Ministero dell'Economia e delle Finanze

ITALY'S DRAFT BUDGETARY PLAN 2018

MINISTERO DELL'ECONOMIA E DELLE FINANZE

ITALY'S DRAFT BUDGETARY PLAN 2018

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

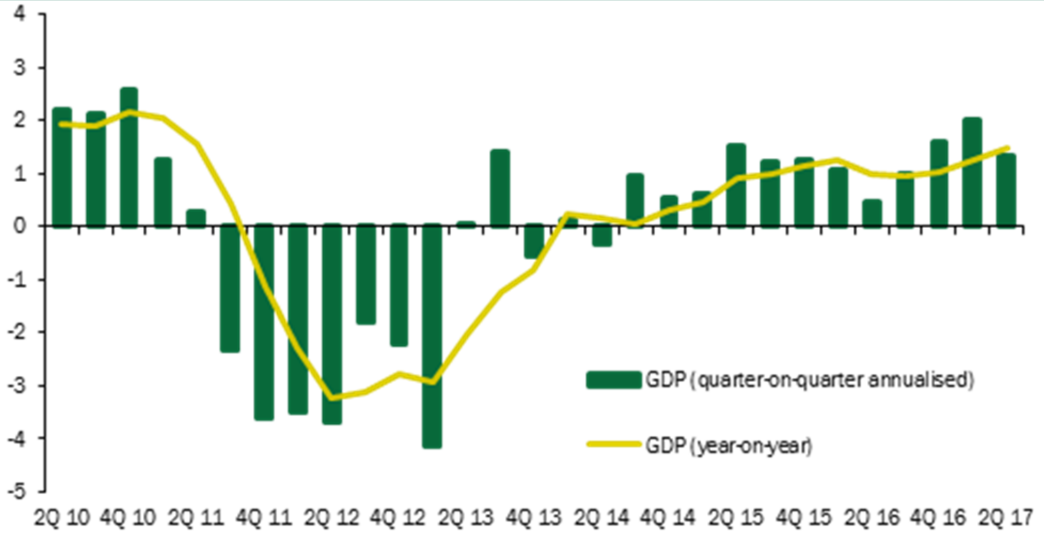
The economic recovery is gaining momentum, 2017 growth forecast revised up

Economic conditions have improved markedly since the second half of last year, strengthening growth already begun. The statistical office has revised up the official GDP data for 2015 and 2016, which now show growth of around one percent in real terms in both years. The government recently raised its real GDP forecast for 2017 to 1.5 percent, from 1.1 percent in April's 2017 Stability Program (SP 2017).[1]

Surveys of firms and consumers, as well as industrial production data and other quantitative indicators, suggest that real GDP growth in the second half of the year will probably accelerate from the 0.4 percent quarter-on-quarter pace (1.7 percent annualised) recorded in the first half. Barring unforeseen shocks or a major tightening in financial conditions, the average growth rate of the economy looks set to rise further in 2018.

Indeed, exports have been quite dynamic since the second quarter of 2016. The appreciation of the euro exchange rate could be a mild headwind going forward, but the external growth outlook seems to be improving further, with business confidence particularly buoyant in the manufacturing industry.

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



Source: ISTAT.

[1] Update of the EFD, 23 September 2017, http://www.dt.tesoro.it/modules/documenti_it/analisi_progammazione/documenti_programmatici/def_2017/NADEF2017.pdf

FIGURE 1.1-2 EXPECTATIONS FOR PRODUCTION (MANUFACTURING) AND TURNOVER (SERVICES) (SEASONALLY ADJUSTED BALANCE OF RESPONSES)

Source: ISTAT.

On the domestic supply front, in addition to the regained dynamism of the manufacturing industry, the recovery is spreading across the economy. On the demand side, leading indicators suggest that investment in machinery and equipment will pick up in the second half of the year, while construction is slowly recovering. The performance of interest-rate sectors of the economy was already very positive in 2016, when new car registrations rose by 15.9 percent and property sales by 17.3 percent. The recovery is now spreading from sectors that lead the recovery to those that lag it.

Upswing set to continue, growth prognosis for 2018-2020 also improves

Conditions in the banking system have improved significantly of late. Given how recent the most relevant developments are, first-half GDP figures do not yet capture their impact. Around mid-year, the government intervened on the most critical problems within the banking system via the precautionary recapitalisation of *Monte dei Paschi di Siena* and the liquidation of two large regional banks in Veneto. The announcement of these interventions boosted confidence in the banking system, leading to a tightening in bond spreads and credit default swaps (CDS) for Italian banks.

Meanwhile, the implementation of banking-sector reforms continued apace, with the merger of two large mutual banks and the creation of three holding companies for cooperative banks that will be supervised by the ECB. The share of nonperforming loans is still high compared with the European average, but it is declining thanks to a lower rate of deterioration in loan quality and to sizable disposals of bad loans announced by several banks.

FIGURE 1.1-3 CDS ON ITALIAN BANKS, FIVE YEAR MATURITY (WEIGHTED INDEX)

Source: Bloomberg.

A banking system freed from the burden of uncertainty and strengthened in terms of governance can deal more effectively with technological and profitability challenges. This also means a lower cost and easier access to credit for the economy. The latest bank lending data show a recovery in loans to households and, to a lesser extent, businesses. Survey evidence suggests that the availability of credit to SMEs has improved in recent quarters.

According to simulations with the Treasury's econometric model, the recent decline in banks' funding costs, if passed on to customers, could increase GDP growth by 0.1 points in 2018 and 0.2 points in the two following years.

Another factor supporting optimism about the outlook is the cumulative effect of structural reforms undertaken in recent years, from the public administration to the labour market, from corporate finance to the efficiency of the tax and legal system.

Parliament recently approved the Competition Law, which was tabled by the government in 2015. As a result of that, investment in services such as pharmacies and law firms will be opened up. A major contribution to investment and productivity will also come from the Industry 4.0 plan, recently broadened and renamed Enterprise 4.0.

Quantitative estimates of the effects of already enacted reforms suggest that, once fully implemented, they could increase real GDP by 3 percentage points cumulatively over a five-year period.

A further boost to the economy will come from public investment. In the first half of this year, public investment declined by 4.1 percent in nominal terms compared to a year ago. Although this was partly offset by an 11.0 percent increase in capital transfers, the government will redouble its efforts to reverse the decline in public investment, as this would not only stimulate aggregate demand, but also raise the economy's growth potential thanks to increased research and development spending and more modern, efficient and sustainable infrastructure.

The decree law no. 50 of 2017[2] adopted this past spring raised the resources for reconstruction of earthquake-affected areas, urban development, transportation, public works, land protection and the environment. Based on existing legislation, public investment is projected to grow by 5.1 percent in 2018, in nominal terms. However, the policy scenario envisages additional funding for public investment in 2018 and, to an even greater extent, 2019-2020.

Against this backdrop, the real GDP growth forecast for 2018-2020 has been revised up compared to April's SP 2017. The economy is now projected to expand by 1.5 percent in real terms both in 2018 and in 2019, up from 1.0 percent in the old forecast. Growth in the final year of the program, 2020, is now projected at 1.3 percent, versus 1.1 percent in the SP 2017.

The upward revision to the real GDP forecast reflects not only a greatly improved performance of the economy this year, the healing of the banking system and the other factors described above, but also a more gradual fiscal consolidation process in the next two years. Although the new projection for 2018 is above the consensus of market forecasters[3], it is actually a balanced assessment in light of the upside factors discussed above.

Nominal GDP growth set to rise as deflator rebounds from Q1 dip

In spite of the upward surprise from the real growth figures, nominal GDP growth this year will be probably slightly lower than the SP 2017 projections. Indeed, while consumer prices so far this year have evolved broadly in line with the SP 2017 forecast, the GDP deflator has been weaker than expected, falling in Q1 2017 and then just recovering the lost ground in Q2. As a result, the 2017 forecast for the deflator has been reduced by half, from 1.2 to 0.6 percent, and nominal GDP is now projected to grow by 2.1 percent versus 2.2 in the SP 2017.

The dip in the GDP deflator was largely due to a steep rise in import prices around the turn of the year, as energy and intermediate goods prices rose in world markets. The spike in import prices was almost completely reversed by mid-year. As a result, the updated forecast looks for a significant rise in nominal growth as the deflator recovers, courtesy of lower-to-stable import prices engendered by the stronger euro exchange rate and broadly stable energy prices.

Further out, over the 2018-2020 forecast horizon, the deflator is expected to follow a path relatively close to the one projected in the SP 2017 – the only relevant differences being due to changing fiscal policy assumptions, notably with respect to indirect taxes.

[2] Converted into Law no. 96 of 21 June 2017.

[3] According to Bloomberg, the mean consensus forecasts for Italy's real GDP growth are currently 1.4 percent for 2017, 1.2 for 2018 and 1.0 for 2019. The October survey by Consensus Economics also finds a mean forecast of 1.4 percent for 2017 and 1.2 for 2018. Consensus forecasts for 2020 are currently not available.

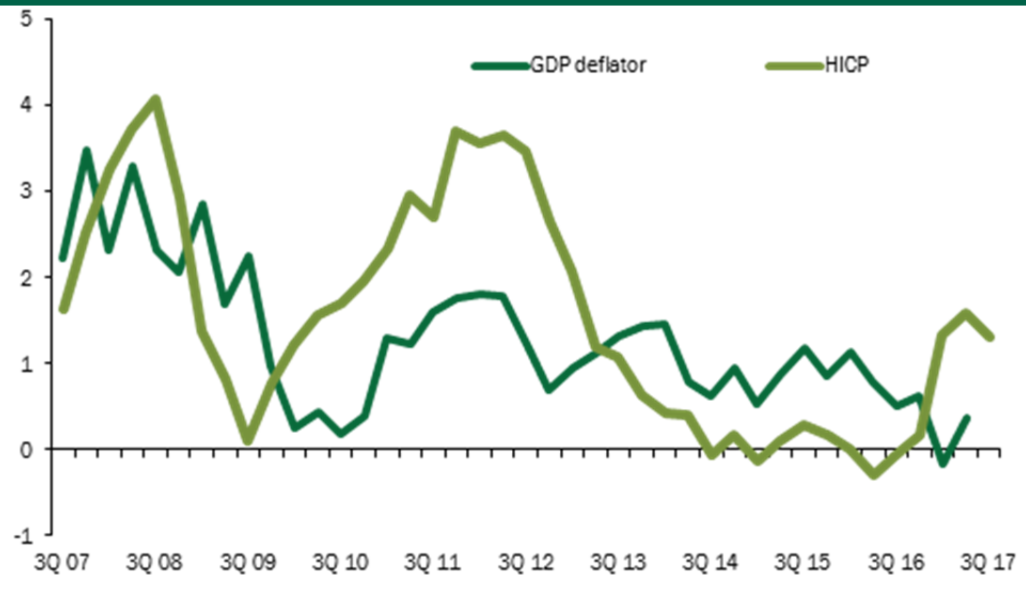
Consumer price inflation likely to remain moderate as wages mildly recover

Wage growth in Italy remains restrained[4]. Unit labour costs rose by 0.5 percent in 2016 and are projected to rise by 0.8 percent this year. The updated forecast then calls to a gradual acceleration in wage inflation over the next three years, as labour market conditions improve and inflation rises – based on the projections published by ISTAT, which inform wage negotiations. Indeed, the ISTAT forecasts envisage an increase in HICP inflation excluding imported energy products from 0.1 percent in 2016, to 1.1 percent this year, 1.3 percent in 2018, 1.4 in 2019 and 1.5 percent in 2020.

The headline HICP index in the first nine months of the year grew on average by 1.4 percent year-on-year. The annual increase is also projected at 1.3 percent, up from -0.1 percent in 2016. The acceleration is mostly due to the rise in energy prices at the beginning of the year, though the core index is also projected to post an average 0.9 percent annual increase, from 0.5 percent in 2016.

The expectation of a moderate recovery in inflation is supported by the firming in the global business cycle, the improvement in the domestic labour market and the recent rise in oil prices from their mid-year lows. However, there remain meaningful downside risks related to the possibility of a further firming in the euro exchange rate and of a decline in oil prices.

FIGURE 1.1-4 GDP DEFLATOR AND HARMONISED INDEX OF CONSUMER PRICES (% CHANGE YEAR ON YEAR)



Source: ISTAT.

[4] For up-to-date comparisons, see Eurostat, Second Quarter of 2017- Annual Growth in Labour Costs, 15 September 2017, News Release 139/2017.

Significant employment gains in 2017, jobs growth set to continue

The labour market has continued to improve this year. According to the Labour Force survey, in the first eight months of this year the number of persons in employment rose 1.2 percent over the same period in 2016. At 23.1 million, seasonally adjusted employment in August was one million units higher than the trough recorded in September 2013.

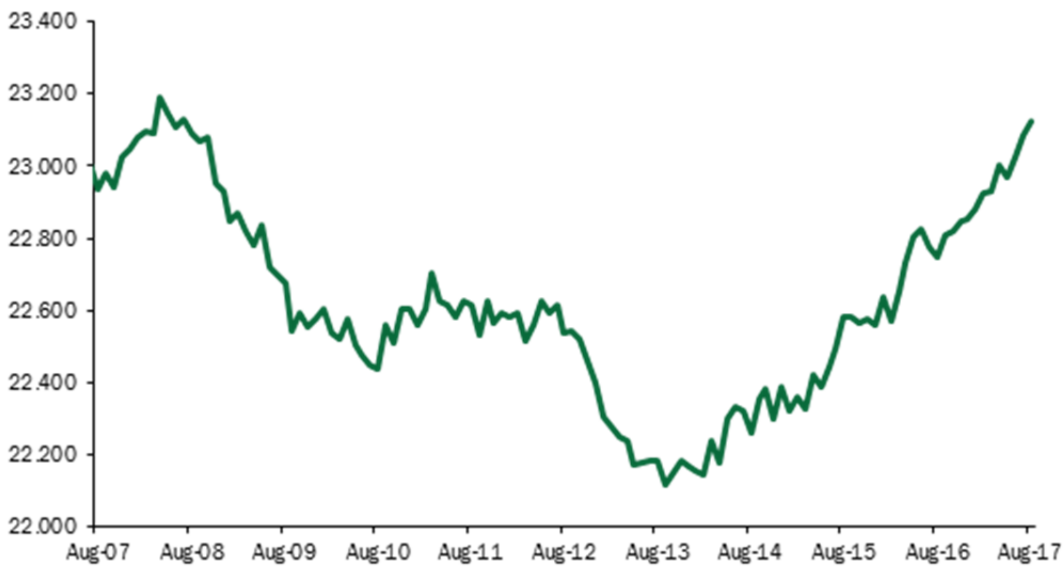
According to national accounts data, in the first half of 2017 employment on a full-time equivalent basis rose 1.1 percent compared to a year ago, while real GDP growth averaged 1.4 percent.

The updated annual forecast for 2017 envisages a 1.0 percent increase in full-time equivalent employment and a 1.5 percent increase in real GDP, which implies a labour productivity increase of 0.5 percentage points, a sharp improvement compared to the 0.4 percent decrease in 2016. Employment is projected to grow at rates ranging between 0.8 and 0.9 percent in the next three years. Given the real GDP growth projections mentioned above, productivity in 2018-2020 would grow by between 0.3 and 0.4 percentage points per annum.

The average unemployment rate in 2016 was 11.7 percent and is expected to decline to 11.2 percent this year and then gradually fall to 9.8 percent in 2020. It may thus take many more years to return to the pre-crisis low of 6.1 percent in 2007. It should be noted, though, that the participation rate has risen well above pre-crisis levels. In August of this year, it reached a new high of 65.7 percent. In 2007, the participation rate was significantly lower, 62.5 percent.

In August of this year the employment ratio based on the national definition stood at 58.2 percent, up from an annual low of 55.6 percent in 2013. According to the updated forecast, the ratio would rise to 60.2 percent in 2020, a level higher than at any point in the past. In August a new maximum for the female employment rate has been reached, to 48.9 percent, well above the pre-crisis levels.

FIGURE I.1-5 EMPLOYMENT (THOUSAND PERSONS, SEASONALLY ADJUSTED)



Source: ISTAT.

Budget balance looks on target, further reduction in the deficit projected for 2018

The general government deficit this year is expected to decline to 2.1 percent of GDP, unchanged from the SP 2017 projection and down from 2.5 percent in 2016[5]. Tax revenue is evolving in line if not better than the original projections, thanks to solid growth in domestic demand and to the effectiveness of new methods of VAT withholding that were introduced last year ('reverse charge' and 'split payment') and reinforced with the decree law no. 50 of 2017[6]. Noninterest current expenditure is broadly in line with the April estimate while interest payments are expected to close the year slightly lower. Public investment looks below target, but capital transfers are now expected to exceed the SP 2017 projections.

As for next year, in the recent Update to the SP 2017, the deficit target for 2018 was raised from 1.0 to 1.6 percent of GDP[7]. The government obtained Parliament's authorisation for this change based on the thesis that, although cyclical conditions have improved markedly, the economy is still very far from full employment and would be vulnerable to excessive fiscal tightening[8]. The government also took stock of the European Commission's intention to use a margin of discretion when assessing member states' compliance with the Stability and Growth Pact in a context of still-low nominal GDP growth and with an eye to achieving an appropriate fiscal stance for the Euro area as a whole.

According to the latest official estimates, a decline in the deficit to 1.6 percent of GDP next year would yield a 0.3 percentage point improvement in Italy's structural balance. The primary surplus would rise to 2.0 percent of GDP, from an estimated 1.7 percent this year.

2018 budget policy targets investment, competitiveness and social cohesion

In line with Government commitments as of SP 2017, the 2018 Budget Law (BL 2018) sterilizes completely the VAT increase provided for by current legislation in 2018 - partly already excluded from the April manoeuvre - and partially the one provided for 2019. Besides this intervention, the government's action is divided in three areas: the stimulation of public and private investments; policies for youth; strengthening tools to fight poverty.

New resources are allocated both to the state budget and to local governments. In the field of competitiveness and innovation policies, the private investment incentive measures envisaged by previous regulatory provisions - such as the extension of real estate restructuring interventions, the "Super" and "Hyper" amortisation, the new Sabatini law - have been confirmed.

The BL 2018 provides a tax relief for new recruitment of young people for an indefinite period. A fund is also set up for the enhancement of research aimed at

[5] The 2016 figure was revised up by ISTAT from 2.4 percent in the 22 September 2017 National Accounts release, in connection with a downward revision (from 2.7 to 2.6 percent) of the 2015 balance.

[6] Converted into Law no. 96 of 21 June 2017.

[7] *Update of the EFD 2017*, approved by the Council of Ministers on 23 September 2017.

[8] *Report to Parliament– Update of the EFD 2017*, approved by the Council of Ministers on 23 September 2017. Parliament approved the *Nota* and *Report* 4 October 2017.

supporting the competitiveness of the Italian economy. Additional resources for the Inclusion Income are allocated for the strengthening of the fight against poverty.

LB 2018 also provides funding for the unchanged policies, which include additional resources for the renewal of public employment contracts.

Overall, the new policies for development, competitiveness and social cohesion, the repeal of the previously legislated increase in VAT and the refinancing of unchanged policies will determine a deficit increasing of roughly 1.1 per cent of GDP for 2018.

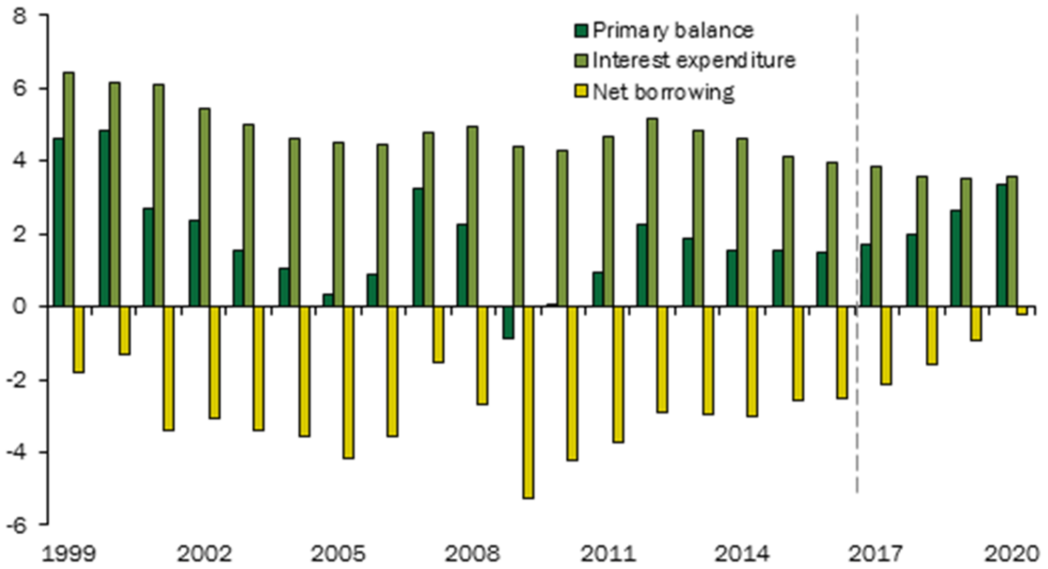
The 1.6 per cent deficit target will be achieved by means of aggregate contributions based either on spending cuts and revenue gains. Savings will derive from structural reduction of current spending, also obtained through integration of the central government spending review process into the economic and financial planning cycle. Revenue growth will be achieved through the efficiency of VAT collection mechanisms along the lines successfully implemented in the recent years, the decision to forgo sanctions and fines related to unpaid taxes (so-called "*rottamazione delle cartelle esattoriali*") for taxpayers spontaneously regularizing their past tax position.

Budget plan for 2019-2020 aims to achieve virtual balance in final year

As for the period 2019-2020, the program continue to show a significant deficit reduction (estimated at 0.9% of GDP in 2019 and 0.2% in 2020). The structural balance under the no policy change scenario should improve, reaching -0.6 per cent of GDP in 2019 and -0.2 per cent in 2020, leading to the achievement of the Italy's Medium-Term Objective (a balanced structural budget).

Budgetary policy will be based on the continuation of the Spending Review process and the recovery of escape and evasion areas; progress on both of these profiles is essential to prevent the activation of VAT increases expected for 2019 and 2020.

FIGURE 1.1-6 NET BORROWING, PRIMARY BALANCE AND INTEREST EXPENDITURE (% OF GDP)



Source: ISTAT and government projections for 2017-2020.

Privatisation program will continue

The 2017 forecast for privatisation revenue has been revised down, from 0.3 percent to 0.2 percent of GDP.

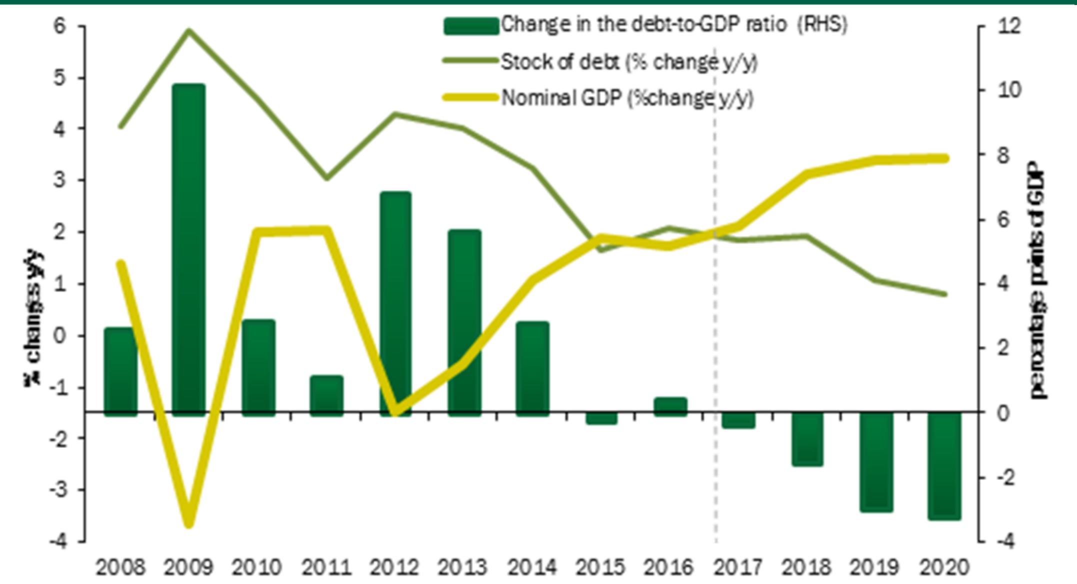
Public debt-to-GDP ratio to decline this year and, more rapidly, in 2018-2020

As was the case last year, the national accounts data released by ISTAT on 22 September included an upward revision of nominal GDP levels in 2015 e 2016 which reduced the gross debt-to-GDP ratio for 2015 from 132.1 percent to 131.5 percent and the one for 2016 from 132.6 percent to 132.0 percent. Based on the new figures, 2015 marked the first decline in the debt ratio (from 131.8 percent in 2014) since the recession. It is entirely possible that the 2016 debt ratio will be revised down significantly in one year's time, when ISTAT releases the final GDP data for that year.

The updated projection for 2017 involves a new decline in the debt ratio, to 131.6 percent, even though the debt figures amounts outlays for the interventions on the banking system, which are worth 0.6 percent of GDP. In addition to the projected rise in the primary surplus to 1.7 percent of GDP (from 1.5 percent in 2016), the decline is due to a decreasing gap between nominal GDP growth and the average funding cost, as well as more favourable stock-flow adjustments and a larger privatisation revenue compared to 2016.

The debt-to-GDP ratio is projected to decline more markedly in the 2018-2020 period, reaching 123.9 percent in the final year. The government is firmly committed to achieving a larger reduction in the debt ratio over the medium/long term.

FIGURE 1.1-7 KEY DRIVERS OF THE DEBT/GDP RATIO IN THE POLICY SCENARIO (% CHANGES Y/Y AND PERCENTAGE POINTS OF GDP))



Source: ISTAT and government projections for 2017-2020.

Forecast endorsement by Parliamentary Budget Office

In full compliance with European regulations, the macroeconomic forecasts in this Draft Budgetary Plan were submitted for validation to the Parliamentary Budget Office (UPB). UPB has already endorsed the government's macroeconomic forecasts under the policy scenario for 2017 and 2018 contained in the September update to the SP 2017 (*Update of the EFD 2017*).

Exceptional events

For the *ex-ante* evaluation of the 2017 structural balance, the European Union granted Italy greater flexibility given the expenditure incurred because of the extraordinary influx of migrants and those to safeguard the territory following the wave of earthquakes. The flexibility granted was quantified in 0.16 per cent of GDP for migrants, thus recognizing the role of defence of the common frontier that our country has taken over the years[9]. An additional flexibility of 0.18 per cent of GDP is due to tax measures on private buildings and investments to counteract hydrogeological instability and to secure schools. The European Commission will verify the costs actually incurred in 2017, on the basis of final data that will be made available in 2018. Monitoring of expenditure to date confirms the forecasts. It also suggests that in the absence of a common European plan for migrants, Italy will continue to support a significant financial burden over time.

Migrants

Altogether since 2014, the first year of the emergency, more than 600,000 people have been saved in the sea thanks to the Italian commitment. In 2016 most of rescued people are unaccompanied minors (about 25 thousands in 2016 and more than 14 thousands by mid-October 2017) and the number of asylum seekers is growing (123 thousands in 2016 and already more than 100 thousands by the end of September 2017)[10].

While the arrivals on the Italian coasts in the first semester of 2017 have been greater than 18.7 per cent compared to the same period of 2016, a contraction is underway since last July. In coherence with the new European policy in the Mediterranean, Italy has activated several hotspots for the identification of migrants in collaboration with the officials of Easo, Frontex and Europol, issued a code of conduct for non-governmental organisations (NGOs) [11] and started supporting Libyan coast guard with Italian ships[12]. The landings in the third quarter of 2017 decreased by 65 per cent compared with those of the same period 2016, also as a result of these measures.

[9] Indeed, the 0.16 granted for the 2017 corresponds to the total estimated expenditure for reception and rescue at sea, net of EU contributions (0.25 per cent of GDP), minus 0.09 of GDP which is the annual variation in expenditure already discounted in 2015 and 2016, for migrants. During the meeting held in October 2016, the European Council has indeed agreed on the emergency character of the flows and the need to prevent illegal immigration along the path of the central Mediterranean. The Council also recognised '*the significant contribution, also of a financial nature, by the Member States on the front line in recent years*'.

[10] Source: Ministry of the Interior, data of 11 October 2017.

[11] http://www.interno.gov.it/sites/default/files/allegati/codice_condotta_ong.pdf

[12] Resolution of the President of the Council of Ministers of 28 July 2017.

Despite the slowing of the flows, the presences in reception facilities see an increasing trend, from 176,000 at the end 2016 to over 193,000 at the end of September 2017 (Figure I.1-8). Most refugees are hosted in provisional structures, since conventional services at central and local levels have limited capacity. Specific regulatory provisions have been enacted, flanking the emergency intervention with more streamlined procedures and a gradual strengthening of the secondary reception system, aimed at integration. The measures sought, firstly, to provide new instruments to local governments, and then to speed up international protection proceedings and to ensure a more adequate protection of unaccompanied foreign minors[13].

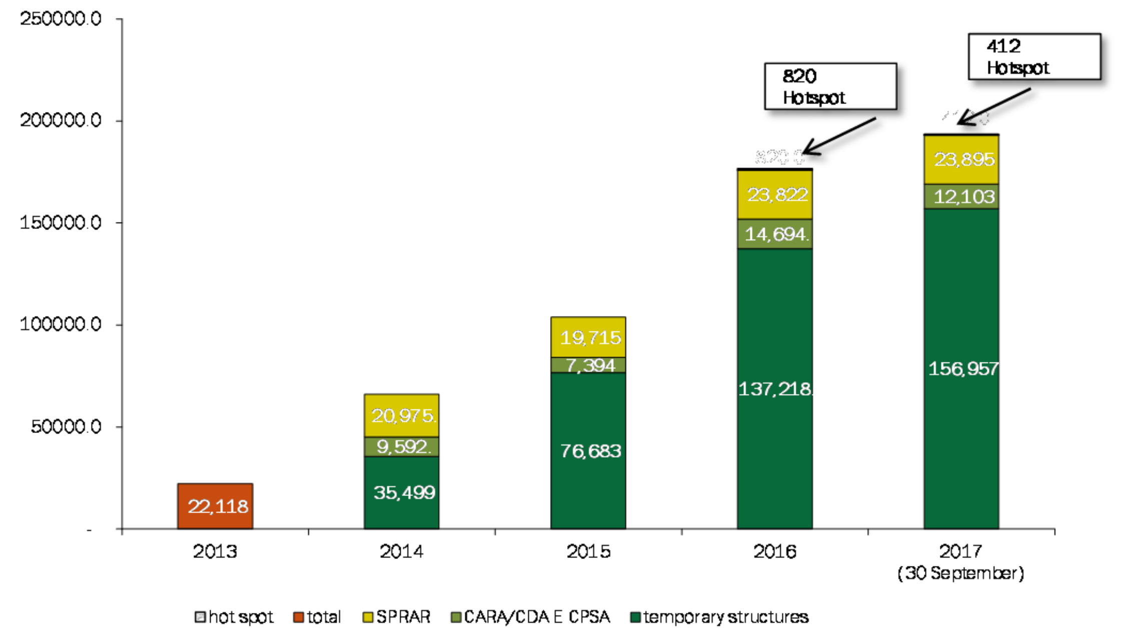
On the basis of current data, the expenditure for relief operations, health care, reception and education is estimated, net of EU contributions, about 4.3 billion euros in 2017 (0.25 per cent of GDP) –slightly more than the minimum scenario announced in Economic and Financial Document last April. Supposing a long-held capacity to curb arrivals, the expenditure forecast for next year is between 4.7 and 5 billion euros, representing a 0,02 to 0,04 per cent of GDP increase compared to 2017. Indeed, the decrease in landings is not reflected in a proportional reduction in the permanence of people with the reception needs, also because of the limited outcomes of the EU relocation plan[14]. Awaiting a common European policy, Italy will therefore continue to support a burden of more than 0.25 per cent of GDP for the management of the Union's external frontiers.

In addition to the costs for migrants that Italy faces on its territory and in the Mediterranean Sea, an additional effort is underway to implement an extraordinary intervention aimed at reviving dialogue and cooperation with African countries which are strategic for migrant routes, thanks to the so-called Fund for Africa set up with last budgetary law.

[13] Decree-Law of 17 February 2017, No. 13, laying down "urgent provisions for the acceleration of international protection proceedings, as well as for the contrast of illegal immigration", converted into law No. 46 of 2017 and the Law no. 47 of 2017 on measures for the protection of unaccompanied minors.

[14] The EU relocation plan included a total of 160,000 transfers from Greece and Italy by September 2017, of which 40,000 from Italy by the first year (and about 12,000 thereafter). With respect to this data, on 6 October 2017 only 9,353 asylum seekers were transferred from Italy to other European Union countries (about 23% of the total), See https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-migration/press-material/docs/state_of_play_-_relocation_en.pdf and Ministry of the Interior.

FIGURE 1.1-8 MIGRANTS IN RECEPTION FACILITIES (2013 – 2017).



Legend: CPSA: Emergency healthcare and reception facilities; CDA: Reception facilities, CARA: Reception facilities for asylum seekers; SPRAR: System of protection for asylum seekers and refugees run by local entities; Hotspot: facility where first reception of migrants and refugees takes place

Source: Ministry of the Interior.

Prevention of anti-seismic risk, hydrogeological instability and securing schools

The series of earthquakes that have repeatedly taken place in central Italy in 2016 and 2017 caused numerous casualties and considerable damage to private and public buildings, roads and historical and artistic heritage. The country is undertaking a remarkable effort to reconstruct the affected areas[15]. In addition to the costs of dealing with the emergency and reconstruction (which have a *one-off* nature), extraordinary expenses are underway to overcome the flaws of our territory and its vulnerability to frequent destructive events.

Estimated expenditure in 2017 for tax incentives aimed at prevention and adjustment to seismic risk, mainly of private dwellings[16], is confirmed at about 2 billion euros. This amount represents the advance of about 15 percent of the total burden that is accrued in the 2017 tax year[17]. Already in the first months of this year, the model and guidelines for the assessment and certification of risk class of buildings have been approved[18] and tax incentives can be availed through income declarations.

As regards action to contrast hydrogeological instability, for the first time Italy has issued a national plan of works and interventions[19]-

Finally, the commitment to school buildings has been strengthened by accelerating interventions related to all available financial sources. As regards specifically the fiscal space granted to local governments for school buildings[20], following the applications submitted in February on a dedicated web platform[21], a special decree of the Ministry of Economy and Finance was issued[22].

The monitoring of hydrogeological risk mitigation and school building maintenance is particularly difficult because it concerns spending spread across different levels of government and thousands of local authorities. In order to allow quantification of actual expenditure, activities related to the development of the

[15] In the course of the year, because of the severity of the situation, additional resources were made available by decree-Law No. 8/2017 concerning ' new urgent interventions in favour of the populations affected by the seismic events of 2016 and 2017 ', converted by Law No. 45/2017.

[16] Article 1, paragraph 2 of the budget law 2017-2019 provides for a deduction of 50% of the maintenance costs of buildings destined for primary residence, secondary dwellings, condominiums and production activities in seismic risk areas (extended up to Include Zone 3). The facilitation can be used from 1 January 2017 to 31 December 2021 for a maximum amount of expenditure of 96,000 euros per year for each real estate unit, to be divided into five annual instalments of equal amount starting from the year in which the expenditure was sustained (instead of the usual ten years). In addition, if the result of the interventions is a reduction of the seismic risk with the transition to a lower risk class, the deduction is 70 percent (75 percent in the case of common condominium shares), and with the transition to two risk classes it is up to 80 percent (85 percent in the case of common spaces in condominiums).

[17] Including specific anti-seismic interventions and about 30 percent of the expenditure for adaptation, energy redevelopment and restructuring which, according to an analysis of the data from recent income declarations, can be attributed to measures with the effect of securing buildings.

[18] Implementing decree of the Ministry of Infrastructure and Transport of 28 February 2017, with effect from 1 March 2017.

[19] http://italiasicura.governo.it/site/home/dissesto/piano.html

[20] Article 1, paragraph 485 of the budget law 2017-2019

[21] http://pareggiobilancio.mef.gov.it; http://italiasicura.governo.it/site/home/news/articolo1803.html

[22] Decree of the Minister of Economy and Finance No. 41337 of 14 March 2017.

Public Works Monitoring System (*Monitoraggio Opere Pubbliche* - MOP) within the Public Administration Database (BDAP)[23] have been intensified. Through the integration with other databases, the BDAP aims to provide a single point of access to comprehensive and standardised information on all public works, according to the set of data already foreseen for the monitoring of European funds, which flows into the so-called Unified Database (BDU) of the State General Accounting Department.

The analysis carried out allows expenditure for the realization of interventions aimed at the attenuation of the hydrogeological instability to be identified between 207 million and 307 million by mid-2017. The expenditure corresponding to the realization of school building interventions is around 305.7 million by mid-2017. As already mentioned in the preamble, the trend of expenditure is therefore in line with the estimates.

[23] Article 1 of Legislative Decree No 229/2011 obliges public administrations and recipients of funding from the state budget to *"..hold and nurture a computerised management system containing the master, financial, physical and procedural information relating to the planning and scheduling of works and related interventions* " (http://www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Selezione_normativa/D-Lgs-/Dlgs-29-12-2011-229.pdf); http://www.bdap.tesoro.it/sites/openbdap/cittadini/Pagine/default.aspx

II. STRUCTURAL REFORMS

Reform actions since the 2017 reform program

In July 2017, the Council of the European Union adopted the Country specific recommendations[24], as proposed by the European Commission in June. They outline the economic-policy actions that the country will need to undertake in subsequent months in order to reduce its macroeconomic imbalances and to support the recovery, while keeping the public finances on a sustainable path.

Many of the measures announced in the National Reform Program (NRP) have already been implemented in recent months. Among these, the following should be noted: approval of the first annual law for the market and competition; the introduction of "inclusion income" - a single national measure to fight poverty and social exclusion; enabling legislation for the reform of the criminal justice system and the statute of limitation; enabling law concerning the legislation on company crises and insolvency; adoption of various legislative decrees to implement the enabling acts contained in the laws reforming the public administration and the education system.

The update version of the timetable illustrates the reforms adopted and their implementation status since the publication of the National Reform Programme (NRP) in April 2017. For further details, see the Update of the Economic and Financial Document 2017.

[24] The adoption process and the recommendations for each country may be consulted at: https://ec.europa.eu/info/strategy/european-semester/european-semester-timeline/eu-country-specific-recommendations_it

TABLE II.1-1 STRATEGIC ACTIONS OF THE 2017 NRP

	Areas	Policy area	Actions	Timetable
1	Debt and public finance	Public finances	Substantial achievement of a balanced budget in structural terms by 2019	**2017-2020**
2		Public finances	Spending review	***2017-2020***
3		Public finances	Reducing delays in payments by the Public Administration	***2017-2018***
4		Public debt	Strengthening the strategy for reducing public debt through privatizations, disposal of real estate assets and reform of concessions	***2017-2020***
5	Taxes and spending review and fight against tax evasion	Tax policies	Continue to reduce taxes so as to support growth	***2017-2018***
6		Tax policies	Shifting taxes from income to consumption	2017-2018
7		Tax policies	Review of tax expenditures	2017-2018
8		Tax policies	Coordination of tax administration – Advisory Committee on the fight against tax evasion	***By 2017***
9		Tax policies	Investments in ICT and human resources to support the fight against tax evasion and to encourage tax compliance	***2017-2018***
10		Tax policies	Reducing tax disputes and improving collection effectiveness	***2017-2018***
11	Bank system and credit	Banks and Loans	Continue to reduce the stock of non-performing loans (NPL)	***2017-2018***
12		Banks and Loans	Reform of the legislation on company crises and insolvency (Enabling Law)	**October 2017**
13		Banks and Loans	Extraordinary administration of large companies in state of insolvency	By 2017
14		Banks and Loans	Attraction of foreign direct investments and monitoring of alternative measures to bank credit	***By 2017***
15	Labour, welfare and productivity	Labour and welfare	Implementing and monitoring of active labour market policies	***2017-2018***
16		Labour and welfare	Implementing and monitoring of social security measures (APE)	**June 2017**
17		Labour and welfare	Family supporting measures	By 2017
18		Labour and welfare	Support of female and youth employment and policies in favour of second-earners	***By 2017***
19		Labour and welfare	Acting on labour productivity to strengthen competitiveness	***By 2017***
20		Labour and welfare	Completing the reform on self-employed and launching the reform of ancillary work	**May 2017**
21		Labour and welfare	Plan to fight against poverty: introduction of the Inclusion income	**August 2017**
22		Education and skills	Complete the implementation of the 'Buona Scuola' reform and monitor the effectiveness of adopted measures	***By 2017***
23		Education and skills	National Plan to boost teachers' competences	***2016-2019***
24		Education and skills	Complete the implementation of the National Plan for Digital Education	***2015-2018***
25		Education and skills	National Plan for Inclusive Education	**April 2017**
26		Education and skills	National Research Program	**2015-2020**
27	Investments and territorial rebalancing	Investments	National Plan for Public Investments	***2017-2020***
28		Investments	Update of the legislation on public tenders. Monitoring of the effectiveness of adopted measures	***By 2017***
29		Restoring territorial balance	Implementation of the 'Territorial Pacts for Southern Italy'	***2014-2020***
30	Competitiveness	Competitiveness	Implementation of the reform of Ports and of the National Strategic Plan for Ports and Logistics	***By 2017***
31		Competitiveness	Hydrogeological and seismic risk (Casa Italia)	***2017-2020***
32		Competitiveness	'Impresa 4.0' National Plan	***2017-2020***
33		Competitiveness	Internationalization and Competitiveness	***By 2017***
34		Competitiveness	Start up and innovative SMEs	***By 2017***
35		Competitiveness	Strategic plan for tourism	***2017-2022***
36		Competitiveness	2017 National Energy Strategy and Energy Decree	***By 2017***
37		Competitiveness	Approval of current Competition Law and drafting of the new Law for 2017	***2017-2018***
38		Health	Implementation of Health Pact and Digital Health Pact	***By 2017***
39		PA	Complete the reform of the Public Administration	***By 2017***
40		PA	Rationalization of State-owned companies	***By 2017***
41		PA	Complete the reform of local public services	***By 2017***
42		PA	Complete the reform of public sector employment	***By 2017***
43		PA	Complete the implementation of the Agenda on simplification, start the Three-year Plan for ICT in the Public Administration and ensure greater cyber security	***By 2017***
44		Judicial system	Reform of criminal justice and norms on the statute of limitations	**June 2017**
45		Judicial system	Fight against organized crime and illicit assets	***By 2017***
46		Judicial system	Legislation on honorary judges	**May 2017**
47		Judicial system	Extradition	**October 2017**
48		Judicial system	Efficiency of civil trials	By 2017

In ***bold italics*** characters: actions registering an evolution in 2017; in **bold** characters actions implemented.

III. TABLES

TABLE III.1-1 BASIC ASSUMPTIONS (0.I)	2016	2017	2018
Short-term interest rate (annual average)	n.d.	-0.4	0.0
Long-term interest rate (annual average)	1.4	2.2	2.5
USD/€ exchange rate (annual average)	1.1	1.1	1.2
Nominal effective exchange rate	1.1	1.0	1.6
World excluding EU, GDP growth	3.5	3.8	3.8
EU GDP growth	1.9	2.2	1.9
Growth of relevant foreign markets	3.1	5.5	4.2
World import volumes, excluding EU	1.9	4.4	3.7
Oil prices (Brent, USD/barrel)	43.6	51.4	52.2

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

	ESA Code	2016	2016	2017	2018	2019	2020
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	1,573,002.2	0.9	1.5	1.5	1.5	1.3
Of which							
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					0.3		
2. Potential GDP		1,624,879.3	-0.1	0.4	0.5	0.6	0.7
Contributions:							
Labour			0.1	0.4	0.4	0.5	0.5
Capital			-0.1	0.0	0.0	0.1	0.1
Total factor productivity			-0.1	0.0	0.0	0.1	0.1
3. Nominal GDP	B1*g	1,680,522.8	1.7	2.1	3.1	3.4	3.4
Components of real GDP							
4. Private final consumption expenditure	P.3	952,084.8	1.5	1.4	1.4		
5. Government final consumption expenditure	P.3	313,696.3	0.5	1.0	0.3		
6. Gross fixed capital formation	P.51	272,201.0	2.8	3.1	3.3		
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-0.4	0.1	0.0		
8. Exports of goods and services	P.6	481,044.5	2.4	4.8	3.6		
9. Imports of goods and services	P.7	446,571.3	3.1	5.5	4.1		
Contributions to real GDP growth							
10. Final domestic demand			1.5	1.5	1.5		
11. Changes in inventories and net acquisition of valuables	P.52 + P.53		-0.4	0.1	0.0		
12. External balance of goods and services	B.11		-0.1	-0.1	-0.1		

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

	ESA Code	2016	2016	2017	2018	2019	2020
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		106.8	0.8	0.6	1.6	1.9	2.1
2. Private consumption deflator		107.4	0.0	1.2	1.4		
3. HICP		99.9	-0.1	1.3	1.4		
4. Public consumption deflator		100.5	0.8	0.6	-0.1		
5. Investment deflator		105.5	-0.1	0.1	1.5		
6. Export price deflator (goods and services)		104.2	-1.1	1.7	1.6		
7. Import price deflator (goods and services)		99.5	-3.5	2.4	0.8		

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

	ESA Code	2016	2016	2017	2018
		Level	rate of change	rate of change	rate of change
1. Employment, persons		24,809	1.3	1.2	0.9
2. Employment, hours worked		42,799,522.3	1.7	1.6	1.0
3. Unemployment rate (%)			11.7	11.2	10.7
4. Labour productivity, persons		63,403.5	-0.3	0.2	0.6
5. Labour productivity, hours worked		36.8	-0.7	-0.1	0.5
6. Compensation of employees	D.1	669,704.1	2.6	2.7	2.6
7. Compensation per employee		40,426.7	0.5	0.8	1.1

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

	ESA Code	2016	2017	2018
	B.9	% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world		2.5	2.1	1.9
Of which:				
- Balance on goods and services		3.4	3.1	3.3
- Balance of primary incomes and transfers		-0.8	-0.8	-1.2
- Capital account		-0.2	-0.2	-0.2
2. Net lending/net borrowing of the private sector	B.9	5.0	4.3	3.5
3. Net lending/net borrowing of general government	B.9	-2.5	-2.1	-1.6
4. Statistical discrepancy				

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

	ESA Code	2017	2018	2019	2020
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-2.1	-1.6	-0.9	-0.2
1a. Central government	S.1311	-2.4	-1.8		
1b. State government	S.1312				
1c. Local government	S.1313	0.2	0.2		
1d. Social security funds	S.1314	0.1	0.1		
2. Interest expenditure	EDP D.41	3.8	3.6	3.5	3.5
3. Primary balance		1.7	2.0	2.6	3.3
4. One-off and other temporary measures		0.3	0.0	-0.1	-0.1
5. Real GDP growth (%)		1.5	1.5	1.5	1.3
6. Potential GDP growth (%)		0.4	0.5	0.6	0.7
Contributions :					
- Labour		*0.4*	*0.4*	*0.5*	*0.5*
- Capital		*0.0*	*0.0*	*0.1*	*0.1*
- Total factor productivity		*0.0*	*0.0*	*0.1*	*0.1*
7. Output gap (% of potential GDP)		-2.1	-1.2	-0.4	0.2
8. Cyclical budgetary component (% of potential GDP)		-1.2	-0.6	-0.2	0.1
9. Cyclically-adjusted balance (% of potential GDP)		-1.0	-1.0	-0.7	-0.3
10. Cyclically-adjusted primary balance (% of potential GDP)		2.9	2.6	2.8	3.2
11. Structural balance (% of potential GDP)		-1.3	-1.0	-0.6	-0.2

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

	ESA Code	2017	2018	2019	2020
		% GDP	% GDP	% GDP	% GDP
1. Gross debt		131.6	130.0	127.1	123.9
2. Change in gross debt ratio		-0.4	-1.6		
Contributions to changes in gross debt					
3. Primary balance		1.7	2.0		
4. Interest expenditure	EDP D.41	3.8	3.6		
5. Stock-flow adjustment		0.3	0.8	0.4	0.8
Of which:					
- Differences between cash and accruals		0.2	0.7		
- Net accumulation of financial assets		0.8	0.1		
Of which:					
- Privatisation proceeds		*-0.2*	*-0.3*		
- Valuation effects and other		*-0.7*	*0.0*		
p.m.: Implicit interest rate on debt		*3.0*	*2.8*		
Other relevant variables					
6. Liquid financial assets					
7. Net financial debt					
8. Debt amortization (existing bonds) since the end of the previous year					
9. Percentage of debt denominated in foreign currency					
10. Average maturity					

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

	ESA Code	2017	2018
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	47.0	47.0
Of which			
1.1. Taxes on production and imports	D.2	14.7	15.5
1.2. Current taxes on income, wealth, etc	D.5	14.6	14.0
1.3. Capital taxes	D.91	0.1	0.0
1.4. Social contributions	D.61	13.2	13.2
1.5. Property income	D.4	0.7	0.7
1.6. Other		3.7	3.7
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		42.6	42.7
2. Total expenditure at unchanged policies	TE (3)	49.1	48.0
Of which			
2.1. Compensation of employees	D.1	9.7	9.4
2.2. Intermediate consumption	P.2	5.4	5.3
2.3. Social payments	D.62,D.632	22.6	22.5
Of which Unemployment benefits		*0.8*	*0.8*
2.4. Interest expenditure	EDP D.41	3.8	3.6
2.5. Subsidies	D.3	1.7	1.6
2.6. Gross fixed capital formation	P.51	2.1	2.1
2.7. Capital transfers	D.9	1.5	1.3
2.8. Other		2.3	2.2

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

	ESA Code	2017	2018
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	47.0	46.4
Of which			
1.1. Taxes on production and imports	D.2	14.7	14.7
1.2. Current taxes on income, wealth, etc	D.5	14.6	14.2
1.3. Capital taxes	D.91	0.1	0.0
1.4. Social contributions	D.61	13.2	13.2
1.5. Property income	D.4	0.7	0.7
1.6. Other		3.7	3.7
p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)		42.6	42.1
2. Total expenditure target	TE (3)	49.1	48.0
Of which			
2.1. Compensation of employees	D.1	9.7	9.5
2.2. Intermediate consumption	P.2	5.4	5.3
2.3. Social payments	D.62, D.632	22.6	22.5
Of which Unemployment benefits		*0.8*	*0.8*
2.4. Interest expenditure	EDP D.41	*3.8*	*3.6*
2.5. Subsidies	D.3	*1.7*	*1.6*
2.6. Gross fixed capital formation	P.51g	*2.1*	*2.1*
2.7. Capital transfers	D.9	1.5	1.2
2.8. Other		2.3	2.2

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

	ESA Code	2016	2016	2017	2018
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		960.0	0.1	0.2	0.2
1.a Of which investments fully matched by EU funds revenue		300.0	0.0	0.1	0.1
2. Cyclical unemployment benefit expenditure *		2,375.5	0.1	0.1	0.1
3. Effect of discretionary revenue measures		-7,332.0	-0.4	-0.1	0.1
4. Revenue increases mandated by law		0.0	0.0	0.0	0.0

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

Expenditure category	Available information
Education	Education expenditure[1] averages on 3.6% as a share of GDP in the five year-period 2013-2017 (3.5% in 2018). As for the mid-long term trends, see the latest forecast carried out based on the methodology and the long term scenario elaborated at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability[2]
Health	Health care expenditure as percentage of GDP averages on 6.75% in the five-year period 2013-2017 (6.5% in 2018). As for the mid-long term trends, see the latest forecasts carried out based on the national scenario and that elaborated at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability[2]
Employment[3]	The employment expenditure to GDP ratio increased in the 5-year period , growing from 0.34% in 2011 to 0.47% in 2015. The most recent data, pertaining to 2015, shows an increase in expenditure compared to 2014, when the figure was 0.33%. The growth must be considered also in light of the implementation of the provisions on active labour market policies contained in Law No. 183/2014 . Particularly in the light of the introduction of incentive for new permanent hires in 2015 (L. No.190/2014) which entered into force in 2015, as well as the measures relates to the Youth Guarantee program in 2014-2015. Currently there is no data that enables one to quantify expenditure in the 3-year period 2016-2018 for a figure other than 0.47%, also envisaging the continued streamlining of resources allocation.

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

2 Source: Ministero dell'economia e delle finanze (2017), " Update of the EFD 2017".

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

Source: Ministry of Labour and Social Policy

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2018 % GDP	2019 % GDP	2020 % GDP
Decommissioning of the safeguard clauses of the previous stability laws	Motivation: Reducing tax pressure Content of the measures: Deactivation for 2018 and partially for 2019 of excise and VAT increases, thanks to the effectiveness and increased savings of the measures related to the rationalisation and revision of public expenditure.	D.2	immediately effective	R	-0.889	-0.371	0.000
Facilitation on tax payment demands	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: More time is given to taxpayers who have not completed payments according to the instalments foreseen by the facilitation introduced last year without penalties and interest (DL 183/2016) and the mechanism is extended to include also tax payment demands issued from 1 January to 30 September 2017 (the first edition of this facilitation included tax payment demands issued until 31 December 2016).	D.91	immediately effective	R	0.053	0.007	-0.001
Electronic invoicing in the private sector	Motivation: Simplifying the tax system and increasing tax compliance Contents of the measures: Electronic invoicing is already compulsory between private and public administration and optional within the private sector, with a number of benefits (for example, exemption from "*spesometro*", priority in VAT refunds, etc.), according to Legislative Decree No. 127/2015. Electronic invoicing within the private sector will be compulsory from 1 January 2019, allowing more control over the commercial operations and, consequently, reducing tax evasion and facilitating tax obligations.	D.2	immediately effective	R	0.011	0.092	0.124
Action against fraud in the mineral oil sector	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: for mineral oils introduced as a result of an intra-Community purchase in a tax warehouse (high risk of VAT fraud) the extraction from the tax warehouse and the entry into consumption are subject to the payment of the tax by extractor of the good. The references of the tax return form must be reported on the simplified administrative document, without the possibility of compensation, even when the tax deposit is used as a VAT deposit. The tax payment receipt will be delivered by the extractor to the warehouse manager in order to be able to enter the goods into consumption and there is shared responsibility between extractor and warehouse manager. VAT does not apply on the disposal of products that occur during their inventory in the tax warehouse.	D.2	immediately effective	R	0.017	0.024	0.020

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2018 % GDP	2019 % GDP	2020 % GDP
Re-evaluation of the values of shares and building land	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: By extending previous provisions, it will be possible to re-evaluate the values of shares and building land owned by the date of 1 January 2018 through the payment of a substitute tax, with the exclusion of the properties which are produced or exchanged as part of the company's activity,. The rates are confirmed at 8% and the substitute tax paid in a maximum of three annual instalments of equal amount, from 30 June 2018.	D.5	immediately effective	R	0.019	0.010	0.009
Threshold reduction to 5,000 euro for public administrations to proceed with payment	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: Reduction from 10 thousand euro to 5 thousand euro of the threshold above which public administrations and companies with prevailing public participation, before proceeding to a payment, must verify the fulfilment of all obligations in terms of tax payment demands. The aim is to increase the recovery capacity of tax payment demands and to avoid that, even in a range between 5 and 10 thousand euro, public administrations and companies with prevailing public participation should unreasonably make payments to who is indebted to them.	D.2	immediately effective	R	0.009	0.011	0.011
Threshold for automatic compensation checks	Motivation: Simplifying the tax system and increasing tax compliance Content of measures: Reduction of the threshold for automatically compensating tax credits, i.e. without the need for a compliance visa issued by an authorized intermediary.	D.2 and D.5	immediately effective	R	0.014	0.013	0.013
Referral of the new corporate income tax IRI	Motivation: Simplifying the tax system and combating tax evasion Content of the measures: Corporate tax treatment has been harmonised (24%), irrespective of the organizational form adopted, by the company, with the last budgetary law through the discipline of the tax on Entrepreneurial income (IRI). This is an optional tax system, aimed also at favouring the capitalisation of SMEs, because it separates, for taxation purposes, the income deriving from the company from other income perceived by the entrepreneur, subject to the ordinary income tax in a progressive manner. Its application is postponed by one year.	D.5	immediately effective	R	0.112	-0.041	0.001

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2018 % GDP	2019 % GDP	2020 % GDP
Ministries' spending review (SR)	Motivation: Rationalisation and revision of public expenditure Content of the measures: For the first time this year the SR was formally integrated in the budget cycle, requiring budget proposals of line Ministries to be anchored to specific targets (see decree of the President of the Council of Ministers June 28th, 2017) and to be scrutinized at the time individual requests for new expenditure are formulated. The savings are produced through: i) the revision of administrative or organizational procedures; (ii) defunding previously envisaged projects in relation to their effectiveness or priority; (iii) the revision of the mechanisms or parameters determining expenditure needs. The cuts concern various types of expenditures, with the exclusion of those connected to gross fixed capital formation, the prevention of natural disasters and seismic events and remedial action, shelter, assistance and rescue at sea of refugees and the fight against poverty.	various (mostly P.2)	immediately effective	E	0.056	0.055	0.053
Reprogramming transfers to various entities	Motivation: Rationalisation and revision of public expenditure Revision of the timing of transfers to various entities based on the actual progress of the projects and still maintaining the total over time	D.92p	immediately effective	E	0.125	-0.005	0.098
Relaunching stable employment of young people	Motivation: Supporting the economy and youth Content of the measures: from 1 January 2018 private sector employers hiring young people on contracts with employment protection rising with job tenure (excluding domestic workers), will benefit from a three-year 50% discount on social security contributions. The discount also applies in cases of continuation of an apprenticeship contract into an open-ended one, at whatever age, and when an employer hires students who have carried out alternating school-work or apprenticeship during their course of study, provided the hiring occurs within six months of students completing their diplomas.	D.6	immediately effective	R	-0.022	-0.057	-0.080
Boosting national investments	Motivation: Encouraging investment and safeguarding the territory Content of the measures: Fund to finance investments and infrastructural development.	P.51 and D.92p	immediately effective	E	-0.011	-0.055	-0.074

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2018 % GDP	2019 % GDP	2020 % GDP
Boosting local investments	Motivation: Encouraging investment and safeguarding the territory Content of the measures: Increase fiscal space granted to local authorities to continue supporting investment, through the use of their surpluses and debt. In order to encourage investment from local authorities who fail to use their surpluses within their balanced budget provision, due to the limited amounts entered in the doubtful credits fund, a new method for the allocation of fiscal space will be adopted, including the anticipation of the deadlines for requests to use of fiscal spaces which are specifically intended for school buildings.	D.92p	immediately effective	E	-0.006	-0.016	-0.026
Eco-bonus	Motivation: Encouraging investment and safeguarding the territory Contents of the measures: 1) extension to December 31, 2018 of the deduction for construction restructuring interventions at 50% (to be divided into 10 annual instalments). 2) extension to 31 December 2018 of the deduction for energy efficiency interventions (to be divided into 10 annual instalments) but to a lesser extent for some cases (50% instead of 65%, for replacement of fixtures, solar shading, plant Of winter air conditioning by means of condensation and biomass boilers). 3) Extension also to the autonomous institutes for the popular houses of the deductions envisaged for energy efficiency interventions carried out on common parts of condominium buildings 4) Extension of the deduction for the purchase of furniture and large appliances of high energy class 5) Introduction for the 2018 of a deduction to 36% for care, restructuring and irrigation of private green	D.5	immediately effective	R	0.002	-0.032	-0.044

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2018	2019	2020
					% GDP	% GDP	% GDP
Super-and hyper-amortization	Motivation: Making business more competitive and encouraging investments Content of the measures: Extension to all 2018 of the tax bonus on depreciation related to investments in machinery and equipment to contribute to the renewal of the productive capital of businesses, with some changes in the eligibility criteria and in the entity. In short, the measure consists in a 30% bonus for investments in new instrumental goods, with exclusive reference to the determination of the depreciation allowances and the financial leasing fees (and the exclusion of investments in vehicles and other means of transport); a 150% bonus for new instrumental material assets aiming technological and/or digital transformation in line with Industry 4.0 and a 40% bonus for instrumental intangible assets (software) aiming technological upgrade .	D.5	immediately effective	R	0.000	-0.049	-0.090
Fund for the enhancement of research	Fund for the enhancement of research aimed at supporting the competitiveness of the Italian economy.	D.92p	immediately effective	E	0.000	-0.016	-0.021
Combating poverty	Motivation: Combating poverty Content of the measures: increase of the endowment of the Fund for the fight against poverty and social exclusion. These resources will allow for the "Inclusion income" (*Reddito di inclusion Rei*) to become operational. The Rei is about 190 euros per month for a single person up to 485-490 euros for a household with 5 or more components; it can be associated with employment but it will not be compatible with other kinds of income support such as household components with "*Naspi*" or other social contributions for voluntary unemployment (Legislative Decree 147/2017).	D.62p	immediately effective	E	-0.017	-0.038	-0.048
Public Employment	Motivation: Public Employment Content of measures: Resources for the renewal of public sector employees work contracts	D.1	immediately effective	E	-0.048	-0.046	-0.045
Suspension of contribution	Extension of the suspension of social contribution in areas affected by the earthquake	D.6	immediately effective	R	-0.010	0.000	0.000

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
				Revenue / Expenditure	2018 % GDP	2019 % GDP	2020 % GDP
SME Guarantee Fund	Motivation: Making business more competitive Content of the measures: Increase of the endowment of the SME Guarantee Fund, also in view of the operational changes already foreseen by decree of 6 March 2017 of the Ministry of Economic Development in agreement with the Ministry of Economy and Finance that will make it accessible to a greater number of businesses. The current assessment system is replaced by a rating model and the articulation of the maximum hedging measures on financial transactions will be according to the probability of failure of the beneficiaries and the duration and type of the financial transaction. The SME Guarantee Fund will be able to intervene, in favour of companies and professionals, not only with direct guarantees and guarantees, but also with reinsurance.	D.92p	immediately effective	E	-0.011	0.000	0.000
Other measures (revenue)	Other measures (revenue)	various		R	0.085	0.052	0.066
Other measures (expenditure)	Other measures (expenditure)	various		E	-0.109	-0.171	-0.106
				TOTAL	-0.619	-0.634	-0.140

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2018	2019	2020
					% GDP	% GDP	% GDP
Decommissioning of the safeguard clauses of the previous stability laws	Motivation: Reducing tax pressure Content of the measures: Deactivation for 2018 and partially for 2019 of excise and VAT increases, thanks to the effectiveness and increased savings of the measures related to the rationalisation and revision of public expenditure.	D.2	immediately effective	R	-0.889	-0.371	0.000
Facilitation on tax payment demands	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: More time is given to taxpayers who have not completed payments according to the instalments foreseen by the facilitation introduced last year without penalties and interest (DL 183/2016) and the mechanism is extended to include also tax payment demands issued from 1 January to 30 September 2017 (the first edition of this facilitation included tax payment demands issued until 31 December 2016).	D.91	immediately effective	R	0.053	0.007	-0.001
Electronic invoicing in the private sector	Motivation: Simplifying the tax system and increasing tax compliance Contents of the measures: Electronic invoicing is already compulsory between private and public administration and optional within the private sector, with a number of benefits (for example, exemption from "*spesometro*", priority in VAT refunds, etc.), according to Legislative Decree No. 127/2015. Electronic invoicing within the private sector will be compulsory from 1 January 2019, allowing more control over the commercial operations and, consequently, reducing tax evasion and facilitating tax obligations.	D.2	immediately effective	R	0.011	0.092	0.124

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2018	2019	2020
					% GDP	% GDP	% GDP
Action against fraud in the mineral oil sector	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: for mineral oils introduced as a result of an intra-Community purchase in a tax warehouse (high risk of VAT fraud) the extraction from the tax warehouse and the entry into consumption are subject to the payment of the tax by extractor of the good. The references of the tax return form must be reported on the simplified administrative document, without the possibility of compensation, even when the tax deposit is used as a VAT deposit. The tax payment receipt will be delivered by the extractor to the warehouse manager in order to be able to enter the goods into consumption and there is shared responsibility between extractor and warehouse manager. VAT does not apply on the disposal of products that occur during their inventory in the tax warehouse.	D.2	immediately effective	R	0.017	0.024	0.020
Re-evaluation of the values of shares and building land	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: By extending previous provisions, it will be possible to re-evaluate the values of shares and building land owned by the date of 1 January 2018 through the payment of a substitute tax, with the exclusion of the properties which are produced or exchanged as part of the company's activity,. The rates are confirmed at 8% and the substitute tax paid in a maximum of three annual instalments of equal amount, from 30 June 2018.	D.5	immediately effective	R	0.019	0.010	0.009
Threshold reduction to 5,000 euro for public administrations to proceed with payment	Motivation: Simplifying the tax system and increasing tax compliance Content of the measures: Reduction from 10 thousand euro to 5 thousand euro of the threshold above which public administrations and companies with prevailing public participation, before proceeding to a payment, must verify the fulfilment of all obligations in terms of tax payment demands. The aim is to increase the recovery capacity of tax payment demands and to avoid that, even in a range between 5 and 10 thousand euro, public administrations and companies with prevailing public participation should unreasonably make payments to who is indebted to them.	D.2	immediately effective	R	0.009	0.011	0.011

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2018	2019	2020
					% GDP	% GDP	% GDP
Threshold for automatic compensation checks	Motivation: Simplifying the tax system and increasing tax compliance Content of measures: Reduction of the threshold for automatically compensating tax credits, i.e. without the need for a compliance visa issued by an authorized intermediary.	D.2 and D.5	immediately effective	R	0.014	0.013	0.013
Referral of the new corporate income tax IRI	Motivation: Simplifying the tax system and combating tax evasion Content of the measures: Corporate tax treatment has been harmonised (24%), irrespective of the organizational form adopted, by the company, with the last budgetary law through the discipline of the tax on Entrepreneurial income (IRI). This is an optional tax system, aimed also at favouring the capitalisation of SMEs, because it separates, for taxation purposes, the income deriving from the company from other income perceived by the entrepreneur, subject to the ordinary income tax in a progressive manner. Its application is postponed by one year.	D.5	immediately effective	R	0.112	-0.041	0.001
Ministries' spending review (SR)	Motivation: Rationalisation and revision of public expenditure Content of the measures: For the first time this year the SR was formally integrated in the budget cycle, requiring budget proposals of line Ministries to be anchored to specific targets (see decree of the President of the Council of Ministers June 28th, 2017) and to be scrutinized at the time individual requests for new expenditure are formulated. The savings are produced through: i) the revision of administrative or organizational procedures; (ii) defunding previously envisaged projects in relation to their effectiveness or priority; (iii) the revision of the mechanisms or parameters determining expenditure needs. The cuts concern various types of expenditures, with the exclusion of those connected to gross fixed capital formation, the prevention of natural disasters and seismic events and remedial action, shelter, assistance and rescue at sea of refugees and the fight against poverty.	various (mostly P.2)	immediately effective	E	0.056	0.055	0.053
Reprogramming transfers to various entities	Motivation: Rationalisation and revision of public expenditure Revision of the timing of transfers to various entities based on the actual progress of the projects and still maintaining the total over time	D.92p	immediately effective	E	0.125	-0.005	0.098

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2018	2019	2020
					% GDP	% GDP	% GDP
Relaunching stable employment of young people	Motivation: Supporting the economy and youth Content of the measures: from 1 January 2018 private sector employers hiring young people on contracts with employment protection rising with job tenure (excluding domestic workers), will benefit from a three-year 50% discount on social security contributions. The discount also applies in cases of continuation of an apprenticeship contract into an open-ended one, at whatever age, and when an employer hires students who have carried out alternating school-work or apprenticeship during their course of study, provided the hiring occurs within six months of students completing their diplomas.	D.6	immediately effective	R	-0.022	-0.057	-0.080
Boosting national investments	Motivation: Encouraging investment and safeguarding the territory Content of the measures: Fund to finance investments and infrastructural development.	P.51 and D.92p	immediately effective	E	-0.011	-0.055	-0.074
Eco-bonus	Motivation: Encouraging investment and safeguarding the territory Contents of the measures: 1) extension to December 31, 2018 of the deduction for construction restructuring interventions at 50% (to be divided into 10 annual instalments). 2) extension to 31 December 2018 of the deduction for energy efficiency interventions (to be divided into 10 annual instalments) but to a lesser extent for some cases (50% instead of 65 percent, for replacement of fixtures, solar shading, plant Of winter air conditioning by means of condensation and biomass boilers). 3) Extension also to the autonomous institutes for the popular houses of the deductions envisaged for energy efficiency interventions carried out on common parts of condominium buildings 4) Extension of the deduction for the purchase of furniture and large appliances of high energy class 5) Introduction for the 2018 of a deduction to 36% for care, restructuring and irrigation of private green	D.5	immediately effective	R	0.002	-0.032	-0.044

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2018	2019	2020
					% GDP	% GDP	% GDP
Super-and hyper-amortization	Motivation: Making business more competitive and encouraging investments Content of the measures: Extension to all 2018 of the tax bonus on depreciation related to investments in machinery and equipment to contribute to the renewal of the productive capital of businesses, with some changes in the eligibility criteria and in the entity. In short, the measure consists in a 30% bonus for investments in new instrumental goods, with exclusive reference to the determination of the depreciation allowances and the financial leasing fees (and the exclusion of investments in vehicles and other means of transport); a 150% bonus for new instrumental material assets aiming technological and/or digital transformation in line with Industry 4.0 and a 40% bonus for instrumental intangible assets (software) aiming technological upgrade .	D.5	immediately effective	R	0.000	-0.049	-0.090
Fund for the enhancement of research	Fund for the enhancement of research aimed at supporting the competitiveness of the Italian economy.	D.92p	immediately effective	E	0.000	-0.016	-0.021
Combating poverty	Motivation: Combating poverty Content of the measures: increase of the endowment of the Fund for the fight against poverty and social exclusion. These resources will allow for the "Inclusion income" (*Reddito di inclusion Rei*) to become operational. The Rei is about 190 euros per month for a single person up to 485-490 euros for a household with 5 or more components; it can be associated with employment but it will not be compatible with other kinds of income support such as household components with "*Naspi*" or other social contributions for voluntary unemployment (Legislative Decree 147/2017).	D.62p	immediately effective	E	-0.017	-0.038	-0.048
Public Employment	Motivation: Public Employment Content of measures: Resources for the renewal of public sector employees work contracts	D.1	immediately effective	E	-0.048	-0.046	-0.045
suspension of contribution	Extension of the suspension of social contribution in areas affected by the earthquake	D.6	immediately effective	R	-0.010	0.000	0.000

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

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2018	2019	2020
					% GDP	% GDP	% GDP
SME Guarantee Fund	Motivation: Making business more competitive Content of the measures: Increase of the endowment of the SME Guarantee Fund, also in view of the operational changes already foreseen by decree of 6 March 2017 of the Ministry of Economic Development in agreement with the Ministry of Economy and Finance that will make it accessible to a greater number of businesses. The current assessment system is replaced by a rating model and the articulation of the maximum hedging measures on financial transactions will be according to the probability of failure of the beneficiaries and the duration and type of the financial transaction. The SME Guarantee Fund will be able to intervene, in favour of companies and professionals, not only with direct guarantees and guarantees, but also with reinsurance.	D.92p	immediately effective	E	-0.011	0.000	0.000
Other measures (revenue)	Other measures (revenue)	various		R	0.085	0.052	0.066
Other measures (expenditure)	Other measures (expenditure)	various		E	-0.072	-0.144	-0.069
				TOTAL	-0.577	-0.590	-0.076

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR 2017 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
CSR 1 - Pursue a substantial fiscal effort in 2018, in line with the requirements of the preventive arm of the Stability and Growth Pact, taking into account the need to strengthen the ongoing recovery and to ensure the sustainability of Italy's public finances. Ensure timely implementation of the privatisation programme and use windfall gains to accelerate the reduction of the general government debt-to-GDP ratio. [...]	Please see previous tables for budget targets.	PUBLIC FINANCE Public Finance and Spending Review
	The targets for privatization revenue set by the government in the Update of the 2017 Economic and Financial Document (EFD) are 0.2 per cent of GDP in 2016 and 0.3 per cent of GDP for the 2018-2020 period.	PUBLIC DEBT State-owned enterprises and privatisation
	A Prime Minister Decree defining the spending targets for the ministries, consistent with the provisions of the 2017 EFD has been approved at the end of June 2017. Spending targets provide savings of €1 billion per year in the 2018-2020 period (see Update of the EFD 2017, page 138).	CENTRAL ADMINISTRATION BUDGET Public Finance and Spending Review
	The centralised purchasing of goods and services was achieved by making CONSIP S.p.A. the main procurement center for the public administration, and by setting up a Technical Working Group of Purchasing centers (*Soggetti Aggregatori*)(see Update of the EFD 2017, page 138).	PURCHASING IN PA Public Finance and Spending Review
	In July, a Prime Minister Decree has been approved with reference to the provinces and the metropolitan cities, which specifies the methodology for calculating standard requirements(see the Update of the EFD 2017, page 139).	STANDARD COSTS Public Finance and Spending Review
CSR 1 - [...] Shift the tax burden from the factors of production onto taxes less detrimental to growth in a budget-neutral way by taking decisive action to reduce the number and scope of tax expenditures, reforming the outdated cadastral system and reintroducing the first residence tax for high-income households. Broaden the compulsory use of electronic invoicing and payments.	The D.L. No. 50/2017 extended the operating framework for the split payment in consideration of the effectiveness of the measure in combating tax evasion, with particular regard to evasion through non-payment (see the Update of the EFD 2017, page 140). The 2018 Budget will introduce additional anti-tax evasion measures.	SPLIT PAYMENT Fiscal policy
	The D.L. No. 50/2017 changed and extended the rules for voluntary disclosure (see the Update of the EFD 2017, page 140).	VOLUNTARY DISCLOSURE Fiscal policy
	The D.L. No. 50/2017 introduced composite fiscal-reliability indices to gradually replace parameters and sector studies (see Update of the EFD 2017, page 140).	FISCAL COMPLIANCE Fiscal policy
	The Lgs.D. No. 32/2017 made the exchange of tax information mandatory as part of cross-border preventive commercial agreements (rulings) and preventive agreements on transfer prices (see the Update of the EFD 2017, page 140).	INTERNATIONAL RULING Fiscal policy
	The D.L. No. 50/2017 introduced a procedure of reinforced cooperation and collaboration for settlement of tax debts due in relation to the possible stable organisation of non-resident companies (see the Update of the EFD 2017, page 141). The introduction of a full-blown web tax is under consideration, in line with the ongoing EU initiative.	WEB TAX Fiscal policy

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR 2017 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
CSR 1 - […] Shift the tax burden from the factors of production onto taxes less detrimental to growth in a budget-neutral way by taking decisive action to reduce the number and scope of tax expenditures, reforming the outdated cadastral system and reintroducing the first residence tax for high-income households. Broaden the compulsory use of electronic invoicing and payments	To prevent undue offsetting of VAT credits/debits, the D.L. No. 50/2017 reduced the limit (from €15,000 to €5,000) over which the compliance certificate is needed for the offsetting against income taxes, the regional tax on productive activity, and VAT. It also made electronic filing mandatory for all cases of offsetting (see the Update of the EFD 2017, page 140). The 2018 Budget will introduce new measures in this area.	FIGHT AGAINST TAX EVASION Fiscal policy
	The Report on the results of tax evasion recovery has been published with the Update of the EFD 2017.	FIGHT AGAINST TAX EVASION Fiscal policy
	As from 1 October 2017, the taxes collected on so-called 'new slot' entertainment devices, and 'video lotteries' have been increased (see the Update of the EFD 2017, page 140).	VAT RATES AND EXCISE TAXES Fiscal policy
	The deadline for compliance was extended with the provisions covering the discounted settlement of past tax bills. A new procedure that facilitates settlement of any type of tax disputes pending with the Italian Tax Authority was introduced (see the Update of the EFD 2017, page 141). The 2018 Budget will extend and strengthen these compliance measures.	TAX COMPLIANCE Fiscal policy
	As part of the revision of the cadastral system for classification of buildings, several activities were undertaken for constructing an Integrated Building Register (see the Update of the EFD 2017, page 142).	CADASTRAL REGISTRY Fiscal policy
	The report on measures related to tax expenditures has been published as an addendum to the Update of the EFD 2017. The Second Annual Report on Tax Expenditures will be published with the 2018 Budget. This report shows the financial effects of tax expenditures reported according to objectives.	MONITORING TAX EXPENDITURES Fiscal policy
	The introduction of electronic invoicing allowed for reducing payment delays for public-administration commercial debts (about 30% in 2016 compared to 2015). The first phase of testing the SIOPE+ initiated in July 2017; SIOPE+ is a system allowing for automatic procurement acquisition of payment data from central and territorial administrations (see the Update of the EFD 2017, page 100).	ELECTRONIC INVOICING Payments from/to the public administration
CSR 2 - Reduce the trial length in civil justice through effective case management and rules ensuring procedural discipline. […]	The Senate is examining the draft law reforming the civil process approved by the Chamber of Deputies. The reform aims to raise efficiency and streamline the procedures (see the Update of the EFD 2017, page 107).	CIVIL JUSTICE REFORM Justice
	With the Lgs.D. No. 116/2017 the reform of the honorary magistrates has been completed (see the Update of the EFD 2017, page 107).	REFORM OF THE HONORARY MAGISTRATES Justice

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR 2017 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	After being tested from December 2015, the digital tax trial is now available across the country. In the January-June 2017 period, the number of pending tax disputes fell by 12.7% year on year, following the trend that took shape in 2012 (see the Update of the EFD 2017, page 143).	ELECTRONIC FISCAL TRIAL Justice
CSR 2 - Reduce the trial length in civil justice through effective case management and rules ensuring procedural discipline. [...]	The trend of reducing the length of civil proceedings continued in the first quarter of 2017. In 2016, the average term for civil court proceedings was 981 days (from 1,007 days in 2015). In 2016, pending criminal cases decreased by 6.2%, while they fell by 0.1% in the first quarter of 2017. The average length of criminal proceedings in the lower courts with a single judge presiding amounted to 534 days in 2016 with respect to 598 in 2015 (see the Update of the EFD 2017, page 107).	CIVIL PROCEEDINGS Justice
	The D.L. No. 50/2017 established mediation as a mandatory preliminary procedure for anyone who intends to promote certain specific types of civil and commercial disputes (see the Update of the EFD 2017, page 107).	MANDATORY MEDIATION Justice
CSR - **2** - [...] Step up the fight against corruption, in particular by revising the statute of limitations. [...].	The Enabling Law reforming the criminal justice process has been approved in June with the objective of simplifying and accelerating criminal proceedings. It has introduced principles and criteria for the reform of the penitentiary system and of the statute of limitation (see the Update of the EFD 2017, page 104). In order to implement the enabling law, in October two legislative decrees have been adopted by the government pending a consultation with Parliament.	REFORM OF THE CRIMINAL JUSTICE PROCESS Criminal justice and statute of limitation
	The reform of the *Antimafia* Code was approved by the Parliament in September 2017.	REFORM OF THE ANTIMAFIA CODE Criminal Justice
CSR 2 - [...] Complete reforms of public employment and improve the efficiency of publicly-owned enterprises. [...].	Seven delegated legislative decrees implementing the enabling law reforming the PA have been adopted in April 2017. They concern: i) reform of the human resources management; ii) the system for the performance evaluation of the public administrations; iii) supplementary provisions about disciplinary job dismissal; iv) the reorganisation of the Firefighters Corps; v) the revision of the roles of the police forces; vi) the introduction of the Single Vehicle Circulation Document; vii) provisions regarding management in the healthcare sector (see the Update of the EFD 2017, page 98).	ENABLING LAW REFORMING THE PUBLIC ADMINISTRATION Reforming and modernising the Public Administration
	In June 2017 the supplementary and corrective legislative decree on state-owned enterprises has been definitively approved. The decree has been amended following a Court's Ruling (see the Update of the EFD 2017, page 101).	REFORM OF STATE-OWNED ENTERPRISES Reforming and modernising the Public Administration

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR 2017 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	The D.L. No. 50/2017 revised the document of contributory regularity (DURC) stating that for businesses or individuals applying for settlement of debts for social contributions, the document may be issued after the formal approval of an instalment payment plan. With two different agreements between the government, regions and local entities the unified and simplified forms were approved, with respect to the main categories of commercial, craft and building activities (see the Update of the EFD 2017, page 102).	SIMPLIFICATION Reforming and modernising the Public Administration
	In May 2017, the 2017-2019 Three Year Plan for ICT in the Public Administration has been approved. The Plan supplies guidelines that will allow administrations to plan investments and activity in a coordinated manner and with common objectives. In August, a master agreement to develop innovative, new digital channels for dialogue between the public administrations and users has been signed (see the Update of the EFD 2017, page 103).	THREE-YEAR PLAN FOR ICT IN THE PUBLIC ADMINISTRATION Reforming and modernising the Public Administration
CSR 2 - [...] Complete reforms of public employment and improve the efficiency of publicly-owned enterprises. [...].	The corrections to the Code of Digital Administration were preliminary approved. They contain measures for the implementation of projects identified in the Three Year Plan. Two measures - Developers Italia and Designers Italia - were launched representing a new public procurement model for the development of digital public services. In addition, the transfer from the municipal civil registry to the national civil registry started to rationalize spending for local authorities in the management of registry services and to simplify interaction between citizens and public administrations (see the Update of the EFD 2017, page 103).	MEASURES FOR DEVELOPMENT OF DIGITAL SERVICES Reforming and modernising the Public Administration
	The further digitalisation of the National Health Service, main part of the Digital Healthcare Pact, was facilitated by the creation of a steering committee for the New Healthcare Information System. A technical work group was also established for planning and monitoring the implementation of the electronic personal health record (see the Update of the EFD 2017, page 104).	DIGITAL HEALTCARE Health system
CSR 2 -[...] Promptly adopt and implement the pending law on competition and address the remaining restrictions to competition.	In August 2017, the Senate definitively approved the first annual law for the market and competition. The law addresses the following main areas: insurance; communications and postal services; energy and environment; banks; free professions and pharmacies; tourism, culture and transportation services (see the Update of the EFD 2017, page 103).	ANNUAL LAW FOR THE MARKET AND COMPETITION Competition
	Within the sphere of the specific provisions on local public transportation, D.L. No. 50/2017 introduced general principles regarding the organisation of the service, regulation and competition. The decree affirms the separation of the regulation, planning, organisation and control functions from those of operating the local and regional transportation services. Other provisions address the entrustment of local and regional public transportation services (see the Update of the EFD 2017, page 126).	COMPETITION IN THE TRANSPORTATION SECTOR Competition

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR 2017 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	The Public Procurement Code was amended and integrated by the D.Lgs. No. 56/2017. Changes concern the new provisions on simplified project design, integrated contract (which may be used only on a transitional basis), rescue investigation (now totally devoid of economic burdens), downward rates on labour costs and business qualification requirements in public tenders. Two of the implementing measures provided by the Public Procurement Code are in an advanced stage of preparation (see the Update of the EFD 2017, page 117).	AMENDMENT TO THE PUBLIC PROCUREMENT CODE Public procurement
CSR 3 - Accelerate the reduction in the stock of non-performing loans and step up incentives for balance-sheet clean-up and restructuring, in particular in the segment of banks under national supervision. Adopt a comprehensive overhaul of the regulatory framework for insolvency and collateral enforcement.	The D.L. 50/2017 reinforced measures to expand the market for the non-performing loans (NPLs) of banks and financial intermediaries. The companies buying such assets (securitisation companies) can purchase shares, securities and equity-participation instruments derived from the conversion of a portion of the seller's credits, and grant financing, aimed at improving the prospects of recovery of the NPLs and facilitating the return of the transferred debtors to performing status (see the Update of the EFD 2017, page 109).	NON-PERFORMING LOANS (NPLs) AND FINANCIAL INTERMEDIARIES Financial services and banking system
	The enabling law concerning the legislation on company crises and insolvency has been definitively approved in October.	COMPANY CRISIS AND INSOLVENCY Insolvency
	Urgent provisions for supporting banking crises were introduced (see the Update of the EFD 2017, page 109).	BANKING SYSTEM Financial services and banking system
	At the end of April 2017, the government allocated €200 million of the resources of the 2014-2020 'Businesses and Competitiveness' National Operating Programme to the creation of a special section of SME Guarantee Fund, known as the 'Business and Competitiveness National Operating Programme Reserve', to supplement the fund's ordinary guarantees in favour of SMEs and professionals in southern Italy (see the Update of the EFD 2017, page 123).	SME GUARANTEE FUND Credit support
	In June 2017 new provisions for the functioning of the SME Guarantee Fund (FGPMI) went into effect. The provisions govern the application of a new probability-of-default (PD) model for assessing businesses interested in obtaining the guarantee (see the Update of the EFD 2017, page 117).	SME GUARANTEE FUND Credit support
	The FGPMI and the *Cassa Depositi e Prestiti* (CDP) signed an agreement covering the issuance of a CDP counter-guarantee against a portfolio of guarantees issued by the fund. This initiative falls within the framework of the Juncker Plan, and represents the most important 'investment platform' realised at an EU level (see the Update of the EFD 2017, page 118).	INVESTIMENT FOR BUSINESSES Credit support

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR 2017 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
	The resources for the collective-loan guarantee consortiums ('Confidi') have been enhanced for the creation of a special, distinct risks fund to be used for granting new public guarantees to the member SMEs. The measure will favour, inter alia, the aggregation of the Confidi so as to allow even the smallest consortiums to achieve a larger critical mass in terms of guarantees given (see the Update of the EFD 2017, page 118).	CONFIDI Credit support
	The D.L. No. 50/2017 contained provisions concerning the Individual Long-term Savings Plans (PIR) (see the Update of the EFD 2017, page 118).	PIR Credit support
	The group of beneficiaries of the Fund for Credit to Firms Victims of Missed Payments was enlarged (see the Update of the EFD 2017, page 118).	FIRMS VICTIMS OF MISSED PAYMENTS Credit support
	The special tax incentives for long-term investment (at least 5 years) were extended to social security funds and pension funds (see the Update of the EFD 2017, page 120).	LONG TERM INVESTMENT Credit support
	For the '*Impresa* 4.0' National Plan see table 6B.	'*IMPRESA* 4.0' NATIONAL PLAN Investment
CSR 4 - With the involvement of social partners, strengthen the collective bargaining framework to allow collective agreements to better take into account local conditions. Ensure effective active labour market policies. Facilitate the take-up of work for second earners. [...]	In May, the law on non-entrepreneurial self-employment and smart working aiming at favouring a better work-life balance went into effect. Also a directive on smart working within the PA was introduced (see the Update of the EFD 2017, page 128).	NON-ENTREPRENEURIAL SELF-EMPLOYMENT AND SMART WORKING Employment protection
	The National Agency for Active Labour Market Policies (ANPAL) started the testing of a re-assignment allowance (see the Update of the EFD 2017, page 129).	RE-ASSIGNMENT ALLOWANCE Active labour policies
	For the incentives in favour of the youth employment see Table 6B.	INCENTIVES FOR YOUTH EMPLOYMENT Employment protection
	In February 2017 a Prime Minister Decree has been adopted, as provided by the 2017 Budget Law, for the disbursement of an annual allowance of €1,000 for families with children registered at private and public nursery. The decree also provided for introducing some forms of home support for children under the age of three years old who are suffering from serious chronic illnesses (see the Update of the EFD 2017, page 129).	WORK-LIFE BALANCE POLICIES Employment protection
	The D.L. No. 91/2017 called for the creation of Special Economic Zones (ZES), with particular reference to port areas, and a series of measures for simplification and for the acceleration of investments (public and private) in Southern Italy, like the measure 'Resto al Sud' (see the Update of the EFD 2017, page 121).	'SOUTH DECREE' Territorial rebalancing measures

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR 2017 (6.A)

RECOMMENDATIONS	REFORM ACTIONS	POLICY AREA
CSR 4 - […] Rationalise social spending and improve its composition.	The D.L. 50/2017 established the characteristics that certain work activities must have for the purposes of the 'social APE' and the application of the reduction of the requisite of the number of years of pension contributions for early workers. Furthermore a Prime Minister Decree was approved for the application of the voluntary APE as from 1 May 2017 (see the Update of the EFD 2017, page 132).	SOCIAL SPENDING Pensions

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2017 (6.B)

EU2020 TARGET	REFORM ACTIONS	POLICY AREA
1-Employment rate [67-69%]	The Youth Employment Incentive was refinanced for 2017; it is granted to employers who hire young people between the ages of 15 and 29 who are participating in the Youth Guarantee Programme. Moreover, the incentive for employment in Southern Italy - granted to private employers who hire young people under the age of 25 or persons unemployed for at least six months in Regions with high unemployment rates – is still enforce (see Update of the EFD 2017, page 129). Both measures will be refinanced as well as revised with the 2018 Budget strengthening the tax credit to hire young workers.	EMPLOYMENT Fiscal policy and employment protection
	The following measures have been implemented: Jobs Act for the self-employed and the regulation of ancillary work, and a directive on smart working within the Public Administration. For further details, see table 6A.	EMPLOYMENT Employment protection
2 – R&D [1,53% of GDP]	The D.L. No. 91/2017 extended the super-amortization and the hyper-amortization in the framework of the '*Impresa 4.0* National Plan' (see Update of the EFD 2017, page 119). The 2018 Budget will introduce fiscal incentives to favour firms' investments in workers 4.0 competences.	'*IMPRESA* 4.0 NATIONAL PLAN' R&D
	The amount of the '*Nuova Sabatini*' – to support investment in machinery, equipment, plant facilities, capital goods for production and hardware has been refinanced with 2018 Budget.	*NUOVA SABATINI* R&D
	The tax credit for investments in research and development has been extended up to the 2020 (see Update of the EFD 2017, page 120).	INVESTMENT IN R&D R&D
	The measures for self-entrepreneurship and innovative start-ups have been refinanced, with €47.5 million for 2017 and €47.5 million for 2018 for each of the two instruments. The rules applicable to the patent box system have been aligned with OECD guidelines (see Update of the EFD 2017, page 120).	SELF-ENTREPRENEURSHIP AND START UP R&D
	The implementation of the National Research Programme continues, with a focus on the promotion of human capital (see Update of the EFD 2017, page 136).	NRP R&D
	Provisions for the strengthening of National Technological Clusters (NTC), to support the coordination of industrial research policies at national and local level have been introduced (see Update of the EFD 2017, page 136).	NTC R&D
	The general rules for the National Intelligent Specialisation Strategy (SNSI) - approved by the EU Commission in line with the National Research Programme - have been defined (see Update of the EFD 2017, page 123).	SNSI R&D
	The 2018 Budget will introduce measures for the development of 5.0 Broadband technology.	BROADBAND R&D
3 - Greenhouse gas emissions [-13%]*	In order to implement the National Energy Strategy, the document for the Circular Economy has been made available for consultation (see Update of the EFD 2017, page 143). The National Strategy for Sustainable Development has been approved after a consultation process.	CIRCULAR ECONOMY AND SUSTAINABLE DEVELOPMENT Energy policies
	The National Energy Strategy (NES) has been made available for consultation in 2017 (see Update of the EFD 2017, page 143).	NES Energy policies

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2017 (6.B)

EU2020 TARGET	REFORM ACTIONS	POLICY AREA
	To implement the law on the green economy and resource efficiency, the first 'catalogue of the environmentally damaging and favourable subsidies' was sent to Parliament to facilitate the assessment of the environmental impact of such subsidies (see Update of the EFD 2017, page 144).	CATALOGUE OF SUBSIDIES Environmental policies
4 - Energy from renewables [17%]	With the 2017 European law, Italy has attempted to move forward two key aspects of the NES: the need to safeguard industrial sectors that are heavy consumers of energy exposed to international competition, and the need to pursue policies to support renewable electricity sources. Moreover, the same law considers the introduction of a measure similar to the one described above for the gas system (see Update of the EFD 2017, page 144).	RENEWABLE ELECTRICITY SOURCES Environmental policies
	With the annual law for Competition, simplification measures have been introduced with respect to renewable sources, energy efficiency, autonomous systems for the collection of packaging materials, ferrous and non-ferrous metals, and used electronic devices and equipment (see Update of the EFD 2017, page 125).	SIMPLIFICATION Environmental policies
5 - Energy efficiency [15,5 Mtoe/year]**	One of the innovation introduced by the annual law for Competition is the completion of the markets liberalisation for retail sale of electricity and gas for the transition to the liberalised market (see Update of the EFD 2017, page 125).	ELECTRICITY AND GAS MARKET Environmental policies
	The annual law for Competition introduced a stronger prohibition against the regions' adoption of discriminatory provisions regarding obligations for a so-called 'third fuel' to be offered alongside gasoline and diesel, limiting them to cases identified by a decree of the Ministry of Economic Development (see Update of the EFD 2017, page 125).	THIRD FUEL Environmental policies
	The 2018 Budget will extend while revising the tax deductions for the energy requalification of buildings.	ECOBONUS Environmental policies
6 - School drop-out rates [16%]	New instruments available for the school-job transition and the apprenticeship with the objectives of reducing the school drop-out rate, orienting students toward the business world, and aiding the employability of young people. In the first semester of 2017, apprenticeship contracts increased by 27.3% relative to the same period of 2016 (see Update of the EFD 2017, page 129).	DUAL-TRACK SYSTEM Active Labour Market Policies
	Additional resources have been allocated for the completion of the actions of the National Plan for Digital School (NPDS) (see Update of the EFD 2017, page 135).	NPDS Education
	In July, a decree has been signed for the creation of Early Childhood Centers linked to the introduction of an integrated education system from birth to age 6 (see Update of the EFD 2017, page 135).	INTEGRATED EDUCATION SYSTEM Education
	A national plan for testing a four-year diploma has been inaugurated (see Update of the EFD 2017, page 135).	FOUR-YEAR DIPLOMA Education

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2017 (6.B)

EU2020 TARGET	REFORM ACTIONS	POLICY AREA
7 - Tertiary Education [26-27%]	The D.L. No. 50/2017 has affected the resources of the Cohesion and Development Fund addressed to the 'National Plan for the Southern Italy - University System' for the implementation of infrastructure development projects for universities in southern Italy. The D.L. No. 91/2017 contains additional provisions for the assignment of State resources for 2017, based on standard costs. The freeing up of resources for 2017 also ensures the implementation of the 'no tax area' for University students coming from households with an ISEE lower than €13,000 (see Update of the EFD 2017, page 136).	RESOURCES FOR UNIVERSITIES Tertiary education
	The steering committee for coordination of Advanced Technical Institutes (ITS) and professional degrees concluded the first part of its first works with the aim of continuing and completing the educational experience (see Update of the EFD 2017, page 137).	DUAL-TRACK SYSTEM Tertiary education
8 - Poverty / social exclusion [Reduction of 2,200,000 people in or at risk of poverty, deprivation and social exclusion].	In August, the government definitively approved the legislative decree that introduces the Inclusion Income (REI) as of 1 January 2018, a single national measure to fight poverty and social exclusion. Pending the launch of the REI initiative, new criteria for the Support for Active Inclusion Programme went into effect in April 2017 (see Update of the EFD 2017, page 130). The 2018 Budget will extend the number of beneficiaries as well as the resources allocated to the REI.	INCLUSION INCOME Poverty and social inclusion
	The Protection and Social-Inclusion Network chaired by the Minister of Labour and Social Policies and made up of the representatives from various levels of government has been established. This permanent network has the purpose of discussing and planning social policies, as well as participating in the programming decisions of the tertiary sector and social partners 2017 (see Update of the EFD 2017, page 131).	PROTECTION AND SOCIAL-INCLUSION NETWORK Poverty and social inclusion
	With the three legislative decrees definitively approved in June 2017, the government concluded a broad and uniform review and reorganisation of the regulations regarding the non-profit sector, also introducing the related code (see Update of the EFD 2017, page 132).	NON-PROFIT SECTOR CODE Non-profit sector

* The Italian target of 13 per cent for reduction in emissions compared to 2005, in 2020 concerns the non-ETS sectors.

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

	ESA Code	2016	2017	2018
		% GDP	% GDP	% GDP
Target General Government net lending/borrowing	B.9			
Stability Programme		-2.4	-2.1	-1.2
Draft Budgetary Plan		-2.5	-2.1	-1.6
Difference		-0.1	0.0	-0.4
General Government net lending projection at unchanged policies	B.9			
Stability Programme		-2.4	-2.1	-1.3
Draft Budgetary Plan		-2.5	-2.1	-1.0
Difference		-0.1	0.0	0.3

IV. METHODOLOGICAL NOTES

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

1) A note containing a brief description of the models used in the DBP[25] for the macroeconomic framework and the impact of structural reforms;
2) A methodological note on the forecasting criteria provided as an exhibit to the 2017 Economic and Financial Document, with detailed information supplied about the methodology, the forecasting process, and the models used for the macroeconomic and public finance forecasts[26].

IV.1 BRIEF DESCRIPTION OF THE MODELS USED

The Italian treasury econometric model (ITEM)

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

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

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

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

Italian General Equilibrium Model (IGEM)

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

QUEST III - Italy

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

MACGEM-IT - A New CGE model for Italy

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

The model is based on the economic flows identified by the national accounting system and it follows the assumptions on functions and exogenous parameters that are generally accepted. MACGEM-IT model formalizes the relationships among agents in the economy by modelling the functions of behaviours (production, consumption and accumulation) which are able to represent the interdependencies among activities, primary factors and institutional sectors.

Although its framework traces the general equilibrium model, MACGEM-IT includes proper rigidities and imperfections regarding the behaviour of some agents and markets, such as the Government and the labour market.

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

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

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

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

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

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

The method used for estimating Italy's potential GDP and output gap is the one agreed at EU level, and is based on a Cobb-Douglas[27] production function whose specifications are to be discussed and decided by the Output Gap Working Group (OGWG) which is part of the European Council's Economic Policy Committee. For additional details on the model, see Section III.3 of the Methodological Note[28] provided as an exhibit to the 2017 EFD.

The estimates in this document have been produced on the basis of the macroeconomic scenario contained in the Update to the 2017 EFD for the years of 2017-2020[29], with a distinction made between the projections based on trend scenario and those based on the policy scenario. Moreover, estimates have been updated to take into account the recent national account release by ISTAT that occurred after the publication of the 2017 Update of EFD. The parameters reported in the following table were used for the computation of the Non Accelerating Wage

[27] For additional details, see: D'Auria et al., 2010, 'The production function methodology for calculating potential growth rates and output gaps, European Economy', (Economic Papers n. 420)
[28] In this regard, see:
http://www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Attiviti/Contabilit_e_finanza_pubblica/DEF/2017/DEF-2017-Notametodologica.pdf
[29] For further details on the growth sensitivity analysis, see section III.2 of the EFD 2017 Methodological Note.

Rate of Unemployment (NAWRU). The initialization priors of the trend-cycle decomposition model for Total Factor Productivity (TFP) have also been revised in order to improve the realism of results. With the new priors, trend growth in TFP turns positive in 2017, in line with the Solow Residual observed for recent years and forecasted for future ones.
More specifically, the mean and the variance of the innovation process driving the variance of the cycle equation have been calibrated, respectively, on values of 0.00153 and 0.001531. The initial conditions on the mean and the standard deviation of the cycle amplitude were calibrated on 0.607 and 0.215, respectively, while the mean and variance of the innovation of the second equation were revised to 0.005818 and 0.005819. In addition, the average and variance of trend innovation have been calibrated on the value of 0.0000003539.

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

Unchanged Policies and Policy Scenario	
	Value
LB Trend innov var	0
LB Trend slope var	0.04
LB Cycle innov var	0
LB Innovation var 2nd eq.	0
UB Trend innov var	0,095
UB Trend slope var	0.045
UB Cycle innov var	0.19
UB Innovation var 2nd eq.	0.00081614
Exogenous 2nd eq.	0

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

See the document "Nota metodologica sui criteri di formulazione delle previsioni tendenziali" (in Italian only)

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