security.

The budget law for the three-year period 2024-2026 makes it possible to strengthen support for the economy primarily through measures in favour of workers. In fact, significant resources (approximately 9.9 billion) are allocated to the confirmation, also for next year, of reduction of the tax wedge through a partial exemption on the share of social security contributions paid by employees, to an

increasing extent as the monthly taxable salary decreases. This intervention, which has been enhanced for women with children, is an important tool to continue to counter the effects of inflation and to support families with low to medium incomes. For 2024, the measures for the tax relief of the employee productivity bonuses and the exemption for the so-called fringe benefits - expanding the purpose and differentiating the limit for workers with children - are also confirmed.

There are several measures in budget law aimed at supporting households and parenthood. The resources for the households, in particular the large ones, are increased by about 1,000 million in 2024 and by 600 million as from the 2025. These resources will be used to finance, in particular, decontribution measures in favour of working mothers and to strengthen already existing income and work-life balance support instruments. In 2024, the 'Dedicated to you' Solidarity Card Purchasing Fund is also refinanced and the allocation for first home mortgages is supplemented.

The budget law will also extend for the first quarter of 2024 the exceptional contribution - increasing with the number of household members - in favour of resident domestic customers already entitled to the social bonus for electricity - introduced by decree-law No 131/2023 - thus continuing the policy of gradually phasing out interventions against high energy prices, limiting them to targeted measures in favour of the most vulnerable households.

With regard to the public sector, resources are allocated for contractual renewals of the public administration employees, with particular focus on workers in the health sector, for whom an increase in the enhanced hourly rate is also planned for the three-year period 2024-2026. For these purposes and for the period 2022-2024, the resources amount to 5 billion per year starting from 2024, of which 2 billion is advanced in 2023, to which 2.5 billion is added for the health sector.

In health sector, the financing of the standard national healthcare requirement is expected to increase by 3 billion for the year 2024, 4 billion for the year 2025 and 4.2 billion for 2026 (confirming the level of health expenditure at 6.4 percent of GDP for the years 2024 and 2025). In addition, a share of 300 million have been earmarked for the financing of healthcare system in the region of Sicily.

With the two draft legislative decrees implementing the enabling law received from Parliament, the first phase of the tax reform has begun. For the tax year 2024, the personal income tax (IRPEF) is reduced to three marginal tax rates (23 percent, 35 percent, and 43 percent), the no-tax-area threshold for employee incomes is extended to EUR 8,500 - equalised with the existing threshold for pension incomes - and the regulation of tax expenditures is revised (for about 4.3 billion).

In favour of businesses, the suspension of the Plastic Tax and the Sugar Tax is confirmed until 30 June 2024. Further measures are envisaged, including the financing of development contracts and of the new Sabatini and measures to support private investments for businesses located in the south of Italy, which will benefit from a tax credit for the acquisition of capital goods (for which 1.8 billion is earmarked in 2024). Pending the complete implementation of the review of tax benefits for businesses as part of the tax reform, the cost allowed as deduction for new hires is increased (by almost 1.3 billion) for 2024.

For the three-year period 2024-2026, the public radio, television and multimedia service networks (RAI) licence fee is to be reduced (from EUR 90 to EUR 70, to the benefit of households), with the concomitant allocation to the aforementioned company of 420 million for its modernisation and infrastructural development.

The manoeuvre also allocates the necessary resources for the construction of the Strait of Messina Bridge and various investments for the benefit of the regions, local authorities - to be allocated to planning - and central administrations.

For the benefit of local governments, resources amounting to almost 2 billion over the three-year planning period are ensured to finance the agreements with some special Autonomies, the structural rebalancing of municipalities that have signed agreements to cover deficits and to counter the depopulation of small municipalities, as well as for border areas. Appropriate resources will also be allocated for the needs of the Jubilee 2025.

The manoeuvre also allocates additional resources for the reconstruction of the territories affected by the recent floods and those that suffered damage due to the seismic events of the past few years.

The budget law also makes it possible to cover the needs for so-called unchanged policies, including, in particular, international peace missions and Safe Streets Operation.

On the revenue side, measures are envisaged to rationalise the use of certain tax credits (such as the cinema tax credit), tax rate increases on certain products, and measures to combat tax evasion. The manoeuvre is accompanied by measures to revise, rationalise, and reshape the public spending of ministries and territorial entities.

I.6 FORECASTS OF THE DEBT-TO-GDP RATIO

The most recent estimates by the Bank of Italy and ISTAT[8] provide a reduction in the debt-to-GDP ratio over the last two years. Indeed, with the upward revision of nominal GDP starting from 2021, about 2 percentage points, and some minor tweaks to the levels of public debt stock from 2019, the debt-to-GDP ratio is currently projected to be 147.1 percent in 2021 and 141.7 percent in 2022. These figures evidence a remarkable decrease in the ratio over the two years following 2020, which saw the highest point at 154.9 percent due to the impact of the pandemic, amounting to over 13 percentage points.

In line with the plan outlined in April, in this Document, the debt-to-GDP ratio is projected to fall further in the current year, reaching 140.2 percent.

In 2024 and 2025, the debt-to-GDP ratio will fall slightly to 139.9 percent, also thanks to a partial utilisation of Treasury liquidity holdings and the launch of a plan to divest State equity investments. The slowdown in the decline derives from the various factors influencing the public finance trends at existing legislation already described and the impact on the primary balance in 2024 and 2025 resulting from the forthcoming public finance manoeuvre. It should be noted that the projected flow of tax credits related to building renovation incentives, which will further increase due to the growth in costs revealed by the monitoring of public accounts, will contribute to raise the borrowing requirement. Without such an impact, even in the public finance scenario at existing legislation, the projection would show a continued decline in the debt-to-GDP ratio.

[8] Bank of Italy, 'Statistical Bulletin Public Finance, Borrowing Requirement and Debt', 15 September 2023 and notification; ISTAT, 'National Economic Accounts', 22 September 2023.

The prudent stance of fiscal policy, the management of debt by maturity and issuance, and the continuation of the public assets valorisation and disposal programme will help reinforce the decline in the debt-to-GDP ratio in 2026 when the ratio would fall further to 139.6 percent, a level lower than the 140.4 percent target indicated in the Stability Program.

The final estimate for 2022 of the debt-to-GDP ratio net of Italy's share of loans to the EMU Member States, bilaterally or through the EFSF, and of the contribution to the capital of the ESM stands at 138.8 percent, while it is projected to fall to 137.2 percent in 2026 at the end of the forecast horizon.

I.7 PROJECTIONS OF THE DEBT-TO-GDP RATIO IN THE MEDIUM-TERM

This section shows the results of a scenario that extends the projection of the debt-to-GDP ratio in the medium term beyond the four-year forecast horizon 2023-2026 (up to the year 2034); alternative projections show debt-to-GDP ratio profiles consistent with a path of fiscal consolidation beyond the 2026 horizon and with a growth profile that incorporates an assessment of the impact of the reforms contained in the RRP.

The debt-to-GDP ratio is projected until 2034, following the standard Debt Sustainability Analysis (DSA) assumptions used by the European Commission to forecast public finance balances and macroeconomic variables[9].

In the scenario A, until 2026, the macroeconomic and public-finance context coincides with the policy scenario underlying this Document; in the medium term, starting from 2027, GDP growth is aligned with that of potential GDP, projected with the 't+10' methodology developed by the Output Gap Working Group, while the inflation rate converges to a value determined by market expectations, measured based on inflation swap rates. The structural primary balance is equal to the value projected for 2026 corrected for the change in revenues associated with general government 'Property Income' (PI), obtained consistently to the methodology illustrated in the European Commission's Ageing Report of 2021, and for Age-Related Expenditures (ARE), estimated by the State General Accounting Department[10]. Finally, annual interest payments are calculated using the Department of the Treasury's SAPE model, assuming, as a starting point, the composition and maturity structure of the underlying debt stock in the last forecast year (2026).

In the 'continued adjustment' scenario, the macroeconomic outlook and the structure of interest rates coincide with scenario A, while the nominal deficit-to-GDP ratio improves in the years after 2026, assuming a constant adjustment of the structural primary balance until 2031 to ensure that net borrowing is kept below the 3 percent of GDP threshold and that the dynamics of the debt-to-GDP ratio is decreasing and resilient to deterministic stress tests on interest rates, growth and primary balance in the following ten years. To achieve the targets mentioned above, an annual adjustment in terms of the structural primary balance of 0.55 percentage

[9] See the Debt Sustainability Monitor 2022.

[10] These expenditures are calculated based on the macroeconomic scenario at existing legislation underlying this Document. Methodological details can be found in: '*Medium to long-term trends of the pension and social security system* - Report No. 24', issued by the State General Accounting Department, available at:
https://www.rgs.mef.gov.it/VERSIONE-I/attivita_istituzionali/monitoraggio/spesa_pensionistica/.

points would be sufficient for the 2027-2031 period[11], which is significantly lower than that envisaged in this Document for 2024-2026, equal to 1.0 percentage point per year on average[12]. The additional fiscal correction in the 'continued adjustment' scenario, relative to the scenario A, implies a feedback effect on real GDP in line with the European Commission's methodology applied since the 2020 Debt Sustainability Monitor.

It should be borne in mind that the assessment in terms of medium-term economic growth for scenarios A and 'continued adjustment' must be considered prudent, as the economic effects of the extensive investment and reform programme launched with the RRP are not fully taken into account. In fact, consistent with the approach followed by the EC, the overall impact of structural reforms on the economy, which is potentially very significant, is omitted.

To take into account the growth differential that would be obtained if the effects of the reforms undertaken were realised, the 'continued adjustment + RRP reforms' scenario combines the fiscal adjustment path of the previously described scenario with higher growth rates that would be obtained by including the impacts on the economy of the investment and reform programme initiated with the RRP. These impacts were estimated, adopting a conservative approach, through the DSGE Quest model used by the Directorate I of the Department of the Treasury[13]. In this scenario, real GDP is increased from 2024 onwards, assuming that the higher growth related to structural factors is fully transferred to potential GDP. Revenues and expenditures are assumed unchanged compared to scenario A, and, starting from 2027, the structural primary balance as a ratio of GDP, in line with the 'continued adjustment' scenario, improves annually by 0.55 percentage points until 2031[14]. Interest rates are assumed unchanged compared to scenarios A and 'continued adjustment'.

The figure below shows the evolution of the debt-to-GDP ratio in the three simulated scenarios. In scenario A, which envisages no fiscal correction beyond 2026, nor an assessment of the impact of reforms, the debt-to-GDP ratio falls until 2026, before rising again to 148.1 percent in 2034.

[11] This adjustment is less than required by current European rules, which call for an adjustment of at least 0.5 percentage points per year of the structural balance until the medium-term objective is reached.

[12] Starting from the last year of adjustment and for the following 10 years, the following deterministic stress tests are considered: a financial risk scenario, a lower structural primary balance scenario and a worst-case scenario of the differential between the implicit interest rate and economic growth. These scenarios are constructed in line with the methodology presented in the Debt Sustainability Monitor 2022.

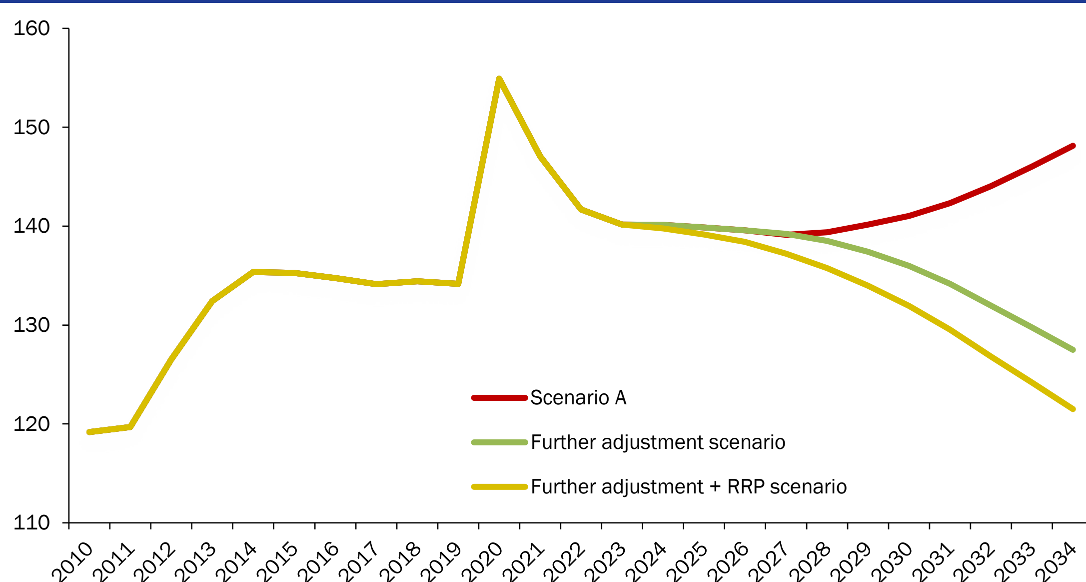
[13] The chapter II of the 2023 National Reform Program revises the estimates of the effect of the reforms contained in the Recovery and Resilience Plan. For the latter, the assessment was made with reference to the long-term structural effects. The impact assessment concerned a subset of the set of reform measures contemplated in the Plan; those to which it was possible to associate measurable quantitative objectives that could be used in simulation channels within the DSGE QUEST model developed by the European Commission. In particular, it was possible to simulate the effects of the following reform areas: education and research; active labour market policies; public administration; justice; competition and procurement.

[14] In the 'continued adjustment + RRP reforms' scenario, an annual adjustment of the structural primary balance of 0.45 percentage points over the period 2027-2031 would be sufficient to keep the deficit below 3 percent and to ensure that the decline in the debt-to-GDP ratio is resilient to deterministic stress tests in the ten years following the end of the fiscal adjustment.

In the 'continued adjustment' scenario, further fiscal adjustment starting in 2027 produces a decreasing path for the debt-to-GDP ratio until 2034, when the forecast reaches 127.5 percent, with a structural primary balance of 3.4 percent of GDP and a corresponding value of the structural budget balance of -1.9, far from the medium-term target[15]. A further fiscal adjustment beyond that projected, necessary to achieve the medium-term objective, would, therefore, be unnecessary to ensure the sustainability of public debt in the medium term.

In the 'continued adjustment + RRP reforms' scenario, the full implementation of the reforms, combined with further fiscal adjustment, improves the macroeconomic perspectives, leading to a decline in the debt-to-GDP ratio, relative to the other two scenarios, over the entire simulation period; the debt-to-GDP ratio would enter a strongly declining path and reach 121.5 percent in 2034.

FIGURE I.7-1 : MID-TERM PROJECTION OF THE DEBT-TO-GDP RATIO



Source: Data processed by MEF

The upward trend in the debt-to-GDP ratio in scenario A is mainly related to two factors that induce a worsening of the primary balance and interest expenditure, respectively. On the one hand, the projection incorporates an increase in age-related expenditures (ageing costs); on the other hand, the current forecast of forward rates, which reflect market yields, implies an increase in the implicit rate paid on government debt securities starting in 2026 and throughout the forecast horizon.

The 'continuation of adjustment' scenario is helpful to show how, in the medium term, the continuation of the virtuous fiscal adjustment path (already envisaged for the years 2023-2026), even beyond the forecast horizon of this Document, can ensure a sustainable trend in the public debt-to-GDP ratio, albeit less

[15] Both projections imply particularly heavy interest expenditure. In reality, the realisation of the adjustment plans would in all likelihood lead to a gradual reduction in interest rates over a reasonable period of time, linked to the narrowing of the yield differential between Italian government debt securities and those of Germany.

pronounced than in the scenario in which the positive impact of reforms is also taken into account.

I.8 ENDORSEMENT OF OFFICIAL FORECAST BY THE PBO

As part of the analysis of the Update of the 2023 Stability Program, the Parliamentary Budget Office (PBO) endorsed on 21 September 2023 the macroeconomic forecast of the existing legislation scenario for 2023 and 2024, at the end of the interlocutions provided for in the UPB-MEF Memorandum of Understanding of 13 May 2022.

On 10 October 2023, the PBO subsequently endorsed the policy scenario forecast. This Document confirms the macroeconomic forecast of both the existing legislation scenario and the policy scenario of the Update.

II. STRUCTURAL REFORMS

II.1 FOREWORD

Since the publication of the Economic and Financial Document, the Government action has focused on implementing, reshaping, and integrating the National Recovery and Resilience Plan, as well as on preparing the tax reform.

In particular, the adjustments to the RRP were made necessary by several critical factors, mainly of an exogenous nature[16], and by the approval of the REPowerEU plan[17], which allows Member States to include reforms and investments to reduce dependence on Russian fossil fuels, while diversifying energy supply, and to promote ecological transition. The proposal to revise the Plan, sent to the Commission last August, will be finalised in the ongoing negotiations and then approved by the Council of the European Union.

In July, the Council of the European Union adopted the Country-Specific Recommendations for Italy[18] in light of the National Reform Programme, the Stability Program and the conclusions of the Country Report on Italy[19] prepared by the European Commission.

The Council Recommendations aim at: ensuring a prudent fiscal policy that promotes gradual and sustainable consolidation in the medium term, also through productivity-enhancing investments and reforms, as well as at reducing taxes on labour, by increasing the efficiency of the tax system, while preserving progressivity and promoting greater fairness (CSR1); ensuring an effective governance of the RRP, strengthening administrative capacity, with a view to its timely implementation, finalising the REPowerEU chapter and proceeding with the swift implementation of cohesion policy programmes (CSR2); promoting energy transition and diversification of energy sources (CSR3).

[16] Such as high inflation and the bottlenecks in supply chains. For details, see the documents available at https://www.politicheeuropee.gov.it/it/ministro/agenda/19-lug-23-audizione/.

[17] For complete information, see: https://www.consilium.europa.eu/it/press/press-releases/2023/02/21/eu-recovery-plan-council-adopts-repowereu/ .

[18] The Recommendations were formulated in May by the European Commission and approved in July by the European Council. For more details see: https://eur-lex.europa.eu/legal-content/IT/TXT/?uri=CELEX:32023H0901(12).

[19] For further details, see: https://commission.europa.eu/publications/2023-european-semester-country-specific-recommendations-commission-recommendations_en.

II.2 PURSUING A PRUDENT FISCAL POLICY AND SUPPORT FOR SUSTAINABLE GROWTH (CSR 1)

The moderately expansionary fiscal trend in 2023 is due not only to the upward update of tax credits linked to Superbonus, but also to the extension of some measures, mainly in the first quarter to mitigate the impact of higher energy prices on households and businesses. These interventions are consistent with the recommendations of the European Commission, as the extended measures are targeted and temporary, while requiring half of the resources allocated in 2022. They are in line with the phasing-out process recommended by the Commission[20].

The forecasts in the existing legislation scenario are worse compared to April, as a result of some factors acting differently over the various years: i) the increase in tax credits relating to the Superbonus; ii) the lowest expected economic growth forecast in 2024; iii) the increase in government bond yields.

Despite the slowdown in economic growth and worsening fiscal outlook, the fiscal sustainability remains robust in the medium term. The expected growth in 2024, under the policy scenario is in line with the EC recommendation. Moreover, the general government net borrowing is expected to return below the 3 percent of GDP threshold by 2026, thanks to a gradual increase in the primary surplus, which will more than offset the increase in interest expenditure, due to higher government bond yields.

Against this background, the tax system revision is one of the key reforms and is explicitly called for in CSR1. The enabling act on tax reform, approved last August[21], sets out, among others, the following objectives: i) to stimulate economic growth and the birth rate by increasing the efficiency of the tax system and reducing the tax burden; ii) to simplify the tax system, reducing its distortions and complexity; iii) to more effectively fight tax evasion and avoidance by strengthening the use of the various available databases and creating a more efficient and transparent system to encourage voluntary compliance. The reform, whose principles will be in line with those of international taxation and the OECD recommendations, also aims at promoting greater attractiveness of the Italian production system for domestic and foreign investors.

Among the main measures contained in the enabling act, is the revision and gradual reduction of the personal income tax (IRPEF), including through the reduction of rates and related brackets, while preserving the principle of progressivity to reduce the tax burden on labour and promote horizontal equity. In order to stimulate the supply of labour, it is envisaged to reduce the corporate income tax (IRES) for companies that use in investments, new hirings or stable profit-sharing schemes of employees an amount corresponding, in whole or in part, to the income within the two tax periods following its production. The enabling law also

[20] The European Commission has called for continued support for economic activities and households, in particular the most vulnerable, to mitigate the effects of the energy crisis, while starting, at the same time, a process of gradual removal of temporary and emergency measures to ensure the sustainability of public finances. This approach is reiterated in the first Council Recommendation to Italy, which calls for the removal of these measures to be completed as soon as possible in 2023, or by 2024 at the latest.

[21] Law No. 111 of 9 August 2023.

provides for the gradual elimination of IRAP[22], to reduce distortions and burdens on companies and economic operators. Finally, enabling law also contains specific guiding principles and criteria for the rationalisation of micro-taxes to reduce the complexity of the current system and the duties burdening on taxpayers.

Regarding excise duties and other indirect taxes on production and consumption, also in response to CSR3, the enabling law provides for the reshaping of energy taxation to encourage the reduction of climate-changing gas emissions and support the production of electricity from renewable resources[23].

In recent months, the Government has also begun a new phase of spending review. In August, a decree of the President of the Council of Ministers[24] has set: i) the allocation of objectives by ministry; ii) the criteria for defining, achieving and monitoring spending review targets, in line with the reform of the public spending review framework, foreseen in the RRP.

As recommended by the Commission, the Government aims to ensure a prudent fiscal policy that preserves, at the same time, investment and reforms to increase the country’s productivity.

In this regard, Italy is advancing remarkably in the Country's digital transformation, allocating a large portion of the RRP resources (25 percent) to support innovative reforms and investments for the digital goal. The design, preparation, installation and testing of four data centers, which form the core of a new cloud infrastructure, called the 'National Strategic Hub', dedicated to hosting the information systems, data and applications of all public administrations, has been completed. To complete these measures, the Cybersecurity systems of central and local administrations have been strengthened, through the definition of the architecture of the national cybersecurity ecosystem. Thanks to the completion of the new Digital National Data Platform, the interoperability of information systems and databases of public administrations will be ensured.

The Government has also adopted specific measures to increase the digital skills of the population and the workforce: among the most relevant, there are the 'National Digital Skills Strategy' and the 'Digital Republic' initiative, to which are added the 'Digital Civil Service', the 'National Program for Guaranteeing Workers' Employability' and the 'National New Skills Plan'.

Finally, digitalisation has been advanced in the field of education and justice, taking measures both for the benefit of local education teams in schools and for the total divestment of analog judicial archives.

[22] In this process, priority will be given to partnerships and associations without legal personality formed between natural persons for the exercise in associations of arts and professions. In any case, the intervention must guarantee the financing of the national health service and equivalent revenue for regions with unbalanced health budgets or subject to recovery plans.

[23] For further discussion, see the section on CSR3.

[24] Prime Ministerial decree of 7 August 2023 and published in the OJ on 18 August 2023.

II.3 ACCELERATE THE IMPLEMENTATION OF THE RRP, REPOWER-EU AND COHESION POLICY PROGRAMMES (CSR 2)

The first phase of implementation of the RRP (until the first half of 2022) was characterized by procedural or preliminary interventions, which ensured the implementation of many projects on time[25].

Since the second half of 2022, the targets to be achieved have increased, as well as the complexity of the interventions, resulting from the actual implementation of the many projects foreseen in the Plan (start of the implementation of investments, selection of economic operators, procurement of raw materials, recruitment of specialized personnel, etc.). In addition, the price dynamics and supply chain difficulties that occurred in the period immediately following the launch of the Plan, exacerbated by the conflict in Ukraine, affected the cost of interventions and the ability of administrations to launch tenders for new works.

In order to face this challenge and to avoid the risk of significant delays in the implementation of the RRP's interventions, the so-called Decree law 'Aiuti'[26] provided for a mechanism to adapt the auction bases to allow the start of the award procedures provided for in the interventions timetables, through a Fund for the start-up of undeferrable works[27].

Despite this contribution, given the objective circumstances that could hinder the achievement of some of the targets, the Government considered it necessary to revise the original Plan. The review proposal was submitted to the European Commission last August, together with the RepowerEU chapter. Such revision and reprogramming of the resources will have to be neutral in terms of public finance.

With regard to payment requests, it should be noted that on 22 September the request for payment of the fourth instalment was forwarded to the Commission. Moreover, the achievement of the targets foreseen for the second half of 2022, made it possible to collect the third instalment of 18.5 billion, net of the pre-financing portion, on 9 October.

In the meanwhile, in line with the recommendations of the Commission, the Government has adopted several reforms to strengthen the effectiveness of cohesion policy and ensure its complementarity with the RRP.

With the 'PNRR Ter' decree law[28], the Government has improved the national governance system of the RRP and cohesion policy. It has provided the framework for: i) entrusting to the Minister for European Affairs, the South, Cohesion Policies and the RRP the responsibility concerning decisions, negotiation and coordination

[25] Among them, the reform of the civil process, the simplification of the interconnection between the public administrations, the implementing decrees for the modernisation of waste plants were approved on time.

[26] Decree law No 50 of 17 May 2022, converted with amendments by Law No 91/2022.

[27] Specifically, Article 26(7) of legislative decree No 50/2022 established the Fund for the start of undefferable works, with an initial allocation of a total of 7,500 million, to which an additional 1,300 million were added, provided for in Article 34 of decree law No 115/2022, for a total of 8.8 billion from 2022 to 2027. By decree of the President of the Council of Ministers of 28 July 2022, the arrangements for access to the Fund were laid down. The resources were allocated to contracting authorities with successive decrees of the General State Accounting Department for the year 2022 and the first half of 2023, involving interventions financed by RRP resources, for works, in relation to which they were appointed Extraordinary Commissioners, and for PNC interventions.

[28] Decree law No 13 of 24 February 2023 converted with amendments by Law No 41/2023.

with the Commission; ii) establishing a RRP mission structure within the Presidency of the Council of Ministers, with the task of guiding, coordinating and accelerating the implementation of the Plan; iii) enhancing the verification, monitoring and review of the RRP; iv) involving representatives of the social and economic partners; v) establishing a General Inspectorate for the RRP within the General State Accounting Department of the Ministry of Economy and Finance, with tasks of operational coordination on the implementation, financial management and monitoring of the RRP, control and reporting to the European Union, as well as support to the Delegated Political Authority and to the central and territorial administrations involved in the implementation of the interventions of the Plan.

The reform also sets out: i) that the Minister for European Affairs, the South, Cohesion Policy and the RRP is the single political authority responsible for both instruments; ii) the synergic integration of cohesion funds, at European and national level, and the RRP; iii) enhanced coordination between regions and ministries, within the framework of cohesion policy; iv) the strengthening of the RRP verification, monitoring and review activities. In addition, the competences of the Cohesion Policy Department of the Presidency of the Council of Ministers have been strengthened, to ensure a strategic leadership.

In this way, it is intended to ensure the implementation of strategic and qualifying interventions for the territories, avoiding displacement effects and risks of overlap between the different investment programmes.

In this context, the acceleration of the Country's production process also passes through the reform of public administration, an essential element for providing adequate services to citizens. The 'PNRR ter' decree-law, the 'PA' decree-law[29] and the 'PA Bis' decree-Law[30] move in this direction. In particular, the last two, in application of the CSR2, aim to increase the human capital of the public administrations involved in the implementation of the RRP and, among others, contain measures to: i) stabilise fixed-term staff dedicated to environmental impact assessments; ii) strengthen the administrative structures of ministries and agencies; iii) expand the possibility of hiring non-tenured managers with specific skills; iv) speed up the conduct of public competitions to favour the recruitment of staff, especially young people, to be employed in various public administrations.

II.4 PROMOTING ENVIRONMENTAL SUSTAINABILITY (CSR 3)

In line with the Commission's recommendation, the Government intends to accelerate the Country's energy transition. This includes the tax reform and the proposal for a new chapter to the RRP called REPowerEU, submitted by the Government to the European Commission[31].

In particular, the enabling law on the tax reform provides that: i) the rates of excise duty and other forms of taxation will be aligned with the environmental impact of the energy products; ii) exemption or incentives mechanisms are

[29] Decree-law of 22 April 2023 No. 44, as converted with integrations by Law No. 74/2023.

[30] Decree-law of 22 June 2023 No. 75, as converted with integrations by Law No. 112/2023.

[31] To address the change of scenario following the Ukrainian crisis, which had a direct impact on the assumptions underlying the RRP, the European institutions adopted a Regulation (EU) 2023/435 setting out the specific objectives, sources of funding and modalities for the inclusion of dedicated REPowerUE chapters in the RRPs.

introduced to promote the production of energy from biomass and or other renewable resources, in compliance with European regulation; iii) environmentally harmful subsidies will be progressively modified or removed. In any case, these actions will be in line with the revision of the Energy Taxation Directive, once the ongoing negotiations have been completed.

The Government has also presented to the European Commission the proposal for a REPowerEU chapter[32] that amplifies the innovative scope of the RRP. It supports investments in energy, green transition and sustainability, and includes reforms and measures to strengthen energy networks, green transition, energy efficiency and strategic industrial chains.

In the Government's design, the total budget of the REPowerEU chapter for Italy will consist of 2.76 billion non-repayable (in addition to 161 million for updating the maximum financial contribution RRF). These will be added to additional resources released through the definancing of the RRP measures and possibly from the Development and Cohesion Fund of the 2021-2027 programming.

The investment proposals and reforms contained in the Italian REPowerEU are included in three thematic chapters dedicated to:

- the energy networks, which include: i) investments to strengthen high-voltage transmission lines and cross-border electricity interconnection between Italy and neighboring countries; ii) the strengthening of measures already introduced by the RRP such as Smart grid electricity and actions for improving the climate resilience of the grids;
- the green transition and energy efficiency, which includes tax credits, non-repayable contributions, subsidised loans and instruments similar to development contracts for: encouraging investment by companies in the production of energy from renewable sources and in the construction of self-production facilities; improving performance and sustainability in the agri-food and livestock sectors. Reforms and investments are also planned to increase the green skills of private sector workers, but also of the public administrations. Some of the proposed actions are aimed at strengthening the measures to develop hydrogen projects in disused areas and improve the research and development in this sector, already under way under the RRP;
- the energy supply chains, in which investments are proposed to support the ecological transition with a view to the strategic supply chain and for the sustainable, circular, and safe supply of critical raw materials.

Finally, among the reforms under study are: i) standards aimed at reducing the costs of connecting biomethane plants and mitigating the financial risk associated with Power Purchase Agreements (PPAs) from renewable sources; ii) a consolidated Act for the authorization for energy production plants from renewable sources; iii) establishing a pathway for streamlining inefficient fossil fuel subsidies.

[32] The presentation of the REPowerEU chapter was concurrent with the presentation of the proposed reprogramming of the RRP.

III. TABLES

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

	2022	2023	2024
Short-term interest rate (annual average)	n.a.	3,9	3,7
Long-term interest rate (annual average)	3,0	4,3	4,4
USD/€ exchange rate (annual average)	1,053	1,085	1,085
Nominal effective exchange rate	-1,1	3,0	0,9
World excluding EU, GDP growth	2,6	2,4	1,8
EU GDP growth	3,4	0,5	1,0
Growth of relevant foreign markets	5,5	-1,5	2,2
World import volumes, excluding EU	3,5	0,3	2,1
Oil prices (Brent, USD/barrel)	101,0	81,6	81,4

Note: a comma is used as a decimal separator.

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

	ESA Code	2022	2022	2023	2024	2025	2026
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	1.767.998	3,7	0,8	1,2	1,4	1,0
Of which							
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					0,2	0,1	-0,2
1.2. Attributable to the estimated impact of NGEU funds on economic growth (1)			0,1	0,4	0,9	1,1	0,5
2. Potential GDP		1.754.673	1,1	0,9	1,1	1,1	1,0
contributions:							
- labour			0,6	0,4	0,5	0,5	0,4
- capital			0,4	0,4	0,4	0,4	0,4
- total factor productivity			0,2	0,2	0,2	0,2	0,2
3. Nominal GDP	B1*g	1.946.479	6,8	5,3	4,1	3,6	3,1
Components of real GDP							
4. Private final consumption expenditure	P.3	1.035.980	5,0	1,3	1,3	1,1	1,0
5. Government final consumption expenditure	P.3	323.864	0,7	0,6	-1,0	0,8	0,0
6. Gross fixed capital formation	P.51	383.208	9,7	1,0	3,0	2,4	1,9
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-0,8	-0,3	0,1	0,0	0,0
8. Exports of goods and services	P.6	593.721	9,9	0,7	2,4	4,3	3,5
9. Imports of goods and services	P.7	569.466	12,4	0,1	3,3	4,1	3,6
Contributions to real GDP growth							
10. Final domestic demand			5,0	0,9	1,3	1,3	1,0
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		-0,8	-0,3	0,1	0,0	0,0
12. External balance of goods and services	B.11		-0,5	0,2	-0,2	0,1	0,0

(1) The impact refers to the resources for additional projects of RRF, REACT-EU, the anticipated resources of the Fondo sviluppo e Coesione and the National Complementary Plan. For details on the methodology see Appendix I to the 2023 National Reform Programme. GDP growth estimates only partially incorporate the effects related to the implementation of the NRRP. Note: a comma is used as a decimal separator.

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

	ESA Code	2022	2022	2023	2024	2025	2026
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		110,1	3,0	4,5	2,9	2,1	2,1
2. Private consumption deflator		112,0	7,2	5,6	2,3	2,0	2,1
3. HICP		114,2	8,7	6,1	2,5	2,0	2,1
4. Public consumption deflator		115,5	4,9	1,3	0,6	0,6	-0,2
5. Investment deflator		111,4	4,2	1,6	2,8	2,0	1,9
6. Export price deflator (goods and services)		120,1	11,0	2,5	1,8	1,5	1,5
7. Import price deflator (goods and services)		130,3	21,4	-5,4	-0,2	0,7	1,5

Note: a comma is used as a decimal separator.

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

	ESA Code	2022	2022	2023	2024
		Level	rate of change	rate of change	rate of change
1. Employment, persons		25.614	1,7	1,3	0,8
2. Employment, hours worked		44.152.082	4,0	1,7	0,7
3. Unemployment rate (%)			8,1	7,6	7,3
4. Labour productivity, persons		69.025	2,0	-0,4	0,4
5. Labour productivity, hours worked		40	-0,3	-0,9	0,5
6. Compensation of employees	D.1	787.232	6,9	5,6	3,1
7. Compensation per employee		44.890	3,2	4,0	2,3

Note: a comma is used as a decimal separator.

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

	ESA Code	2022	2023	2024
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	-1,0	1,3	1,6
of which:				
- Balance on goods and services		-1,5	1,4	1,7
- Balance of primary incomes and transfers		0,0	-0,7	-0,5
- Capital account		0,5	0,5	0,4
2. Net lending/net borrowing of the private sector	B.9	7,1	6,6	5,9
3. Net lending/net borrowing of general government	EDP B.9	-8,0	-5,3	-4,3
4. Statistical discrepancy				

Note: a comma is used as a decimal separator.

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

	ESA Code	2023	2024	2025	2026
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-5,3	-4,3	-3,6	-2,9
1a. Central government	S.1311	-5,5	-4,4	-3,7	-3,0
1b. State government	S.1312				
1c. Local government	S.1313	0,0	0,0	0,0	0,0
1d. Social security funds	S.1314	0,1	0,1	0,1	0,1
2. Interest expenditure	EDP D.41	3,8	4,2	4,3	4,6
3. Primary balance		-1,5	-0,2	0,7	1,6
4. One-off and other temporary measures		0,2	0,0	0,0	0,0
5. Real GDP growth (%)		0,8	1,2	1,4	1,0
6. Potential GDP growth (%)		0,9	1,1	1,1	1,0
contributions :					
- labour		0,4	0,5	0,5	0,4
- capital		0,4	0,4	0,4	0,4
- total factor productivity		0,2	0,2	0,2	0,2
7. Output gap (% of potential GDP)		0,7	0,7	1,1	1,0
8. Cyclical budgetary component (% of potential GDP)		0,4	0,4	0,6	0,6
9. Cyclically-adjusted balance (% of potential GDP)		-5,7	-4,7	-4,2	-3,5
10. Cyclically-adjusted primary balance (% of potential GDP)		-1,9	-0,6	0,1	1,1
11. Structural balance (% of potential GDP)		-5,9	-4,8	-4,3	-3,5

A comma is used as a decimal separator.

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

	ESA Code	2023	2024	2025	2026
		% GDP	% GDP	% GDP	% GDP
1. Gross debt		140,2	140,1	139,9	139,6
2. Change in gross debt ratio		-1,5	-0,1	-0,2	-0,3
Contributions to changes in gross debt					
3. Primary balance		1,5	0,2	-0,7	-1,6
4. Interest expenditure	EDP D.41	3,8	4,2	4,3	4,6
5. Stock-flow adjustment		0,4	1,2	1,0	1,0
of which:					
- Differences between cash and accruals		-0,3	1.2		
- Net accumulation of financial assets		0,4	0,2		
of which:					
- privatisation proceeds		0,0	-0,1		
- Valuation effects and other		0,3	-0,3		
p.m.: Implicit interest rate on debt		2,8%	3,1%		
Other relevant variables					
6. Liquid financial assets					
7. Net financial debt					
8. Debt amortization (existing bonds) since the end of the previous year					
9. Percentage of debt denominated in foreign currency					
10. Average maturity					

Note: a comma is used as a decimal separator.

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

	ESA Code	2023	2024
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	47,8	47,0
Of which			
1.1. Taxes on production and imports	D.2	14,2	14,3
1.2. Current taxes on income, wealth, etc	D.5	15,1	14,3
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,1	13,6
1.5. Property income	D.4	0,7	0,6
1.6. Other		4,7	4,1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		42,5	42,3
2. Total expenditure at unchanged policies	TE	53,0	50,6
Of which			
2.1. Compensation of employees	D.1	9,2	8,8
2.2. Intermediate consumption	P.2	5,9	5,8
2.3. Social payments	D.62,D.632	23,1	23,3
of which Unemployment benefits		0,7	0,7
2.4. Interest expenditure	EDP D.41	3,8	4,2
2.5. Subsidies	D.3	2,4	1,8
2.6. Gross fixed capital formation	P.51	2,9	3,2
2.7. Capital transfers	D.9	3,4	1,3
2.8. Other		2,3	2,3

Note: a comma is used as a decimal separator.

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

	ESA Code	2023	2024
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	47,9	46,4
Of which			
1.1. Taxes on production and imports	D.2	14,2	14,3
1.2. Current taxes on income, wealth, etc	D.5	15,1	14,3
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,2	13,0
1.5. Property income	D.4	0,7	0,6
1.6. Other		4,7	4,1
p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)		42,5	41,6
2. Total expenditure target	TE	53,3	50,7
Of which			
2.1. Compensation of employees	D.1	9,3	9,0
2.2. Intermediate consumption	P.2	5,8	5,8
2.3. Social payments	D.62, D.63	23,2	23,3
Of which Unemployment benefits		0,7	0,7
2.4. Interest expenditure	EDP D.41	3,8	4,2
2.5. Subsidies	D.3	2,5	1,8
2.6. Gross fixed capital formation	P.51	2,9	3,2
2.7. Capital transfers	D.9	3,4	1,4
2.8. Other		2,3	2,1

Note: a comma is used as a decimal separator.

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

	ESA Code	2022	2022	2023	2024
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		17.481	0,9	1,3	0,7
1.a Of which investments fully matched by EU funds revenue		2.697	0,1	0,3	0,3
2. Cyclical unemployment benefit expenditure *		-1.463	-0,1	-0,2	-0,2
3. Effect of discretionary revenue measures		-18.481	-0,9	0,2	-0,7
4. Revenue increases mandated by law		0	0,0	0,0	0,0

* Computed on the basis of the unemployment gap. Note: a comma is used as a decimal separator.

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

Expenditure category	Available information
Education	In the period 2019-2023, education expenditure as a percentage of GDP averages 3,8% (3,8% in 2022). As for mid/long-term trends, see the latest national baseline scenario projections carried out at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability (1).
Health	In the period 2019-2023, health care expenditure as a percentage of GDP averages 6,8% (6,7% in 2022). As for the mid/long-term trends, see the latest national baseline scenario projections carried out at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability (1).
Employment (2)	Expenditure on labour policies increased sharply from 27 billion euros in 2019 to 49 billion in 2020, corresponding to 2.99 percent of GDP. This growth is accounted for almost entirely by the growth of passive policies, corresponding to 2.74 percent of GDP, and to a lesser extent by the contribution of active policies, amounting to 0.25 percent of GDP in the same year. In 2021 in a recovery scenario that still registers several interventions introduced to cope with the crisis of 2020, a decrease in total expenditure on labour policies is observed on the basis of currently available data. As support measures decline from 2.74 percent of GDP to 1.70 percent over the 2020-2021 period, there is a growth in the most significant active labour policy measures, attributable to the largest aggregates, particularly Hiring Incentives, which rise from 0.09 percent to 0.28 percent of GDP. In 2021, the most significant measures in terms of spending on active policies are the intervention called Decontribution South (art. 27 D.L. n.104/2020), amounting to about 2 billion 995 million (compared to a contribution of 336 million in 2020), and Apprenticeship, represented by a figure of about 2 billion 538 million, which includes incentives for transformations to permanent contracts. There is currently insufficient evidence to predict a timely quantification of spending in subsequent years. However, the reports currently available for 2022 regarding Hiring Incentives-which represent a significant aggregate of active policies-indicate an increase in resources compared to the previous year; in detail, the facility established by Article 7 of Decree-Law No. 104/2020 -Hiring Incentive SPA and Tourism- rising in the 2021-22 biennium from 6.7 million to 48 million euros, the ones established by Law No. 205/2017 and Law No. 178 /2020 for the hiring of young people (from 745 million to about 1 billion) as well as Incentives targeted at women (from 137 million to 302 million). In the same period, both Apprenticeship (with an expenditure of about 2 billion 800 million) and the measure called Decontribution South (about 3 billion 272 million) also have shown a growth.

(1) Source: Ministero dell'Economia e delle Finanze - Ragioneria Generale dello Stato (2023), "Le tendenze di medio-lungo periodo del sistema pensionistico e socio-sanitario. Previsioni elaborate con i modelli della Ragioneria Generale dello Stato aggiornati a giugno 2023 - Rapporto n. 24".

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

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact 2023	2024	2025	2026
					% GDP	% GDP	% GDP	% GDP
Immigration and security	**Motivation:** Local security and management of migration flows. **Content of the measures:** Financing of urgent measures related to the reception of migrants, including support for the municipalities, and in favor of unaccompanied minors. Extension of "Strade Sicure" operation.	various, mainly D.632	Immediately effective/to be distributed through ministerial decrees	E	-0,001	-0,014	0,002	0,000
Measures at the local level	**Motivation:** Measures in order to support local public finance and public transport. **Content of the measures:** Provisions for financial support of local governments, including those to ensure the continuity of services provided; allocation of resources for local public transport and for the Jubilee 2025; additional measures.	various, mainly P.2 D.3	Immediately effective/to be distributed through ministerial decrees/subsequent administrative acts	E	-0,046	0,006	0,002	0,006
Interventions against natural disasters	**Motivation:** Support for areas affected by natural disasters. **Content of the measures:** Resources to finance the Natural Disaster Fund; measures to compensate those affected by flood and earthquake events.	P.51	Immediately effective /to be distributed through ministerial decrees/ subsequent administrative acts	E	0,000	-0,016	-0,004	0,003
Measures to reduce the tax wedge cut	**Motivation:** Protecting purchasing power, particularly those of low incomes, and countering the effects of inflation. **Content of the measures:** Exemption also for 2024 on the employee's share of social security contributions, increased as the monthly taxable salary decreases. Extension for 2024 of measures for the tax relief of the employee productivity bonuses; extension and enhancement of tax measures for corporate welfare (so-called fringe benefits) of employees.	D.5 D.61	Immediately effective/to be distributed through ministerial decrees	R	0,000	-0,491	0,476	0,015
Measures to support public investment	**Motivation:** New resources at the central and local levels for public investment and financing of strategic investments. **Content of the measures:** Refinancing of State and Territorial Authorities investment funds. Reinforcement of public investments.	P.51	Immediately effective/subsequent administrative acts	E	-0,005	-0,035	-0,014	-0,030
Pension-related measures	**Motivation:** Support for pensioners against inflation. **Content of the measures:** Anticipated revaluation of pension benefits to the inflation rate scheduled for the year 2024 and other pension-related measures.	D.5 (R) / D.62 (E)	Immediately effective	R/E	-0,072	0,127	-0,068	0,000

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact 2023	2024	2025	2026
					% GDP	% GDP	% GDP	% GDP
Measures to face the energy price hikes	**Motivation:** Contain the effect of energy price increases on most vulnerable households. **Content of the measures:** Extension for the first quarter of 2024 of the extraordinary contribution that increases with the number of household members; the misure is for resident domestic customers who are already receiving the social electricity bonus.	D.632	Immediately effective	E	0,000	-0,009	0,009	0,000
Measures to deal with the Ukrainian crisis	**Motivation:** Continuation of emergency activities related to the Ukrainian crisis. **Content of the measures:** Italy's participation in EIB program to support Ukraine; refinancing of *European Peace Facility*; refinancing Fund for activities related to temporary protection of people fleeing war in Ukraine.	P.2 / D.7	Immediately effective/to be distributed through ministerial decrees	E	-0,009	-0,015	0,012	0,000
Unchanged policies and Ministries	**Motivation:** Ensuring continuity of interventions whose funding decision is proposed annually. **Content of the measures:** it includes, among the others, the refinancing of international missions, the fund for financing legislative measures and other resources allocated in the State budget for sector policies of each Ministry.	various, mainly D.1 e P.2	Immediately effective	R/E	0,000	-0,094	0,041	0,018
Family policies	**Motivation:** Support for families and parenthood. **Content of the measures:** Strengthening of decontribution measures in favor of working mothers. Strengthening of existing income support and work-life balance support instruments. Refinancing in 2024 of the "Dedicated to you" Solidarity Card Purchasing Fund and supplementing the First Home Guarantee Fund. Other measures, such as the reduction of the public radio and television (RAI) license fee, the extension of the bonus for transportation and the increase of the endowment of the Fund for policies aimed to people with disabilities.	various, mainly D.5 (R) e D.62 (E)	Immediately effective/subsequent administrative acts	R/E	0,015	-0,095	0,033	-0,004
Public employment	**Motivation:** Contract Renewals. **Content of the measures:** Allocation of resources for contractual renewals of the public administration employees for the period 2022-2024.	various, mainly D.61 (R) / D.5 (R) e D.1 (E)	Immediately effective/subsequent administrative acts	R/E	-0,051	-0,021	-0,044	0,004

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2023	2024	2025	2026
					% GDP	% GDP	% GDP	% GDP
Spending review and remodulation	**Motivation:** Rationalization and revision of general government spending. **Content of the measures:** Measures to revise and remodulate public spending. a) Measures of rationalizazion, efficiency and reduction of current expendtures according to their effectiveness or priority. b) Remodulation of capital expenses according to the priorities and to timing of transfers to various institutions based on their actual needs, keeping the overall amount of expenses unchanged.	various, mainly P.2 / D.92 / D.7 / P.51g / D.3	Immediately effective/subsequent administrative acts	E	0,022	0,088	0,067	0,306
Tax reform	**Motivation:** Supporting taxpayers and reducing the tax burden. **Content of the measures:** Implementation of the first phase of the Tax Reform. For tax year 2024, revision and gradual reduction of personal income tax including through reduction of tax rates and related brackets.	D.5 (R), D.7 (E)	Immediately effective/subsequent regulatory acts	R/E	0,000	-0,200	-0,017	0,095
Healthcare	**Motivation:** Support in favor of health care workers. **Content of the measures:** Resources for health personnel, in particular for those working at the emergency services and refinancing of the National Health Service.	Varie: principalmente D.1 / P.2 e D.632	Immediately effective	E	0,000	-0,080	-0,033	-0,001
Supporting firms	**Motivation:** Supporting companies in order to consolidate the economic recovery. **Content of the measures:** Suspension until July 1st, 2024 of the Plastic Tax and Sugar Tax. Tax credit for 2024 for investment in the South; other measures in order to support firms' activity.	various,mainly D.2 (R) e D.9 (E)	Immediately effective	R/E	-0,004	-0,103	0,107	-0,001
Other revenue/ restraning measures		various		R	0,000	0,070	0,232	-0,051
Other revenue/ expansion measures		various		E	0,000	-0,005	0,004	-0,012
Other expenditure/ restraining measures		various		R	0,007	0,330	-0,270	0,029
Other expenditure/ expansion measures		various		E	-0,013	-0,027	-0,006	0,001
				TOTAL	-0,157	-0,583	0,529	0,379

Note: a comma is used as a decimal separator.

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact 2023	2024	2025	2026
					% GDP	% GDP	% GDP	% GDP
Immigration and security	**Motivation:** Local security and management of migration flows. **Content of the measures:** Financing of urgent measures related to the reception of migrants, including support for the municipalities, and in favor of unaccompanied minors. Extension of "Strade Sicure" operation.	various, mainly D.632	Immediately effective/to be distributed through ministerial decrees	E	-0,001	-0,017	0,005	0,000
Interventions against natural disasters	**Motivation:** Support for areas affected by natural disasters. **Content of the measures:** Resources to finance the Natural Disaster Fund; measures to compensate those affected by flood and earthquake events.	P.51	Immediately effective /to be distributed through ministerial decrees/ subsequent administrative acts	E	0,000	-0,016	-0,004	0,003
Measures to reduce the tax wedge cut	**Motivation:** Protecting purchasing power, particularly those of low incomes, and countering the effects of inflation. **Content of the measures:** Exemption also for 2024 on the employee's share of social security contributions, increased as the monthly taxable salary decreases. Extension for 2024 of measures for the tax	D.5 D.61	Immediately effective/to be distributed through ministerial decrees	R	0,000	0,142	-0,142	0,000
Measures to support public investment	**Motivation:** New resources at the central and local levels for public investment and financing of strategic investments. **Content of the measures:** Refinancing of State and Territorial Authorities investment funds. Reinforcement of public investments.	P.51	Immediately effective/subsequent administrative acts	E	0,000	-0,037	-0,012	-0,029
Pension-related measures	**Motivation:** Support for pensioners against inflation. **Content of the measures:** Anticipated revaluation of pension benefits to the inflation rate scheduled for the year 2024 and other pension-related measures.	D.5 (R) / D.62 (E)	Immediately effective	R/E	0,028	-0,049	0,026	0,000
Measures to face the energy price hikes	**Motivation:** Contain the effect of energy price increases on most vulnerable households. **Content of the measures:** Extension for the first quarter of 2024 of the extraordinary contribution that increases with the number of household members; the misure is for resident domestic customers who are already receiving the social electricity bonus.	D.632	Immediately effective	E	0,000	-0,009	0,009	0,000
Measures to deal with the Ukrainian crisis	**Motivation:** Continuation of emergency activities related to the Ukrainian crisis. **Content of the measures:** Italy's participation in EIB program to support Ukraine; refinancing of *European Peace Facility*; refinancing Fund for activities related to temporary protection of people fleeing war in Ukraine.	P.2 / D.7	Immediately effective/to be distributed through ministerial decrees	E	-0,009	-0,015	0,012	0,000

TABLE III.1-13 : DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)								
List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2023	2024	2025	2026
					% GDP	% GDP	% GDP	% GDP
Unchanged policies and Ministries	**Motivation:** Ensuring continuity of interventions whose funding decision is proposed annually. **Content of the measures:** it includes, among the others, the refinancing of international missions, the fund for financing legislative measures and other resources allocated in the State budget for sector policies of each Ministry.	various, mainly D.1 e P.2	Immediately effective	R/E	0,000	-0,104	0,051	0,018
Family policies	**Motivation:** Support for families and parenthood. **Content of the measures:** Strengthening of decontribution measures in favor of working mothers. Strengthening of existing income support and work-life balance support instruments. Refinancing in 2024 of the "Dedicated to you" Solidarity Card Purchasing Fund and supplementing the First Home Guarantee Fund. Other measures, such as the reduction of the public radio and television (RAI) license fee, the extension of the bonus for transportation and the increase of the endowment of the Fund for policies aimed to people with disabilities.	various, mainly D.5 (R) e D.62 (E)	Immediately effective/subsequent administrative acts	R/E	0,017	-0,022	-0,014	-0,003
Public employment	**Motivation:** Contract Renewals. **Content of the measures:** Allocation of resources for contractual renewals of the public administration employees for the period 2022-2024.	various, mainly D.61 (R) / D.5 (R) e D.1 (E)	Immediately effective/subsequent administrative acts	R/E	-0,089	-0,038	-0,078	0,006
Spending review and remodulation	**Motivation:** Rationalization and revision of general government spending. **Content of the measures:** Measures to revise and remodulate public spending. a) Measures of rationalizazion, efficiency and reduction of current expendtures according to their effectiveness or priority. b) Remodulation of capital expenses according to the priorities and to timing of transfers to various institutions based on their actual needs, keeping the overall amount of expenses unchanged.	various, mainly P.2 / D.92 / D.7 / P.51g / D.3	Immediately effective/subsequent administrative acts	E	-0,022	0,132	0,067	0,306
Tax reform	**Motivation:** Supporting taxpayers and reducing the tax burden. **Content of the measures:** Implementation of the first phase of the Tax Reform. For tax year 2024, revision and gradual reduction of personal income tax including through reduction of tax rates and related brackets.	D.5 (R), D.7 (E)	Immediately effective/subsequent regulatory acts	R/E	0,000	-0,200	-0,017	0,095
Healthcare	**Motivation:** Support in favor of health care workers. **Content of the measures:** Resources for health personnel, in particular for those working at the emergency services and refinancing of the National Health Service.	Varie: principalmente D.1 / P.2 e D.632	Immediately effective	E	0,000	0,012	0,000	0,000

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2023	2024	2025	2026
					% GDP	% GDP	% GDP	% GDP
Supporting firms	**Motivation:** Supporting companies in order to consolidate the economic recovery. **Content of the measures:** Suspension until July 1st, 2024 of the Plastic Tax and Sugar Tax. Tax credit for 2024 for investment in the South; other measures in order to support firms' activity.	various,mainly D.2 (R) e D.9 (E)	Immediately effective	R/E	-0,004	-0,103	0,107	0,000
Other revenue/ restraning measures		various		R	0,000	0,061	0,233	-0,050
Other revenue/ expansion measures		various		E	0,000	-0,005	0,004	-0,002
Other expenditure/ restraining measures		various		R	0,000	0,224	-0,218	0,024
Other expenditure/ expansion measures		various		E	-0,010	-0,029	-0,006	0,001
				TOTAL	-0,091	-0,074	0,022	0,368

Note: a comma is used as a decimal separator.

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

Recommendations	List of measures	Policy Area
CSR 1 – Wind down the energy support measures in force as soon as possiblas soon as possible in 2023 and 2024, using the related savings to reduce the government deficit. Should renewed energy price increases necessitate support measures, ensure that these are targeted at protecting vulnerable households and firms, fiscally affordable, and preserve incentives for energy savings; [...]	The DL "Bollette" for the second quarter of 2023 reduces the percentages of tax credits already granted for the second quarter of 2023: electricity from 45 to 20 percent for energy-intensive companies and 1 percent for all others, while for gas (exclusively for gas not used for thermoelectric purposes) the tax-deductible discount move to 20 percent for gas and non-gasivorous companies. The DL "Energy" extends to the third quarter the tax credits for companies related to the expenses incurred for the purchase of electricity and gas.	MEASURES TO TACKLE THE CRISIS Supply of electricity
	The D.L. "Bollette" and "Energy" contain further extensions needed to support households in the face of increases in energy prices, but are part of the process of phasing-out of temporary and emergency measures to ensure the sustainability of public finances. In particular, the decrees extend respectively to the third and fourth quarters of 2023: zero system charges on gas bills; the reduction of VAT to 5 percent on the supply of gas for combustion, district heating and thermal energy; the strengthening and raising from 20,000 to 30,000 euros of the ISEE threshold for access to the social bonus for household electricity and gas for large families.	MEASURES TO TACKLE THE CRISIS Domestic utilities
CSR 1 - [...] ensure prudent fiscal policy, in particular by limiting the nominal increase in nationally financed net primary expenditure in 2024 to not more than 1.3%; [...]	The moderately expansionary deficit trend in 2023 is due to the prorongation of some measures to contain the impact of higher energy prices on households and businesses, in line with the guidelines of the European Commission. A new phase of spendig eview is planned. In the DEF published in April in fact, the expenditure savings targets of the central governments of the State budget for the three-year period 2024-2026 were defined. These targets are in addition to those already defined in the 2022 DEF.	BUDGETARY POLICY Prices of energy products
	Approved in August the decree of the President of the Council of Ministers for the allocation of objectives by ministry and the definition of criteria for the achievement and monitoring of proposals. For each administration, the reduction of capital expenditure items may not exceed 30 percent of the overall savings target. In any case, the entries relating to: projects under the NRRP and the Supplementary Plan; expenditure for reconstruction as a result of natural disasters; expenditure for measure of Transition 4.0 Plan.	BUDGETARY POLICY Spending review
	The moderately expansionary deficit trend in 2023 is due to the prorongation of some measures to contain the impact of higher energy prices on households and businesses, in line with the guidelines of the European Commission.	BUDGETARY POLICY Spending review
	In order to facilitate participation in tendering procedures relating to public investment with the resources provided for in the NRRP, the NCP and the programmes co-financed by the European Union Structural Funds, the progressive release of the definitive guarantee, provided for by the contractor for the signing of the contract, also applies to public contracts relating to special sectors.	PUBLIC INVESTMENT Participation in tendering procedures
	Simplifications of administrative procedures and the award of public contracts relating to the NRRP and the National Plan for Supplementary Investments	PUBLIC INVESTMENT Simplification of administrative procedures
	Provided for the possibility of transferring, free of charge, to Regions, Municipalities, Provinces and Metropolitan Cities of certain real estate belonging to the_State's artistic or available historical property, affected by redevelopment projects__for institutional or social purposes, financed, or likely to be financed from resources of the NRRP, the NCP or the NIP.	PUBLIC INVESTMENT Transfers to local authorities
	Provided for the possibility by the State Proerty Agency to identify property, owned by the State, and other State assets in use by administrations, suitable for the installation of plants for the production of energy from	PUBLIC INVESTMENT

	renewable sources.	Installation of renewable energy plants
	In order to achieve the objectives of the NRRP, provided a number of provisions on framework agreements and central purchasing agreements.	NRRP IMPLEMENTATION Central purchasing bodies
	Simplifications regarding digital infrastructures and the purchase of IT goods and services instrumental to the realisation of the NRRP, as well as the digitalisation of procedures.	PUBLIC INVESTMENT Digital infrastructure
	Provisions on the functioning of the Technical Commission for Environmental Impact Assessment EIA and SEA and the NRRP-PNIEC Technical Commission, as well as environmental impact assessment.	NRRP IMPLEMENTATION Technical Commission EIA and SEA
CSR 1 - [...] preserve nationally financed public investment and ensure the effective absorption of RRF grants and other EU funds, in particular to foster the green and digital transitionsn; [...]	Measures to accelerate the implementation ofurgent interventions to address flood and hydrogeological risk, in line with the objectives of the NRRP.	NRRP IMPLEMENTATION Hydrogeological risk
	Provisions on environmental impact assessment procedures – EIA of integrated chemical plants producing, on an industrial scale, green and renewable hydrogen.	PUBLIC INVESTMENT EIA
	Simplification with regard to the installation of plants powered by renewable sources of energy storage installations and agro-photovoltaic systems	PUBLIC INVESTMENT Simplifications in installation of photovoltaic systems
	In order to promote the digital transition of PA through the transition to cloud and interoperability, a new cloud infrastructure dedicated to hosting the information systems, data and applications of all public administrations has been completed.	PUBLIC INVESTMENT Digital infrastructure
	The National Data Digital Platform has been created to ensure the interoperability of information systems and databases of public administrations.	PUBLIC INVESTMENT National Digital Platform Data
	In order to increase the digital skills of the population and the workforce have been adopted: the ‘National Digital Skills Strategy’, the ‘Digital Republic’ initiative, the ‘Digital Civil Service’, the National Programme to Ensure Employability of Workers and the ‘National New Skills Plan’.	PUBLIC INVESTMENT Digital skills
	In the Cybersecurity sector envisaged the enhancement of the Cybersecurity systems of the local and the central PA. Significant investments have also been allocated for the digitalisation of health services and the modernisation of the hospital technology park.	PUBLIC INVESTMENT Cybersecurity
	The DL "Bollette" establishes a fund to cover part of the costs incurred by companies supplying medical devices as a result of exceeding the expenditure ceiling on medical devices.	FISCAL SUSTAINABILITY Expenditure on medical devices
CSR 1 – [...] for the period beyond 2024, continue to pursue a medium-term fiscal strategy of gradual and sustainable consolidation, combined with investments and reforms conducive to improved productivity and higher sustainable growth, to achieve a prudent medium-term fiscal position; [...]	The DL "Bollette" provides that in relation to the payments made by companies supplying medical devices, in order to contain the expenditure on medical devices Charged to the National Health Service and the plan of overshooting the roofs of expenditure on medical devices, the companies supplying medical devices may deduct the VAT determined by separating it from the amount of payments made.	FISCAL SUSTAINABILITY Expenditure on medical devices
	The DL "PA" provides that local authorities in a financial distress that have eliminated the liquidity advances fund (FAL) set aside in the operating result may postpone by one year (with the approval of the 2023 statement, instead of the 2022 statement), the obligation to replenish a dedicated fund in which to set aside an amount equal to the cash advances received in previous years and not yet repaid at the end of the financial year 2023. Consequently, the period from which municipalities are required to reschedule, within a maximum period of ten years, of the largest deficit resulting from the replenishment of the Fund in respect of the previous financial year is moved by one year, i.e. from the 2024 financial year.	FISCAL SUSTAINABILITY Local authorities

CSR 1 – [...] further reduce taxes on labour and make the tax system more efficient by adopting and duly implementing the enabling law on tax reform while preserving the progressivity of the tax system and improving fairness, in particular by streamlining and reducing tax expenditures, including VAT and environmentally harmful subsidies, and by reducing the complexity of the tax code. Align the cadastral values with current market values; [...]	The DL "Bollette" provides for simplified procedures for assessments, correction and winding-up notices and recovery measures not challenged and still open to challenge on 1 January 2023, but which have become final.	EFFICIENCY OF THE TAX SYSTEM Simplifications for assessment notices
	The DL "Bollette" give to local authorities the right, in cases of direct collection and entrustment to the persons registered in the appropriate register to provide, the application of specified settlement institutions	EFFICIENCY OF THE TAX SYSTEM Local authorities
	The enabling law on tax reform, which sets out the general and specific guiding principles and criteria to be followed by the reform, a rationalisation of taxes and interventions on declaratory procedures, as well as those of assessment and collection or litigation, has been approved on August.	EFFICIENCY OF THE TAX SYSTEM Rationalisation of taxes
	The enabling law on tax reform provides for the revision and gradual reduction of the IRPEF, in compliance with the principle of progressiveness and taimed at achieving in a tendential and gradual way a flat rate.	EFFICIENCY OF THE TAX SYSTEM Revision of the IRPEF
	The enabling law on tax reform provides for the revision of taxation on the income of companies and bodies. In particular, it provides, in addition to the simplification of the alignment between civil and fiscal values, a double preferential regime compared to the ordinary IRES i.e. in addition to the standard rate (currently 24 percent) the rate of IRES is expected to be reduced in particular cases (e.g. if it is used in qualifying investments)	EFFICIENCY OF THE TAX SYSTEM Revision of the IRES
	The enabling law on tax reform regulates specific criteria for the revision of VAT, providing for a redefinition of the tax requirements so as to make them more compliant with EU legislation, the revision of the rules on exempt transactions, the rationalisation of the number and the measure of VAT rates, the revision of the rules on deduction and some more sectoral measures.	EFFICIENCY OF THE TAX SYSTEM Revision of VAT
	The lenabling law on tax reform defines the principles and specific guideline aimed at achieving the gradual overcoming of the regional tax on productive activities (IRAP), indicating the priorities of implementation of the intervention	EFFICIENCY OF THE TAX SYSTEM Gradual overcoming of IRAP
	The enabling law on tax reform provides for the rationalisation and simplification of the criteria for determining business income and the rationalisation of incentives to businesses and taxation of advantage. The guiding principles and criteria for the income of companies accessing institutes governed by the Businesses Crisis and Insolvency Code, shell companies, and relief schemes for third sector entities and tax measures for sports organisations are also foreseen.	EFFICIENCY OF THE TAX SYSTEM Rationalisation of incentives for businesses
	The enabling law on tax reform defines the specific principles and criteria relating to indirect taxes other than VAT, with particular reference to registration tax, inheritance tax and donations and stamp duty. In particular, it is planned to rationalise the discipline of individual taxes.	EFFICIENCY OF THE TAX SYSTEM Revision of indirect taxes
	The enabling law on tax reform provides for the revision of the customs rules, through the reorganisation of the regulatory framework, the completion of the telematisation of customs procedures and institutions, the strengthening of the Customs Single Window and controls and the reorganisation of the procedures for the clearance, inspection, review of the assessment and collection.	EFFICIENCY OF THE TAX SYSTEM Revision of the customs framework
	The enabling law on tax reform provides for the remodulation of excise duty rates on energy products and electricity and district heating in order to take into account the environmental impact of each product, the promotion of the production of electricity, methane gas or natural gas or other gases obtained from biomass or other renewable resources, and the remodulation of taxation on	EFFICIENCY OF THE TAX SYSTEM

	energy products used for the production of electricity to encourage the use of those that are more environmentally compatible with the environment, intervening also on excise subsidies on energy products, with particular reference to environmentally harmful subsidies. Further provisions concern alcoholic products and the revision of the rules on the application of the consumption tax on lubricating oils.	Remodulation of energy taxation
	The enabling law on tax reform contains the guiding principles and criteria for the reorganisation of the current provisions on public games.	EFFICIENCY OF THE TAX SYSTEM Public games
	The enabling law on tax reform provides for the general review of tax obligations, in particular the simplification of declaratory and payment obligations, a provision aimed at facilitating access to the services of the tax administration and strengthening the position of citizens in the relationship with the tax administration. It also provides for the reorganisation of the rules on securities in the field of excise duty and the revision of the administrative procedures for the management of the tobacco sales network.	EFFICIENCY OF THE TAX SYSTEM Simplifications of tax compliance
	The enabling law on tax reform provides for the simplification of the assessment and the adversarial procedure. In particular, the right to be heard will be regulated in a homogeneous manner by also granting the taxpayer a reasonable time limit for any comments, on which the issuing body is required to give express reasons in the event of failure to accept them. It also provides for the reorganisation of the rules on the analysis of tax risk positions and the increasing use of digital technologies, a strengthening and simplification of the collaborative compliance regime and the possibility for smaller entities to have access to a biennial arrangement with creditors.	EFFICIENCY OF THE TAX SYSTEM Simplification of administrative liability
	The enabling law on tax reform provides for the revision of the national collection system to ensure greater effectiveness, impartiality and efficiency.	EFFICIENCY OF THE TAX SYSTEM Revision of the collection system
	The enabling law on tax reform contains the essential principles for reviewing the discipline and organisation of tax processes, with particular regard to strengthening litigation deductive institutes, implementing the process of digitisation of tax justice and intervening on certain procedural and organisational aspects.	EFFICIENCY OF THE TAX SYSTEM Review of tax processes
	The enabling law on tax reform contains the essential principles for the revision of the system of taxation, administrative and criminal penalties, in the field of income taxes, value added tax, other indirect taxes and taxes of local authorities in order to rationalise, repair and coordinate the relationship between administrative and criminal penalties.	EFFICIENCY OF THE TAX SYSTEM Review of the sanctioning system
	The enabling law on tax reform contains the guiding principles and criteria relating to the reorganisation of tax legislation and the codification of tax legislation through the drafting of single texts and a real tax code.	EFFICIENCY OF THE TAX SYSTEM Reorganisation of tax legislation
	Administrations holding projects foreseen in the NRRP from 1 January 2023 (previously as from 1 January 2027) may stabilise non-management staff already recruited on a fixed-term basis in their roles for the implementation of such projects.	ADMINISTRATIVE CAPACITY Stabilisation of the staff
	Simplification of procedures for the financial management of the NRRP resources, with particular regard to the paymenti in advances of resources allocated to the entities implementing the interventions covered by the Plan but financed by national resources and the arrangements for allocating and remodulating financial resources to the central administrations holding the NRRP interventions.	ADMINISTRATIVE CAPACITY Simplification of NRRP resource management
	Possibility for local authorities in provisional exercise or management to make budgetary changes, with reference to state and European funding for current expenditure related to the implementation of the NRRP.	ADMINISTRATIVE CAPACITY Local authorities

	Sose is entrusted with the task of carrying out any activities necessary to facilitate the composition with creditors and the implementation of collaborative fulfilment, as well as the activities of design, development and implementation of the interoperability of databases.	ADMINISTRATIVE CAPACITY Composition with creditors
	Updating of the procedural timetables of the National Plan for Complementary Investments (PNC).	ADMINISTRATIVE CAPACITY National Plan for Complementary Invesrments
CSR 2 – Ensure an effective governance and strengthen the administrative capacity, particularly at subnational level, to allow for a continued swift and steady implementation of the recovery and resilience plan. Swiftly finalise the REPowerEU chapter with a view to rapidly starting its implementation. Proceed with the speedy implementation of cohesion policy programmes, in close complementarity and synergy with the recovery and resilience plan. [...]	In order to enable local authorities to meet the requirements related to the NRRP and to ensure the management, disbursement, monitoring, control and reporting procedures of the Plan’s resources, the percentage of management posts on fixed-term contracts is increased, up to 31 December 2026, from 30 to 50 percent. In order to ensure the continuity of administrative action and to facilitate the implementation of investments financed, in whole or in part, from the resources of the NRRP, fixed-term contracts are not solved in case the local institution declares insolvency in structurally deficit situations. It also does not apply to local authorities in structurally deficit situations the prohibition of hiring employees on fixed-term contracts. It is also possible to assign certain tasks for consideration to persons already in retirement.	ADMINISTRATIVE CAPACITY Compliance with local authorities
	Provisions on the governance system of cohesion policies, in particular the abolition of the Agency for Territorial Cohesion and the transfer of human, instrumental and financial resources to the Cohesion Policy Department of the Cabinet of the Council of Ministers. Consequently, the “Verification and Control Unit” (NUVEC), whose functions are transferred to the “Assessment and Analysis Unit for Programming” (NUVAP), which is renamed “Cohesion Policy Core” (NUPC) and is also regulated by DPCM, is deleted.	ADMINISTRATIVE CAPACITY Cohesion policy
	For the strengthening of administrative capacity for the implementation of the NRRP projects, the DL "PA" envisages a number of provisions for the strengthening of staffing in many central and local administrations.	NRRP IMPLEMENTATION Strengthening of PA staff
	The DL "PA" establishes the National Public Labour Observatory in order to promote the strategic development of the Integrated Plan of Activities and Organisation (PIAO) and related policy initiatives in the field of smart working, organisational innovation, performance measurement and evaluation, training and enhancement of human capital, and to ensure the full application of monitoring activities on the effective usefulness of the fulfilments required by the plans not included in the Plan, including with specific regard to the impact of public administration reforms.	ADMINISTRATIVE CAPACITY National Public Labour Observatory
	For 2023, DL "PA" allows the use of the committed and unused resources related to the year 2022 of the Fund allowing municipalities carrying out interventions under the NRRP projects	ADMINISTRATIVE CAPACITY Interventions for local authorities
CSR 3 – Reduce the reliance on fossil fuels. Streamline the permitting procedures to accelerate the production of additional renewable energy and develop electricity interconnections to absorb it. Increase the capacity for internal gas transmission to diversify energy imports and strengthen security of supply. Increase energy	Until 30 June 2024, with the DL "Bollette", simplifications are foreseen in the realisation of photovoltaic plants in tourist or thermal facilities with modules placed on flat roofs or aquifers, of power up to 1 MW for self-consumption. In historical centres or in areas to protect landscape, the plants will have to face the landscape constraint.	ADMINISTRATIVE SIMPLIFICATION Photovoltaic systems
	Tax credit for innovative start-ups, established from 1 January 2020, operating in the fields of the environment, renewable energy and health for research and development activities aimed at the creation of innovative solutions for the realisation of advanced technological instruments and services in order to guarantee environmental sustainability and the reduction of energy consumption.	PUBLIC INVESTMENT Tax credits for innovative start-up

efficiency in the residential and corporate sectors, including through better targeted incentive schemes, addressing in particular the most vulnerable households and the worst-performing buildings. Promote sustainable mobility, including by removing environmentally harmful subsidies and speeding up the roll-out of charging stations. Step up policy efforts aimed at the provision and acquisition of the skills needed for the green transition.	Additions and amendments to the framework for the implementation of new regasification capacity. In particular, the amendments concern the authorisation process including environmental assessments. In addition, regasification works must be submitted to the PNIEC-PNRR Technical Commission in case of State EIA subjection.	PUBLIC INVESTMENT Regasification works
	Possibility for ARERA to define guaranteed minimum prices for production from plants in operation powered by biogas and biomass that benefit from incentives due to expire by 31 December 2027 or which give up incentives	PUBLIC INVESTMENT Biogas and biomass plants
	Possibility to submit to a Simplified Abilitative Procedure (SAP) instead of a single authorisation, all interventions of partial or complete conversion to the production of biomethane of electricity production plants powered by biogas, landfill gases or gases remaining from the purification processes.	ADMINISTRATIVE SIMPLIFICATION Biomethane plants
	Simplification of the authorisation process for the deployment of strategic energy infrastructures	ADMINISTRATIVE SIMPLIFICATION Strategic infrastructure

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

	ESA Code	2022	2023	2024
		% GDP	% GDP	% GDP
Target General Government net lending/borrowing	B.9			
Stability Programme		-8,0	-4,5	-3,7
Draft Budgetary Plan		-8,0	-5,3	-4,3
Difference		0,0	-0,8	-0,6
General Government net lending projection at unchanged policies	B.9			
Stability Programme		-8,0	-4,4	-3,5
Draft Budgetary Plan		-8,0	-5,2	-3,6
Difference		0,0	-0,8	-0,1

Note: a comma is used as a decimal separator.

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

	2020-2026
Revenue from RRF grants (% of GDP)	
RRF GRANTS as included in the revenue projections	3,3
Cash disbursements of RRF GRANTS from EU	3,4
Expenditure financed by RRF grants (% of GDP)	
TOTAL CURRENT EXPENDITURE	0,8
Gross fixed capital formation P.51g	0,9
Capital transfers D.9	1,5
TOTAL CAPITAL EXPENDITURE	2,5
Other costs financed by RRF grants (1) (% of GDP)	
Reduction in tax revenue	0,0
Other costs with impact on revenue	0,0
Financial transactions	0,0

(1) This covers costs that are not recorded as expenditure in national accounts.
Note: a comma is used as a decimal separator.

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

	2020-2026
Cash flow from RRF loans projected in the programme (% of GDP)	
Disbursements of RRF LOANS from EU	5,9
Repayments of RRF LOANS to EU	0,0
Expenditure financed by RRF loans (% of GDP)	
TOTAL CURRENT EXPENDITURE	0,4
Gross fixed capital formation P.51g	3,9
Capital transfers D.9	1,2
TOTAL CAPITAL EXPENDITURE	5,1
Other costs financed by RRF loans (1) (% of GDP)	
Reduction in tax revenue	0,0
Other costs with impact on revenue	0,0
Financial transactions	0,1

(1) This covers costs that are not recorded as expenditure in national accounts.

Note: a comma is used as a decimal separator.

TABLE III.1-18 : CENTRAL GOVERNMENT GUARANTEES AT 30 JUNE 2023 (% OF GDP) (10)

Measures	Date of adoption (1)	Maximum amount of contingent liabilities (% of GDP) (2)	Estimated take-up (% of GDP) (3)
SMEs' Fund (Fondo centrale di garanzia per le PMI)	23/12/1996	11	7,20
Guarantee for non-market risks in favour of SACE (4)	08/04/2020	5,9	3,16
First House Gurantee Fund (Fondo di garanzia prima casa)	27/12/2013		1,10
SACE - Garanzia Italia Fund (ex art. 1 DL 23/2020)	08/04/2020	9,8	1,06
SACE - SupportItalia	17/05/2022	9,8	0,96
GACS	14/02/2016		0,54
Green New Deal Guarantees	15/09/2020	0,1	0,22
European Guarantee Fund	19/05/2020	0,2	0,19
Bond issues by CDP S.p.A.	10/03/2020	0,2	0,15
SURE	19/05/2020	0,2	0,14
Short term trade credit insurance (art. 35 DL 34-2020)	19/05/2020	0,1	0,10
Macro-Financial assistance to Ukraine	23/09/2022	0,02	0,02
SACE guarantee commercial credits insurance	21/03/2022	0,2	0,00
Other instruments			0,04
Total			**14,88**

(1) The date of adoption refers to the legislative provision or ministerial decree that introduced or revised the guarantee' scheme.

(2) Theoretical ceiling established by law (if exists). The 9.8 percent of GDP ceiling refers to Garanzia Italia and Supportitalia as a whole.

(3) Stock oustanding exposure.

(4) Including the rebalancing effect of the State's co-insurance in favour of SACE in the export sector (Art. 2 of Decree Law No. 23/2020). The reform envisaged that commitments arising from SACE's insurance activity in the export sector and for internationalization support would be assumed by the State and SACE in a proportion of 90 percent and 10 percent, respectively (instead of 10 percent for the State and 90 percent for SACE previously in force).

Note: discrepancies, if any, are due to rounding; a comma is used as a decimal separator.

IV. METHODOLOGICAL NOTES

With regard to the methodological aspects and the models used for the estimates contained in this Document, two notes are provided:

1. a note containing a brief description of the modelling used in the DPB[33] for the macroeconomic framework and the impact of structural reforms;
2. a '*Methodological Note*' on the forecasting criteria attached to the Economic and Financial Document 2023, which provides detailed information on the methodology, the forecasting process and the models used for macroeconomic and public finance forecasts[34].

IV.1 BRIEF DESCRIPTION OF THE MODELS USED

ITEM - The Italian treasury econometric model

The ITEM - -Italian Treasury Econometric Model - was developed by the Treasury Department of the Ministry of Economy and Finance and is widely used in economic analysis and planning. ITEM describes the behaviour of the main aggregates of the Italian economy at the macroeconomic level and is a medium-sized model. It includes 371 variables, of which 247 are endogenous, and is based on 36 behavioral equations and 211 identities. It is a quantitative economic analysis tool used both for short- and medium-term forecasts, and for the assessment of the macroeconomic impact of economic policy measures or changes in international exogenous variables. A distinctive feature of ITEM is to jointly formalise, within the model, the supply and the demand sides of the economy. However, demand conditions are predominant in determining short-term developments, while supply-side conditions affect the evolution of the economy in the medium term.

A major revision of the ITEM econometric model was carried out in 2016, both following the introduction of the new European System of Accounts (ESA 2010), and in order to consider an up-to-date estimation sample covering the most recent data. Moreover, the prolonged and severe recession that the Italian economy went through after the financial crisis of 2007 posed the need to verify if this had induced structural changes in the relationships between the variables underlying the different equations of the model. The ITEM model was then re-estimated with the time series of the national accounts constructed according to ESA 2010 criteria, considering an estimation sample ranging between 1996:Q1 (start date of the time series constructed under the ESA 2010 criteria) and 2013:Q4. In specifying the different equations, it was necessary to introduce innovations and improvements, in order to more appropriately capture the relationships between the different aggregates found in the observed data.

[33] For more information, see https://www.dt.mef.gov.it/en/attivita_istituzionali/analisi_programmazione_economico_finanziaria/modellistica/index.html.

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

QUEST III – Italy model

QUEST III with R&D is the latest version of the class of Dynamic Stochastic General Equilibrium (DSGE) models developed by the European Commission[35]. 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 Department of the Treasury is an extension of the DSGE model developed by the European Commission (DG ECFIN) for quantitative policy analysis and modified for endogenous growth. The Department of Treasury uses in simulation exercises the version of the model calibrated for Italy, already employed by the European Commission in multi-country analyses of structural reforms. The endogenous growth of QUEST III is particularly well-suited to analyse the impact of structural growth-enhancing economic reforms. By including several nominal and real rigidities and imperfectly competitive markets, the model can be used, for example, to study the effect of policies to stimulate competition and reforms aimed at upgrading the quality of human capital.

ITFIN model

ITFIN is a quarterly econometric model of the Italian economy, characterized by a structure that ensures consistency between stocks and flows *(*so-called stock-flow consistent model). The model presents a detailed breakdown of the institutional sectors and captures their interdependence generated by financial and non-financial transactions. The evolution of the different types of financial assets and liabilities of each sector depends not only on the evolution of the market prices for assets, but also on the financial flows that feed them, thus ensuring consistency between stocks and flows.

Like ITEM, ITFIN is also a strongly data-driven model. In ITFIN, the relationships between the variables in the different behavioural equations, while deriving from economic theory, incorporate a strong dynamic component that reproduces what is observed in the data. ITFIN exploits the potential of two different databases that provide complementary information on the economy: the financial accounts and the institutional sector accounts within the national accounts. The first source includes a detailed description of the different financial assets and liabilities of the institutional sectors, while the second one contains information on expenditure and income flows, including those of financial assets.

A feature of ITFIN is the detailed reconstruction of the functioning of the banking, monetary and financial sectors. The model also considers a broad breakdown of the type of financial instruments issued by each of the different sectors considered. Particular attention is paid to modelling the supply and demand of government bonds and the transmission mechanisms of sovereign risk at the level of economic activity, through channels that largely concern the banking and financial sector.

The structure and properties of the model are documented in a recent research paper and its development is continuing to introduce a section on price and wage setting that allows for the analysis of inflation dynamics.

[35] See Roeger, W., Varga, J., in't Veld, J. (2022). The QUEST III R&D Model. In: Akcigit, U., Benedetti Fasil, C., Impullitti, G., Licandro, O., Sanchez-Martinez, M. (eds) Macroeconomic Modelling of R&D and Innovation Policies. International Economic Association Series. Palgrave Macmillan, Cham.

MACGEM-IT - The CGE Model for Italian Economy

The MACGEM-IT model was developed by Directorate I of the Department of the Treasury in collaboration with the Department of Economics and Law of the University of Macerata. MACGEM-IT is a Computational Model of General Equilibrium (CGE), built and developed to reflect the institutional structure of the Italian economic system, in order to quantify the aggregate and - direct and indirect - disaggregated impact of policy scenarios related to main macroeconomic aggregates.

MACGEM-IT formalizes the relations existing between the operators of the economic system through the modelling of the fundamental behavioural functions (production, consumption and accumulation) that generate the interdependency relationships, respectively, between the productive activities, the primary factors of production and the institutional sectors. The fundamental structure of the model is that of the models of general economic equilibrium with the insertion of rigidity and imperfections relatively to the behaviour of some operators and markets, namely the Public Administration and the labour market.

The reference database to calibrate MACGEM-IT is Italy's *Social Accounting Matrix* (SAM). From the economic flows recorded in the SAM it is possible to calculate the value of the necessary parameters for the derivation of equations in MACGEM-IT. Some of the key parameters are the following: coefficients and factor absorption shares, shares of primary income distribution, shares of transfers between institutional sectors, implicit tax rates, propensity to consume, etc.

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

MACGEM-IT is currently developed in the static[36], dynamic and multi-regional version, with a multi-output and a multi-input approach regarding the productive sphere. Each agent is represented through its objective function, which consists in the maximum profit for the productive activities, under the constraint of the given productive capacity, and in the maximum utility for the Institutional Sectors (i.e. Households, Firms, Public Administration and Rest of the World), under the constraint of exogenously determined resources. Activities realise the production of goods and services typically attributable to them, as well as the secondary productions (multi-output production function), through the combination of the production factors at different aggregation level (i.e. nested production functions). In this sense, it is possible to capture every substitutability- and complementarity relationship between primary factors and/or intermediate goods within the production process (multi-input production *function).* In the static version of the

[36] See M. Ciaschini, Felici F., Pretaroli R., Severini F.and Socci C., 'MACGEM-IT A SAM based CGE model for the Italian Economy', 2020, Tresury Department Working Paper, No. 1, 03/2020 https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_en/analisi_progammazione/working_papers/WP_1_-_2020.pdf . C. Socci, Felici F., Pretaroli R, Severini F. e Loiero R., 'The Multisector Applied Computable General Equilibrium Model for Italian Economy (MACGEM-IT)', 2021, Italian Economic Journal: A Continuation of *Rivista Italiana degli Economisti and Giornale degli Economisti*, Springer, *Società Italiana degli Economisti* (Italian Economic Association), Vol. 7(1), pages 109-127, Marzo 2021.

model, a breakdown of the labour factor by gender with three-level formal skills (i.e. low, medium, high labour) was introduced.

An external environmental module has also been introduced to evaluate the energy consumption by source and the environmental emissions of each activity and for household consumption. This module has been developed on the basis of the Physical Energy Flow Accounts (PEFA) and the elaborated NAMEA accounts released by ISTAT.

The model devotes a large degree of detail to the role of Public Administration and, respecting the current institutional set-up, it outlines the complexity of the transmission of the effects that regulatory provisions can generate with regard to the formation of public institutional sector revenues and expenditures. The tax module is modelled with a large level of disaggregation, according to the current tax legislation, to comply with the tax base and the rates in force. The peculiarity of the tax module is represented by the differentiation between taxes on products, taxes whose base refers to activities and taxes related to institutional sectors.

Considering the broad articulation of the economic aggregates represented in the different phases of the circular flow of income, MACGEM-IT is particularly useful to estimate the impact of policies and reform proposals with a strong selective and/or categorical connotation characterised by a high degree of complexity already since the phase of insertion of shocks, as they can be related simultaneously both to the production- and to the income side. The number of specific policy simulations that MACGEM-IT can analyse is wide. In particular, the model may treat the introduction of differentiated incentives relative to final demand components, or measures supporting specific businesses and/or activities and/or commodities, or the use of income redistribution policies. The model in the static version is also able to detect the differential effects on employment by gender and formal skills. Finally, with regard to emerging energy and climate issues, static and dynamic models can assess the impact of the introduction of environmental taxes, with the possibility of estimating the effects on air emissions, on employment and the efficiency of the tax system.

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

The methodology used to estimate the potential output and the output gap of the Italian economy is common to all EU countries[37]. The specifications are discussed and determined by the Output Gap Working Group (OGWG), established within the Economic Policy Committee (CPE-EU) of the EU Council.

The estimates in this document have been produced on the basis of the reference macroeconomic framework for this DBP for the years 2024-2026.

For the estimation of the structural unemployment rate (Non-Accelerating Wage Rate of Unemployment - NAWRU) and the trend of Total Factor Productivity,

[37] See for details: Havik et al., 2014, 'The production function methodology for calculating potential growth rates and output gaps, European Economy', (Economic Papers No. 535), http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp535_en.pdf.

the initialization parameters used by the European Commission for the Spring Forecasts 2023 were employed[38].

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

See attached document '*Nota metodologica sui criteri di formulazione delle previsioni tendenziali*' (in Italian only).

[38] For details on the methodology and parameters applied, see '*Nota metodologica sui criteri di formulazione delle previsioni tendenziali*'.

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