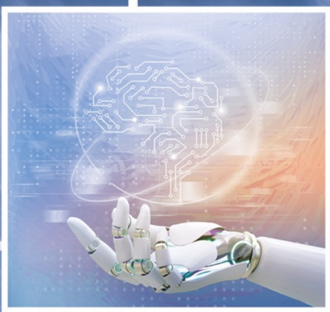
Ministero
dell'Economia
e delle Finanze

2025 ITALY'S DRAFT BUDGETARY PLAN



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ITALY'S DRAFT BUDGETARY PLAN

2025

Submitted by the Minister of Economy and Finance

Giancarlo Giorgetti

to the Cabinet on 15 October 2024

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I. MACROECONOMIC OUTLOOK AND FISCAL POLICY

This document confirms the macroeconomic and public finance forecasts under both the existing legislation and policy scenarios of the Medium-Term Fiscal-Structural Plan (MTP).

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

In the context of an uncertain global geopolitical environment and tight monetary policy stance, in the first two quarters of 2024 GDP growth was broadly in line with the estimates underlying the official forecasts of the MTP.

I In the first quarter growth in economic activity was mainly driven by foreign demand. In contrast, in the second quarter, domestic demand - specifically final consumption - and an increase in inventories supported growth. Investment declined slightly on a quarterly basis, while the contribution of net foreign demand was negative.

The short-term outlook is still positive, with the consumer confidence index outperforming that of the previous year, signalling the expectation of an improving economic climate. On the supply side, the divergence between sectoral developments in the first half of this year is narrowing. While the latest surveys point to a slight slowdown in the growth of the services sector, there are indications that the weakness in manufacturing is gradually stabilising. With regard to construction, the sector continues to be very buoyant thanks to the good performance of the civil engineering sector, partly as a result of the impetus provided by the RRP projects. Despite lower-than-expected global demand for Italian goods and services in 2024, the outlook for exports is overall still favourable, thanks to the recovery in global trade expected in the coming years.

Regarding public finance, the latest national accounts data published by ISTAT[1] show an unchanged deficit-to-GDP ratio for 2023 compared with that indicated in the Stability Programme contained in the Economic and Financial Document (DEF) of last April (7.2 percent), as a result of upward revisions to both the numerator and the denominator.

The deficit showed a first significant reduction compared with 2022 (8.1 percent of GDP), thanks both to the improvement in the primary balance (from -4.0 percent of GDP in 2022 to -3.5 percent in 2023) and to the decrease in interest expenditure (from 4.1 percent of GDP in 2022 to 3.7 percent in 2023).

In 2023, total expenditure increased by 4.4 percent with respect to the previous year, mainly due to the significant growth in capital expenditure (+19.2 percent), which concerned both publicinvestment, driven by expenditure on projects financed by the RRP, and capital transfers, influenced by building renovation bonuses.

For 2024, ISTAT's institutional sector accounts released on 4 October point to a decrease in general government net borrowing in the first half of the year to 5.8 percent of GDP, compared with 7.9 percent in the same period in 2023 (in non-seasonally adjusted terms).

[1] ISTAT, National Economic Accounts, 23 September 2024.

I.2 MACROECONOMIC FORECAST UNDER EXISTING LEGISLATION AND POLICY SCENARIOS

As indicated for the definition of the macroeconomic scenario in the MTP, national accounts data available up to the end of September have been integrated into the forecast. The growth estimates have been formulated according to the principles of caution and prudence, avoiding deviating excessively from the consensus forecasts. The new projections did not take into account the more favourable impact of the exogenous variables than those underlying the 2024 Stability programme macroeconomic scenario.

Under the existing legislation scenario, the expansion of economic activity in 2024 remains in line with what was already indicated in last April's Stability Programme,[2] with a marked positive contribution from net foreign demand and, to a lesser extent, from domestic demand excluding inventories, in particular from investment. The outlook for 2025 shows a less dynamic economy (0.9 percent), mainly due to a slowdown in investment growth, while household consumption is expected to regain momentum thanks to higher wage purchasing power. Thereafter, economic activity is expected to expand by 1.1 percent in 2026 and by 0.7 percent in 2027. In 2026, investment will provide a strong boost to growth, also in the wake of the final boost of the RRP projects, including the incentives linked to the 'Transition 5.0' package. In addition, the weighted global demand for Italy's goods and services is expected to peak in 2026. However, the contribution of net foreign demand will only turn slightly positive again from 2027 onwards. The current account balance as a percentage of GDP is projected to gradually increase over the forecast horizon to 2.3 percent in 2027. On the supply-side, value added growth in industry is projected to peak in 2026 and to continue at a slower pace. Developments in the construction sector are expected to stabilise after a strong growth in 2024, before expanding overall in line with the rest of the industrial sector. Following a slowdown for 2024 that would discount the stickiness of relative prices, services would observe the highest growth in 2025, moderating thereafter.

Throughout the forecast horizon, the labour market will be characterised by an increasing trend in the number of persons in employment and an unemployment rate falling from 7.0 percent in 2024 to 6.4 percent in 2027. In addition, there is a moderate trend of productivity growth over the period 2025-2027, with the largest increase expected in 2026. The rate of change in the consumption deflator, from a minimum of 1.1 percent in 2024, is expected to recover to 1.8 percent over the three-year period 2025-27. The GDP deflator is projected to grow at 1.9 percent in 2024, to recover to 2.1 percent in 2025 and to decline slightly in 2026-2027.

The policy scenario (Table I.2-1), consistent with the net expenditure growth path agreed with the European Commission, includes Government interventions aimed at pursuing economic and fiscal policy objectives, including support for domestic demand and low- and middle-income households. These measures will have the strongest expansionary effect in 2025, when the real GDP growth rate is expected to rise to 1.2 percent. In particular, the effects of the reduction of the tax wedge on labour for employees up to certain pay levels, as well as measures to

[2] The estimates underlying the forecasts in this document do not incorporate ISTAT's revision of the Quarterly Economic Accounts of 4 October 2024, which resulted in a downward correction of the acquired growth for 2024 on quarterly data.

support larger households, will be made structural in the forthcoming budget. A favourable boost to consumption is therefore expected and, indirectly through higher demand, a beneficial impact on business investment compared to the baseline scenario under existing legislation. The positive effects of these interventions will continue in 2026, compensating for the lower growth rate of public administration expenditure. For 2026, the expected growth rate of the economy therefore remains at 1.1 percent. In 2027, economic activity is expected to expand at 0.8 percent, above the growth rate projected in the baseline macroeconomic scenario. This is not only due to the protracted effects of the above-mentioned interventions, but also to the higher primary expenditure, and in particular in investments, of the general government, made possible by the budgetary space compared to the existing legislation ensured by the net expenditure growth targets.

With regard to prices, the annual rate of change in the GDP deflator will hover around 2 percent over the forecast horizon, slightly exceeding this value only in 2025, reaching 2.1 percent. The lowest growth rate is expected to be 1.8 percent in 2027. Compared to the baseline, in the policy scenario the growth rate of the deflator is higher in 2026. Finally, from 2025 onwards, the profile of the unemployment rate would be slightly lower than the existing legislation scenario over the forecast horizon.[3]

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

	2023	2024	2025	2026	2027
GDP	0.7	1.0	1.2	1.1	0.8
GDP deflator	5.8	1.9	2.1	2.0	1.8
Consumption deflator	5.1	1.1	1.8	1.8	1.8
Nominal GDP	6.6	2.9	3.3	3.1	2.6
Employment (FTEs) (2)	2.3	1.2	1.0	0.9	0.9
Employment (LF) (3)	2.1	1.5	1.0	0.9	0.9
Unemployment Rate	7.7	7.0	6.6	6.5	6.3
Current account balance (% of GDP)	0.5	1.9	2.1	2.1	2.1

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

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

The latest monitoring data show a more favourable than expected fiscal performance for the current year, especially on the revenue side, with direct tax revenues projected to be 3.6 percent higher than projected in the 2024 Stability Programme.

As a result, also thanks to the upward change in nominal GDP that incorporates revisions from previous years, the deficit in 2024 is now forecast at 3.8 percent of GDP, with a downward revision of 0.5 percentage points compared to the value

[3] It should be noted that the estimated effects of the manoeuvre with the Treasury Department's ITEM econometric model would define a more dynamic path for the policy scenario growth rate than envisaged here. However, only part of the estimated expansionary effects has been captured in the macroeconomic policy scenario.

contained in the Stability Programme (4.3 percent) and a sharp reduction compared to 2023 (-3.4 percentage points). The primary balance would already be in surplus (0.1 percent of GDP).

In the existing legislation scenario, which is identical to the one underlying the MTP, the more favourable forecasts imply a significant improvement in the profile of net borrowing for the 2025-2027 period compared to that projected in the Stability Programme. At the end of the three-year period, the deficit is projected to be equal to 1.5 percent of GDP (compared with 2.2 percent in April).

The downward trend in the deficit can be ascribed to the gradual consolidation of the primary balance, driven by the containment of primary expenditure and the reduction of expenditure on capital transfers. By contrast, public investment will remain on a gradually increasing path to 3.6 percent of GDP in 2026, reflecting continued implementation of the RRP.

The gradual consolidation of the primary surplus, from 1.0 percent of GDP in 2025 to 2.5 percent in 2027, will outweigh the increase in interest expenditure, which is expected to rise above 4 percent of GDP in 2027, owing to the increase in yield rates on government securities brought about by the ECB's tightened monetary policy.

The forecast under existing legislation thus described has been complemented in order to include the expected impact of the forthcoming budgetary manoeuvre. It is recalled that the policy scenario of this document coincides with the one underlying the MTP, which makes it possible to comply with the constraint represented by the net expenditure growth targets defined in line with the extension of the fiscal adjustment period to seven years[4]. The annual growth rates of net expenditure that the government commits not to exceed are set at 1.3 percent in 2025, 1.6 percent in 2026 and 1.9 percent in 2027.

This expenditure growth path, in addition to complying with the requirements and safeguards of the new European economic governance, is such as to bring the deficit below the 3 percent of GDP threshold by 2026, resulting in an exit from the Excessive Deficit Procedure. Moreover, it is in line with the reference trajectory sent by the European Commission on 21 June 2024, since the average growth rate over the period 2025-2031 is 1.5 percent, albeit differences in annual growth rates. Since the more favourable public finance situation expected in 2024, as a result of the improved revision of the September outturn data for GDP and public budget, the planned structural adjustment is lower than that underlying the reference trajectory. Nevertheless, at the end of the adjustment period, the structural primary balance is projected to reach a surplus (3.2 percent of GDP) close to that of the Commission's reference trajectory (3.3 percent of GDP).

Under the policy scenario, the deficit-to-GDP ratio is projected to gradually decline from 3.8 percent this year to 3.3 percent in 2025, 2.8 percent in 2026 and 2.6 percent in 2027. These targets are below those set in the Update of the DEF 2023 (and confirmed in the DBP 2024) for the 2024-2026 period and below the forecast in the Stability Programme 2024 also for the year 2027.

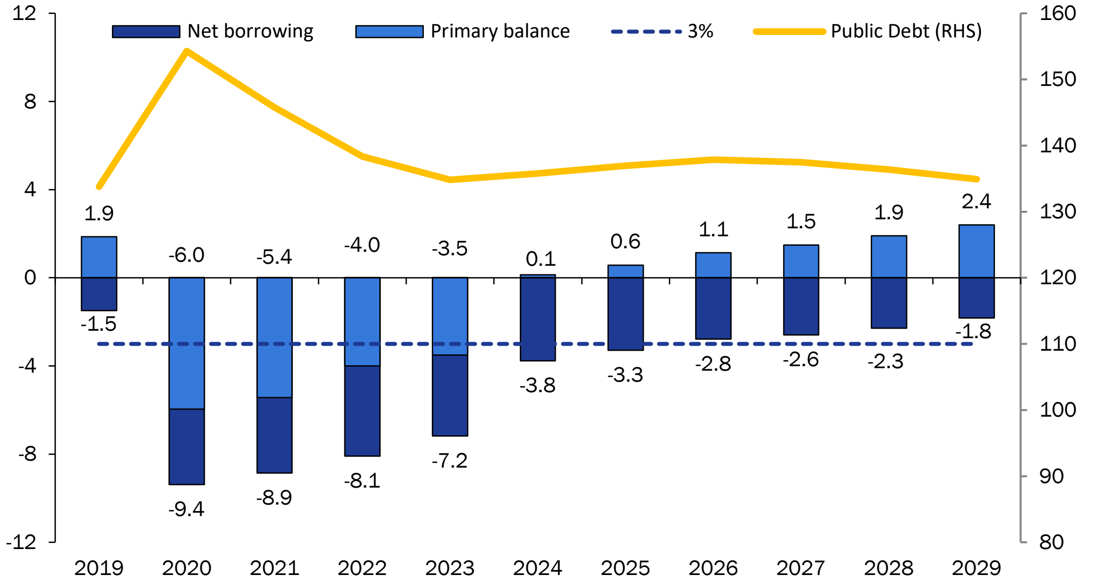
The scenario under existing legislation shows a growth profile of net expenditure below the target net expenditure, in particular over the 2025-2027 period.

[4] For an articulated description of the trajectory definition process, please refer to ch. II of the MTP.

The available fiscal space, together with corrective measures on the expenditure and revenue sides, will be used to finance actions to achieve economic policy objectives in the coming years, which will be further detailed in the next paragraph.

The budget for the next three years will therefore guarantee the commitment to keep net expenditure on the planned growth path, but, at the same time, will allocate the resources necessary for the implementation of the Plan and to support the economic system. As a result, underlying trends at existing legislation, which suggest a prudent and more efficient management of public expenditure, would be supported and further strengthened.

FIGURE I.3-1 : GENERAL GOVERNMENT NET BORROWING, PRIMARY BALANCE AND DEBT (% OF GDP)



Source: Istat and Bank of Italy. From 2024, forecasts of the policy scenario.

I.4 FISCAL POLICY FOR 2025

The fiscal policy for 2025, aimed at supporting the growth of the national economy and at ensuring, at the same time, the socio-economic balance and the sustainability of public finances, is in continuity with the choices made by the Government since its establishment.

In addition to the provisions contained in the draft budget law for 2025-2027, the public finance manoeuvre includes those provided by a specific decree-law. The effects of these measures will contribute to the achievement of the targets set out in the medium-term fiscal-structural plan (MTP)[5], ensuring the financing of both unchanged policies and further interventions identified as priorities by the Government.

With effect from 1 January 2025, in order to continue the implementation of the tax reform, the merging of the personal income tax (IRPEF) rates into three brackets

[5] Pending the revision of the national legislation on public accounting and finance, the Parliament's final decision on the MTP took place on 9 October with the adoption of resolutions (no. 6-00110 in the Senate and no. 6-00132 in the Chamber of deputies), in analogy with the procedures currently applied for approving the planning documents.

becomes structural. In addition, the effects of the tax reduction measures for employees are confirmed. Regarding the reduction of the labour tax burden, the increase of the deductible cost in the case of new hires is extended. In this way, the path for reducing the tax burden on families with medium-low incomes continues, giving solidity and certainty the support of workers and taxpayers.

The manoeuvre also strengthens initiatives for families and parenthood, including measures aimed at supporting work-life balance. In particular, parental leaves are enhanced and financial support measures in favour of newborns are funded. In addition, the First home mortgage guarantee Fund and the Fund for non self-sufficiency are refinanced, as well as the contribution for the purchase of basic food items (Solidarity card "*Dedicata a te*").

With regard to pensions, flexibility measures such as *Ape Sociale*, *Opzione donna*, *Quota 103*, are extended to 2025 as well as the increase of minimum pensions. Measures to encourage people to remain at work when they reach retirement age are also established.

In favour of the public employees, resources are allocated to finance the renewal of contracts for the three-year period covered by this document.

In the area of security, international peace missions and the measures "*Strade e Stazioni sicure*" (Safe roads and stations) are refinanced. With reference to emergency management, also related to climate risk, the National Emergency Fund is increased, and a Fund is established to finance expenditure related to reconstruction. Measures to support local and regional bodies are also planned.

The dynamics of health expenditure will be supported, as projected in the MTP, and it will grow at a higher rate than the one set for the overall net expenditure indicator, by providing additional resources for the employees and increasing the level of the National Health Fund.

As concerns measures for businesses, the Nuova Sabatini is refinanced and the tax credit for investments in the Special Economic Zone (SEZ) for Southern Italy is extended to 2025. Some tax relief measures, already in force, to encourage the employment of young people, women and disadvantaged workers are confirmed. Measures to reduce the tax burden on productivity bonuses (rewards) and in favour of corporate welfare are also planned.

Finally, resources already available under existing legislation and additional ones allocated in the manoeuvre are used for implementing the reform and investment agenda outlined in the MTP, allowing to keep the profile of public investment financed with national resources at an average level, at least equal to the one recorded during the lifetime of the Recovery and Resilience Plan. Among others, the reinforcement of investments in the defence sector and for development and cohesion is planned.

The range of interventions will be financed, in addition to the resources available under current legislation, by the higher revenue and lower expenditure provided for in the manoeuvre.

In particular, on the revenue side, the manoeuvre includes measures on banks and insurance companies and on gaming concessions, as well as the reorganization of tax expenditures that will take into account the number of family members in the calculation of deductions.

On the expenditure side, the manoeuvre includes measures to review, rationalise and remodulate the expenditure of ministries and of local and regional bodies and the use of the resources provided for in current legislation for implementing the tax reform.

For further details on the main measures contained in the forthcoming public finance manoeuvre, please refer to Table II.1-12, which describes them by type of intervention and sets out their financial effects (in incremental terms compared to the previous year, as required by the European guidelines).

I.5 FORECASTS OF THE DEBT TO GDP RATIO

The update of the forecasting scenario, which includes better-than-expected dynamics in borrowing requirement of the State sector and a significant upward revision of nominal GDP, implies an improvement in the debt-to-GDP ratio forecast at the end of 2024, which is expected to reach 135.8 percent, 2.0 percentage points below the Stability Programme forecast.

Similarly, for the next three years, due to the impact of tax credits related to building bonuses accrued in previous years and used to offset taxes, its profile is expected in line with the April forecast, but at significantly lower levels.

The ratio is expected to increase slightly to 137.8 percent in 2026. Thanks to the gradual exhaustion of the effects of building bonuses, as well as to the process of fiscal consolidation consistent with the planned net expenditure profile outlined in the MPT, from 2027 the debt-to-GDP ratio will return to a downward path, standing at 137.5 percent. This decline will also be driven by the improvement in the cash primary balance, offsetting the expected rising debt servicing cost.

In detail, in addition to the base effect linked to the higher absolute value of the debt stock, the increase in interest rates that started at the end of 2021 will be the main cause of the progressive raise in interest expenditure from 2024 onwards, which is expected to increase after the temporary reduction in 2023[6]. However, this impact will be mitigated by the high average maturity of debt, as well as by the easing of the monetary tightening initiated by the ECB in the course of 2024 with the two reductions in policy rates in June and September[7].

Further factors that will contribute to containing the dynamics of the debt-to-GDP ratio are the management of the Treasury's liquidity stocks, aimed at progressively reducing them, and the revenues generated by the plan for the valorisation and disposal of public assets and property launched at the end of 2023.

I.6 ENDORSEMENT OF OFFICIAL FORECASTS BY THE PBO

The macroeconomic forecasts under the existing legislation scenario and in the policy scenario were endorsed by the Parliamentary Budget Office (PBO) on 25 September and 7 October 2024, respectively.

[6] This was mainly due to the lower burden of inflation-linked bonds compared to what was spent in 2022.

[7] The Governing Council of the ECB decided on 6 June to reduce the three reference rates by 25 basis points, while on 12 September the interest rate on the deposit facility was reduced by 25 basis points, and the rates on the main refinancing operations and the marginal lending facility were reduced by 60 basis points.

II. TABLES

TABLE II.1-1 : BASIC ASSUMPTION (0.A)

	2023	2024	2025
Short-term interest rate (annual average)	3,4	3,4	2,3
Long-term interest rate (annual average)	4,4	3,7	3,6
USD/€ exchange rate (annual average)	1,1	1,1	1,1
Nominal effective exchange rate	2,9	1,5	0,3
World excluding EU, GDP growth	2,6	2,5	2,5
EU GDP growth	0,6	0,9	1,6
Growth of relevant foreign markets	-1,3	1,4	3,9
World import volumes, excluding EU	0,8	2,3	3,6
Oil prices (Brent, USD/barrel)	82,4	81,8	75,8

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

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

	ESA Code	2023	2023	2024	2025	2026	2027
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	1.917.249	0,7	1,0	1,2	1,1	0,8
Of which							
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					0,3	0,0	0,1
1.1. Attributable to the estimated impact of NGEU funds on economic growth			0,4	0,0	1,0	1,4	-1,5
2. Potential GDP		1.891.355	1,1	1,4	1,3	1,1	1,0
contributions:							
- labour			0,5	0,7	0,5	0,4	0,3
- capital			0,5	0,6	0,6	0,5	0,4
- total factor productivity			0,1	0,1	0,1	0,2	0,2
3. Nominal GDP	B1*g	2.128.001	6,6	2,9	3,3	3,1	2,6
Components of real GDP							
4. Private final consumption expenditure	P.3	1.084.211	1,0	0,2	1,4	1,1	1,0
5. Government final consumption expenditure	P.3	363.323	1,9	0,0	1,8	0,9	0,0
6. Gross fixed capital formation	P.51	430.992	8,5	2,8	1,5	1,8	0,7
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-2,5	-0,8	-0,2	0,0	0,0
8. Exports of goods and services	P.6	605.798	0,8	0,7	3,1	3,0	2,8
9. Imports of goods and services	P.7	550.663	-0,4	-2,9	3,9	3,9	2,8
Contributions to real GDP growth							
10. Final domestic demand		-	2,8	0,8	1,5	1,2	0,7
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	-2,5	-0,8	-0,2	0,0	0,0
12. External balance of goods and services	B.11	-	0,4	1,1	-0,1	-0,1	0,1

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

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

	ESA Code	2023	2023	2024	2025	2026	2027
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		111,0	5,8	1,9	2,1	2,0	1,8
2. Private consumption deflator		113,9	5,1	1,1	1,8	1,8	1,8
3. HICP		120,9	5,9	1,2	2,0	1,8	1,8
4. Public consumption deflator		105,3	0,1	2,5	1,2	0,7	0,1
5. Investment deflator		111,1	1,2	0,0	1,8	1,6	2,1
6. Export price deflator (goods and services)		118,5	1,5	0,3	2,0	1,5	2,0
7. Import price deflator (goods and services)		125,6	-5,9	-1,9	0,3	1,5	1,8

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

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

	ESA Code	2023	2023	2024	2025
		Level	rate of change	rate of change	rate of change
1. Employment, persons		26.030	1,9	1,2	1,0
2. Employment, hours worked		44.252.170	2,4	1,4	1,0
3. Unemployment rate (%)			7,7	7,0	6,6
4. Labour productivity, persons		73.655	-1,1	-0,3	0,2
5. Labour productivity, hours worked		43	-1,7	-0,4	0,2
6. Compensation of employees	D.1	824.027	5,2	5,0	3,3
7. Compensation per employee		47.162	2,4	3,5	2,2

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

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

	ESA Code	2023	2024	2025
		% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world	B.9	0,7	2,2	2,4
of which:				
- Balance on goods and services		1,2	2,7	2,9
- Balance of primary incomes and transfers		-1,1	-1,1	-1,1
- Capital account		0,7	0,6	0,6
2. Net lending/net borrowing of the private sector	B.9	7,9	6,0	5,7
3. Net lending/net borrowing of general government	EDP B.9	-7,2	-3,8	-3,3
4. Statistical discrepancy				

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

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

	ESA Code	2024	2025	2026	2027
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-3,8	-3,3	-2,8	-2,6
1a. Central government	S.1311	-4,1	-3,6	-3,1	-2,8
1b. State government	S.1312				
1c. Local government	S.1313	0,1	0,1	0,1	0,1
1d. Social security funds	S.1314	0,2	0,2	0,2	0,2
2. Interest expenditure	EDP D.41	3,9	3,9	3,9	4,1
3. Primary balance		0,1	0,6	1,1	1,5
4. One-off and other temporary measures		0,1	0,1	0,1	0,0
5. Real GDP growth (%)		1,0	1,2	1,1	0,8
6. Potential GDP growth (%)		1,4	1,3	1,1	1,0
contributions :					
- labour		*0,7*	*0,5*	*0,4*	*0,3*
- capital		*0,6*	*0,6*	*0,5*	*0,4*
- total factor productivity		*0,1*	*0,1*	*0,2*	*0,2*
7. Output gap (% of potential GDP)		1,0	0,9	0,8	0,7
8. Cyclical budgetary component (% of potential GDP)		0,5	0,5	0,4	0,4
9. Cyclically-adjusted balance (% of potential GDP)		-4,3	-3,8	-3,2	-3,0
10. Cyclically-adjusted primary balance (% of potential GDP)		-0,4	0,1	0,7	1,1
11. Structural balance (% of potential GDP)		-4,4	-3,8	-3,3	-3,0

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

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

	ESA Code	2024	2025	2026	2027
		% GDP	% GDP	% GDP	% GDP
1. Gross debt		135,8	136,9	137,8	137,5
2. Change in gross debt ratio		1,0	1,2	0,9	-0,4
Contributions to changes in gross debt					
3. Primary balance		-0,1	-0,6	-1,1	-1,5
4. Interest expenditure	EDP D.41	3,9	3,9	3,9	4,1
5. Stock-flow adjustment		1,0	2,2	2,2	0,6
of which:					
- Differences between cash and accruals		1,1	1,9		
- Net accumulation of financial assets		-0,2	0,3		
of which:					
- privatisation proceeds		*-0,1*	*-0,1*		
- Valuation effects and other		*0,1*	*0,1*		
p.m.: Implicit interest rate on debt		3,0	2,9		
Other relevant variables					
6. Liquid financial assets					
7. Net financial debt					
8. Debt amortization (existing bonds) since the end of the previous year					
9. Percentage of debt denominated in foreign currency					
10. Average maturity					

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

TABLE II.1-8 : CENTRAL GOVERNEMENT GUARANTEES AT 30 JUNE 2024 (2.C)

Measures	Date of adoption (1)	Maximum amount of contingent liabilities (2) (% of GDP)	Estimated take-up(3) (% of GDP)
SMEs' Fund (Fondo centrale di garanzia per le PMI) (*)	23 December 1996	9,1	5,55
Guarantee for non-market risks in favour of SACE (**)	08 April 2020	8,0	3,72
First House Gurantee Fund (Fondo di garanzia prima casa)	27 December 2013		1,19
SACE - Garanzia Italia Fund (ex art. 1 DL 23/2020)	08 April 2020	2,7	0,65
SACE - SupportItalia	17 May 2022	2,7	0,62
Archimede SACE	01 January 2024	2,7	0,03
GACS	14 February 2016		0,40
Green New Deal Guarantees	15 September 2020	0,1	0,27
European Guarantee Fund	19 May 2020	0,2	0,18
Bond issues by CDP S.p.A.	10 March 2020	0,2	0,14
SURE	19 May 2020	0,1	0,13
Short term trade credit insurance (art. 35 DL 34-2020)	19 May 2020	0,1	0,09
Other instruments (***)			0,04
Macro-Financial assistance to Ukraine	23 September 2022	0,02	0,02
SACE guarantee commercial credits insurance	21 March 2022	0,2	0,23
Guarantees provided by local authorities			0,08
Total			**13,34**

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

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

(2) Maximum guaranteed exposure limit set by law (if any). Regarding Archimedes operability, an annual limit of 10 billion is provided for the year 2024. The 60 billion limit of the Archimedes measure refers in total to the operations of Garanzia Italia, SupportItalia, SACE Guarantee Commercial Credit Insurance (Art. 35 DL 34/2020), SACE Guarantee Commercial Credit Insurance (Art. 8(3) DL 21/2022) and Archimedes. Art.1(267) of Law 213/2023 provides that "To the commitments undertaken by the State pursuant to paragraphs 259 to 271, which may not exceed the maximum total amount of 60 billion euros, taking into account the commitments, from time to time, already undertaken by SACE S.p.A. from the availability of the fund referred to in Article 1, paragraph 14, of Decree-Law No. 23 of April 8, 2020, converted, with amendments, by Law No. 40 of June 5, 2020, and whose limit of commitments that can be assumed annually is set by the budget law, shall be provided within the limits of the free resources available in the same fund." As for the Green New Deal Guarantee, the annual limit of 3 billion is for the year 2024.

(3) Stock oustanding exposure.

(*) Guaranteed stock outstanding from the Guarantee Fund excluding EU and CDP-EIF counter-guarantees.

(**) Including the rebalancing effect of the state's co-insurance in favor of SACE in the export field (Article 2 of Decree Law No.23/2020).
This reform established that the commitments arising from SACE's insurance activity in the field of export and internationalization support will be assumed by the State and SACE in a proportion of 90 percent and 10 percent, respectively (instead of 10 percent for the State and 90 percent for SACE that applied previously).

(***) They include:
- TAV S.p.A;
- State guarantee in favor of ILVA;
- Italian banks.

TABLE II.1-9 : GENERAL GOVERNMENT EXPENDITURE AND REVENUE PROJECTIONS AT UNCHANGED POLICIES BROKEN DOWN BY MAIN COMPONENTS (3)

	ESA Code	2024	2025
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	46,7	47,5
Of which			
1.1. Taxes on production and imports	D.2	14,1	14,0
1.2. Current taxes on income, wealth, etc	D.5	15,4	15,3
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	12,7	13,4
1.5. Property income	D.4	0,7	0,6
1.6. Other		3,7	4,1
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		42,3	42,8
2. Total expenditure at unchanged policies	TE	50,4	50,4
Of which			
2.1. Compensation of employees	D.1	8,9	8,8
2.2. Intermediate consumption	P.2	5,6	5,7
2.3. Social payments	D.62,D.63	22,8	22,5
of which Unemployment benefits		1,0	0,9
2.4. Interest expenditure	EDP D.41	3,9	3,9
2.5. Subsidies	D.3	1,9	1,8
2.6. Gross fixed capital formation	P.51	3,4	3,5
2.7. Capital transfers	D.9	1,8	1,8
2.8. Other		2,1	2,5

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

TABLE II.1-10 : GENERAL GOVERNMENT EXPENDITURE AND REVENUE TARGETS, BROKEN DOWN BY MAIN COMPONENTS (4.A)

	ESA Code	2024	2025
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	46,7	47,1
Of which			
1.1. Taxes on production and imports	D.2	14,1	14,1
1.2. Current taxes on income, wealth, etc	D.5	15,4	14,9
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	12,7	13,4
1.5. Property income	D.4	0,7	0,6
1.6. Other		3,7	4,1
p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)		42,3	42,3
2. Total expenditure target	TE	50,4	50,4
Of which			
2.1. Compensation of employees	D.1	8,9	8,9
2.2. Intermediate consumption	P.2	5,6	5,7
2.3. Social payments	D.62, D.63	22,8	22,7
Of which Unemployment benefits		*1,0*	*0,9*
2.4. Interest expenditure	EDP D.41	*3,9*	*3,9*
2.5. Subsidies	D.3	*1,9*	*1,6*
2.6. Gross fixed capital formation	P.51	*3,4*	*3,4*
2.7. Capital transfers	D.9	1,8	1,8
2.8. Other		2,1	2,3

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

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

Expenditure category	Available information ☐
Education	In the period 2020-2024, education expenditure as a percentage of GDP averages 3.8% (3.6% in 2023). As for mid/long-term trends, see the latest EPC-WGA baseline scenario projections, consistent with the assumptions set out at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability[1].
Health	In the period 2020-2024, health care expenditure as a percentage of GDP averages 6.7% (6.2% in 2023)[2]. As for the mid/long-term trends, see the latest EPC-WGA baseline scenario projections, consistent with the assumptions set out at the European level within the Economic Policy Committee - Working Group on Ageing Populations and Sustainability[1].
Employment[3]	Expenditure on labour policies increased from 27 billion euros in 2019 (equal to 1.52% of GDP) to 50 billion euros in 2020, corresponding to 2.99% of GDP. This growth is accounted for almost entirely by the growth in the passive policies, corresponding to 2.74% of GDP and, to a lesser extent, by the contribution of active policies, amounting to 0.25% of GDP. As support measures declines from 46 billion to 30 billion over the 2020-2021 period (1.70% of GDP compared to 2.74 % of GDP) there is a growth in the most significant active labour policy measures, attributable to the largest aggregates, such as Hiring Incentives, which increase from 0.09% to 0.28% of GDP. In 2021, the most significant measures consist of the intervention called Decontribution South, provided by art.27 co.1 of DL. N. 104/2020, amounting to about 2 billion 995 million euros (compared to a contribution of 336 million in 2020) and Apprenticeship, which includes incentives for transformations to permanent contracts, represented by a figure of about 2 billion 538 million. In 2022 these measures show a further increase in expenditure, with a figure of 3 billion 272 million for Decontribution South and 2 billion 308 million for Apprenticeship, thus providing a contribution to the growth of hiring incentives from 2.81% to 2.85% of GDP. There is currently insufficient evidence to predict a timely quantification of total expenditure on active policies in subsequent years. However, the reports currently available for 2023 on Hiring Incentives - which represent a significant aggregate of active policies - indicate a further expansion of resources compared to 2022, both for Decontribution South, which reaches a figure of about 3 billion 600 million euro, and for Apprenticeship, with expenditure of about 2 billion 900 million. A significant expenditure contribution is also recorded for the measure established by Law n. 205/2017 for the hiring of young people, which increases from 787 million to 1 billion 635 million over the period 2021-2023.

[1] Source: Ministry of Economy and Finance - State General Accounting Department (2024), "*Le tendenze di medio-lungo periodo del sistema pensionistico e socio-sanitario. Rapporto n. 25*". Forecasts elaborated with State General Accounting Office models updated

[2] Source: Ministry of Economy and Finance - Medium-term fiscal-structural plan 2025 -2029.

[3] Source: Ministry of Labour and Social Policy

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2024	2025	2026	2027
					% GDP	% GDP	% GDP	% GDP
Extension of Irpef reform and other measures to reduce the tax burden on labor	**Motivation:** Supporting taxpayers and reducing the tax burden. **Content of the measures:** Full extension of the reduction of income brackets and corresponding progressive personal income tax rates from four to three. The effects of measures to reduce the tax burden on employees are confirmed. Reorganization of tax expenditures, which will take into account the number of family members in the calculation of deductions.	D.5 (E), D.6 (S)	Immediately effective	R/E	0,000	-0,768	0,009	0,021
State contract renewal	**Motivation:** Renewal of public employee contracts. **Content of the measures:** Resources aimed at the renewal of public employee contracts for the three-year period covered by this document.	Various, mainly D.61 (E), D.5 (E), D.1 (S)	Subsequent administrative acts	R/E	0,000	-0,033	-0,033	-0,037
Safety, emergencies and civil defense	**Motivation:** Territorial safety and protection against disaster. **Content of the measures:** Re-funding of international peace missions and of the operations *Strade e Stazioni Sicure*; increase in the National Emergency Fund; establishment of a Fund dedicated to reconstruction operations.	Various, mainly D.61 (E), D.5 (E), D.1 (S)	Immediately effective/to be distributed through ministerial decrees/subsequent	R/E	-0,002	-0,097	0,020	0,002
Family policies and social spending	**Motivation:** Support to families and to the weaker segments of the population. **Content of the measures**: Measures for the support of the indigents and the purchase of basic food items (Solidarity card "*Dedicata a te*"). Financial support measures in favour of newborns. Enhancement of parental leaves. Increased resources for the "*bonus asilo nido*". Re-financing of the First home mortgage guarantee Fund and the Fund for non self-sufficiency.	Various, mainly D.62	Immediately effective/to be distributed through ministerial decrees/subsequent administrative acts	E	0,000	-0,078	0,006	-0,010
Healthcare	**Motivation:** Strengthening the health care system. **Content of the measures:** Additional resources for the employees and increase of the amount of the National Health Fund.	Various. mainly D.1 (S), D.63 (S), P.2 (S), D.61 (E)	Immediately effective/subsequent administrative acts	R/E	0,000	-0,040	-0,148	-0,008
Pension-related measures	**Motivation:** Support for disadvantaged pensioners and more flexibility in the pension system. **Content of the measures:** Flexibility measures such as the *Ape Sociale, Opzione donna, Quota 103* and minimum pensions related measures, are extended to 2025. Measures to encourage people to stay at work when they reach retirement age are also established.	Various, mainly D.62	Immediately effective/subsequent administrative acts	R/E	0,000	-0,022	-0,018	0,014

TABLE II.1-12 : DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)								
List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2024	2025	2026	2027
					% GDP	% GDP	% GDP	% GDP
Supporting firms	**Motivation:** Measures supporting firms to strengthen the consolidation of economic recovery. **Content of the measures:** Refinancing of the *Nuova Sabatini.* Extension to 2025 of the tax credit for investments in the Special Economic Zone (SEZ) for the southern Italy. Extension of the contribution exemption for young people up to 35 years of age and disadvantaged female workers. Extension of contribution exemption measures to encourage the employment in the SEZ and of enterprises started by young people. Fiscal measures for corporate welfare. Reduction of the tax burden on productivity bonuses (rewards).	Various, mainly D.3 (S), D.9 (S), D.5 (E)	Immediately effective/subsequent administrative acts	R/E	0,000	-0,133	0,049	-0,044
Public investment	**Motivation:** Strengthening public investment and financing strategic investments. **Content of the measures:** Refinancing of public investment funds and resources for defense, development and cohesion; other measures.	P.51, D.9	Immediately effective/subsequent administrative acts	E	-0,047	-0,029	-0,010	-0,108
Measures at the local level	**Motivation:** Interventions to support local public finance. **Content of the measures:** Provisions for the financial support of territorial authorities; further measures.	Various, mainly P.2, P.51	Immediately effective/to be distributed through ministerial decrees/subsequent administrative acts	E	-0,004	-0,021	0,001	-0,069
Spending review of Ministries	**Motivation:** Rationalisation and Revision of General Government Expenditure. **Content of the measures:** Strengthening the capacity to plan, monitor and evaluate public spending, also through integrated and systematic spending review processes.	Various, mainly P.2, P.51	Immediately effective/subsequent administrative acts	E	0,052	0,108	0,035	-0,041
Local government contribution to public finance	**Motivation:** Contribution of local and regional authorities to the achievement of public finance targets. **Content of the measures:** Contribution required from Regions, Provinces and Municipalities.	P.2, P.51, D.3	Immediately effective/subsequent administrative acts	E	0,000	0,037	0,045	0,019
Use of resources prearranged for the implementation of fiscal measures	**Motivation:** Implementation of the *"Delega fiscale".* **Content of the measures:** Use of funds available in current legislation.	D.7	Immediately effective	E	0,000	0,248	-0,038	0,002
Measures on banks and insurance companies and regarding concessions	**Motivation:** Contribution to the achievement of public finance targets. **Content of the measures:** Measures to revise taxation on banks and insurance products, as well as on gaming concessions.	Various, mainly D.2, D.5	Immediately effective/subsequent administrative acts	R	0,000	0,168	-0,073	-0,096

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact 2024	2025	2026	2027
					% GDP	% GDP	% GDP	% GDP
Other revenue/restraning measures	Additional revenue measures that contribute to the public finance targets.	Various, mainly D.2, D.5	Immediately effective	R	0,000	0,140	-0,009	0,037
Other revenue/expansion measures	Additional revenue expansionary measures.	D.2, D.5	Immediately effective	R	0,000	0,001	-0,006	-0,010
Other expenditure/restraining measures	Additional expenditure measures that contribute to the public finance targets.	Various, mainly D.3 (S), D.9 (S) e D.5 (E)	Immediately effective	R/E	0,013	0,155	-0,011	0,020
Other expenditure/expansion measures	Additional expenditure expansionary measures.	Various, mainly P.2	Immediately effective	R/E	-0,010	-0,032	-0,047	-0,086
				TOTAL	0,002	-0,397	-0,227	-0,393

Note: a comma is used as a decimal separator.

TABLE II.1-13 : DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)								
List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2024	2025	2026	2027
					% GDP	% GDP	% GDP	% GDP
Extension of Irpef reform and other measures to reduce the tax burden on labor	**Motivation:** Supporting taxpayers and reducing the tax burden. **Content of the measures:** Full extension of the reduction of income brackets and corresponding progressive personal income tax rates from four to three. The effects of measures to reduce the tax burden on employees are confirmed. Reorganization of tax expenditures, which will take into account the number of dependent family members in the calculation of deductions.	D.5 (E), D.6 (S)	Immediately effective	R/E	0,000	-0,572	0,009	0,016
State contract renewal	**Motivation:** Renewal of public employee contracts. **Content of the measures:** Resources aimed at the renewal of public employee contracts for the three-year period covered by this document.	Various, mainly D.61 (E), D.5 (E), D.1 (S)	Subsequent administrative acts	R/E	0,000	-0,058	-0,058	-0,065
Safety, emergencies and civil defense	**Motivation:** Territorial safety and protection against disaster. **Content of the measures:** Re-funding of international peace missions and of the operations *Strade e Stazioni Sicure*; increase in the National Emergency Fund; establishment of a Fund dedicated to reconstruction operations.	Various, mainly D.61 (E), D.5 (E), D.1 (S)	Immediately effective/to be distributed through ministerial decrees/subsequent administrative acts	R/E	-0,004	-0,104	0,019	0,002
Family policies and social spending	**Motivation:** Support to families and to the weaker segments of the population. **Content of the measures**: Measures for the support of the indigents and the purchase of basic food items (Solidarity card "*Dedicata a te*"). Financial support measures in favour of newborns. Enhancement of parental leaves. Increased resources for the "*bonus asilo nido*". Re-financing of the First home mortgage guarantee Fund and the Fund for non self-sufficiency.	Various, mainly D.62	Immediately effective/to be distributed through ministerial decrees/subsequent administrative acts	E	0,000	-0,008	-0,011	0,000
Healthcare	**Motivation:** Strengthening the health care system. **Content of the measures:** Additional resources for the employee and increase of the amount of the National Health Fund.	Various. mainly D.1 (S), D.63 (S), P.2 (S), D.61 (E)	Immediately effective/subsequent administrative acts	R/E	0,000	-0,001	0,003	0,003
Pension-related measures	**Motivation:** Support for disadvantaged pensioners and more flexibility in the pension system. **Content of the measures:** Flexibility measures such as the *Ape Sociale, Opzione donna, Quota 103* and minimum pensions related measures, are extended to 2025. Measures to encourage people to stay at work when they reach retirement age are also established.	Various, mainly D.62	Immediately effective/subsequent administrative acts	R/E	0,000	0,000	0,000	0,000

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

List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2024	2025	2026	2027
					% GDP	% GDP	% GDP	% GDP
Supporting firms	**Motivation:** Measures supporting firms to strengthen the consolidation of economic recovery. **Content of the measures:** Refinancing of the *Nuova Sabatini.* Extension to 2025 of the tax credit for investments in the Special Economic Zone (SEZ) for the southern Italy. Extension of the contribution exemption for young people up to 35 years of age and disadvantaged female workers. Extension of contribution exemption measures to encourage the employment in the SEZ and of enterprises started by young people. Fiscal measures for corporate welfare. Reduction of the tax burden on productivity bonuses (rewards).	Various, mainly D.3 (S), D.9 (S), D.5 (E)	Immediately effective/subsequent administrative acts	R/E	0,000	-0,114	0,068	-0,003
Public investment	**Motivation:** Strengthening public investment and financing strategic investments. **Content of the measures:** Refinancing of public investment funds and resources for defense, development and cohesion; other measures.	P.51, D.9	Immediately effective/subsequent administrative acts	E	-0,047	0,028	-0,003	-0,141
Spending review of Ministries	**Motivation:** Rationalisation and Revision of General Government Expenditure. **Content of the measures:** Strengthening the capacity to plan, monitor and evaluate public spending, including through integrated and systematic spending review processes.	Various, mainly P.2, P.51	Immediately effective/subsequent administrative acts	E	0,052	0,108	0,035	-0,041
Use of resources prearranged for the implementation of fiscal measures	**Motivation**: Implementation of the *"Delega fiscale".* **Content of the measures:** Use of funds available in current legislation.	D.7	Immediately effective	E	0,000	0,248	-0,038	0,002
Measures on banks and insurance companies and regarding concessions	**Motivation:** Contribution to the achievement of public finance targets. **Content of the measures:** Measures to revise taxation on banks and insurance products, as well as on gaming concessions.	Various, mainly D.2, D.5	Immediately effective/subsequent administrative acts	R	0,000	0,160	-0,069	-0,091
Other revenue/restraning measures	Additional revenue measures that contribute to the public finance targets.	Various, mainly D.2, D.5	Immediately effective	R	0,000	0,125	-0,006	0,026
Other revenue/expansion measures	Additional revenue expansionary measures.	D.2, D.5	Immediately effective	R	0,000	0,001	-0,007	-0,009
Other expenditure/restraining measures	Additional expenditure measures that contribute to the public finance targets.	Various, mainly D.3 (S), D.9 (S) e D.5 (E)	Immediately effective	R/E	0,004	0,034	-0,052	0,022

TABLE II.1-13 : DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)								
List of measures	Detailed description	ESA Code	Adoption Status	Reveneu /Expenditure	Budgetary impact			
					2024	2025	2026	2027
					% GDP	% GDP	% GDP	% GDP
Other expenditure/expansion measures	Additional expenditure expansionary measures.	Various, mainly P.2	Immediately effective	R/E	-0,010	-0,032	-0,045	-0,085
				TOTAL	-0,005	-0,187	-0,153	-0,363

Note: a comma is used as a decimal separator.

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

Recommendations	List of measures	Policy Area
CSR 1 -: Submit the medium-term fiscal-structural plan in a timely manner. ; [...]	The Italian Government has adopted the Medium-Term Fiscal-Structural Plan (MTP) for 2025-2029. The MTP includes a series of reforms and investments that address the government's political priorities, the country's main structural economic and social weaknesses, as well as and the EU's Country-specific Recommendations (CSRs). The plan also aims to contribute to the achievement of EU objectives related to common priorities and to consolidate and reinforce the initiatives launched by the National Recovery and Resilience Plan (NRRP). The ambition of the reforms and investment package is to enable the Italian Government to extend the period of fiscal adjustment to seven years (instead of four).	MTP
CSR 1 - [...] In line with the requirements of the reformed Stability and Growth Pact, limit the growth in net expenditure in 2025 to a rate consistent with, inter alia, putting the general government debt on a plausibly downward trajectory over the medium term and reducing the general government deficit towards the 3% of GDP Treaty reference value. [...]	The three-year plan of analysis and evaluation of expenditure was presented in May to define the strategies that each Ministry intends to pursue to improve its capacity to manage public expenditure. The Plan contains proposals for policy improvement, with the aim of: i) increasing the value of the public resources used; ii) reducing inefficiencies; iii) providing timely information and more efficient services to support expenditure review processes when preparing the draft budget law.	FISCAL SUSTAINABILITY Three-year plan for analysis and evaluation of expenditure
	Fiscal federalism and differentiated autonomy reform continue to be implemented: essential performance levels and related standard needs have been defined in advance to ensure compliance with the principles of fairness and efficiency in the provision of benefits and services to citizens and businesses.	FISCAL SUSTAINABILITY Fiscal federalism
	The draft enabling law for Local Authorities reorganization and a better definition of the territorial authorities functions has been envisaged to increase the efficiency of local authorities. It provides for: i) approaches and incentives for the establishment of associative forms between small local authorities; ii) improving governance (including programming and implementation) of public investment.	FISCAL SUSTAINABILITY Rehabilitation of local authorities
CSR 1 - [...] Make the tax system more supportive to growth, with a focus on reducing the tax wedge on labour and in line with fiscal sustainability objectives, including by reducing tax expenditures and updating cadastral values, while ensuring fairness and progressivity and supporting the green transition. .	To implement the enabling law for tax reform, the legislative decree for the revision of the tax sanction system was approved in June. It contains provisions on: i) the general rules on administrative and criminal penalties; ii) amendments to the legislation on non-criminal tax penalties in relation to direct taxes, value added tax and the collection of taxes; iii) amendments to the general provisions on administrative penalties for infringements of tax rules.	EFFICIENCY OF THE TAX SYSTEM Review of the tax penalty system
	To implement the enabling law for tax reform, the legislative decree on the reorganisation of the national collection system was approved in October. The legislative decree defines: i) the activities to be carried out by the collection agent for the recovery of the sums entrusted to him; ii) the payment in instalments of the sums entrusted to the collection agent; iii) the primary focus of tax collection efforts in the tax assessment phase; iv) collection activities from joint debtors; v) the offsetting between tax refunds and amounts entered in the register.	EFFICIENCY OF THE TAX SYSTEM Reorganisation of the national collection system
	In October the legislative decree on collaborative fulfilment, tax compliance and biennial arrangement with creditors was approved to implement the tax reform enabling law. The legislative decree aims to rationalize tax assessment framework, with a view to encouraging the spontaneous tax compliance and the improvement of relations between taxpayers and the tax administration.	EFFICIENCY OF THE TAX SYSTEM Collaborative Fulfillment
	To continue implementing the enabling law for tax reform, in September, the government passed a legislative decree	EFFICIENCY OF THE TAX SYSTEM

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

Recommendations	List of measures	Policy Area
	to streamline registration tax, inheritance and donations tax, stamp duty and other indirect taxes other than VAT. The legislative decree aims to: i) simplify the obligations and payment methods for taxpayers; ii) revise registration tax system for judicial documents; iii) rationalize the car tax framework.	Rationalisation of taxes
	To continue implementing the enabling law for tax reform, in September the legislative decree concerning the customs discipline and the sanctioning system in the field of excise duties and other indirect taxes on production and consumption was approved with the aim of reviewing and reordering the discipline.	EFFICIENCY OF THE TAX SYSTEM Excise sanction system
CSR 2 - Strengthen administrative capacity to manage EU funds, accelerate investments and maintain momentum in the implementation of reforms. Address relevant challenges to allow for continued, swift and effective implementation of the recovery and resilience plan, including the REPowerEU chapter, ensuring completion of reforms and investments by August 2026. Accelerate the implementation of cohesion policy programmes. In the context of their mid-term review continue focusing on the agreed priorities, while considering the opportunities provided by the Strategic Technologies for Europe Platform initiative to improve competitiveness.	In July, the government approved a law to revise cohesion policy, in order to streamline implementation, enhance effectiveness and efficiency, as well as ensure complementarity with the NRRP and the Strategic Plan of the Single Special Economic Zone. The law introduces measures to accelerate and improve policy implementation, prioritizing some strategic sectors: water, infrastructure for hydrogeological risk and environmental protection, waste, transport and sustainable mobility, energy and business support, including initiatives and investment for digital and green transitions.	COHESION POLICY Efficiency of strategic sectors
	Based on the positive assessment of the state of implementation of the NRRP, Italy has already received €113.5 billion in loans and grants, corresponding to 58.4% of resources, against the achievement of about 43% of the planned objectives (equal to 268, between Milestones and targets). As at 30 June 2024, NRRP measures totalling around €165 billion, or 85% of the Plan's total budget, have been activated, i.e. financed and in the process of being implemented. They mainly refer to the measures allocated to the Ministries of Environment, Enterprise and Infrastructure; in August, the fifth instalment of €11 billion has been disbursed.	NRRP IMPLEMENTATION
	in July 2024, the technical support project 'A Roadmap to Connect Africa to Europe for Clean Energy Production', which aims to identify the reforms and investment needs to be met to make Italy a key energy hub at European level for the transmission of renewable energy, has been launched.	PUBLIC INVESTMENT Roadmap to Connect Africa to Europe for Clean Energy Production
	The government has implemented effective initiatives to enhance the healthcare system ,including strengthening general medicine networks, proximity networks, structures and telemedicine for territorial health care (Community Houses, Community Operations Centres and Hospitals), as well as the digitizing emergency and admissions departments. This also includes investment in research and training and the development of the technical, professional, digital and managerial skills of health system staff. To address the issue of healthcare waiting lists, a decree law was passed that establishes a national platform for tracking waiting times, streamlines the appointment booking system and expands diagnostic services. The decree also includes provisions for hiring additional healthcare workers.	ADMINISTRATIVE CAPACITY Strengthening the health system
	The government remains committed to promoting BTP Green which are designed to finance environmentally sustainable projects using public funds. This includes both reopening existing securities and issuing new ones, with the goal of maintaining liquidity in the secondary market and offering a diverse range of green bond maturities.	PUBLIC INVESTMENT BTP Green

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

Recommendations	List of measures	Policy Area
	In order to crowd-in private investment to finance ecological transition, Italy continues to pursue some initiatives, including activities related to the Tavolo per la Finanza Sostenibile at national level. This aims at stimulating private investment in sustainable projects and accelerating the country's green transition.	IMPROVING INVESTMENTS Investments for the ecological transition
CSR 3 - In order to mitigate the effects on potential growth, tackle negative demographic trends including by attracting and retaining workers with adequate skills and by addressing labour market challenges, in particular with regards to women, young people and in work poverty, notably of workers with non-standard contracts.	The government has provided resources for the realization of early childcare centers to complement those envisaged in the NRRP. They will increase the national average coverage rate of early childhood services (range 0-2 years), also improving the situation in the Southern Regions.	SUPPORT FOR VULNERABLE PEOPLE Early childcare centers
	Resources for the extension of school hours have been allocated to improve school performance and combat early school leaving, while supporting families and encouraging a greater women labour market participation and employment.	SUPPORT FOR VULNERABLE PEOPLE Extension of school hours
	Specific measures are planned to improve work-life balance for families, including increasing parental leave and extending the exemption of social security contributions on an experimental basis to female mothers of two or more children with specific requirements.	SUPPORT FOR VULNERABLE PEOPLE Work-life balance
	Measures to give continuity to the NRRP initiatives aimed at enhancing skills, including digital skills and providing guidance and tutoring services to students. This also includes the training of teachers in charge and the development and improvement of digital tools to support them.	IMPROVING SKILLS Teacher training
	Initiatives related to the 'South Agenda' and 'North Agenda' plans have been planned to consolidate. They are intended to reduce skill mismatches and employment gender gap, as well as to accelerate the digital transition; measures are in place to strengthen the tools made available by the NRRP, including the STEM Skills Platform and the strengthening of the professional skills of teaching staff.	IMPROVING SKILLS Skill mismatch
	Reform of the technological-professional training chain to create a stronger connection between educational offerings and the needs of companies. The reform is focused on four-year upper secondary education pathways integrated with higher technological education pathways, including vocational training based on guidance pathways and didactic flexibility. It will provide certifications of cross-cutting and technical skills and internationalize these pathways.	IMPROVING SKILLS Vocational training
	Reform of active labour policies system and strengthening of the vocational training system, with particular reference to digital skills and those functional to the ecological transition. The Employment Guarantee Programme (GOL) continues to operate, including the provision of training courses to strengthen skills for access to the labour market and the New Skills - Transitions Plan. It includes, in particular, the 'Crescere Green' pilot project, which aims to facilitate the acquisition of the skills necessary for the green transition.	ACTIVE LABOUR POLICIES GOL programme
	In order to gradually overcome the mismatch between the skills of the new generations and those required by the labour market, initiatives linked to the 'Dual System' and apprenticeship as well as the Universal Civil Service (SCU) have been strengthened.	IMPROVING SKILLS Dual System and Universal Civil Service
	To address housing needs and support vulnerable individuals, specific interventions such as social housing	SUPPORT FOR VULNERABLE PEOPLE

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

Recommendations	List of measures	Policy Area
	and measures for constructing housing for workers and students away from home, including initiatives under the NRRP, have been realizing. The Cohesion decree also identified initiatives to support urban regeneration, address socioeconomic and housing affordability issues in the suburbs, promote green mobility and foster inclusion and social innovation.	Social housing
	Continuation of initiatives to strengthen the National Strategy for Digital Skills in order to improve the skills and retraining of workers to which are added the digital civil service and the network of digital facilitation services. There will also be a series of actions to promote access to science and technology disciplines and professions to enhance the availability of advanced skills in SMEs.	IMPROVING SKILLS National Strategy for Digital Skills
	The Cohesion decree regulates the Central-Northern Italy Self-employment measure, to support the start-up of entrepreneurial and free-professional activities in central-northern Italy. The measure is aimed at young people under 35 who are unemployed or benefiting from social safety nets under the Workers' Employability Guarantee (GOL) programme. For the start of the activity, training and accompaniment to the preliminary design have been provided, as well as mentoring related to the start of entrepreneurial and free-professional activities and specific incentives under the de minimis regime.	SUPPORT FOR VULNERABLE PEOPLE Self-employment Central-Northern Italy
	The Cohesion decree provides for the measure Resto al Sud 2.0, to support the start-up of entrepreneurial and free-professional activities in the South. The target group is young people under 35 who are unemployed or benefit from social safety nets under the Workers' Employability Guarantee (GOL) programme. For the start of the activity, training and accompaniment to the preliminary design have been provided, as well as mentoring related to the start of entrepreneurial and free-professional activities and specific incentives under the de minimis regime.	SUPPORT FOR VULNERABLE PEOPLE *Resto al Sud* 2.0 measure
	The Cohesion decree provides for a temporary tax exemption for a maximum duration of three years and a maximum limit of €800 for unemployed persons under 35 years of age, who start an entrepreneurial activity on the national territory in strategic sectors for the development of new technologies and the digital and ecological transition.	SUPPORT FOR VULNERABLE PEOPLE Tax exemption for young people
	The Cohesion decree provides for a total tax exemption for 24 months in favour of private employers for the recruitment on permanent contracts of young people under 35 in the regions of Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sardinia and Sicily corresponding to the territorial scope of the Special Economic Zone for the South (Single SEZ).	SUPPORT FOR VULNERABLE PEOPLE Tax exemption for young people in the South
	The Cohesion decree provides for a tax exemption for a maximum period of 24 months in favour of private employers, who hire women in disadvantaged situations and who have been unemployed for at least 6 months if they reside in certain areas on condition that these recruitments lead to a net increase in employment.	SUPPORT FOR VULNERABLE PEOPLE Tax exemption for women
	The Cohesion decree provides for the establishment of three separate plans, under the National Programme ‘School and Skills’, within the European Union’s 2021-2027 programming period, for the most disadvantaged regions: i) Plan for the upgrading of sport infrastructure in schools; ii) Plan for the implementation of innovative and advanced laboratories for the development of specific technical and professional skills, to enhance technical and vocational education; iii) Plan for the supply of innovative educational furniture, to strengthen and improve the educational offer in the age group from zero to six years.	IMPROVING SKILLS Innovative schools

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

Recommendations	List of measures	Policy Area
	Measures to strengthen the National Plan against undeclared work including the appointment of an extraordinary commissioner to carry out activities to combat undeclared work in agriculture. In order to combat undeclared work, the Cohesion Decree lays down the obligation to verify the adequacy of the incidence of labour in public and private contracts for construction works and amends the overall values of those contracts above which the penalties provided for in the event of payment of the final balance in the absence of a positive outcome of the aforementioned verification (or prior regularisation by the undertaking entrusted with the works) have been applied.	SUPPORT FOR VULNERABLE PEOPLE Combating undeclared work
CSR 4 - Define an industrial and development strategy to reduce the territorial divide by streamlining current policy measures and by taking into account key infrastructure projects as well as strategic value chains.	Allocated resources for upgrading transport and logistics infrastructure and the system for the implementation of the revision of the Procurement Code, simplifications of strategic planning procedures, authorisation for cold ironing facilities, project evaluation in the field of local public transport systems (LPT), implementation of the One-stop shop of Controls and digitalisation of customs documents, competitive award of concessions in port areas and the establishment of a national strategic platform for the network of ports and interports.	TERRITORIAL DISPARITIES Transport infrastructure
	Investment for the upgrading of the railway network, with particular reference to regional lines, infrastructure investments in SEZs and measures for intermodality and integrated logistics for the definition and implementation of the National Logistics Platform (NLP).	TERRITORIAL DISPARITIES Railway network
	Measures to enhance system initiatives, related to National Centres, Extended Partnerships and Innovation Ecosystems, to strengthen cooperation between universities, research centres and companies, whose project activities have already been launched and financed with NRRP resources.	INDUSTRIAL STRATEGY Cooperation between universities and research centres
	Several initiatives have been undertaken to promote the competitiveness of enterprises, including the valorisation of research facilities and the creation of 'national R&D champions' on some Key Enabling Technologies and the implementation of an integrated system of research and innovation infrastructures. To support the digitalisation of the tourism sector, the Digital Tourism Hub project has been set up.	DIGITAL TRANSITION Exploitation of research facilities
	In order to foster the integration, efficiency and competitiveness of EU energy markets and to contribute to a greater diversification and security of European supply, the Mattei Plan for the enhancement of infrastructure and investment has been launched. The Mattei Plan focuses in particular on six strategic areas: energy, infrastructure, health, water resources, agriculture, training and education.	COMPETITIVENESS OF ENERGY MARKETS Mattei Plan
	In order to reduce the digital divide in areas of market failure, infrastructure for fast internet access has been built and integrated. To this end, specialised public operators will: i) map the areas; ii) plan investment efficiently to avoid duplication; iii) design broadband and ultra-broadband infrastructure and networks, leveraging existing infrastructure; iv) manage construction contracts; v) evaluate investment projects aligned with the National Broadband Plan and Ultra Broadband strategic project.	DIGITAL TRANSITION National Broadband Plan
	Measures to incentivise and support secure and resilient telecommunications networks. A crucial step is establishing an IPCEI and submitting it to the European Commission to foster integration between terrestrial and satellite networks and facilitate the deployment of cutting-edge network technologies and systems.	DIGITAL TRANSITION IPCEI

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

Recommendations	List of measures	Policy Area
	Definition of a new strategy for artificial intelligence technologies, that includes: i)establishing a public-private venture capital fund; ii) fostering support for research and development and innovative projects; iii) funding startups and high-tech enterprises.	DIGITAL TRANSITION AI Strategy
	Minor Islands Plan aims to bridge the digital divide in the smaller Italian islands of Lazio, Puglia, Sicily, Tuscany and Sardinia, also by providing ultra-fast internet connectivity.	DIGITAL TRANSITION Minor Islands Plan
	In September, a law to strengthen national cybersecurity and cybercrime came into force. In particular, Public Administrations and local authorities are required to report and notify certain types of incidents that may have an impact on networks, information systems and IT services. In addition, the National Cybersecurity Agency (NCA) can report specific risks to which PAs are potentially exposed. The latter must ensure that risk mitigation and elimination actions are taken without delay.	DIGITAL TRANSITION Cybersecurity
	The Transition Plan 5.0 is launched. In complementarity with the Transition Plan 4.0, this is aimed at supporting the process of digital and energy transformation of companies. A tax credit is provided for new investments in production facilities made in the two-year period 2024-2025. The tax credit is granted on condition that there is a reduction in energy consumption of at least 3% for the production structure or, alternatively, at least 5% of the process involved in the investment. In particular, the reduction of energy consumption must be achieved through investments in tangible and intangible assets functional to the technological and digital transition of companies. With the Cohesion decree, investment in new tangible assets, which are instrumental to the operation of a business and are aimed at the self-production of energy from renewable sources for self-consumption, including at a distance, are also eligible for the tax credit.	GREEN AND DIGITAL TRANSITION Transition Plan 5.0
	The Cohesion Decree set that criteria must be identified to select investments that support: i) increased renewable energy production, including heat, for corporate self-consumption; ii) expanded capacity of distribution and transmission networks to accommodate growing renewable energy integration; iii) further development of smart storage systems.	GREEN TRANSITION Production of energy from renewable sources
	To stimulate growth and increase liquidity in Italy's small and medium-sized enterprise (SME) sector, la Legge Capitali is intended to modernize the regulatory framework and eliminate barriers that hinder companies' access to capital. The law aims to foster the development of the Italian capital market by facilitating companies' entry and participation in financial markets, offering alternative funding sources to traditional bank financing	INDUSTRIAL STRATEGY Capital law
	The Strategic Plan for the Single SEZ was adopted, outlining a strategy to attract and foster competitive investments within the SEZ's territories. Key sectors identified for strengthening include agribusiness, tourism, electronics & ICT, automotive, Made in Italy, chemistry and pharmaceuticals, naval and shipbuilding, aerospace and railways. Additionally, the plan prioritizes support for digital technologies, cleantech, and biotech. To streamline administrative processes within the Single SEZ territories, a digital one-stop shop has been implemented as an integrated platform.	TERRITORIAL DISPARITIES Strategic Plan of the Single SEZ

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

Recommendations	List of measures	Policy Area
CSR 4 - [...] Address remaining restrictions to competition, in particular in the retail sector, regulated professions and railways.	As part of the NRRP commitments to annual competition law adoption, the DDL Competition, approved by the Council of Ministers in July, includes regulation interventions of the following areas: i) dehors; ii) black boxes portability; iii) non-scheduled public transport; iv) price monitoring and detection; v) shrinkflation, vi) innovative startups. To further promote start-ups, additional measures supporting the innovation ecosystem may be included in the Draft Budget Law for 2025.	COMPETITION Annual competition law

TABLE II.1-15 : IMPACT OF RECOVERY AND RESILIENCE FACILITY ON GENERAL GOVERNMENT BUDGETARY PROSPECT - GRANTS (9.A)

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

[1] Nominal GDP (policy scenario)

[2] This covers costs that are not recorded as expenditure in national accounts.

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

TABLE II.1-16 : IMPACT OF RECOVERY AND RESILIENCE FACILITY ON GENERAL GOVERNMENT BUDGETARY PROSPECT – LOANS (9.B)

	2020	2021	2022	2023	2024	2025
	% GDP	% GDP	% GDP	% GDP	% GDP	% GDP
Cash flow from RRF loans projected in the programme (% of GDP[1])						
Disbursements of RRF LOANS from EU	0,0	0,9	1,1	1,1	0,7	1,0
Repayments of RRF LOANS to EU	0,0	0,0	0,0	0,0	0,0	0,0
Expenditure financed by RRF loans (% of GDP[1])						
TOTAL CURRENT EXPENDITURE	**0,0**	**0,0**	**0,0**	**0,0**	**0,0**	**0,1**
Gross fixed capital formation P.51g	0,0	0,1	0,1	0,3	0,5	0,8
Capital transfers D.9	0,0	0,0	0,0	0,1	0,3	0,5
TOTAL CAPITAL EXPENDITURE	**0,0**	**0,1**	**0,1**	**0,3**	**0,7**	**1,3**
Other costs financed by RRF grants[2] (% of GDP[1])						
Reduction in tax revenue	0,0	0,0	0,0	0,0	0,0	0,0
Other costs with impact on revenue	0,0	0,0	0,0	0,0	0,0	0,0
Financial transactions	0,0	0,0	0,0	0,0	0,0	0,0

[1] Nominal GDP (policy scenario)

[2] This covers costs that are not recorded as expenditure in national accounts.

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

TABLE II.1-17 : NET EXPENDITURE GROWTH (10)

	ESA Code	2023	2023	2024	2025
		Levels	% of GDP	% of GDP	% of GDP
1. Total expenditure	TE	1.144.843	53,8	50,4	50,4
2. Interest expenditure	D.41p	77.987	3,7	3,9	3,9
3. Cyclical unemployment expenditure		-1.873	-0,1	-0,2	-0,2
4. Expenditure funded by transfers from the EU		23.424	1,1	0,4	0,8
4a. Of which: Investments (GFCF)		6.456	0,3	0,2	0,3
5. National co-financing of EU programmes		2.886	0,1	0,2	0,2
6. One-off expenditure (levels, excl. EU funded)		2.124	0,1	0,0	0,1
7. Net nationally financed primary expenditure (before DRM) (=1-2-3-4-5-6)		1.040.295	48,9	46,1	45,6
8. DRM (excl. one-off revenue, incremental impact)				-0,5	0,5
9. Net nationally financed primary expenditure (after DRM) (=7-8)				46,6	45,1
10. Nominal GDP growth (g) (growth rate)				2,9	3,3
11. Net expenditure growth (growth rate)				-1,9	1,3

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

ANNEX: METHODOLOGICAL NOTES

Regarding the methodological aspects and models used for the estimates contained in this Document, it follows a brief description of the modelling used for the macroeconomic forecast and the impact of structural reforms, in line with the elements set out in the MTP 2025-2029.

Pending the revision of the national accounting legislation, reference should also be made to the 'Methodological note on forecasting criteria' attached to the second section of the 2024 Economic and Financial Document[8], which provides detailed information on the methodology, the forecasting process and the models used for public finance forecasts[9].

A.1 BRIEF DESCRIPTION OF THE MODELS USED

ITEM econometric model on the Italian economy

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

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

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8 Available at https://www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Attivit--i/Contabilit_e_finanza_pubblica/DEF/2024/Nota-Metodologica-2024.pdf.

9 In particular, see Chapters II and III.

QUEST III – Italy model

QUEST III with R&D is the latest version of the class of Dynamic Stochastic General Equilibrium (DSGE) models developed by the European Commission[10]. The QUEST model is a simulation tool to analyse the effects of structural reforms and the response of the economy to a variety of shocks or policy measures. In particular, the version of the model used at the Department of the Treasury is an extension of the DSGE model developed by the European Commission (DG ECFIN) for quantitative policy analysis and modified for endogenous growth. The Department of Treasury uses in simulation exercises the version of the model calibrated for Italy, already employed by the European Commission in multi-country analyses of structural reforms. The endogenous growth of QUEST III is particularly well-suited to analyse the impact of structural growth-enhancing economic reforms. By including several nominal and real rigidities and imperfectly competitive markets, the model can be used, for example, to study the effect of policies to stimulate competition and reforms aimed at upgrading the quality of human capital.

ITFIN model

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

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

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

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

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

MACGEM-IT - The CGE Model for Italian Economy

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

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

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

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

MACGEM-IT is currently developed in the static[11], dynamic and multi-regional version, with a multi-output and a multi-input approach regarding the productive sphere. Each agent is represented through its objective function, which consists in the maximum profit for the productive activities, under the constraint of the given productive capacity, and in the maximum utility for the Institutional Sectors (i.e. Households, Firms, Public Administration and Rest of the World), under the resources constraint. Activities realise the production of goods and services typically attributable to them, as well as the secondary productions (multi-output production function), through the combination of the production factors at different aggregation level (i.e. nested production functions). In this sense, it is possible to capture every substitutability- and complementarity relationship between primary factors and/or intermediate goods within the production process (multi-input production function). In the static version of the model, a breakdown of the labour factor by gender with three-level formal skills (i.e. low, medium, high labour) was introduced.

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

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

Considering the broad articulation of the economic aggregates represented in the different phases of the circular flow of income, MACGEM-IT is particularly useful to estimate the impact of policies and reform proposals with a strong selective and/or categorical connotation characterised by a high degree of complexity already since the phase of insertion of shocks. Policy simulations that MACGEM-IT can evaluate can simultaneously address both the production- and the income side and can be wide as well as detailed. In particular, the model may assess the impact generated by the introduction of incentives (or taxes) differentiate on to final demand components, or measures supporting specific businesses and/or activities and/or commodities, or the use of income redistribution policies. The model in the static version is also able to detect the differential effects on employment by gender and formal skills.

Finally, with regard to emerging energy and climate issues, an external environmental module has also been introduced to evaluate the energy consumption by source and the environmental emissions of each activity and for households' consumption. This module has been developed based on the Physical Energy Flow Accounts (PEFA) and the NAMEA accounts released by the ISTAT. Moreover, for CO_2 emissions in the static version an endogenous environmental model was introduced (and is being finalised in the dynamic version), to assess the impact of environmental taxes introduction, with the possibility of estimating the effects on air emissions, on employment and on the efficiency of the tax system.

A.2 ESTIMATION OF POTENTIAL OUTPUT, OUTPUT GAP AND STRUCTURAL BALANCES

The methodology used to estimate the potential output and the output gap of the Italian economy is common to all EU countries[12]. The specifications are discussed and determined by the Potential Output Working Group (POWG), established within the Economic Policy Committee (CPE-EU) of the EU Council.

The estimates in this document have been produced on the basis of the reference macroeconomic policy scenario for this DBP for the years 2024-2025.

For the estimation of the structural unemployment rate (Non-Accelerating Wage Rate of Unemployment - NAWRU) and the trend of Total Factor Productivity, the initialization parameters used by the European Commission for the Spring Forecasts 2024 were employed[13].

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

[13] For details on the methodology and parameters applied, see 'Methodological note on forecasting criteria' attached to the second section of the DEF 2024.

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