Brussels, 26.11.2024
C(2024) 9057 final

COMMISSION OPINION

of 26.11.2024

on the Draft Budgetary Plan of Italy

{SWD(2024) 950 final}

(Only the Italian text is authentic)

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GENERAL CONSIDERATIONS

1. Regulation (EU) No 473/2013 lays down provisions for enhanced monitoring of budgetary policies in the euro area, in order to ensure that national budgets are consistent with the economic policy guidance issued in the context of the EU economic governance framework.

2. Article 6 of Regulation (EU) No 473/2013 requires euro area Member States to submit annually to the Commission and to the Eurogroup a Draft Budgetary Plan, by 15 October, setting out the budgetary targets for the forthcoming year, and outlining the main aspects underlying the budgetary outlook for general government and its subsectors.

3. On 30 April 2024, the new economic governance framework entered into force. The main objectives of the new framework are to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments. The framework helps to make the EU more competitive and better prepared for future challenges by supporting progress towards a green, digital, inclusive, and resilient economy.

4. In order to simplify the Union fiscal framework and increase transparency, a single operational indicator, anchored in debt sustainability, serves as a basis for setting the fiscal path and for carrying out annual fiscal surveillance for each Member State. That single operational indicator is the nominal growth rate of net expenditure[1].

5. The Recovery and Resilience Facility[2] provides financial support for the implementation of reforms and investments, notably to promote the green and digital transitions. The Facility also aims at increasing the resilience of the Union's energy system by reducing dependence on fossil fuels and diversifying energy supply at Union level ('REPowerEU objectives'). The Facility is expected to strengthen the resilience and potential growth of Member States' economies, which contributes to job creation and sustainable public finances. Part of this support takes the form of non-repayable financial support ("grants"), entailing a fiscal impulse financed by the Union. Together with cohesion policy funds and the Just Transition Mechanism, the Facility is supporting a fair and inclusive recovery in the EU, in line with the European Pillar of Social Rights.

[1] According to Article 2(2) of Regulation (EU) 2024/1263, 'net expenditure' means government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by revenue from Union funds, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures.

[2] Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility, OJ L 57, 18.2.2021, p. 17–75.

CONSIDERATIONS CONCERNING ITALY

6. On 15 October 2024, Italy submitted its Draft Budgetary Plan for 2025 to the Commission and to the Eurogroup. On that basis, the Commission adopts this opinion in accordance with Article 7 of Regulation (EU) No 473/2013, and taking into account the Council Recommendation on economic, budgetary, employment and structural policies of Italy of 21 October 2024[3]. This opinion is adopted by the Commission together with the Commission Recommendation for a Council Recommendation under Article 126(7) of the Treaty with a view to bringing an end to the situation of an excessive deficit in Italy[4], and the Commission Recommendation for a Council Recommendation setting the net expenditure path of Italy for the years 2025 to 2029[5], which the Commission expects the Council to act upon in a timely manner.

7. On 21 October 2024, upon the Commission recommendation on the economic, social, employment, structural and budgetary policies of Italy of 19 June 2024[6], the Council recommended Italy, in line with the requirements of the reformed Stability and Growth Pact, to limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value.

8. On 15 October 2024, Italy submitted to the Commission its medium-term fiscal-structural plan in line with Regulation (EU) 2024/1263[7]. The plan commits to net expenditure growth not exceeding 1.3% in 2025, 1.6% in 2026, 1.9% in 2027, 1.7% in 2028 and 1.5% in 2029. The Commission has assessed the medium-term fiscal-structural plan of Italy and recommends to the Council to adopt a recommendation setting the net expenditure growth ceilings contained therein. The Draft Budgetary Plan for 2025 is the first step in the implementation of the medium-term fiscal-structural plan.

9. On 26 July 2024, the Council adopted a decision under Article 126(6) of the Treaty on the existence of an excessive deficit in Italy due to non-compliance with the deficit criterion[8]. On [26 November] 2024, the Commission adopted a recommendation for a Council Recommendation under Article 126(7) of the Treaty with a view to bringing an end to the situation of an excessive deficit in Italy by 2026[9], which the Commission expects the Council to adopt in a timely manner. According to that recommendation, in the context of the correction of the excessive

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[3] Not yet published.

[4] Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Italy, 26.11.2024, COM(2024)954 final.

[5] Commission Recommendation for a Council Recommendation endorsing the national medium-term fiscal-structural plan of Italy, 26.11.2024, COM(2024)718 final.

[6] Commission Recommendation for a Council Recommendation on the economic, social, employment, structural and budgetary policies of Italy, 19.06.2024, COM(2024)612 final.

[7] Regulation (EU) 2024/1263 of the European Parliament and of the Council of 29 April 2024 on the effective coordination of economic policies and multilateral budgetary surveillance and repealing Council Regulation (EC) No 1466/97, OJ L, 30.4.2024, ELI: http://data.europa.eu/eli/reg/2024/1263/oj.

[8] Council decision of 26 July 2024 on the existence of an excessive deficit in Italy, OJ L, 2024/2124, 1.8.2024.

[9] Recommendation for a Council Recommendation with a view to bringing an end to the situation of an excessive deficit in Italy, 26.11.2024, COM(2024)954 final.

deficit, Italy should ensure that the nominal growth of net expenditure does not exceed 1.3% in 2025 and 1.6% in 2026.

10. According to the Draft Budgetary Plan, Italy's real GDP is projected to grow by 1.2% in 2025 (1.0% in 2024), while inflation is forecast at 2.0% in 2025 (1.2% in 2024). According to the European Commission Autumn 2024 Forecast , Italy's real GDP is projected to grow by 1.0% in 2025 (0.7% in 2024), while inflation is forecast at 1.9% in 2025 (1.1% in 2024). The main difference between the two sets of projections concerns real GDP growth and reflects less favourable carry-over for 2024, which was updated after the cut-off date of the macroeconomic projections of the Draft Budgetary Plan, as well as the Commission's lower forecast for domestic demand in both years, especially for investment. Overall, the macroeconomic scenario underpinning the budgetary projections in the Draft Budgetary Plan appears to be in line with the Commission's forecast for 2025 and 2024. Italy complies with the requirement of Article 4(4) of Regulation (EU) No 473/2013, since the Draft Budgetary Plan is based on independently endorsed macroeconomic forecasts.

11. Based on the Commission's estimates, the fiscal stance[10] is projected to be broadly neutral in 2025, by 0.1% of GDP, following a contractionary fiscal stance of 2.9% in 2024 related to the phase-out of the tax credit for housing renovations and of measures to mitigate the (economic and social) impact of high energy prices. This measure of fiscal stance appropriately considers the impact on aggregate demand of expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds.

12. According to the Draft Budgetary Plan, Italy's general government deficit is projected to decrease to 3.3% of GDP in 2025 (3.8% in 2024)[11], while the general government debt-to-GDP ratio is set to increase to 136.9% at the end of 2025 (135.8% at the end of 2024), driven by the lagged impact on cash borrowing of the housing renovation tax credits accrued in the deficit until 2023. According to the Draft Budgetary Plan, net expenditure is projected to decline by 1.9% in 2024 and to increase by 1.3% in 2025. The growth rate of net expenditure in 2025 according to the Draft Budgetary Plan is the same as the growth rate in the medium-term fiscal-structural plan submitted by Italy on 15 October 2024. In turn, according to the European Commission Autumn 2024 Forecast, Italy's general government deficit is projected to decrease to 3.4% of GDP in 2025 (3.8% in 2024), while the general government debt-to-GDP ratio is set to increase to 138.2% at the end of 2025 (136.6% at the end of 2024). According to the European Commission Autumn 2024 Forecast, net expenditure is projected to decrease by 2.3% in 2024 and to increase by 1.3% in 2025. The main differences between both sets of projections for the debt-to-GDP ratio reflect differences in nominal GDP growth both in 2024 and 2025. The risks to achieving the fiscal objectives for 2025 set out in the Draft Budgetary Plan

[10] The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of discretionary revenue measures, excluding one-off and cyclical unemployment expenditure, but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term (10-year) average potential GDP growth rate, expressed as a ratio to nominal GDP.

[11] According to the Draft Budgetary Plan, one-off measures are associated with a balance-improving impact of 0.1% of GDP in 2025 (0.1% of GDP in 2024). These one-off measures relate various withholding taxes and revenues related to taxpayers voluntarily regularising their past tax position (so-called "tregua fiscale") with reduced sanctions and fines compensated by interventions related to the floods which hit Italy in May 2023. This is in line with the Commission 2024 autumn forecast.

are tilted to the downside, and mainly relate to some of the announced measures on the expenditure side.

13. The Draft Budgetary Plan assumes that expenditure amounting to 0.6% of GDP will be financed by non-repayable support ("grants") from the Recovery and Resilience Facility in 2025, compared to 0.3% of GDP in 2024. Expenditure financed by Recovery and Resilience Facility grants enables high-quality investment and productivity-enhancing reforms without a direct impact on the general government balance and debt of Italy. The Draft Budgetary Plan also assumes expenditure supported by loans from the Recovery and Resilience Facility, amounting to 1.3% of GDP in 2025, compared with 0.7% of GDP in 2024.

14. The Draft Budgetary Plan includes several policy measures with a fiscal impact in 2025. On the revenue side, these include the confirmation of the reduction of the tax wedge already implemented in 2024, although with a somewhat modified design. These permanent tax cuts are in part financed in 2025 by the remodulation of taxation on banks and insurance companies and other not yet specified measures. On the expenditure side, these measures include part of the reduction of the tax wedge (i.e. the new tax credit to low-wage employees which is recorded as social transfers), the allocation of funds for the renewal of the public sector wage contracts for the 2025-2027 period, new measures to support the households and natality, additional resources for the health sector and public investments, the extension of early retirement measures adopted in past years and targeted tax credits to support businesses which are financed, among others, by the revision of expenditures of ministries as well as local authorities and other not yet specified measures. According to Commission estimates, the overall additional impact of the revenue measures increases the government deficit by 0.3% of GDP in 2025.

15. According to the European Commission Autumn 2024 Forecast, Italy's net expenditure is projected to increase by 1.3% in 2025, which corresponds to a cumulative growth of -1.0% in 2024 and 2025 taken together. The Commission is of the view that these net expenditure growth rates are in line with the Council recommendation of 21 October 2024 to limit the growth in net expenditure in 2025 to a rate consistent with putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit below the 3% of GDP Treaty reference value. Those net expenditure growth rates would be appropriate initial steps towards the correction of the excessive deficit by 2026, as the Commission recommends to the Council to recommend to Italy. Moreover, those net expenditure growth rates would be appropriate initial steps towards the implementation of the medium-term fiscal structural plan.

16. According to the European Commission Autumn 2024 Forecast, nationally financed public investment is projected to increase to 3.4% of GDP in 2025 (from 3.3% of GDP in 2024). In turn, public expenditure on EU funded programmes, including Recovery and Resilience Facility grants, is expected to increase to 0.9% of GDP in 2025 (from 0.4% of GDP in 2024).

17. The Draft Budgetary Plan includes medium-term budgetary projections until 2027. The general government deficit is projected to decrease to 2.8% of GDP in 2026 and to 2.6% in 2027. In turn, the general government debt is projected to increase to 137.8% in 2026, and to decrease to 137.5% of GDP in 2027.

18. Finally, the Council also recommended Italy to make the tax system more supportive to growth, with a focus on reducing the tax wedge on labour and in line with fiscal

sustainability objectives, including by reducing tax expenditures and updating cadastral values, while ensuring fairness and progressivity and supporting the green transition. The Draft Budgetary Plan includes measures aimed at permanently reducing the tax wedge through a new system of tax deductions and the extension of the lower personal income tax rates already implemented in 2024. Some revisions of tax expenditures have also been implemented. Overall, these measures are expected to further improve the profile of marginal effective tax rate on personal income, while contributing to streamline tax expenditures.

19. Overall, the Commission is of the opinion that the Draft Budgetary Plan of Italy is in line with the Council Recommendation of 21 October 2024. According to the European Commission Autumn 2024 Forecast, Italy's net expenditure in 2025 is consistent with what was recommended by the Council on 21 October 2024. The progress made with the implementation of the Council's country-specific recommendations will be assessed by the Commission in spring 2025, in the context of the European Semester Spring Package.

Table 1. Key macroeconomic and fiscal figures

#	Variables		2023	2024		2025	
			Outturn	DBP	COM	DBP	COM
1	Real GDP	% change	0.7	1.0	0.7	1.2	1.0
2	HICP inflation	% change	5.9	1.2	1.1	2.0	1.9
3	General government balance	% GDP	-7.2	-3.8	-3.8	-3.3	-3.4
4	Primary balance	% GDP	-3.5	0.1	0.1	0.6	0.5
5	General government gross debt	% GDP	134.8	135.8	136.6	136.9	138.2
6	Fiscal stance (**)	% GDP	0.0		2.9		0.1
7	Net expenditure growth (annual)	% change		-1.9	-2.3	1.3	1.3
8	Net expenditure growth (cumulative)	% change				-0.7	-1.0
			According to the Commission Recommendation of 26 November 2024 for a Council recommendation under Article 126(7) of the Treaty setting the net expenditure path of Italy				
9	Maximum growth rates of net expenditure (*)	% change			Annual	**1.3**	
10		% change			Cumulative	**-0.7**	

Notes :
* According to the Commission Recommendation of 26 November 2024 for a Council recommendation under Article 126(7) of the Treaty setting the net expenditure path of Italy for the years 2025 to 2028 and endorsing a set of reforms and investment commitments underpinning an extension of the adjustment period.
** The fiscal stance is measured as the change in general government primary expenditure, net of the incremental budgetary impact of both discretionary revenue measures and COVID-19 pandemic-related temporary emergency measures, excluding cyclical unemployment expenditure, but including the change in expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to the medium-term (10-year) average potential GDP growth rate in nominal terms. A negative (positive) sign indicates an excess (shortfall) of primary expenditure growth over medium-term potential GDP growth, which corresponds to an expansionary (contractionary) fiscal stance. For more details, see Box 1 of the Fiscal Statistical Tables.

Source : European Commission Autumn 2024 Forecast and Draft Budgetary Plan for 2025

Done at Brussels, 26.11.2024

For the Commission
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