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2020 Budgetary Planning Report

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SUMMARY

The 2020 Budgetary Planning Report comes out in the midst of an exceptional economic and financial environment, one never before experienced in peacetime since the great crisis of the 1930s. The Report, which in previous editions focused on the Economic and Financial Document (EFD) and on the parliamentary hearing that followed, this year expands its perspective to examine the effects that the COVID-19 pandemic has had on the international and national economic system, the broad set of measures taken between March and today by European institutions and the Italian government to counter the dramatic economic and social consequences of the crisis, and the impact that these measures are having on the public finances now and looking forward.

In particular, since March the Government has implemented a series of very substantial financial measures that overall will cause general government net borrowing to deteriorate by 4.5 per cent of GDP in 2020 and 1.5 per cent in 2021.

Most of the measures have been of an emergency nature, offering temporary support to almost all economic actors (workers, households and firms). A wide range of instruments is being deployed, such as the establishment of new funds, outright grants, tax credits, tax relief and tax deferrals with temporary effects on the liquidity of firms. Only some of the most recent measures have incorporated some degree of selectivity, limiting access and differentiating benefits depending on the extent to which the crisis has impacted the beneficiaries. In addition, the latest legislative provisions also include some measures that focus on recovery, such as those designed to strengthen the capitalisation of firms, to support technological innovation and research or to sustain specific sectors.

The measures adopted require numerous implementing decrees and, in some cases, also need a prior declaration of compatibility with EU legislation from the European Commission. In general, the effectiveness of the measures depends critically on compliance with timetables, rapid mechanisms for allocating resources, efficient electronic administrative procedures and the implementation of the procedural simplifications envisaged in the legislative provisions.

Nevertheless, looking ahead to the gradual exit from the most acute phase of the health and economic crisis, the measures will necessarily have to be reconsidered within a more comprehensive vision of fiscal policy. It will be necessary to make strategic choices about the sectors to which greater or fewer resources should be allocated, about the future of the tax system and about the resumption of capital expenditure.

At the end of the emergency, Italian budgetary policy will have to come to terms with public accounts burdened by the cost of the extraordinary measures and with a contraction of revenue due to the economic crisis, in a future no longer clouded by the presence of the safeguard clauses providing for indirect tax increases, which have been eliminated. Budgetary action in this deteriorated but more transparent environment will have to make priority choices in a context where it will be necessary to ensure the gradual reconstitution of a primary surplus enabling the reduction of public debt over time, albeit in a context of economic stabilisation.

The macroeconomic environment

The PBO endorsed the trend macroeconomic scenario in the 2020 EFD, while emphasising the extraordinarily high degree of uncertainty about the short-term outlook and the extreme variability surrounding the macroeconomic forecasts. The divergences between the projections formulated by the various participants in the PBO panel of forecasters are much wider this year than in the past. In the two months following the publication of the EFD, macroeconomic forecasts continued to deteriorate, as some of the risks noted by the PBO during the endorsement exercise materialised.

The spread of the coronavirus pandemic (COVID-19), first in China and then in the rest of the world, has radically changed the international economy, which had appeared to be recovering at the beginning of 2020, causing a collapse of economic activity and a deterioration in the outlook of a severity that has not been seen since the Great Depression. Despite the time lag in the spread of the pandemic, the stock markets reacted swiftly and simultaneously. The pandemic has had a major impact on the oil market, exerting downwards pressure on prices since as early as the beginning of February. International trade, which in early 2020 looked poised to benefit from an easing of the trade tensions between the United States and China, was also heavily affected. The disruption of the global value chains generated bottlenecks in the production of domestic goods that make significant use of imported intermediate inputs. Economies that rely on exports, such as Germany and Italy, are suffering significantly. Economic policy-makers responded promptly, with governments introducing fiscal stimulus measures and central banks easing their monetary policy stances.

Cyclical conditions in the Italian economy, which were already deteriorating in the final quarter of 2019, worsened with the spread of the epidemic at a pace and intensity unprecedented in times of peace. The industrial sector experienced a steep drop in output due to the lockdown of non-essential economic activities, while the consequences of the health emergency for the services sector were even more severe, having already emerged early in the year as a result of the decline in the flow of international tourists. The progressive tightening of social distancing measures culminated with the shutdown of a range of activities, including those related to restaurants, trade fairs and conferences and air and rail transport, with an adverse impact on the logistics sector. The most recent qualitative indicators confirm the exceptional intensity of the slowdown. In addition to a deterioration in confidence, uncertainty has also increased, with the PBO uncertainty indicator rising markedly in the first part of this year, both for households and for firms. Inflation, which in early 2020 continued to display the weakness already observed last year as a result of moderate internal demand and limited pressure from upstream prices, declined further during the health emergency and eventually turned negative. The labour market, which had shown signs of weakening even before the outbreak of the health emergency, also appears affected by the measures introduced to contain the pandemic. Restrictions on movement have strongly discouraged active job searches, leading to a jump in the inactive population, and the restriction of demand has produced a sharp reduction in new fixed-term positions. After falling steeply in April, the more timely high-frequency quantitative indicators began to recover in May, albeit very gradually. Despite the lifting of most restrictions on economic activity, the second quarter suffered both the extraordinarily low level of activity in April and the extremely adverse statistical carryover effect from March. The available economic indicators points to a continuation of the exceptional crisis in the Italian economy in that quarter as well.

Compared with mid-April, when the macroeconomic scenario of the Ministry for the Economy and Finance (MEF) was finalised, the macroeconomic forecasts for 2020 continued to slide for all the major countries, excluding China. For Italy, the fall in expectations in March was followed by a further drop in April and a slight weakening in recent weeks. In the light of this instability, the PBO is issuing an update of the macroeconomic scenario. Compared with that produced on the occasion of the endorsement exercise for the MEF forecasts, a further deterioration in short-term expectations has been factored in, as have the expansionary effects of the "Revival Decree". The PBO's short-term forecasting models point to a substantial additional contraction in GDP in the second quarter, equal to about ten percentage points, broadly in line with that already expected in April. However, the process of normalising economic activity and spending behaviour is such as to induce further uncertainty in the timing and strength of the recovery, which is now projected to be less robust than forecast in April.

Compared with the PBO's macroeconomic scenario produced at the time of the endorsement of the MEF forecasts, taking account of the more recent information on the economic situation and incorporating the effects of the Revival Decree, the forecast for GDP growth this year is revised downwards by over a percentage point. By contrast, the forecasts for the consumption and GDP deflators have not changed.

These projections are clouded by historically unprecedented uncertainty, attributable not only to the usual economic factors, but also to social and health variables. The risks are mainly on the downside and include health factors, the global environment and the possible resurgence of financial tensions. There is also a risk that the accuracy of the preliminary national accounts estimates of the countries most affected by COVID-19 may be impacted by the difficulties in acquiring and seasonally adjusting data in real time. A more firmly based assessment of the current cyclical position can only be performed retrospectively, in the coming quarters, when the national statistical institutes will have had the opportunity to supplement the missing data and the seasonal-adjustment models will have sufficient information to treat statistically the outliers.

The public finances

In its response to the emergency, the Government has twice asked Parliament to authorise a deviation from the previously approved path towards the medium-term objective. The first authorisation enabled the subsequent approval of Decree Law 18/2020 (the “Cure Italy Decree”), while the second enabled enactment of Decree Law 34/2020 (the “Revival Decree”).

The emergency therefore halted the downward trend in the deficit, which in 2019 was markedly smaller than the previous year. Last year, in fact, general government net borrowing decreased compared with 2018 from 2.2 to 1.6 per cent of GDP. The trend forecasts in the EFD are limited to the 2020-2021 period and reflect the effects of the Cure Italy Decree and Decree Law 23/2020 (the “Liquidity Decree”) but not the Revival Decree. The forecasts show a rapid increase in the public deficit for this year (7.1 per cent of GDP), followed by a reduction in 2021 (to 4.2 per cent of GDP), due to the extraordinary nature of the measures taken to counter the impact of COVID-19 and the presence of the safeguard clauses providing for increases in VAT and excise duties on mineral oils.

The EFD does not contain a policy scenario, but it does offer information on a public finance framework with new policies which also incorporates the effects of the Revival Decree on the public finance balances (but which prudentially does not consider the feedback effects of the legislative provision on the macroeconomic framework). The financial impact of the decree would raise general government net borrowing to 10.4 per cent of GDP in 2020 and 5.7 per cent in 2021 compared with the trend. Public debt would rise to 155.7 per cent of GDP this year, before declining to 152.7 per cent next year.

The various measures launched by the Government to address the COVID-19 emergency since March have had a significant impact on public finance balances. Overall, the provisions adopted increase general government net borrowing by 4.5 per cent of GDP in 2020 and 1.5 per cent in 2021, in line with the projections indicated in the EFD.

The increase in net expenditure dominates in the first year (with an impact of €69.4 billion, compared with €5.5 billion in 2021 and €6.5 billion in 2022), while from 2021 the net reduction in revenue (equal to €6 billion in 2020, €20.6 billion in 2021 and €28.2 billion in 2022) accounts for about 80 per cent of the deterioration in the balance. Examining the areas of intervention, in 2020 the resources have been mainly targeted at supporting workers and firms, allocating €27 billion and €22.7 billion to those categories respectively. About €8.3 billion has been allocated for the healthcare system and the safety sector. Between €6 and €7 billion concern various sectoral measures and financing local authorities. Tax measures absorb €4.1 billion in financial resources, while programmes with an impact of less than €1 billion are directed to other purposes.

The decision to eliminate the indirect tax increases provided for in the safeguard clauses is consistent with remarks made several times by the Parliamentary Budget Office during the hearings before Parliament and in published documents. An approach that does not incorporate higher future revenue appears more transparent and credible than one that includes the clauses but is accompanied by a political commitment to eliminate them. In this context, it should be stressed that the deactivation of the safeguard clauses on the deficit does not represent the creation of fiscal space for new policies but does make clear the impact of policies adopted in the past on public accounts.

The main measures introduced with the decree laws

The Government has intervened with the decree laws adopted since March to introduce measures intended to counter the effects of the various actions taken to restrict economic activity on the labour market, on the income of employees and self-employed workers and, more generally, on the financial condition of households. These were initially accompanied by measures aimed at sustaining the liquidity of firms, mainly in the form of loan guarantees issued by the State and other institutions and, subsequently, also by measures to foster the capitalisation of firms. Among other provisions, measures were also introduced to support local governments involved in dealing with the effects of the crisis, to strengthen the healthcare system and to support specific sectors. The Report analyses these different categories of measure separately.

Income support measures for workers and households. – In order to alleviate the effects of an unprecedented crisis, income support measures for payroll employees and self-employed workers and households were introduced between March and June. Among these, COVID-19 was added as an *ad hoc* cause for eligibility for benefits for employees normally not covered by legislation governing wage supplementation mechanisms (Cassa integrazione guadagni) and bilateral solidarity funds (Fondi di solidarietà bilaterali). Other measures include one-off allowances for self-employed workers and certain more marginal categories of employee, lasting a maximum of three months. These two groups of measures were also accompanied by the Emergency Income programme as a safety net of last resort for households most exposed to the crisis and for the working poor not eligible for wage supplementation schemes or allowances.

The PBO microsimulation model was used to conduct a preliminary analysis of the joint impact of these measures, examining one month of benefit use during Phase 2 of the pandemic response. The exercise, which highlights the distribution of benefits across all Italian households broken down by a number of key socio-economic characteristics, considered the Ordinary Wage Supplementation programme, as governed by pre-crisis legislation, the related extensions of that programme envisaged under Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020, the one-off allowances and the Emergency Income.

Overall, benefits were received by about one-third of Italian households, with the proportion varying depending on the nature and selectivity of the benefits and the status of the members of the household (payroll employees, self-employed or other), and were on average equal to 47 per cent of pre-crisis monthly household disposable income. About 70.6 per cent of the benefits went to employees and 24.8 per cent to the self-employed, while about 4.6 per cent of total resources are allocated to the Emergency Income programme. The distribution of benefits by income decile shows a larger proportion of beneficiary households in the lower deciles, ranging from 46.4 per cent in the first decile to 24.7 per cent in the tenth. By contrast, the distribution of resources by decile is substantially uniform. Transfers amount to 90.9 per cent of the average pre-crisis monthly family income of beneficiaries in the second decile, compared with about 20 per cent for beneficiaries in the tenth decile. For the first decile, the Emergency Income represents just under 50 per cent of total transfers received.

According to official estimates, compared with the situation under the ordinary rules in place before the pandemic crisis, almost 5.1 million workers are eligible for wage supplementation under the COVID-19 extension. The associated increase in spending would amount to around €22 billion (of which €8 billion in notional social contributions). These are very substantial amounts that add to the trend developments in expenditure for wage supplementation benefits under the ordinary system. The expenditure on benefits for COVID-19 related wage supplementation is significantly greater than the outlays for wage supplementation benefits in all of 2013, the peak year for this budget item (about €3.8 billion) and well above the annual average from 2008 to date (€2.4 billion).

The one-off allowances were paid to over 5.2 million beneficiaries in March, over 4.9 million in April and around 1.1 million in May. They met the same need to support business continuity in the most acute moments of the crisis. Official estimates show expenditure of about €8 billion in total, in addition to the April allowance for self-employed professionals granted under the Ministerial Decree of 29 May 2020 (with an expenditure ceiling of €370 million) and a portion of the €6.2 billion earmarked to finance the support grant for small and medium-sized enterprises. These too are expenditures of unusual magnitude, considering that in 2019 (the peak year in the time series since 1995) total expenditure on unemployment benefits (the NASPI and DIS-COLL programmes, the agricultural allowance and other allowances expiring after the reform of the Jobs Act) amounted to about €12.6 billion, while average annual expenditure from 2008 to date was just over €10.2 billion.

Faced with these figures, the issue of making benefits conditional on the state of need in which workers or households may temporarily find themselves due to the crisis would deserve more attention. Components of such selectivity could include the amount of wage supplementation benefits and one-off allowances, the compatibility of receiving benefits under more than one income support scheme, and the combination of benefits with other incomes, pensions in particular. Selectivity can become crucial in reconciling the objective of maximising the pool of beneficiaries while keeping expenditure under control, if extraordinary income support should extend into the second half of the year.

The issue of selectivity should be also connected to the normalisation of the operation of the social safety net and, more generally, to its role in a situation of major change. In the optimistic and unlikely scenario of a full and general recovery of economic activity already in the early weeks of the second half of the year, the termination of COVID-19 eligibility for wage supplementation on 31 October may not be a particular issue. A more plausible scenario, however, is a recovery that is slower and, above all, differentiated by industry and geographical area, with some businesses returning immediately to profitability (for which the continuation of COVID-19 eligibility is not necessary), others continuing to operate at a slower pace due to remaining social distancing restrictions (for which continued COVID-19 eligibility may be necessary) and still others that may suffer a permanent reduction in activity and find challenging to survive. Along with all this, we have firms in sectors in which the crisis has accelerated changes in the production model that had initially been triggered by developments already under way before the crisis emerged and which are independent of the emergency (for example, retailers that decide to adapt and make more extensive use of online sales technologies). In these scenarios, not only does the gradual termination of COVID-19 eligibility for wage supplementation become relevant, but it is necessary a more general assessment of the social safety net system and its role in the presence of such highly varied situations and structural changes in business activity.

The design of the phasing out of COVID-19 eligibility could involve the progressive application of certain selectivity criteria. The same obviously also applies to other allowances, although the conditions for selective eligibility have already been incorporated in the associated legislation and, if necessary, could serve as a guide for programme renewals beyond May. Furthermore, it could be necessary for the Emergency Income programme – under which benefits only last two months – to transition more gradually to the rules governing the Citizenship Income. For all three instruments it would be appropriate to start considering gradual winding down in order to avoid an abrupt cut-off or an uncertain or overly vague transition phase. It is to be hoped that if there are structural changes that can be inherited from the crisis, these instruments will not be dragged along by inertia but instead explicitly discussed within an overall framework of priorities and resources.

In the coming months it will be necessary to constantly monitor outlays for COVID-19 wage supplementation and the one-off allowances, both to monitor developments in expenditure compared with funding and to obtain information on employment trends in the various sectors. The data monitoring will also support selective choices, especially in anticipation of what could happen after August when, once the ban on firing workers is removed, expenditure on labour market safety net mechanisms could shift rapidly towards unemployment benefits.

It is possible that the crisis response strategy may have to be reformulated as early as September, moving from the current structure, in which the far most important role is played by wage supplementation mechanism, towards a structure in which expenditure on unemployment benefits under current programmes could increase above the annual and interim levels experienced recently. One component of the repositioning of the support mix could be the introduction of selectivity for both wage supplementations and allowances. An important role in the redesign could be played by one of the instruments established at the European level in response to the pandemic – the SURE – and by the possibility, envisaged under the European Commission's Temporary Framework for State Aid, that local governments (primarily the regions) use their budgets to finance aid to employers (including the self-employed in their capacity as employers) to pay the wages of their employees and avoid layoffs.

Measures for firms. – In the initial phase of the health emergency, the measures adopted to support firms were generally universal to enable all those affected by the lockdown, and therefore facing a potential liquidity crisis, to access credit. In the next phase, the support measures mostly incorporated greater selectivity and were differentiated by size and legal form of the firm. Among the most recent measures, some provisions are aimed at economic recovery, with the introduction of tax incentives for strengthening companies' capitalisation, innovation and research, and relief measures of varying scale in favour of specific industries (construction, tourism, culture and sustainable mobility).

The measures adopted to support liquidity are mainly indirect and channelled through the financial system to ensure both the preservation of existing credit lines (with the extraordinary automatic moratorium for micro firms and SMEs that experience a liquidity squeeze as a result of the emergency), and the operation of the new credit channels to meet any liquidity crises even if a firm's financial situation should deteriorate (State guarantees).

Among other things, Decree Law 23/2020 has significantly expanded and strengthened public guarantees both on new loans and renegotiated positions through the SME Guarantee Fund. In general, the number of companies entitled to guarantees has been expanded, the amount that can be guaranteed has been increased, the cost of borrowing has been reduced and certain eligibility conditions have been simplified or eliminated. The measure significantly increases the size of the public guarantee as a percentage of the exposure, transferring the default risk – which has increased as a result of the health emergency – from the lender to the State. A total of €6 billion has been allocated to the Guarantee Fund for 2020 as provisions for the risk of financial losses associated with the probability of default. However, the procedure for granting the guarantee, which the decree made less stringent and more streamlined than the ordinary process for needs related to the emergency, could lead to the underestimation of the risk of future default of firms and therefore of the amounts to be allocated to the Fund. This could make it necessary in the future to find additional resources to meet the obligations assumed.

Finally, a crucial element for the effectiveness of the measure is the speed of disbursement of loans. With regard to the SME Guarantee Fund, the early stages of implementation experienced significant delays in the disbursement of funds due to the complexity of certain administrative procedures and a number of uncertainties concerning implementation. It has also to be considered that the regulatory framework has changed significantly in the transition from Decree Law 18/2020 to Decree Law 23/2020, and was further modified with the ratification of the latter into law. The volume of loan applications between 17 March and 29 June – equal to about €43 billion – seems quite small compared with potential demand if all firms sought to borrow the maximum amount allowed under the rules (an estimated €550 billion, of which €46 billion for loans up to €25,000). However, firms may have concluded that it is not worth their while to increase their borrowing beyond a certain level, while it is likely that banks have rejected some loan applications from firms with shaky credit standing. On the other hand, the mechanism for granting guarantees has only begun to operate effectively in the last month, and therefore the volume of loans secured by a public guarantee could grow rapidly in the coming months. Given the potential scale of the loans that could be eligible for a State guarantee and an increase in loan applications in the coming months, the Guarantee Fund could require new funding.

Other liquidity support measures are more direct, using tax relief and outright grants. Decree Law 18/2020 provided for the granting of a refundable tax credit against the assignment of receivables from defaulting debtors. This credit is proportionate to the firm' deferred tax assets (DTA) for losses carried forward and unused ACE (allowance for corporate equity) deductions. This enables firms to recover unused deductions carried forward and that are unlikely to be used for the year due to the deterioration in profitability. All firms are eligible for the support, even if they are unaffected by the consequences of the health emergency, although by its nature it is more readily used by larger companies and those in the financial sector. Decree Law 34/2020 then introduced a grant and tax incentives to strengthen capital, with the aim of rebalancing the financial structure of firms. These measures are generally characterised by more stringent eligibility requirements and are differentiated by size and legal form of the company involved. A general objective of these measures is to bolster the capitalisation of companies, in order to avoid the risk that the credit support instruments deployed in the emergency will leave firms too heavily burdened with debt, forcing them to allocate cash flows in coming years to debt repayments rather than financing investments.

The measures adopted for medium-sized and larger companies are aimed at strengthening their financial structure by ensuring a better balance between their sources of funding, thus creating more favourable conditions for the investments that will play an essential role in the recovery and the upgrading of production. The incentives for equity capital injections therefore seem to complete the preferential treatment of corporate financing, which had hitherto been primarily focused on debt capital. For the beneficiary companies, which represent less than 5 per cent of corporations, this preferential treatment temporarily accompanies the ACE, considerably increasing the incentive to strengthen capitalisation.

All small firms with a turnover of up to €5 million, with the exception of innovative start-ups and those that invest in research and development in the South, remain ineligible for the incentives to strengthen their capitalisation. Not only may these firms experience a greater deterioration in their financials than their larger brethren, but the difficulties of obtaining additional financing could slow their investment and hinder their growth.

Finally, it should be noted that the incentives for strengthening capital are subject to a total spending limit which may be insufficient to benefit all the companies eligible for support and their financial effects will only manifest themselves from 2021.

The measures that provide for actual exemptions from the payment of taxes include the abolition of the balance payment for 2019 and the first payment on account for 2020 of IRAP for most firms. Since this represents a significant generalised tax reduction that also applies to many sectors that have been less affected by the emergency, the measure is less consistent with the aim of channelling public resources to the businesses most affected by the crisis that appears to characterise this new round of interventions. Even in the initial years following its introduction, IRAP was a bone of contention, and the business world has repeatedly called for its elimination. If this measure were to be a first step in this direction, it would be necessary to rethink the overall framework of business taxation and the financing of the healthcare system.

Ecobonus and transferable tax credits. – Decree Law 34/2020 strengthens public incentives for projects to improve the energy efficiency and seismic resilience of buildings undertaken in the second half of 2020 and in 2021: the percentage tax credit has been increased to 110 per cent and the period over which the credit must be applied against taxes has been shortened from 10 to 5 years. For this expenditure and for the other outlays incurred in 2020-2021 that do not benefit from the increase in the tax credit, the tax credit can be transformed into transferable form or be used as a discount on the amount paid for the works.

The measure, which fully charges the costs of the subsidised projects to the public budget, appears aimed not only at supporting the construction sector, but also at achieving substantial improvements in the energy efficiency classification and the seismic stability of buildings. To this end, the structure of the benefit extends the pool of potential beneficiaries, mitigating one of the factors giving rise to the highly regressive nature of this type of tax relief (they are more easily used by high-income taxpayers with sufficient liquidity and taxable income) but, obviously, not the second (property ownership is concentrated among taxpayers with higher incomes).

It is also important to bear in mind that the measure could be exploited for tax avoidance or speculative purposes. The amount of the credit significantly reduces the conflict of interest between suppliers and buyers in respect of the cost of the subsidised projects, as both parties benefit from increasing expenditure up to the maximum facilitated amount. For example, in the case of companies that provide both energy upgrading and ordinary renovation works to the same customer, the parties could find it attractive to overestimate the cost of the former, in order to finance the latter under the concessionary regime. The effective use of public resources for the purposes intended by the measure will therefore depend on the effectiveness of any anti-avoidance mechanisms envisaged.

With regard to financial effects, there is a risk of underestimating the costs for the purpose of net borrowing. Official estimates do not consider the possibility of an increase in subsidised expenditure on building renovations for which, while the amount and timing of the preferential regime remain unchanged, it can be expected that the number of potential beneficiaries will increase thanks to the option available to those with insufficient tax liabilities to transfer the credit to the banking system. Furthermore, if the tax credits transferred and used as set-offs were classified as "payable" (insofar as they can be used regardless of the presence of taxable income in the tax return of the buyer), the associated amount would entirely impact net borrowing in 2021-2022, rather than being distributed over time on the basis of the instalment schedule envisaged for using the credits. This consideration refers both to renovations for which the amount of the benefit has been increased and the time for its use has been reduced, and for the remaining renovation projects in 2020-2021 for which the measure simply allows beneficiaries to opt for the transformation of the credits into transferable form.

Local government finance. – The main measures to support local authorities include the appropriation of extraordinary resources and the grant of cash advances to pay commercial accounts payable. In addition, the scope of local government intervention in supporting businesses in their territory has been expanded, in compliance with the Temporary Framework for State Aid envisaged by the European Commission.

The data available on the cash flows of local authorities show a substantial contraction in total receipts in the first five months of 2020, with a drastic reduction in flows in May. The figures do not currently enable any reliable assessment of the adequacy of the resources envisaged under the measure to meet the overall needs that will emerge over the next few months as a result of the health emergency. The amounts appropriated in any case appear significant and their timely allocation will enable governments to cope with the budget imbalances that begin to appear, while monitoring effective developments will make it possible to assess real requirements.

The grant of cash advances to pay commercial debts replicates past measures, demonstrating that the problem of late payments, although gradually improving, has not yet been definitively resolved. However, in the short term this measure represents a useful tool for various purposes: to supply liquidity to businesses that work with government; to forestall the opening of the infringement procedure announced by the European Court of Justice for excessive payment delays; and to limit the application of the penalty mechanism, which starting from 2021 requires local authorities that do not comply with payment times to recognise additional provisions. However, this temporary remedy must not lead to the postponement of processes to improve the efficiency of managing the public accounts that are needed to avoid the use of irregular accounting procedures and commercial practices. In the absence of the adoption of these efficiency enhancing processes, as well as criteria for allocating resources that ensure funding for the basic functions of all local government, the temporary remedy represented by cash advances could produce the opposite effect in the medium term, since the need to repay advances will drain liquidity from governments that have had to use those advances, thereby contributing to the risk of creating new payment arrears.

From an accounting standpoint, it seems imprudent to assume that the share of advances that will be used by local governments to pay their trade debts on capital account will have no impact on net borrowing, given that the capital expenditure of territorial governments is recognised on an accruals basis at the time of the cash outlay.

Healthcare measures. – In the healthcare sector, a range of measures has been envisaged to address the pandemic, aimed above all at rapidly increasing the availability of staff and medical equipment and expanding assistance networks, as well as introducing a number of more structural reforms, such improving outpatient care and increasing the number of beds in intensive and semi-intensive care wards. It has never been more important for resources to be managed in an informed manner consistent with appropriateness objectives, in order to face the substantial claims that could also originate from providers/producers, especially from the private ones.

The funding necessary to implement the measures was partly allocated to the National Emergency Fund (€3.15 billion in 2020 alone) and partly to the special accounts of the Special Commisioner (€1.467 billion in 2020 to strengthen intensive care facilities), while in part they represent refinancing of the NHS (€3.203 billion in 2020, €605 million in 2021 and €1.609 billion for 2022). The refinancing is less than the cost, specified at about €1.7 billion in Decree Law 34/2020, of the measures that remain the responsibility of the regional governments for the years after 2020, with an especially large shortfall in 2021. Perhaps reliance is being placed on funding already approved (an increase of €1.5 billion is envisaged in 2021 over 2020) or on additional resources that could be appropriated in the future.

Measures for education. – The many decrees adopted during the health emergency contain a series of measures relating to education. They were initially aimed mainly at managing the various phases of the emergency, while subsequently they have been intended to fund new hiring and provide new financing. Decree Law 34/2020, in particular, expanded the number of places available in competitive exams for secondary school teaching staff (with hiring postponed until the time the places actually become available) and increased hiring of research fellows at universities and research institutes. In addition, new funding was appropriated for schools, universities, art and music academies and research bodies both in response to the emergency and, especially in the case of universities, art and music academies and research entities, to strengthen staffing on a structural level. For schools, the measures also seek to take advantage of the suspension of teaching activities to carry out school building renovations and construction.

In total, the resources allocated to schools, universities, art and music academies and research entities have been increased by about €1.4 billion for 2020 (of which €173 million represent a decrease in net revenue for general government), €1.2 billion in 2021 and €750 million in 2022 (the overall impact of the measures on net borrowing is €1.125 billion in 2021 and €660 million in 2022). Funds for school construction have been increased by €30 million for 2020 alone.

The measures taken by the European Union

The spread of the epidemic prompted European institutions to take measures to counter its recessionary impact. The first significant euro-area response to the financial consequences of the crisis caused by COVID-19 came from the ECB. Beginning with its meeting on 12 March, the Governing Council of the ECB has announced a series of expansionary monetary policy measures intended to preserve the flow of credit to households and businesses, ensure favourable liquidity conditions and support the financial stability of the euro area. More specifically, the ECB first strengthened its asset purchase programme (APP) and then introduced a new public and private securities purchase programme for the pandemic emergency (the Pandemic Emergency Purchase Programme, or PEPP).

The PBO has estimated the possible impact of the ECB's purchase programme on the Italian government securities market on the basis of a number of scenarios concerning the possible scale of the Eurosystem's purchases of Italian government securities. Gross government securities issues in 2020 are projected to be €552 billion. Based on certain working assumptions, purchases of Italian government securities by the ECB are estimated at around €199 billion (of which €37 billion from the reinvestment of principal payments on maturing securities), or 36 per cent of total gross Treasury issues. Gross government securities issues net of ECB purchases on the secondary market would therefore amount to €353 billion, with a reduction in the total amount of securities that the private sector will have to absorb compared with the previous year (when the corresponding estimated amount was €384 billion). Estimated net government securities issues net of ECB purchases on the secondary market would be around €26 billion.

As regards the framework of European fiscal rules, on 23 March the Council of the Union activated the general escape clause provided for in the Stability and Growth Pact (SGP) for this year, agreeing with the Commission's assessment that the conditions for its application had been met. The application of the general escape clause does not suspend SGP procedures, but allows the Commission and the Council to take the necessary measures for coordinating budgetary policies within the framework of the Pact, while departing from the budgetary obligations that would normally be applicable .

After the endorsement of the European Council of 23 April, on 8 May the Eurogroup approved a new credit line under the European Stability Mechanism (ESM) denominated Pandemic Crisis Support (PCS). Support is available to all euro-area Member States, to reflect the symmetrical nature of the pandemic shock, with standardised terms. The only requirement to access the credit line is a commitment to use the credit - which can be granted in the maximum amount of 2 per cent of 2019 GDP (about €36 billion for Italy and €240 billion for the euro area as a whole) - to finance direct or indirect healthcare, cure and prevention-related costs due to the pandemic.

Among the tools to respond to the economic emergency, in April the Commission proposed the establishment of the SURE initiative (Support mitigating Unemployment Risks in Emergency), a fund of up to €100 billion to finance loans to EU Member States. The rules were approved on 19 May 2020. The goal is to provide Member States with resources complementing national temporary income support mechanisms for employees and self-employed workers.

Other measures at the European level have been introduced through the EIB Group, primarily to counter the impact of COVID-19 on small and medium-sized enterprises. On 16 March the EIB Group proposed a plan to rapidly mobilise up to €40 billion of funding. As part of this programme, on 6 April the European Investment Fund (EIF) approved the initial measure offering €2.2 billion in guarantees to contain the impact of the pandemic by incentivising banks and other lenders to provide €8 billion in financing to SMEs and mid-caps.

Subsequently, with the endorsement of the Eurogroup, on 16 April the Bank's extraordinary Board of Directors meeting approved the creation of the COVID-19 Guarantee Fund, capable of providing support of up to €200 billion to the European economy through various financial instruments, including guarantees for commercial banks and national promotional institutions, counter guarantees for national guarantee schemes, venture debt to high-growth companies and purchases of asset-backed securities held by banks in order to enable them to grant new loans to SMEs. The Guarantee Fund will start operation as soon as Member States representing at least 60 per cent of the EIB's capital have made the necessary commitments to grant the guarantee. Italy has already made its commitment under the provisions of Article 36 of the Revival Decree (Decree Law 34/2020).

Finally, on 27 May the European Commission presented a "Recovery Plan for Europe", consisting of a recovery instrument integrated with a reinforced long-term budget of the

EU. The Commission proposes to leverage the EU budget to tackle the expected shortfall in investment in the coming years, structuring its proposal around two cornerstones:

1) the Next Generation EU programme, the new European recovery instrument, which would be used to increase the budget on a temporary basis by €750 billion with new financing raised on the financial markets and channelled to Member States through EU programmes;

2) the EU's long-term budget, i.e. the Multiannual Financial Framework (MFF), reinforced for the period 2021-2027 with appropriations for expenditure commitments of €1,100 billion over the 7 years of the planning horizon. A number of amendments to the existing 2014-2020 MFF were also proposed to make €11.5 billion of additional funding available for 2020.

According to the Commission's proposal, Next Generation EU will be a one-off emergency instrument, activated for a limited period exclusively for the purpose of responding to the crisis and for recovery. The funds will be disbursed to the Member States until 31 December 2024 and will be raised on the financial markets taking advantage of the Commission's high credit rating. Of the total €750 billion of resources available through the Next Generation EU instrument, €500 billion will be disbursed in the form of transfers through new EU programmes or reinforced existing initiatives, also accelerating the green and digital transition, and €250 billion in the form of loans granted on almost the same conditions as the original issue.

The Recovery and Resilience Facility, a part of Next Generation EU, is the most important new initiative in the package proposed by the Commission. The package will be offered to all Member States, but in particular to those most affected by the pandemic. It will have €560 billion in funding and is intended to support investments and reforms. Member States will have to submit recovery and resilience plans based on the priorities identified in the context of the European Semester, in line with EU strategies and national plans for energy and climate.

All the Commission's proposals are still being negotiated among the Member States, a process that should be completed by July according to the Commission in order to ensure implementation of new EU Multiannual Financial Framework and Next Generation EU from 1 January 2021.

An initial preliminary analysis found a series of benefits and costs for each of the main instruments deployed by the European institutions, namely the PCS, SURE and RRF. With regard to the *speed with which the programmes can be implemented*, only the PCS is immediately available. For the SURE, it will be necessary to wait for the Member States to make the guarantee available in the coming months, while for the RRF the Member States must reach agreement on its key features, with the possibility that it can be fully operational only starting from January 2021 or, in an unfavourable scenario, even later.

In terms of *impact on the public accounts*, the transfers under the RRF should not affect either general government net borrowing or debt, while the use of loans under the PCS, the SURE and the RRF loan component would increase net borrowing and the public debt under the definition used for the Stability and Growth Pact. Any increase in national contributions to the EU budget to repay the debt contracted in 2021-2027 to finance the RRF transfers would only occur starting from 2028.

As to the *maximum amount of aid*, the RRF could represent a significant source of funding for Italy's recovery measures in the coming years, while the PCS and, even more so, the SURE appear to be more limited in scope although potentially important to alleviate the need for the Treasury to raise funds on the markets. As regards *the interest rates charged on the loans*, the three instruments should not involve significant differences and would represent a benefit for Italy considering the high credit standing of the issuers of the securities whose funding would then be transferred to Italy.

Finally, the comparison with regard to *conditionality* appears more differentiated. As far as the SURE is concerned, the conditionality requirements seem relatively light, as the only restriction is on the use of the resources (temporary income support schemes for workers). This constraint also characterises the PCS, since the use of loans is linked to the financing of the direct and indirect costs of the pandemic. Compared to the other ESM instruments, the enhanced surveillance of the Commission will be performed in a simplified manner, as notified by the Commission to the President of the Eurogroup. However, as stated by the Eurogroup itself, the early warning system of the ESM also applies to the PCS, which means assessing a country's ability to repay its debt. In the case of the RRF, although the framework is still being defined, the disbursement of the funds is strictly conditional on the preparation and implementation of reform and investment plans by the beneficiary countries, as assessed and approved by the Commission, that take account not only of the policy preferences of the countries, but also of the priorities determined by the Union. Finally, it should be borne in mind that accessing the instruments will probably be taken into account in the context of the ordinary surveillance of the Stability and Growth Pact with regard to macroeconomic and public finance stability.

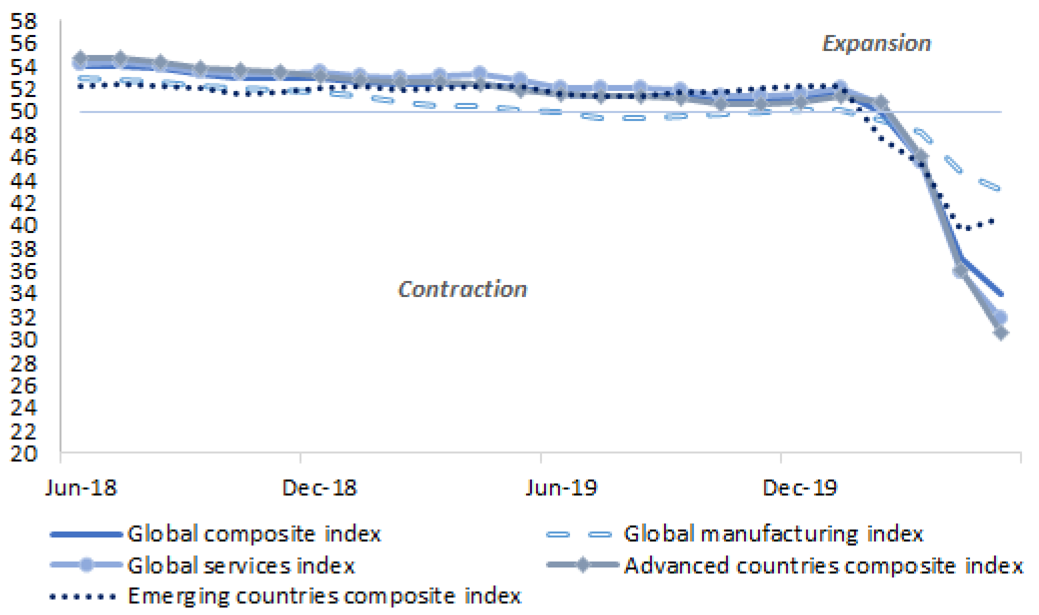
1. THE MACROECONOMIC ENVIRONMENT

1.1 The world economy and the EFD's assumptions for international variables

The moderate deceleration in economic activity that had involved many of the major economies over the past two years appeared to have come to an end between the end of 2019 and the beginning of 2020. The spread of the coronavirus pandemic (COVID-19), first in China and then in the rest of the world, radically altered the situation, causing a collapse in economic activity and a deterioration in the outlook of an intensity not seen since the Great Depression (Figure 1.1).

In China, where the initial restrictions were introduced as early as late January, economic activity collapsed in February. The stringent containment measures were effective in slowing the spread of the virus but led to significant costs for about two months. Value added in industry fell by 13.5 per cent year-on-year in January and February as a whole. The Chinese economy began to recover at the end of March. However, Chinese GDP decreased by an average of 6.8 per cent on an annual basis in the first quarter (9.8 per cent compared with the previous quarter), an unprecedented development since the time series began in 1992. Value added in industry expanded again in April and May. In the latter month, purchasing managers' confidence indices (Purchasing Managers' Index – PMI) returned above 50, signalling a resumption of expansion, both in manufacturing and services.

Figure 1.1 – JP Morgan Global PMI (1)
(three-month moving average)



Source: IHS Markit.
(1) Confidence indicators based on the assessments expressed by corporate purchasing managers. A value of more than 50 indicates expansion.

In the West, the pandemic began to spread with a lag of over a month, first in Italy and other European countries, later in the United States. The PMIs for manufacturing and services in the euro area fell sharply in March, to 44.5 and 26.4, respectively, before falling further to post a minimum in April, at 33.4 and 12.0, respectively. In May the indices showed an improvement in confidence, while remaining largely within the area indicating expectations of contraction. In the United States, the PMIs for March were less affected by the effects of the pandemic than in Europe, due to the lag in the spread of the virus. However, unemployment surged towards the end of the month and in April the PMIs fell very quickly (to 36.1 and 26.7, in manufacturing and services respectively). In May the indices were well within the area indicating a contraction due to the continuing unfavourable developments in the pandemic. The temporal lag in the spread of the pandemic on the two shores of the Atlantic had stronger effects on the first quarter in the Old World (euro-area GDP contracted by 3.6 per cent on the previous quarter) than in the New World (-1.3 per cent in the United States).

Despite the temporal differences in the spread of the pandemic among the western countries, even if they were only on the order of a few weeks, the stock markets reacted swiftly and simultaneously. Between mid-February and the fourth week of March, the main equity indices posted record falls, plunging by as much as 30 per cent. The adoption of substantial monetary and fiscal policy measures by the major countries affected by COVID-19 mitigated the risk aversion of the markets, leading to a partial recovery in April. In mid-June, the indices showed losses since the beginning of the year of between about five percentage points for China and over fifteen points for Italy and the United Kingdom.

International trade, which in early 2020 looked poised to benefit from an easing of the trade tensions between the United States and China, was heavily affected by the COVID-19 emergency. The interruption of global value chains generated bottlenecks in the production of domestic goods that make significant use of imported intermediate inputs.[1] Economies that rely on exports, such as Germany and Italy, are suffering significantly.

Leading forecasters expect a recession without precedent in peacetime. According to forecasts released on 24 June by the International Monetary Fund (IMF) in its update to April's *World Economic Outlook*, global GDP is expected to fall by 4.9 per cent this year, a downward revision of 1.9 percentage points compared with the projections issued two months earlier; in 2021 global economic activity is expected to expand by 5.4 per cent. Given the uncertainty surrounding the forecasting exercise, in the update the IMF presents two possible alternative scenarios around the baseline forecast. In the first scenario, which assumes a new wave of the pandemic in 2021, the impact would be a decrease in world GDP growth of 4.9 percentage points compared with the baseline, which would be close to zero in the next year, with gradually smaller effects in the following years. In the second scenario, which assumes a more robust recovery in the second half of 2020, supported by the confidence of economic operators in the effects of economic policies, there would be a slight expansionary effect in

1 See the Box "The COVID-19 pandemic and global economic repercussions" in the PBO's Report on Recent Economic Developments for April 2020. http://en.upbilancio.it/wp-content/uploads/2020/04/Nota-sulla-congiuntura-aprile-2020_EN.pdf.

2020 and a more substantial one in 2021 (3 percentage points). In the Economic and Financial Document (EFD) the assumptions concerning global GDP growth are decidedly more optimistic, especially for 2020, as they forecast a contraction of only four-tenths of a percentage point. The IMF's projections for world trade are also more pessimistic than those in the EFD: while the former predicts an 11.9 per cent contraction in trade this year and an 8.0 per cent rebound in 2021, the EFD points to a contraction of just 6.7 per cent in 2020, with a jump of close to 10 per cent in 2021 (Table 1.1).

The pandemic has had a major impact on the oil market, with expectations of a sharp contraction in demand exerting downwards pressure on prices since as early as the beginning of February. After an initial failure to reach an agreement, on 12 April the OPEC+ countries agreed to a reduction of 9.7 million barrels per day, but even this cut did not initially seem sufficient to offset the excess supply. In the following days, fears of a possible shortage of storage sites in the US market produced negative prices for West Texas Intermediate (WTI) with delivery in May on 20 and 21 April (with a closing price of -$37.63 of 30 April). The prices of Brent, the European benchmark variety, were also impacted by international tensions and the decline in demand, although they did remain positive. In May, the oil producing countries were able to reach an agreement and reduce supply by implementing production cuts, partially boosting oil prices; Brent prices returned to above $40 a barrel in early June.

In the macroeconomic scenario set out in the EFD, the price of Brent is projected to average $38.3 a barrel in 2020 and $39.6 in 2021. These assumptions are about three dollars below the average between the actual price registered so far and that for oil futures over the remainder of the year. For 2021, however, operators are expecting a further rise in prices, albeit a very moderate one. Based on the information available in mid-June, the EFD's assumptions about crude oil prices for 2021 are about four dollars below futures prices (Table 1.2).

On the foreign exchange market, the euro fluctuated against the US dollar during the first half of the year, reflecting differences in the timing of monetary policy decisions, in cyclical conditions and in the impact of the coronavirus. In mid-June, the dollar/euro exchange rate was around 1.13, an appreciation of around one percentage point since the beginning of the year.

Table 1.1 – Recent world GDP and trade forecasts

	2019	2020	2021
Prodotto mondiale			
DEF	3,3	-0,4	6,2
FMI	2,9	-4,9	5,4
Commercio mondiale			
DEF	1,9	-6,7	9,9
FMI	0,9	-11,9	7,4

Source: EFD 2020 and International Monetary Fund (2020), *World Economic Outlook*, June.

Table 1.2 – Oil prices (Brent) in dollars

	2019	2020	2021
EFD			
Price, dollars per barrel	64.3	38.3	39.6
% change	-9.8	-40.4	3.2
Forward prices observed in last 10 business days ending on 16 June			
Price, dollars per barrel	64.3	41.2	43.2
% change	-9.8	-0.4	4.9

Source: 2020 EFD and Refinitiv.

The forecasts for the exchange rate in the EFD are developed using the technical assumption that the rate will remain unchanged from the average rate over the 10 business days preceding the finalisation of the MEF's macroeconomic scenario (completed on 26 March 2020). In mid-June, the projection was virtually in line with the average of spot and forward prices, according to which the value of the euro would be around 4 and 5 cents stronger against the dollar than the assumption in the EFD for the average in 2020 and 2021 ($1.09 per euro) and 3 and 4 cents compared with the technical assumption reformulated in mid-June (Table 1.3).

The developments in interest rates contained in the EFD are based on internal MEF forecasts of the placement yields on government securities, so they are not directly comparable with market measures. However, trends indicate that: i) for both short- and long-term rates, the direction is that expected by the markets; ii) long-term rates for the 2020-2021 period are in line with market values; and iii) short-term rates are higher than those currently observable on the market for 2020 and, moreover, appear to be sharply increasing in 2021. This rise could reflect the adoption of a prudent stance on the part of the MEF.

Overall, on the basis of the most recent information, the international assumptions employed in the EFD reflect a degree of optimism about global growth and trade, while caution prevails for short-term interest rates.

Table 1.3 – Dollar/euro exchange rate

	2019	2020	2021
EFD	1.12	1.09	1.09
Constant exchange rate at level observed in last 10 business days ending on 16 June	1.12	1.12	1.13
Forward prices observed in last 10 business days ending on 16 June	1.12	1.13	1.14

Source: 2020 EFD, ECB and Refinitiv.

1.2 The Italian economy

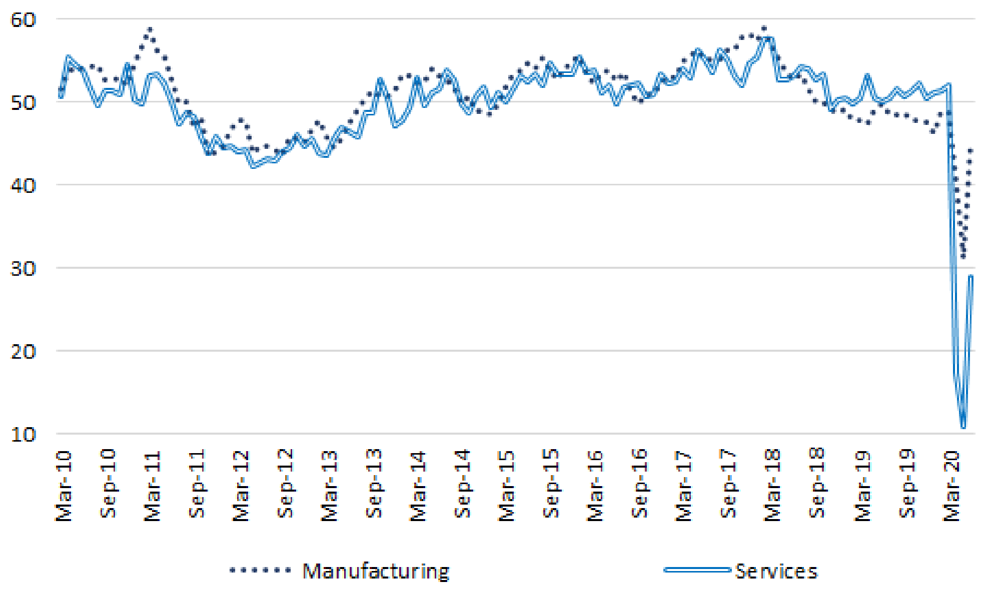
Cyclical conditions in the Italian economy, which stagnated overall last year, were already deteriorating in the final quarter of 2019, when GDP contracted slightly (-0.3 per cent on the previous quarter). The progressive spread of the pandemic since the end of February has caused economic conditions to worsen at a pace and intensity unprecedented in times of peace. According to national accounts data released by Istat at the end of May, GDP fell drastically in the first quarter (-5.3 per cent on the previous quarter and -5.4 year-on-year), about six-tenths of a point greater than the preliminary estimates released by Istat on 30 April. Based on these developments, the change in GDP for 2020 already acquired is equal to -5.5 per cent. The collapse in activity mainly reflected the contraction in value added in industry and services. The contribution of domestic demand to growth was sharply negative, despite the partially offsetting impact of inventories. Foreign demand also contributed negatively to growth, reflecting a smaller decline in imports than in foreign sales.

Available economic indicators point to a continuation of the exceptional crisis in the Italian economy in the second quarter of the year as well. The industrial sector experienced a steep drop in output due to the restrictions imposed on non-essential economic activities between the end of winter and the beginning of spring. The seasonally adjusted industrial production index dropped by 19.1 per cent on the previous period in April. As activity had already collapsed in March, falling by almost 30 per cent, over the period of the health emergency output contracted by more than 40 per cent, a decline never before registered since this statistic began to be tracked in 1960. At the same time, however, sectoral indicators appear to hint at the start of a recovery from the lows recorded in April. The PMI for manufacturing rose to 45.4 in May (from 31.1 in April), although this was still lower than the last observation prior to the spread of the pandemic (in February the index stood at 48.7).

Even more severe were the consequences of the health emergency for the services sector, which had already begun to manifest themselves at beginning of the year. At the end of January the tourism sector had started experiencing a decline in demand, initially reflected in flows from China, followed by contraction in tourist flows from other countries and finally domestic tourists. The progressive tightening of social distancing measures culminated with the shutdown of a range of activities, including those related to restaurants, trade fairs and conferences and air and rail transport, with an adverse impact on the logistics sector. The most recent qualitative indicators confirm the exceptional intensity of the slowdown recorded by the sector: the PMI for the services sector was still very low in May (28.9; Figure 1.2) despite rebounding from the historic low registered in April (10.8).

In buildings, 2019 had closed with an increase of about two percentage points compared with the average for the previous year. Following the jump posted in January compared with the previous period and an initial downturn (-2.4 per cent) in February, the sector was hit by the effects of the health emergency. In March-April, the decline compared with the previous two months exceeded 53 per cent.

Figure 1.2 – PMIs for Italy (1)



Source: IHS Markit.
(1) Confidence indicators based on the assessments expressed by corporate purchasing managers. A value of more than 50 indicates expansion.

In addition to a deterioration in confidence, uncertainty has also increased, with the PBO uncertainty indicator rising markedly in the first part of this year, both for households and firms.

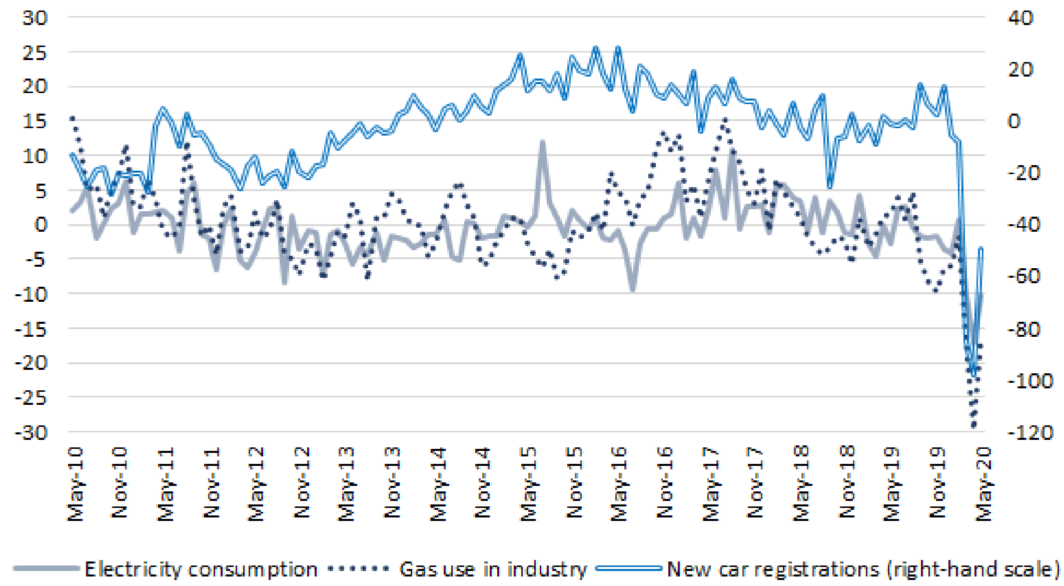
A similar picture also emerges from high-frequency real-time quantitative indicators (Figure 1.3), which after falling steeply in April began to recover, albeit very gradually. Despite the lifting of most restrictions on economic activity, the second quarter suffered both the extraordinarily low level of activity in April and the extremely adverse statistical carryover effect from March.

According to projections developed with the PBO's short-term forecasting models, Italian GDP is expected to have declined by about ten percentage points in the second quarter. The end of the lockdown and the reopening of regional and subsequently national borders will enable a recovery in economic activity in the third quarter of the year, however this will not be sufficient to return the level of output to the values prevailing prior to the health emergency.

These projections are clouded by historically unprecedented uncertainty, attributable not only to the usual economic factors, but also to social and health variables. There is also a risk that the accuracy of the preliminary national accounts estimates of the countries most affected by COVID-19 may be impacted by the difficulties in collecting and seasonally adjusting data in real time. A more firmly based assessment of the current cyclical position can only be performed retrospectively in the coming quarters, when the national statistical institutes will have had the opportunity to supplement the missing data and the seasonal-adjustment models will have sufficient information to statistically adjust the outliers.

Inflation in early 2020 continued to display the weakness already observed last year as a

Figure 1.3 – Real-time indicators of economic activity
(percentage year-on-year change)



Source: Terna, Snam and ANFIA.

result of moderate internal demand and weak pressure from pipeline pressures. It declined further during the health emergency and eventually turned negative in May (-0.2 per cent, from 0.0 per cent in April). Core inflation, which excludes the prices of energy and unprocessed food, remained almost unchanged however, sustained by the prices of processed food, healthcare services and health spending. The cost of living declined across spending categories, albeit more markedly for the items connected with housing and transportation, which also reflected the sharp drop in commodity prices.

Inflation expectations of businesses and households as measured by Istat's June surveys show that an increasing share of consumers expect prices to rise, while firms' expectations for sales prices are less pessimistic, partially recovering from the lows recorded in May.

The labour market had also shown signs of weakening before the outbreak of the pandemic. In the final part of 2019, the number of hours worked in the national accounts compared with the previous period had decreased to an extent similar to the fall in GDP, accompanied by a deterioration in labour demand. In the first quarter of this year, labour inputs, measured by hours worked, dropped sharply (-7.5 per cent on the previous quarter), outpacing the contraction in economic activity. In the same period, the number of persons in employment decreased moderately on the previous period (-0.4 per cent, or 101 thousand units).

The smaller reduction in jobs compared with the change in the number of hours worked is attributable to the substantial expansion of the Wages Supplementation Fund, which was extended by the "Cura Italia" Decree to all production units.[2] Firms have made

[2] In the unemployment statistics of the Labour Force Survey, people receiving wage supplementation benefits are considered to be employed.

extensive use of various forms of wholly or partially reduced working hours, which have depressed the volume of labour inputs. According to information released by the INPS, at the beginning of June total potential beneficiaries of the various forms of wage supplementation numbered over 8.4 million, while the number of hours of wage supplementation authorised at the end of May for the health emergency amounted to almost 850 million, in line with those authorised in April.

On average, March-April saw a broad decrease in employment (-1.1 per cent compared with the previous two months), both by gender and by age group. The administrative data on mandatory notifications of job status changes signal a sharp decline in the activation of fixed-term positions, which could contract more in the summer months, especially in certain sectors of the services industry. The decline in the number of jobseekers was very steep, falling by about a quarter in the same period. The measures introduced to contain the pandemic have strongly discouraged active job searches, leading to a jump in the inactive population (6.1 per cent on average in March-April compared with January-February. Looking forward, the movement towards inactive status could also involve people in employment, while female participation may be influenced by the approach adopted in reopening schools. Despite the sharp deterioration in labour demand, the virtual block on participation in the labour market during the lockdown meant that the unemployment rate in April dropped to 6.3 per cent, a level not recorded since 2007, i.e. before global financial crisis.

In the first quarter of the year there was a recovery in hourly productivity (2.3 per cent on the previous quarter), reflecting a smaller reduction in value added (-5.2 per cent) than in the number of hours worked. The increase in efficiency was mainly driven by the construction and services sectors. In the same period, the quarter-on-quarter changes in wages and social security contributions increased by 0.4 and 1.0 per cent respectively. Overall, unit labour costs decelerated sharply.

The growth in labour costs, measured in terms of effective wages, weakened during the period in which economic activity was suspended (-0.2 per cent year-on-year in the first quarter), reflecting the decrease in labour inputs as well as the suspension of deadlines for the payment of social security contributions and the decline in labour cost items connected with the production cycle. Conversely, the change in hourly contractual wages remained moderate (0.6 per cent year-on-year in January-April), but could gradually weaken in the coming months in the event of postponements of negotiations on contractual renewals and the persistence of low inflation. The need to stem the pandemic has considerably expanded the use of flexible working arrangements,[3] the effects of which are uncertain: the registration of the volume of work that is not necessarily performed in consecutive time intervals could in some cases lead to an overestimation of hours worked, with a consequent decrease in hourly productivity. However, productivity measured in per capita terms could instead benefit from the greater flexibility available for workers to organise their time.[4]

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3 See Basso, G., Barbieri, T. and Schicchitano, S., "I lavoratori a rischio durante l'epidemia da COVID-19", Banca d'Italia.

4 See Boeri, T. and Caiumi, A., "Lavori che possiamo continuare a svolgere", www.lavoce.info.

1.3 The macroeconomic forecasts in the EFD

The MEF has only published a trend macroeconomic scenario for the 2020-2021 period in the EFD, consistent with the simplification guidelines issued at the European level in response to the exceptional health emergency.[5]

In the Government's macroeconomic scenario, output is expected to contract very sharply this year (-8.0 per cent), followed by a partial recovery next year (4.7 per cent). In 2021, the level of economic activity would be about 5 percentage points lower than that forecast in last fall's Update to the EFD (Table 1.4).

With regard to the determinants of growth, in the macroeconomic scenario in the EFD, the severe contraction of GDP in 2020 is mainly attributable to the negative contribution of the domestic components of demand (more than 80 per cent), while the recovery in 2021 is buoyed both by domestic and foreign demand. Consumer spending by households is expected to decline dramatically this year but recover in 2021, albeit only partially as it would be dampened by the activation of the safeguard clauses for indirect tax increases envisaged in the trend scenario. The capital accumulation is forecast to contract sharply in 2020, especially in the machinery and equipment segment. Investment rebounds in 2021, driven mainly by spending on capital goods, while construction would expand more moderately. Exports this year would drop dramatically (-14.4 per cent), as would imports (-13.0 per cent). As a result, the net contribution to growth would be negative but much less so than that of domestic demand. Inventories would subtract more than half a percentage point from growth, with only a partial recovery in 2021.

With regard to nominal variables, the MEF macroeconomic scenario forecasts a negative private consumption deflator this year (-0.2 per cent), reflecting the stall in demand mainly attributable to the lockdown. In 2021 the EFD trend scenario incorporates the increase in indirect taxation provided for in the safeguard clauses, which is expected to cause a substantial increase in inflation. The change in the GDP deflator remains at 1.0 per cent this year and gradually strengthens in the next (1.4 per cent). Given the estimates of real GDP and its deflator, nominal GDP plunges by more than seven points in 2020 and then experiences a partial rebound in 2021 (to 6.1 per cent), driven by the restoration of normal supply and demand conditions.

The labour market is also severely affected by the pandemic. The recession triggered by the emergency greatly reduced hours worked, although the ample recourse to wage supplementation mitigates its effects in the Labour Force Survey statistics. The EFD forecasts an increase of over a point and a half in the unemployment rate this year (to 11.6 per cent, from 9.9 per cent in 2019), which is only partially recouped in 2021 (11 per cent). Hours worked are projected to fall substantially in 2020 (-6.5 per cent), with less

[5] The guidelines for the preparation of Stability Programmes by the EU Member States are contained in the communication entitled *European Commission, Guidelines for a streamlined format of the Stability and Convergence Programmes in light of the COVID-19 outbreak*, Brussels, 6 April 2020.

half the loss being recovered next year (reaching 3.4 per cent). Unit labour costs are forecast to increase by about one point this year (from 1.5 per cent in 2019 to 2.4 per cent in 2020) and slip back slightly next year (-0.2 per cent).

Table 1.4 – Government macroeconomic scenario (2020 EFD and Update to 2019 EFD) (1)

	2020		2021	
	EFD	Update	EFD	Update
GDP and demand				
GDP	-8.0	0.6	4.7	1.0
Imports	-13.0	2.3	10.0	3.3
Final domestic consumption	-5.3	0.5	3.1	0.7
Household consumption	-7.2	0.7	4.0	0.8
Expenditure of general government and non-profit institutions serving households	0.7	-0.2	0.3	0.3
Investment	-12.3	2.2	4.3	2.3
Exports	-14.4	2.2	13.5	2.9
Contribution to GDP growth				
Net exports	-0.8	0.1	1.2	-0.1
Inventories	-0.7	-0.2	0.2	0.1
Domestic demand net of inventories	-6.5	0.8	3.3	0.9
Prices				
Import deflator	-2.7	1.3	1.7	1.3
Export deflator	-0.2	1.2	1.1	1.1
GDP deflator	1.0	1.3	1.4	1.7
Nominal GDP	-7.1	2.0	6.1	2.7
Consumption deflator	-0.2	1.0	1.7	1.9
Labour market				
Unemployment rate	11.6	10.0	11.0	9.5
Assumptions for international variables				
World trade	-8.1	1.7	10.4	3.0
Oil price (FOB, Brent)	38.3	57.3	39.6	56.2
Dollar/euro exchange rate	1.09	1.11	1.09	1.11

Source: 2019 Update policy scenario and 2020 EFD trend scenario.
(1) Percentage changes except for contributions to GDP growth (percentage points), the unemployment rate, the exchange rate and the oil price. Due to rounding of growth rates to the first decimal place, the sum of changes in quantities in volume terms and the associated deflators may not equal nominal changes.

1.4 Endorsement of the macroeconomic scenario

The PBO assessed the trend macroeconomic scenario published in the EFD as transmitted by the MEF on 3 April, and sent the endorsement letter on 16 April. In the subsequent two months, however, the macroeconomic outlook continued to deteriorate, as some of the risks noted by the PBO during the endorsement exercise materialised. To reflect this deterioration in expectations, the PBO has prepared an update of the macroeconomic forecasts, which is presented in Box 1.1.

First a brief review of the methodology adopted for the endorsement exercise. It is based on a comprehensive analysis of the macroeconomic scenarios proposed by the MEF using: a) the PBO estimates for short-term developments in GDP and the main components of demand; b) the annual forecasts obtained by the PBO with Istat's forecasting model (Memo-it), used under the terms of the framework agreement signed with that institute; c) the annual forecasts produced separately and specifically by the independent forecasting institutes (CER, Prometeia, and REF.ricerche) that form part of the PBO forecasting panel. In addition, the PBO also monitored the most recent forecasts of other national and international institutions and conducted an analysis of the internal consistency of the scenarios developed by the MEF. To ensure the consistency of the comparison with the MEF forecasts, the projections of the PBO panel forecasters (including the PBO forecasts) were formulated on the basis of the same assumptions for the exogenous international variables used by the MEF (world trade, oil prices, exchange rates, interest rates).

The MEF forecasts generally fall within an acceptable range of assessments, constructed on the basis of the April forecasts of the PBO panel for the main variables subject to endorsement (Figure 1.4).

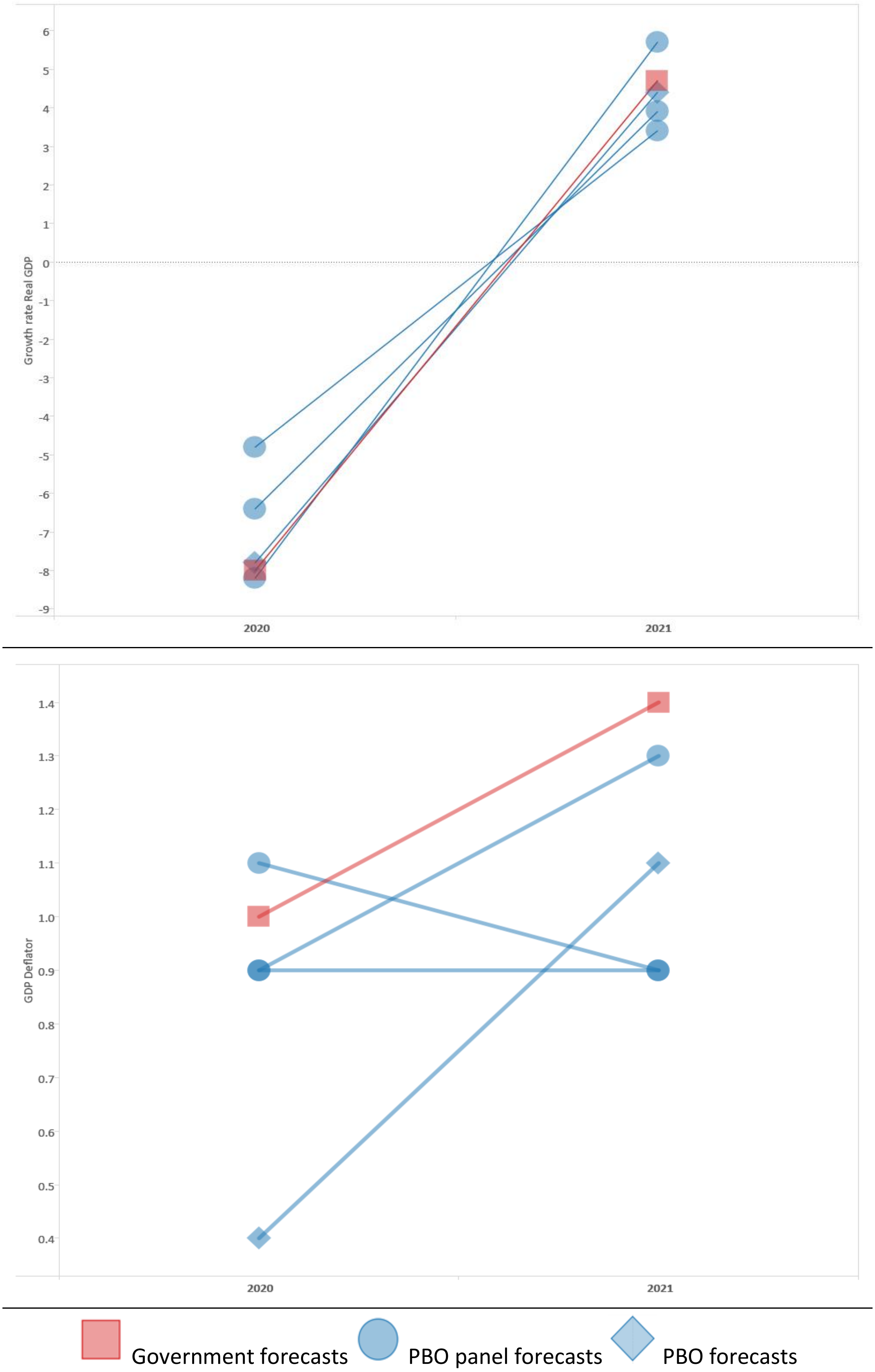
The EFD macroeconomic scenario was judged acceptable overall on the basis of the small number of divergences with respect to the main variables considered. However, the extraordinarily high degree of uncertainty surrounding the short-term outlook and the extreme variability of macroeconomic forecasts must be borne in mind, as the divergences between the panel forecasts are the largest ever recorded in the history of the PBO. The MEF forecasts for GDP growth fall within the range of the PBO panel estimates. In 2020-2021, the change in real GDP forecast by the MEF does not differ much from the forecast formulated by the PBO. However, a comparison with the projections of the other panel forecasters reveals a difference in the growth profiles in the two years (Figure 1.5).

In 2021, the GDP growth rate forecast by the MEF is lower than that indicated by a only one panel forecaster, the same one who forecasts a smaller change in GDP in 2020. In general, the larger the decrease associated with the shock, the greater the percentage change necessary to normalise the macroeconomic variables during the recovery. This temporal profile of expectations for next year is common to the various forecasters, as it reflects the trend towards convergence on the levels of activity prevailing prior to the health emergency. The forecasts of the PBO panel for GDP in 2020-2021 vary considerably, however: the gap between upper bound and lower bound is greater than three percentage points this year and two points next year.

In the MEF scenario, the development in household consumption expenditure appears to be consistent with the projections of the panel forecasters, although they differ considerably among one another. Compared with the PBO scenario, the decline in private

Figure 1.4 – The main variables in the Government's scenario and the PBO panel forecasts for 2020

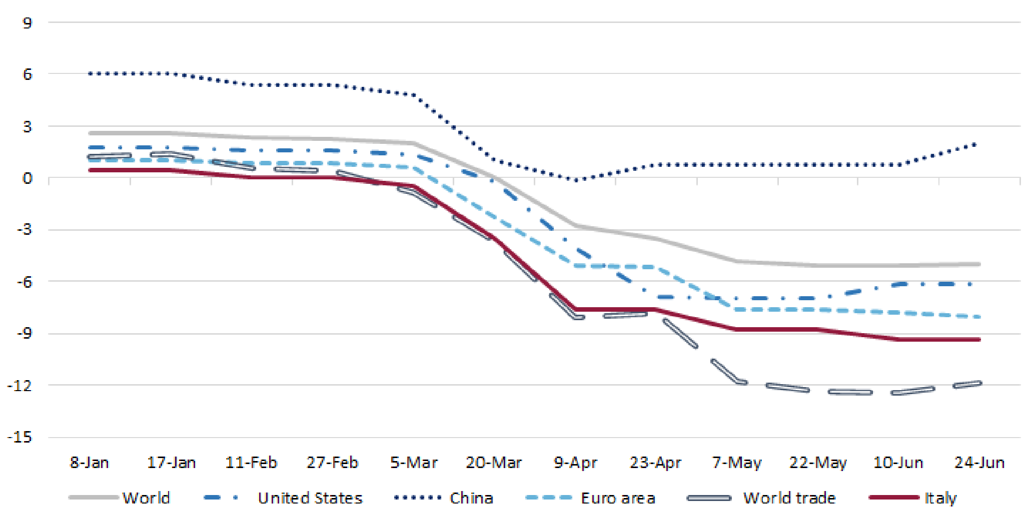
Figure 1.5 – Real GDP and GDP deflator, time profile of Government and the PBO panel forecasts



consumption spending is more pronounced this year, but increases next year at approximately twice the pace. Capital accumulation appears to have been assessed cautiously by the MEF in 2020-2021. With regard to foreign demand, the marked decrease in exports in the MEF macroeconomic scenario for 2020 significantly exceeds the decrease in international trade and that for Italy's key markets. However, the decline in imports this year is also quite large, with only one PBO panel forecaster projecting a steeper contraction. With regard to developments in nominal variables, the MEF macroeconomic scenario lies at the high end of the range of panel forecasts: the GDP deflator is on the upper bound of the range of forecasts this year and exceeds it in 2021 (by three-tenths of a point). However, despite the rapid increase of the deflator, given the forecasts for real GDP, the pace of nominal GDP growth in the EFD is in line with the panel's forecasts. In conclusion, the expectations of the MEF do not generally exceed the range of variation delineated in the exercise conducted by the PBO panel in April. However, the considerable variability of the projections reflects the very high uncertainty of the forecasters.

Since mid April, when the MEF macroeconomic scenario was finalised, the macroeconomic forecasts for 2020 continued to deteriorate for all the major countries, with the exception of China. As for Italy, the decline in expectations in March was followed by a further fall in April and a slight slowdown in more recent weeks (Figure 1.6). In light of this instability of expectations, Box 1.1 presents a medium-term macroeconomic scenario that – compared with the projections developed on the occasion of the endorsement exercise for the MEF forecasts – considers the deterioration in short-term forecasts and the expansionary effects of the Revival Decree. GDP is now expected to contract by nine percentage points this year, compared with just under eight points in mid-April.

Figure 1.6 – Oxford Economics forecasts for GDP and world trade in 2020
(percentage change)



Source: Oxford Economics.

Box 1.1 – An update of the medium-term scenario for the Italian economy

The macroeconomic forecasts of the MEF and the PBO panel were finalized in mid-April for the publication of the 2020 EFD. Since then, there have been significant developments both in the evolution of the epidemic and in short-term expectations, and in the economic policy response. The forecasts made at the time reflected short-term cyclical information on the initial months of this year and assumed that the epidemic would have substantially dissipated as early as May. The public finance variables reflected the measures adopted with Decree Law 18/2020 (the "Cure Italy Decree").

This box presents a scenario for the evolution of the Italian economy in 2020-2021 that modifies the macroeconomic forecast formulated by the PBO on the occasion of the endorsement of the macroeconomic scenario of the 2020 EFD[6] to take account of two factors. First, the scenario incorporates more recent information on the economic situation and the pandemic, and second it considers the impact of the "Revival Decree", as this was approved after the publication of the EFD. The assumptions for the international exogenous variables are the same as those used for the EFD, consistent with the procedure adopted during the endorsement exercises for the official forecasts. The medium-term macroeconomic forecast of the PBO, which also updates the international exogenous factors, will be published as usual in the PBO's next Report on Recent Economic Developments.

More specifically, the exercise takes account of the drop in GDP recorded in the first quarter (-5.3 per cent on the previous period), which generates a highly negative statistical carry-over effect for the current year (-5.5 percentage points). The PBOs short-term forecasting models estimate a further significant quarter-on-quarter contraction in GDP in the second quarter, equal to about ten percentage points, substantially in line with that already expected in April. The uncertainty about the normalisation of economic activity and spending behaviour means that the timing and strength of the recovery are also still uncertain, although it is now projected to be less robust than expected in April. The spread of the epidemic continues to decline, but has not yet been eradicated in the regions where industry is most highly concentrated.

Assumptions of the forecast. The update of the forecasting scenario is founded on the following assumptions: a gradual but definitive recovery of economic activity; the substantial control of the spread of the pandemic and the absence of a second wave of infections in the autumn and new restrictive measures, which would impact the expectations of households and businesses; the effectiveness of the economic policy measures introduced to combat the recession, the absence of financial strains on sovereign debt yields and the persistence of relaxed liquidity conditions. The assumptions concerning the international exogenous variables have been kept similar to those adopted in the 2020 EFD, for consistency with the macroeconomic scenario of the MEF (an update would involve a revision of foreign demand, as documented in section 1.1). The public finance scenario incorporates the effects of the main fiscal policy measures introduced in recent months to address with the health emergency and the recession, in addition to the deactivation of the safeguard clauses providing for increases in indirect taxes (VAT and excise duties) in 2021.

Summary. Based on these assumptions and the most recent economic developments, GDP is forecast to decrease by 9.0 per cent in unadjusted terms this year (Table B.1.1.1). In 2021, economic activity is expected to post a strong recovery, benefiting from the momentum that is expected to build in the second half of this year. However, the 6.8 per cent increase in GDP in 2021 would not return output to values close to those prior to the outbreak of the pandemic. The level of economic activity would be about three percentage points lower than that in 2019.

[6] See the hearing of the PBO on the 2020 Economic and Financial Document (Abstract only. Full text in Italian).

Table B1.1.1 – Forecasts for the Italian economy (1)

	2019	2020	2021
INTERNATIONAL EXOGENOUS VARIABLES			
World trade	1.7	-8.1	10.4
Oil price (Brent, dollars a barrel)	64.3	38.3	39.6
Dollar/euro exchange rate	1.12	1.09	1.09
ITALIAN ECONOMIC CONDITIONS			
GDP	0.3	-9.0	6.8
Imports of goods and services	-0.4	-4.7	6.5
Consumption of households and non-profit institutions serving households	0.4	-8.5	5.7
Investment	1.4	-12.4	7.9
Exports of goods and services	1.2	-7.6	9.0
Consumption deflator	0.5	-0.2	0.2
GDP deflator	0.9	0.4	0.3
Employment (FTE)	0.3	-8.0	5.1

(1) Percentage changes except for contributions to GDP growth (percentage points), the exchange rate and the oil price. Due to rounding of growth rates to the first decimal place, the sum of changes in quantities in volume terms and the associated deflators may not equal nominal changes.

Compared with the PBO macroeconomic scenario developed for the endorsement exercise involving the MEF forecasts, GDP growth for this year has been revised downwards by more than one percentage point. The forecasts for the consumption and GDP deflators are unchanged.

The forecasts presented in this Box are substantially consistent with the most recent growth projections for 2020 produced by other institutions. The PBO forecasts for 2021 appear slightly optimistic, however, but do not diverge from the average consensus forecasts. In making comparisons, however, it is necessary to take account of the sharp variability in the assumptions adopted by the forecasters for the international exogenous variables and the public finances.

Components of expenditure. The very sharp contraction in the Italian economy forecast for this year is largely attributable to the reduction in final domestic demand (net of inventories) which would subtract 7.1 percentage points from the change in GDP. The contribution of net foreign demand would be negative by just over one percentage point; the contribution of inventory adjustments would also be unfavourable. The recovery expected for 2021 would mainly be driven by domestic demand components (4.8 percentage points). The support from net exports would be 1 percentage point, equal to that from the change in inventories.

With regard to demand components, household expenditure is expected to contract dramatically (-8.5 per cent) this year, substantially in line with the contraction in GDP, reflecting the measures to suspend economic activity and restrict social interaction. The consumption of non-residents in Italy would be impacted by the shutdown of international tourist flows. The deterioration in household expectations is forecast to cause the postponement of some spending decisions even after the end of the lockdown. The measures introduced to support disposable income will mitigate the reduction in private consumption spending this year and are expected to help buoy their recovery next year (5.7 per cent).

The steep decline in capital accumulation in 2020 (-12.4 per cent) reflects the considerable uncertainty over demand conditions and expectations of a considerable decrease in turnover. Capital spending is projected to return to growth next year (8.4 per cent). The coronavirus shock is expected to cause a sharp contraction in expenditure on machinery and equipment in 2020, followed by a partial recovery next year, benefiting from the continuation of expansionary financial conditions and the improvement in international economic conditions. The construction industry is forecast to post a deeper reduction this year, which would also impact next year, when the recovery would be supported by the contribution of the public component.

Exports of goods and services this year are projected to decrease sharply (-7.6 per cent), virtually in step with the decline in foreign demand. The reduction in imports is expected to be smaller, as during the suspension of production demand temporarily turned towards foreign countries. The essential freeze on international tourism is forecast to impact the surplus on the tourism balance. In 2021 exports are projected to return to growth in line with the evolution of world trade. The dynamics of imports are also expected to normalise.

Labour market and inflation. The labour market is expected to be severely impacted by the effects of the severe recession following the pandemic. Employment inputs measured in terms of full-time equivalents (FTEs) are projected to decrease by 8.0 per cent this year, reflecting the substantial reduction in hours worked and a less pronounced drop in jobs, before recovering partially in 2021. In the initial months of the crisis, the extensive use of wage supplementation mechanisms significantly mitigated the adverse effects on employment measured in the Labour Force Survey, while these impacts were fully reflected in the input metrics of work (hours and FTEs).

Inflation, measured through the consumption deflator, is forecast to be slightly negative this year (-0.2 per cent), due to the dissipation of both exogenous pressures (the prices of energy commodities in euro) and internal drivers, due to the slowdown in unit labour costs and the contraction in consumption. Inflation is expected to increase moderately next year. The change in the GDP deflator is projected to outpace that in the consumption deflator in the forecast period. Nominal GDP, which has fallen sharply this year, will return to growth in 2021.

Effects of public finance measures. The variables for the public finances incorporate the measures adopted with Decree Law 18/2020 (the "Cura Italia Decree") and Decree Law 34/2020 (the "Rilancio Decree"). The Decree 18/2020 includes measures worth about 1.1 percentage points of GDP in 2020 to support the health system, social safety nets, support for firms, workers and professionals, and measures to support liquidity. These measures are expected to provide a stimulus of around half a percentage point of GDP. The expansionary effect would be felt in consumption (public and private) and, to a greater extent, investment. The Decree 34/2020 introduces measures worth around 3.3 points of GDP (in terms of general government net borrowing), which both strengthen and extend some of the measures contained in Decree Law 18/2020, and expand structural interventions. To a large extent, these regard transfers and tax relief measures, which offer generalised but mainly temporary support for disposable income. The expansionary effects of these measures on GDP this year are estimated at around 1.5 percentage points, with final domestic consumption and capital accumulation (in particular, capital goods) again benefitting. The joint effect of the two measures would therefore be to increase GDP growth by about two percentage points in 2020.

Risks threatening the forecast. The medium-term macroeconomic outlook for the Italian economy is clouded by unprecedented uncertainty. Overall, the risks are manifold and mainly on the down side, as discussed in section 1.5.

1.5 A number of risks threatening the forecast and alternative scenarios

The medium-term macroeconomic outlook for the Italian economy is clouded by unprecedented uncertainty. The risks are mainly on the downside and are attributable to health factors, global conditions and the possible rekindling of financial tensions.

Risk of a resurgence of the pandemic. The measures to suspend or reduce economic activity and limit social interaction have proved effective in stemming the spread of the COVID-19 pandemic. However, the reopening of economic activity must be managed with appropriate hygienic-sanitary controls at both the individual and company level in order to avoid the risk of a second wave of infections, a constant threat in the absence of an effective vaccine against the coronavirus. New outbreaks of the epidemic have recently been recorded in a number of Asian countries, while some analysts warn that the epidemic could resume in the final part of the year. Appropriate monitoring of the conditions and movements of people forced to move and interact with others, as they do jobs that cannot be performed remotely, will be crucial in preventing or mitigating the economic impact of new waves of contagion. If new restrictions on economic activities and individual movement become necessary in the coming quarters, this will have a significant impact on economic conditions and expectations, as well as on the structure of the economy.

Risk of a sharper deterioration in international conditions. The IMF forecasts delineate the worst global recession since the Great Depression for this year. The extent and duration of the shock at the global level, which is difficult to quantify at this stage, represent the main factors underlying the uncertainty of economic actors. Although the EFD already discounts a steep deterioration in international trade flows, it is not unlikely that the outcome could be worse. Downward strains in the oil market have also accentuated the risk of a strongly deflationary scenario that was not incorporated in the exogenous variables considered in the EFD. The pandemic could worsen in areas currently barely affected or flare up in countries that seemed to have already emerged from the emergency. Furthermore, the strong and synchronous global macroeconomic shock could accentuate economic and social fragility in various areas, making the current recession more acute and the recovery slower.

Risk of new financial tensions when fiscal and monetary stimuli are eased. Economic and monetary policies are countering this phase of the crisis, through the expansion of the balance sheets of governments and central banks. When the virus is controlled by vaccination and the world economy returns to stable growth, the high levels of debt accumulated will have to be normalised. Possible differences in the recovery cycles between European countries could affect the risk premia demanded by the financial markets for economies that are recovering more slowly. If this should involve Italy, whose stock of public debt has been increased even further by the emergency, tensions on the financial front could quickly interact with the spending decisions of households and businesses.

The significant and multiple risk factors discussed here prompt consideration of alternative macroeconomic scenarios to the baseline forecasts. In April, the PBO panel performed a downside risk assessment for the forecasts developed for the endorsement (see section 1.4) of the macroeconomic framework of the MEF. Two factors primarily emerged from the search for possible future adverse events not considered in the baseline forecasts: first, a more marked deterioration in international economic conditions and world trade and second, a more persistent impact of the epidemic on the Italian economy, with repercussions for the expectations of households and businesses.

With regard to international economic conditions, the contraction in world output for this year could be of exceptional intensity (between four and eight percentage points in the adverse scenarios of the most recent IMF *World Economic Outlook*), which is worse than that already considered in the assumptions of the EFD. In the assessments of the PBO panel, a contraction in international trade consistent with that scenario would be at least fifteen percentage points.[7] A similar reduction in international trade was recorded in 1921 (the year after the second wave of the Spanish flu pandemic).

For the Italian economy, the baseline forecasts of the PBO panel assume a gradual but definitive exit from the suspension of economic activity beginning in May. The panel assessments cannot rule out new outbreaks, if not a second wave of infections. Such instability in the exit path from the pandemic could require new restrictive measures, which would affect the expectations of households and businesses, especially those in a more vulnerable financial position. The result would be a persistent decline in the propensity to consume and invest, thus compromising spending decisions and plans. The lower propensity to consume would lead to a steeper decline in private consumption than that already factored into the baseline scenarios this year. There would also be economic policy implications, as the effectiveness of the fiscal stimulus measures would be attenuated by the increase in the savings rate. The expenditure multipliers of the public finances, in particular of transfers to households, would be smaller than those estimated on the basis of average historical data.[8]

The high uncertainty would also have a significant impact on firms' expectations. The effects could be varied, both between sectors and on a geographical basis. Despite the introduction of fiscal stimulus and liquidity support measures, a considerable number of business would be at risk of failure.

The forecasts developed by the panel incorporate these global and national factors on the basis of the specific assessments of the individual institutes making up the panel and the different quantitative tools they use. Overall, this year's decrease in GDP would be between almost ten and just under fifteen percentage points. In 2021, growth would

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7 See Federico-Tena World Trade Historical Database; Federico, G. and Tena-Junguito A., (2019) *World trade, 1800-1938: a new synthesis. Revista de Historia Económica-Journal of Iberian and Latin America Economic History*, Vol 37, no. 1. https://doi.org/10.1017/S0212610918000216.

8 See Guerrieri, V., Lorenzoni, G., Straub, L. and Werning, I., (2020) "*Macroeconomic Implications of COVID-19: Can Negative Supply Shocks Cause Demand Shortages?*", NBER WP N.26981.

resume, albeit at a relatively moderate pace that differs considerably among the forecasters. The percentage increase would be larger in scenarios in which the forecast recession estimated for this year is the most severe. Output next year would still be lower than in 2019, by about seven percentage points on average for the different panel scenarios.

2. THE PUBLIC FINANCES

The outbreak of the pandemic in Italy in February led to a health and economic emergency without precedent since at least the Second World War.

In order to deal with the crisis the Government asked Parliament twice in the span of just a few weeks, through the Reports provided for by Law 243/2012, for authorisation to deviate from the path of adjustment towards the previously approved medium-term objective. The first of these requests was presented even before April's EFD had been prepared, because of the urgent need to finance via deficit the initial measures to counter the effects of the economic crisis caused by the spread of the epidemic.

At the European level, the Council of the European Union, acting on a proposal of the European Commission, for the first time in the EU's history activated the general escape clause for 2020. This clause allows Member State to temporarily depart from the budgetary requirements starting from this year. The Commission then also introduced a streamlined format, again for this year, for the Member States' stability programmes.

Accordingly, in accordance with the Commission's guidelines, the content and the structure of Italy's EFD for this year are different from usual. Specifically, the EFD does not set out a policy scenario, but reports, in addition to the trend scenario, a public finance scenario "with new policies", which incorporates the overall effects of Decree Law 34/2020, presented to Parliament following the EFD and the approval of the second request for a further deviation.

As a result of these changes, the chapter on public finances in the PBO's Budgetary Planning Report for this year is structured differently from previous editions.

Section 2.1 sets out the final figures for 2019 and Section 2.2 describes the March 2020 Report to Parliament. The trend scenario in the 2020 EFD is explained in Section 2.3, while Section 2.4 illustrates the April Report to Parliament and the scenario with new policies in the 2020 EFD. Section 2.5 examines developments in the debt, while Section 2.6 analyses the financial effects of the decree laws enacted to counter the economic impact of the pandemic. They are followed by Section 2.7, offering general comments on the measures contained in the decrees, and finally Section 2.8 covers compliance with the fiscal rules.

2.1 The results for 2019

In 2019 general government net borrowing decreased compared with the previous year both in absolute terms (from €38.8 billion to €29.3 billion) and as a percentage of GDP (from 2.2 to 1.6 per cent), reflecting an increase in the primary surplus of €5.2 billion in absolute terms and from 1.5 to 1.7 per cent of GDP, and a reduction in interest expenditure of €4.3 billion in absolute terms and from 3.7 to 3.4 per cent of GDP.[9] The improvement in the primary surplus is due to an increase in revenue (from 46.3 to 47.1 per cent of GDP) which more than offset that in primary expenditure (from 44.9 to 45.3 per cent). The fiscal burden rose by five-tenths of a point to 42.4 per cent. The improvement in revenue reflected in particular: i) the marked increase in direct taxes (which grew from 14.1 to 14.4 per cent of GDP), largely due to the positive results of payments of self-assessed corporate income tax (IRES) and personal income tax (IRPEF) by taxpayers for which new tax compliance indicators (ISA) have been approved and the significant increase in the tax on financial income from assets under management (around €1.6 billion); ii) the rise in social contributions (from 13 to 13.3 per cent of GDP), which were positively affected by the fading away of the effects of a number of important measures suspending contributions for newly hired employees and by an expansion in wage bill exceeding that in nominal GDP; iii) the growth in other current revenue (from 4.3 to 4.5 per cent of GDP), to a large extent attributable to the increase in the Bank of Italy's profits – caused by the expansion in its balance sheet because of the Eurosystem's public sector purchase programme, i.e. quantitative easing (sections 2.5.1 and 4.1) – and in dividends distributed by *Cassa Depositi e Prestiti*. The increase in expenditure is attributable to developments in social benefits (which rose from 19.7 to 20.2 per cent of GDP) as a reflection of the impact of the measures concerning the "*Quota 100*" mechanism and the Citizenship Income and Citizenship Pension, and of public investment (from 2.1 to 2.3 per cent of GDP), especially that of local governments that were allowed to use surpluses accumulated in previous years.

[9] For more details, including information concerning the better than expected results, see Ufficio parlamentare di bilancio (2020), "Memorandum of the Chairman of the PBO, Giuseppe Pisauro, as part of the fact-finding enquiry prior to examination of the Report to Parliament prepared pursuant to Article 6, paragraph 5, of Law 243/2012 – joint meeting of the Budget Committees of the Chamber of Deputies and the Senate", 10 March (Abstract only. Full text in Italian).

2.2 *The March 2020 Report to Parliament*

The health emergency and the resulting impact on economic activity have affected developments in the public finances.

With the first Report to Parliament[10] on 5 March 2020, the Government, in light of the epidemiological emergency, requested authorisation for a deviation from the plan for returning the structural balance to the path of adjustment towards the medium-term objective (MTO) set out in the Report to Parliament of 30 September 2019, annexed to the Update to the 2019 EFD and approved by the two branches of Parliament on 9 and 11 October 2019, respectively. In the March Report, the Government stated that the emergency was an extraordinary event that had to be addressed with immediate and urgent action.

The Report to Parliament, provided for by Law 243/2012, is used by the Government to ask for parliamentary authorisation to update the previously approved public finance targets. Article 6(3) of Law 243/2012 establishes the requirements and procedure to be followed in the case of an unusual event, in accordance with Article 81 of the Constitution. If the Government, in consultation with the European Commission, determines that a temporary deviation from the policy objective is necessary to cope with an unusual event, it presents to Parliament a report in which it updates the public finance policy objectives and makes a specific request for authorisation that sets out the extent and duration of the deviation, indicates the purposes for which the resources to be made available will be used and defines the plan for returning to the path towards the policy objective, aligning the duration with the severity of the event. The plan is implemented starting the year after that for which the deviation is approved, taking account of developments in the economic cycle. The resolution with which each chamber authorises the deviation and approves the plan is adopted by an absolute majority by the respective bodies. Paragraph 5 provides that the plan can be updated in the manner just described upon the occurrence of further exceptional events or if, based on developments in the economic cycle, the Government decides to amend it.

The Government therefore requested an increase in net borrowing of the general government of €6.35 billion for 2020 only. The impact on the net balance to be financed of the State budget was around €7.5 billion. On 11 March, before Parliament voted, the Government amended the Report,[11] asking Parliament to authorise a deviation from the public finance objectives set out in the Update to the 2019 EFD, raising it to €20 billion in 2020 in terms of net borrowing. The amount of the net balance to be financed was around €25 billion. The Government viewed this increase as necessary given the measures that would have to be adopted in the coming days (in Decree Law 18/2020), to be financed in deficit, therefore notwithstanding the criteria specified in Article 81(3) of the Constitution regarding the financing of laws. Both chambers of Parliament approved the Report, along with its amendment, on 11 March 2020.

In the absence of the update to the macroeconomic and public finance policy scenario, the March Report, pending the preparation of the 2020 EFD, in addition to envisaging measures for

[10] http://www.senato.it/service/PDF/PDFServer/BGT/1145756.pdf

[11] https://senato.it/application/xmanager/projects/leg18/attachments/documento_evento_procedura_commissione/files/000/081/501/Integrazione_al_Parlamento_relazione_2020_definitiva.pdf

2020 only, set out the commitment to return to the path of convergence towards the medium-term objective, represented by the public finance policy scenario for the years 2021 and 2022 contained in the Update to the 2019 EFD, reducing the nominal deficit to -1.8 per cent of GDP in 2021 and to -1.4 per cent of GDP in 2022.

Following the Report, Decree Law 18/2020 was issued.

2.3 The trend scenario in the 2020 EFD

The forecasts on a current legislation basis contained in the EFD, limited to the two-year period 2020-21 and including the effects of Decree Law 18/2020 (the "Cure Italy Decree" ratified with Law 27/2020) and Decree Law 23/2020 (the "Liquidity Decree" ratified with Law 40/2020), show a rapid rise in the public deficit for this year and a subsequent decline, owing to the extraordinary nature of the measures taken to counter the impact of COVID-19 and the existence of the safeguard clauses for increases in VAT rates and excise duties on mineral oils.

The emergency has interrupted the downward trend in the deficit, which was much smaller in 2019 than the year before.

Unless further steps are taken under Decree Law 34/2020 (the "Revival Decree"), which are not included in the trend scenario, general government net borrowing will increase from 1.6 per cent of GDP last year to 7.1 per cent in 2020 and will fall to 4.2 per cent in 2021. Given that interest expenditure is expected to be 3.6 per cent of GDP during the two-year period, these developments reflect a substantial deterioration in the primary balance, one that will bring it into negative territory, specifically to -3.5 per cent of GDP this year and -0.6 per cent next year (Table 2.1). The debt/GDP ratio, after staying at the same level in 2019 that it was the year before, or 134.8 per cent, will rise to 151.8 per cent in 2020 and then decrease to 147.5 per cent in 2021.

It should be pointed out that in the Technical Report accompanying the 2020-2022 Budget Act net borrowing was estimated to be 2.2 per cent of GDP in 2019, remaining at the same level in 2020 and then falling to 1.7 per cent in 2021 and to 1.4 per cent in 2022 (Table 2.2a). In one of the hypothetical scenarios posited in the EFD in which the economy was not affected by the COVID-19 pandemic, it is estimated that the deficit for 2020 would have been no higher than 1.8 per cent of GDP, thanks to the carry-over impact of the favourable results recorded in 2019 and the good revenue performance in January and February of this year.[12]

Table 2.1 – Public finance indicators – Trend scenario (1)
(in percentage of GDP; plus sign = improvement in the balance)

	2018	2019	2020	2021
Trend net borrowing (a)	**-2.2**	**-1.6**	**-7.1**	**-4.2**
Primary balance (b)	1.5	1.7	-3.5	-0.6
Interest expenditure (c)	-3.7	-3.4	-3.6	-3.6
Trend one-off measures (d)	0.1	0.0	0.2	0.2
Cyclical component of budget balance (e)	0.2	0.3	-3.7	-1.4
Net borrowing adjusted for cycle (f=a-e)	-2.4	-1.9	-3.4	-2.8
Structural primary surplus (g)	1.2	1.4	0.0	0.6
Structural balance (h=f-d)	**-2.5**	**-1.9**	**-3.6**	**-3.0**
Change (h')	*-0.4*	*0.6*	*-1.7*	*0.6*
Public debt	**134.8**	**134.8**	**151.8**	**147.5**

Source: Based on 2020 EFD data.
(1) Totals may not match due to rounding of decimals.

[12] 2020 EFD, Section I, p. 12.

Table 2.2a – General government consolidated revenue and expenditure account: a comparison of trend forecasts
(millions of euros)

	Technical Report				2020 EFD			
	2018 (10/2019)	2019	2020	2021	2018 (4/2020)	2019	2020	2021
Compensation of employees	172,362	172,902	175,236	176,974	172,501	173,253	175,571	180,869
Intermediate consumption	146,681	146,967	150,064	151,508	147,298	148,221	154,056	152,943
Social benefits in cash	348,794	362,520	375,214	387,396	348,473	361,211	386,120	387,210
Pensions	*268,741*	*276,030*	*284,573*	*294,896*	*268,532*	*275,054*	*282,550*	*288,930*
Other social benefits	*80,053*	*86,490*	*90,641*	*92,500*	*79,941*	*86,157*	*103,570*	*98,280*
Other current expenditure	63,665	65,095	66,034	69,782	65,460	66,656	67,637	71,049
TOTAL CURRENT PRIMARY EXPENDITURE	**731,502**	**747,485**	**766,547**	**785,661**	**733,732**	**749,341**	**783,383**	**792,070**
Interest expenditure	64,662	61,316	59,210	57,542	64,621	60,305	60,628	63,470
TOTAL CURRENT EXPENDITURE	**796,164**	**808,801**	**825,757**	**843,203**	**798,353**	**809,646**	**844,011**	**855,541**
Gross fixed capital formation	37,602	40,496	40,492	47,083	37,790	40,494	41,580	46,238
Investment grants	13,597	13,869	13,516	14,251	13,868	14,189	18,409	14,462
Other capital expenditure	7,239	5,128	4,710	4,363	7,296	6,413	6,744	5,373
TOTAL CAPITAL EXPENDITURE	**58,438**	**59,493**	**58,718**	**65,697**	**58,954**	**61,096**	**66,733**	**66,073**
TOTAL PRIMARY EXPENDITURE	**789,940**	**806,979**	**825,266**	**851,358**	**792,686**	**810,437**	**850,116**	**858,143**
TOTAL EXPENDITURE	**854,602**	**868,293**	**884,475**	**908,900**	**857,307**	**870,742**	**910,743**	**921,613**
Total tax revenue	503,657	506,366	516,970	544,448	503,961	516,542	476,593	526,666
Direct taxes	*248,834*	*250,173*	*256,250*	*258,147*	*248,889*	*257,397*	*238,774*	*251,212*
Indirect taxes	*253,253*	*255,011*	*259,622*	*285,197*	*254,428*	*257,910*	*236,719*	*274,321*
Taxes on capital acct.	*1,570*	*1,182*	*1,098*	*1,104*	*1,573*	*1,235*	*1,100*	*1,133*
Social contributions	234,941	241,482	245,732	250,240	234,470	242,087	229,415	236,369
Actual social contributions	*230,810*	*237,249*	*241,407*	*245,831*	*230,397*	*237,751*	*225,085*	*231,965*
Imputed social contributions	*4,131*	*4,233*	*4,325*	*4,409*	*4,073*	*4,336*	*4,330*	*4,404*
Other current revenue	75,182	79,236	79,854	79,050	76,637	80,132	80,085	81,033
TOTAL CURRENT REVENUE	**812,210**	**825,902**	**841,457**	**872,634**	**814,424**	**837,526**	**784,993**	**842,935**
OTHER CAPITAL REVENUE	2,271	2,596	2,502	2,703	2,466	2,680	6,680	2,622
TOTAL REVENUE	**816,051**	**829,680**	**845,057**	**876,441**	**818,463**	**841,441**	**792,773**	**846,690**
Fiscal burden	*41.8*	*41.9*	*42.0*	*42.5*	*41.8*	*42.4*	*42.5*	*43.3*
NET PRIMARY BORROWING (-) / LENDING (+)	**26,111**	**22,703**	**19,791**	**25,086**	**25,777**	**31,004**	**-57,343**	**-11,453**
as a % of GDP	1.5	1.3	1.1	1.3	1.5	1.7	-3.5	-0.6
NET BORROWING (-) / LENDING (+)	**-38,551**	**-38,613**	**-39,418**	**-32,458**	**-38,844**	**-29,301**	**-117,971**	**-74,924**
as a % of GDP	-2.2	-2.2	-2.2	-1.7	-2.2	-1.6	-7.1	-4.2
Nominal GDP	*1,765,421*	*1,783,142*	*1,817,985*	*1,867,901*	*1,766,168*	*1,787,664*	*1,661,432*	*1,763,459*

Source: based on data from the Technical Report accompanying the 2020-2022 Budget Act (Table 3.2-5) and the 2020 EFD (Table II.2-1).

The sudden and profound change in the public accounts as a result of the pandemic can be partly understood by looking at the differences between the estimates in the EFD and those in the Technical Report, which did not incorporate the good performance of 2019 and therefore its carry-over effects in subsequent years. The drop in revenue forecast in the EFD compared with the Technical Report is equal to €52.3 billion in 2020 and €29.8 billion in 2021 and is concentrated among taxes and social contributions; expenditure is greater than in the Technical Report by €26.3 and €12.7 billion respectively, with upward revisions specifically in social benefits other than pensions and in intermediate consumption for both years, in capital expenditure in 2020 and in interest expenditure in 2021. Again for 2021, there is an upward revision of compensation of employees due mainly to differences in the allocation over time of the effects of contract renewals for public sector employees for 2019-2021.

According to the EFD trend scenario, overall revenue will decline by 5.8 per cent in 2020 compared with 2019 due to the recession, and primary expenditure will increase by 4.9 per cent, about half of which is attributable to the effects – albeit temporary – of Decree Law 18/2020 (Table 2.2c). In terms of GDP, primary expenditure is expected to rise from 45.3 to 51.2 per cent, mainly reflecting an increase in the current component, which is expected to rise from 41.9 to 47.2 per cent, and a smaller increase in capital expenditure from 3.4 to 4 per cent. Total revenue will increase from 47.1 to 47.7 per cent of GDP, basically due to developments in components other than taxes and social contributions. The fiscal burden should rise only slightly, from 42.4 to 42.5 per cent (Table 2.2b).

After the significant jump this year, in primary expenditure will register a small increase in 2021 in absolute terms (0.9 per cent) but will decrease in terms of GDP to 48.7 per cent, reflecting a decline in current primary expenditure to 44.9 per cent of GDP and in capital expenditure to 3.7 per cent. Revenue is expected to more than recoup the sharp drop this year, rising faster than GDP (6.8 per cent compared with 6.1 per cent) due to the safeguard clauses for increases in VAT rates and excise duties, reaching 48 per cent of GDP. The fiscal burden – which net of these clauses would fall – is expected to rise to 43.3 per cent.

More specifically, in 2020, all the individual items aggregated in the general government revenue account, with the exception of non-tax capital revenue, are expected to fall in absolute terms compared with 2019 due to the deterioration in macroeconomic conditions. Direct taxes (-7.2 per cent) will be affected by the deterioration in the main items, especially the self-assessment component, partly reflecting taxpayers' adoption of the forecast method for calculating the amount of payments on account. In the EFD, the estimates regarding tax collections in the State budget point to considerable reductions in IRPEF and IRES, of 4.5 and 14.5 per cent respectively.

As for indirect taxation (-8.2 per cent), the downward trend in VAT will largely depend on expectations of a sharp drop in household consumption, as will other taxes that are linked to developments in GDP. The EFD's estimates for the State budget show significant contractions in all the main components: 9.6 per cent for value-added tax, 5.8 per cent for taxes on mineral oils, 11.5 per cent for registration fees and stamp duties, and 7 per cent for taxes on the lotto and lotteries, which will be affected by the closure of gaming due to the quarantine. The component consisting of private sector IRAP is also expected to decline.

Social contributions are expected to drop less dramatically (-5.2 per cent), assuming that developments in the wage bill are less favourable than those in GDP. Other current revenue should remain at the same level as in 2019 in absolute terms, while non-tax capital revenue is expected to rise temporarily, by €4 billion (+149.3 per cent). According to the EFD, this is mainly due to greater resources from the European Regional Development Fund (ERDF) as a result of EU programmes for using structural funds to combat the coronavirus pandemic and relaunch the economy.

In 2021, the various revenue components will begin to grow again, mainly reflecting the features of the economic recovery expected next year. In particular, direct taxes are expected to rise by 5.2 per cent, indirect taxes by 15.9 per cent – taking account of the safeguard clauses – and social contributions by 3 per cent.

Table 2.2b – General government consolidated revenue and expenditure account: a comparison of trend forecasts
(percentage of GDP)

	Technical Report				2020 EFD			
	2018 (10/2019)	2019	2020	2021	2018 (4/2020)	2019	2020	2021
Compensation of employees	9.8	9.7	9.6	9.5	9.8	9.7	10.6	10.3
Intermediate consumption	8.3	8.2	8.3	8.1	8.3	8.3	9.3	8.7
Social benefits in cash	19.8	20.3	20.6	20.7	19.7	20.2	23.2	22.0
Pensions	*15.2*	*15.5*	*15.7*	*15.8*	*15.2*	*15.4*	*17.0*	*16.4*
Other social benefits	*4.5*	*4.9*	*5.0*	*5.0*	*4.5*	*4.8*	*6.2*	*5.6*
Other current expenditure	3.6	3.7	3.6	3.7	3.7	3.7	4.1	4.0
TOTAL CURRENT PRIMARY EXPENDITURE	**41.4**	**41.9**	**42.2**	**42.1**	**41.5**	**41.9**	**47.2**	**44.9**
Interest expenditure	3.7	3.4	3.3	3.1	3.7	3.4	3.6	3.6
TOTAL CURRENT EXPENDITURE	**45.1**	**45.4**	**45.4**	**45.1**	**45.2**	**45.3**	**50.8**	**48.5**
Gross fixed capital formation	2.1	2.3	2.2	2.5	2.1	2.3	2.5	2.6
Investment grants	0.8	0.8	0.7	0.8	0.8	0.8	1.1	0.8
Other capital expenditure	0.4	0.3	0.3	0.2	0.4	0.4	0.4	0.3
TOTAL CAPITAL EXPENDITURE	**3.3**	**3.3**	**3.2**	**3.5**	**3.3**	**3.4**	**4.0**	**3.7**
TOTAL PRIMARY EXPENDITURE	**44.7**	**45.3**	**45.4**	**45.6**	**44.9**	**45.3**	**51.2**	**48.7**
TOTAL EXPENDITURE	**48.4**	**48.7**	**48.7**	**48.7**	**48.5**	**48.7**	**54.8**	**52.3**
Total tax revenue	28.5	28.4	28.4	29.1	28.5	28.9	28.7	29.9
Direct taxes	*14.1*	*14.0*	*14.1*	*13.8*	*14.1*	*14.4*	*14.4*	*14.2*
Indirect taxes	*14.3*	*14.3*	*14.3*	*15.3*	*14.4*	*14.4*	*14.2*	*15.6*
Taxes on capital acct.	*0.1*	*0.1*	*0.06*	*0.06*	*0.1*	*0.1*	*0.1*	*0.1*
Social contributions	13.3	13.5	13.5	13.4	13.3	13.5	13.8	13.4
Actual social contributions	*13.1*	*13.3*	*13.3*	*13.2*	*13.0*	*13.3*	*13.5*	*13.2*
Imputed social contributions	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.2*	*0.3*	*0.2*
Other current revenue	4.3	4.4	4.4	4.2	4.3	4.5	4.8	4.6
TOTAL CURRENT REVENUE	**46.0**	**46.3**	**46.3**	**46.7**	**46.1**	**46.9**	**47.2**	**47.8**
OTHER CAPITAL REVENUE	0.1	0.1	0.1	0.1	0.1	0.1	0.4	0.1
TOTAL REVENUE	**46.2**	**46.5**	**46.5**	**46.9**	**46.3**	**47.1**	**47.7**	**48.0**
NET PRIMARY BORROWING (-) / LENDING (+)	**1.5**	**1.3**	**1.1**	**1.3**	**1.5**	**1.7**	**-3.5**	**-0.6**
NET BORROWING (-) / LENDING (+)	**-2.2**	**-2.2**	**-2.2**	**-1.7**	**-2.2**	**-1.6**	**-7.1**	**-4.2**
Nominal GDP	*1,765,421*	*1,783,142*	*1,817,985*	*1,867,901*	*1,766,168*	*1,787,664*	*1,661,432*	*1,763,459*

Source: based on data from the Technical Report to the 2020-2022 Budget Act (Table 3.2-5) and the 2020 EFD (Table II.2-1).

Table 2.2c – General government consolidated revenue and expenditure account: a comparison of trend forecasts
(growth rates)

	Technical Report			2020 EFD		
	2019	2020	2021	2019	2020	2021
Compensation of employees	0.3	1.3	1.0	0.4	1.3	3.0
Intermediate consumption	0.2	2.1	1.0	0.6	3.9	-0.7
Social benefits in cash	3.9	3.5	3.2	3.7	6.9	0.3
Pensions	*2.7*	*3.1*	*3.6*	*2.4*	*2.7*	*2.3*
Other social benefits	*8.0*	*4.8*	*2.1*	*7.8*	*20.2*	*-5.1*
Other current expenditure	2.2	1.4	5.7	1.8	1.5	5.0
TOTAL CURRENT PRIMARY EXPENDITURE	**2.2**	**2.6**	**2.5**	**2.1**	**4.5**	**1.1**
Interest expenditure	-5.2	-3.4	-2.8	-6.7	0.5	4.7
TOTAL CURRENT EXPENDITURE	**1.6**	**2.1**	**2.1**	**1.4**	**4.2**	**1.4**
Gross fixed capital formation	7.7	0.0	16.3	7.2	2.7	11.2
Investment grants	2.0	-2.5	5.4	2.3	29.7	-21.4
Other capital expenditure	-29.2	-8.2	-7.4	-12.1	5.2	-20.3
TOTAL CAPITAL EXPENDITURE	**1.8**	**-1.3**	**11.9**	**3.6**	**9.2**	**-1.0**
TOTAL PRIMARY EXPENDITURE	**2.2**	**2.3**	**3.2**	**2.2**	**4.9**	**0.9**
TOTAL EXPENDITURE	**1.6**	**1.9**	**2.8**	**1.6**	**4.6**	**1.2**
Total tax revenue	0.5	2.1	5.3	2.5	-7.7	10.5
Direct taxes	*0.5*	*2.4*	*0.7*	*3.4*	*-7.2*	*5.2*
Indirect taxes	*0.7*	*1.8*	*9.9*	*1.4*	*-8.2*	*15.9*
Taxes on capital acct.	*-24.7*	*-7.1*	*0.5*	*-21.5*	*-10.9*	*3.0*
Social contributions	2.8	1.8	1.8	3.2	-5.2	3.0
Actual social contributions	*2.8*	*1.8*	*1.8*	*3.2*	*-5.3*	*3.1*
Imputed social contributions	*2.5*	*2.2*	*1.9*	*6.5*	*-0.1*	*1.7*
Other current revenue	5.4	0.8	-1.0	4.6	-0.1	1.2
TOTAL CURRENT REVENUE	**1.7**	**1.9**	**3.7**	**2.8**	**-6.3**	**7.4**
OTHER CAPITAL REVENUE	**14.3**	**-3.6**	**8.0**	**8.7**	**149.3**	**-60.7**
TOTAL REVENUE	**1.7**	**1.9**	**3.7**	**2.8**	**-5.8**	**6.8**

Source: based on data from the Technical Report to the 2020-2022 Budget Act (Table 3.2-5) and the 2020 EFD (Table II.2-1).

As for expenditure, in 2020 all the main general government account items are expected to reflect the package of measures introduced with Decree Law 18/2020 to strengthen the healthcare system's ability to respond to the crisis and increase support for workers, households, and firms.[13]

Expenditure on compensation of employees is expected to rise by 1.3 per cent in 2020 and even more so in 2021 (3.0 per cent), essentially as a result of measures set out in Decree Law 18/2020 and contract renewals for public employees. As for the former, around €760 million has been allocated for 2020 mainly for temporary employment for the duration of the emergency and €250 million for overtime pay. The conclusion of the 2016-2018 collective bargaining cycle will also have an impact on this year as well, as will the signing of agreements for 2019-2021 for security-defence and public emergency services. The growth in 2021 is mainly based on the assumption that the collective

[13] For a detailed analysis of this decree, see Ufficio parlamentare di bilancio (2020), *Memorandum of the Chairman*, 26 March (Abstract only. Full text in Italian).

bargaining agreements for all the other sectors that are due for renewal for 2019-2021 will be concluded, including accrued arrears.

Intermediate consumption is expected to rise significantly in 2020 (3.9 per cent) before falling next year (-0.7 per cent), reflecting a rebound this year from the limited growth registered in 2019, in large part due to the health emergency and the effects of Decree Law 18/2020. The decree provides that, during the emergency only, fixed-term employment contracts can be offered to physicians enrolled in training courses for general practitioners and as well as offering further support for affiliated specialist outpatient services and for the purchase of healthcare services from accredited private providers, extended to non-accredited, but merely authorised providers. In addition, spending on pharmaceuticals, medical devices and compensation for the requisition in use of healthcare facilities and other goods from public or private providers. This expenditure component is also affected by the renewal of agreements for healthcare services affiliated with the National Health Service. Aside from the healthcare sector, some measures were directed at the operational management of the emergency, such as those regarding sanitization requirements.

Social benefits are expected to expand substantially in 2020 (6.9 per cent) and increase moderately the following year (0.3 per cent), reflecting in particular the dynamics of social benefits other than pensions. The increase in pension expenditure in 2020 (2.7 per cent) is expected to reflect, in particular, the *quota 100* obligations, which affects the entire year compared with 2019, when only part of the year was involved. The decoupling of the increase in life expectancy from old-age pension eligibility requirements will also take full effect in 2020, while it was only partially in effect in 2019. Spending will also be affected by the extension of the “women’s option”, whose impact will grow in subsequent years. The increase in 2021 (2.3 per cent) would reflect the rise in the number of new retirees and price indexing.

Other social benefits are expected to rise considerably (20.2 per cent), – followed by a decline in 2021 (-5.1 per cent). The rise is connected in large part to the expansion in the social safety net, including the measures set out in Decree Law 18/2020. The component associated with wage supplementation mechanisms, both in their existing form and in the new mechanism provided for by the decree, is expected to be quite large. Substantial resources, amounting to €3.3 billion, have been allocated to extending wage supplementation to categories not protected under existing legislation, as well as to benefits to be paid out of the solidarity funds, introducing “COVID-19” as a justification for activating the system. Among the income supplementation tools for affected workers, almost €3 billion will finance a one-off allowance of €600 for March for various categories of workers (professionals with VAT numbers and fixed-term contract workers enrolled in the special INPS pension funds, seasonal employees in the tourism sector and others). An “Income of Last Resort Fund” was created, with resources of €300 million for this year. Other social benefits will also be influenced by the effects, which will increase in 2021, of the measures set out in the 2020 Budget Act (including the extension of the “baby bonus” allowance, the increase in the childcare services allowance, the extension of the early retirement programme for hardship categories (*APE sociale*) and aid for the disabled and the non-self-sufficient) and in Decree Law 3/2020 as regards increasing and extending the benefit provided for in Decree Law 66/2014 (the "€80 bonus" tax credit was raised to €100).

The measures adopted by Decree Law 18/2020 could also have an effect on developments in capital expenditure, which is expected to rise significantly in 2020 (9.2 per cent), before decreasing the following year (-1.0 per cent). On the one hand, this reflects marked increases followed by decreases in both investment grants and other capital expenditure, while on the other it reflects a moderate increase in public investment in 2020 (2.7 per cent), followed by strong expansion in 2021 (11.2 per cent), estimated on the basis of significant allocations of resources made by various legislative measures adopted in the past. In particular, Decree Law 18/2020 appropriates €3.3 billion for the Central Guarantee Fund for SMEs, of which €1.4 billion (as subsequently reduced by Decree Law 23/2020[14]) has been earmarked to establish a special section to offset the losses incurred by lenders as a result of the moratorium on various forms of loans to micro-firms and SMEs. Another €500 million has been allocated to guarantee *Cassa Depositi e Prestiti*'s (CDP) exposure to banks and other creditors of firms that saw their turnover decrease as a result of the epidemic. Another important measure (with an impact of around €1 billion) allows financial and non-financial companies to transform deferred tax assets accrued as a result of the sale of non-performing loans into tax credits in order to facilitate the disposal of NPLs and reduce the tax burden for this year.

Finally, if we consider the adverse scenario set out in the EFD, with a sharper contraction in real GDP in 2020 (-10.6 per cent instead of -8.0 per cent) and slower growth in 2021 (+2.3 per cent instead of +4.7 per cent), then the deficit and debt levels under the trend scenario and well as those of the new policies described in Section 2.24 would increase. The public finance forecasts therefore appear to be exposed to high risk.

2.3.1 One-off measures

As usual, the EFD sets out a list of one-off measures, identified on the basis of the methodology defined by the European Commission. The effects of these measures, which correspond to provisions already incorporated in current legislation, are summarized in Table 2.3.

One-off measures do not include the extraordinary interventions undertaken to tackle the COVID-19 emergency, which are considered separately in connection with the exceptional events clause.

[14] For a detailed analysis of this decree, see Ufficio parlamentare di bilancio, *Memorandum of the Chairman of the PBO*, 30 April 2020.

Table 2.3 – One-off measures
(millions of euros)

	2017	2018	2019	2020	2021
Total one-off measures in absolute value (= a + b + c)	**-575**	**1,867**	**644**	**3,200**	**3,291**
Total one-off measures as a % of GDP	*0.0*	*0.1*	*0.0*	*0.2*	*0.2*
One-off revenue measures in absolute value (= a)	8,848	3,147	2,523	2,607	2,761
One-off revenue measures as a % of GDP	*0.5*	*0.2*	*0.1*	*0.1*	*0.1*
One-off expenditure measures net of real estate disposals (= b + c)	-9,423	-1,280	-1,879	593	530
One-off expenditure measures net of real estate disposals as a % of GDP	*-0.5*	*-0.1*	*-0.1*	*0.0*	*0.0*
a) Revenue, of which:	8,848	3,147	2,523	2,607	2,761
Sundry in lieu taxes	*1,070*	*1,360*	*1,867*	*1,664*	*942*
Adjustment of budget values to IAS	*250*	*308*	*221*	*220*	*220*
EU solidarity fund for Amatrice Earthquake	*1,167*	*0*	*0*	*0*	*0*
Resolution Fund for Banks	*1,526*	*0*	*0*	*0*	*0*
Repatriation of capital held abroad (voluntary disclosure)	*956*	*264*	*38*	*0*	*0*
Facilitated settlement of tax arrears, including extension to 2017 and readmission of rejected applications	*3,879*	*1,215*	*397*	*723*	*1,599*
b) Expenditure, of which:	-10,289	-2,200	-2,660	-1,174	-340
Natural disaster response	*-2,326*	*-1,900*	*-1,803*	*-1,174*	*-340*
Resolution Fund (4 banks)	*-1,000*	*0*	*0*	*0*	*0*
Measures to support MPS and Veneto banks	*-6,343*	*0*	*0*	*0*	*0*
Reclassification of Alitalia loan	*-600*	*-300*	*-400*	*0*	*0*
Reclassification of Carige loan			*-457*		
Dividend outlays	*-20*	*0*	*0*	*0*	*0*
c) Real estate disposals (decrease in expenditure)	866	920	781	1,767	870

Source: Based on data in Table II.2-3 of Section II of the 2020 EFD.

One-off measures as a per cent of trend net borrowing is nil for 2019 and moderately positive for 2020-21, at two-tenths of a percentage point per year. Compared with the forecasts contained in the Update to the 2019 EFD, net borrowing has been revised downward for 2019 (by €508 million) and upward for the next two years (by €346 and €666 million respectively).

The revision for 2019 is based largely on the inclusion among expenditure (thereby reducing the positive impact of the one-off measures on the balance) of the effect of a number of support measures for firms in distress, partially offset by a decrease in amounts disbursed for natural disasters compared with the amount forecast in the Update to the 2019 EFD.

Measures to support businesses in crisis include:

- a bridge loan of €400 million granted to Alitalia in 2019[15] prior to the sale of company assets and the consequent recovery of loans granted as part of the allocation of assets under special administration;
- recapitalisations of Carige and Banca Popolare di Bari.

[15] Pursuant to Decree Law 137/2019.

These items, initially classified as financial items (loans and subscription of shares) having effect only for the purposes of the net balance to be financed and of the borrowing requirement, were subsequently reclassified as transfers to support businesses in crisis, with effects on net borrowing. The relative impact is not however computed with respect to the structural balance, insofar as they are attributable to measures deemed one-off under EU rules,[16] since they are measures required to help sectors in crisis that have potential repercussions on the economic system (for example, risk of default in the banking system).

The upward revision for 2020-2021 seems to be mainly due to the increase in the taxes in lieu provided for in the 2020 Budget Act (including the extension of the tax on the revaluation of land and equity investments).

[16] European Commission (2015), *Report on Public Finances in EMU*, Part II, Chapter 3. For a summary of the methodological criteria, see the box on page 17 in Ufficio parlamentare di bilancio, "The 2016 Stability Act in the public finance policy scenario", Focus Paper no. 1, February 2016 (Abstract only. Full text in Italian).

2.4 *The April Report to Parliament and the scenario with new policies in the 2020 EFD*

With the persistence of the emergency sparked by the pandemic and the emergence of economic and social costs, in April the Government, in its new Report,[17] presented along with the 2020 EFD, asked Parliament for authorisation to further amend the plan for returning to the path of adjustment since the Government judged that it would be necessary to adopt additional measures, not just for 2020, but for the years thereafter as well. In fact, according to the April Report, the repercussions for the social safety nets and the productive fabric of the nation, in the absence of suitable economic policy and fiscal actions, could extend beyond the current year. The Government therefore observed that the measures taken up to that point did not constitute the entire strategy for combatting the spread of the epidemic and for supporting and reviving the economy, and announced that there would be a new decree, Decree Law 34/2020 of 19 May 2020, which would also be deficit financed. The Report mentioned the European Council's activation of the general escape clause for this year.[18] The Report was approved by the Chamber of Deputies on 29 April and by the Senate on 30 April.

The Government, with the April Report, asked for authorisation to engage in additional borrowing: €55 billion in 2020, €24.85 billion in 2021, €32.75 billion in 2022, €33.05 billion in 2023, €33.15 billion in 2024, €33.25 billion from 2025 to 2031 and €29.2 billion from 2032 onward. The costs of servicing the debt deriving from the effects of the decree law to be subsequently adopted are indicated separately. Therefore, it is necessary to add: €0.33 billion in 2020 and €1.45 billion in 2021, €2.15 billion in 2022, €2.95 billion in 2023, €3.85 billion in 2024, €4.75 billion in 2025, €5.35 billion in 2026, €5.6 billion in 2027, €5.85 billion in 2028, €6.05 billion in 2029, €6.2 billion in 2030 and €6.4 billion from 2031 onward.

Accordingly, given also that the purpose of the parliamentary authorisation is to obtain the total deviation of net borrowing with respect to how it previously stood, Table 2.4 shows the total amounts of the deviation requested.

Table 2.4 – Request for authorisation in terms of nominal net borrowing per year *(billions of euros)*

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
Deviation caused by measures in upcoming decree law	55.00	24.85	32.75	33.05	33.15	33.25	33.25	33.25	33.25	33.25	33.25	33.25	29.20
Interest payments connected with upcoming decree law	0.33	1.45	2.15	2.95	3.85	4.75	5.35	5.60	5.85	6.05	6.20	6.40	6.40
Total deviation	**55.33**	**26.30**	**34.90**	**36.00**	**37.00**	**38.00**	**38.60**	**38.85**	**39.10**	**39.30**	**39.45**	**39.65**	**35.60**

Source: Report to Parliament, April 2020.

[17] http://www.dt.mef.gov.it/modules/documenti_it/analisi_progammazione/documenti_programmatici/def_2020/Relazione_al_Parlamento.pdf

[18] See Section 4.2.1 for a more detailed discussion of the general escape clause.

The Report indicates that the effect on the general government borrowing requirement will be €65 billion in 2020, €25 billion in 2021 and equal to the effect on net borrowing in each of the years thereafter. The effects of the decree on the net balance to be financed in the State budget, on an accruals and on a cash basis, amount to €155 billion in 2020, €25 billion in 2021 and equal to those indicated in terms of general government net borrowing in each of the subsequent years (for an assessment of the differing effects on the balances, see Section 2.6). Just as for net borrowing, the interest payments arising from the decree's financial impact must be added to these balances as well.

As already stated for the macroeconomic forecasts, the EFD does not set out a policy scenario, but instead provides information on a public finance scenario with new policies that incorporates the overall effects of Decree Law 34/2020, presented to Parliament after the EFD.

First of all, this decree strengthens and extends the time period for the measures contained in Decree Law 18/2020 and also expands the range of action and envisages the deactivation of the safeguard clauses for VAT and excise duties starting in 2021.

The financial impact of Decree Law 34/2020 is expected to cause general government net borrowing to rise from 7.1 per cent under current legislation to 10.4 per cent of GDP in 2020 and from 4.2 to 5.7 per cent in 2021. The public debt is expected to rise from 151.8 per cent under the trend scenario to 155.7 per cent of GDP this year and from 147.5 to 152.7 per cent next year[19] (Table 2.5).

The EFD reports net borrowing with the new policies as a ratio to GDP under the trend scenario, which in 2021 however incorporates the revenue increases envisaged by the safeguard clauses under current legislation. The EFD emphasizes that the uses of trend-GDP means that it used a prudential valuation for the general government deficit and debt as a ratio of GDP for 2021, since the deactivation of the increases in indirect taxes is expected to have an expansionary impact on GDP.[20]

Table 2.5 – Public finance indicators – Scenario with new policies (1)
(percentage of GDP; plus sign = improvement in the balance)

	2018	2019	2020	2021
Net borrowing	**-2.2**	**-1.6**	**-10.4**	**-5.7**
Primary balance	1.5	1.7	-6.8	-2.0
Interest	-3.7	-3.4	-3.7	-3.7
Public debt	**134.8**	**134.8**	**155.7**	**152.7**

Source: 2020 EFD.
(1) Totals may not match due to rounding of decimals.

[19] No information is provided in the Report and in the EFD on the structural balances corresponding to the new levels of nominal net borrowing. In the 2020 EFD the structural balances relating to the trend scenario are shown, but not those for the scenario with new policies.

[20] More precisely, in Section 1, page 16 of the 2020 EFD, it states that "the repeal of indirect tax increases will reduce the expected increase in the GDP deflator, but will also result in more real growth. According to the estimates from the ITEM model, the higher real growth is expected to substantially offset the lower inflation expected".

The deterioration of €26.1 billion in 2021 in comparison with the trend scenario incorporates €19.8 billion due to the repeal of the increases in VAT and excise duties. It also includes other measures in addition to the clauses that increase the deficit by around €6 billion.

After the 2020 Budget Act, the then-existing safeguard clauses envisaged an increase in fuel excise duties starting in 2021, an increase in the reduced VAT rate from 10 per cent to 12 per cent in 2021 and an increase in the normal VAT rate from 22 per cent to 25 per cent in 2021 and then to 26.5 per cent in 2022 (Table 2.6, setting out the quantifications made in the Technical Report for the 2020 Budget Act). The €19.8 billion mentioned above represent a different estimate, likewise updated, from the €20.1 billion measured at the time the 2020 Budget Act was prepared.

The Report describes the reasons for the decision to repeal the safeguard clauses. The deactivation: i) contributes, especially in this phase, to providing elements of certainty to firms and the public to enable them to plan their activities and investments in a context already made uncertain and mutable by the current emergency; ii) improves the transparency of the public finance forecasts; iii) furnishes credibility to the finance forecast; iv) makes the forecasts easier to compare with those of the European Commission, which never took the clauses into consideration in its "unchanged policies" forecasts and therefore, in the benchmarks used to assess the Stability Programme; and v) it is already included in the assessments and expectations of financial market operators and the main rating agencies.

The decision seems to be in line with the observations made on more than one occasion by the Parliamentary Budget Office, during parliamentary hearings and in various published documents.

Given the customary practice – in each budget session – of deactivating the clauses in the first planning year in favour of deficit spending, an approach that does not incorporate higher future revenue appears to be more transparent and credible than a scenario which includes them but is accompanied by a political pledge to repeal them. To reinforce these observations on transparency, it should be stressed that the impact of the repeal of the clauses on the public finance balances does not correspond to headroom created for new policies, but rather reflects the dynamics of policies adopted in the past.

Table 2.6 – Safeguard clauses active after the 2020 Budget Act
(millions of euros)

	2021	2022
Increase in VAT rate from 10% to 12% from 2021	5,793	5,793
Increase in VAT rate from 22% to 25% in 2021	13,110	
Increase in VAT rate from 22% to 26,5% from 2022		19,665
Increase in fuel excise duties from 2021	1,221	1,683
Total revenue increase	**20,124**	**27,141**
Total revenue increase (as a % of GDP in 2020 EFD)	*1.2*	*1.5*

Source: based on data in the text of 2020 Budget 2002 and in the accompanying Technical Report.

Once this exceptional emergency period comes to an end, Italian fiscal policy will have to deal with public accounts weighed down by various extraordinary measures and the collapse in revenue due to the economic crisis, in a future scenario that is no longer shielded by the presence of the clauses. Budgetary action in this worse, but more transparent, scenario – compared with the legacy of past policies – should lead to the selection of priorities to ensure the gradual return to a primary surplus that makes it possible to reduce the debt over time, albeit in an environment of economic stabilisation.

The 2020 EFD states that the Government will develop new macroeconomic forecasts when the most acute emergency phase is over in the light of the final version of the new crisis policies, the global evolution of the pandemic, the strategy adopted for reopening productive sectors and the economic data that will become available in the meantime.

While confirming its commitment to once again pursuing a path of convergence towards the MTO, the Government states that it will continue to support the country for as long as it take and with all the tools necessary, including programmes at the European level to support and revive the economy. The Report asserts that the high level of uncertainty as to the duration of the pandemic and the subsequent economic recovery makes it impossible to set out in detail the medium and long-term strategy for buttressing the public finances. Therefore, the Government is committed to reducing the debt/GDP ratio to bring it closer to the euro-area average over the next decade through a strategy of repayment based on an adequate primary surplus, and on stimulating public and private investment, in part by streamlining administrative procedures.

2.5 Debt developments

In 2019 the debt/GDP ratio was stable at 134.8 per cent, lower than the 135.7 per cent forecast in the 2020 DBP (Table 2.7) thanks to lower borrowing and to greater nominal GDP growth than forecast last autumn. The increase in the stock of debt of €28.9 billion over 2018 is the result of a general government borrowing requirement of €35.5 billion, offset in part by the reduction in the Treasury's liquidity holdings of €2.2 billion (0.1 percentage points of GDP) and by the overall containment effect on debt in the amount of €4.4 billion due to issue – and redemptions – spreads and premiums, to the revaluation of inflation-indexed securities, and to changes in exchange rates.

According to the trend scenario in the EFD, the debt/GDP ratio is expected to increase by 17 percentage points in 2020 compared with the prior year, reaching a peak of 151.8 per cent and then falling by more than 4 percentage points next year, to 147.5 per cent, pointing to an increase of almost 13 percentage points during the two-year forecast period (Table 2.7). However, this scenario does not take account of the effect of the Revival Decree approved in May, which, in addition to setting out measures to combat COVID-19 for 2020, repealed the increase in VAT rates and excise duties envisaged under current legislation for 2020 and subsequent years.

Under the trend scenario, it is estimated that for this year the primary deficit will be equal to 3.5 per cent of GDP, thereby contributing this amount to the increase in debt. The impact of the so-called snowball effect, linked to the difference between the interest expenditure and the contribution of nominal GDP, is expected to result in a marked increase in debt of 13.9 percentage points, of which more than 10 points attributable to the fall in nominal GDP and 3.6 points to interest.

Table 2.7 – Determinants of the change under the trend scenario in the debt/GDP ratio (1)
(percentage of GDP and rate of change)

	2018	2019	2020	2021
Debt/GDP ratio	134.8	134.8	151.8	147.5
Change in debt/GDP ratio	0.7	-0.0	17.0	-4.3
Primary surplus (accruals basis)	**-1.5**	**-1.7**	**3.5**	**0.6**
Snow-ball **effect (2), of which:**	**1.4**	**1.8**	**13.9**	**-5.2**
Interest expenditure/nominal GDP	*3.7*	*3.4*	*3.6*	*3.6*
Contribution of growth in nominal GDP	*-2.2*	*-1.6*	*10.2*	*-8.8*
memo: average cost of debt	*2.8*	*2.5*	*2.5*	*2.5*
Stock-flow adjustments	**0.7**	**0.0**	**-0.3**	**0.3**
Change in MEF liquidity	*0.3*	*-0.1*	*-0.8*	*0.4*
Other	*0.4*	*0.1*	*0.5*	*-0.1*

Source: based on 2020 EFD data.
(1) Totals may not match due to rounding of decimals – (2) The snowball effect is calculated as the sum of the ratio of interest expenditure to nominal GDP and the contribution of nominal GDP growth, given by $(d_{t-1}/PIL_{t-1})*(-g_t/(1+g_t))$, where d_{t-1} is the debt at time t-1, and g_t is the nominal growth rate of GDP at time t.

In 2021, the snowball effect is expected to contribute more than 5 percentage points to the reduction in debt, thanks to the strong recovery in economic growth given stable interest expenditure, in part offset by the unfavourable impact of the primary deficit estimated at 0.6 per cent of GDP. The stock-flow adjustment has a favourable impact of 0.3 percentage points of GDP in 2020 and an unfavourable one of the same amount next year, thereby having no net effect over the two-year period. More specifically, the estimates in the EFD assume a decrease in the MEF's liquidity holdings of 0.8 per cent of GDP in 2020 and an increase of 0.4 per cent of GDP in 2021.

According to the scenario with new policies set out in the EFD, which takes account of the financial impact of the Revival Decree approved the following month, containing urgent measures to relaunch the economy,[21] this year the debt/GDP ratio is expected to rise to 155.7 per cent of GDP,[22] almost 21 percentage points higher than in 2019, while in 2021 it is expected to decline to 152.7 per cent (Table 2.8). Breaking down these developments into their various components, we find that the primary deficit provides an unfavourable contribution to the two-year forecast, totalling 8.8 percentage points of GDP (Table 2.8), while the unfavourable snowball effect is expected to be equal to 8.6 percentage points. The stock-flow adjustment will also have an unfavourable impact during the two years of 0.2 per cent of GDP in 2020 and 0.3 per cent in 2021. It should be noted that, as mentioned above, in 2020 the change in the MEF's liquidity stocks is estimated at 0.8 percentage points; therefore, excluding this change, the stock-flow adjustment is expected to increase the debt by a considerable 1 percentage point of GDP. This is due in part to some of the measures in the Revival Decree, which, according to the related Technical Report, have an impact on the borrowing requirement but not on net borrowing (such as the payment of general government accounts payable and the establishment of the SME Fund, see Section 2.6).

Table 2.8 – Determinants of the change with new policies in the debt/GDP ratio (1)
(percentage of GDP and rate of change)

	2018	2019	2020	2021
Debt/GDP ratio	134.8	134.8	155.7	152.7
Change in debt/GDP ratio	0.7	-0.0	20.9	-3.0
Primary surplus (accruals basis)	**-1.5**	**-1.7**	**6.8**	**2.0**
***Snow-ball* effect (2), of which:**	**1.4**	**1.8**	**13.9**	**-5.3**
Interest expenditure/nominal GDP	*3.7*	*3.4*	*3.7*	*3.7*
Contribution of growth in nominal GDP	*-2.2*	*-1.6*	*10.2*	*-9.0*
memo: average cost of debt	*2.8*	*2.5*	*2.5*	*2.5*
Stock-flow adjustments	**0.7**	**0.0**	**0.2**	**0.3**
Change in MEF liquidity	*0.3*	*-0.1*	*-0.8*	*0.4*
Other	*0.4*	*0.1*	*1.0*	*-0.1*

Source: based on 2020 EFD data.
(1) Totals may not match due to rounding of decimals – (2) The snowball effect is calculated as the sum of the ratio of interest expenditure to nominal GDP and the contribution of nominal GDP growth, given by (dt-1/PILt-1)*(-gt/(1+gt)), where dt-1 is the debt at time t-1, and gt is the nominal growth rate of GDP at time t.

[21] See Section 2.6.

[22] It should be noted, however, that in the 2020 EFD the change in the debt/GDP ratio with new policies is measured using the GDP under the trend scenario.

The EFD indicates that in the years after 2020-2021 the debt/GDP ratio will move back toward the euro-area average over the next ten years, through a strategy of returning to the path of adjustment based on attaining a primary surplus while reviving public and private investment.[23]

As for debt issuance carried out this year, the MEF raised about €290 billion on the market through mid-June, of which €70 billion in May alone. Despite the tensions on financial markets registered since the end of February, bond placements in recent months have generated a good deal of demand from investors, albeit with higher yields, especially in March and April compared with the start of the year.

The placement of Italian 5-year government bonds (BTPs) in May raised over €22 billion, of which €14 billion from retail investors. During the placement of the new 10-year BTPs on 3 June, €14 billion in bonds were issued through a syndicate, with demand amounting to around €108 billion. In order to allow greater participation by retail investors, given a scenario of higher funding needs, a new instrument will be introduced, the BTP Futura, specifically targeted at retail investors. The new bond will have a 10-year maturity, with a coupon that will increase over time and a loyalty premium indexed to the annual growth in GDP.

The following sub-section estimates the possible impact of the ECB's asset purchase programme on the market for Italian government securities: starting with the construction of a number of scenarios involving the possible size of Eurosystem purchases of Italian government securities, the amount of net flows of securities that must be absorbed by private investors is estimate. From the start of the year until the end of May, the Eurosystem bought a total of €309 billion in public securities[24] under the Asset Purchase Programme (APP) and the Pandemic Emergency Purchase Programme (PEPP), of which about €70 billion are Italian government securities.

2.5.1 Impact of the Eurosystem's asset purchase programme on the Italian government securities market

Based on a number of assumptions, the impact of the ECB's public securities purchase programmes (APP and PEPP) on the market for Italian government securities can be estimate. In 2020 gross issues of government securities are expected to total €552 billion, covering a borrowing requirement estimated at €191 billion[25] and maturing securities of an estimated €374 billion, net of the use of the Treasury's liquidity account in the amount of around €13 billion, as forecast in the EFD (Table 2.9).

[23] See Section 2.6.

[24] They also include government securities issued by euro-area countries, equal to €282 billion (91 per cent), and securities issued by international and supranational institutions, equal to €27 billion (9 per cent).

[25] This number takes into consideration the public finance trends and deviations requested through the Report to Parliament.

Table 2.9 – Gross issues of Italian government securities net of the Eurosystem's asset purchase programmes

	2020	
	Baseline scenario	Alternative scenario
State sector borrowing requirement (a)	191	191
Redemptions of government securities (b)	374	374
Change in Treasury liquidity account (c)	-13	-13
Gross issues of government securities (d) = (a) + (b) + (c)	**552**	**552**
APP and PEPP purchases of government securities (e)	162	190
APP and PEPP reinvestment of maturing government securities (f)	37	37
APP and PEPP gross purchases of government securities (g) = (e) + (f)	**199**	**228**
Gross issues of government securities net of APP and PEPP (h) = (d) - (g)	**353**	**324**

Source: based on data from the 2020 EFD, ECB, Bank of Italy, and MEF.

Total maturing securities includes those with maturities of less than 6 months issued and maturing within the same year. To calculate the debt maturing for the purposes of their gross financing needs benchmark, the International Monetary Fund and the European Commission assume that all the short-term debt maturing during the year is rolled over just once in the same year. In general, therefore, the total amount of securities maturing is less than the PBO's estimate.

This year it is estimated that total Eurosystem asset purchases will amount to around €1,360 billion, of which €360 billion under the APP and €1,000 billion under the PEPP, assuming that such purchases under that programme continue at the pace observed from March to May, namely around €26 billion per week.[26]

Under the baseline scenario, it is assumed that on average 70 per cent of the asset purchase programmes is to be used for public securities issued by euro-area countries, based on the data published by the ECB for purchases made since the start of the COVID-19 emergency (between March and May). The portion of the total to be used for Italian government securities is estimated using the ECB's capital key for Italy, equal to 17 per cent. The capital key is also used to estimate reinvestments at maturity by applying it to the aggregate data published by the ECB for total maturities of public securities under the APP, which is added to an estimate of the reinvestment at maturity under the PEPP.

With these assumptions, the ECB's purchases of Italian government securities are estimated at around €199 billion (of which €37 billion for the reinvestment of principal payments from maturing securities), or 36 per cent of the total gross issues planned by the Treasury. Under this scenario, gross issues of public securities net of ECB purchases on the secondary market are estimated at €353 billion. For comparison purposes, it is estimated that in 2019 gross issues net of ECB purchases on the secondary market were greater, at €384 billion. This suggests that, thanks to the reinforcement of the asset

[26] See section 4.1.2 *Purchases of financial assets* for a full description of the ECB's asset purchase programmes.

purchase programmes by the ECB, the total amount of government securities that the private sector would have to absorb this year is less than it was last year.

In 2019, gross issues amounted to €414 billion, while it is estimated that the Eurosystem purchased around €30 billion (of which an estimated €28 billion for reinvestment of the principal of maturing securities). Therefore, it is estimated that gross issues net of Eurosystem purchases on the secondary market may have amounted to €384 billion.

The estimate of net issues of government securities net of Eurosystem purchases on the secondary market is positive at around €26 billion (Table 2.10). This amount corresponds to the net amount that private investors would have to absorb during the year. The calculation also takes account of the ECB's non-renewal at maturity of securities under the Securities Markets Programme (SMP), i.e. the ECB's first public securities market intervention programme for maintaining financial stability in the euro area. Again, in comparison with a year earlier, it is estimated that net issues net of ECB purchases on the secondary market were about €58 million greater in 2019. This means that, again thanks to the reinforcement of the ECB's purchase programme, the additional flow of government securities that the private sector will have to absorb this year is less than that of last year.

Net issues of government securities net of Eurosystem purchases in 2019 is estimated at €58 billion. They are calculated as the algebraic sum of net issues of government securities equal to €46 billion, plus redemptions under the SMP equal to €13 billion net of €2 billion for net purchases by the Bank of Italy.[27]

Under the alternative scenario, we consider a situation in which cumulative purchases of Italian government securities remain in deviation from the capital key and are equal to 20 per cent of total government securities purchases for the year[28] (during the period from March to May, the share of Italian securities was on average equal to 29 per cent under the APP and 22 per cent under the PEPP). In this case, the total amount of purchases would rise to €228 billion (about €29 billion higher than under the previous scenario), or

Table 2.10 – Net issues of Italian government securities net of the Eurosystem's asset purchase programmes

	2020	
	Baseline scenario	Alternative scenario
State sector borrowing requirement (a)	191	191
Change in Treasury liquidity account (b)	-13	-13
Net issues of government securities (c) = (a) + (b)	**178**	**178**
APP and PEPP purchases of government securities (d)	162	190
Maturing SNP government securities (e)	-10	-10
Net issues of government securities net of APP and PEPP and maturing SMP securities (f) = (c) - (d) - (e)	**26**	**-2**

Source: based on data from the 2020 EFD, ECB, Bank of Italy, and MEF.

[27] See Bank of Italy, The Public Finances: Borrowing Requirement and Debt, Table 5, 15 June 2020.
[28] It is assumed that the purchases of securities of other jurisdictions will be carried out over a flexible period of time, respecting the shares of the individual countries in the ECB's capital at the end of the programme in the years after 2020.

41 per cent of total gross Treasury issues. Under this scenario, gross issues net of ECB purchases on the secondary market are projected to be €324 billion (Table 2.9). Net issues net of ECB purchases would be a negative €2 billion (Table 2.10). It should be noted that, under this scenario and the baseline projection, the share of government securities held by the private sector decreases at the end of the year.

In a counterfactual exercise that simulates the public finance scenario for 2020 in the absence of the economic and financial effects of the COVID-19 pandemic as well as the reinforcement of the ECB's asset purchases, we estimate that the amount of gross issues net of ECB purchases on the secondary market would be equal to €337 billion, while net issues net of ECB purchases would be €19 billion.

These estimates were the result of the following assumptions: gross issues to cover the borrowing requirement in one scenario in the absence of the COVID emergency, estimated at €45 billion, and for the renewal of maturing securities for €363 billion would be equal to €406 billion, net of the use of the Treasury's liquidity account in the amount of around €2 billion as previously assumed in the Update to the 2019 EFD. Furthermore, it is estimated that on the basis of the APP alone the ECB's gross purchases would amount to €69 billion, of which €34 billion for reinvestment at maturity.

2.6 The financial effects of the decree laws enacted to counter the economic and financial impact of COVID-19

Since the start of March, the Government has enacted various economic measures to address the COVID-19 emergency. Specifically, Decree Law 18/2020 ("Cure Italy", subsequently ratified with few amendments with Law 27/2020) and Decree Law 34/2020 ("Revival", currently being ratified) have a very large impact on the public finance balances, while Decree Law 23/2020 ("Liquidity", ratified with Law 40/2020), although having little effect on the general government accounts, introduced important measures in support of firms' financial positions, activating additional guarantee mechanisms and introducing organisational changes.

Overall, these measures will cause general government net borrowing to deteriorate by 4.5 per cent of GDP in 2020 and 1.5 per cent in 2021, in line with the provisions of the EFD presented to Parliament in April (Table 2.11).

Table 2.11 – Decree Law 18/2020 (ratified with Law 27/2020), Decree Law 23/2020 (ratified with Law 40/2020) and Decree Law 34/2020: financial impact on the general government accounts for 2020-22 (1)
(millions of euros and percentage of GDP)

	2020	2021	2022
USES	**77,848.2**	**31,290.5**	**36,238.2**
As a % of GDP	*4.7*	*1.8*	*n.a.*
Uses net of deactivation of safeguard clauses	**77,848.2**	**11,469.5**	**9,505.2**
As a % of GDP	*4.7*	*0.7*	*n.a.*
Increases in expenditure	70,299.7	9,140.1	6,959.5
Current	*55,090.8*	*4,155.2*	*6,314.6*
Capital	*15,208.9*	*4,984.9*	*644.9*
Decreases in revenue	7,548.5	22,150.4	29,278.7
Deactivation of safeguard clauses		*-19,821.0*	*-26,733.0*
As a % of GDP		*-1.1*	*n.a.*
RESOURCES	**2,528.5**	**5,214.2**	**1,590.3**
As a % of GDP	*0.2*	*0.3*	*n.a.*
Increases in revenue	1,587.8	1,592.0	1,086.4
Decreases in expenditure	940.6	3,622.2	503.9
Current	*363.3*	*3,402.3*	*310.0*
Capital	*577.3*	*219.9*	*193.9*
NET REVENUE	**-5,960.7**	**-20,558.4**	**-28,192.3**
NET REVENUE net of safeguard clauses	**-5,960.7**	**-737.4**	**-1,459.3**
NET EXPENDITURE	**69,359.1**	**5,517.9**	**6,455.6**
Current	*54,727.4*	*752.9*	*6,004.6*
Capital	*14,631.6*	*4,765.0*	*451.0*
NET BORROWING	**-75,319.8**	**-26,076.3**	**-34,647.9**
As a % of GDP	*-4.5*	*-1.5*	*n.a.*

Source: based on data from the summary statements of the financial effects annexed to Decree Law 18/2020 (converted into Law 27/2020), Decree Law 23/2020 (converted into Law 40/2020) and Decree Law 34/2020 and on data in the 2020 EFD.
(1) Totals may not match due to rounding of decimals.

As a result, the general government deficit is expected to rise to 10.4 per cent of GDP in 2020 and to 5.7 per cent in 2021.

Again in terms of net borrowing, these measures result in uses of resources of €77.8 billion in 2020, €31.3 billion in 2021 and €36.2 billion in 2022. These amounts are slightly greater than the net impact on the balance (equal, respectively, to €75.3, €26.1 and €34.6 billion), since the resources simultaneously found for each year amount to just a few tenths of GDP (Table 2.12). In addition, 70 per cent of the uses for 2020 (€55.1 billion) is comprised of increased current expenditure and around 20 per cent (€15.2 billion) of greater capital expenditure. For the subsequent two years, however, the budget measures consist primarily of revenue cuts, incorporating the definitive deactivation of the safeguard clauses for indirect taxes (€19.8 billion in 2021 and €26.7 billion in 2022). Net of this, uses in 2021-2022 are limited, respectively, to €11.5 and €9.5 billion, and net revenue declines by €0.7 and €1.5 billion. Overall, therefore, the increase in net expenditure – mainly of a current nature – occurs primarily in the first year (with an impact of €69.4 billion compared with €5.5 billion in 2021 and €6.5 billion in 2022), while as from 2021 the net reduction in revenue (equal to €6 billion in 2020, €20.6 billion in 2021 and €28.2 billion in 2022) accounts for about 80 per cent of the deterioration in the balance (Table 2.11).

By looking at the areas of intervention – using the classification by title in Decree Law 34/2020, which reflects the various lines of intervention (Table 2.13) –in 2020 resources have been primarily directed towards workers and firms, allocating respectively €27 billion (€34.7 per cent of uses) and €22.7 billion (€29.2 per cent). An additional €8.3 billion has been allocated for the healthcare system and security. Between €6 and €7 billion has been earmarked for sectoral measures (of varying types and amounts) and for local authorities. Fiscal measures have absorbed €4.1 billion, while less than €1 billion have been allocated for other purposes.

With regard to *health and security (€8.3 billion)*, in order to support initiatives to immediately combat the emergency and to promote the structural strengthening of services in subsequent months, measures have been enacted to significantly increase the funding for the National Health Service and further funding for the National Emergency Fund; resources have also been allocated for the Special Administrator. As for *support for firms and the economy (€22.7 billion)*, the decrees provide for grants to VAT number holders (with revenues up to €5 million), an increase in the Guarantee Fund for SMEs; they include the abolition of the balance payment for 2019 and the first payment on account for 2020 of IRAP, tax credits for non-residential property rental payments and the establishment of a number of funds for specific programmes (including creation of a special section of the Guarantee Fund for SMEs to implement the debt moratorium for small firms).

Table 2.12 – Overall effects of Decree Law 18/2020 (ratified with Law 27/2020), Decree Law 23/2020 (ratified with Law 40/2020) and Decree Law 34/2020: financial impact on the general government accounts
(gross amounts in millions of euros)

	2020	2021	2022
USES [(1)]	**77,848**	**31,290**	**36,238**
As a % of GDP	*4.7*	*1.8*	*n.a.*
Increases in expenditure	**70,300**	**9,140**	**6,959**
Increases in current expenditure	***55,091***	***4,155***	***6,315***
Extension of various income support instruments (CIG, solidarity funds)	14,204		
One-off allowances for various categories of worker (March -May)	8,055		
Grant for VAT number holders (with revenue up to €5 million) affected by emergency	6,192		
Fund for the exercise of the basic functions of local authorities	3,500		
Increase in NHS funding	3,203	605	1,609
Parental leave, paid leave and sick leave	2,580		
60% tax credit for rent paid on non-residential property	1,780		
Vacation allowance	1,677		
Fund for the exercise of the functions of the regions and autonomous provinces	1,500		
Tax credits for assignment of impaired loans (DTA)	1,058		
Emergency Income	960		
Bonus for payroll employees (with income up to €40,000) required to continue going into the office	881		
Increase in Fund for urgent needs	800	90	90
Reduction in non-residential electricity rates (for April, May and June 2020)	600		
Emergency fund for industries in crisis (agriculture, fishing and aquaculture)	500		
Fund to support local public transportation companies	500		
Allowance for domestic workers	468		
Measures for internationalisation of firms (Integrated Promotional Fund)	401		
Extension of NASPI and DIS-COLL	400		
Refinancing of municipal solidarity fund following food emergency	400		
Ministry of Education fund for COVID-19 emergency	400	600	
Increase in fund for the operation of state schools	331		
Expansion of expenditure capacity of local authorities (made possible by non-payment of loan principal)	273		
Compensation fund for national railway infrastructure operator and indemnity for loss of revenue	270		
Tax credit for sanitisation of workplace and purchase of personal protective equipment	250		
Emergency fund for cultural companies and institutions (publishing, museums and other private institutions)	210		
Fund for municipalities in Red Zone	200		
Resources for strengthening military healthcare and extraordinary deployment of security sector	197	5	1
Increase in NHS funding connected with legalisation of employment relationships	170	340	340
Refinancing of fund for family policy	150		
Resources for museums to offset lost revenue and establishment of culture fund	150		
Refinancing of fund for support of the disabled and non-self-sufficient	150		
Emergency fund for entertainment, cinema and audio-visual industries	145		
Fund for support of renters and purchase of primary residence	140		
Grant to public or private authorised primary schools to offset lost fees and support measures for private authorised education up to age 16	135		
Fund for offsetting losses incurred by national companies with air operator certificates	130		
Purchases of goods and services by INPS and Inail (management of disbursement of benefits)	113		
Fund for business continuity of agricultural enterprises, fisheries and aquaculture enterprises	100		
Compensation payment to municipalities for loss of tourist tax revenue	100		
Grant for vineyards	100		
Fund for ordinary financing of universities and fund for emergency requirements	77	100	200
Aerospace tax relief and increase in tax credit for investments in innovative enterprises	17		
110% tax credit for energy efficiency upgrades, seismic resilience, etc.		414	1,330
Other measures	1,117	236	209
Interest expenditure (increase in debt issues)	507	1,766	2,537
Increases in capital expenditure	***15,209***	***4,985***	***645***
Refinancing of SME Guarantee Fund and ISMEA (agriculture guarantees)	6,079		
Increase in national emergencies fund (Civil Protection)	3,150		
Establishment of special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	1,730		
Amounts transferred to special accounts of the Special Administrator	1,467		
Fund to support renters and purchase of primary residence	500		
Fund to cover state guarantees supporting liquidity of enterprises affected by emergency	500		
Support for licensed air transportation companies with public service obligations (Alitalia)	350		
Increase in funding for development contracts	240		
Emergency fund for entertainment, cinema and audio-visual industries	100		
Public support for mandatory liquidation procedures for small banks	100		
Employment support fund (support for enterprises in difficulty with more than 250 employees)	100		
Refinancing of fund for purchase of low-emission vehicles	100	200	
Increase in fund for financing third-sector general interest projects and activities	100		
Aerospace tax relief and increase in tax credit for investments in innovative enterprises	94	15	15
Compensation for missed ANAS revenue, grant to rail transportation enterprises (without public service obligation) and funding for Taranto rapid transit bus system	75	115	140
Support measures and incentives for capitalisation of SMEs (tax credit)	5	2,000	
Hiring of research fellows at universities and research institutions		200	200
Tax credit for upgrading workplace for COVID-19		2,000	
Fund for investment in science and technology research (FIRST)		175	210
Fund for use of multiannual grants		200	
Other measures	518	80	80

Table 2.12 – *(cont.)* Overall effects of Decree Law 18/2020 (ratified with Law 27/2020), Decree Law 23/2020 (ratified with Law 40/2020) and Decree Law 34/2020: financial impact on the general government accounts
(gross amounts in millions of euros)

	2020	2021	2022
USES [1] *(cont.)*			
Decreases in revenue	**7,549**	**22,150**	**29,279**
Deactivation of safeguard clauses		19,821	26,733
Abolition of IRAP 2019 balance payment and first 2020 payment on account	3,952		
Postponement and suspension of tax, contribution and concession obligations and associated penalties	1,267		
Increase from €700 thousand to €1 million in annual limit on tax credits that can be set off or refunded	558		
Deferral of excise tax obligations	320		
VAT rate set to zero for 2020 and reduced to 5% subsequently for sale of goods essential to virus-related care and containment	257		
10% reduction in payments on account for natural gas and electricity	247		27
Exemption from 2020 IMU (municipal property tax) for beach resorts and tourist facilities	205		
Deferral of plastic tax and sugar tax	199	120	
Exemption or reduction of annual omnibus fee for university students (funded by increase in ordinary financing fund resources)	165		
Exemption from TOSAP public land occupation fees for restaurants	128		
110% tax credit on energy efficiency upgrades, seismic resilience, etc.	62	854	1,910
Aerospace tax relief and increase in tax credit for investments in innovative enterprises	15	71	41
Tax credit for sanitisation of workplace and purchase of personal protective equipment		318	318
Tax credits for donations supporting measures to address the health emergency		119	
Vacation allowance		734	
Other measures	112	72	103
Tax effects:	58	40	147
Effects from DTA tax credits	*58*	*39*	*36*
10% reduction in payments on account for natural gas and electricity			*108*
Other measures		*1*	*3*
Contributions and ancillary costs charged to employers	3	1	1
RESOURCES [1]	**2,528**	**5,214**	**1,590**
As a % of GDP	*0.2*	*0.3*	*n.a.*
Decreases in expenditure	**941**	**3,622**	**504**
Decreases in current expenditure	***363***	***3,402***	***310***
Effects from DTA tax credits	140	140	140
Reduction in funds and other funding sources	27	201	126
Cashback incentive for electronic payments		3,000	
Other measures	196	61	44
Decreases in capital expenditure	***577***	***220***	***194***
Establishment of special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	300		
Reduction in funds and other funding sources	170	195	144
Other measures	107	25	50
Increases in revenue	**1,588**	**1,592**	**1,086**
Extension of redetermination of cost of land and equity investments not traded on regulated markets	206	113	113
Disclosure of employment relationships (including administrative costs for managing procedures)	94		
10% reduction in payments on account for natural gas and electricity		265	
Postponement and suspension of tax, contribution and concession obligations and associated penalties		205	
Vacation allowance			315
Tax credits for donations supporting measures to address the health emergency			51
Other measures	61	73	83
Tax effects:	151	497	387
Effects from DTA tax credits	*111*	*67*	*65*
110% tax credit on energy efficiency upgrades, seismic resilience, etc.	*40*	*278*	*309*
10% reduction in payments on account for natural gas and electricity		*76*	
Deferral of plastic tax and sugar tax		*76*	*13*
Contributions and ancillary costs charged to employers	1,076	439	137
NET REVENUE	**-5,961**	**-20,558**	**-28,192**
NET EXPENDITURE	**69,359**	**5,518**	**6,456**
Current	*54,727*	*753*	*6,005*
Capital	*14,632*	*4,765*	*451*
NET BORROWING	**-75,320**	**-26,076**	**-34,648**
As a % of GDP	*-4.5*	*-1.5*	*n.a.*

Source: based on data from the summary statements of the financial effects annexed to Decree Law 18/2020 (ratified with Law 27/2020), Decree Law 23/2020 (ratified with Law 40/2020) and Decree Law 34/2020 and on data in the 2020 EFD.
(1) Totals may not match due to rounding of decimals.

Table 2.13 – Main measures of Decree Law 18/2020 (ratified with Law 27/2020), Decree Law 23/2020 (ratified with Law 40/2020) and Decree Law 34/2020 (1) *(net amounts in millions of euros)*

		2020	2021	2022
	NET EXPENDITURE	**69,359**	**5,518**	**6,456**
Health and security	Increase in NHS funding	3,203	605	1,609
	Increase in national emergencies fund (Civil Protection)	3,150		
	Amounts transferred to special accounts of the Special Administrator	1,467		
	Resources for strengthening military healthcare and extraordinary deployment of security sector	267	5	1
	Group total	***8,326***	***612***	***1,610***
Support for enterprises and the economy	Grant for VAT number holders (with revenue up to €5 million) affected by emergency	6,192		
	Refinancing of SME Guarantee Fund and ISMEA (agriculture guarantees)	6,079		
	Establishment of special section of SME Central Guarantee Fund - Moratorium on payment of liabilities of micro-firms and SMEs	1,430		
	60% tax credit for rent paid on non-residential property	1,424		
	Tax credits for assignment of impaired loans (DTA)	918	-140	-140
	Fund for support of renters and purchase of primary residence	640		
	Reduction in non-residential electricity rates (for April, May and June 2020)	600		
	Fund to cover state guarantees supporting liquidity of enterprises affected by emergency	500		
	Measures for internationalisation of firms (Integrated Promotional Fund)	401		
	Increase in funding for development contracts	240		
	Support measures and incentives for capitalisation of SMEs (tax credit)	5	2,000	
	Refinancing of fund for purchase of low-emission vehicles	100	200	
	Group total	***18,779***	***2,057***	***-136***
Measures for workers	Extension of various income support instruments (CIG, solidarity funds)	14,084		
	One-off allowances for various categories of worker (March -May)	8,055		
	Parental leave, paid leave and sick leave	2,580		
	Emergency Income	960		
	Allowance for domestic workers	468		
	Extension of NASPI and DIS-COLL	400		
	Increase in NHS funding connected with legalisation of employment relationships	170	340	340
	Purchases of goods and services by INPS and Inail (management of disbursement of benefits)	113		
	Increase in fund for financing third-sector general interest projects and activities	100		
	Group total	***27,114***	***350***	***350***
Measures for households and the disabled	Refinancing of fund for family policy	150		
	Refinancing of fund for support of the disabled and non-self-sufficient	150		
	Group total	***350***	***0***	***0***
Local authorities and accounts payable of local authorities	Fund for the exercise of the basic functions of local authorities	3,500		
	Fund for the exercise of the functions of the regions and autonomous provinces	1,500		
	Refinancing of municipal solidarity fund following food emergency	400		
	Expansion of expenditure capacity of local authorities (made possible by non-payment of loan principal)	273		
	Fund for municipalities in Red Zone	200		
	Group total	***5,961***	***0***	***0***
Tax measures	Bonus for payroll employees (with income up to €40,000) required to continue going into the office	881		
	60% tax credit for rent paid on non-residential property	356		
	Tax credit for sanitisation of workplace and purchase of personal protective equipment	200		
	Tax credit for upgrading workplace for COVID-19		2,000	
	110% tax credit for energy efficiency upgrades, seismic resilience, etc.		414	1,330
	Group total	***1,417***	***2,414***	***1,330***
Protection of savings in banking industry	Public support for mandatory liquidation procedures for small banks	100	0	0
	Group total	***100***	***0***	***0***

Table 2.13 – *(cont.)* Main measures of Decree Law 18/2020 (converted into Law 27/2020), Decree Law 23/2020 (converted into Law 40/2020) and Decree Law 34/2020 (1)
(net amounts in millions of euros)

		2020	2021	2022
	NET EXPENDITURE *(cont.)*			
Sectoral measures	*Tourism and culture*	*2,307*	*0*	*1*
	Vacation allowance	1,677		
	Emergency fund for cultural companies and institutions (publishing, museums and other private institutions)	210		
	Resources for museums to offset lost revenue and establishment of culture fund	150		
	Emergency fund for entertainment, cinema and audio-visual industries	115		
	Compensation payment to municipalities for loss of tourist tax revenue	100		
	Publishing	*122*		
	Transportation	*1,595*	*146*	*185*
	Fund to support local public transportation companies	500		
	Support for licensed air transportation companies with public service obligations (Alitalia)	350		
	Compensation fund for national railway infrastructure operator and indemnity lost revenue	270		
	Fund for offsetting losses incurred by national companies with air operator certificates	130		
	Extension of various income support instruments (CIG, solidarity funds)	120		
	Sport	*40*	*50*	*0*
	Justice	*50*	*0*	*0*
	Agriculture	*600*	*10*	*10*
	Emergency fund for industries in crisis (agriculture, fishing and aquaculture)	500		
	Grant for vineyards	100		
	Environment	*40*	*0*	*0*
	Education	*1,090*	*600*	
	Ministry of Education fund for COVID-19 emergency	400	600	
	Increase in fund for the operation of state schools	331		
	Grant to public or private authorised primary schools to offset lost fees and support measures for private authorised education up to age 16	135		
	Universities and research	*167*	*525*	*660*
	Hiring of research fellows at universities and research institutions		250	250
	Fund for investment in science and technology research (FIRST)		175	210
	Technological innovation	*50*	*0*	*0*
	Territorial cohesion	*0*	*0*	*0*
	Fund for support of internal areas and increase in tax credit for research and development activities in Southern Italy	60	79	79
	Reduction in Development and Cohesion Fund	-60	-79	-79
	Group total	***6,060***	***1,331***	***856***
Final financial provisions	Increase in Fund for urgent needs	800	90	90
	Cashback incentive for electronic payments		-3,000	
	Fund for use of multiannual grants		200	
	Reduction in funds and other funding sources	-50	-302	-180
	Group total	***745***	***-3,012***	***-91***
Interest expenditure (increase in debt issues)		**507**	**1,766**	**2,537**
	NET REVENUE	**-5,961**	**-20,558**	**-28,192**
Support for enterprises and the economy	Abolition of IRAP 2019 balance payment and first 2020 payment on account	-3,952		
	Group total	***-3,953***	***-40***	***-9***
Measures for workers	Disclosure of employment relationships - grants for legalisation	94		
	Group total	***94***	***0***	***0***
Tax measures	Deactivation of safeguard clauses		-19,821	-26,733
	110% tax credit for energy efficiency upgrades, seismic resilience, etc.	-22	-576	-1,600
	Postponement and suspension of tax, contribution and concession obligations and associated penalties	-1,267	205	
	Increase from €700 thousand to €1 million in annual limit on tax credits that can be set off or refunded	-558		
	Deferral of excise tax obligations	-320		
	VAT rate set to zero for 2020 and reduced to 5% subsequently for sale of goods essential to virus-related care and containment	-257		
	10% reduction in payments on account for natural gas and electricity	-247	341	-135
	Extension of redetermination of cost of land and equity investments not traded on regulated markets	206	113	113
	Deferral of plastic tax and sugar tax	-199	-45	72
	Tax credit for sanitisation of workplace and purchase of personal protective equipment		-318	-318
	Tax credits for donations supporting measures to address the health emergency		-119	51
	Group total	***-2,682***	***-20,272***	***-28,633***
Sectoral measures	Vacation allowance		-734	315
	Exemption from 2020 IMU (municipal property tax) for beach resorts and tourist facilities	-205		
	Exemption from TOSAP public land occupation fees for restaurants	-128		
	Exemption or reduction of annual omnibus fee for university students (funded by increase in ordinary financing fund resources)	-165		
	Group total	***-493***	***-684***	***314***
Contributions charged to employers		**1,073**	**438**	**136**
	NET BORROWING	**-75,320**	**-26,076**	**-34,648**

Source: based on data from the summary statements of the financial effects annexed to Decree Law 18/2020 (ratified with Law 27/2020), Decree Law 23/2020 (ratified with Law 40/2020) and Decree Law 34/2020.
(1) Totals may not match due to rounding of decimals.

To provide *support to workers (€27 billion)*, the measures considerably extend (from the point of view of the duration and eligible beneficiaries) the various wage supplementation instruments (CIG wage supplementation, solidarity funds), prolong unemployment benefits and introduce a one-off allowance for various categories of workers. The reconciliation of work and family life during the emergency was supported through funding of parental leave and extra paid days off. Other urgent measures were also introduced regarding, among other things, the Emergency Income programme, benefits for domestic workers and the procedure for legalising unreported employment relationships.

As regards *support for people with disabilities* and *family policy (€0.3 billion)*, additional funding has been found for those who are non-self-sufficient, as have resources to be used for children's summer camps. Measures have been developed to help *local authorities (€6 billion)* handle the financial problems posed by the spread of the virus, with funds designated for regional and local governments, including municipalities located in the "Red Zone".

With regard to *tax measures (€4.1 billion)*, various provisions suspended or postponed the payment of taxes and social security contributions and the associated penalty procedures. For March, a bonus (up to €100) was granted for all private sector employees with income of up to €40 thousand who were required to work on site. In addition, other provisions increase the tax credit for energy efficiency projects, seismic risk reduction works, the installation of photovoltaic systems and new incentives for the installation of charging stations for electric vehicles, for expenditure incurred between 1 July 2020 and 31 December 2021. The two taxes introduced with the 2020 Budget Act on the consumption of single-use plastic products and the consumption of certain types of beverages have been postponed to next year, and a tax credit has been granted for costs associated with having to upgrade production processes and working environments, as well as for those connected with the sanitisation of the workplace and the purchase of personal protective equipment. The annual limit on tax credits that can be set off or refunded into tax accounts has been increased from €700 thousand to €1 million and some excise duty obligations have been deferred.

As concerns the *protection of savings in the banking sector (€0.1 billion)*, the MEF can provide public support for transferring to acquirer banks the assets and liabilities and other legal relationships of banks placed in mandatory liquidation after the entry into force of the decree law. The *sectoral measures (€6.6 billion)* regard, specifically: tourism and culture (with tax credits for spending on holidays, the exemption for the first instalment of property taxes (IMU) for 2020 for property used in tourist activities), publishing, transportation (with programmes that, among other things, support local public transportation, the railway sector and air transport), sports, justice, agriculture (including the establishment of an emergency fund for industries in crisis), the environment, education (with emergency funds, an increase in operating funds and resources for authorised private schools) universities and research, technological innovation, territorial cohesion, the acceleration of competitive exams for public sector jobs. Finally, there are *additional financial provisions (€0.7 billion, excluding interest expenditure)*, with an increase in the fund for urgent needs.

In the years after 2020, in addition to the complete deactivation of the revenue increases provided for in the safeguard clauses for VAT and excise duties, the following will also have a significant effect: the abolition of the incentive to promote electronic payments envisaged for 2021 in the 2020 Budget Act, tax credits for upgrading production processes and work environments, those to encourage the capitalisation of small firms, the increase in funding for the National Health Service and funding for universities and research (with an increase in the fund for university operations, recruitment of research fellows at universities and research institutions and new investments).

Some of the measures contained in the decrees relate to financial transactions (granting of guarantees, acquisition of equity interests, etc.) that in a sub-set of cases involve the movement of resources solely between the State budget and the Treasury, with very different impacts on the three balances (net borrowing, the net balance to be financed and the borrowing requirement): the borrowing requirement for 2020 is expected to worsen by about €87 billion and the net balance to be financed by almost €180 billion.

Most of the measures introduced have a similar impact on the three public accounts balances with the exception, in 2020, of some specific large-value measures that have differing effects on the balances. In particular, the following have a greater impact on the borrowing requirement than on net borrowing: i) €12 billion for the fund for the payment of accounts payable that are certain, determinable and enforceable (€8 billion for local and regional governments and €4 billion to NHS entities); ii) €4 billion for the SME Fund; iii) €3 billion for the MEF's stake in a new air transport company, with a part of the funding to come from resources allocated with Decree Law 18/2020 to the fund for urgent needs associated with measures that have no effect on general government net borrowing. In the same way, these three measures also affect the net balance to be financed (NBF) of the State budget. There are also measures that impact general government net borrowing and the NBF, but not the borrowing requirement, such as: i) the increase of more than €5.7 billion in the SME Fund; ii) the establishment within that fund of a special section for the debt moratorium for micro-firms and SMEs (with €1,7 billion earmarked by Decree Law 18/2020, later reduced by €249 million with Decree Law 23/2020) and iii) the €500 million fund for the guarantees managed by Cassa Depositi e Prestiti (CDP).

Finally, a number of large-value measures will have an impact on the NBF only, specifically: i) the "Targeted Fund" managed by CDP for €44 billion (see Section 2.6.1); ii) the additional allocation to the fund managed by SACE and CDP to enable them to guarantee loans as part of the measures in support of firms under Article 1(14) of Decree Law 23/2020 for €30 billion; iii) the non-cash contribution connected with social safety nets (for a total of €8.7 billion); iv) the granting of the State guarantee for the Pan-European Guarantee Fund managed by the European Investment Bank and the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE) for €1 billion; v) the creation of the Guarantee Fund managed by SACE and CDP to provide liquidity support to firms (€1 billion) and the relative coverage, through the incoming repayment of resources due into the special account of the reserve fund for State guarantees. Table 2.14 shows the large-value measures than have differing effects on the balances according to their categorization under the various provisions.

Table 2.14 – Specific large-value measures that have differentiated effects on public finance balances
(millions of euros)

Art.	Para.	Description	Net balance to be financed	Borrowing requirement	Net borrowing
		DL 18/2020 (ratified with Law 27/2020) *[(1)]*			
Various		Imputed contributions associated with safety net programmes and other measures for workers	2,339	0	0
49	1	Increase in SME Guarantee Fund	1,500	0	1,500
56	6	Establishment of specific section in SME Guarantee Fund (extraordinary moratorium on payment of micro-firm and SME liabilities)	1,730	0	1,730
57	3	Establishment of fund covering State guarantees (to CDP)	500	0	500
126	4	Fund for urgent needs	2,000	2,000	0
126	6-bis	Reduction in fund for urgent needs	-360	-360	
		DL 23/2020 (ratified with Law 40/2020)			
1	14	Guarantee fund for SACE and CDP (support for enterprises)	1,000		
1	14	Revenue from resources available on special account of reserve fund for State guarantees	-1,000		
		DL 34/2020			
26	19	Establishment of SME Capital Fund	4,000	4,000	5
27	17	Targeted Fund of CDP	44,000	0	0
31	1	Supplementation of guarantee for SACE and CDP as part of enterprise support measures referred to in Article 1, paragraph 14, of DL 23 /2020	30,000	0	0
31	2	Increase in SME Guarantee Fund	3,950	0	3,950
36	2	Grant of State guarantee for Pan-European Guarantee Fund managed by the European Investment Bank and the European instrument for temporary Support to mitigate Unemployment Risks in an Emergency (SURE)	1,000	0	0
Various		Imputed contributions associated with social safety net programmes and other measures for workers	6,323	0	0
115	1	Fund to provide liquidity for payment of certain, determinable and enforceable debts	12,000	12,000	0
202	1	Establishment of a new company in the air transportation sector - MEF investment in share capital	3,000	3,000	0
202	2	Reduction of fund for urgent needs connected with measures with no impact on general government net borrowing referred to in Article 3, paragraph 3 of DL 3/2020	-2,000	-2,000	0

Source: based on data from the summary statements of the financial effects annexed to Decree Law 18/2020 (ratified with Law 27/2020), Decree Law 23/2020 (ratified with Law 40/2020) and Decree Law 34/2020 and data in the 2020 EFD.
(1) Article 49 of Decree Law 18/2020 was repealed by Decree Law 23/2020: the resources for the Central Guarantee Fund for SMEs are combined with those provided for by Article 13(12) of Decree Law 23/2020.

2.6.1 The Targeted Fund and the impact on the public accounts

Decree Law 34/2020 introduces a number of provisions intended to support and revive Italy's economy whose impact on the public accounts requires closer scrutiny since it does not appear to be adequately addressed in the Reports accompanying the measure.

The interventions involving the economic system will be carried out by having *Cassa Depositi e Prestiti* contribute to recapitalise corporations. CDP has been allocated funding, called the Revival Fund or Targeted Fund. The MEF has contributed assets and legal relationships to the Fund and in exchange CDP has issued financial instruments to the MEF giving it a participatory interest. The Fund, which is rigorously segregated from CDP, will be shut down in 12 years, but this term can be extended or shortened by resolution of CDP at the request of the MEF.

The capital contributed, which consists of specially issued government securities (up to €44 billion), will allow financing operations to provide financial resources for capitalisations. The Fund can also issue bonds backed by the State. Until they are needed to carry out recapitalisation operations, the Fund's liquid holdings will be deposited in a special treasury account. The portion of the contributions that exceeds the funding actually needed can be returned to the MEF upon request.

The Fund operates on market conditions or in accordance with the terms and conditions set out in the EU regulatory framework for State aid (Temporary Framework) adopted to address the current epidemiological emergency. The measures are targeted at corporations, including listed companies and cooperatives, that meet certain requirements (registered office in Italy, turnover of more than €50 million, not in the banking, financial or insurance sectors) and uses a variety of instruments (subscription of convertible bonds, capital increases and purchases of shares on the secondary market), subject to the acceptance of several conditions. The process and the criteria will be established by decree of the Minister for the Economy and Finance, in consultation with the Minister of Economic Development.

As previously stated, the measure is shown in the summary statements as having an impact on just the net balance to be financed. According to the Technical Report, net borrowing will not change since the operation involves the acquisition of financial items that by definition are not included in that balance. In addition, the contribution of assets and legal relationships, as they do not involve movements of cash, would not have an effect on the borrowing requirement. There is no mention in the Reports accompanying the measure of the impact on general government debt.

Although the measure is rather complex and the timing of the impact on the accounts is subject to currently unknown factors (in particular, whether or not the Targeted Fund will be included within the scope of general government), it is highly likely that its operations will have an impact on the public accounts, especially general government debt. In fact, if the Targeted Fund is classified as being outside the scope of general government, the impact on the debt will be recorded when the MEF transfers the government securities. Otherwise, if the Targeted Fund is classified as falling within the scope of general government, the debt will subsequently increase when transactions to capitalise firms are carried out. Finally, if the capitalisations are not carried out at market prices, this will also have an impact on net borrowing.

2.7 Some general comments

The decrees envisage programmes of substantial size, which will increase general government net borrowing by 4.5 per cent of GDP in 2020.

In order to urgently address many of the health and economic aspects of the emergency, Decree Law 18/2020 introduced an initial package of measures to strengthen the healthcare system's response capacity and to support workers, households and firms. Subsequently, with Decree Law 23/2020, the Government took action to respond in particular to the liquidity needs of firms in order to avoid the crisis spreading further. Finally Decree Law 34/2020 enhanced and extended the period of time for some of the measures in the previous two decrees and also introduced new provisions with broader sectoral scope. To a very large extent these are still necessarily contingent efforts, which offer generalised support of a temporary nature.

With particular regard to this latter decree, the one with the greatest financial impact on the general government accounts, a number of observations are in order on the instruments adopted, their effective implementation and whether the measures envisaged are structural or not. Many of these comments also apply to the two previous decrees.

Decree Law 34/2020 provides for the introduction of a vast range of instruments, such as the formation of new funds, the availability of grants, tax credits, tax incentives, temporary tax holidays for firms' liquidity needs. In addition it allocated additional resources to the fund for urgent needs and to the fund for the use of multiannual grants, which are likely to be employed to fund additional measures envisaged during the parliamentary approval process.

The definition of specific administrative procedures and practices has been likewise extensive. The measure envisages the need for numerous implementing decrees and, in some cases, the prior submission of the provisions to the European Commission for confirmation that they are compatible with EU legislation. In general, the efficacy of the measures will depend on overcoming any delays – already encountered in implementing Decree Law 18/2020 – and therefore complying with timetables, employing rapid mechanisms for allocating resources, using efficient online procedures, and the realistic implementation of the streamlining procedures envisaged in the legislation.

Alongside the large number of measures designed to addressed the health emergency, directed at supporting workers' income, providing resources to compensate businesses for their losses and to restore the lost revenues of local authorities and of many other public entities, there are a number of measures of a more structural nature. These include efforts to strengthen the National Health Service (with emphasis, among other things, on the hospital system and expansion of intensive care units, local healthcare and nursing staffing), hiring staff for schools (although some of this had already been in the works), universities and research institutions, and more investment in the field of research. There are also incentives to encourage households to spend money, such as those for building renovations or the purchase of low-emission vehicles.

More important, from the point of view of their lasting effects, is the elimination of the safeguard clauses for VAT rates and excise duties. However, it is important to remember that the impact of the deactivation of these clauses on the deficit does not create new fiscal space but nonetheless renders the trend in public finance balances as a consequence of past policies more transparent.

Given the present health and economic emergency, a set of measures has necessarily been introduced that distribute resources among many sectors, with impact in particular on current expenditure, for immediate use, and short-term tax relief. The emergency as well as the structural measures will nevertheless have to be reviewed in a few months as part of a more integrated approach to fiscal policy. It will be necessary to identify strategic choices concerning sectors to which varying levels of resources should be directed, regarding the future of the tax system and the reactivation of capital expenditure in a context requiring that a primary surplus be achieved once again to make it possible to attain a lasting reduction in the debt/GDP ratio.

As for capital expenditure, there must be further support for public investment, not just financial support of which a good part has already been allocated, but also a revision in the near future of the legislation governing public works tenders, which has already been announced to be among the issues to be addressed in a new decree law on regulatory simplification. In order to revitalize the nation's infrastructure, it will also be necessary to precisely determine which public works should be given priority and to select them based on how quickly work can begin, as well as find solutions to the problems arising from the lack of planning capacity and adequate technical resources within government.

With regard to taxation, the measures – which include postponing tax payment due dates to later in the year, reducing taxes for 2020 only, postponing payments to 2021 and cancelling planned tax increases – will, in the coming years, have to be incorporated within an overall reorganisation while ensuring aggregate financial compatibility. It is necessary that this be done, in part given the characteristics of some taxes, such as, for example, in the case of the regional business tax (IRAP), which has sharply dropped this year and the revenue from which is an important component of the funding for the National Health Service.

2.8 *The fiscal rules*

As mentioned at the start of the chapter, the European Commission and the Council decided to activate the general escape clause for 2020, allowing the EU countries to temporarily depart from the budgetary requirements starting from this year. However in principle for 2019 it is necessary to determine whether there has been compliance with the preventive arm of the Stability and Growth Pact and whether the debt/GDP ratio has fallen with regard to the part above the 60 per cent threshold.

As for the structural balance rule, in 2019 the required adjustment amounted to 0.42 percentage points, which is the result of a "matrix" adjustment of 0.6 percentage points less 0.18 percentage points in respect of the flexibility granted for unusual events linked to expenditure for work on the road network and to counter hydrogeological risks. Using the estimates in the EFD, since the structural adjustment is equal to 0.6 percentage points, the rule in annual terms has been complied with. Over the two-year period, there is a deviation of around 0.1 percentage points, which is therefore not significant. It is not possible to assess compliance with the expenditure rule since the 2020 EFD does not report any of the information needed to do so (compared with 2018, which represents the starting point for the growth rates). Finally, there is lack of compliance with the debt rule, both under the backward-looking criterion and adjusted for the cycle. In addition, under the new policies' scenario for the debt/GDP ratio, neither the debt rule for 2019 for the forward-looking criterion is respected.

In its assessment of the Stability Programme, the European Commission confirmed that Italy can benefit from a temporary deviation of 0.18 per cent of GDP, following the request for flexibility, due to the expenditure incurred in 2019 related to exceptional events equal to 0.11 percentage points for road network maintenance and 0.07 percentage points for work to limit hydrogeological risks.[29]

In addition, the Commission emphasizes that Italy's objective for 2019 was a growth rate of net expenditure that would not exceed 0.1 per cent, raised to 0.5 per cent as a result of the flexibility request. Based on the Commission's spring 2020 forecast, there was an deviation from the expenditure rule on an annual basis that was not significant(of 0.4 per cent of GDP) and a significant deviation in two-year terms (of 0.5 per cent of GDP). By contrast, the Commission's forecast indicates full compliance for the adjustment in the structural balance since the adjustment is estimated at being equal to 0.8 percentage points of GDP.

The Commission's overall assessment demonstrates that there is no significant deviation from the adjustment requested in 2019 in annual and biannual terms. Italy is therefore in compliance with the preventive arm of the Growth and Stability Pact for 2019.

In addition, a Report was prepared by the Commission for Italy, in accordance with Article 126(3) of the Treaty on the Functioning of the European Union, indicating that it did not

[29] See https://ec.europa.eu/info/sites/info/files/economy-finance/it_assessment_of_2020_sp.pdf.

comply with the debt reduction benchmark in 2019 as the gap to the benchmark is 7.4 per cent of GDP according to the Commission, and that in 2020 it exceeds the deficit benchmark of 3 per cent of GDP, since nominal net borrowing is expected to reach 10.4 per cent in 2020.[30] Overall, according to the Commission, the analysis leads to the conclusion that there is insufficient evidence to determine whether Italy was in compliance with the debt criterion in 2019, while it is not in compliance with the deficit criterion for 2020, since the overshoot is exceptional, but neither small nor temporary. Furthermore, in these cases, and given the high debt/GDP ratio, the regulations do not allow other factors to be considered.

In addition, it is expected that Italy will not comply with the debt reduction rule in 2020 and in 2021, based on the Commission's spring forecast, according to which the gap with respect to the benchmark is 12.9 per cent in 2020 and 5.7 per cent in 2021, and on the Stability Programme. The Commission therefore expects that the debt rule will not be complied with in this two-year period.

Finally, the Recommendations for Italy proposed by the Commission to the Council make explicit reference to the general escape clause and ask Italy to adopt measures in 2020 and in 2021 in order to:[31]

1. take, in line with the general escape clause, all necessary measures to sustain the economy and support the recovery, strengthening the capacity of the health system and enhancing coordination between national and regional authorities and, when economic conditions allow, pursue prudent fiscal policies, ensuring debt sustainability, while enhancing investment;

2. provide adequate income replacement and mitigate the employment impact of the crisis, strengthen distance learning and skills, including digital ones;

3. provide liquidity to the real economy, avoiding late payments, front-loading public investment and promoting private investment, focusing investment on the green and digital transition;

4. improve the efficiency of the judicial system and the effectiveness of public administration.

[30] European Commission (2020), "*Italy. Report prepared in accordance with Article 126(3) of the Treaty on the Functioning of the European Union",* COM (2020) 535 final,
https://ec.europa.eu/economy_finance/economic_governance/sgp/pdf/30_edps/126-03_commission/com-2020-535-it_en.pdf.

[31] European Commission (2020), "Recommendation for a COUNCIL RECOMMENDATION on the 2020 National Reform Programme of Italy and delivering a Council opinion on the 2020 Stability Programme of Italy", COM (2020) 512 final,
https://ec.europa.eu/info/sites/info/files/2020-european-semester-csr-comm-recommendation-italy_en.pdf

3. THE MAIN MEASURES TO COUNTER THE ECONOMIC AND FINANCIAL IMPACT OF THE COVID-19 EMERGENCY

3.1 The main income support measures for workers and households[32]

Between March and June income support measures for employees and self-employed workers and households worth a total of over €35 billion (including €8.6 billion in imputed social contributions)[33] were deployed to alleviate the effects of an unprecedented crisis. Of this, €10.3 billion (including almost €2.3 billion in imputed contributions) are accounted for by the measures introduced with Decree Law 18/2020[34] and €25.1 billion (including €6.3 billion in imputed contributions) by those expanding and supplementing the previous measures provided for in Decree Law 34/2020.[35] Other resources include a part – not specified in the Technical Report accompanying Decree Law 34/2020 – of the approximately €6.2 billion in grants for entrepreneurs (including farmers), which will benefit the self-employed workers most harmed by the crisis.

A central role in countering the crisis is reserved for social safety net mechanisms for persons in employment, designed to preserve household incomes and the production capacity of businesses to the greatest possible extent for the subsequent economic recovery. The measures introduced with the two decrees are in fact essentially cantered on three instruments: wage supplementation for employees, the one-off allowance for other categories of workers and atypical workers, and the Emergency Income mechanism. In particular, COVID-19 was added as an *ad hoc* cause for eligibility for benefits for employees normally not covered by legislation governing wage supplementation mechanisms and bilateral unemployment solidarity funds. Combining the provisions of the various decree laws enacted, the duration of wage supplementation benefits can reach up to 18 weeks, to be used by 31 October 2020 (with the restriction that no more than 4 weeks may be used in September and October). Other measures include one-off monthly allowances (€500, €600 or €1,000 depending on the circumstances) for atypical workers (in particular, workers with continuous and coordinated contractual relationship), self-employed workers and professionals with or without a category pension fund. These two sets of measures were

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[32] See Appendix 3.1 for an international survey of wage supplementation and income support measures introduced in selected European countries.

[33] These amounts include measures concerning wage supplementation, one-off allowances, the Emergency Income, the extension of NASPI and DIS-COLL unemployment benefits, the promotion of agricultural work, parent leave, paid leave, the classification of periods of quarantine as sick days, the appropriation of funds and the legalisation of employment relationships.

[34] See "Memorandum of the Chairman of the PBO concerning Bill AS 1766 ratifying Decree Law 18 of 17 March 2020, containing measures to strengthen the National Health Service and provide economic support to households, workers and firms connected with the COVID-19 epidemiological emergency – Budget Committee of the Senate" filed with the Economic Planning and Budget Committee of the Senate on 26 March 2020 (Abstract only. Full text in Italian).

[35] See "Informal hearing of the Chairman of the PBO, Giuseppe Pisauro, on the bill ratifying Decree Law 34 of 19 May 2020 containing urgent measures on healthcare, support for the labour force and the economy and social policies connected with the COVID-19 emergency" before the Budget, Treasury and Planning Committee of the Chamber of Deputies of 27 May 2020.

accompanied by the Emergency Income programme as a safety net of last resort for households most exposed to the crisis. The measures are discussed in detail in the following sections, noting, where applicable, additions and amendments in Decree Law 34/2020 and Decree Law 52/2020 modifying the provisions of Decree Law 18/2020.

The effort to lend as much continuity to activity as possible and not to leave anyone without some form of support is also discernible in other aspects. A ban was imposed for all employers on laying off workers for justified objective reasons until August 17 (whether collective, individual or multiple layoffs) (Article 80 of Decree Law 34/2020). NASPI and DIS-COLL unemployment benefit payments ending in March and April are automatically renewed in the same amount for two months (€0.6 billion, of which €0.2 billion in imputed contribution; Article 92).[36] Until July 17, obligations/conditions connected with the use of wage supplementation, unemployment benefits and the Citizenship Income are suspended (Article 76). Workers whose benefits under the special wage supplementation mechanism ended between December 1, 2017 and December 1, 2018 and who are not entitled to NASPI unemployment benefits can receive benefits for 12 months, but not beyond the end of 2020, in an amount equal to the special unemployment allowance (*indennità di mobilità in deroga*) (Article 87, applicable within the maximum limit of the resources already allocated to the Regions and Autonomous Provinces). At the same time, recipients of unemployment benefits and the Citizenship Income are allowed to enter into fixed-term contracts with agricultural employers for a maximum of 30 days, renewable for another 30, with a ceiling of €2,000 on earnings for 2020, without incurring a reduction in their existing benefits (Article 94). Moreover, fixed-term employment contracts existing on 23 February 2020 may be renewed or extended until the end of August with an exemption from the limits on the duration of such contracts and the obligation to specify the motivation for the extension referred to in Article 19 of Legislative Decree 81/2015 (Article 93). Even the measure to encourage the legalisation of employment relationships (Article 103), while also intended for other significant purposes and not without contradictions (it could be seen as an amnesty), is designed to provide income support to another segment of workers who would otherwise be without protection.

This emergency response strategy includes three very important measures connected in various ways with European coordination measures to support household incomes and, more generally, the economy. The first is the Italian participation in the Guarantee Fund set up by the EIB to help Member States finance anti-crisis measures (Article 36). The second is the Italian participation in the SURE, a specific European instrument (managed by the European Commission) to provide temporary financial support to mitigate the

[36] On the condition that the beneficiary has not already received one of the one-off allowances provided for under Article 27 (professionals without an official professional association and para-subordinate workers), Article 28 (self-employed workers), Article 29 (seasonal workers in the tourism and thermal spas industry), Article 30 (agricultural workers on fixed-term contracts) Article 38 (entertainment industry workers) and Article 44 (recipients of benefits through the Income of Last Resort Fund) of Decree Law 18/2020 and Article 84 (para-subordinate workers, the self-employed, fixed-term employees and seasonal workers), Article 85 (domestic workers) and Article 98 (workers in sports institutions, associations and companies) of Decree Law 34/2020.

impact of the crisis on the labour market (Article36).[37] The third is the option, provided for in the Temporary Framework on State Aid of the European Commission, for Regions, Autonomous Provinces, other local governments and chambers of commerce (including by way of agreements reached in their appropriate Conference) to use resources from their budgets to finance aid to employers (including the self-employed if they act as employers) to pay the wages of their employees and avoid layoffs (Article 60).[38] The utility and effectiveness of these three measures will obviously depend on the procedures and speed with which they are translated into operational solutions. They may play an important role in the coming months if it proves necessary in the second half of the year to extend extraordinary support (wage supplementation and allowances), or if it is decided to phase out the programmes more gradually than envisaged with the current deadlines, or to finance the presumed increase in spending on unemployment benefits (NASPI, DIS-COLL and agricultural allowances) when the ban on firing ends.

3.1.1 Wage supplementation

With regard to wage supplementation mechanisms, Decree Law 18/2020 was called on to counteract an extraordinary event with few historical precedents and, consequently, in what was virtually an information vacuum. The decision was made to activate an ad hoc eligibility criterion, "COVID-19", to extend wage supplementation to essentially all persons in permanent or fixed-term payroll employment as at 23 February 2020, with the exception of domestic work, for a maximum period initially set at 9 weeks (Articles 19-22[39]), suspending the limits on company size and duration of benefits provided for in the ordinary rules governing the programme.[40]

In March, the total number of hours authorised for ordinary (CIGO), special (CIGS), exceptional wage supplementation (exceptional CIG) and benefits under the bilateral funds amounted to just under 20 million, an order of magnitude that was in line with previous

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[37] Participation in the two programmes was financed with the establishment of a fund with €1 billion in resources for 2020.

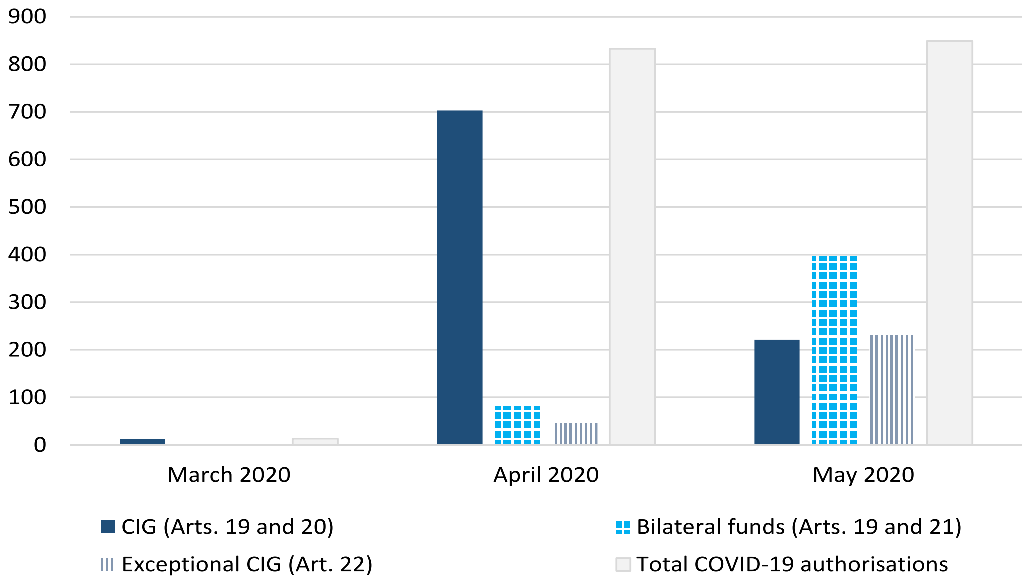
[38] Subsidies can be granted for a maximum of 12 months and in any case only up to the end of 2020. They cannot exceed 80 per cent of the gross monthly wage bill (including social security contributions charged to employers) of the workers involved. They can be combined with other labour and employment support measures, as long as the sum does not exceed (>100 per cent) the prior cost of labour. They can also be combined with the deferred payment of taxes and social security contributions. They are formally and substantively distinct from the wage supplementation mechanisms (ordinary and extraordinary wage supplementation and the special versions introduced with Decree Law 18/2020).

[39] It was initially established that the 9 weeks had to fall between 23 February and 31 August 2020. In ratifying the decree, an extension of up to 3 months was added for employers and workers in the areas most severely affected by the crisis (see Table 3.1).

[40] The effects can be seen in the recent Monitoring Reports issued by INPS: the traditional monthly report on developments in hours of wage supplementation authorised and applications for unemployment benefits (published in May and June) and the specific reports on hours authorised for COVID-19 wage supplementation. The reports are available on the INPS website in the statistical databases area (https://www.inps.it/webidentity/banchedatistatistiche/menu/cig/main1.html).

months. A sharp discontinuity is visible in April and May. In April, almost all applications for wage supplementation were justified under the COVID-19 criterion, with the number of hours authorised exceeding 835 million: about 703 million for CIGO (Articles 19 and 20 of Decree Law 18/2020), about 85 million for bilateral funds (Articles 19 and 21), and some 47 million for exceptional CIG (Article 22).[41] In May, hours authorised for COVID-19 remained on the same order of magnitude as April, but with a different internal composition: just under 850 million, of which about 221 million for CIGO, about 397 million relating to the bilateral funds and about 231 million for exceptional CIG. In April, authorised hours mainly concerned workers already covered by the existing wage supplementation programmes, in firms already accustomed to managing applications for wage supplementation support and the associated procedures. By contrast, in May authorisations mainly involved COVID-19 exceptional wage supplementation hours and hours relating to the bilateral funds. More specifically, the number of hours under the exceptional wage supplementation programme have almost quintupled (Figure 3.1). The hours authorised until May refer exclusively to applications possible under the provisions of Decree Law 18/2020. From June, applications should also include those submitted on the basis of the rule changes introduced with Decree Law 34/2020.

Figure 3.1 – Hours of wage supplementation benefits authorised in March-May 2020 (1) *(millions of hours)*



Source: INPS, Monitoring Reports on wage supplementation for COVID-19 related causes for April and May 2020 and online database "Osservatorio Cassa integrazione guadagni e Fondi di solidarietà - ore autorizzate".
(1) The key refers to the articles in Decree Law 18/2020, which were later amended and supplemented with Decree Law 34/2020. The figures for March are reported for the sake of completeness and to provide context, considering that there was not enough time in March to submit applications for COVID-19 related causes, as Decree Law 18/2020 entered into force on 17 March. Hours authorised in March therefore refer to CIGO, supplementation under the bilateral fund mechanism and exceptional CIG (the latter to the extent possible prior to the COVID-19 emergency).

[41] The INPS Monitoring Report on hours authorised for COVID-19 wage supplementation benefits does not include, at least for now, COVID-19 applications for agricultural workers (CISOA *in deroga*).

Authorisations for a single month (both April and May) were almost at the level registered for CIGO, CIGS and exceptional wage supplementation for all of 2009, the first year of the economic crisis (916.1 million hours).[42] As noted by INPS in its Monitoring Report, these monthly numbers are comparable with the total number of hours authorised per year in the crisis period from 2009 to 2014.

However, a number of aspects relevant to the interpretation of the data must be underscored. The monthly hours authorised for COVID-19 related reasons can effectively be used ("drawn") even in the months following that in which the application is submitted (until the end of October 2020) and it is not guaranteed that they will all actually be drawn. They can also be used for business days prior to the entry into force of Decree Law 18/2020 and subsequent to 23 February 2020.[43] For example, of the number of hours authorised between 1 April and 31 May, just over 3 million were requested for suspensions/interruptions of work that occurred in February and just under 386 million for those occurring in March (Figure 3.2).[44]

Time series show that the ratio of hours drawn to hours authorised can also be significantly less than 100 per cent. For example, of the ordinary, special and exceptional CIG hours authorised during 2018, slightly more than 43 per cent had been used as of January 2020; of those authorised in 2019, around 39 per cent had been used as of January 2020; while of the hours authorised in January 2020, in the same month only 25 per cent were used for CIGO and about 8.5 per cent for CIGS and exceptional CIG.[45]

In April and May – the former wholly affected by the lockdown, the second with a cautious reopening in conditions of high uncertainty – employers applied for authorisation both for hours not worked in the previous months (February and March) and in the following months (June, with a few authorisations also involving July and August; Figure 3.2). At the same time, it cannot be ruled out that the coming months may also register applications (and consequent authorisations) in numbers orders of magnitude different from historical data. Furthermore, during the generalised crisis that characterised March, April and May, it is plausible that the proportion of hours actually drawn were also significantly higher than in the past.[46]

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[42] In 2009 benefits under the bilateral funds had not yet been reorganised. The time series available on the INPS website start from 2017, after completion of the implementation of the Jobs Act. For a description of active and passive labour market safety net programmes after the Jobs Act (with the new role for the bilateral fund mechanism), see Ufficio parlamentare di bilancio (2018), "Labour market safety net after the Jobs Act", Focus Paper no. 9. (Abstract only. Full text in Italian.)

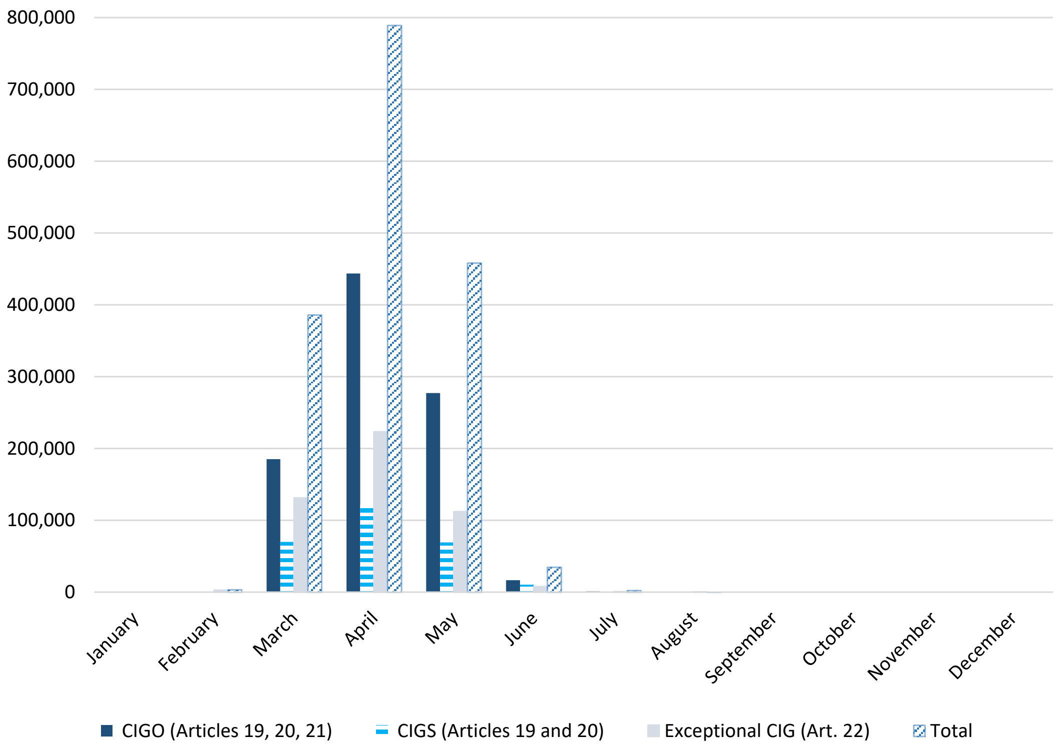
[43] Following the amendments introduced with Decree Law 34/2020, the deadline for submitting applications for periods of suspension or reduction of operations that started in the period from 23 February to 30 April 2020 was set at 31 May 2020.

[44] The figures are presented in the Technical Report accompanying Decree Law 52/2020.

[45] The percentages are described in the INPS Monitoring Report on developments in hours authorised for wage supplementation and applications for unemployment benefits published in May with time series reaching April 2020.

[46] The effective draw date, which is normally published with some delay and does not attract as much analytical attention, will now become very important and provide essential information for decision-making in the coming months.

Figure 3.2 – Hours of wage supplementation benefits authorised between 1 April and 31 May 2020: breakdown by month of application (1)
(thousands of hours)



Source: Technical Report accompanying Decree Law 52/2020.
(1) The key refers to the articles in Decree Law 18/2020, which were later amended and supplemented with Decree Law 34/2020. The figure by date of application should not be confused with that for the date the hours are "drawn" (or effectively used). The figure shows the distribution of authorisations issued by INPS for applications received between 1 April and 14 May 2020 for months in which the employer declares it wishes to use the hours to cover shortfalls in working hours.

To date, almost all of employers who have applied for wage supplementation benefits for COVID-19 related reasons have been authorised to draw the benefits for the entire 9 weeks permitted under Decree Law 18/2020. The use of the maximum duration is easily prevalent in all three programmes: CIG, bilateral funds, Wage Supplementation Fund (FIS), and exceptional CIG. Furthermore, benefits authorised for COVID-19 for those registered in the bilateral funds mechanism are almost entirely accounted for by the FIS.

In May, Decree Law 34/2020 modified the scheme adopted earlier with Decree Law 18/2020, implementing a number of significant amendments that have expanded the pool of beneficiaries (Table 3.1):

- it comprises all fixed-term and permanent payroll employees at 25 March 2020 (instead of 23 February as established with Decree Law 18/2020), with the exception of domestic workers (an exemption justifiable by verification issues), who are eligible, however, for a one-off allowance (see below);

Table 3.1 – Wage supplementation under Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020 (1)

	BENEFIT	BENEFICIARIES	DURATION	MAIN FEATURES	OTHER INFORMATION	TECHNICAL REPORTS: Expenditure *(millions)*	TECHNICAL REPORTS: Of which: contributions *(millions)*	TECHNICAL REPORTS: Number of beneficiaries *(thousands)*
Art. 19 of DL 18/2020 amended by Article 68 of DL 34/2020 and by DL 52/2020 (see also Article 71 of DL 34/2020)	Ordinary CIG/agricultural CIG for COVID-19	Ordinary CIG/agricultural CIG insured in payroll employment at 25 March 2020 (formerly 23 February), not yet receiving benefits	PRE DL 34/2020: at most 9 weeks between 23 February and 31 August 2020. With regard to production units located in the areas most severely affected by the crisis (those affected by the first emergency prime ministerial decree of 1 March 2020) and/or workers resident/domiciled in those areas, the duration may be extended by up to an additional 3 months POST DL 34/2020 and DL 52/2020: the 9 weeks between 23 February and 31 August 2020, already established under DL 18/2020, are supplemented by an additional 9 weeks for a total of 18 between 23 February and 31 October 2020. The additional 9 weeks can be granted in two tranches of 5 weeks through August 2020 and 4 weeks in September-October 2020. The extensions are available to employers who use all the weeks already granted previously. DL 52/2020 established that the 4 weeks available for September-October can also be used earlier by employers who have exhausted in advance all the weeks available through August. In principle, the available weeks of wage supplementation have been doubled (18 weeks instead of 9). The second extension provided for under "PRE DL 34/2020" remains valid. For agriculture: at most 90 days with benefits beginning between 1 February and 31 October 2020 and ending by the end of 2020.	Removal of limits on duration for employers, with suspension of cumulative hour ceiling. For agriculture: workers not subject to use limits provided for in ordinary legislation and minimum number of working hours with same firm. In addition, COVID-19 applications do not affect future applications for support.	Application procedures have been simplified. Applications are submitted by the end of the month in which working hours are suspended/reduced(DL 18/2020 set 4 months). Employees of agricultural enterprises that are not eligible for agricultural CIG can apply for exceptional CIG. The derogation provided for under Article 22 of DL 18/2020 includes fixed-term agricultural payroll employees.	PRE DL 34/2020: 359.2 POST DL 34/2020 and DL 52/2020: 2,077.2	PRE DL 34/2020: 113.6 POST DL 34/2020 and DL 52/2020: 775.7	PRE DL 34/2020: 210.7 of which agricultural employees: 121.4 POST DL 34/2020 and DL 52/2020: 399 of which agricultural employees: 60
		Ordinary CIG/agricultural CIG insured in payroll employment at 25 March 2020 (formerly 23 February), already receiving benefits						
	Ordinary COVID-19 allowance financed from public budget	Payroll employees at 25 March 2020 (formerly 23 February) of firms with between 6 and 15 employees registered with WSF, not yet receiving benefits		Possibility of ordinary benefit (previously not available for this category of firm) and removal of limits on duration for employers, with suspension of cumulative hour ceiling	Application procedures have been simplified. Applications are submitted by the end of the month in which working hours are suspended/reduced(DL 18/2020 set 4 months) Recipients of ordinary benefits can also receive family benefit (clarifying interpretive uncertainty of DL 18/2020)	PRE DL 34/2020: 1,068.0 POST DL 34/2020 and DL 52/2020: 11,717.0 (including 1,270 of bilateral funds refinancing)	PRE DL 34/2020: 400.0 POST DL 34/2020 and DL 52/2020: 4,282.9	PRE DL 34/2020: 324 POST DL 34/2020 and DL 52/2020: 3,070.5
		Payroll employees at 25 March 2020 (formerly 23 February) of firms with more than 15 employees registered with bilateral funds (all types, including WSF), not yet receiving benefits		Removal of limits on duration for employers, with suspension of cumulative hour ceiling				
		Payroll employees at 25 March 2020 (formerly 23 February) of firms with more than 15 employees registered with bilateral funds (all types, including WSF), already receiving benefits at date of entry into force of DL 6/2020 (23 February 2020)		Removal of limits on duration for employers, with suspension of cumulative hour ceiling (affects renewal) and possibility of transfer to ordinary COVID-19 CIG if previously they had opted for solidarity allowance				
Art. 21 of DL 18/2020	Ordinary COVID-19 allowance financed from public budget	Payroll employees of firms with between 6 and 15 employees registered with WSF, receiving solidarity allowance at date of entry into force of DL 6/2020 (23 February 2020)	The pre-DL 34/2020 duration is confirmed: at most 9 weeks between 23 February and 31 August 2020	Possibility of transfer from solidarity allowance to ordinary benefits and removal of limits on duration for employers, with suspension of cumulative hour ceiling (affects renewal)	Once maximum duration has expired (at most 9 weeks between 23 February and 31 August 2020), the beneficiaries of Article 21 can probably continue to receive the benefits provided for under Article 68 of DL 34/2020 given the suspension of the cumulative hour ceiling			

Table 3.1 – *(cont.)* Wage supplementation under Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020 (1)

	BENEFIT	BENEFICIARIES	DURATION	MAIN FEATURES	OTHER INFORMATION	TECHNICAL REPORTS		
						Expenditure *(millions)*	Of which: contributions *(millions)*	Number of beneficiaries *(thousands)*
Art. 20 of DL 18/2020 amended by Article 69 of DL 34/2020 and by DL 52/2020 (see also Article 71 of DL 34/2020)	Ordinary CIG for COVID-19	Payroll employees of firms eligible for special CIG already receiving benefits at date of entry into force of DL 6/2020 (23 February 2020)	PRE DL 34/2020: at most 9 weeks between 23 February and 31 August 2020. With regard to production units located in the areas most severely affected by the crisis (those affected by the first emergency prime ministerial decree of 1 March 2020) and/or workers resident/domiciled in those areas, the duration may be extended by up to an additional 3 months POST DL 34/2020 and DL 52/2020: the 9 weeks between 23 February and 31 August 2020, already established under DL 18/2020, are supplemented by an additional 9 weeks for a total of 18 between 23 February and 31 October 2020. The additional 9 weeks can be granted in two tranches of 5 weeks through August 2020 and 4 weeks in September-October 2020. The extensions are available to employers who use all the weeks already granted previously. DL 52/2020 established that the 4 weeks available for September-October can also be used earlier by employers who have exhausted in advance all the weeks available through August. In principle, the available weeks of wage supplementation have been doubled (18 weeks instead of 9). The second extension provided for under "PRE DL 34/2020" remains valid.	Possibility of transfer to ordinary benefits (to eliminate incompatibility between Ordinary CIG and special CIG) and removal of limits on duration for employers, with suspension of cumulative hour ceiling (affects renewal)	Application procedures have been simplified. The time limits for transfer from special CIGS to Ordinary COVID-19 CIG are not specified, except those concerning the maximum use of the new justification	PRE DL 34/2020: 338.2 POST DL 34/2020 and DL 52/2020: 933.6	PRE DL 34/2020: 136.4 POST DL 34/2020 and DL 52/2020: 377.3	PRE DL 34/2020: 202 POST DL 34/2020 and DL 52/2020: 204
Art. 22 of DL 18/2020 amended by Article 70 of DL 34/2020 and dal DL 52/2020 (see also Article 71 of DL 34/2020)	Ordinary CIG for COVID-19 and exceptional CIG	Any type of payroll employee at 25 March 2020 (formerly 23 February) of employer of any size not already covered, i.e. has not received benefits under extensions provided for in Articles 19-21 of DL 18/2020 as amended by DL 34/2020. Includes special CIGS insured not receiving benefits, workers at firms with fewer than 6 employees in all sectors (certainly not eligible for Ordinary CIG/special CIG), workers at firms not eligible for Ordinary CIG/special CIG/agricultural CIG and registered with any bilateral fund (of all types, including WSF). DL 34/2020 makes agricultural workers on fixed-term contracts normally not eligible for agricultural CIG eligible for exceptional COVID-19 CIG . Employers of domestic workers are not eligible.	PRE DL 34/2020: at most 9 weeks between 23 February and 31 August 2020. With regard to production units located in the areas most severely affected by the crisis (those affected by the first emergency prime ministerial decree of 1 March 2020) and/or workers resident/domiciled in those areas, the duration may be extended by up to an additional 3 months as from 23 February 2020. POST DL 34/2020 and DL 52/2020: as in previous line regarding Article 69	Possibility of activating previously unavailable benefits, basing them on Ordinary CIG with COVID-19 justification	Necessary to reach an agreement, which can be done electronically, with most representative national unions. An agreement is not necessary for employers with fewer than 5 employees and employees who closed because of mandatory lockdown order Exceptional wage supplementation benefits are managed by the regions and the autonomous provinces, without prejudice to the change introduced with Article 71. For employer with production units in multiple regions/provinces, the application can be submitted to the Ministry of Labour.	PRE DL 34/2020: 3,293.2 POST DL 34/2020 and DL 52/2020: 5,148.5	PRE DL 34/2020: 973.1 POST DL 34/2020 and DL 52/2020: 1,484.3	PRE DL 34/2020: 2,320 POST DL 34/2020 and DL 52/2020: 1,406.4

Table 3.1 – *(cont.)* Wage supplementation under Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020 (1)

	BENEFIT	BENEFICIARIES	DURATION	MAIN FEATURES	OTHER INFORMATION	TECHNICAL REPORTS		
						Expenditure *(millions)*	Of which: contributions *(millions)*	Number of beneficiaries *(thousands)*
Amendments during ratification of DL 18/2020 :paragraphs 10-ter of Article 19, 7-bis of Article 20, 8-bis and 8-quater of Article 22, which introduced additional increases in the duration of Ordinary COVID-19 CIG for areas already hit by crisis						PRE DL 34/2020: 218.4		
Art. 22 of DL 18/2020 amended by Article 71 of DL 34/2020 and by DL 52/2020	Fund for additional extensions and transfer from exceptional Ordinary CIG COVID-19 to INPS	Fund to finance extensions of COVID-19 wage supplementation, including those referred to in Articles 68, 69 and 70 of DL 34/2020. The fund is already partly drawn by DL 52/2020 to restructure weeks of available wage supplementation as provided for in original version of DL 34/2020 (4 weeks for September-October can now, on certain conditions, be brought forward; see the column "Duration" in the table). The Technical Report estimates that this option could benefit about 1 million workers, almost all included in the pool of beneficiaries envisaged under Articles 19-22 of DL 18/2020 (with an increase of 1,800 beneficiaries of COVID-19 CIG, Article 19), with an increase in expenditure (compared with the expenditure items of DL 18/2020 and DL 34/2020) of about €1.2 billion. The Technical Report assumes an average of 3 weeks of benefits drawn. After the first 9 weeks already payable by the regions under Article 22 of DL 18/2020, the subsequent periods of exceptional COVID-19 CIG are authorised directly by INPS. The change does not regard the autonomous provinces . All applications for exceptional COVID-19 wage supplementation submitted as from the 30th day following the entry into force of DL 34/2020 are in any case submitted directly to INPS. Pending completion of the processing of applications, INPS advances 40% of the benefits on the basis of the essential information transmitted by employers.				POST DL 34/2020 and DL 52/2020: 2,740.8 (targeted fund) of which 1,162.2 already used to fund amendments to DL 52/2020	POST DL 34/2020 and DL 52/2020: 883.4	
Art. 60 of DL 34/2020	Income support from regions, autonomous provinces, local authorities and Chamber of Commerce	Within the State Aid Temporary Framework of the European Commission, regions, autonomous provinces, local authorities and Chambers of Commerce (including through agreements reached in their respective conferences) may use their own resources to provide subsidies to employers (including the self-employed in their capacity as employers) to pay wages and avoid layoffs. The support can be paid for a period of no more than 12 months and in any case may not continue beyond 2020. The support cannot exceed 80% of the gross monthly wage bill (including social contributions charged to employers) of the workers involved. It can be combined with other forms of job and employment support as long as it does not exceed 100% of the cost of labour. It can also be combined with the deferral of tax and social contribution payments. These mechanisms are separate in all manners from the wage supplementation mechanisms (Ordinary CIG, special CIG and the exceptional version introduced with DL 18/2020)				Own resources of territorial authority (regions, autonomous provinces, municipalities) or Chamber of Commerce		

(1) Under the combined provisions of DL 18/2020 and DL 34/2020, the wage supplementation system covers all payroll employees at 25 March 2020, whether working in agriculture or otherwise, on permanent or fixed-term contract (with no limit on the duration of the contract), including domestic workers on payroll and temp workers (Legislative Decree 81/2015). The maximum duration of wage supplementation benefits is 18 weeks between 23 February 2020 and 31 October 2020. It does not include domestic workers (who are eligible for the allowance established with Article 85 of DL 34/2020 illustrated in Table 3.4) and occasional workers registered as payroll employees but caught in a period of unemployment at the start of the crisis (if eligible, they can apply for one of the monthly allowances or the Emergency Income scheme).

- the maximum duration of wage supplementation benefits for COVID-19 reasons (including the ordinary allowances paid by the Wage Supplementation Fund (FIS) and the bilateral funds) has been extended from 9 weeks between 23 February and 31 August 2020, as established with Decree Law 18/2020, to 18 weeks between 23 February and 31 October 2020. The 9 additional weeks are payable in two tranches – 5 weeks until August 2020 and 4 weeks in September-October 2020 – and can only be used by employers that have already drawn the 9 weeks allowed under Decree Law 18/2020. The 4 weeks attributable to September-October can also be used before 1 September by employers who run out early of weeks available until August.[47] In principle, in any case, the number of weeks for which wage supplementation might be used has been doubled (18 weeks, instead of 9);[48]

- the wage supplementation benefits for beneficiaries enrolled in the FIS and the bilateral funds are also accompanied by the family allowance (the point was uncertain following Decree Law 18/2020);

- the changes clarify that ordinary CIG for agricultural workers (CISOA) justified by COVID-19 can last a maximum of 90 days with use beginning between 1 February and 31 October 2020 and being completed by the end of 2020[49] (it was uncertain whether CISOA was included in Article 19 of Decree Law 18/2020);

- the amendments specify that fixed-term agricultural employees are eligible for exceptional CIG for COVID-19, regardless of the number of hours for which they are contracted (Article 22 of Decree Law 18/2020);[50]

- after the first 9 weeks of benefits already paid by the Regions on the basis of Article 22 of Decree Law 18/2020, subsequent periods of exceptional

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[47] The modification was introduced with Decree Law 52/2020. The original version in Decree Law 34/2020 established that the extra 5 weeks would be available for all employers who had already drawn all of the previous 9 weeks (under Decree Law 18/2020), while the additional 4 weeks could only be used between 1 September and 31 October 2020, with the exception of employers in businesses involved in tourism, trade fairs, congresses, entertainment and recreation, live entertainment and cinemas, who could draw on the support before 1 September.

[48] The 9-week extension could follow on the previous period of benefits with no interruption and with no new application necessary from employers, although the text of the legislation contains a number of interpretive uncertainties in this regard.

[49] Agricultural employees are not subject to the limit on benefits and the minimum number of days they must work at the same company, both of which apply under the ordinary rules previous to Decree Law 18/2020 and Decree Law 34/2020. In addition, applications for COVID-19 reasons do not affect future applications.

[50] Normally, CISOA applies to agricultural payroll employees (field workers, manual workers, office workers, supervisory, apprentices) with an open-ended contract enrolled in the lists of agricultural employees. Agricultural workers include salaried employees and other workers on open-ended contracts that perform more than 180 days of work each year at the same agricultural enterprise (contracted for more than 180 days a year; Article 8 of Law 457/1972). Beneficiaries do not include those hired or maintained in excess of company requirements.

supplementation benefits for COVID-19 shall be authorised directly by INPS in order to accelerate processing and benefit disbursement.[51]

As a result of the combined provisions of the decrees, the system of wage supplementation programmes effectively covers all workers employed as at 25 March, 2020, including both agricultural and non-agricultural workers, those on permanent and fixed-term contracts (with no limit on the duration of the contract), including home workers and on-call workers.[52] Domestic workers (who are eligible for the allowance envisaged under Article 85 of Decree Law 34/2020 discussed below) and occasional workers classified as employees but suspended from work since the start of the crisis are excluded. Such an extension made it necessary, in the official quantifications, to use more complex assumptions for the estimate of expenses compared with those used in the Technical Report of Decree Law 18/2020.

In the Technical Report, the financial quantification of the amendments introduced with Decree Law 34/2020 (the list of the six summary points) was performed using the information available on the degree of involvement of the various sectors in the mandatory reduction of the level of economic activity (lockdown) and/or any reduction attributable to market conditions, using this as a basis for differentiating monthly wages, take-up rates and the average duration of benefits.[53] The extent of the assumed reduction in working hours is not specified. As with Decree Law 18/2020, it was in all likelihood assumed that the volume of wage supplementation would be that required to compensate for full suspension of working hours ("zero-hour wage supplementation"). The expenditure thus estimated is fully funded article by article but, in order to strengthen the financial coverage of the measures, Article 71 (first paragraph) establishes a broad ad hoc fund with an appropriation of €2.7 billion for 2020 (including €0.9 billion in imputed contributions) earmarked for additional spending needs beyond those already estimated, including both the refinancing of already available benefit instruments and possible extensions of their duration. This fund, as specified later, will finance the amendments introduced with Decree Law 52/2020, in particular the possibility of using the 4 weeks of wage supplementation for September-October 2020 before 1 September as well. Net of this use, the residual resources in the fund pursuant to Article 71 amount to about €1.5 billion. The assumptions underlying the estimates contained in the Technical Reports

[51] The change does not regard the Autonomous Provinces. All applications for exceptional wage supplementation for COVID-19 reasons submitted as from the thirtieth day following the entry into force of Decree Law 34/2020 shall be submitted directly to INPS with no further involvement of the Regions. Pending completion of the application process, INPS may advance 40 per cent of the benefits on the basis of the essential information provided by employers. This advance offers a guarantee of the immediate liquidity that employers need. During the 2008-2012 crisis, the intermediation of the Regions in managing exceptional wage supplementation was also intended to determine a priority ranking for the response (the more serious situation with the greatest impact on employment). In the current situation, the emergency is generalised and so this function has lost significance. Direct application to INPS makes it possible to accelerate processing by eliminating intermediate steps in the bureaucracy.

[52] For wage supplementation for hours/days not worked, in this case reference is made to the two components of the remuneration to which the worker would have been entitled: the base rate for on-call availability and the additional remuneration for actual work.

[53] The decree used as a reference for identifying firms affected by the lockdown is Decree Law 19/2020 (ratified with Law 35/2020).

accompanying Decree Law 34/2020 (which include the effects of Decree Law 18/2020) and Decree Law 52/2020 are reported separately below to produce an overall picture of the assessments underlying the official estimates.

The Technical Report accompanying Decree Law 34/2020 simultaneously estimates the refinancing needs for the wage supplementation benefits already payable under the provisions of Decree Law 18/2020 and for the new benefits added with the new legislation. It quantifies the number of non-agricultural employees insured under the CIG programme and working in companies still under lockdown at about 2.2 million (Tables 3.1 and 3.2). Of these, it assumes that 10 per cent have gained eligibility for supplementation benefits thanks to the temporary removal of the limits and constraints and that all of these workers actually draw them, receiving the benefits for an average of 11 weeks, 7 weeks less than the maximum duration. Non-agricultural employees insured under the CIG programme and working in companies that are no longer under lockdown restrictions are estimated at about 2.5 million. Of these, it is assumed that 10 per cent have gained eligibility for supplementation benefits thanks to the temporary removal of the limits and constraints and that only 45 per cent of these workers actually draw them, also receiving benefits for an average of 11 weeks. The Technical Report does not explicitly indicate how many of the 200,000 agricultural workers on open-ended contracts are expected to draw on the CISOA wage supplementation programme for COVID-19 reasons as a result of the removal of eligibility restrictions. However, the percentage can be obtained by differences from the overall data shown in the tables: about 30 per cent (in line with the participation rate of agricultural employees on fixed-term contracts who apply for exceptional CIG COVID-19 benefits; see below for further information).

With regard to the bilateral funds, companies subject to lockdown restrictions have around 2.4 million employees. It is assumed that all of these will receive public unemployment benefits (the bilateral funds are normally self-financed with periodic contributions from participants) for an average of 11 weeks. At the same time, companies not affected by lockdown restrictions have about 3.5 million employees. It is assumed that 20 per cent of them will draw public unemployment benefits for an average of 11 weeks.

For the 200,000 workers already receiving CIGS benefits, it is assumed that 95 per cent will opt to apply the COVID-19 motivation for benefits, which makes it possible to extend benefits while suspending the cumulative duration ceiling. The Technical Report is less clear for these workers, but it can be deduced that an average benefit duration of 11 weeks is assumed, in line with that of the beneficiaries of COVID-19 CIG.

As regards exceptional CIG for COVID-19, “residual” non-agricultural employees, who are not already covered by COVID-19 CIG nor are enrolled in bilateral funds that could deliver benefits equivalent to those under the CIG, total 2.2 million. Of these, about 1 million are employed with companies affected by lockdown restrictions and all receive benefits under the exceptional programme for 9 weeks, the maximum established with Decree Law 18/2020. By contrast, employees with companies not affected by lockdown

Table 3.2 – Assumptions in the Technical Reports accompanying Decree Law 34/2020 and Decree Law 52/2020 on use of wage supplementation in the period from 23 February to 31 October

		Total number of workers [1] *(thousands)*	Of which: workers eligible for benefits under DL 18, 34 and 52/2020 [2] *(thousands)*	Assumptions in Technical Report accompanying DL 34/2020 and DL 52/2020 23 February - 31 October (maximum of 18 weeks of wage supplementation benefits)			
				% of (a) eligible for suspension of limits on benefit duration ("benefit counter")	% of (c) that actually receive COVID-19 wage supplementation	Average duration of benefits *(weeks)*	Potential benefit take-up rate
		(a)	(b) = (a) x (c) x (d)	(c)	(d)	(e)	(f) = (d) x (e) / 18
CIG (Art. 19)	In lockdown [3]	2,211.1	222.9	10.0	100.0	17.0	94.4%
		17.9	1.8	10.0	100.0	17.0	94.4%
	Not in lockdown	2,435.0	114.2	10.0	45.0	11.0	27.5%
	Agricultural workers [4]	200.0	60.0	100.0	30.0	11.0	18.3%
	Total	**4,864.0**	**398.9**	**13.7**	**69.59**	**13.7**	**53.2%**
Transfer from special CIG to CIG (Art. 20)	All activities	146.8	139.4	100.0	95.00	11.0	58.1%
		67.8	64.4	100.0	95.00	17.0	89.7%
	Total	**214.6**	**203.8**	**100.0**	**95.00**	**12.9**	**68.1%**
Bilateral funds (Arts. 19 and 21)	In lockdown	1,885.4	1,885.4	100.0	100.0	11.0	61.1%
		494.6	494.6	100.0	100.0	17.0	94.4%
	Not in lockdown	3,454.0	690.8	100.0	20.0	11.0	12.2%
	Total	**5,834.0**	**3,070.8**	**100.0**	**52.6**	**11.5**	**33.7%**
Exceptional CIG (Art. 22)	In lockdown	827.0	827.0	100.0	100.0	9.0	50.0%
		221.4	221.4	100.0	100.0	17.0	94.4%
	Not in lockdown	1,155.5	238.0	100.0	20.0	9.0	10.0%
	Agricultural workers [4]	400.0	120.0	100.0	30.0	9.0	15.0%
	Total	**2,603.9**	**1,406.4**	**100.0**	**53.7**	**9.7**	**28.9%**
Total (5)		**13,301.9**	**5,079.9**	**70.1**	**60.6**	**12.2**	**41.0%**

Source: based on data from Technical Reports accompanying Decree Law 34/2020 and Decree Law 52/2020.
(1) The breakdown of the pool of beneficiaries – between those who extend the period for which they receive wage supplementation benefits by an average of 3 weeks and those who do not (assumption in the Technical Report accompanying Decree Law 52/2020) – was conducted on the basis of the distribution of this characteristic across workers who access supplementation benefits under the provisions of Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020. – (2) Sum of workers eligible for wage supplementation as indicated in the Technical Reports accompanying Decree Law 34/2020 (which includes the pool of beneficiaries under Decree Law 18/2020) and Decree Law 52/2020. The amounts are given by the product of columns (a), (c) and (d) except in the case of CIG for non-agricultural employees and exceptional CIG for workers in firms not under lockdown restrictions. In the first case, the difference is due to the forecast in the Technical Report accompanying Decree Law 52/2020 for 1,800 workers more than those indicated in the Technical Report for Decree Law 34/2020. In the second case the cause is the highly approximate estimate of the number of agricultural employees, given as 0.4 million individuals. – (3) Column (b) breaks out the additional 1,800 workers compared with the estimates in the Technical Report for Decree Law 34/2020, who on the basis of the Technical Report for Decree Law 52/2020 can benefit from the average extension of 3 weeks in benefits under CIG COVID-19 prior to 1 September. – (4) Activities not under lockdown restrictions. – (5) The total pool of workers (column (a)) does not include workers who can transfer from CIGS to CIG COVID-19 because of overlaps with other pools of beneficiaries.

restrictions total around 1.2 million, and it is assumed that 20 per cent receive benefits for 9 weeks. The Technical Report also considers 0.4 million fixed-term agricultural workers in companies not affected by lockdown restrictions,[54] assuming that 30 per cent receive benefits, again for 9 weeks.

The Technical Report accompanying the subsequent Decree Law 52/2020 describes the expected change in the pool of beneficiaries and in expenditure in connection with the possibility – envisaged for employers who have already drawn the maximum benefits allowed up to 31 August under Decree Law 34/2020 (14 weeks) – of drawing the 4 weeks of wage supplementation for September-October before 1 September. According to the Technical Report, this option will be used for an average of 3 weeks (in addition to the 14 already permitted) only by those companies under lockdown restrictions pursuant to Decree Law 19/2020, which, on the basis of the subsequent Prime Ministerial Decree of 26 April 2020, can be divided into two groups: those for which the lockdown continued and those that were authorised to reopen before the lockdown ended completely from the third week of May. Using this subdivision and other assumptions specified below, according to the Technical Report the following would benefit from wage supplementation for 17 weeks:

- about 225,000 workers who benefit from the COVID-19 CIG programme (Article 19 of Decree Law 18/2020, as amended by Decree Law 34/2020). In this case, the pool of beneficiaries prior to Decree Law 52/2020 (about 223,000) is expanded by about 1,800 workers who, thanks to the extension of the duration of benefits, can continue or begin to receive wage supplementation payments;[55]

- some 495,000 workers enrolled in bilateral funds benefiting from COVID-19 CIG (Article 19). The other workers belonging to this segment (approximately 1.9 million) continue to receive wage support for the 11 weeks already assumed in the Technical Report for Decree Law 34/2020;

- about 64,000 workers who transfer from the CIGS programme to COVID-19 CIG (Article 20). The remaining workers of this category (around 140,000) continue to receive the new support for the 11 weeks previously envisaged;

- approximately 221,000 workers receiving exceptional COVID-19 CIG benefits (Article 22). The other 830,000 workers in this category continue to receive the same support for the original 11 weeks.

It follows that the assumptions underlying the Technical Report accompanying Decree Law 52/2020 expand both the pool of recipients of COVID-19 wage supplementation benefits (by about 1,800 beneficiaries, bringing it to just under 5.1 million workers) and

[54] As an essential industry, agriculture was not affected by lockdown restrictions (see list attached to Prime Ministerial Decree of 22 March 2020).
[55] An employer who initiated COVID-19 wage supplementation at the end of February could find itself already having used the 14 weeks permitted under Decree Law 18/2020 and Decree Law 34/2020 by mid-June.

the average number of weeks of benefits received by these beneficiaries, generating an increase in spending of about €1.2 billion (of which €0.4 billion in imputed contributions). As noted previously, this increase in expenditure is financed by a fund of over €2.7 billion established under Article 71 of Decree Law 34/2020.

Overall, combining the estimates reported in the Technical Reports for Decree Law 34/2020 and Decree Law 52/2020 (Table 3.2), COVID-19 CIG recipients would number about 399,000, receiving benefits for an average of 13.7 weeks, with a take-up rate of 53.2 per cent.[56] The number of those already receiving CIGS benefits who transfer to the COVID-19 option is about 204,000, receiving payments for an average of almost 13 weeks, with a take-up of just over 68 per cent. COVID-19 CIG recipients enrolled in bilateral mechanisms (of any form) total almost 3.1 million, receiving benefits for an average of just over 11.5 weeks, with a take-up of 33.7 per cent. Finally, the COVID-19 exceptional CIG recipients would number just over 1.4 million, receiving benefits for an average of about 9.7 weeks, with a take-up of 29 per cent. Totalling all groups, some 5.1 million beneficiaries would receive wage supplementation benefits for an average of 12.2 weeks, with a 41 per cent take-up rate.

It should be borne in mind that the average weeks of use are "heavy", i.e. with total suspension of company operations (equivalent wage supplementation weeks at "zero hours"). The 12.2 "heavy" weeks that now emerge in the overall average for all groups of workers would translate into the maximum duration now allowed under Decree Law 34/2020 (18 weeks, not necessarily "heavy") if just under 68 per cent of working hours were suspended. In other words, if all 18 theoretically possible weeks are drawn, cost invariance with respect to the items estimated specifically in the Technical Reports would be achieved only if the average reduction in working hours for all weeks did not exceed 68 per cent.

In summary, the officially estimated costs deriving from the measures introduced in Decree Law 34/2020 would amount to around €16.4 billion,[57] including €1.3 billion of refinancing of the bilateral funds and €2.7 billion of the Article 71 Fund, which is partially drawn to cover the increase in expenditure deriving from Decree Law 52/2020. This amount is then increased by approximately €5.3 billion[58] from the earlier Decree Law 18/2020 (including the €218 million added with the ratification of the decree into law). Overall, therefore, the increase in expenditure for wage supplementation compared with the situation prior to Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020, would amount to around €22 billion (including €7.4 billion in imputed contributions).

[56] The take-up rate is given by the product of the percentage of beneficiaries that would not have been eligible for wage supplementation with the COVID-19 justification and the percentage of weeks used as a proportion of the maximum number of weeks permitted (18). It should not be confused with the percentage of hours actually supplemented as a proportion of the total number of working hours (the "draw" per worker or intensity of wage supplementation use), which can vary from zero (no recourse to wage supplementation) to 100 per cent ("zero-hours" wage supplementation).

[57] Of which €5.8 billion in imputed contributions.

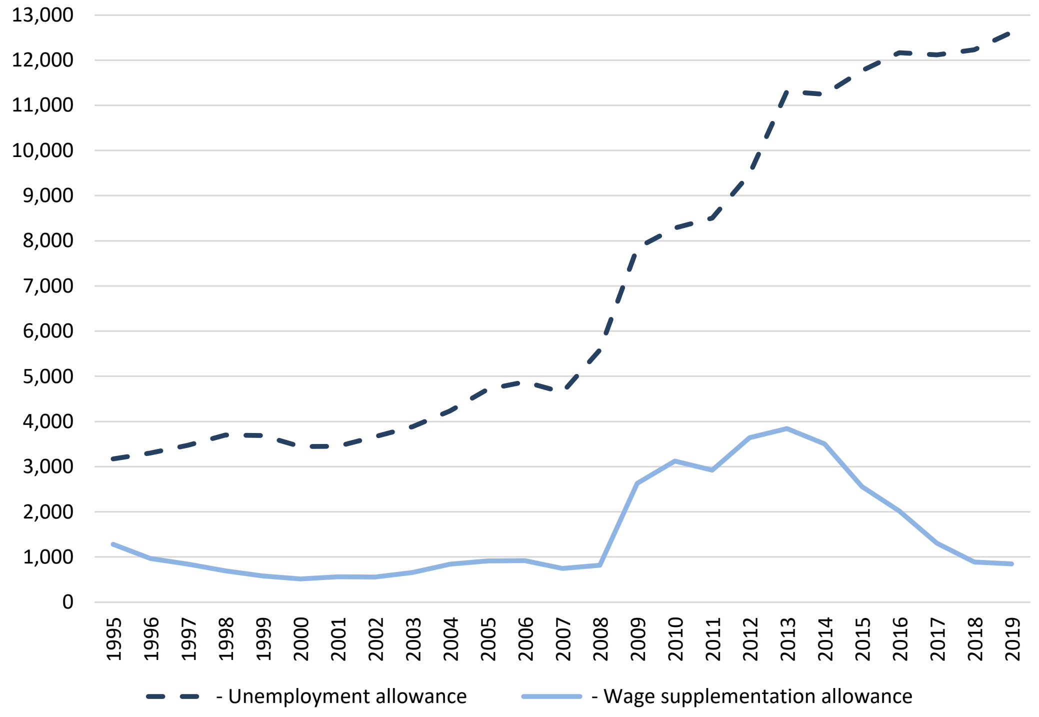
[58] Of which €1.6 billion in imputed contributions.

These are very substantial amounts being added to trend expenditure for wage supplementation for workers who, even in under pre-Decree Law 18/2020 rules and in the absence of the pandemic, would have been eligible for benefits. Distributed over the maximum duration of 18 weeks allowed for exceptional wage supplementation benefits (Articles 19-22 of Decree Law 18/2020) and therefore passing from the total suspension of work to the assumption of a suspension of about 68 per cent of hours worked, the €22 billion (including the resources of the fund) would translate into approximately €5.3 billion per month,[59] a figure significantly greater than the outlays for wage supplementation benefits in all of 2013, the peak year for this item (about €3.8 billion; Figure 3.3) and well above both the annual average from 2008 (first year of the financial crisis) to today (€2.4 billion), and the amount registered in 2019 (almost €850 million).

The uncertainty about the extent of recourse to wage supplementation should not be underestimated. For example, consider the exceptional CIG mechanism introduced with Article 22 of Decree Law 18/2020, for which the Technical Reports taken as a whole (Table 3.2) assume an average duration of 9.7 weeks of benefits, slightly more than already permitted under the rules set out in Decree Law 18/2020 alone. If, for example, all workers with exceptional COVID-19 wage supplementation received 75 per cent of

[59] If the expenditure accrues over an average duration of 12.2 weeks at “zero hours”, in order to ensure cost invariance when the number of weeks rises to 18, wage supplementation must shift from full suspension of work to suspension of 68 per cent of hours (for example, 68 per cent of hours every day or 68 per cent of full days of work each month or some other period of time).

Figure 3.3 – Expenditure for wage supplementation and unemployment allowances *(millions of euros)*



Source: Istat, Conto della protezione sociale.

benefits for all the 18 weeks now theoretically possible instead of 100 per cent for 9.7 weeks,[60] the increase in expenditure for exceptional wage supplementation benefits resulting from the combined provisions of the three decrees would no longer be about €5.1 billion but almost €7.1 billion, an increase of around €2 billion against which the residual appropriations for the Fund pursuant to Article 71 of Decree Law 34/2020 (€1.5 billion) would be insufficient. This is explained by the fact that the calculations in the Technical Report of Decree Law 52/2020 are based on the assumption that only a small subset of the beneficiaries of exceptional COVID-19 CIG benefits (221,000 workers at companies already affected by lockdown restrictions under Decree law 19/2020) would extend the duration of wage supplementation to 17 weeks, while the largest subset (over 1.5 million workers at non-lockdown firms) would continue to use only 9 weeks.

Reformulated at a more general level, the previous example suggests that if wage supplementation were used for all 18 weeks instead of the 12.2 assumed overall by the Technical Reports, with an average reduction in working hours greater than the 68 per cent which would ensure unchanged spending, the residual resources of the Article 71 Fund (€1.5 billion) would be strained. More specifically, the estimated €22 billion would

[60] I.e. if they received benefits for a period equal to about 1.8 times that assumed in the Technical Report (9.7 weeks) with a reduction in working hours of about 20 percentage points greater than that (just under 54 per cent) which would ensure the invariance of this expenditure item.

become over €24.3 billion if the average reduction in working hours was 75 per cent and about €23.4 billion if the reduction were 72 per cent.

Underpinning the estimates of the necessary resources there seems to be a latent but crucial assumption that, on average for 18 weeks now theoretically available (in the period from 23 February to 31 October), the use of wage supplementation will remain below 70 per cent of working hours. Taking account of the fact that at least 6 weeks (the last week of March, those in April and the first in May[61]) were characterised by widespread recourse to wage supplementation with a large reduction in hours worked, it would appear that almost normal working conditions are assumed to prevail (much more limited use of wage supplementation at a level similar to historical values) as soon as September.

Even if the most acute phase of the pandemic and lockdown seems to be over, the value that this parameter – the extent of the reduction in working hours – may actually have in the coming months is not easily predictable, and this counsels paying close attention to the data that the monitoring mechanism will be making available.

3.1.2 One-off allowances paid in March (Decree Law 18/2020)

Immediately after the outbreak of the pandemic, Decree Law 18/2020 had already introduced one-off allowances for March to be paid to para-subordinate and self-employed workers, professionals with and without a category pension fund and the more marginal categories of payroll employment (seasonal, fixed-term agricultural, etc.). Two interministerial decrees (Ministerial Decree of 28 March 2020 and Ministerial Decree of 30 April 2020) authorised the use of the resources of the Income of Last Resort Fund (Article 44 of Decree Law 18/2020)[62] to extend the allowance to on-call and occasional workers and those involved in door-to-door sales. The combined provisions of the three decrees envisage officially estimated expenditure for one-off allowances for March totalling just over €3.4 billion (Table 3.3).

The intention was to provide support to those who did not meet the eligibility requirements for the wage supplementation system (even through the exceptional CIG instrument) or unemployment benefits. These allowances (summarised below) were clearly not intended to be combined among themselves or with the Citizenship Income (Article 31), while the prohibition was less clear for wage supplementation benefits (in particular the COVID-19 CIG), unemployment benefits (NASPI, DIS-COLL and agricultural unemployment benefits) and benefits financed by the Income of Last Resort Fund. The question of compatibility has been partially clarified, although some uncertainties remain,

[61] The first lockdown decree is dated 25 March, but regardless of legislative action, significant contractions in working hours were registered even earlier (as revealed in the data on authorised wage supplementation pertaining to March).

[62] Decree Law 18/2020 simply created this fund with an initial appropriation of €300 million, indicating that it was to be used in general to pay benefits to employees, self-employed workers and professionals harmed by the pandemic that had not already received other forms of income support.

partly due to the fact that the various prohibitions on the combination of benefits are not specified uniformly in Decree Law 34/2020, the Ministerial Decree of 28 March 2020, the Ministerial Decree of 30 April 2020 and the Ministerial Decree of 29 May 2020. After a brief summary of the one-off allowances provided for in Decree Law 18/2020, the amendments in Decree Law 34/2020 are examined, distinguishing between categories of payroll employment or comparable work (section 3.1.3.1) and categories of self-employment or professional work (section 3.1.3.2).

Decree Law 18/2020 introduced €600 tax-exempt one-off allowances for March for five categories of beneficiary (Table 3.2):

- para-subordinate workers and professionals without a category pension fund,[63] not receiving a pension,[64] enrolled exclusively in the INPS separate pension fund and with

[63] The INPS Monitoring Report of 22 May and 19 June show that applications were also accepted from professionals organised in professional practices.

[64] This condition (non-pension holder) is never indicated in the extensions of wage supplementation for COVID-19-related causes, probably because the number of pensioners who continue/resume payroll employment is small. However, in the emergency circumstances, it could have been considered as a factor for more selective granting of benefits, at least for the exceptional CIG mechanisms. In an aside, the Technical Report for Decree Law 18/2020 and the INPS Monitoring Report show that the "no pension income" condition was interpreted as referring to direct pensions only. Decree Law 34/2020 uses this selection criterion in determining eligibility for all allowances, but continues to make no such reference with regard to eligibility for wage supplementation for COVID-19 reasons.

Table 3.3 – One-off allowances for March to be paid to employees and self-employed workers under Decree Law 18/2020, Ministerial Decree of 28 March 2020 and Ministerial Decree of 30 April 2020 (1)

Reference legislation	Beneficiaries	Conditions	Estimated expenditure in Tech. Report *(millions)*	Estimated beneficiaries in Tech. Report *(thousands)*
Art. 27 DL 18/2020	Para-subordinate workers and professionals without category pension fund	Enrolled exclusively in the INPS separate pension fund with para-subordinate contract and VAT reg. numbers active at 23 February 2020. No pension income.	TR: 203.4 INPS monitoring: 234.1	TR: 339.0 INPS monitoring: 400.9
Art. 28 DL 18/2020 and INPS Circular 49/2020	Self-employed and others enrolled in special INPS pension funds	In addition to special pension fund, only enrolment in the INPS separate pension fund permitted. No pension income.	TR: 2,160 INPS monitoring: 1,690.1	TR: 3,600 INPS monitoring: 2,863.4
Art. 29 DL 18/2020	Seasonal payroll employees in tourism and spa sectors	Involuntarily lost job between 1 January 2019 and 23 February 2020 and not in payroll employment at 23 February 2020. No pension income.	TR: 103.8 INPS monitoring: 106.3	TR: 173.0 INPS monitoring: 211.2
Art. 30 DL 18/2020	Fixed-term agricultural labourers	At least 50 days of actual agricultural work in 2019. No pension income.	TR: 396 INPS monitoring: 324.3	TR: 660.0 INPS monitoring: 553.4
Art. 38 DL 18/2020	Workers enrolled in entertainment industry pension fund	At least 30 daily contribution payments in 2019. Income from employment not in excess of €50,000 in 2019. Not in payroll employment at 23 February 2020. No pension income.	TR: 48.6 INPS monitoring: 18.7	TR: 81.0 INPS monitoring: 32.1
MD 28 March 2020 (2)	Self-employed workers with VAT reg. number Professionals with category pension fund (official professional associations)	Two income thresholds for 2018 tax year. Those in the higher income bracket must also demonstrate they have incurred significant harm: closure of VAT reg. position between 23 February and 30 March 2020 or reduction of at least 33 per cent in income (from employment) in the first quarter of 2020 compared with the same period of the previous year. Income calculated on a cash basis. No direct pension income.	280 (expenditure limit set in Article 1 of the decree)	
MD 30 April 2020 (2)	Seasonal payroll employees in sectors other than tourism and spas	Involuntarily lost job between 1 January 2019 and 31 January 2020. At least 30 days of work in the same period. At the application date, no pension income and not in open-ended employment other than on-call work.	220	100.0
	On-call workers	At least 30 days of work in the period between 1 January 2019 and 31 January 2020. At the application date, no pension income and not in open-ended employment other than on-call work.		245.0
	Occasional workers (Art. 2222 Civil Code)	Enrolled exclusively in the INPS separate pension fund at 23 February 2020. At least one employment contract between 1 January 2019 and 23 February 2020 and payment of at least one monthly contribution instalment. Without contract at 23 February 2020. At the application date, no pension income and not in open-ended employment other than on-call work.		5.0
	Door-to-door salespersons with VAT reg. number	At 23 February 2020 active VAT reg. number and enrolled exclusively in the INPS separate pension fund. 2019 income from sales greater than €5,000. At the application date, no pension income and not in open-ended employment other than on-call work.		15.0

Source: based on data from the summary statements of the financial effects annexed to Decree Law 18/2020 and interministerial decrees and, where available, INPS monitoring data at 19 June.
(1) The allowances referred to in Articles 27, 28, 29, 20 and 38 and the Citizenship Income may not be combined. Decree Law 18/2020 does not specify other compatibility/incompatibility conditions. Decree Law 34/2020 provides incomplete clarification. – (2) Interministerial decrees implementing Article 44 of Decree Law 18/2020. The allowances introduced with these decrees may not be combined with the other allowances provided for in Decree Law 18/2020 or with the wage supplementation benefits for COVID-19-related causes. For atypical workers, self-employed workers and professionals (normally not eligible for wage supplementation mechanisms), the decrees specify that the allowances may not be combined with wage supplementation benefits. The prohibition on combining allowances with the Citizenship Income is not explicit (at this date, the Emergency Income mechanism had not yet been introduced).

a para-subordinate contract and VAT number active at 23 February 2020 (Article 27). Workers with active employment relationships in the sports sector are also included (Article 96). The expected cost then amounted to about €203 million;

- self-employed workers enrolled in the INPS special pension funds (craftsmen, retailers, direct farmers and sharecroppers),[65] not receiving a pension and not enrolled in another mandatory pension fund other than the INPS separate pension fund (Article 28). The expected cost then amounted to about €2.2 billion;

- seasonal payroll employees in the tourism and spa industries that involuntarily lost their job between 1 January 2019 and 23 February 2020, not receiving a pension and not in payroll employment at 23 February 2020[66] (Article 29). The expected cost then amounted to about €104 million;

- fixed-term agricultural labourers, not receiving a pension, who in 2019 performed at least 50 actual days of agricultural work (Article 30). The expected cost then amounted to about €396 million;[67]

- workers enrolled in the INPS entertainment industry pension fund, with at least 30 daily contributions payments to that fund in 2019 and income from employment of no more than €50,000 in 2019. They may not be receiving a pension or be in payroll employment at 23 February 2020 (Article 38). The expected cost then amounted to about €49 million.

Comparing the INPS Monitoring Reports on the allowances of 22 May and 19 June (the only two published so far) and the Technical Report accompanying Decree Law 34/2020 (which, before addressing the estimates, reconstructs previous developments), it is clear that the number of applications received for these March allowances had essentially already been stable for some days (almost all applications were received by April), with expenditure substantially in line with the budgeted resources.

Two interministerial decrees were then issued that refinanced the Income of Last Resort Fund (Article 44 of Decree Law 18/2020) and drew on its resources to disburse other one-off allowances for March.[68]

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[65] They must be enrolled in the special pension funds in their capacity as self-employed workers. With Circular 49/2020, INPS gave an expansive interpretation of eligibility, declaring that relatives assisting craftsmen, retailers and farmers who were enrolled in the special pension funds qualified for the March allowance, even if they did not qualify as self-employed.

[66] Seasonal workers are employed with fixed-term or short-term contracts during the season or during the event in which they were involved with various duties.

[67] The legislation explicitly refers to agricultural labourers only, not other categories. However, the INPS Monitoring Report of 22 May shows that applications were also accepted from small tenant farmers (participating relatives and small-scale direct farmers supplementing the required days).

[68] The Fund was also subsequently refinanced with Article 78 of Decree Law 34/2020.

More specifically, a joint decree of the Minister of Labour and Social Policies and the Minister for the Economy of 28 March 2020[69] allocated €280 million to finance an allowance for March of €600 for self-employed workers[70] and professionals belonging to specific official professional associations. The eligibility conditions for beneficiaries include not receiving a pension, compliance with two income thresholds for 2018 tax year and, if falling within the highest income bracket, also showing that they had incurred significant harm from the crisis as demonstrated by the closure of their VAT registration position between 23 February and 30 March 2020 or a reduction of at least 33 per cent in their income (from employment) in the first quarter of 2020 compared with the same period of the previous year.[71] This was the first instance of selectivity in targeting emergency benefits: it is a significant step that also continues in Decree Law 34/2020. Furthermore, this ancillary decree affirms a general principle that would have been preferable to establish directly in Decree Law 18/2020, namely: the €600 allowance could not be combined with any of the other benefit schemes introduced to counter the effects of the COVID-19 emergency on workers, whether they be COVID-19 wage supplementation for or other allowances (the €600 allowance for the five categories delineated in Decree Law 18/2020). It does not explicitly specify that the allowance could not be combined with the Citizenship Income (the Emergency Income programme had not yet been established at that date), although this should apply by analogy with Article 31 of Decree Law 18/2020.

With the Decree of the Ministry of Labour and Social Policies of 30 April 2020,[72] another €220 million were allocated to finance – again for March – an allowance of €600 to beneficiaries belonging to the following four categories, provided that as at the application date they were not receiving a pension and were not in an open-ended employment relationship other than on-call work (this was an additional condition with respect to the previous interministerial decree):

- seasonal payroll employees in sectors other than tourism and thermal spas that involuntarily lost their jobs in the period between 1 January 2019 and 31 January 2020 and who worked for at least 30 days in the same period;

[69] See https://www.lavoro.gov.it/documenti-e-norme/normative/Documents/2020/D-I-28-marzo-2020.pdf.
[70] In this case, beneficiaries do not include relatives assisting craftsmen, retailers and farmers. The additional allowance of €600 is directed at self-employed workers with a VAT registration number.
[71] More specifically, if total income for 2018 (gross of rent payments) did not exceed €35,000, is sufficient that beneficiaries activities were restricted by measures taken to counter the pandemic. If, however, income falls between €35,000 and €50,000, beneficiaries must meet the additional condition of having closed their VAT registration number between 23 February and 31 March 2020 or demonstrate that their income for the first quarter of 2020 had decreased by at least 33 per cent compared with the same quarter of 2019. For that purpose, income is calculated on a cash basis (revenues received and expenses incurred).
[72] See https://www.lavoro.gov.it/documenti-e-norme/normative/Documents/2020/Decreto-interministeriale-30aprile2020.pdf.

- on-call workers who worked for at least 30 days in the period between 1 January 2019 and 31 January 2020;

- self-employed workers without a VAT registration number already enrolled exclusively in the INPS separate pension fund at 23 February 2020, who in the period between 1 January 2019 and 23 February 2020 had independent occasional employment contracts pursuant to Article 2222 of the Italian Civil Code with payment of at least one monthly contribution instalment and did not have an open contract at 23 February 2020;[73]

- door-to-door salespersons with an active VAT registration number at 23 February 2020 who as of the same date are enrolled exclusively in the INPS separate pension fund, with annual income from sales exceeding €5,000 in 2019.

This ancillary decree to Decree Law 18/2020 also establishes that the €600 allowance could not be combined with any of the other benefits established to counter the impact of COVID-19 on workers, whether they be wage supplementation benefits or other allowances. It still does not explicitly specify that the allowance could not be combined with the Citizenship Income (the Emergency Income programme had not yet been established at that date), although this should apply by analogy with Article 31 of Decree Law 18/2020.

The allowance was only intended to provide limited (one month only) financial support for workers who were generally in ongoing work relationships other than those with the standard payroll employment contracts, but who had an income/number of working days that exceeded the minimum below which they would qualify for the Citizenship Income or, after Decree Law 34/2020, the Emergency Income.[74] Beneficiaries did not comprise the so-called working poor, including occasional workers with incomes of less than €5,000 per year and those paid with vouchers (pursuant to Article 54-bis of Decree Law 50/2017 as amended).

3.1.3 One-off allowances paid in April and May (Decree Law 34/2020)

As with the wage supplementation programmes, Decree Law 34/2020 continued and expanded the line of action taken with Decree Law 18/2020 by introducing one-off allowances for April and, in some cases, May. As will be seen in more detail below, the decree targets – with some distinctions – the same categories of beneficiary addressed with

[73] The condition of exclusive enrolment in the INPS separate pension fund restricted the pool of beneficiaries to individuals with income from occasional employment of at least €5,000 a year. The various income support measures (wage supplementation and allowances) did not cover occasional workers with incomes below €5,000 a year and occasional workers paid with vouchers (pursuant to Article 54-bis of Decree Law 50/2017 as amended).
[74] This would explain the minimum income for occasional workers or the minimum number of days of work for agricultural employees and on-call workers.

Decree Law 18/2020 and the two connected interministerial decrees and introduces an allowance for domestic workers, who had hitherto been ineligible for any form of benefit.

After these changes, the allowances in principle covered all workers with an existing work relationship/activity in the pre-crisis months who were not necessarily eligible for wage supplementation. The working poor continue to be excluded from any form of economic support, including occasional workers with incomes of less than €5,000 per year, occasional workers paid with vouchers (pursuant to Article 54-bis of Legislative Decree 50/2017 as amended), domestic workers with fewer than 10 hours of work per week, although they could be eligible for the Emergency Income programme (Article 82).

The Technical Report estimates that all the new allowances (Articles 84, 85 and 98 of Decree Law 34/2020) will generate expenditure of around €4.5 billion in 2020 (Tables 3.4 and 3.5), in addition to the more than €3.4 billion in allowances already established for March (Table 3.3). These too are expenditures of unusual magnitude, considering that in 2019 (the peak year in the time series since 1995) total expenditure on unemployment benefits[75] (the NASPI and DIS-COLL programmes, the agricultural allowance and other allowances expiring after the reform of the Jobs Act) amounted to about €12.6 billion, while average annual expenditure from 2008 (the first year of the crisis) to today was just over €10.2 billion (Figure 3.3). Despite their temporary and impromptu nature, the resources appropriated for these one-off benefits are equal to just under two-thirds of the amount spent in 2019 for all unemployment benefits and almost 80 per cent of average spending from 2008 to today. This figure should make clear, first of all, the challenges that could arise if, in the absence of a sufficiently robust economic recovery, it becomes necessary to extend one-off allowances into the second half of the year, as has already been done with wage supplementation programmes (until October): for example, if the duration of the allowances was extended to match the maximum duration of COVID-19 wage supplementation benefits (18 weeks), another month and a half of allowances would have to be added. Second, the figure provides an idea of the expenditure requirements that could arise when, after August 17, the ban on firings expires and, without an adequate economic recovery or alternative income support instruments, applications for unemployment benefits could suddenly increase (we return to this point in section 3.1.5). In this regard, the most recent INPS monthly report[76] shows that applications for NASPI and DIS-COLL benefits in January and February were in line with or even slightly lower than those received in 2019, while they increased by more than 37 per cent in March (from 105,070 to 144,223) and over 54 per cent in April (from 119,726 to 184,490). Obviously, these allowances are paid subsequent to the natural termination of fixed-term employment contracts or contract work relationships.

[75] Taken as a reference for replacement benefits (rather than merely supplemental benefits such as those in the COVID-19 CIG programme) for income from employment. Note that in the INPS Monitoring Report applications for unemployment benefits in March increased by more than 40 per cent on the same month of 2019.
[76] The periodic report "Cassa integrazione guadagni e Disoccupazione" published in mid-June. This report is now accompanied by a specific report on COVID-19 wage supplementation.

In addition to updated information on the March allowance, the second INPS Monitoring Report on one-off allowances (19 June 2020) contains data on that for April. In reality the data are only partial for now, as they regard the same allowances (in roughly identical amounts) for categories that already benefitted in March (those referred to in Articles 27, 28, 29, 30 and 38 of Decree Law 18/2020, which were renewed for April), plus the number of applications received from temp workers (Article 84, paragraph 5, of Decree Law 34/2020) and from workers enrolled in the entertainment industry pension fund (Article 84 , paragraph 10, of Decree Law 34/2020). For a more complete picture, it is necessary to wait for upcoming Monitoring Reports.

With regard to the combination of benefits, Decree Law 34/2020 establishes that the allowances (including those paid out of the Income of Last Resort Fund) can be combined with the ordinary disability allowance (Articles 75, 85 and 86) but cannot be combined among themselves (Article 86). Excluding the cases for which combination is specifically prohibited, the question of whether the allowances can be combined with wage supplementation benefits (in particular the COVID-19 CIG) or unemployment benefits (NASPI, DIS -COLL and agricultural unemployment benefits) remains less clear, with no a "framework" principle being established.

3.1.3.1 One-off allowances for payroll employees

Going into more detail, Article 84 of Decree Law 34/2020 introduced the following changes compared with the previous decree (Table 3.4):

- seasonal employees in the tourism and spa sectors that involuntarily lost their jobs between 1 January 2019 and 23 February 2020 are entitled to an allowance of €600 for April, provided that as of 23 February 2020 they were not receiving a pension and were not in payroll employment.[77] These workers are also eligible for an allowance of €1,000 for May if they involuntarily lost their job between 1 January 2019 and 17 March 2020,[78] provided that as of the date of entry into force of Decree Law 34/2020 they were not receiving a pension, were not in payroll employment and were not receiving NASPI unemployment benefits;

- workers outsourced at client companies operating in the tourism and spa sectors who involuntarily lost their jobs between 1 January 2019 and 17 March 2020 are entitled to an allowance of €600 for April and €1,000 for May, provided that as of

[77] The same category indicated in Article 29 of Decree Law 18/2020 and therefore potential beneficiaries of a €600 allowance in March.

[78] The same category indicated in Article 29 of Decree Law 18/2020, with the time limit for job termination moved ahead, and therefore potential beneficiaries of a €600 allowance in March. Not receiving NASPI benefits is introduced as a new condition.

Table 3.4 – One-off allowances for payroll employees provided for under Decree Law 34/2020 (1)

Reference legislation	Beneficiaries	Benefits	Conditions	Estimated expenditure in Tech. Report *(millions)*	Estimated beneficiaries in Tech. Report *(thousands)*
Art. 84 para. 5, 1st indent	Seasonal payroll employees in tourism and spa sectors	€600 one-off in April tax exempt	Involuntarily lost job between 1 January 2019 and 23 February 2020 and not in payroll employment at 23 February 2020. No pension income.	April: 140.4 May: 208.0 total: 348.4	April: 234 May: 208
Art. 84 para. 6, 1st indent		€1,000 one-off in May tax exempt	Involuntarily lost job between 1 January 2019 and 17 March 2020. At May 19, 2020, not receiving a pension, not in payroll employment and not receiving NASPI unemployment benefits.		
Art. 84 para. 5, 2nd indent	Workers outsourced at client companies operating in the tourism and spa sectors	€600 one-off in April tax exempt	Involuntarily lost job between 1 January 2019 and 17 March 2020. At May 19, 2020, not receiving a pension or in payroll employment. Beneficiaries of the May allowance could not be receiving NASPI unemployment benefits at 19 May 2020.		
Art. 84 para. 6, 2nd indent		€1,000 one-off in May tax exempt			
Art. 84, para. 7	Fixed-term agricultural labourers	€500 one-off in April tax exempt	In 2019 performed at least 50 actual days of agricultural work and not receiving a pension.	April: 330	April: 660
Art. 84, para. 8, l. a)	Seasonal payroll employees in sectors other than tourism and spas	€600 one-off in April and May tax exempt	Involuntarily lost job between 1 January 2019 and 31 January 2020. At least 30 days of work in the same period. At the application date, no pension income and not in open-ended employment other than on-call work.	April: 221.4 May: 221.4 total: 442.8 with (a)(b) of Table 3.5	April: 369 May: 369 with (c)(d) of Table 3.5
Art. 84, para. 8, l. b)	On-call workers		At least 30 days of work in the period between 1 January 2019 and 31 January 2020. At the application date, no pension income and not in open-ended employment other than on-call work.		
Art. 84 para. 10	Workers enrolled in entertainment industry pension fund		At least 30 daily contribution payments in 2019. Income from employment not in excess of €50,000 in 2019. At date of entry into force of decree, not in payroll employment and no pension income.	April: 57.0 May: 57.0 total: 114.0	April: 95.0 May: 95.0
			At least 7 daily contribution payments in 2019. Income from employment not in excess of €35,000 in 2019. At date of entry into force of decree, not in payroll employment and no pension income.		
Art. 85 (2)	Domestic workers	€500 one-off in April and May tax exempt	At 23 February 2020, holder of one or more employment contracts with total duration of more than 10 hours per week. Not cohabiting with the employer and no pension income or payroll employment other than domestic work.	April: 234.15 May: 234.15 total: 468.3	April: 476.0 May: 476.0

Source: based on data from the summary statement of the financial effects annexed to Decree Law 34/2020. (1) The allowances may be combined with the ordinary disability allowance. They may not be combined among themselves or with the Emergency Income. If someone is already a beneficiary of the Citizenship Income with a benefit of a lower amount, the allowances increase that benefit up to their value. Only the allowance in paragraph 6 is specifically barred from combination with NASPI unemployment benefits, although beneficiaries under other paragraphs could receive overlapping benefits (the NASPI is intended for all private-sector workers, including apprentices, working members of cooperatives and entertainers; also eligible are public-sector employees with a contract other than open-ended payroll employment). The legislation does not clarify the question of combination of these allowances with wage supplementation benefits (COVID-19 and otherwise) and general unemployment benefits (NASPI, DIS-COLL and agricultural unemployment benefits). – (2) The allowance is not due to workers whose employment relationship benefits from the provisions of Article 103 of Decree Law 34/2020 ("Legalisation of employment relationships").

the date of entry into force of Decree Law 34/2020 they were not receiving a pension, were not in payroll employment and were not receiving NASPI unemployment benefits;

- fixed-term agricultural labourers, not receiving a pension, who in 2019 performed at least 50 actual days of agricultural work,[79] are eligible for an allowance of €500 for April and nothing for May;

- workers enrolled in entertainment industry pension fund, with at least 30 daily contribution payments in 2019 to that fund, are entitled to an allowance of €600 for April and May if income from employment did not exceed €50,000 in 2019 and they were not receiving pension income and were not in payroll employment on the date of entry into force of Decree Law 34/2020.[80] The same benefits (€600 allowance in both April and May) are paid to such workers with at least 7 daily contributions payments in 2019 whose income did not exceed €35,000 that year;

- seasonal payroll employees in sectors other than tourism and thermal spas who involuntarily lost their jobs in the period between 1 January 2019 and 31 January 2020 and who worked for at least 30 days in that period, are entitled to an allowance of €600 for April and May, provided that at the application date they were not receiving pension income and were not in open-ended payroll employment (with the exception of on-call work);

- the same benefits (an allowance of €600 in April and May) apply to on-call workers who worked for at least 30 days in the period between 1 January 2019 and 31 January 2020, provided that at the application date they were not receiving pension income and were not in open-ended payroll employment (with the exception of on-call work).

The allowances introduced with Article 84 may not be combined with the Citizenship Income if the latter is greater; if it is lower, they supplement it up to the amount of the allowance. The same allowances may also not be combined with Emergency Income benefits.[81]

In other provisions concerning payroll employment, Article 85 grants domestic workers an allowance of €500 for April and May, provided that at 23 February 2020, they held one or more employment contracts with a total duration of more than 10 hours per week, are not cohabiting with the employer and do not have a pension or an open-ended employment relationship other than domestic work (there is no reference to the date of

[79] The same category indicated in Article 30 of Decree Law 18/2020 and therefore potential beneficiaries of a €500 allowance in March.

[80] The same category indicated in Article 38 of Decree Law 18/2020 and therefore potential beneficiaries of a €600 allowance in March. The pool of beneficiaries of the May allowance is larger as both the requirement for daily social contributions paid in 2019 and that for 2019 income become less selective.

[81] It would have perhaps been more consistent to adopt the same rules governing the combination of benefits used for the Citizenship Income for the Emergency Income programme as well.

application). The allowance may not be combined with the Citizenship Income if the latter is greater; if it is lower, the one-off payments supplement it up to the amount of the allowance. The one-off allowance may not be combined with benefits under the Emergency Income programme.[82]

These details reveal that while Decree Law 18/2020 adopted a uniform perspective for all, i.e. only one monthly payment (March) of the same amount (€600), with fairly similar constraints and eligibility conditions, Decree Law 34/2020 differentiated the duration of the allowances (some received one month, others two months), the amount of the benefit (some received €1,000, others €600 and still others €500) and eligibility conditions (compatibility with other benefit schemes, income thresholds, contribution payments, etc.).[83] This differentiation does not seem prompted by the need to address differences in the intensity and duration of the impact of the crisis. The absence of an adequate rationale could become more evident, and at the same time even more indefensible, if it were necessary to extend payments of the allowance beyond May.

3.1.3.2 One-off allowances for self-employed workers and professionals

For para-subordinate workers, the self-employed and the liberal professions, Article 84 of Decree Law 34/2020 introduced the following new measures (Table 3.5):

- para-subordinate workers who are not receiving a pension, are enrolled exclusively in the INPS separate pension fund and hold a contract for a para-subordinate employment relationship at 23 February 2020 are entitled to an allowance of €600 for April.[84] They are also entitled to an allowance of €1,000 for May if their employment relationship had been terminated as at the date of entry into force of Decree Law 34/2020;[85]

[82] It is difficult to understand why Article 85 contains a paragraph (the third) that prohibits combination of the allowance with other benefits (including those financed with the Income of Last Resort Fund) if Article 86 already addresses this issue ("Prohibition on combination of allowances"). Among other things, the paragraph in Article 85 neglects to include the allowance referred to in Article 98 (workers and professionals in the sports industry) in the prohibition on the combination of allowances. To render the text more transparent and readable, the rules governing combination of benefits should be based as much as possible on common principles.

[83] For example, the exact date or period for which the presence of pension income or an employment contract have an impact on eligibility: seasonal payroll employees in sectors other than tourism or thermal spas must have lost their job in the period between 1 January 2019 and 31 January 2020 in order to receive the allowance for April and May; the end-date of that period for seasonal workers in the tourism and spa sectors is 17 March.

[84] The same category indicated in Article 27 of Decree Law 18/2020 and therefore potential beneficiaries of a €600 allowance in March. Now, however, workers with active employment relationships in the sports industry falling under Article 98 of Decree Law 34/2020 are excluded.

[85] The category is the same; the eligibility conditions and the amount of the benefit have changed.

Table 3.5 – One-off allowance for para-subordinate workers, the self-employed and the liberal professions provided for under Decree Law 34/2020 and the Ministerial Decree of 29 May 2020 (1)

Reference legislation	Beneficiaries	Benefits	Conditions	Estimated expenditure in Tech. Report *(millions)*	Estimated beneficiaries in Tech. Report *(thousands)*
Art. 84, para. 1	Para-subordinate workers	€600 one-off in April tax exempt	Enrolled exclusively in the INPS separate pension fund and holder of a contract for a para-subordinate employment relationship at 23 February 2020. No pension income.	April: 300.6 May: 448.0 total: 748.6	April: 501.0 May: 448.0
Art. 84, para. 3		€1,000 one-off in May tax exempt	Enrolled exclusively in the INPS separate pension fund and lost job by the date of entry into force of the decree. No pension income.		
Art. 84, para. 1	Professionals without category pension fund	€600 one-off in April tax exempt	Enrolled exclusively in the INPS separate pension fund with an active VAT reg. number at 23 February 2020. No pension income.		
Art. 84, para. 2		€1,000 one-off in May tax exempt	Active VAT reg. number at the date of entry into force of the decree, enrolled exclusively in the INPS separate pension fund, with an income in the second two months of 2020 more than 33 per cent lower than that in the same period of 2019. Income calculated on a cash basis. No pension income.		
Art. 84, para. 4 and INPS Circular 49/2020	Self-employed workers and others enrolled in INPS special pension funds	€600 one-off in April tax exempt	In addition to the special pension fund, only enrolment in the INPS separate pension fund permitted. No pension income.	April: 1,830.0	April: 3,050
Art. 84, para. 8, l. c)	Occasional workers (Art. 2222 Civil Code)	€600 one-off in April and May tax exempt	Enrolled exclusively in the INPS separate pension fund at 23 February 2020 with at least one employment contract between 1 January 2019 and 23 February 2020 and no open contracts at 23 February 2020. At the application date, no pension income and not in open-ended employment other than on-call work.	(a) (see Table 3.4)	(c) (see Table 3.4)
Art. 84, para. 8, l. d)	Door-to-door salespersons with VAT reg. number		At 23 February, holder of active VAT reg. number and enrolled exclusively in the INPS separate pension fund. 2019 income from sales greater than €5,000. At the application date, no pension income and not in open-ended employment other than on-call work.	(b) (see Table 3.4)	(d) (see Table 3.4)
Art. 98	Workers with employment relationships in sports industry		Broad prohibition on combination of benefits: allowance cannot be combined with any other income from employment, any other type of one-off allowance (including those connected with Income of Last Resort Fund), with any type of COVID-19 wage supplementation programme (COVID-19 CIG and exceptional COVID-19 CIG), the Citizenship Income and the Emergency Income [2]	April: 115.0 May: 115.0 total: 230.0	April: 165.0 May: 165.0
MD 29 May 2020	Professionals with category pension funds (official professional associations), including those enrolled in 2019 or in 2020 by 23 February	€600 one-off in April tax exempt	Two income thresholds for 2018 tax year. Those in the higher income bracket must also demonstrate they have incurred significant harm: closure of VAT reg. position between 23 February and 30 March 2020 or reduction of at least 33 per cent in income (from employment) in the first quarter of 2020 compared with the same period of the previous year. Income calculated on a cash basis. The allowance may not be combined with other benefits established to counter the effects of COVID-19 emergency on workers (wage supplementation or allowances), direct pension income, open-ended employment, the Citizenship Income or the Emergency Income.	370 (expenditure ceiling specified in Article 1 of the decree)	371 (expenditure ceiling specified in Article 1 of the decree)

Source: based on data from the summary statement of the financial effects annexed to Decree Law 34/2020. (1) After the amendments of Decree Law 34/2020, the allowances are in principle targeted at all workers with an open employment relationship/activity in the pre-crisis months and not necessarily entitled to receive wage supplementation. The working poor continue to be excluded from any form of economic support, including occasional workers with incomes of less than €5,000 per year, occasional workers paid with vouchers (pursuant to Article54-bis of Legislative Decree 50/2017 as amended), domestic workers with fewer than 10 hours of work per week, although they could be eligible for the Emergency Income programme. – (2) The allowances may be combined with the ordinary disability allowance. They may not be combined among themselves or with the Emergency Income. If someone is already a beneficiary of the Citizenship Income with a benefit of a lower amount, the allowances increase that benefit up to their value. The legislation does not clarify the question of combination of these allowances with wage supplementation benefits (COVID-19 and otherwise) and general unemployment benefits (NASPI, DIS-COLL and agricultural unemployment benefits). A broader prohibition on combination of benefits is only specified for the allowance referred to in Article 98 (which concerns the small group of workers in the sports industry) and that introduced with the Ministerial Decree of 29 May 2020 (which concerns professionals with an official professional association), ruling out the combination of the allowance with COVID-19 wage supplementation, the Citizenship Income, the Emergency Income and open-ended employment.

- professionals without a category pension fund who are enrolled exclusively in the INPS separate pension fund and hold an active VAT registration number as at 23 February 2020 are entitled to an allowance of €600 for April. Those professionals are also entitled to receive an allowance of €1,000 for May if they have an active VAT registration number as at the date of entry into force of the decree and in the second two months of 2020 their income from employment (determined on a cash basis) is more than 33 per cent lower than in the same period of 2019;[86]

- self-employed workers enrolled in the INPS special pension funds[87] who do not receive pension income and are not enrolled in any other form of mandatory pension fund except for the INPS separate pension fund are entitled to an allowance of €600 for April as well. For May, in replacement of the allowance, such workers with a VAT registration number (thereby excluding assistants) could receive the grant introduced with Article 25 of Decree Law 34/2020, provided that more stringent requirements are met (see section 3.2.1.2);

- self-employed workers without a VAT registration number already enrolled exclusively in the INPS separate pension fund at 23 February 2020, who in the period between 1 January 2019 and 23 February 2020 had independent occasional employment contracts pursuant to Article 2222 of the Italian Civil Code are entitled to an allowance of €600 for April and May, provided that they did not have an open contract at 23 February 2020 and, at the application date, did not receive pension income or hold an open-ended employment relationship (except on-call work);[88]

- the same monthly allowances are paid to door-to-door salespersons with an active VAT registration number at 23 February 2020 who as of the same date are enrolled exclusively in the INPS separate pension fund, with annual income from sales exceeding €5,000 in 2019, provided that, at the application date, did not

[86] The category is the same; the eligibility conditions and the amount of the benefit have changed. It would be simplistic to criticise the discontinuity created by this rule, which for May excludes both VAT number holders that terminated their registration and those that still hold an active VAT number having suffered financial harm that may be significant but is below the 33 per cent threshold. The outline of a selection strategy can be discerned: the holders of terminated VAT numbers have the basic protection of the Citizenship Income and the Emergency Income available to them if necessary. VAT number holders that have managed to keep their business alive, despite experiencing some reduction in income, receive nothing. although they can also count on the basic protection of the Citizenship Income and the Emergency Income in case of need. The measure seeks to focus support on "vulnerable" VAT number holders who, due to the particular intensity with which they were impacted by the crisis, are at greater risk of closing their doors. This choice reflects the dual purpose of protecting individuals and households while also supporting business by preventing their closure in order to accelerate the economic recovery as much as possible or, from another perspective, to distribute aid on both the demand and supply sides.

[87] The same category indicated in Article 28 of Decree Law 18/2020. They must be enrolled in the special pension funds in their capacity as self-employed workers. With Circular 49/2020, INPS gave an expansive interpretation of eligibility, declaring that relatives assisting craftsmen, retailers and farmers who were enrolled in the special pension funds qualified for the March allowance, even if they did not qualify as self-employed.

[88] This is the third category already considered in the Decree of the Ministry of Labour and Social Policies of 30 April 2020. Payment of at least one monthly contribution is no longer a condition.

receive pension income or hold an open-ended employment relationship (except on-call work).[89]

In addition, Article 98 introduced an allowance of €600 for April and May for workers in the sports industry. This allowance is accompanied by a broad prohibition on combination with other sources of income: with any other income from employment (unemployment benefits are treated as equivalent to employment income), any other type of one-off anti-COVID-19 allowance (including those financed by the Income of Last Resort Fund), any type of COVID-19 wage supplementation, the Citizenship Income and the Emergency Income. The presence of such a detailed framework of incompatibility in Article 98 makes its absence in the articles for other allowances even more conspicuous. The last sentence of the first paragraph of Article 98 could be adopted as a reference to incorporate a general principle of non-combination by the same beneficiary of the various income support benefits established to counter the COVID-19 crisis. However, if there is a deliberate intention to strengthen support for specific categories, the possibility of combining benefits should be made more transparent, especially in the event (which cannot be ruled out a priori) allowances are extended beyond May.

Compared with Decree Law 18/2020, Decree Law 34/2020 did not directly renew the allowances for professionals with a category pension fund (those with an official professional association). However, Article 78 increased the resources of the Income of Last Resort Fund by €1.2 billion, providing that €650 million shall be used to pay allowances to such professionals for April and May, on condition that at the application date they were not holders of a permanent employment contract or a pension. The decree of the Minister of Labour and Social Policies in agreement with the Minister for the Economy and Finance of 29 May 2020 introduced the allowance for April only, financed with those resources.[90] The professionals are the same as those already benefitting from the provisions of the previous Ministerial Decree of 28 March 2020, with the addition of those who enrolled in the category pension fund during 2019 or by 23 February 2020, provided that their income also falls within one of the two income brackets specified in the earlier decree.

One aspect of the Ministerial Decree of 29 May 2020 that deserves mention is the treatment of the combination of multiple benefit programmes, which is more selective than that in the Ministerial Decree of 28 March 2020 and that in the Ministerial Decree of 30 April 2020. As before, the €600 allowance cannot be combined with any other benefits established to counter the effects of the COVID-19 emergency on workers, whether they involve wage supplementation programmes or other benefits, or with direct pension

89 This is the fourth category already considered in the Decree of the Ministry of Labour and Social Policies of 30 April 2020.

90 The decree authorised the allowance for April but not for May. In all likelihood, the definitive figures for May will be used to specify the details of the intervention in the light of both the available resources and the situations identifiable for a pool of potential beneficiaries – professionals – that varies highly by sector and by approach to practicing their profession. Furthermore, it should be borne in mind that for emergency benefits the liberal professions can count on the guidance, organisational and, at least in part, financial capacity of the professional associations and the privatised pension funds.

income. In this case, however, the legislation specifies that the allowance cannot be combined with open-ended employment[91] or receipt of the Citizenship Income and the Emergency Income. This last legislation (in chronological order) also underscores the need to establish eligibility requirements as benefits are extended over time and encompass a broader pool of beneficiaries, identifying those who have suffered the most in order to balance the two objectives of cohesion and ensuring the sustainability of expenditure.

Finally, the provisions of Article 25 of Decree Law 34/2020 are also relevant for self-employed workers, although they do not apply only to that category but also to entrepreneurs in a broader sense. This is a one-off measure, exempt from tax and excluded from the calculation of the value of production, payable by the Revenue Agency to businesses, including agricultural enterprises, and the self-employed if they are holders of VAT registration numbers with turnover not exceeding €5 million in 2019 as long as they experienced a reduction of at least a third in their turnover in April 2020 compared with the same month in 2019.[92] The reduction requirement does not apply to beneficiaries who started operations after 1 January 2019 or who have their registered office/operational headquarters in municipalities in which the pandemic was still in progress at the time of the declaration of the state of emergency. More specifically, the one-off benefit is equal to a percentage of the lost turnover, with a minimum of €1,000 for natural persons and €2,000 for legal entities (see section 3.2.1.2). The percentage decreases as turnover increases in three brackets. Employees, workers enrolled in the INPS entertainment industry pension fund, professionals with a VAT number who do not have a category pension fund, para-subordinated workers, professionals with a category pension fund, financial intermediaries and holding companies are not eligible. The reference to entrepreneurial activity (with corresponding entry in the company register), the exclusion of persons directly engaged in the work activity (both employees and independent contractors), as well as the relatively high turnover limit, cast this measure as a bridge between aid to workers and aid to businesses. In particular, the self-employed, who in Decree Law 34/2020 receive allowances for April but not May (Table 3.5), can count on this aid.[93]

The increase in the benefits available to professionals without a category pension fund (Article 84 of Decree Law 34/2020) and self-employed workers (Article 25 of the same decree) in May compared with the amount available in April could be justified by the fact that in the meantime the measure has become more selective, focusing on situations of severe loss of turnover/income. If emergency conditions persist, the use of more stringent selection criteria for wage supplementation benefits and allowances may also become necessary.

[91] Perhaps an excessive precaution, given that if professionals are in open-ended payroll employment, they would fall within the scope of the wage supplementation programmes.
[92] With regard to this threshold (33 per cent), see the comments in note 86 above.
[93] Simplifying, we can say that Article 25 is targeted at holders of VAT numbers (natural and legal persons) engaged in small and medium-sized entrepreneurial activity, plausibly with employees.

3.1.4 Distributive analysis of income support measures

This section offers a preliminary distributive analysis of the effects of wage supplementation measures for payroll employees (section 3.1.4.1), one-off allowances paid to self-employed workers and to certain marginal categories of employees (section 3.1.4.2) and the Emergency Income programme (section 3.1.4.3) conducted with the PBO's micro-simulation model. In particular, we focus on the pool of beneficiaries, the average benefit and certain aspects of its distribution.

As noted above, the income support measures for workers and households in Decree Law 34/2020 and Decree Law 52/2020 are largely a temporal extension of similar measures issued in previous months in the midst of the lockdown with Decree Law 18/2020, with a number of important additional measures such as, first and foremost, the introduction of the Emergency Income.

However, the measures are applied in a context in which the more stringent measures restricting activities (both productive and non-productive) initially adopted have gradually been relaxed. More specifically, the Prime Ministerial Decree of April 26 eased the most restrictive measures imposed during the emergency phase as from May 4, allowing the resumption of activity in sectors that had previously been locked down, while the reopening of other sectors has taken place more gradually.

From the start of phase 2, the lifting of restrictions involved a large swath of economic activity (around 40 per cent of the total in terms of the positive components of the IRAP tax base[94]), while only around 6 per cent remained formally closed down (Figure 3.4). From 18 May, additional segments of economic activity were allowed to reopen, albeit differentially by geographical area on the basis of local ordinances.

The easing of the restrictive measures, however, in itself does not constitute a guarantee that firms will be able to make a full recovery, with certain sectors still affected by the emergency due both to operating restrictions connected with social distancing and to the indirect consequences of the general decline in economic activity. Therefore, it remains difficult to assess the impact of the crisis in this transition phase and, therefore, to estimate the actual costs of the support measures for the most affected firms and workers. This also reflects the fact, noted earlier, that the data from the monitoring of the measures introduced with Decree Law 18 and 34 as well as of the existing and still operating ones (the ordinary wage supplementation schemes) do not give a complete view of developments in the initial phase of the emergency.

[94] Essentially represented by a firm's value of production.

Figure 3.4 – Value of production between Phase 1 and Phase 2: industries never closed down, those for which restrictions have been eased and those still closed at 4 May (1)

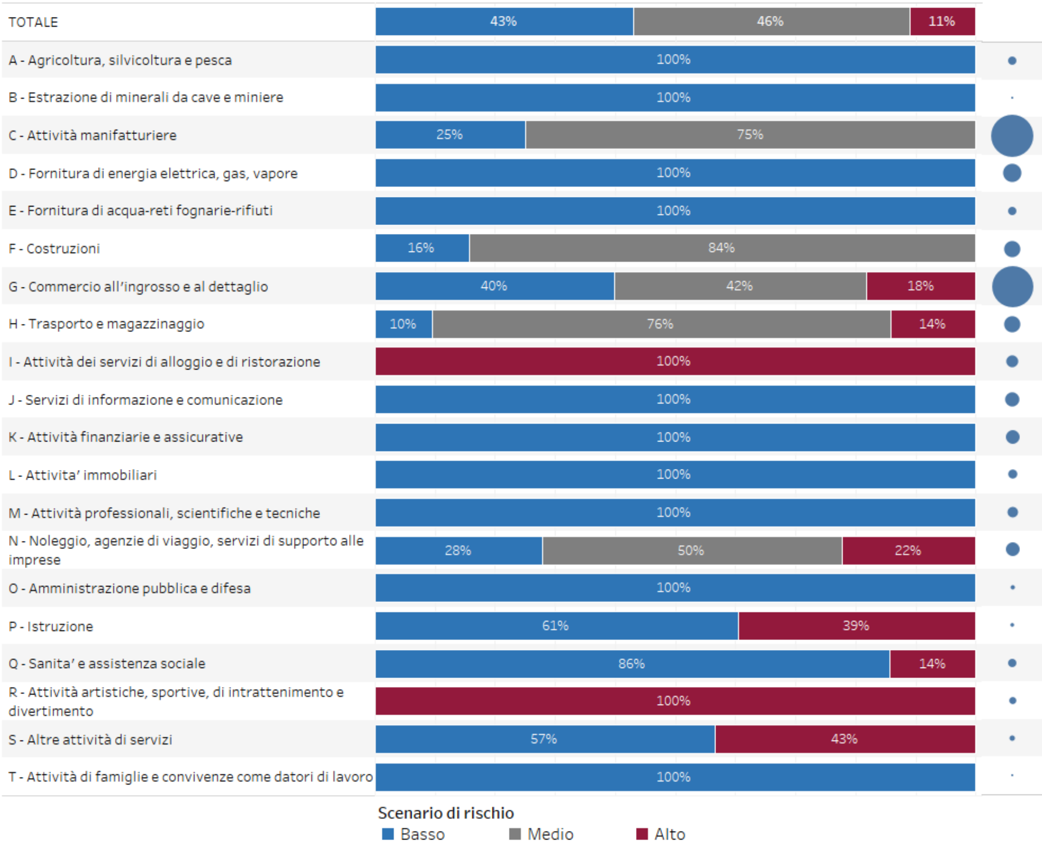
Source: based on data from IRAP returns.
(1) The distribution of the positive components of the IRAP tax base is used, essentially represented by a firm's value of production.

In the memorandum on Decree Law 18/2020,[95] a scenario analysis was proposed to take account of plausible asymmetries in the use of the different instruments made available by the decree, assuming different take-up rates on the basis of a classification of the sectors by degree of risk, which was greatest for the sectors most affected by the lockdown, medium for the sectors not subject to restrictions but still affected by the epidemic and low for sectors that could plausibly be considered less affected.

To assess the impact of the individual income support measures, the classification was revised in light of the new situation in phase 2, maintaining the high-risk classification for sectors still under restrictions and medium-risk for sectors no longer under restrictions but still possibly impacted by the effects of the epidemic.[96] Figure 3.5 sets out the assumptions underlying the assessment scenario through a sectoral risk map in terms of the proportion of value of production (positive components of the IRAP tax base) included in each risk grouping. For each sector, the bars indicate the breakdown by type of risk (high, medium and low) and the dots indicate the relative size of the sector within the entire

[95] See "Memorandum of the Chairman of the PBO concerning Bill AS 1766 ratifying Decree Law 18 of 17 March 2020, containing measures to strengthen the National Health Service and provide economic support to households, workers and firms connected with the COVID-19 epidemiological emergency – Budget Committee of the Senate" filed with the Economic Planning and Budget Committee of the Senate on 26 March 2020 (Abstract only. Full text in Italian).
[96] The scenario is based on the six-digit Ateco sectoral classification.

Figure 3.5 – Sectoral risk scenario (1)



Source: based on data from IRAP returns.
(1) The distribution by Ateco sector of the positive components of the IRAP tax base is used, essentially represented by a firm's value of production.

economy. A high risk (high take-up rate for the measures) is assumed for all sectors connected with tourism and restaurant activities, recreational and cultural services and smaller segments of the trade, transport and other services sectors. Medium risk is assumed for manufacturing even though it is completely free of restrictions in consideration of the indirect effects of the crisis, with the exclusion of the sectors related to the food and chemicals-pharmaceutical industry. Low risk is assumed for the remaining sectors. Overall, about 11 and 46 per cent of sectors (in terms of size of the business) are considered high risk (high take-up rate for measures) and medium risk (intermediate take-up rate for measures).

3.1.4.1 *Wage supplementation measures for payroll employees*

In order to address the effects of the pandemic on payroll employment, Decree Law 18/2020 of last March allowed firms to have recourse to the wage supplementation scheme to a greater extent than that already permitted under pre-crisis rules (which had been reorganised with the Jobs Act), providing for major exceptions to the standard rules in order to include industries previously not covered by this instrument. Compared with the provisions of the March decree, Decree Law 34/2020 extended the duration of benefits by a further nine weeks, raising it to a maximum of eighteen weeks. One-off allowances for some marginal categories of payroll employment were also added to supplement this instrument.

Table 3.6 sets out a scenario for use of the various measures supporting payroll employment: ordinary wage supplementation (CIGO) as governed by pre-crisis rules, the associated extensions of the scheme envisaged under Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020 and the one-off allowances. In the simulation, conducted with the PBO micro-simulation model,[97] the use of CIGO is differentiated on the basis of variable take-up rates assigned in accordance with the sectoral risk discussed above. The take-up rates refer to a monthly benefit payment[98] and do not take account of actual drawings on the instruments for COVID-19 reasons during the height of the emergency phase (phase 1), since unfortunately reliable monitoring data is not available.

Table 3.6 – Impact of the COVID-19 pandemic on the various wage and income supplementation schemes for payroll employees

	BENEFICIARIES			BENEFITS			
	Number *(thousands)*	Workers involved *(thousands)*	Implicit take-up rate *(%)*	Total gross benefits *(millions of euros)*	Average gross benefit *(euros)*	Total notional contributions *(millions of euros)*	Average notional contributions *(euros)*
CIG	4,375	2,042	46.7	1,942	951	1,247	611
Non CIG - up to 5 employees	1,917	862	45.0	715	829	384	445
Non CIG - 5-15 employees	1,771	809	45.7	738	913	438	541
Non CIG - more than 15 employees	5,018	2,027	40.4	2,090	1,031	1,532	756
Agricultural labourers	407	85	20.9	67	786	36	420
Fixed-term agricultural labourers (> 50 days)	560	560	100.0	280	500	0	0
Domestic workers	749	490	65.4	245	500	0	0
Unemployed workers at 23 February	2,608	809	31.0	486	600	0	0
Total employees	17,404	7,684	44.2	6,562	854	3,637	473

Source: simulations performed with PBO micro-simulation model.

[97] The PBO micro-simulation model used for the analysis is based on Istat It-Silc survey data, supplemented by data from personal income tax returns and INPS contribution account statements. The joint use of two administrative data sources makes it possible to validate the sample information to obtain an accurate representation of the population of payroll employees and to obtain greater detail concerning income received and the associated pension fund (former Inpdap, FPLD, agricultural workers, domestic workers, etc.). From the INPS data, it is also possible to deduce a breakdown of individual positions during the year, job status and specific information on the company with which the worker is employed (sector, number of employees). It was also possible to link corporations to the UPB micro-simulation model of legal entities, from which information can be obtained regarding the financial statements and corporate taxation.

[98] Equivalent to 4.3 weeks of use of wage supplementation at zero hours. Obviously this is a standardised representation of the take-up rate, since use can be differentiated both in terms of number of weeks used and hours used per week. For example, the use of one month of wage supplementation for 90 per cent of employees is equivalent, in terms of resources, to the use of two months of wage supplementation for 45 per cent of employees.

In this scenario, the take-up rate for wage supplementation is assumed to be 90 per cent for companies in high-risk sectors, 50 per cent in medium-risk sectors and 20 per cent in low-risk sectors. The result is an average take-up rate of 43.5 per cent for the various forms of wage supplementation.[99]

The table includes the various allowances provided for specific categories of employee, including the new allowance of €500 for non-cohabiting domestic workers (assuming a take-up of just under two thirds), the allowance for agricultural labourers on fixed-term contracts[100] (estimated to number around 560,000), and allowances for other types of seasonal and on-call workers (who total around 800,000 of the over two and a half million unemployed in the acute phase of the COVID-19 crisis).

Overall, in this scenario, the employees involved in the income support measures would number around 7.7 million (of whom 5.9 million in ordinary and exceptional wage supplementation) for total benefits for a full month of €10.2 billion (€6.6 in direct benefits and about €3.6 billion in imputed contribution). These amounts also include outlays on wage supplementation obtainable on the basis of the rules in force prior to the COVID-19 decrees. Average direct benefits would be around €1,000 per month for the various wage supplementation programmes and, of course, €500-600 for one-off payments, these being fixed amounts.

With regard to wage supplementation only, a comparison between the estimates produced with the PBO micro-simulation model and those indicated in the Technical Reports accompanying the decree laws is not immediate. The estimates shown in Table 3.6 refer to the total benefits obtainable in the post-emergency phase (Phase 2) not only on the basis of the rule changes introduced with the decree laws, but also those available under existing legislation (pre-COVID-19 trend). The Technical Report for Decree Law 34/2020 only reports the additional expenditure deriving from the changes introduced with Decrees 18 and 34 for the entire period. As noted earlier, this estimate must be summed with that contained in the Technical Report accompanying Decree Law 52/2020. Moreover, the two estimates differ in the different assumptions about the underlying take-up rates, with those reported in Table 3.6 being lower than those indicated in the Technical Reports, because they refer exclusively to the post-emergency phase. As for the one-off allowances, the estimates performed by the PBO are in line with those indicated in the Technical Report for Decree Law 34/2020, both in terms of the number of beneficiaries and the overall cost.

Table 3.7 shows how, in the scenario envisaged, wage and income supplementation benefits would be distributed by sectoral level of risk, as defined above. High-risk sectors, in which only one worker out of six would be employed in Phase 2, would absorb more than a quarter of total resources, with around 2.3 million workers participating in the

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99 In other words, in the scenario developed here, it is assumed that on average about 43.5 per cent of workers will use wage supplementation benefits in the post-emergency phase for 4.3 weeks.

100 The allowance is available to workers with at least 50 days of work in 2019.

various wage and income supplementation schemes. However, the largest share of resources (almost 50 per cent) would be absorbed by the medium-risk segment (over 7 million workers), involving more than 3.5 million workers in wage and income supplementation mechanisms.

Over half of the workers involved are in Northern Italy (Table 3.8), a share that reflects the distribution of total employees since the take-up rates are substantially uniform throughout the country. The share of resources flowing to this area (57 per cent) is greater than the share of the employees involved since the average benefit per worker is relatively higher (+25 per cent compared with Southern Italy).

Workers placed in wage supplementation suffer a loss of income since the benefit does not fully replace the wages they ordinarily receive, but rather only 80 per cent up to certain ceilings. The wage replacement rate is therefore higher for workers with lower income due to the combined effect of the benefit calculation mechanism (which provides for 80 per cent coverage of pay up to the ceilings) and the levying of taxes and contributions. As can be seen in Table 3.9, the gross replacement rate, given by the ratio between benefits and gross monthly wages, averages just above 50 per cent. The net replacement rate, which takes account not only the lower income but also the tax effects (lower social contributions and lower taxes), rises to just under 65 per cent. The weight of the tax effects tends to decrease

Table 3.7 – Impact of the COVID-19 pandemic on the various wage and income supplementation schemes for payroll employees – Breakdown by sectoral risk level

	Total workers		Workers involved		Implicit take-up rate	Total gross benefits		Average gross benefit
	(thousands)	*(%)*	*(thousands)*	*(%)*	*(%)*	*(millions of euros)*	*(%)*	*(euros)*
Low	7,353	42.3	1,855	24.1	25.2	1,453	22.1	783
Medium	7,150	41.1	3,543	46.1	49.5	3,254	49.6	918
High	2,901	16.7	2,287	29.8	78.8	1,856	28.3	812
Total employees	**17,404**	**100.0**	**7,684**	**100.0**	**44.2**	**6,562**	**100.0**	**854**

Source: simulations performed with PBO micro-simulation model.

Table 3.8 – Impact of the COVID-19 pandemic on the various wage and income supplementation schemes for payroll employees – Breakdown by geographical area

	Total workers		Workers involved		Implicit take-up rate	Total gross benefits		Average gross benefit
	(thousands)	*(%)*	*(thousands)*	*(%)*	*(%)*	*(millions of euros)*	*(%)*	*(euros)*
North	9,168	52.7	4,071	53.0	44.4	3,750	57.1	921
Centre	3,479	20.0	1,490	19.4	42.8	1,253	19.1	841
South and islands	4,756	27.3	2,123	27.6	44.6	1,559	23.8	734
Total employees	**17,404**	**100.0**	**7,684**	**100.0**	**44.2**	**6,562**	**100.0**	**854**

Source: simulations performed with PBO micro-simulation model.

Table 3.9 – Wage replacement rate for workers in wage supplementation schemes – Breakdown by job qualification
(euros and percentages)

	Gross monthly income	Benefit	Gross replacement rate	Net replacement rate
Labourers	1,577	915	58.0	69.0
Office staff	2,226	1,012	45.5	59.8
Total beneficiaries	**1,826**	**952**	**52.1**	**64.8**

Source: simulations performed with PBO micro-simulation model.

as the wage supplementation period increases.[101] The income loss compared with gross monthly remuneration is greater for office staff (about 40 per cent) than for labourers (just over 30 per cent). The impact of contributions and taxation also helps reduce the differentials observed between Northern and Southern Italy (Table 3.10).

The wage supplementation scheme provides beneficiaries with benefits equal to 80 per cent of gross remuneration to replace lost wages, although this is subject to a variable ceiling on two income brackets: €998 for monthly incomes up to €2,160 and about €1,200 for incomes above this threshold. As a result of the application of the ceilings, the ratio between benefits and gross remuneration can therefore be considerably lower than 80 per cent. It should be borne in mind, however, that benefits are subject to a reduced contribution rate for workers (5.84 per cent compared with the 9.19 per cent generally applied) and that lower incomes benefit from a decrease in personal income tax.

Although both Decree Law 18/2020 and Decree Law 34/2020 imposed a freeze on firing, it is possible that there are still circumstances in which workers can lose their jobs as a result of the lockdown. This is another phenomenon which is difficult to assess. However, within the scenario developed here, at least two main categories of employed workers are most at risk of losing their jobs: fixed-term workers with contracts expiring in the period of the emergency and workers employed in less resilient companies. Table 3.11 seeks to reconstruct the potential pool of workers in these conditions. There are 138,000 fixed-term

Table 3.10 – Wage replacement rate for workers in wage supplementation schemes – Breakdown by geographical area
(euros and percentages)

	Gross monthly income	Benefit	Gross replacement rate	Net replacement rate
North	1,948	989	50.7	63.6
Centre	1,822	934	51.3	64.5
South and islands	1,503	870	57.9	69.2
Total beneficiaries	**1,826**	**952**	**52.1**	**64.8**

Source: simulations performed with PBO micro-simulation model.

101 The tax savings connected with the reduction in income is a function of the marginal tax rate, which as the size of the increase in income increases tends towards the average rate, and then declines.

Table 3.11 – Workers most exposed to unemployment risk

	Number *(thousands)*	Average monthly taxable income *(euros)*
Temporary with expiring contract	138	962
Employees of at-risk corporations in at-risk sectors	264	1,099
Employees of sole proprietorships in at-risk sectors	426	831
Total	**828**	**938**

Source: simulations performed with PBO micro-simulation model.

workers with a contract that expires in the period between March and October in at-risk industries,[102] while for workers who could lose their job because their company ceases trading we first look at the legal form of the firm. For corporations, persons employed in companies in financial distress, as determined on the basis of their financial statements,[103] are considered at risk. While admitting a certain degree of arbitrariness in defining a specific risk threshold for their financials, an estimated 264,000 workers are expected to lose their jobs due to the concomitant impact of sectoral risk and the specific risk faced by the company in which they are employed. Finally, 426,000 workers in the smallest companies (mostly sole proprietorships) operating in sectors with high risk associated with the lockdown can also be considered at risk. Overall, therefore, we estimated a pool of just under 830,000 workers with a high specific risk of unemployment, workers who on average have a taxable income of almost €1,000 a month and who could therefore be covered, if they meet the individual requirements, by the various forms of unemployment insurance.

3.1.4.2 *One-off allowances for the self-employed*

Table 3.12 presents the results of the estimates made using the PBO micro-simulation model[104] to quantify the effects of the economic support measures for self-employed workers. In particular, these comprise the allowances and grants referred to in Articles 25, 78 and 84 of Decree Law 34/2020.[105]

The first column in Table 3.12 shows the number of workers registered in the special pension funds for artisans, retailers, direct farmers, tenant farmers and sharecroppers

[102] The estimate is based on information drawn from INPS account statements of persons interviewed in the It-Silc 2016 survey employed in at-risk sectors on fixed-term contracts expiring between March and October. The data were updated to 2020 using calibration procedures.

[103] The information on financial soundness are drawn from the PBO's MECITA micro-simulation model for corporations, linked to the firms for which the persons interviewed in the It-Silc 2016 survey worked. The financial indicator was constructed on the basis of the performance-financial position indicator used by Mediocredito Centrale to determine risk brackets for companies.

[104] As explained earlier, the model is based on data from the Istat It-Silc survey, supplemented with data from personal income tax returns and INPS contribution account statements.

[105] Note that Article 84 extended the allowances referred to in Articles 27, 28, 29, 30, 38 and 44 of Decree Law 18/2020 to April and May 2020. The analysis does not consider benefits targeted at self-employed workers without a VAT registration number, door-to-door salespersons and free-lance workers in the sports industry.

Table 3.12 – Allowances for the self-employed

Pension fund	Members	April allowance						May allowance		
		Beneficiaries	Members qualifying as beneficiaries	Average benefit	Replacement rate	Total spending		Beneficiaries	Average benefit	Total spending
	(millions)	*(millions)*	*(%)*	*(euro)*	*(%)*	*(billions of euros)*		*(millions)*	*(euro)*	*(billions of euros)*
Retailers	1.9	1.4	73%	600	60%	0.8				
Craftsmen	1.5	1.2	81%	600	54%	0.7		1.1	1,251	1.3
Farmers	0.4	0.3	59%	600	> 100%	0.2				
Professionals and free-lancers	1.2	0.5	41%	600	42%	0.3		0.4	1,000	0.4
Professionals with category pension fund	1.2	0.5	41%	600	39%	0.3		0.5	600	0.3
Total	**6.3**	**3.8**	**61%**	**600**	**52%**	**2.3**		**1.9**	**1,036**	**2.0**

Source: simulations performed with PBO micro-simulation model.

(AGO), the separate pension fund for professionals without a category pension fund and freelance contractors and professionals registered with private-law mandatory pension funds (professionals enrolled in an official professional association). Decree Law 34/2020 retains for April the €600 allowance paid for March under Decree Law 18/2020 under the conditions detailed previously. The second column of the table shows the pool of potential beneficiaries, i.e. those registered in the pension funds noted above that comply with those conditions. Comparing the number of applications submitted and those accepted as indicated in the INPS report[106] for March with the potential beneficiaries identified by the PBO model, a take-up rate of one hundred per cent was assumed for April: the pool of actual beneficiaries would coincide with that of potential beneficiaries. The third column shows the ratio between beneficiaries and those registered in the various pension funds for self-employed workers. The values reported give an idea of how stringent the eligibility criteria for the allowances are. For members of the separate pension fund, especially binding are the exclusivity rule – they must not be enrolled in any other form of compulsory pension system – and the restriction of beneficiaries, for freelance contractors, to those in so-called coordinated and continuous collaboration arrangements only. The fifth column shows the replacement rates, i.e. the ratio between the benefit and average pre-crisis monthly income by category. This rate is relatively lower for professionals in official professional associations, whose incomes are generally higher than those of other self-employed workers. The estimates conducted by the PBO for April are in line with those indicated in the Technical Report accompanying Decree Law 34/2020, both with regard to the number of beneficiaries and the overall cost.

As regards May, Decree Law 34/2020 introduces criteria both for eligibility for the benefit and for calculating it. The members of the special AGO pension funds (craftsmen, retailers, direct farmers, tenant farmers and sharecroppers) who received the €600 allowance in March and April fall within the scope of the grant established in Article 25 of Decree Law 34/2020 for May. The new allowance is transformed from a generalised individual benefit

[106] INPS (2020), "Indennità 600 euro", Report 22 May and 19 June 2020 and INPS (2020), "Audizione del Presidente dell'INPS - Commissione lavoro pubblico e privato, previdenza sociale del Senato del 19 maggio 2020".

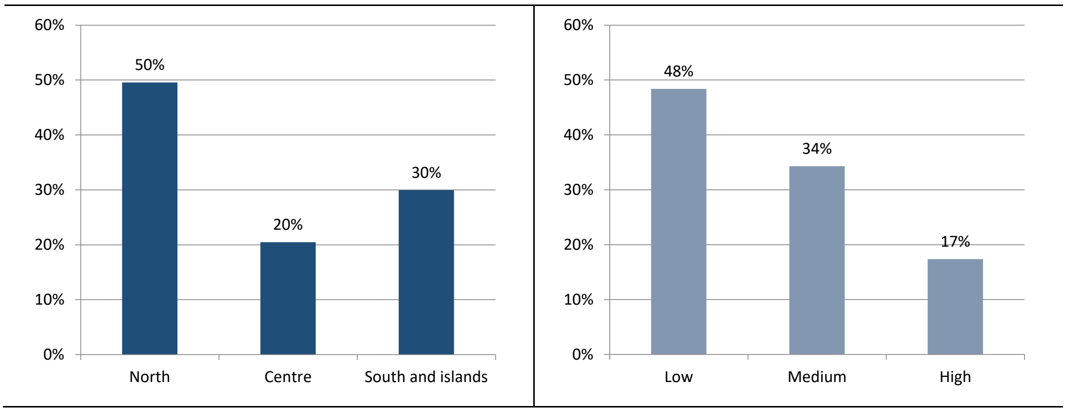
conditional on registration in the special AGO pension fund into a grant payable to VAT number holders and businesses,[107] with eligibility for the benefit being determined on the basis of the loss of turnover registered in April 2020 compared with the corresponding month of 2019 (which must be at least 33 per cent). Members of the special pension funds who are not sole proprietors, but partners of companies or assistants, would therefore receive the benefit indirectly through the company. In Table 3.12, the section referring to the May allowances for craftsmen, retailers and farmers refers only to sole proprietors, who are the beneficiaries of direct allowances. The average benefit for May would be around €1,300, payable to around 1.1 million VAT number holders.[108]

Eligibility for the May allowance for professionals not enrolled in an official professional association with VAT numbers is also limited to those affected by the crisis: in this case the one-third reduction concerns income for the second two months of the year. For freelance contractors in coordinated and continuous collaboration relationships who were beneficiaries of the April allowance (88,000 applications approved[109]), the employment relationship must have ceased. The allowance has been increased from €600 to €1,000. The simulation shows a limited decrease[110] in the number of beneficiaries and, consistent with the Technical Report, an increase in overall spending compared with April.

Turning to the territorial distribution of benefits (Figure 3.6), we find that 49.6 per cent of the resources would go to the North, 20.5 per cent to the Centre and the remaining 30 per cent to the South and islands. As regards the distribution of benefits in accordance with the sectoral risk defined earlier, 48.4 per cent of the resources would go to low-risk sectors, 34.3

Figure 3.6 – Distribution of April benefit for self-employed workers

Geographical distribution | *Risk category distribution*



Source: simulations performed with PBO micro-simulation model.

[107] The grant is reserved for businesses with revenues of less than €5 million (see section 3.2.1.2).
[108] The estimate was performed using the PBO micro-simulation model based on administrative data on the turnover of sole proprietorships.
[109] Hearing of the President of INPS of 19 May (https://www.inps.it/docallegatiNP/Mig/Allegati/Audizione_19_maggio_2020_Senato_PT.pdf).
[110] The condition concerning the decrease in turnover was applied on the basis of the sectoral risk scenario described earlier in the Report.

per cent to medium-risk sectors and the remaining 17.4 per cent to high-risk sectors. As the benefit is uniform, this distribution reflects the number of workers by risk category.

3.1.4.3 The Emergency Income

Decree Law 34/2020 introduced the Emergency Income, a measure to provide support for families who during the COVID-19 emergency find themselves in a situation of particular financial distress. The benefit, which can be disbursed for two months, is equal to €400 for a single-member household, increasing by €160 for each additional adult members and €80 for each additional minor member but cannot in any case exceed €800 per month overall (€840 if the household includes serious disabled members).

The Emergency Income is reserved for households meeting a set of requirements concerning their personal status, their income and their assets. More specifically, all the following conditions must be met:

- the applicant must be resident in Italy;[111]
- household income in April 2020 must be lower than the benefit available under the Emergency Income mechanism;
- an equivalent economic status indicator (ISEE) of less than €15,000;
- household movable assets (in 2019) of less than €10,000, increased by €5,000 for each member subsequent to the first up to a maximum of €20,000, increased by €5,000 if the household includes serious disabled members;
- no household member may be receiving a pension (either direct or indirect), with the exception of the ordinary disability allowance;
- no household member may be a payroll employee with a gross income greater than the amount of the benefit;
- no household member may already be a beneficiary of other allowances connected with the COVID-19 pandemic;
- the household may not already be receiving the Citizenship Income.

The measure therefore seems to be complementary to the various other income support mechanisms established to sustain the many categories of workers affected by the COVID-19 pandemic. It is a universal measure that seeks, at least in its intentions, to reach those

[111] Prisoners and long-term in-patients whose care is fully paid for by the State or other public entity are not eligible.

households whose members are not beneficiaries of other allowances and wage supplementation benefits and who find themselves in a condition of financial hardship.

The new emergency measure also flanks – without overlapping – the main ordinary support instrument for households in a condition of financial hardship, the Citizenship Income, sharing some of its reference aggregates, eliminating some requirements and establishing new conditions. To understand the nature of the new instrument, it is interesting to compare the different eligibility criteria in detail.

As regards financial conditions, the first parameter for the Emergency Income is the ISEE of the household, which appears much less restrictive than it is in the case of the Citizenship Income, given that the eligibility limit for the Emergency Income is €5,640 higher than that for the Citizenship Income. Furthermore, the conditions for assets, both movable and property, are less restrictive.

The eligibility requirements for income, one of the components of the ISEE, are more stringent for the Emergency Income than for the Citizenship Income, however. While eligibility for the Citizenship Income begins with incomes below €500 a month (€6,000 a year) multiplied by the equivalence scale, the Emergency Income threshold is equal to €400 a month (also multiplied by the equivalence scale). However, it should be borne in mind that in determining eligibility for the Emergency Income, reference is made to income in April 2020, while the Citizenship Income is based on ISEE income, which in normal conditions regards income two years prior to the application for the benefit, unless the exception allowing the use of current ISEE is invoked.[112]

Unlike the Citizenship Income, the Emergency Income benefits do not depend on household incomes, which are relevant only for the purpose of determining eligibility. Although the Emergency Income benefits are smaller than the theoretical benefits available under the Citizenship Income programme,[113] if a household has income, the Emergency Income benefit may be greater than the effective Citizenship Income benefits. The amount of Citizenship Income benefits actually paid is in fact equal to the theoretical benefits reduced by the full amount of any income received.

Finally, the Emergency Income is less restrictive as regards citizenship requirements, which are very stringent in the case of the Citizenship Income,[114] but it expressly excludes recipients of pension income, who are not directly affected by the crisis.

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[112] Current ISEE can be used if the applicant's work status has changed or the income indicator has varied by more than 25 per cent. Law 58/2019 established that the two conditions do not have to be satisfied contemporaneously and increased the validity of the current ISEE indicator from two to six months.

[113] For households living in a home that they own, the theoretical benefit is €500 a month multiplied by the equivalence scale, while households living in rented accommodation receive a rent allowance of up to €280 a month.

[114] The Citizenship Income is restricted to Italian citizens and persons holding a long-term residence permit and resident in Italy for at least 10 years, of which the last two on a continuous basis. The eligibility of

To understand how these different factors combine with each other and the characteristics of the beneficiaries of the new instrument, their application was simulated using the PBO's micro-simulation model[115] considering the different eligibility conditions and the various restrictions on combining different benefit programmes mentioned above, including both the Citizenship Income and the various allowances connected with the COVID-19 emergency.

To this end, the income of the beneficiaries of wage supplementation schemes has been reduced with respect to ordinary remuneration levels in line with the application of wage supplementation, while the income of the persons at greatest risk of unemployment identified in Table 3.11 has been reduced by 75 per cent. Consistent with the application of the associated programme rules, Citizenship Income recipients were not allowed to receive Emergency Income benefits. However, bear in mind that not all households that meet the formal eligibility requirements for the Citizenship Income apply for it (fear of controls, unavailability to work, lack of knowledge about the programme, transaction costs). Accordingly, it may be possible for people who are eligible for the Citizenship Income but are not receiving it to apply for Emergency Income benefits. The simulations take account of this phenomenon, making explicit the Citizenship Income eligibility condition.[116]

Table 3.13 shows the aggregated results of the estimate of the potential beneficiaries of the Emergency Income. Overall, this group is composed of about 851,000 households, net of those (around 171,000) which, while meeting the financial eligibility requirements, are barred from receiving Emergency Income benefits because they receive incompatible COVID-19 allowances. The cost of a monthly instalment of the Emergency Income is estimated at just under €430 million, slightly lower than the value given in the Technical Report accompanying Decree Law 34/2020. A cross-analysis of the Emergency Income and the Citizenship Income shows an overlap between the two pools of potential beneficiaries, due to the low take-up of the Citizenship Income, which helps increase the number of beneficiaries of the Emergency Income: the pool of beneficiary households is made up of about 416,000 "new" households that do not meet the requirements for the Citizenship Income and about 436,000 households that do meet the requirements but do not benefit from it.

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foreigners for the Citizenship Income is also conditional on the original requirement to provide additional, hard-to-obtain documentation on economic conditions in their country of origin.

[115] Unlike other simulations conducted by the PBO concerning measures governed by the ISEE in which the sample of ISEE returns was used, in this case the simulations were conducted using the micro-simulation model based on the It-Silc 2016 survey supplemented by administrative data concerning income tax returns and INPS contribution account statements. The difference in the approach taken is attributable to differences in needs: on one hand, it makes it possible to jointly simulate the recipients of allowances connected with COVID-19 (excluding the Emergency Income) and, on the other, to assess the eligibility for the Emergency Income programme of potential beneficiaries of the Citizenship Income who for various reasons do not present ISEE returns. So far it has not been possible to conduct an analysis of robustness for an updated sample of ISEE returns as the database for 2019 returns, the first year of the Citizenship Income programme, has not yet been made available.

[116] Our exercise simulated a different take-up rate for the Citizenship Income (share of eligible persons who effectively apply for and receive benefits under the programme) so as to reproduce the effective number of beneficiaries of the Citizenship Income and Citizenship Pension by citizenship, as calculated on the basis of data from the INPS Observatory for the Citizenship Income and Citizenship Pension (statistical appendix April 2019 – April 2020).

Table 3.13 – Potential beneficiaries and Emergency Income benefits *(thousands)*

	Total	*Not eligible for Citizenship Income*	*Eligible but not receiving Citizenship Income*
Potential number of households	1,022	*529*	*493*
Recipients of incompatible COVID allowances	171	*113*	*57*
Effective number of households	**851**	*416*	*436*
Total monthly benefits disbursed (*millions of euros*)	**426**	*201*	*225*

Source: simulations performed with PBO micro-simulation model.

Table 3.14 shows selected characteristics of the potential beneficiaries of the Emergency Income, concerning citizenship and geographical area of residence. About 71 per cent of Emergency Income beneficiaries are made up of households of Italian citizens; 29 per cent are made up of foreigners, a larger share than that found among the recipients of the Citizenship Income (12 per cent), consistent with the removal of the ten-year residence requirement to be eligible for the latter instrument. About 46 per cent of the beneficiary households are in the South, which is smaller than the share of households effectively benefiting from the Citizenship Income programme (61 per cent in April 2020).

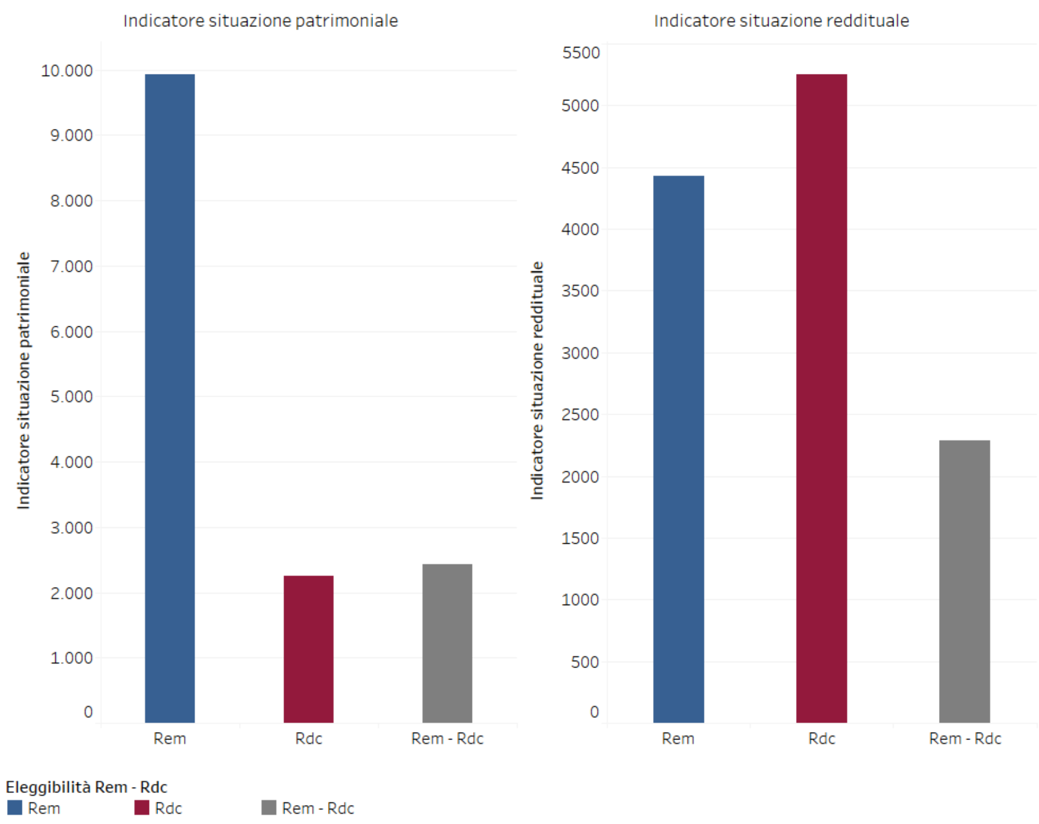
Finally, a preliminary analysis of the specificity of the potential Emergency Income recipients shown in Figure 3.7 shows that, consistent with our earlier observations, these households have more assets and smaller incomes than the beneficiary households of the Citizenship Income.

Table 3.14 – Potential Emergency Income beneficiaries by citizenship and geographical area of residence

	Beneficiary households		Total benefits	
	(thousands)	*(%)*	*(millions of euros)*	*(%)*
		Citizenship		
Italian	603	70.8	116	72.7
Non-Italian	248	29.2	310	27.3
Total	**851**	**100.0**	**426**	**100.0**
		Geographical area of residence		
North	273	32.0	130	30.5
Centre	188	22.1	90	21.2
South and islands	391	45.9	206	48.3
Total	**851**	**100.0**	**426**	**100.0**

Source: simulations performed with PBO micro-simulation model.

Figure 3.7 – Assets and income of potential Emergency Income and Citizenship Income beneficiaries



Source: simulations performed with PBO micro-simulation model.

3.1.4.4 An overview of the income support measures

In this section we offer a preliminary analysis of the joint effect of the income support measures presented in the previous sections (including those established under legislation prior to Decree Law 18/2020, Decree Law 34/2020 and Decree Law 52/2020), which makes it possible to highlight the distribution of transfers across Italian households as a function of selected socio-economic characteristics.[117]

The exercise considers all forms of transfer, in particular wage supplementation, the various allowances available for payroll employees, allowances for self-employed workers and the Emergency Income. The way the transfers are paid, take-up rates, and sectoral risk scenarios are the same as those used in the simulations for the individual measures illustrated above. Recall that, as noted at the beginning of section 3.1.4, it is assumed that the crisis involves, albeit to a lesser extent, sectors not affected by lockdown measures (low-risk sectors), which

[117] All of the estimates concerning the measures analysed in the chapter were produced using the PBO micro-simulation model. This makes it possible to simultaneously analyse the distributive impact of the various measures.

represent a large share of the economy. The measures analysed do not refer to a specific disbursement period. More specifically, a standard month[118] of benefits in phase 2 is assumed for wage supplementation; one of the two monthly allowances payable between May and July is considered for the Emergency Income; while the lump-sum allowances paid in one month of the emergency phase are considered for self-employed workers, since it is more complex to trace benefits paid in the form of a grant to companies to the personal level.

Figure 3.8 shows the distribution of benefits across Italian households, broken down by occupation of the head of household and the degree of risk of the sector to which they belong (high and medium-low). Overall, benefits are received by about a third of Italian households and are on average equal to 48 per cent of monthly pre-crisis household disposable income, with a distribution that reflects the heterogeneity of beneficiaries and the attribution of benefits, typical of the various instruments deployed by the Government in response to the emergency.

This heterogeneity is the result of choices driven by the urgency of providing an immediate response, which led to the adoption of sometimes inconsistent targeting criteria for those most in need. It was necessary, on the one hand, to discriminate between those affected and unaffected by the crisis and, on the other, to ensure priority support for the most financially vulnerable persons.

For payroll employees, the Government relied on the proven instrument of the wage supplementation scheme, which is intrinsically selective in that it is only received in the event of the suspension or reduction of operations and has a ceiling mechanism for calculating the benefit in a manner that replaces a larger share of income for lower income individuals. However, since ordinary wage supplementation benefits do not exceed 80 per

Figure 3.8 – Distribution of benefits by occupation and sectoral risk of the head of household

	Distribuzione dei benefici			Composizione del beneficio totale		
	Incidenza di nuclei beneficiari	Ripartizione del beneficio totale	Incidenza beneficio sul reddito (1)	Quota benefici lavoro dipendente	Quota benefici lavoro autonomo	Quota REM
Dipendenti rischio medio basso	38,6	50,2	46,5	93,2	6,0	0,8
Dipendenti rischio alto	75,8	18,3	56,6	96,5	2,8	0,6
Commerc., artig., agric. rischio medio basso	100,0	10,6	42,4	11,6	88,4	0,0
Commercianti artigiani rischio alto	100,0	5,2	55,9	12,8	87,2	0,0
Professionisti e collaboratori	72,1	5,6	33,4	11,2	88,8	0,0
Pensionati / altro	10,8	10,2	57,2	36,0	24,2	39,9
Totale complessivo	33,5	100	47,9	70,6	24,8	4,6

Source: analysis performed with PBO micro-simulation model.
(1) Benefits as a percentage of monthly disposable income of the beneficiary households.

[118] 4.3 weeks of "zero hour" wage supplementation.

cent of income, even workers with very low incomes suffer a loss, which could significantly impact living conditions. About 10 per cent of payroll employees receive gross monthly benefits of less than €600, i.e. the amount of the one-off allowance paid during the emergency phase. Considering part-time employees only, this percentage rises to about 24 per cent.

Conversely, a less selective approach was initially preferred for the self-employed, providing an essentially universal allowance, independent of the actual loss of income and financial situation of the beneficiary. While the lump-sum allowance is more progressive than the transfers under the wage supplementation mechanism, the lower efficiency of beneficiary targeting was offset by a lower average unit transfer than that disbursed to employees under the wage supplementation scheme. The latter in fact receive average gross monthly benefits of €952.

Figure 3.8 highlights the disparity in the distribution of benefits. Households with heads enrolled in the special AGO pension funds[119] (retailers, craftsmen and farmers), beneficiaries of an unconditional allowance of €600, all receive the transfer. The situation is different for households with professional and freelance contract worker heads. This category also receives a lump-sum allowance but some conditions apply concerning their level of income and the decline in activity. As a result, the benefit reaches about 72 per cent of the households.

Households with a head who is a payroll employee overall show a significantly lower coverage ratio for benefits, due to the greater intrinsic selectivity of the wage supplementation mechanisms. The proportion of beneficiaries among those with an employee head of household is largest in the sectors most affected by the COVID-19 emergency (75.8 per cent in the case of high-risk sectors compared with 38.6 per cent in medium-low risk sectors). However, since the low-medium risk sectors make up a large share of the economic system (54 per cent of output), the share of direct transfers to households with employee heads of household represents about half of total disbursements in these sectors (compared with 18.3 per cent in high-risk sectors).

The very low proportion of beneficiaries among households with non-working heads of household (around 11 per cent) reflects the explicit exclusion of pensioners from the beneficiary pool, as they are assumed to have suffered no drop in income. For this category of household, any benefits received could be attributable to the presence of workers (not heads of household) in the household or to receipt of the Emergency Income. For this category of households, the Emergency Income represents about 40 per cent of total benefits received.

[119] Enrolees in the special pension funds who are also payroll employees or pensioners were not considered as self-employed workers in the table.

Overall, around 70.6 per cent of benefits go to payroll employees and 24.8 per cent go to the self-employed, while about 4.6 per cent of total resources are allocated to the Emergency Income.

The distribution of benefits by income decile shows a larger proportion of beneficiary households in the lower deciles, ranging 46.4 per cent in the first decile to 24.7 per cent in the tenth (Figure 3.9). By contrast, the distribution of overall resources by decile is substantially uniform.

Since wage supplementation benefits are only partially correlated with income due to the presence of ceilings and the other one-off allowances are paid in lump-sum amounts, the benefits provided represent a larger share of the income of the poorest. Transfers amount to 90.9 per cent of the pre-crisis average monthly household income of beneficiaries in the second decile, compared with just under 21 per cent of beneficiaries in the tenth decile (the presence of the Emergency Income pushes the indicator for the first decile out of scale). For the first decile, the Emergency Income represents nearly 47 per cent of total transfers received.

Finally, Figure 3.10 shows the geographical distribution of total benefits: 54 per cent go to households residing in the North, while 26.4 per cent go to the South. Benefits paid to payroll employees account for some three-quarters of the benefits flowing to the North, compared with a national average of 70.6 per cent, while in the South the share of total benefits deriving from the Emergency Income is double the average (8.4 per cent, compared with 4.6 per cent).

3.1.5 *General comments*

Overall, Decree Law 34/2020 and Decree Law 52/2020 have reinforced the initial strategy adopted to counter the impact of the pandemic crisis on workers with Decree Law

Figure 3.9 – Distribution of benefits by decile of equivalent disposable income

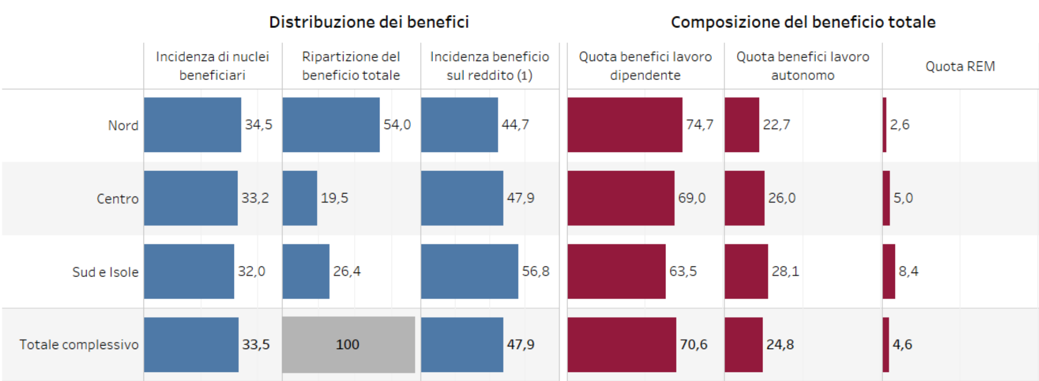
	Distribuzione dei benefici			Composizione del beneficio totale		
	Incidenza di nuclei beneficiari	Ripartizione del beneficio totale	Incidenza beneficio sul reddito (1)	Quota benefici lavoro dipendente	Quota benefici lavoro autonomo	Quota REM
1	46,4	8,8	///	15,7	37,4	46,9
2	39,0	8,9	90,9	47,0	48,2	4,8
3	38,6	8,9	64,4	69,6	30,2	0,1
4	38,9	10,0	58,4	72,6	27,2	0,2
5	31,1	9,6	53,3	77,1	22,9	0,0
6	29,1	10,2	50,3	80,2	19,8	0,0
7	29,0	11,0	47,0	85,1	14,8	0,0
8	30,6	11,8	44,4	84,0	16,0	0,0
9	29,0	11,8	35,0	84,4	15,6	0,0
10	24,7	8,8	20,6	75,3	24,7	0,0
Totale	33,5	100	47,9	70,6	24,8	4,6

Source: analysis performed with PBO micro-simulation model.
(1) Benefits as a percentage of monthly disposable income of the beneficiary households.

18/2020. The three decrees delineate a design coherent in its main components, albeit one with areas for improvement, especially if the extraordinary income support were to be prolonged for additional months. There are three main components: the de facto expansion of the coverage of wage supplementation (wage supplementation schemes and bilateral funds) to all payroll employees; the grant of monthly allowances (so far, for at least three months: March, April and May) for atypical workers (including some more marginal categories of payroll employment), self-employed workers and professionals; and the introduction of the Emergency Income (a simplified temporary version of the Citizenship Income) for households experiencing financial hardship during the crisis and not receiving the other forms of income support rolled out in these last few months.

Examining the situation in more detail, the rules governing unemployment benefits (NASPI, DIS-COLL, the allowance for agricultural workers) were revised only marginally, thanks in part to the ban on firing workers until 17 August. Instead, the focus was on preserving jobs already existing at the time of the pandemic, creating an extraordinary wage supplementation category (COVID-19) and, at the same time, providing lump-sum allowances (€500, €600 or €1000 depending on the case) to workers not covered by wage supplementation mechanisms. The aim was to preserve human and professional capital to the greatest possible extent in order to ensure that economic actors would be ready to participate in the recovery, thus bringing relief to household incomes. Potentially all workers affected by the pandemic have received and will receive support with wage supplementation or allowances, with the exception of the so-called working poor, such as occasional workers with incomes of less than €5,000 per year, agricultural workers with fewer than 50 days of work in a year and the few workers paid with vouchers. If they meet the requirements, even these categories could be covered by the Citizenship Income or its most accessible version, the Emergency Income, which was launched precisely to counter the effects of the COVID-19 crisis on the most needy.

Figure 3.10 – Distribution of benefits by geographical area of residence



Source: analysis performed with PBO micro-simulation model.
(1) Benefits as a percentage of monthly disposable income of the beneficiary households.

Compared with the basic rules in force before the pandemic crisis, almost 5.1 million workers are eligible for COVID-19 wage supplementation. The increase in expenditure would amount to about €22 billion (of which €8 billion in imputed contributions), including the resources of the special Fund established to fund greater-than-estimated expenditure or, as indeed happened with Decree Law 52/2020, extensions of the number of weeks of wage supplementation available. This estimate is not directly comparable with that obtained using the PBO's micro-simulation model, which examined benefits obtainable not only on the basis of the rule changes introduced with the various decree laws, but also those available under pre-existing legislation (the pre-COVID-19 trend). The two estimates also differ in their assumptions about take-up rates: those underpinning the PBO estimate are lower because they exclusively regard the post-emergency phase.

According to the Technical Reports accompanying Decree Law 18/2020 and Decree Law 34/2020, the one-off allowances were targeted at over 5.2 million people in March (of whom 3.6 million enrolled in the INPS special pension funds),[120] over 4.9 million in April (of whom slightly more than 3 million enrolled in the special pension funds), and about 1.1 million in May, of which the largest segment was the 448,000 people enrolled in the INPS separate pension fund. Official estimates indicate some €8 billion in total expenditure, as well as the April allowance for professionals established with the Ministerial Decree of 29 May 2020 (with a spending ceiling of €370 million) and a portion, not indicated in the Technical Report for Decree Law 34/2020, of the €6.2 billion appropriated to finance the grant for small and medium-sized enterprises. Taking this into account, the estimates produced by the PBO are substantially in line with the official figures with regard to both the number of beneficiaries and the overall cost.

Finally, official estimates for the two months of Emergency Income benefits show expenditure of around €955 million for around 868,000 households and just over 2 million people. These figures are substantially in line with the results of the PBO simulations.

In the coming months (at least until the end of October) it will be necessary to constantly monitor outlays for COVID-19 wage supplementation and the one-off allowances, both to monitor developments in expenditure compared with funding and to obtain information on employment trends in the various sectors, broken down by firm size and location. It is crucial that INPS disseminate data on applications and payments in a timely and scheduled manner. The same attention must be paid to the Emergency Income, for which only preliminary data are currently available. Among other things, the deadline for submitting applications has been postponed to 31 July.[121]

[120] For now, a comparison with monitoring data is possible for the March allowances and, only in part, the April allowances. According to a document released by INPS on 19 June, just under 4.9 million applications were received, of which about 4.0 million were approved, with 835,000 being rejected or still in processing, with total expenditure for accepted applications of about €2.4 billion both in March and April. While the March figure can be considered fairly definitive, that for April still does not include a number of the new categories of beneficiary introduced with Decree Law 34/2020.

[121] Amendment introduced with Decree Law 52/2020 (the previous deadline was 30 June).

Specifically for wage supplementation, the data on hours authorised should be accompanied by information on hours actually used (the "draw"). Normally this association is not possible or requires time-consuming processing of databases, because authorisations can cover long periods (even several years) and the same employer can make several consecutive applications for wage supplementation hours. Currently, however, these problems should be limited if not completely absent, because since March almost all (over 95 per cent according to the INPS Monitoring Report) applications/authorisations have been COVID-19-related, which have a well-specified period in which the hours can be drawn (at most eighteen weeks by October 2020), within which the information can be crossed-checked and linked together. To this end, it was helpful to eliminate the possibility (originally envisaged in Decree Law 18/2020) that the COVID-19 wage supplementation application could be submitted within four months of the start of the reduction/suspension of operations.

After the amendments introduced with Decree Law 34/2020, the one-off allowances come in different amounts (€500, €600 or €1,000), durations (two or three months) and eligibility conditions (the exact date or the period in which to verify the existence of pension income and/or an employment contract, etc.). In the absence of clear information on the differential impact of the crisis (in terms of intensity and duration) by sector/category, the differentiated choices raise some concern, especially given the possibility – which cannot be ruled out a priori – that the allowances may be extended beyond May, as is already happening with the wage supplementation scheme.

One aspect that can be improved regards the combination of wage supplementation and allowances with other income and other benefit programmes. Decree Law 34/2020 clarified the compatibility of allowances (including those paid out of the Income of Last Resort Fund) with receipt of the ordinary disability allowance. The incompatibility between allowances was also clarified. Excluding cases where such incompatibility is specified, the possibility of combining allowances and wage supplementation benefits (in particular COVID-19 wage supplementation), unemployment benefits (NASPI, DIS-COLL and the agricultural unemployment allowance) and the Citizenship Income and the Emergency Income is not yet clear. It would be advisable to insert a "framework" article that establishes the mutual incompatibility between all the benefits disbursed for the COVID-19 emergency and between these and other job protection benefits already available under current legislation. Even if it is plausible that overlaps are few (the benefits are generally targeted at well-segmented employment and professional categories), it would be preferable to avoid any interpretative uncertainties. The "framework" article could be inspired by Article 98 of Decree Law 34/2020, which already clearly establishes the incompatibility of other benefit schemes with the allowance granted to workers in the sports industry. With regard to the Emergency Income, eligibility depends on the income and assets of the household. Although less stringent than the Citizenship Income, these selection criteria already function as a rule governing the combination of the programme's benefits with other sources of income, including social benefits.

Furthermore, the broader issue of the selectivity of the measures with respect to the condition of need in which a worker or household may temporarily find themselves due to the crisis deserves greater attention. The combination of benefits is only one of the components of selectivity with respect to need. The introduction of selective eligibility conditions can become crucial in balancing the objective of maximizing the pool of beneficiaries with that of keeping expenditure under control if extraordinary support for workers should be prolonged in the second half of the year. This issue has already emerged in reality with regard to the fact that, for example, COVID-19 wage supplementation benefits are currently financed for an average maximum duration of 12.2 weeks at "zero hours" (complete suspension of hours worked). If the weeks of benefits used rise to 18 (the maximum duration), the fund established as a precaution (Article 71 of Decree Law 34/2020) may not be sufficient if the average reduction in working hours is greater than 68 per cent (from 23 February to 31 October 2020, the period for which COVID-19 can be cited as a justification), which will obviously depend on the time necessary for economic activity to recover.

To date, the allowances cover workers until May at most, while fixed-term agricultural workers, members of the INPS special pension funds and professionals belonging to official professional associations are not eligible for the May one-off allowance. On the other hand, wage supplementation benefits can last for a maximum of 18 weeks between 23 February and 31 October, and of these less than half could remain, considering that 9 weeks may have already been drawn in March and April (the months with greatest contraction in economic activity) and partly in May as well, when use of the mechanism continued but to a lesser extent (the decree easing the lockdown was dated 26 April, while the legal restrictions were removed for all only from mid-May). The uncertainty about the timing of the economic recovery makes it impossible to rule out demands for an extension of benefits in the second half of the year[122] and, in this case, the introduction of selection criteria may be essential to channel support to where it is most needed in amounts that reinforce its effectiveness. From this standpoint, it was an important step to introduce some eligibility criteria as early as March, albeit limited to self-employed VAT number holders and professionals with a category pension fund.

A first step in introducing eligibility criteria was taken with the Ministerial Decree of 28 March 2020, which for March established a €600 allowance (in addition to those available for the same month under the provisions of Decree Law 18/2020) for self-employed workers and professionals who meet two income thresholds for the 2018 tax year and who, if falling within the higher income bracket, demonstrate that they have suffered significant harm from the crisis (either having closed their VAT position between 23 February and 30 March 2020 or suffered a reduction in income of at least 33 per cent in the first quarter of 2020 compared with the same period of the previous year).

[122] The possibility of extending COVID-19 wage supplementation for all of 2020 and extending the one-off allowance for a few months has already been raised in discussions (albeit in no official capacity).

The introduction of selection criteria continued with Decree Law 34/2020, again based on a contraction in income and/or the closure of a VAT position. The one-off allowance for professionals without a category pension fund could be increased from €600 in March and April to €1,000 in May, in part because the support is no longer going to everyone but instead is focused on those who have incurred the largest reduction in their activity (income in the second two months of 2020 at least 33 per cent lower than that in the same period of 2019). Even the apparent ineligibility of family assistants and helpers (of self-employed workers)[123] for the May allowance could pursue the same goal of increasing the amount of support and allocating it to businesses that have been impacted the most by the crisis and are at risk of closure, thereby saving jobs (including assistants[124]) at these enterprises.

The same example can be offered for self-employed workers, who in March and April all receive €600, while in May they could receive the more generous grant for small and medium-sized enterprises, provided they had experienced a reduction of at least one third in their turnover in April 2020 compared with the same month in 2019. Selective criteria are used to make allocative choices, knowing that the value of the measure will be all the greater – and therefore be more effective in countering the effects of the crisis – the greater it focuses on situations where there is a greater risk of the closure of businesses that could return to normal profitability once the crisis is over. The Ministerial Decree of 29 May 2020 took steps in this direction as well, drawing on the resources of the Income of Last Resort Fund to pay the one-off allowance for April to professionals with a category pension fund (professionals with an official professional association).

Another critical aspect in recent decrees, again associated with selectivity, is the possibility of combining benefits with pension income. Regarding the allowances, from the introduction of the one-off allowance in March, no beneficiary could be receiving a pension (of whatever amount). However, this condition is not envisaged for COVID-19 wage supplementation benefits for workers who have continued/resumed working in combined income regime. While for wage supplementation benefits that would have been paid in any case (under the legislation in force prior to Decree Law 18/2020 and Decree Law 34/2020), the decision to allow full combination of benefits would be consistent with the insurance nature of the Wage Supplementation Fund, for the exceptional extensions of these benefits (those introduced with Articles 19-22 of Decree Law 18/2020 as refinanced and extended by Decree Law 34/2020 and Decree Law 52/2020), the possibility of imposing the same constraint as that applied to the allowances could be reconsidered, especially if the economic recovery were slow in coming and it became necessary to channel resources to the most critical individual/family situations.

[123] With Circular 49/2020, INPS gave an expansive interpretation of the provisions of Decree Law 18/2020, declaring that relatives assisting craftsmen, retailers and farmers who were enrolled in the special pension funds qualified for the March allowance, even if they did not qualify as self-employed.

[124] Family assistants and helpers generally support the main activity performed by the self-employed workers with a VAT registration number. The survival of their position depends essentially on the continuity of the business.

In this regard, it must be said that the two groups that have not had to endure a reduction in income due to the crisis are public employees and pensioners. Here, too, it would seem logical to insert a "framework" rule preventing the combination of pension income and emergency benefits supporting employment income.

Finally, the issue of selectivity should be also connected to the normalisation of the operation of the social safety net and, more generally, to its role in a situation of major change. In the optimistic and unlikely scenario of a full and general recovery of economic activity already in the early weeks of the second half of the year, the termination of COVID-19 eligibility for wage supplementation on 31 October may not be a particular issue. A more plausible scenario, however, is a recovery that is slower and, above all, differentiated by sector and geographical area, with some businesses returning immediately to profitability (for which the continuation of COVID-19 eligibility is not necessary), others continuing to operate at a slower pace due to remaining social distancing restrictions (for which continued COVID-19 eligibility may be necessary) and still others that may suffer a permanent reduction in activity and find it a challenge to survive. Along with all this, we have sectors in which the crisis has accelerated changes in the production model that had initially been triggered by developments already under way before the crisis and which are independent of the emergency (for example, retailers that decide to adapt and make more extensive use of online sales technologies). In these scenarios, not only does the gradual termination of COVID-19 eligibility for wage supplementation become relevant, but we also need a more general assessment of the social safety net system and its role in the presence of such highly varied situations and structural changes in business activity.

The design of the phasing out of COVID-19 eligibility could involve the progressive application of selection criteria. Until now, COVID-19 wage supplementation, although external to the normal insurance function of the Wage Supplementation Fund, has not employed any eligibility conditions based on need (all employees are eligible and the benefits are calculated using the rules already in force before the pandemic), not even the incompatibility of the benefits with pension income. A similar observation (the difficulty of shutting down all supports on a fixed date) obviously also applies to the allowances, although some conditions for selective disbursement have already been included in the associated legislation and may, if necessary, serve as a guide for the renewal of support beyond May. Furthermore, it may also be necessary to adopt a more gradual transition towards the rules governing the Citizenship Income in the case of the Emergency Income, which can only be disbursed for two months. The Emergency Income programme is already highly selective (household income, assets, ISEE level, etc.), certainly more than the wage supplementation programmes and the one-off allowances. From this point of view, extending it beyond July if necessary would pose fewer complications. For all three instruments it would be appropriate to start considering gradual winding down in order to avoid an abrupt cut-off or an uncertain or overly vague transition phase. It is to be hoped that if there are structural changes that can be inherited from the crisis, these instruments will not be dragged along by inertia but instead explicitly discussed within an overall framework of priorities and resources.

The monitoring of data and the willingness to make selective choices will be crucial, especially in anticipation of what could happen from the second half of August when, following the end of the moratorium on firing introduced with Decree Law 18/2020 and extended by Decree Law 34/2020, some sectors/geographical areas could see expenditure on labour market safety net programmes shift rapidly towards unemployment benefits (NASPI, DIS-COLL and the agricultural unemployment allowance).[125] The most recent INPS monthly report shows that NASPI and DIS-COLL applications for January and February were in line with those of 2019, whereas in March and April they increased by more than 37 per cent (from 105,070 to 144,223) and 54 per cent (from 119,726 to 184,490). Obviously, these allowances are paid subsequent to the natural termination of fixed-term employment contracts or contract work relationships (given the temporary ban on dismissals), but they still reflect the distress felt by parts of the labour force despite the extraordinary support provided by COVID-19 wage supplementation and one-off allowances.

In other words, it is possible that the crisis response strategy may have to be reformulated as early as September, moving from the current three-legged structure of wage supplementation, one-off allowances and the Emergency Income programme, in which the far most important role is played by wage supplementation, towards a structure in which expenditure on unemployment benefits under current programmes could increase above the annual and interim levels experienced recently. One component of the repositioning of the support mix could be the introduction of selectivity for both wage supplementation and allowances.[126]

An important role in the redesign could be played by one of the instruments established at the European level in response to the pandemic – the SURE – and by the possibility, envisaged under the European Commission’s State Aid Temporary Framework, that local governments (primarily the regions) use their budgets to finance aid to employers (including the self-employed in their capacity as employers) to pay the wages of their employees and avoid layoffs. These tools may be helpful in the scenarios mentioned above: if it becomes necessary to extend the extraordinary support measures (wage supplementation, allowances and Emergency Income) in the second half of the year, or if it is decided to phase them out more gradually than currently planned, or to finance the

[125] The NASPI is equal to 75 per cent of remuneration, while wage supplementation benefits replace 80 per cent of income lost as a result of a reduction in working hours. In addition, the NASPI ceiling (just over €1,300 a month) is greater than the two ceilings envisaged for wage supplementation. For a given worker, the transition from wage supplementation to the NASPI could plausibly result in a loss of income (because the part of remuneration paid by the employer for working hours not eliminated would be lost) but would represent an increase in government expenditure (which must pay not the 80 per cent of income lost but the entire unemployment benefit).
[126] For example, with regard to wage supplementation, the removal of the general moratorium on firing could be offset if eligibility for COVID-19 wage supplementation was conditional on employers undertaking to not reduce personnel for some appropriate number of months.

likely increase in unemployment benefit expenditure (NASPI, DIS-COLL, agricultural unemployment allowance) when the moratorium on firing is lifted. However, the possibility of using these resources to support workers and the economy in the second half of the year first requires the rapid implementation of the SURE (see section 4.2.3) and second the actual availability of resources for local governments to finance aid (see section 3.4.3).

3.2 Measures to support firms

The restrictions introduced by the Government and individual regions starting in March, together with the slowdown in international trade, produced a sudden, albeit in many cases temporary, drop in revenues for many firms. However, even at that juncture, companies had to continue to pay certain unavoidable costs, such as loans, wages, suppliers and taxes. To avoid a cascade of effects through the entire economic system, it was necessary to implement, together with the wage supplementation measures for employees, specific support programmes to stem temporary liquidity crises and prevent the failure of companies that had already displayed signs of financial difficulty (due to higher debt exposures and inadequate levels of liquidity).

In the emergency phase, Decree Law 18/2020 and Decree Law 23/2020 introduced substantially universal measures to enable all firms affected by the suspension of operations – and therefore facing a potential liquidity crisis – to have access to credit. In the subsequent phase, Decree Law 34/2020 introduced greater selectivity for benefits under the support measures, conditioning benefits on the effective loss of turnover during the emergency phase and differentiating them in relation to the size and legal form of the enterprise. In addition, the more recent measures include provisions intended to foster economic recovery, with the introduction of tax incentives for strengthening companies' capitalisation, innovation and research, and relief measures of varying scale in favour of specific industries (construction, tourism, culture and sustainable mobility).

Overall, the three decrees introduced measures with an impact on net borrowing of €28 billion in 2020 and €4.2 billion in 2021 (1.7 and 0.2 per cent of GDP respectively). Furthermore, appropriations for this year for the CDP's Targeted Fund amounted to €44 billion, while €30 billion went to the SACE Guarantee Fund and €4 billion to the SME Capital Fund. These provisions increase the impact on the net balance to be financed of the State budget to €104.5 billion in 2020.

The main measures can be grouped according to their main purpose: a) supporting liquidity and lending (Table 3.15; section 3.2.1.1); b) tax suspensions and exemptions (Table 3.17; section 3.2.2); c) support for business costs (Table 3.19; section 3.2.3); and d) sectoral support (Table 3.20; section 3.2.4).

3.2.1 Measures to support liquidity and lending

3.2.1.1 Measures deployed through the banking system

Most of the measures adopted to support liquidity are indirect and are mainly channelled through the banking system to ensure both the preservation of existing credit lines (with the extraordinary automatic moratorium) and the operation of the new credit channels to meet any liquidity crises even if a firm's financial situation should deteriorate (State guarantees). In the latter case, the risk of borrower default is transferred from the lender to the State, as the probability of such default could increase as a result of the harm caused by the health emergency. In general, the measures comply with the requirements set out in the European Commission's State Aid Temporary Framework.[127]

First, Decree Law 18/2020 established an extraordinary automatic moratorium until 30 September 2020 for micro and small/medium-sized enterprises (SMEs) without impaired credit exposures on the date of entry into force of the decree that certify the lack of liquidity following the health emergency (Article 56). The moratorium applies to: a) revocable credit lines and advances against receivables (paragraph 2, letter a)); b) bullet loans falling due before 30 September 2020 (paragraph 2, letter b)); c) mortgages and other instalment loans (paragraph 2, letter c)).

A public guarantee of up to 33 per cent is provided for these exposures to partially cover a possible significant deterioration in credit quality at the end of the moratorium period in respect of the suspended instalments, the loans for which the maturity has been extended and greater drawings on frozen credit lines.

To this end, a special section of the SME Central Guarantee Fund has been established with an appropriation of €1.43 billion to be equally distributed as subsidiary guarantees free of charge for the three categories of debt exposure (33.3 per cent of the Fund for each). A risk provision of not less than 6 per cent of the transaction amount must be made for each secured operation. According to the data presented in the Technical Report, the resources allocated to the Fund correspond to approximately €72 billion in loans for which guarantees of about €23.8 billion can be requested (33 per cent of the maximum volume of loans that can be covered by the Fund).[128]

According to Bank of Italy data,[129] 1.2 million applications for a moratorium were received by banks as at 29 May, of which only 1 per cent were rejected, for a total loan amount of €149 billion, almost 70 per cent of the potential volume of loans qualifying for the moratorium estimated in the Technical Report (€219 billion) on the basis of the data reported at 31 January 2020 (45.6 per cent of total loans to SMEs, equal to approximately €480 billion). In this regard, we can observe a sharp imbalance in the type of suspensions requested, with over 85 per cent regarding the suspension of payments on mortgages and other instalment loans (Article 56, paragraph 2, letter c)). Regardless of the overall capacity of the Fund to handle the volume of guarantees requested, this imbalance could mean that the Fund would not have sufficient resources to provide guarantees for this category of transaction without violating the requirement to distribute the Fund equally between the three categories of loan.

Second, in order to facilitate access to new credit by businesses, Decree Law 18/2020 and, above all, Decree Law 23/2020 have significantly extended and strengthened the

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[127] With the Communication of 19 March as amended on 3 April 2020 and 13 May 2020.

[128] Article 56 of Decree Law 18/2020 assigned €1.73 billion to the Fund, which were reduced by €300 million with Article 13, paragraph 13, of Decree Law 23/2020. In the original Technical Report, the resources appropriated corresponded to about €87 billion in secured loans.

[129] See the hearing of the head of Banking and Financial Supervision of the Bank of Italy, "Lo stato di attuazione delle misure in materia di finanziamento con garanzie dello Stato previste dai Decreti Legge n.18 di marzo e n. 23 di aprile 2020", before the Parliamentary Committee of Enquiry on the banking and financial system of 11 June 2020.

functioning of public guarantees for both SMEs and larger businesses through the SME Guarantee Fund, a new fund set up at SACE and CDP. In general, the number of companies entitled to guarantees has been expanded, the amount that can be guaranteed has been increased, the cost of borrowing has been reduced and certain eligibility conditions have been simplified or eliminated.

1) *The SME Guarantee Fund.* – All active non-financial companies with up to 499 employees (Article 13, paragraph 1, of Decree Law 23/2020) are eligible for the fund: in addition to SMEs (companies with fewer than 250 employees and with turnover of up to €50 million or a total of balance sheet assets of up to €43 million), potential beneficiaries therefore also include some larger companies (those between 250 and 499 employees, regardless of turnover and assets) that are normally not eligible for the Fund. The total guarantees that can be activated for each company have been raised from €2.5 million to €5 million (the limit take account of any guarantees already obtained previously with the Fund). Loan guarantees can be requested by agricultural enterprises and fisheries through ISMEA and the operational scope of the Guarantee Fund for sports facilities and the Special Fund for interest subsidies has been extended. Both of these funds are managed and administered by the Sports Credit Institute. The financial sector and government entities, as well as companies that were in difficulty at 31 December 2019 or that had impaired exposures to the banking system at 31 December 2019, are not eligible.

   There are two forms of liquidity access that can be combined with each other at the individual company level:[130] 1) a loan of up to €30,000 repayable in 10 years with a 24-month grace period. The amount of the loans shall not in any case exceed the greater of 25 per cent of turnover and the double of the wage bill in 2019. The loans is 100 per cent guaranteed by the Fund subject to self-certification of the economic harm of the COVID-19 emergency (Article13, paragraph 1, letter m));[131] and 2) a loan with a total guarantee of 90 per cent if direct and 100 per cent in reinsurance in an amount equal to the greater of 25 per cent of 2019 turnover, the double of the wage bill in the same year and the liquidity necessary for working capital and investment in the following 12 months (18 months for SMEs) (Article 13, paragraph 1, letter c)). The latter category includes the possibility, if 2019 turnover does not exceed €3.2 million and the enterprise has suffered economic harm from the COVID-19 pandemic, of obtaining a loan of up to 25 per cent of turnover (therefore equal to a maximum of €800,000) 90 per cent guaranteed by the Guarantee Fund, which can be increased to 100 per cent through

[130] See paragraph 20 of the State Aid Temporary Framework and paragraph 30 of the document with which the European Commission approved the measure (https://ec.europa.eu/competition/state_aid/cases1/202016/285511_2148349_27_2.pdf).

[131] The ratification into law of Decree Law 23/2020 modified the maximum amount (from €25,000 to €30,000 euro) and the term of the loan (from 6 to 10 years). In addition, the personnel expense parameter was added to the turnover parameter to establish the maximum value of the loan eligible for a 100 per cent State guarantee. These amendments were approved by the European Commission under the State Aid Temporary Framework (https://ec.europa.eu/competition/state_aid/cases1/202025/286526_2166152_59_2.pdf).

guarantees granted by loan guarantee consortia or other entities authorised to issue guarantees (Article 13, paragraph 1, letter n)). In turn, these measures for SMEs can be combined with the guarantees issued under the SACE Fund (with up to €30 billion reserved) if they should use all the resources available to them through the SME Guarantee Fund.[132]

The State guarantee provided through the SME Fund does not necessarily have to concern entirely new lending. In fact, under certain conditions, loan renegotiation and reinsurance transactions are permitted, provided that there is an increase in the new amount of the loan of not less than 10 per cent for operations agreed in the period between 8 April and 6 June[133] – the date of entry into force of Decree Law 23/2020 and that of its ratification into law – and 25 per cent from 7 June.[134]

The introduction of these rules significantly increases the percentage of public guarantee on loans. In particular, it would rise from just over 75 per cent (the average of the guarantees that the Fund has granted to companies applying for them in the last two years)[135] to 90 or 100 per cent (80 per cent for renegotiations).

A total of €6 billion has been allocated to the Guarantee Fund for 2020 as provisions for the risk of financial losses associated with the probability of default (Table 3.15). However, note that the procedure for granting the guarantee, which the decree made less stringent and more streamlined than the ordinary process for needs related to the emergency, could lead to the underestimation of the risk of future default of firms and therefore of the amounts to be allocated to the Fund. This could make it necessary in the future to find additional resources to meet the obligations assumed.

The procedure for obtaining the Fund's guarantees differs from that used before the pandemic. In normal operating conditions, Mediocredito Centrale (MCC) assigns each company to a specific risk bracket on the basis of a composite index determined through an evaluation of their financial statements (defined in the economic-financial module) and the use of specific credit-related indicators connected with the quality of the borrower (the performance module, which draws information from the Central Credit Register). Mcc uses five risk brackets (1 to 5), each associated with a maximum probability of default. Companies that fall into bracket 5, which are assigned the

[132] If this possibility was not available, there would be a disparity of treatment in eligibility for guarantees, as SMEs would not be eligible for the SACE Fund, while some larger firms would be eligible for both funds.
[133] Article 13, paragraph 1, letter m) of Decree Law 23/2020 does not rule out a priori the possibility of using the maximum loan of €30,000 to renegotiate existing loans. Letter m) defines new loan as an amount of credit at least equal to the exposure of each firm to the lenders, reduced by any amount naturally falling due or extinguished at the independent discretion of the borrower. However, this possibility was excluded by an ABI (the Italian Banking Association) Circular of 24 April (https://www.abi.it/DOC_Info/Lettere per cent20circolari per cent20Covid/Imprese/UCR-000791 per cent2024 per cent20aprile per cent202020.pdf), which specifies that the loan up to €25,000 (the maximum amount then allowed) may not be used to offset any existing loan, including current account overdrafts. Any offsetting would represent the start of repayment before the end of the 24 month grace period, causing the guarantee to lapse as it would no longer comply with the European Commission's State Aid Temporary Framework.
[134] This amendment, which was introduced with the ratification into law of Decree Law 23/2020, was approved by the European Commission within the State Aid Temporary Framework (https://ec.europa.eu/competition/state_aid/cases1/202025/286526_2166152_59_2.pdf).
[135] Under the ordinary rules, the guarantees vary between 30 per cent and 80 per cent of the loan, depending on the term of the loan and the risk rating assigned by the Fund to the firm.

maximum probability of default of 23 per cent, are generally not eligible for a guarantee (with the exception, for example, of microcredit loans, innovative start-ups and portfolio investments). However, for the guarantees envisaged in Decree Law 23/2020, MCC must consider all companies proposed by the lenders to be eligible and, for smaller loans (up to €30,000), the guarantee must be granted automatically and free of charge. For other loans, the selection procedure using the economic-financial and performance modules is not used, although a preliminary assessment of the creditworthiness of companies is still performed by lenders. MCC conducts the economic-financial analysis of companies for the sole purpose of assigning the probability of default, which defines the risk coefficient used in determining the provision allocated to the Fund. The performance module is only used at a later stage to supplement the preliminary assessment of provisions allocated to the Fund.

The rule governing renegotiations could facilitate the restructuring of corporate debt on more favourable terms, but it could also create an incentive for banks to require less-sound firms to renegotiate existing debts or to extend guarantees before granting any further credit. These possibilities should be evaluated in the light of limited public resources.

Finally, note that a crucial element for the effectiveness of the measure is the speed of disbursement of loans. The early stages of implementation experienced significant delays in the disbursement of funds due to the complexity of certain administrative procedures and a number of uncertainties concerning implementation. Recall also that the regulatory framework has changed significantly in the transition from Decree Law 18/2020 to Decree Law 23/2020, and was further modified with the ratification of the latter into law.

Based on analyses conducted by the Bank of Italy[136] on the state of implementation of the financing measures, the number of applications has risen since the end of April and in the second half of May went from a daily average of about 500 applications to about 20,000. According to this study, a number of operational problems in the banking system adversely impacted the initial phase. The banks experienced difficulties in handling the much higher than normal number of applications, for which they had to continue performing anti-money laundering and anti-mafia checks and credit standing evaluations. With regard to the latter, although it was not required for the guarantees on the smaller loans (those provided for in Article 13, paragraph 1, letter m) of Decree Law 23/2020), in many cases banks continued to perform their evaluations in order to avoid the legal risk of violating criminal law provisions concerning the irregular granting of credit for loans secured by a 100 per cent State guarantee. As regards the Guarantee Fund, the time necessary to accept applications was affected both by the gradual entry into full operation of the online platform for uploading documentation and the preparation of standard forms, as well as the time necessary to approve loans (not necessary for smaller loans).

[136] See the hearing of the head of Banking and Financial Supervision of the Bank of Italy, "Lo stato di attuazione delle misure in materia di finanziamento con garanzie dello Stato previste dai Decreti Legge n.18 di marzo e n. 23 di aprile 2020", before the Parliamentary Committee of Enquiry on the banking and financial system of 11 June 2020.

Table 3.15 – Measures to support liquidity and lending to firms in Decree Law 18/2020, Decree Law 23/2020 and Decree Law 34/2020 *(millions of euros)*

Measures	Potential beneficiaries	Characteristics	Eligibility conditions	Turnover class								Impact on net borrowing			Funds
				0-3.2	3.2-5	5-10	10–50	50-250	250-1,500	1,500-5,000	more than 5,000	2020	2021	2022	2020
"Cure Italy" Decree (Decree Law 18/2020 ratified with amendments by Law 27/2020)															
Support for extraordinary moratorium on payment of liabilities: establishment of special section of the SME Guarantee Fund (Art. 56)	Active non-financial SMEs with up to 250 employees			x	x	x	x					1,481	0	0	1,481
SME Guarantee Fund (Art. 49 bis)	Active non-financial SMEs with up to 250 employees	80% guarantee free of charge	Located in Red Zone municipalities	x	x	x	x					50	0	0	50
Tax credit for assignment of impaired receivables (DTA) (Art. 55)	Firms (natural and legal persons)			x	x	x	x	x	x	x	x	857	-174	-175	0
Fund for State guarantee supporting liquidity of affected firms (Art. 57)	Sectors identified with ministerial decree that are not eligible for guarantees under the SME Fund		Reduction in turnover caused by COVID-19 emergency	x	x	x	x	x	x	x	x	500	0	0	500

Table 3.15 – *(cont.)* Measures to support liquidity and lending to firms in Decree Law 18/2020, Decree Law 23/2020 and Decree Law 34/2020 *(millions of euros)*

Measures	Potential beneficiaries	Characteristics	Eligibility conditions	Turnover class								Impact on net borrowing			Funds
				0-3.2	3.2-5	5-10	10–50	50-250	250-1,500	1,500-5,000	more than 5,000	2020	2021	2022	2020
			"Liquidity" Decree (Decree Law 23/2020 ratified with amendments by Law 40/2020)												
SACE Guarantee Fund (Art. 1)	Active non-financial SMEs (up to 250 employees) that have used all individual resources available under SME Guarantee Fund	Loan guarantees (up to 6 years) in maximum amount equal to the greater of a) 25% of turnover ; or b) twice annual personnel expenses. Guarantees available: max €30 billion for SMEs and €170 billion for larger firms	a) Not permitted to distribute dividends or repurchase shares in 2020; b) Maintain employment level in accordance with union agreements; c) Undertake to not offshore production; c) The financing must be "additional" and intended to meet personnel costs, rent and lease payments for business units, investments or working capital in Italy	x	x	x	x					0	0	0	€31,000 (€1,000 DL 23/2020 + €30,000 from DL 34/2020)
				90%											
	Active large non-financial firms							x	x	x	x				
								90%		80%	70%				
Direct guarantee and guarantee of refinancing of SME Guarantee Fund and ISMEA Fund. Ceiling of €5 million on Fund guarantees (including prior guarantees) (Art. 13)	Active non-financial firms with up to 499 employees	Guarantees for new lending (up to 10 years) in maximum amount equal to the lesser of a) 25% of turnover; b) twice annual personnel expenses; or c) €30,000 (paragraph 1, letter m))	Self-certification of harm caused by COVID-19 emergency. Grant procedure: automatic, free of charge and without assessment	x	x	x	x	x	x	x	x	€6,000 (€1,800 DL 23/2020 + €4,200 from DL 34/2020)	0	0	€6,000 (€1,800 DL 23/2020 + €4,200 from DL 34/2020)
				100%											
		Guarantees for new lending (up to 6 years) in maximum amount equal to the greater of: a) 25% of turnover ; b) twice annual personnel expenses; c) funding requirement for capital (paragraph 1, letters c) and n))	Self-certification of harm caused by COVID-19 emergency. Grant procedure: assessment by banks	x	x	x	x	x	x	x	x				
				100%	90%										
			Grant procedure: assessment by banks	x	x	x	x	x	x	x	x				
				90%											
		Guarantee on debt renegotiations increasing credit by at least 10% (25% from 7 June) in maximum amount equal to the greater of : a) 25% of turnover or b) twice annual personnel expenses (paragraph 1, letter e))	Grant procedure: assessment by banks	x	x	x	x	x	x	x	x				
				80%											

Table 3.15 – *(cont.)* Measures to support liquidity and lending to firms in Decree Law 18/2020, Decree Law 23/2020 and Decree Law 34/2020 *(millions of euros)*

Measures	Potential beneficiaries	Characteristics	Eligibility conditions	Turnover class								Impact on net borrowing			Funds
				0-3.2	3.2-5	5-10	10–50	50-250	250-1,500	1,500-5,000	more than 5,000	2020	2021	2022	2020
"Revival" Decree (Decree Law 34/2020)															
Grant (Art. 25)	Non-financial firms (natural and legal persons)	Grant as a percentage of loss: 20% for turnover up to €400,000 , 15% if greater than €400,000 euro or less than €1,000, 10% if greater than €1,000,000. Minimum grant of €1,000 for natural persons and €2,000 for corporations	Reduction of more than 33% in turnover in April 2020 compared with April 2019	x	x							€6,192	0	0	0
Capitalisation support: incentives for capital increases (by 31 December 2020) up to €2 million (Art. 26, paragraphs 4-11)	Non-financial corporations	Tax credit for lender: 20% of capital increase (natural persons or corporations); tax credit for the company : 50% of losses exceeding 10% of capital and no more than 30% of the capital increase	a) Reduction of more than 33% in turnover in March-April 2020 compared with same period of 2019; b) Prohibition on distribution of reserves until 2024			x	x					0	€2,000	0	0
Capitalisation support: incentives for capital increases of between €250,000 and €2 million, establishment of SME Capital Fund (INVITALIA) (Art. 26, paragraphs 12-20)	Non-financial corporations (permanent establishments)	Subscription by 31 December 2020 of bonds (financial instruments) issued by the company. Lesser of : a) three times the capital increase or b) 12.5% of revenue	a) Reduction of more than 33% in turnover in March-April 2020 compared with same period of 2019; b) Prohibition on distribution of reserves until 2024; c) Use to meet personnel costs, investments or working capital needs in Italy d) periodic reporting				x					5	0	0	€4,000
Establishment of "Revival Fund": segregated specific-purpose fund established at CDP S.p.A. (2020-2032) (Art. 27)	Non-financial companies limited by shares (including those formed as cooperatives)	1) Convertible bonds; 2) Capital increase; 3) Purchase of shares on secondary market	Registered office in Italy					x	x	x	x	0	0	0	€44,000 (1)
Strengthening innovative start-up ecosystem (Art. 38)	Firms	a) Subsidised loans; b) grants ; c) equity investments		x	x	x	x	x	x	x	x	14	0	0	314
	Natural persons	Increase from 30% to 50% of the tax credit for investments in innovative start-ups or innovative SMEs up to a maximum of €100,000 per year	Investment must be retained for at least 3 years	x	x	x	x	x	x	x	x	0	71	41	
R&D tax credit in Southern Italy	Firms	Increase of the tax credit for R&D spending from 12.5% to: 45% small firms; 35% medium-sized firms; 25% large firms	Operating in Southern Italy	x	x	x	x	x	x	x	x	0	49	49	0

(1) The amount indicates the limit on the issue of securities that can be assigned to CDP – Targeted Fund and used by the fund to raise liquidity for recapitalisation operations.

Based on the information gathered by the Task Force on measures to support liquidity,[137] there has recently been an acceleration in both applications and loan disbursements by banks.

Between 17 March and 29 June, over 738,000 applications (about 17 per cent of the total potential pool of beneficiaries) were received by the Guarantee Fund, corresponding to approximately €43 billion in financing with an average size of €17,029. Over 88 per cent of applications and 30.4 per cent of the total amount (€13 billion) were for loans of up to €25,000 (€30,000 from 7 June 2020) fully guaranteed by the State (Article 13, paragraph 1, letter m)) with an average size of €19,968. Based on the resources currently allocated to the Fund (€6 billion), these numbers indicate an average provision equal to 14 per cent of the loans secured. The distribution of applications and loans by geographical area is substantially in line with the distribution of companies and their revenues among the different regions (Table 3.16). Average loan

Table 3.16 – Loan applications to the SME Guarantee Fund: regional distribution *(percentages)*

	Number of firms	Number of loan applications	Revenues	Size of loan	Average amount *(millions of euros)*
Valle d'Aosta	0.25	0.22	0.20	0.13	34,530
Piedmont	7.18	7.28	7.38	6.93	55,239
Lombardy	17.76	18.34	28.70	23.96	75,799
Trentino Alto Adige	1.98	1.03	2.88	1.44	81,537
Veneto	9.10	8.65	11.44	11.30	75,836
Friuli Venezia Giulia	1.82	1.75	2.04	1.86	61,471
Liguria	2.66	2.37	1.97	1.76	42,994
Emilia Romagna	8.26	9.71	10.76	10.43	62,352
Tuscany	7.42	8.23	6.33	7.45	52,533
Umbria	1.59	1.67	1.27	1.58	54,895
Marche	3.03	3.71	2.46	3.56	55,737
Lazio	9.56	8.91	8.20	8.14	52,967
Abruzzo	2.35	2.53	1.52	1.83	41,927
Molise	0.51	0.49	0.22	0.31	37,200
Campania	8.19	7.16	5.47	7.07	57,253
Puglia	5.92	6.35	3.32	4.55	41,550
Basilicata	0.87	0.87	0.45	0.53	35,513
Calabria	2.64	2.55	0.99	1.31	29,791
Sicily	6.45	5.99	3.20	4.40	42,621
Sardinia	2.46	2.18	1.21	1.46	38,816
Total	**100.00**	**100.00**	**100.00**	**100.00**	**58,029**

Source: based on Ministry for Economic Development (MISE) data and the PBO's MEDITA micro-simulation model.

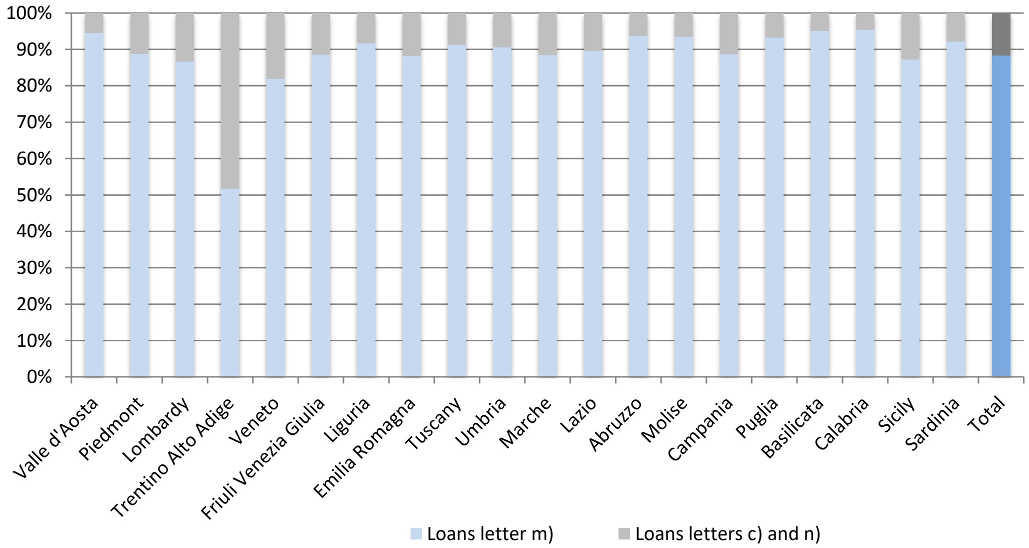
[137] The Task Force, which was established to promote the implementation of the measures to support liquidity adopted by the Government as part of the response to the COVID-19 emergency, includes members of the Ministry for the Economy and Finance, the Ministry for Economic Development, the Bank of Italy, the Italian Banking Association, Mediocredito Centrale and SACE.

sizes are generally larger in certain regions of the North: in Lombardy and Veneto they are 30 per cent larger than the national average and in Trentino Alto Adige 40 per cent larger. In the latter region, the proportion of smaller loans is lower than in the others (52 per cent of firms and 13 per cent of the total value) (Figure 3.11).

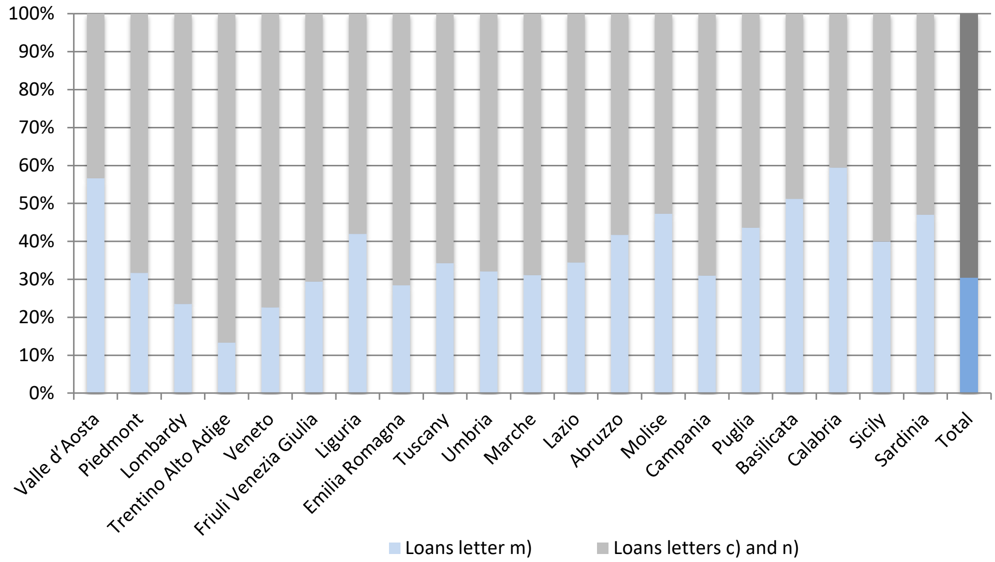
The amount of loans requested so far would appear to be quite limited compared with the potential volume if all companies borrowed the maximum amount allowed

Figure 3.11 – Loan applications to the SME Guarantee Fund: regional distribution of applications and loans by type
(percentages)

Applications



Loans



Source: based on MISE data.

by the rules, which can be estimated at around €550 billion (of which about €46 billion in loans of up to €25,000).[138] On the side of firms, it is possible that their liquidity needs are smaller than the maximum amount of loans obtainable, that they are concentrated in the sectors most affected by the emergency and that they may have concluded that it is not worth their while to increase their borrowing beyond a certain level. At the same time, it is possible that banks have rejected some loan applications from firms with shaky credit standing. On the other hand, the mechanism for granting guarantees has only begun to operate effectively in the last month, and therefore the volume of loans secured by a public guarantee could grow rapidly in the coming months.

Finally, note that the appropriation for the Guarantee Fund in 2020 does not encompass the overall scope of the interventions, either quantitatively or temporally. The granting of additional guarantees through 31 December 2020 (the deadline established in the legislation) may require refinancing of the Guarantee Fund unless policy-makers are willing to accept the risk of a substantial decrease in the percentage provision to the Guarantee Fund to back the loan guarantees. This provision is already not particularly large if we take account of the potential risks of default implicit, above all, in automatic 100 per cent guarantees.

Given the potential scale of the loans that could be eligible for a State guarantee, constant monitoring will be especially important in order to assess the effective cost in the coming months.

2) *The SACE Fund*. – For larger companies (those with more than 250 employees and over €50 million in turnover), SACE will grant guarantees – until 31 December 2020 and subject to certain conditions – to banks and other entities authorised to engage in lending in Italy for loans granted in any form. These are explicit and irrevocable first-demand guarantees until 31 December 2020, for a total maximum amount of €200 billion, of which at least €30 billion are intended to support small and medium-sized enterprises, including self-employed workers and professionals with VAT registration numbers, that have exhausted the resources available to them under the SME Guarantee Fund.

   For these companies, the maximum loan eligible for a guarantee is equal to the higher of 25 per cent of annual turnover in 2019 and the double of the wage bill. The term of the loan cannot exceed 6 years, with the possibility for companies to take advantage of a grace period of up to 36 months. The percentage coverage of the

[138] See the memorandum of the Chairman of the Parliamentary Budget Office on Bill AC 2461 ratifying Decree Law 23 of 8 April 2020 containing urgent measures concerning access to credit and the tax obligations of firms, special powers in strategic industries and measures concerning health and the workplace, and the extension of administrative and trial deadlines before a joint session of the Finance and Economic Activity Committees of the Chamber of Deputies on 30 April 2020.

guarantee depends on firm size,[139] while the fees owed by the firms for the issue of the guarantee vary with company size and the term of the loan.[140] The cost of the loan must be less than it would have been for loans with the same characteristics but without the guarantee. In addition, the beneficiary companies must undertake not to distribute dividends, not to repurchase shares during 2020, to manage employment levels with union agreements, to not offshore production and, finally, to use the funds covered by the guarantee to pay personnel costs, lease or rent payments for a business unit, investments or working capital needs in Italy. Up to 20 per cent of the loan may be used to pay instalments on loans falling due in the period from 1 March to 31 December 2020 for which repayment is objectively impossible as a consequence of the pandemic and on the condition that this impossibility is certified by the legal representative of the beneficiary firm.

Two procedures have been established for the issue of guarantees depending on the company size: a simplified procedure in which the financial intermediaries and SACE conduct evaluations for companies with less than €1.5 billion in turnover and more than €5,000 employees; and a more complex procedure, with an assessment stage performed by SACE and an approval stage requiring a ministerial decree for companies larger than at least one of these thresholds. In both cases, a decree of the Minister for the Economy and Finance can give SACE guidelines on managing the grant of guarantees and on verifying – for the purpose of enforcing the State guarantee – compliance with those guidelines and the criteria and conditions to which the guarantee is subject.

A State guarantee is also available for SACE exposures on loans to firms and those of CDP assumed by 31 December 2020 in respect of portfolios of loans granted by banks or other entities authorised to lend to companies that have suffered a reduction in turnover as a result of the COVID-19 emergency.

In particular, the State guarantee for SACE's obligations in respect of the guarantees granted to companies must be managed separately, act by operation of the law, at first demand and without recourse and there are no limits on the amount or time. With regard to CDP exposures, the State guarantee is established by ministerial decree from within the amount of €200 billion envisaged for the guarantees granted by SACE.

A total of €31 billion (€1 billion in Decree Law 23/2020 and €30 billion in Decree Law 34/2020) were appropriated for the SACE Fund, for a total of €200 billion in guarantees. With a pre-established limit on guarantees, very complex selection criteria and implicit leverage of 15 per cent, the resources allocated to the Fund should be adequate (Table 3.15). However, it is of key importance to carefully monitor the loans on which guarantees will be granted in order to update the probabilities of

[139] Ninety per cent for companies with more than 5,000 employees in Italy and turnover up to €1.5 billion; 80 per cent for companies with turnover between €1.5 billion and €5 billion or with more than 5,000 employees in Italy; 70 per cent for companies with turnover exceeding €5 billion (these last two levels of coverage of the guarantee can be increased by ministerial decree to 90 and 80 per cent respectively).

[140] For small and medium-sized enterprises, 25 basis points in the first year, 50 in the second and third years, and 100 in the fourth, fifth and sixth years; for other companies 50 basis points during the first year, 100 during the second and third years, and 200 during the fourth, fifth and sixth years.

default. The current uncertainty about future economic developments and the ability of enterprises to respond to the crisis could increase these probabilities, with a consequent impact on the public finances. [141]

Third, another provision establishes that companies that have experienced a reduction in turnover due to the COVID-19 emergency operating in a series of sectors that will be identified in a forthcoming ministerial decree and that do not have access to guarantees under the SME Central Guarantee Fund whose exposures are assumed by CDP - also in the form of first loss guarantees on loan portfolios in favour of banks and other entities authorised to engage in lending - can receive a State guarantee issued to CDP of up to a maximum of 80 per cent of the exposure assumed. To this end, the legislation provides for an initial appropriation of €500 million to a specific fund in 2020 (Article 57 of Decree Law 18/2020).

Finally, public export support has been enhanced by establishing a co-insurance system for risks defined as non-market in accordance with current EU legislation, under which 90 per cent of the commitments deriving from SACE's insurance business are assumed by the State, with the remaining 10 per cent being held by SACE. SACE can issue, on market terms and in compliance with EU legislation – within the maximum total amount of €200 billion – guarantees in any form, including counter-guarantees with guarantee consortia, to national and international banks and financial institutions for loans in any form granted to companies based in Italy.

3.2.1.2 The main tax relief measures and grants

During the initial emergency phase of the pandemic, Decree Law 18/2020 sought to address the liquidity shortages of companies by establishing a refundable tax credit against the assignment of receivables due from defaulting debtors (with default defined as payment arrears of at least 90 days). The tax credit is proportionate to the amount of a firm's deferred tax assets (DTA) for losses carried forward and unused ACE (allowance for corporate equity) deductions. This enables firms to recover unused deductions carried forward and that are unlikely to be used for the year due to the deterioration in profitability (Article 55). All firms are eligible for the support, even if they are unaffected by the consequences of the health emergency, although by its nature it is more readily used by larger companies and those in the financial sector (see Box 3.1). According to official estimates, the measure will reduce tax revenue by €0.9 billion.

[141] According to the Bank of Italy, default rates could exceed those registered in 2012-2013, when they were just below 10 per cent, due to the expansion in the number of beneficiaries, the larger percentage coverage offered by the guarantees and absence of restrictions limiting the use of guarantees to new loans only or to the renewal of those falling due. See the testimony of the head of the Structural Economic Analysis Directorate of the Bank of Italy, Fabrizio Balassone, on the ratification into law of Decree Law 23 of 8 April 2020 before a joint session of the Finance and Economic Activities Committees of the Chamber of Deputies on 27 April 2020.

Box 3.1 – Impaired receivables and DTAs

Decree Law 18/2020 provides that 20 per cent of the nominal value of companies' claims on defaulting debtors assigned by 31 December 2020 can be transformed into a refundable tax credit. The amount of the credit is equal to the value of DTAs for tax losses that have not been used (losses carried forward) and the amount of the notional return in the ACE (allowance for corporate equity) mechanism exceeding taxable income that has not yet been deducted or used as a tax credit. In order to contain the cost of the relief measures and avoid concentrating its benefits with large companies, the decree sets a limit of €2 billion on the amount of receivables that can be transformed into tax credits, the calculation of which must take account of all assignments by individual companies in the case of corporate groups. A fee of 1.5 per cent[142] must be paid to exercise the option to transform the DTAs. The measure does not apply to companies declared to be in or at risk of being in a state of financial distress or insolvent.

Compared with similar measures introduced in the past, although the relief measure may be particularly attractive for financial companies, it will also benefit companies in the non-financial sector in relation to their ability to assign impaired receivables.

With this measure, companies can reduce the assignment cost of impaired receivables – which could plausibly increase significantly at this stage due to the COVID-19 emergency – at a time when they are facing liquidity needs that could require even greater assignments than in normal times. In addition, with the tax credits, firms will be able to bring forward the lower future taxes deriving from the carry forward of losses from previous years and the accumulated notional ACE return (amounts that with the crisis may become even more difficult to recover in the short term), gaining immediate access to additional liquidity.

The Technical Report estimates that the greater liquidity available to companies – freed up by the tax credits and effective in the event of repayment – could amount to about €1 billion, of which four-fifths accounted for by financial companies. This is based on an estimate of €20 billion in impaired receivables assigned in 2020, of which €12 billion pertaining to financial companies, €4 billion to non-financial companies and €4 billion induced by the incentive inherent in the measure.

In principle, the measure is aimed at all companies and can be conceived as providing generalised support to the economic system and therefore benefitting the general stability of the entire economy. However, the effectiveness of the measure, especially in relation to companies that may be affected by a liquidity crisis due to the COVID-19 emergency, mainly depends on two factors: the amount of receivables due from defaulting debtors and the amount of DTAs available to firms.

If we focus our attention on financial companies, the only sector for which data is available, the value of non-performing claims in 2019 was around €70 billion. Considering that in the same year a total of €33 billion of bank loans were assigned, of which 80 per cent classified as bad loans (about €26 billion),[143] if these flows are repeated this year, we would have a potential base of €5 billion for the financial sector alone. However, the Technical Report estimates €4 billion in assignments for all sectors, of which €2.4 billion from financial companies, and this figure may therefore not be prudent even considering the limitations on the amount of assignable receivables.

The availability of DTAs for firms is highly influenced by the economic cycle and by legislative action. The latter may involve specific changes, which alter the attractiveness of recognising them, or general modifications, because when tax rates change, the value of the assets recognized changes. Figure B3.1.1 highlights the variability of the stock of DTAs in the financial statements of financial companies and the relative stability of those recognised by non-financial companies, at

[142] To ensure compliance with State Aid rules, a fee of 1.5 per cent is due, to be calculated on any positive difference between the DTAs and tax paid. The fee is fully deductible for IRES and IRAP purposes (Decree Law 59/2016).

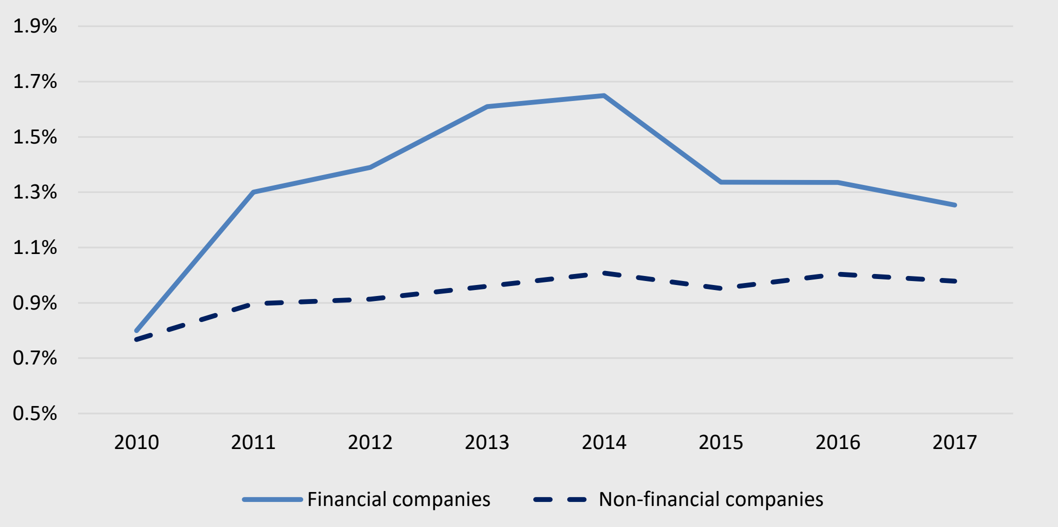
[143] In 2018 the value of securitizations was much higher at €65 billion, nearly all regarding bad loans.

least until 2015. The 2015 measures[144] led to a significant reduction in subsequent years in the items that give rise to the recognition of new DTAs for financial companies, while the fiscal attractiveness of such recognition for non-financial companies is more stable (Figure B3.1.1 and Table B3.1.1).[145]

To have an idea of the potential value of DTAs for the entire corporate sector actually affected by the measure, for the financial sector we can refer to 2018 financial statement data, while for the non-financial sector we refer to the 2017 financial statement data (the most recent year available) for unused deductions (prior-year losses and ACE notional return). The stock of DTAs in the financial statements of financial companies alone amounts to €47.6 billion. Of this stock, about 9 per cent, or just over €4 billion, is attributable to the accumulation of unused tax losses and ACE deductions and can therefore be converted into tax credits.[146] The total stock of DTAs recognised by non-financial companies was virtually stable in 2018 at around €35 billion. However, the portion that can actually be used cannot be determined from this figure.

However, since the recognition of DTAs under assets is not mandatory, the potential amount of tax losses and ACE deductions is particularly important in assessing the scope of the phenomenon, especially since the measure under review specifies that transformation into tax credits is permitted even if the DTA are not recognised in the balance sheet. In this regard, we can refer to tax data on undeducted losses and unused ACE deductions. In 2017, these represented a potential total of €38 billion for the entire corporate sector (of which €27.5 billion attributable to losses and the remaining €10.5 to ACE deductions). The financial sector absorbs 40 per cent of unused ACE deductions and 10 per cent of total losses to be carried forward for deduction in future years.

Figure B3.1.1 – DTAs as a percentage of total assets



Source: for financial companies in 2010-2014, data from De Vincenzo, A. and Ricotti, G. (2014), "The use of tax law from a macroprudential perspective: the impact of some recent tax measures on procyclicality and banks' stability", Notes on Financial Stability and Supervision, no. 1, Banca d'Italia. For financial and non-financial companies in 2015-17, the PBO's MEDITA micro-simulation model.

[144] In particular, Decree Law 83/2015, which amended Article 106, paragraph 3, of the Consolidated Income Tax Code to make it possible to immediately deduct the full value of loan writedowns as from 2016.

[145] It is important to note that it is not mandatory to recognise DTAs, and failure to recognise them does not mean they cannot be deducted in the future, like losses carried forward or ACE deductions. Recognition generates costs for estimation and valuation of current and future amounts and was certainly a less attractive proposition for non-financial companies.

[146] Sixty-five per cent of the €47.6 billion can be transformed into tax credits under the regulations established with Decree Law 225 of 29 December 2010 but it is not relevant for the measure under review.

Table B3.1.1 – Stock of DTAs and tax credits
(billions of euros and percentages)

	2015	2016	2017
Deferred Tax Assets (DTA)			
Stock of DTAs recognised	91.04	88.87	83.62
Financial companies	52.47	51.80	48.03
Non-financial companies	38.56	37.08	35.59
Stock of DTAs as % of assets			
Financial companies	1.34%	1.34%	1.25%
Non-financial companies	0.95%	1.00%	0.98%
Tax credits from DTAs			
Total accrued to year	1.66	5.31	1.44
Financial companies	1.64	5.30	1.43
Non-financial companies	0.03	0.01	0.00
Used for set-off	3.61	4.11	3.75
Financial companies	3.50	4.07	3.73
Non-financial companies	0.11	0.04	0.01
Used for set-off as % of net tax	4.83%	15.96%	4.37%
Financial companies	28.64%	141.37%	35.64%
Non-financial companies	0.09%	0.04%	0.02%

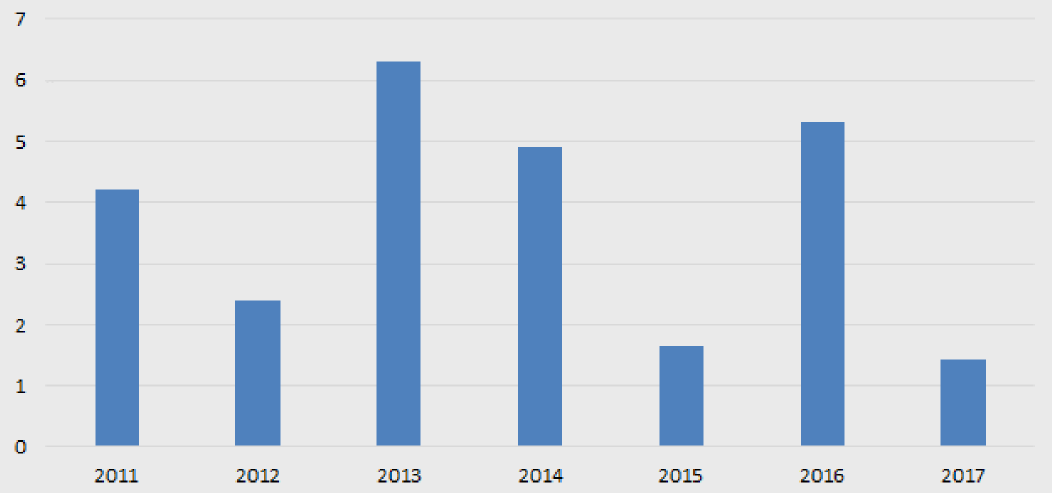
Source: PBO's MEDITA micro-simulation model.

Historical tax data (figure B3.1.2) show that the transformation of tax credits into DTAs has already been an important tool for companies, in particular for financial companies.

The previous legislation allowing the transformation of DTAs into tax credits gave rise to a total of about €27 billion between 2011 and 2017, with a pattern over time that tracks the evolution of the associated rules and value of the stocks recognised in the financial statements. At least in recent years, these mechanisms made it possible to liquidate tax receivables (such as losses not yet used in set-off) that would have arisen in future years, and which therefore favour low-profit companies.

Table B3.1.1 shows that the tax credits accrued from DTAs recognised by financial companies represent on average 99 per cent of the total. This is due to the fact that the applicable legislation

Figure B3.1.2 – Tax credits from DTAs



Source: for 2010-2014, *Documento di economia e finanza* for the various years; for 2015-2017, the PBO's MEDITA micro-simulation model.

was largely designed specifically for financial companies, which had an interest in transforming DTAs into tax credits not only for the liquidity this generates, but also because of their implications in terms of capital regulations.

Of the tax credits accrued by financial companies in 2017 (€1.44 billion), just under 20 per cent is attributable to tax losses already recorded in their financial statements. The tax credits usable in 2017 were actually much greater, at €7 billion, reflecting among other things just under €4 billion in credits from previous years that had not yet been used, while credits actually used were equal to €3.7 billion, just under a quarter of the IRES and IRAP taxes due for the year.

Finally, with regard to the potential effectiveness of the measure in responding to the needs of the companies most exposed to the negative effects of COVID-19, Table B3.1.2 shows the distribution of DTAs and the deductions eligible for transformation into tax credits across the various categories of sectoral risk (high, medium and low) referred to in section 3.1.4. In this case, companies belonging to low-risk sectors (48.1 per cent of the total) account for more than half of the DTAs and about 39.7 and 53.5 per cent, respectively, of the losses and undeducted ACE.

Conversely, companies that have been more sharply impacted by the crisis report only 6.5 per cent of DTAs, to which correspond smaller shares of losses not yet set off and unused ACE deductions (14 and 5.6 per cent, respectively).

Table B3.1.2 – Distribution of DTAs, losses not set off and unused ACE deductions for non-financial companies

	Number of companies	DTAs carried in 2017	Losses not set off	ACE not deducted
High-risk sectors	14.27%	6.49%	13.98%	5.60%
Medium-risk sectors	37.59%	42.86%	46.20%	40.88%
Low-risk sectors	48.14%	50.65%	39.70%	53.52%
Total	100.00%	100.00%	100.00%	100.00%

Source: the PBO’s MEDITA micro-simulation model.

In the phase following the emergency proper (when support measures for firms were essentially aimed at ensuring adequate access to credit for all companies (Decree Law 18/2020 and Decree Law 23/2020)), Decree Law 34/2020 introduced additional liquidity support facilities, a non-repayable grant (Article 25) and tax incentives for strengthening capitalisation (Articles 26 and 27) in order to foster the rebalancing of the financial structure of companies. Unlike previous programmes, these measures have eligibility requirements: in general, they exclude the financial sector, while for the majority of small and medium-sized enterprises (up to €50 million in turnover) eligibility is conditional on having registered an effective loss of revenue. This is a more stringent selectivity than heretofore, when only in few cases a generic self-certification of the losses caused by the COVID-19 emergency was required. In addition, the main measures are more differentiated in relation to the size and legal nature of the firm involved.

Smaller companies and other holders of VAT registration numbers (therefore including self-employed workers) with turnover of up to €5 million that registered a reduction in turnover in April 2020 of at least one third compared with the corresponding period of the 2019 are eligible for a grant in an amount proportional to the actual revenue losses in April. The percentage size of the grant differs based on the turnover class of the beneficiary: 20 per cent of the loss recorded in April for beneficiaries with a turnover of up to €0.4 million, 15 per cent for those with a turnover of between €0.4 million and €1 million and 10 per cent for those between €1 million and €5 million. A minimum grant of €1,000 or €2,000 is available for each natural person or legal person, respectively. Professionals are not eligible, although they are in any case eligible for benefits of up to €1,000 through their pension funds (see section 3.1.3.2).

Small businesses and other holders of VAT registration numbers (excluding professionals) with turnover of up to €5 million make up 98.4 per cent of firms overall and 27.8 per cent of total revenues. For natural persons alone, they make up almost all firms and just under 93 per cent of revenues.

It should be noted that, although the loss of revenues refers to the period that is likely to have been most affected by the slowdown in economic activity, this may not adequately identify the real crises that the grant is intended to target for companies that do not have stable monthly revenue performance. With such a narrow reference period, the risk remains of including companies that have not experienced any real loss and excluding those that may be hit by losses in the months following the emergency period.

The Revenue Agency website[147] indicates that as of June 24, over 900,000 applications for the grant had been submitted. Of these, 203,000 were already being paid, for a total of €730 million. The most numerous applications came from the retail sector, the restaurant sector and the construction sector. Over 80 per cent of those who have already received payment are taxpayers with turnover of less than €400,000.

Small and medium-sized corporations with turnover of between €5 million and €50 million that experienced a reduction of more than one third of their revenues in March and April compared with the corresponding period of 2019 are eligible for an incentive to increase their equity capital until 31 December 2020. The tax benefit impacts both the provider of funds and the company receiving funds: the former is entitled to a 20 per cent tax credit on the capital injection; the latter benefits from a tax credit equal to 50 per cent of the losses posted in 2020 that exceed 10 per cent of shareholders' equity, up to an amount equal to 30 per cent of the capital increase. However, the capital increase for each company cannot exceed €2 million and the tax credit cannot exceed €600,000. The tax credit for all shareholders providing funds to a single company cannot exceed €400,000. For the subset of these companies that have turnover in excess of €10 million and that have increased their capital by at least €250,000, the tax credit is accompanied by the possibility of issuing bonds (notwithstanding the limits imposed in the Civil Code) in an amount equal to the lesser of three times the capital increase (between €750,000 and €6 million) and 12.5 per cent of revenues. The securities may be subscribed by 31 December 2020 by the SME Capital Fund specifically established at INVITALIA.

Finally, for larger companies with over €50 million in turnover – with the exception of those belonging to the banking, financial or insurance sectors – established as a joint stock company (including those formed as cooperatives), including those with shares listed on

[147] Press release of the Revenue Agency of 24 June.

regulated markets, and with their registered office in Italy, are eligible for recapitalisation through the CDP, which for this purpose has been authorised to establish a segregated specific-purpose fund, called the Revival Fund or the Targeted Fund (for a limited period of 12 years). The capital contributed, which includes specifically issued government securities (up to €44 billion) can be used to raise liquidity to be used for financing transactions in the form of the subscription of convertible bonds, capital increases and the purchase of shares on the secondary market (see section 2.6.1).

Further incentives are provided for innovative SMEs and, regardless of the size of the company, innovative start-ups (Article 38) and for companies that invest in research and development in Southern Italy (Article 24). In particular, Decree Law 34/2020 provides for a tax credit for individuals equal to 50 per cent of the investment in the share capital of an innovative start-up up to a maximum of €100,000 per year.[148] Subsidised loans, grants for investments and tax relief for equity capital investments have also been established. For investment in research and development in the South, the tax credit (currently set at 12.5 per cent) has been increased to rates that differ by company size: 25 per cent of expenditure for large companies (over 250 employees and with turnover above €50 million); 35 per cent for medium-sized companies (between 50 and 250 employees and with turnover of at least €10 million); and 45 per cent for small businesses (fewer than 50 employees and with turnover not exceeding €10 million).

According to official estimates, Decree Law 34/2020 appropriates €6.2 billion to fund grants and €2 billion to fund tax credits for the capitalisation of companies in 2020 and 2021 respectively (Table 3.15). These amounts are accompanied by the resources appropriated in the funds, which total €4.3 billion in 2020. With regard to the latter, the Decree establishes a SME Capital Fund for medium-sized companies, with an appropriation of €4 billion. Appropriations include €10 million allocated to innovative companies for grants, €100 million to increase the resources for subsidised loans under the "Smart&Start Italia" programme established in 2014 (with a MISE decree) and €200 million to refinance the Fund for venture capital support. Another €4 million have been allocated to finance the new First Playable Fund set up at the MISE to support the development of the Italian digital entertainment industry. Note that additional liquidity to €44 billion in the CDP's Targeted Fund could be raised with State-guaranteed bond issues.

The measures adopted for medium-sized and larger companies are aimed at strengthening their financial structure by ensuring a better balance between their sources of funding, seeking to avoid the risk that the credit support instruments deployed in the emergency will leave firms too heavily burdened with debt, forcing them to allocate cash flows in coming years to debt repayments rather than financing investments. The aim would seem to be to create more favourable conditions for the investments that will play an essential role in the

[148] The tax credit already existed as a 30 per cent credit for investments of up to €1 million by natural or legal persons.

recovery and the upgrading of production, especially at a time when changes in demand and production models are likely to require costly conversion operations.

For the beneficiary companies, these preferential measures boost the power of an incentive that has been in place for some years now, the ACE (allowance for corporate equity), also designed to structurally facilitate the capitalisation of companies. First, the tax relief measures provides for a tax credit of up to 30 per cent of the new capital, while the ACE allows firms to deduct the notional return on the capital each year (this rate of return has been gradually reduced from 4.75 per cent in 2016 to 1.3 per cent in 2019, also to take account for declining interest rates) and the tax savings are proportional to the corporate tax rate (24 per cent). Second, the new tax credit applies to injection of capital in the period between 20 May and 31 December 2020, and companies will receive the benefit even if the capital contribution does not entitle them to the ACE deduction. The latter is proportional to increases in equity with respect to 2010, and therefore the new capital might simply offset any reductions over that period, eliminating the deduction and, therefore, the tax savings. However, it should be emphasized that the benefit is targeted at a small number of companies, since the eligible revenue class represents less than 5 per cent of corporations (almost 50,000, excluding sectors not covered by the programme) and about 25 per cent of total revenues.

All small businesses with turnover of up to €5 million, with the exception of innovative start-ups and those investing in R&D in the South, are not eligible for the capitalisation incentives. Not only might these firms experience a greater deterioration in their financials than larger ones, but the difficulties in obtaining additional financing could slow their investments and hamper their growth.

Finally, it should be borne in mind that the capitalisation incentives are subject to an overall spending limit that could be insufficient to benefit all the companies involved, and their financial effects will only appear from 2021: the size of the incentive is conditional to the actual closure of their 2020 financial statements in order to determine the overall effective losses.

3.2.2 Tax suspensions and exemptions

A second group of measures includes both the suspension of tax payments in the most acute period of the emergency and actual exemptions from payment of tax (Table 3.17).

Table 3.17 – Tax exemption measures in Decree Law 18/2020, Decree Law 23/2020 and Decree Law 34/2020
(millions of euros)

Measures	Potential beneficiaries	Characteristics	Eligibility conditions	Turnover class								Impact on net borrowing		
				0-3.2	3.2-5	5-10	10–50	50-250	250-1,500	1,500-5,000	more than 5,000	2020	2021	2022
Abolition 2019 balance and 2020 payment on account for IRAP (Art. 24)	Non-financial firms (natural and legal persons)			x	x	x	x	x				3,952	0	0
Abolition first instalment of 2020 IMU (Art. 177)	Owners of properties used for tourist accommodation as long as they operate the businesses			x	x	x	x	x	x	x	x	205	0	0
Abolition of payment of TOSAP and COSAP (Art. 181)	Public establishments with a concession or authorisation to use public land			x	x	x	x	x	x	x	x	128	0	0
Suspension of payment of withholdings, surtaxes, contributions, mandatory insurance premiums (Arts. 126 and 127 extend the suspension until 16/09/2020)	Persons engaged in a business, art or profession	Suspension for March (Art. 62 DL 18/2020)	Operating in one of the most affected sectors	x [2]								0	0	0
	Persons with tax domicile, registered office or operational headquarters in Italy	Suspension for March-April (Art. 61 DL 18/2020) [1]		x	x	x	x	x	x	x	x	0	0	0
	Persons engaged in a business, art or profession	Suspension for April-May (Art. 18 DL 23/2020)	1) revenues < €50 million: reduction in turnover > 33%; 2) revenues > €50 million: reduction in turnover > 50%; 3) start-up: no conditions	x	x	x	x	x	x	x	x	0	0	0
Suspension of VAT payments (Arts. 126 and 127 extend the suspension until 16/09/2020)	Persons with tax domicile, registered office or operational headquarters in Italy	Suspension for March (Arts. 61 and 62 DL 18/2020)	Operating in one of the most affected sectors and firms in Red Zone	x	x	x	x	x	x	x	x	0	0	0
	Persons engaged in a business, art or profession			x [2]								0	0	0
	Persons engaged in a business, art or profession	Suspension for April-May (Art. 18 DL 23/2020)	1) revenues < €50 million: reduction in turnover > 33%; 2) revenues > €50 million: reduction in turnover > 50%; 3) start-up: no conditions; 4) Red Zone: reduction in turnover > 33% with no limit on revenues	x	x	x	x	x	x	x	x	0	0	0
Reduction in payments on account of excise tax on natural gas and electricity (Art. 129)	Persons selling to consumers or purchasing for own use	Reduction of 10% in the monthly payment on account of excise tax on natural gas and electricity for May-September 2020		x	x	x	x	x	x	x	x	246.9	-340.8	134.7

(1) For these taxpayers, no suspension of payments of regional and municipal surtaxes. – (2) Involves taxpayers with turnover of up to €2 million.

With regard to the former, Decree Law 18/2020 and Decree Law 23/2020 have ordered the temporary suspension of payments of some taxes in order to avoid aggravating liquidity shortages during the period of the greatest slowdown in economic activity. The subsequent Decree Law 34/2020 then provided for a further extension of the suspensions, which continue to operate during the year and are limited to the taxpayers most affected by the slowdown in economic activity.

With regard to actual exemptions from the payment of taxes, Decree Law 34/2020 abolishes the balance payment for 2019 and the first payment on account for 2020 of IRAP (Article 24) for most firms (except companies with turnover in excess of €250,000 and taxpayers in the financial sector and in government departments and entities), the first instalment of municipal property tax (IMU), and the TOSAP and COSAP public land occupation fees in 2020 (Articles 177 and 181), although this is limited to companies that own property used in tourist accommodation and holders of concessions or authorisations for the use of public land most directly affected by the emergency. This treatment represents an outright grant for the businesses involved and, in these terms, these measures could also be included among those analysed previously.

The exemptions produce a total loss of tax revenue of €4.3 billion in 2020, which is almost entirely accounted for by IRAP (€3.9 billion). The loss of revenue for the latter tax represents about a fifth of the total forecast for 2020. In this case, the almost completely general nature of the benefit to companies represents an exception to the selective criteria employed for the other measures in Decree Law 34/2020. Table 3.18 shows a breakdown of beneficiaries and the tax revenue reduction between the various productive sectors. The beneficiaries are most highly concentrated in the retail and construction sectors (respectively 27 and 18 per cent of total taxpayers), while over 33 per cent of the tax reduction is concentrated in the manufacturing sector. With regard to the subsectors that have been most affected by the COVID-19 emergency restrictions ("high-risk subsectors" [149]), the beneficiaries represent 21.5 per cent of taxpayers and 12.8 per cent of the overall reduction in tax revenue. Note that this measure is also a significant generalised tax reduction for many sectors that have been less affected by the emergency and for sectors that have already received significant benefits from other measures. This legislative choice appears inconsistent with the aim of channelling public resources to the businesses most affected by the crisis that appears to characterise this new round of interventions. Even in the initial years following its introduction, IRAP was a bone of contention, and the business world has repeatedly called for its elimination.[150] If this measure were to be a first step in this direction, it would be necessary to rethink the overall framework of business taxation and the financing of the healthcare system.

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[149] These subsectors include those connected with tourism and restaurants, recreation and cultural services and certain segments of retail trade, transport and other services, consistent with segmentation carried out for the quantifications performed in section 3.1.4.

[150] IRAP was introduced in 1998 as part of a reform that repealed a number of taxes (including that on shareholders' equity and local income tax for firms (ILOR) and, among other things, revised the mechanisms for financing the health service, eliminating healthcare contributions and reducing the tax wedge on labour.

Table 3.18 – Sectoral distribution of reduction in IRAP revenue

	Number of beneficiaries	Reduction in IRAP revenue
Agriculture, forestry and fishing	0.9%	0.5%
Mining and quarrying	0.1%	0.2%
Manufacturing	14.6%	32.7%
Electricity, gas, steam and air conditioning supply	0.4%	2.3%
Water supply; sewerage, waste management and remediation activities	0.4%	2.0%
Construction	18.2%	9.4%
Wholesale and retail trade; repair of motor vehicles and motorcycles	27.1%	21.5%
Transportation and storage	4.6%	5.2%
Accommodation and food service activities	10.8%	5.7%
Information and communication	2.9%	3.7%
Real estate activities	8.5%	6.3%
Rental and leasing, travel agencies and business support activities	4.6%	5.2%
Education	0.7%	0.5%
Human health and social work activities	1.2%	2.0%
Arts, sports and entertainment and recreation activities	1.4%	1.9%
Other service activities and activities of extraterritorial organisations	3.8%	1.0%
Total	100.0%	100.0%
High-risk sectors (1)	**21.5%**	**12.8%**
Total	**100.0**	**100.0**

Source: simulations conducted with the PBO’s MEDITA micro-simulation model.
(1) These subsectors include the entire sectors of hotels, restaurants and tourism, recreational, cultural and sports activities and certain segments of transport and storage, education, other services and retail trade.

3.2.3 Support measures for business costs

The third type of measure, mainly adopted with Decree Law 34/2020 (shown in Table 3.19), comprises support measures for businesses to help them pay costs other than personnel expenses (discussed in section 3.1). They include measures concerning certain fixed costs that must be borne by companies regardless of the slowdown in their activities, such as the preferential treatment for lease payments (Article 65 of Decree Law 18/2020 and Article 28 of Decree Law 34/2020) and the reduction in electricity rates (Article 30 of Decree Law 34/2020), as well as costs more closely linked to the safe reopening of production activities, such as sanitisation of premises and the purchase of personal protective devices (Article 64 of Decree Law 18/2020 and Articles 120 and 125 of Decree Law 34/2020). Overall, €2.6 billion in 2020 and €2 billion in 2021 are earmarked for this purpose.

Table 3.19 – Support measures for business costs in Decree Law 18/2020, Decree Law 23/2020 and Decree Law 34/2020
(millions of euros)

Measures	Potential beneficiaries	Characteristics	Eligibility conditions	Turnover class								Impact on net borrowing		
				0-3.2	3.2-5	5-10	10–50	50-250	250-1,500	1,500-5,000	more than 5,000	2020	2021	2022
Lease payments for buildings for non-residential use and rental of firms (Art. 65 DL 18/2020 and Art. 28 DL 34/2020))	Non-financial firms (natural and legal persons)	60% tax credit (30% if includes a residential property) on monthly lease payments for 3 specified months	Loss of at least 50% of turnover in 2020 reference month compared with same months of 2019 (March, April and May)	x	x							1726	0	0
	Hotels and agritourism facilities		Loss of at least 50% of turnover in 2020 reference month compared with same months of 2019 (April, May and June)	x	x	x	x	x	x	x	x	54.1	0	0
Sanitisation and protection measures (Art. 64 DL 18/2020 and Arts. 120 and 125 DL 34/2020)	Firms (natural and legal persons)	60% tax credit on expenses up to €80,000	Operation of activity open to public	x	x	x	x	x	x	x	x	50	2,000	0
		60% tax credit on expenses up to €60,000	None	x	x	x	x	x	x	x	x	150	0	0
Reduction of non-residential electricity rates for low-voltage service (Art. 30)				x	x	x	x	x	x	x	x	600	0	0

More specifically, firms with turnover of no more than €5 million (including non-commercial entities, third-sector entities and religious entities) which in March, April and May experienced a reduction in turnover of more than 50 per cent compared with the corresponding period of 2019 are eligible for a tax credit equal to 60 per cent of monthly lease payments for three months (30 per cent if at least one property is for non-residential use). With Decree Law 18/2020, the tax credit in March is granted to all stores and shops whose activities have been closed or restricted. Hotels and agritourism facilities are not subject to size restrictions and the reference period is postponed to April, May and June to reflect the specific nature of these services. The credit can be transferred to the lessor or the grantor for an equivalent discount on the lease payments due. The cost of electricity is also decreased for companies with low-voltage service by reducing the fixed components of their electricity bills. In this case, although no size limit has been established, the measure is de facto targeted at medium-small enterprises given the eligible voltage (as large enterprises mainly use high-voltage electricity supply). As far as the additional costs incurred in connection with the emergency, businesses with activities open to the public (bars, restaurants, hotels, theatres and cinemas) are granted a tax credit equal to 60 per cent of the expenses incurred in 2020 to safely reopen, up to a maximum of €80,000. More generally, individuals in the arts and professions, non-commercial entities, including third sector entities and religious entities are eligible for a 60 per cent credit against costs incurred for sanitisation and protection measures necessary to counter the spread of the COVID-19 virus, up to a maximum of €60,000.

3.2.4 Sectoral measures

Finally, the last group of interventions includes measures of a more sectoral nature, both on the demand side, through tax expenditures (tax credits), and directly targeting companies in the sectors most affected by the pandemic (agriculture, transport, publishing, tourism and culture) (Table 3.20).

The former include a tax credit of up to a maximum of €500 per family for the holiday bonus, which should have positive effects on tourism, one of the sectors most exposed to the emergency, and a tax credit of 110 per cent for energy efficiency upgrading and measures to reduce seismic risk, with a view to reviving the construction sector (see section 3.3). These two measures could reduce taxes revenue by a cumulative €2.2 billion and €4.3 billion, respectively, in 2020-2022. To encourage sustainable mobility, the Decree provides for a “mobility voucher” covering 60 per cent of the expenditure up to a maximum of €500, to be used between 4 May 2020 and 31 December 2020, for the purchase of bicycles, including electric bicycles, vehicles for personal mobility with mainly electric propulsion and for shared mobility. The appropriation has a spending limit of €50 million for 2020. However, note that the measure does not establish new expenditure for

Table 3.20 – Demand- and supply-side sectoral support measures in Decree Law 34/2020
(millions of euros)

Measures	Potential beneficiaries	Characteristics	Eligibility conditions	Impact on net borrowing		
				2020	2021	2022
Grants for agriculture (Arts. 222 and 223)	Agricultural enterprises			600	0	0
Measures for tourism (Arts. 176, 182 and 227)	Households	Tax credit for a single household member in the maximum amount of €500	ISEE income not exceeding €40,000	1,677	734	-315
	Travel agencies and tour operators	Grants	Reduction in turnover	25	0	0
	SMEs providing tourist services in environmental economic zones (ZEA)			40	0	0
Measures for transportation (Arts. 196-199 and Art. 52)	Firms operating in the rail, maritime and air transport industries	Grants and indemnities		1,290	0	0
Measures for publishing (Arts. 186, 188, 190 and 189)	Firms/self-employed workers who invest in ad campaigns in the press or on TV/radio	Tax credit		33	0	0
	Publishers of daily newspapers and periodicals			24	0	0
	Publishers of daily newspapers and periodicals that purchase digital services		At least one employee on an open-ended contract	8	0	0
	Newspaper and magazine vendors	One-time grant of up to €500	No recipients of income from payroll employment or pensions	7	0	0
Measures for the cultural sector (Art. 183)	Individuals and firms operating in the cultural activities field	Grants		615	0	0
	Individuals and firms	Extension of tax credit for donations (*Art bonus*)		0	1	1
Energy efficiency upgrading (Art. 119 paragraphs 1-2)	Individuals	Tax credit (over 5 years) of 110% (maximum spending of between €30,000 and €60,000 per building unit, depending on type of investment)		22	656	1,985
Seismic upgrading (Art. 119 paragraph 4)	Individuals	Tax credit (over 5 years) of 110% of spending and tax credit of 90% for insurance premiums for natural disaster policies		1	167	385
Installation of photovoltaic systems (Art. 119 paragraphs 5-6)	Individuals	Tax credit (over 5 years) of 110% for maximum spending of €48,000		-1	152	522
Installation of electric vehicle charging infrastructure (Art. 119 paragraph 8)	Individuals	Tax credit (over 5 years) of 110% for maximum spending of €3,000		0	15	37
Measures to encourage sustainable mobility (Art. 229)	Individuals	Grant for purchase of bicycles and electric vehicles equal to 60% of spending (maximum of €500)	Residence in a metropolitan city, regional or provincial capital and municipalities with more than 50,000 inhabitants	50	0	0

the achievement of the sustainable mobility objective, but rather uses resources for similar purposes envisaged in other legislation passed in 2019.[151]

The second category of measures, i.e. those more directly targeted at firms in specific sectors, envisage total expenditure of €2.6 billion in 2020.

To the agriculture sector is allocated €600 million: €500 million for the establishment of the Emergency Fund to safeguard sectors in crisis, with measures to make good losses incurred in the agricultural, fisheries and aquaculture sectors; and €100 million for wine-growing enterprises that undertake to voluntarily reduce – by at least 15 per cent compared with the average quantity produced in the last 5 years – their production of grapes for use in wines with a denomination of origin or geographical indication.

For the tourism sector, in addition to the holiday bonus for families referred to earlier, €65 million have been appropriated for direct grants to businesses. Of these, €25 million are allocated to a fund to support travel agencies and tour operators in view of the negative economic impact of the adoption of COVID-19 containment measures. In addition, beach concessions of a tourism-recreational nature will be extended in order to enable their activities to continue.[152] Second, €40 million have been allocated to a fund for extraordinary grants to micro, small and medium-sized enterprises operating in environmental economic zones (ZEAs). The distribution of the appropriation among the beneficiaries must be determined with a ministerial decree in proportion to the difference between turnover in the period between January and June 2020 and that in the same period of 2019. According to the Technical Report accompanying Decree Law 34/2020, the pool of potential beneficiaries operating in ZEAs is made up of 4,890 operators including hiking and environmental guides and park guides, around 3,000 companies operating in the tourist accommodation sector (hotels, refuges, bed and breakfasts, etc.), 5,400 companies operating in the restaurant sector within the parks and a further 5,000 companies not included in the previous list that carry out eco-compatible activities for a total of more than 18,000 businesses and operators in 251 municipalities.

In the transport sector, in addition to the grant to encourage sustainable mobility described earlier, €1.3 billion have been appropriated for 2020 to offset the losses incurred by national operators as a result of the health emergency. More specifically, for rail transport, €270 million have been allocated to Rete Ferroviaria Italiana SpA to: a) offset the reduction in revenue from the collection of fees for the use of railway infrastructure for the period between 10 March and 30 June 2020; b) reduce the fee for the use of railway infrastructure

[151] Article 2, paragraph 1 of Decree Law 111/2019 established the experimental mobility voucher programme with the objective of helping to reduce the emission of greenhouse-gas and noise pollution by non-commercial traffic, road congestion and the use of public space. Article 229 of DL 34/2020 establishes for 2020 a sustainable mobility incentive programme for alternatives to local public transport with the introduction of the mobility voucher referred to here.

[152] Beach concessions “of a tourism-recreational nature” regard the operation of the following activities: a) beach clubs; b) restaurants and the serving of beverages, precooked foods and the distribution of goods subject to a State monopoly; c) rental of boats and other water craft; d) accommodations and recreational and sports facilities; e) commercial establishments; f) other services and operation of residential facilities.

to be applied to both passenger and freight railway services not subject to a public service obligation for the portion exceeding the coverage of costs directly linked to the provision of railway services; and c) to promote the recovery of rail traffic. In addition, €50 million have been allocated to refinance grants for projects to improve the intermodal system and decongest the road network, the so-called "Marebonus", and for intermodal rail transport services arriving and departing from logistics hubs and ports in Italy, the so-called "Ferrobonus". Air transport has been allocated €350 million to support companies holding an air transport license with public service obligations (Alitalia). For the other operators that do not have a public service obligation, a fund has been set up with an appropriation of €130 million. Finally, to support the local public transport sector, a fund with €500 million in resources has been established to help offset the reduction in passenger ticket revenues in the period from 23 February to 31 December 2020.

A total of €72 million has been appropriated for the publishing sector. In particular, the tax credit for advertising investment (daily newspapers and periodicals, including online publications, and local and national television and radio broadcasters) has been expanded. Within the spending limit of €35 million, it is equal to 50 per cent of the total value of the investments made, rather than 75 per cent of incremental investments only (as required under Article 57-bis of Decree Law 50/2017).[153] The Decree also provides for a tax credit of 8 per cent of the costs incurred for the purchase, in 2019, of paper used for printing newspapers and periodicals (€24 million). Newspaper and periodical publishing companies that employ at least one permanent employee are granted a tax credit equal to 30 per cent of the costs effectively incurred in 2019 for the acquisition of server, hosting and broadband services for digital publications, although this cannot be combined with the direct grant to newspaper and periodical publishing companies (€8 million). In addition, to help support for the extraordinary charges incurred in continuing their operations – which were never suspended – during the health emergency, a one-time bonus of up to €500 can be granted to the operators of newsstands (€7 million).

A total of €615 million have been earmarked for the cultural activities sector. In particular, the Emergency Fund for entertainment has been increased by €245 million (€130 million with Decree Law 18/2020 and €115 million with Decree Law 34/2020),[154] while an Emergencies Fund for cultural enterprises and institutions has been established with an appropriation of €210 million to provide support for bookstores, the entire publishing industry, museums and other non-state institutions and places of culture and to offset losses deriving from the cancellation of shows, fairs, congresses and exhibitions. An additional fund has been set up at the Ministry for Cultural Heritage and Activities and Tourism, with an appropriation of €50 million, to promote investment and other measures for the protection, use, enhancement and digitalisation of cultural heritage. In

[153] The tax credit was set at 30 per cent with Decree Law 18/2020 (ratified with Law 27/2020) and raised to 50 per cent with Decree Law 34/2020.

[154] Two ministerial decrees have been issued so far: MD 188 of 23 April 2020 and MD 211 of 28 April 2020 allotted €20 million to entities operating in the theatre, dance, music and circus industries and €5 million to travelling entertainers.

addition, €100 million are earmarked to ensure the operation of State cultural institutions and places, taking account of the reduction in ticket revenue. Finally, to support the resumption of cultural activities, expenditure of €10 million has been authorised to create a digital platform for the use of cultural heritage and shows.

3.3 *Ecobonus and transferrable tax credits*

Decree Law 34/2020 introduces measures to strengthen public incentives for building upgrades. More specifically, these include: 1) an increase in the tax credit for expenditure undertaken in the second half of 2020 and in 2021 to improve the energy efficiency and seismic resilience of buildings; 2) new procedures for using the incentive, which have also been extended to other building renovation costs incurred in 2020-2021 that do not benefit from the increase in the tax credit.

In greater detail, Article 119 provides for an increase to 110 per cent of the tax credit available for building renovation costs[155] and a reduction from 10 to 5 years of the period over which the tax credit may be deducted subject to achieving, following the renovation works, an improvement of at least two energy efficiency classes (or reaching the highest class) or a reduction of seismic risk in seismic zones 1-3.

The energy efficiency upgrades eligible for the credit include: 1) thermal insulation, which must cover at least 25 per cent of the dispersive surface, with total eligible expenses not exceeding €60,000; 2) the replacement of winter air conditioning systems with centralized systems for heating, cooling or the supply of domestic hot water with condensing boilers, heat pumps, including hybrid or geothermal systems, also in combination with photovoltaic systems and related storage, or with micro-cogeneration plants, up to a total eligible amount of €30,000; 3) other energy efficiency measures, within the spending limits provided for by current legislation and on condition that they are carried out together with at least one of the above interventions. These include the installation: a) of photovoltaic systems connected to the electricity grid – subject to the sale to the GSE of electricity not self-consumed on site and not combinable with other public incentives – for total eligible spending of €48,000, within a limit of €2,400 per kW of installed capacity; b) of storage systems integrated into photovoltaic systems for total eligible spending of €1,000 for each kWh of storage capacity; c) of infrastructure for charging electric vehicles in buildings.

Potential beneficiaries include individuals outside a business, condominiums, public housing institutes and equity housing cooperatives. Expenditure on single-family dwellings not used as the primary residence is not eligible.

For interventions to reduce the seismic risk of buildings,[156] the tax credit is increased to 110 per cent only for expenditure incurred in seismic zones 1-3. Furthermore, if the 110 per cent tax credit is transferred and at the same time a disaster risk insurance policy is obtained, the corresponding premiums are eligible for a 90 per cent tax credit.

The second measure, set out in Article 121, introduces two optional alternatives to the tax credit for the use of the tax benefit for expenditure incurred in 2020-2021[157] to upgrade the building stock. As an alternative to using the tax credit in their income tax

[155] Under previous legislation, the rate varied between 36 and 65 per cent, depending on the type of energy efficiency project and the year in which the expenditure was incurred.
[156] Under previous legislation, these projects entitled beneficiaries to a tax credit of between 50 and 85 per cent, depending on the type of project and the extent of the reduction in seismic risk achieved.
[157] The Introductory and Technical Reports suggest that the alternative approaches to using the tax credit can also be applied to expenditure incurred before 2020 for which, in the same year, the option of transferring the portion of the credit not yet used is exercised. However, that option is not clearly set out in the text of Decree Law 34/2020.

returns, taxpayers can opt for: 1) a discount in the invoice, up to a maximum amount equal to the amount due, advanced by the supplier and transferable to third parties, including banks and financial intermediaries; or 2) the transformation of the ordinary credit into a tax credit that can be set off tax liabilities in form F24,[158] not just income tax, or its transfer to third parties, including banks and financial intermediaries. These alternative methods to the ordinary tax credit can be used both for expenditure that is eligible for the increased tax credit provided for in Article 119 and for expenditure and taxpayers who continue to benefit from tax credits provided for in previous legislation, provided that they are connected to the following types of expenditure: upgrading the building stock, improving energy efficiency, reducing seismic risk, renovating building facades, installing photovoltaic systems and electric vehicle charging stations.

These alternative methods of benefiting from the tax relief measure remove the obstacle of insufficient tax liabilities, which heretofore has not allowed lower-income taxpayers to benefit fully from the tax credit. The new tax credit, however, only grants the full benefit of 110 per cent of expenditure incurred to those who use it against taxes in their tax returns, whereas the discount in invoices limits the amount of the benefit to 100 per cent of the expenditure and the transfer of the tax credit entails a reduction in the benefit equal to the discount rate applied.

For anti-avoidance purposes and to verify and monitor the subsidised projects, taxpayers will have to supply compliance certifications – the cost of which is included among eligible expenditure – while administrative penalties can be applied in the case of unfaithful attestations. In the event of irregularities, the amount corresponding to the tax credit not due to the beneficiary will be recovered, with joint and several liability of the supplier and the transferees in the event of their participation in the violation.

The estimated financial impact of the measure appears substantial: the Technical Report indicates an overall cost for the incentive, distributed over 2020-2033, of about €11.8 billion, net of positive induced effects on revenue equal to about €460 million. This overall amount is the result of an increase in costs up to 2026[159] – due to the higher percentage tax credit and the reduction in the number of years over which it is distributed – and the recovery of revenue in subsequent years, due to the expiry of tax credits provided for in previous legislation, which were distributed over ten years. The Technical Report also estimates at €6.6 billion the total that will be used through the transfer of the tax credit, while the remainder will be used as a tax credit in tax returns.

The funding provision (Article 119, paragraph 16) shows apparently different quantifications, in that it considers the gross costs of the measure, while the Technical Report also considers the partially

[158] The tax credit can be used as a set-off to tax liabilities in Form F24, i.e. for all relationships between the tax authorities and taxpayers, with the same allocation of the credit in annual instalments. The amount of the tax credit not used in a given year cannot be used in subsequent years and is not refundable. The limits on set-off provided for in applicable legislation do not apply. Such rules limit the amount of tax credits to €250,000 for those used in income tax returns and €700,000 (increased to €1 million by Art. 147 of Decree Law 34/2020) for tax credits used in Form F24.

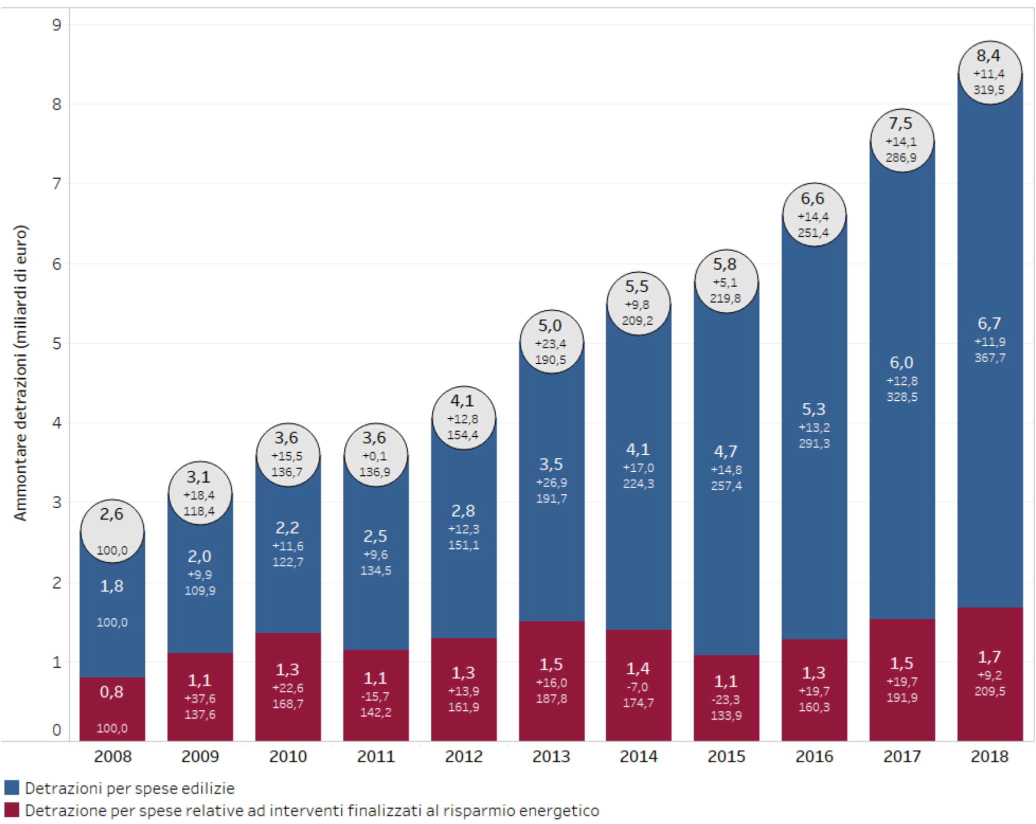
[159] These effects are initially modest (€22 million 2020) before rising considerably for five years (about €1 billion in 2021, about €3 billion in 2022-2023, about €2.7 billion in 2024-2025 and €1.3 billion in 2026).

offsetting impact of the increase in revenue induced by the incentives themselves. In the text of the Decree Law, the latter are considered separately for funding purposes under Article 265.

These costs come in addition to those of the various fiscal stimulus measures introduced in various years for individuals who own properties that carry out renovations and energy upgrading projects. As can be seen in Figure 3.12, over ten years the total annual amount of tax credits has tripled, from €2.6 billion in 2008 to over €8.4 billion in 2018, causing a loss of revenue of around €56 billion over the decade.

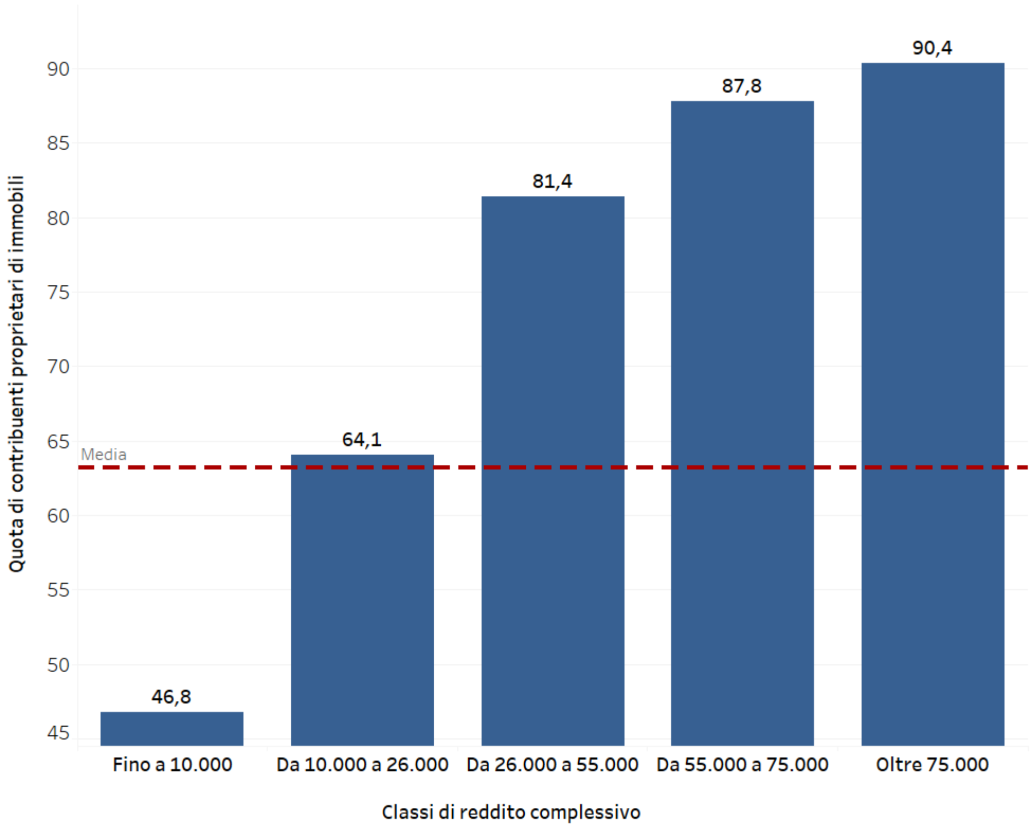
The measure, which fully charges the costs of the subsidised projects to the public budget, appears aimed not only at supporting the construction sector, but also at achieving substantial improvements in the energy efficiency classification and the seismic stability of buildings. To this end, the structure of the benefit extends the pool of potential beneficiaries to households with relatively low incomes and liquidity constraints. This could reduce the regressivity of this type of tax incentive for two sets of reasons. First, property ownership is concentrated among taxpayers with higher incomes: more than 90 per cent of taxpayers with over €75,000 are owners of real estate, compared with about 46 per cent of taxpayers with income up to €10,000 (Figure 3.13). Second, among property

Figure 3.12 – Tax credits for renovation works and energy efficiency upgrading
(the labels indicate, in order, the amount in billions, the annual growth rate and the index number, 2008 = 100)



Source: based on income tax return data for 2008-2018.

Figure 3.13 – Share of property owners by total income class



Source: Revenue Agency and Department of Finance (2019), "Gli immobili in Italia" (2016 tax year).

owners, taxpayers with high incomes benefit most from the tax credits, as they can have sufficient liquidity, borrowing capacity and taxable income to use the tax credits fully.

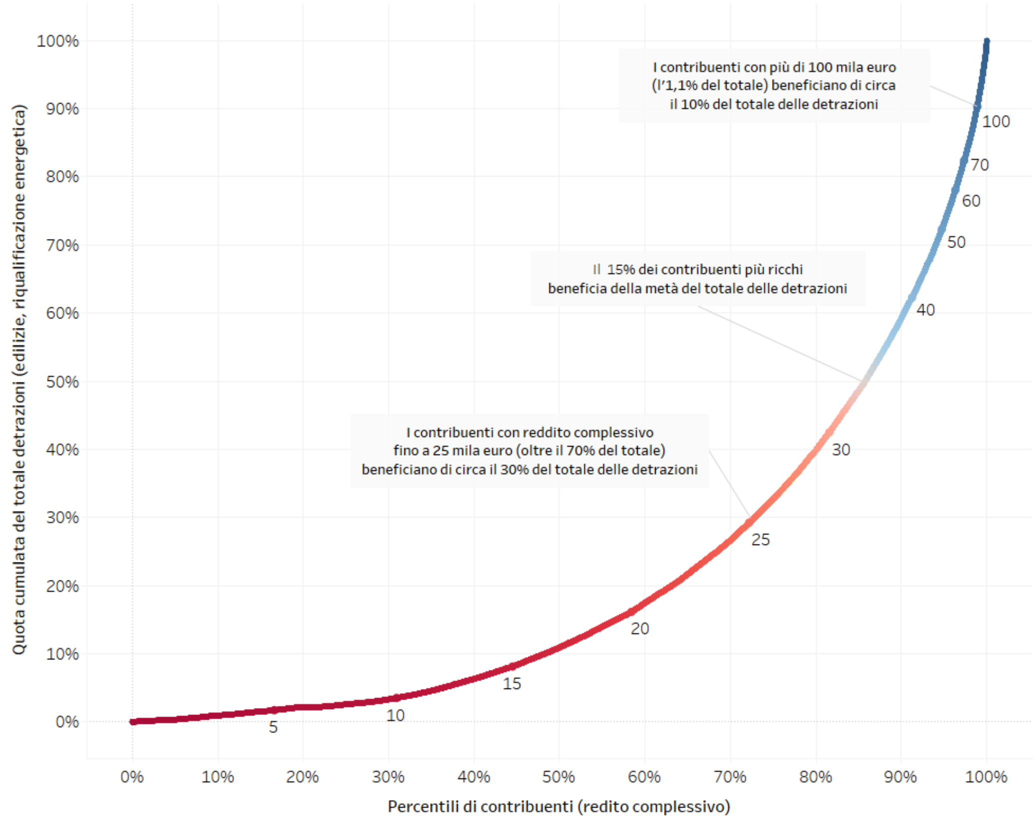
As can be seen from Figure 3.14, which shows the distribution of building renovation and energy efficiency upgrading tax credits by percentage of total income in 2018, over half of the total amount of these credits is enjoyed by the wealthiest 15 per cent of taxpayers.

Taxpayers with incomes of up to €25,000 (70 per cent of the total) account for less than 30 per cent of the total tax credits. This depends both on the higher probability that the high-income taxpayers will carry out renovations (over half of taxpayers in the last decile benefit from the associated tax credits, compared with 5 per cent in the first decile), and on the scale of the works performed (the average annual tax credit is equal to €1,300 for the beneficiaries in the last decile compared with €400 for beneficiaries in the first decile).

Note that, in order to enable future analyses of the effective distribution of the tax benefit, it will be necessary to keep reporting transferred tax credits in tax returns.[160]

[160] This problem already arises for 2019 tax returns, which do not report expenditure on renovations, energy efficiency or seismic resilience for which taxpayers opted to transfer the credit to the supplier who implemented the project instead of deducting the credit directly in their tax return.

Figure 3.14 – Cumulative distribution of tax credits for building renovations and energy efficiency upgrade by taxpayer percentile (1)



Source: based on income tax return data for 2018.
(1) The points on the curve indicate specific levels of total income in thousands of euros.

The increase to 110 per cent of the percentage tax credit and the possibility of transforming it into one that is freely transferable and discountable with the banking system means that the obstacle to the use of this tax relief measure for significant energy efficiency improvements and seismic safety enhancements by property owners with insufficient liquidity is removed (of course, the intrinsic regressivity associated with property ownership remains).

Consequently, the Technical Report forecasts a significant increase in the volume of expenditures for which the rate of the tax benefit has been increased (an increase of about 25-30 per cent with respect to the trend amount is expected[161]).

The Technical Report forecasts no increase in the volume of expenditure in 2020-2021 on projects for which, although the percentage of tax credit has not changed (for example for building renovations), it is possible to opt for the transformation of the credit into

[161] Compared with the trend eligible expenditure considered in previous Technical Reports, forecast expenditure is curtailed by about 13-15 per cent to account for the ineligibility of taxpayers other than natural persons for the benefit and the establishment of minimum requirements for the improvement in energy efficiency, while it is increased by about 50 per cent to account for the increased attractiveness of the incentive.

transferable form. The use of this assumption of no change in expenditure does not appear prudent, as the possibility of transferring the credit increases the attractiveness of the tax benefit for all taxpayers, enabling them to at least partially avoid the problems of insufficient tax liabilities and a lack of liquidity.

Part (less than one third) of the increase in expenditure on energy efficiency upgrading and seismic risk reduction for which the percentage benefit has been raised is considered an induced effect of greater net expenditure, from which revenue is expected to be recovered. It is not clear why the induced effect is considered only for part of the greater expenditure that is estimated to benefit from the tax relief.

Part of the reason could be the adoption of a generally cautious approach in the estimates, while another factor could stem from consideration of the fact that a portion of the additional expenditure that will benefit from the tax credit would have been carried out even in the absence of the changes but would not have had an impact on the budget due to the phenomenon of insufficient taxable income. For this reason, the associated effects on the economy would already be incorporated in the macroeconomic forecasting scenario on a current legislation basis.

Although the induced increase in revenue is calculated for a minority share of the increased expenditure, note that it is inappropriate from a methodological point of view to estimate induced effects deriving from individual provisions selected from the many contained in any given measure. Such an approach assesses the induced effects of the measure outside a macroeconomic model capable of taking into account the multiplicity of feedback mechanisms and the simultaneous adoption of other economic policy measures.

It is also important to bear in mind that the measure could be exploited for tax avoidance or speculative purposes. The amount of the credit, for which the cost to the State is even greater than the cost of the works, significantly reduces the conflict of interest between suppliers and buyers in respect of the cost of the subsidised projects, as both parties benefit from increasing expenditure up to the maximum facilitated amount. For example, in the case of companies that provide both energy efficiency upgrading and ordinary renovation works to the same customer, the parties could find it attractive to overestimate the cost of the former, in order to finance the latter under the concessionary regime. The effective use of public resources for the purposes intended by the measure will therefore depend on the effectiveness of any anti-avoidance mechanisms envisaged, perhaps through the adoption of a requirement to use standardised prices in order to receive the tax credit.

With regard to estimating the impact of the measure on the public accounts, a certain degree of risk is associated with the classification of freely transferable and offsettable tax credits in the accounts. The Technical Report assumes that the tax credits are classifiable as “non-payable” and that therefore the impact on the accounts (net borrowing and debt) will track the five-year time profile indicated in the measures for the use of the benefit. However, the new characteristics of the manner in which the tax credit can be used appear to suggest that the tax credits (new and existing) could be classified as “payable” and “negotiable”, aspects that would imply a significantly different impact on the public accounts from that assumed in the Technical Report: the attribution of the entire amount to the first year of use of the tax relief rather than spreading it over five years.

For the purposes of net borrowing, under ESA2010 the accounting treatment of the two categories of tax credits differs: “non-payable” tax credits are recognised in the accounts as a reduction in revenue when they are actually used over time, while “payable” credits are recorded – at the time they are granted and regardless of their actual use – as a transfer (current or capital) and recognised as an increase in expenditure (transfers to households or businesses depending on the beneficiary).

This difference in treatment reflects the fact that non-payable tax credits are benefits whose effective use is subject to a condition which makes the possibility of use by the beneficiary uncertain. They therefore represent a contingent liability for the State, the impact of which on the accounts is recorded only at the time when this condition is met, i.e. when the beneficiaries can effectively deduct the credit from their tax liabilities. Conversely, in the case of payable tax credits, there is no substantial uncertainty regarding the effective possibility of beneficiaries to take full advantage of the credit. This is the case, for example, of tax credits that are refundable[162] or for which the unused portion can be carried forward to a new year without time limits.[163]

For the purposes of the statistics on debt relevant for the purposes of the excessive deficit procedure, a payable tax credit - even if recorded in full in the year it is granted for the purposes of net borrowing - preserves a record linked to the time profile of its use. On the other hand, the negotiability of tax credits is relevant, a characteristic that would entail the recognition of the entire amount of the credits, also for public debt purposes, regardless of the time profile of its use.

Recall that only liabilities attributable to three categories are recognized for the purposes of the excessive deficit procedure: currency and deposits, debt securities and loans. However, other liabilities (such as accounts payable, tax credits, derivative contracts, etc.) are not considered unless they are attributable in substance to one of the three categories mentioned above.[164] Non-negotiable tax credits, even if they have an impact on the deficit as they are considered payable, are normally recorded in the residual item “other assets and liabilities”, which is not considered in determining the relevant debt for the purposes of the excessive deficit procedure. Conversely, freely negotiable tax credits appear to potentially be attributable to the category of debt securities, which are included in debt.

In this case, the possibility of set-off against all tax liabilities and, above all, the unlimited transferability of the tax credits, considerably reduces the probability that taxpayers will be unable to use the full credit because they have insufficient tax liabilities. In fact, unlike the tax credit due to the original beneficiaries, which can only be used within the limits of

[162] Such as, for example, the €80 tax credit for incomes from payroll employment falling between specified ceilings.

[163] In this case, the uncertainty only regards the moment in which the beneficiary can use the credit, as there is no uncertainty about the possibility of sooner or later using the entire credit (except in certain exceptional cases, such as bankruptcy or death).

[164] This is the case of accounts payable falling due after an excessively long period or derivative contracts skewed in favour of the counterparties, which are reclassified as loans.

their tax liabilities, the transferred tax credit can be used regardless of the tax position of the purchasers of the credit itself, i.e. the existence or otherwise of taxable income in their tax returns. The use of the tax credit through Form F24 – a method for which, moreover, the measure grants an exception from any limit on the amount of offsetting allowed provided for in applicable legislation – enables purchasers of the credits to set them off against any payment they owe to the State, taking advantage not only of their own tax and social security liabilities, but also of payments due as withholding agents. The only remaining condition concerns the method of collecting the credit, which must take place through set-off and not through a refund. Furthermore, if a company thinks it might have insufficient tax liabilities to use the entire credit, it can still transfer the residual credit and the act of transferring the credit presupposes the certainty on the part of the purchaser that it can fully benefit from it directly or transfer the credit in turn.

It should therefore be determined whether the free transfer of credits with the possibility of set-off in Form F24, substantially ensuring the full usability of the credit by the purchasers, alters the formally non-payable nature of the tax credits granted for building renovations, energy efficiency upgrades and seismic safety. In this case, the relative amount, estimated by the Technical Report at around €6.6 billion (for the energy efficiency and seismic safety measures only), would impact net borrowing in 2021-2022, instead of being distributed over a period of 6 years from 2021 to 2026. In addition to this amount, we should also consider the different time profile of the cost recognised in the trend developments in the tax credit for building renovations carried out in 2020-2021, which under the provisions of the Decree can now be transferred, although there has been no change in the percentage credit or the timing of deductions from taxes. As already noted (pointing out a problem in this regard), the Technical Report does not consider any additional costs associated with this spending. Even in the event of unchanged expenditure, to the extent that the credits are used by way of transfer and are classified as payable, the total charge would be recorded in the year of the transfer and the cost corresponding to the subsequent instalments of the credit recorded in the trend profile would be eliminated.

A similar consideration should be made in the case – mentioned in the Introductory and Technical Reports, but not apparently retained in the text of the Decree – in which it was possible to opt in 2020 for the alternative methods of using the tax credit for the portion of the credit not yet used relating to expenditure carried out in previous years.

It is also necessary to assess whether the transferability of the new tax credits also entails a risk of reclassification for the purposes of calculating the debt. If the transferability of the credits (in addition to rendering them "payable") were to cause them to be treated as negotiable debt securities,[165] they would be included in full in the debt relevant for the purposes of the excessive deficit procedure.

[165] They would be financial instruments that, under ESA2010, would be included in the public debt because of their negotiability, under the item "Debt securities" (AF.3): "Negotiable financial instruments serving as evidence of debt" of general government.

3.4 Local government finance: resources for the emergency and cash advances for the settlement of commercial accounts payable

Decree Law 34/2020 contains various measures to support local authorities in responding to the impact of the health crisis. The main lines of intervention include the allocation of extraordinary resources and the granting of cash advances for the settlement of commercial accounts payable. It also expands the scope of operations of local authorities in providing aid to businesses in their territories, in compliance with the State Aid Temporary Framework of the European Commission.

3.4.1 Allocation of special resources to local governments

Decree Law 34/2020 appropriates special funds for local authorities and the regions, both to help them cope with the reduction in revenue and increase in spending associated with the COVID-19 emergency, and to offset the effects of the decrease in revenue connected with the tax breaks introduced by the provisions of the Decree.

The main measures that allocate resources to the regions include:[166]

1) the establishment of a Fund for the performance of healthcare, assistance and education functions by the regions and autonomous provinces, with an allocation of €1.5 billion for 2020, to be distributed by 10 July 2020 on the basis of the effects of the COVID-19 emergency, determined by a special technical working group, taking account of the resources allocated for various reasons by the State to offset the decrease in revenue and increase in expenditure (Article 111);

2) the establishment of a Fund for regional and local public transport, with an appropriation of €500 million for 2020, in order to offset the reduction in the ticket revenues[167] of public transport companies in the period from 23 February 2020 to 31 December 2020 compared with the average recorded in the same period of the previous two years (Article 200). The Regions are also advanced 80 per cent of the Local Public Transport Fund,[168] upon obligation for them to pay transport companies 80 per cent of the contractually agreed amounts for their services. Furthermore, the obligation to co-finance expenditure for the renewal of the vehicle fleet and the introduction of alternative fuel vehicles is temporarily suspended. It is also possible to use 5 per cent of the resources for the renewal of local and regional bus and rail fleets on equipment to limit COVID-19 risks until 30 June 2021.

The main measures that allocate resources to local authorities include:

1) the establishment of a Fund for carrying out the basic tasks of local entities with an appropriation of €3.5 billion for 2020, of which €3 billion for municipalities and €0.5 billion for provinces and metropolitan cities. The resources will be allocated with a ministerial

[166] For more on financing the healthcare sector, see section 3.5.
[167] Including the reduction in revenue from the extension of the validity of local public transport passes for a period equal to the duration of the restrictions on movement imposed with other provisions of the Decree.
[168] The advance is normally paid in monthly instalments, while the remainder of the amount due is paid the year following the reference year.

decree issued by 10 July on the basis of the effects of the COVID-19 emergency in terms of reducing the revenue of the local authorities (net of any reduction in expenditure and any specific transfers granted to them), as determined by a special technical working group. An amount equal to 30 per cent of the fund[169] will be paid within 10 days of the entry into force of the measure as an advance, with the allotment being made in proportion to 2019 revenue from taxes and proceeds from the sale and operation of goods and services, as determined on the basis of data from the General Government Payments Information System (SIOPE) (Article 106);

2) the refinancing of the Municipal Solidarity Fund in the amount of €400 million to deal with the food emergency (Article 107);

3) an increase of €58 million for 2020 in the amount of the experimental provincial equalisation fund (Article 108). This increase in resources for the provinces is funded by resources that would have in any case transferred to local authorities, so the provision represents a change in the allocation of resources within the same sector;

4) an appropriation of €200 million for 2020 for municipalities in the provinces Bergamo, Brescia, Cremona, Lodi and Piacenza, to be distributed on the basis of their resident population (Article 112);

5) the establishment of a fund of €100 million for municipalities to partially offset the decrease in revenue from tourist taxes, to be distributed within 30 days of the date of entry into force of the provision (Article180; there are no allotment criteria).

Additional resources are allocated to municipalities to cover exemptions provided for by the same Decree for 2020:

1) €127 million to offset the reduction in revenue associated with the exemption from fees for the occupation of public land from 1 May to 31 October 2020 (Article 181). The resources are to be allotted within 30 days of the date of approval of the Decree (the allotment criterion is not defined). Tax and administrative relief measures are also envisaged for new authorisations or the extension of existing ones.

2) €74.9 million to offset the reduction in IMU revenue caused by the abolition of the first instalment of the tax for properties used for owner-operated tourism activities and for properties used for beach resorts and thermal spas. The amount reported here is the portion of revenue pertaining to municipalities (Article 177).

Furthermore, the decree includes a provision allowing the renegotiation in 2020 of loans with banks and CDP for local entities under provisional budgetary authority. Although of an organisational nature, this provision expands the pool of local authorities that will be able to participate in the platform for the renegotiation of loans developed by CDP (the deadline for joining had been set for 3 June 2020 and it could free up an estimated €1.4 billion in resources for local authorities in 2020, of which €1.1 billion for municipalities[170]) and to renegotiate bank loans.

The Technical Report describing these measures does not provide information on how the amount of resources was determined. In addition, in view of the stated purpose of the measures expressed in the Decree, the allocation of resources appears to be targeted at offsetting the extraordinary funding needs of basic functions only. These circumstances make it difficult to assess the estimate of the extraordinary financial needs generated by

[169] The advance was disbursed at the end of May 2020.
[170] These estimates were reported in the press releases issued by ANCI and CDP of 2 April 2020.

the health crisis, both overall and related to the specific requirements of performing basic functions. At the same time, data from the General Government Payments Information System (SIOPE) do not currently provide reliable information on the scale of the additional funding needs generated by the crisis.

The effects of the sudden slowdown of the economy on the budgets of local authorities are evolving rapidly, making it very difficult to formulate reliable projections for the time being. For example, the total revenue of municipalities in the first four months of 2020 does not appear to have decreased compared with the corresponding period 2019 – in fact it seems to have increased – while if we consider the first five months of 2020, through May, municipal revenue appears to have decreased by about €0.5 billion compared with 2019.[171] Expenditure increased moderately, essentially reflecting the action taken to meet food needs during the emergency phase. This data is only partially informative because part of the cash flows recorded in each month reflects revenue and expenditures generated in earlier months (fines, electricity bills, invoices for purchases of goods and services and investments, etc.), meaning that it will be necessary to wait for developments in the coming months to obtain a more accurate picture of the financial effects of the crisis on local government accounts. Furthermore, the SIOPE database only provides reliable data several months after the observed period, since many revenue and expenditure items undergo revisions that can be substantial. In particular, the size of the individual revenue and expenditure items undergoes significant changes as the months pass, since a very significant part of revenue and expenditure is provisionally allocated to residual accounts and its attribution to individual items is progressively updated .

The Decree establishes that the allocation of resources as an advance to the various authorities (30 per cent of the fund for the exercise of the basic functions of local authorities) shall be independent of any assessment of the decrease in revenue and increase in expenditure and shall be determined in proportion to the financial size of the authority in 2019 (own revenue). The full allotment of the fund in July 2020 will instead have to be performed on the basis of the increase in financial requirements registered by the individual authorities, the estimation of which by the technical working group will presumably be based on as yet insufficiently reliable data. It is therefore likely that the 2021 readjustment may make significant revisions of the distribution. If this is not possible, additional costs may arise in 2021 at the time of readjustment in order to supplement funding of some local governments regardless of the effective ability to recoup amounts paid to other authorities in excess of their actual needs.

With regard to the provisions allowing local authorities operating under provisional budget authority to participate in the renegotiation of mortgages proposed by CDP, note that – as envisaged in the case of the renegotiation of MEF loans in the Technical Report accompanying Decree Law 18/2020 – the reduction in loan instalments resulting from the renegotiation will increase the expenditure capacity of the local authorities (including current spending[172]), with a consequent impact on the deficit. Although not strictly attributable to the provision,[173] the increase in expenditure that will derive from loan

[171] The decrease in May, equal to about €1.9 billion, was about €0.5 billion greater than the overall increase in revenue in the first four months of the year.
[172] Until 2023 the resources generated by the renegotiation of loans can also be used for current expenditure.
[173] The measure significantly expands the number of entities that can participate in the CDP programme in accordance with the terms established, but those terms could have been amended even without the measure.

renegotiations, estimated at €1.4 billion a year by CDP - which will still be considered in the trend figures - constitute an additional source of resources that can be used in the emergency phase to finance the basic functions of the local authorities that opt for renegotiation.

3.4.2 Advances for settlement of commercial accounts payable

Article 115 of Decree Law 34/2020 establishes a Fund for the payment of certain, determinable and enforceable commercial debts accrued by local authorities as at 31 December 2019. The appropriation amounts to €12 billion for 2020, of which €8 billion for payables outside the healthcare sector (€6.5 billion for local authorities and €1.5 billion for regions and autonomous provinces) and €4 billion for the payables of NHS entities, with the possibility of ordering, by ministerial decree, compensatory changes between these purposes. The fund resources are paid into specific Treasury current accounts, managed by CDP under a special agreement for a fee of €300,000 in 2020. The measure also envisages an upgrade of the commercial debt certification platform (PCC), for which resources of €300,000 have been earmarked for 2020. The fund provides cash advances to local authorities. These funds do not constitute accrued revenue and therefore do not represent coverage of additional expenditure, nor do they qualify as borrowing[174] and can be drawn as an exception to the limits on borrowing by local authorities and the regions.

The resources will be allocated by July 24, 2020 among the authorities filing applications, in proportion to the amounts requested and within the limits of the available resources. The advance must be repaid in equal instalments within a maximum of 30 years, starting from 2022. In the event of non-payment of the amounts due, the Revenue Agency may withhold the amounts from the revenue, collected through Form F24, from the taxes levied by the local authority. Within thirty days of the allocation, the entities receiving advances shall settle their accounts payable, using any residual sums for the partial repayment of the advance.[175] Verification of compliance with these conditions, with penalties for breach of managerial responsibility in the case of non-compliance, is entrusted to CDP, which perform its checks through the functions incorporated in the PCC. The advances bear an interest rate equal to the market yield of 5-year BTPs in issue,[176] with the possibility of a two-year grace period.

The summary table of the financial effects of the measure shows that the provision will increase capital expenditure by €12 billion in terms of the net balance to be financed and the borrowing requirement, while it will have no impact on general government net

[174] Cash advances do not represent borrowing by express provision of law, under Article 3, paragraph 17, of Law 350/2003, which defines the items that represent borrowing and can therefore be used to finance investment. Advances are excluded because they are operations that do not generate additional resources but enable entities to get through a temporary liquidity shortage and carry out spending for which sufficient appropriations have been made in the budget.

[175] Advances can also be used to repay the advances provided for in the 2020 Budget Act that were also intended to permit the payment of accounts payable.

[176] A press release of the MEF dated 27 May 2020 specified the rate as equal to 1.226 per cent.

borrowing. The interest on the cash advances to local authorities is recorded as an increase in non-tax revenue for the sole purpose of the net balance to be financed.

With regard to the measure under review, a brief preliminary analysis of the commercial accounts payable of local authorities appears appropriate, partly with a view to assessing the extent to which the availability of advances can contribute to solving the problem.

It should first be noted that the need to replicate a measure similar to those implemented in 2013-2014 makes it clear that the problem of late payments, although gradually improving, has not yet been definitively resolved. This is also underscored by a recent ruling of the European Court of Justice,[177] which could lead to the opening of an infringement procedure for failure to comply with the EU Directive setting maximum payment times for public authorities.[178] Note, however, that this ruling refers to late payments ascertained in 2017 relating to invoices issued in 2016, while incentives[179] and penalties[180] were subsequently implemented to encourage compliance with the aforementioned Directive, which seem to have produced a significant improvement in compliance with payment periods.

Updated data consistent with those resulting from the budgets of the local authorities that permit an analysis of the amount, seniority, geographical and sectoral distribution and the distinction between ordinary and exceptional[181] payables in commercial transactions are currently not available. The MEF and Sogei (the IT service manager for government) are currently refining the method for collecting these data via the PCC, which is also being upgraded under the provisions of Decree Law 34/2020 itself. As noted earlier, recent studies by the MEF[182] show a trend towards improvement, although there are still marked differences by general government sector and, above all, by geographical area: local authorities are the sector with the lowest percentage of invoices paid within the agreed payment period, but it is mainly local authorities in the Centre and South of the country that are responsible for late payments, while the phenomenon is virtually absent in the North.

More specifically, local authorities in the South-Islands macro area, with the exception of Sardinia, show average payment delays that are longer (even three times longer) than the national average for the sector (20 days), while delays in the Northeast and in Emilia Romagna are nil. In the

[177] Ruling of 28 January 2020, case number C-122/18.
[178] Directive 2011/7/EU.
[179] In the case of compliance with payment periods, local authorities can reduce their allocations to the provision for doubtful accounts.
[180] As from 2021, local authorities will have to recognise a provision securing their debts in commercial transactions if they fail to comply with late payment indicators and indicators for the reduction of the existing stock of accounts payable (Law 145/2018, Art. 1, paragraphs 858-866).
[181] The stock of certain, determinable and enforceable payables at 31 December each year includes an ordinary portion that can be equal to up to one-twelfth of non-healthcare purchases and one-sixth of healthcare purchases for the full year (the maximum payment periods for those two types are 30 and 60 days from the invoice deadline, respectively).
[182] See the remarks of the MEF representative at the online workshops on payment periods for commercial debts organised by the IFEL on 28 January and 12 February 2020. The data underlying that analysis are not available on the MEF site.

Northwest, only Piedmont has delays greater than the national average and in the Centre only Lazio and Marche.

The heterogeneity of the geographical distribution of late payments reflects, at least in part, a number of unresolved problems. Basically, it is a reflection of the inequality of resources available to local authorities in the various areas of the country due to differences in their fiscal capacities, only partially mitigated by the equalisation mechanism, which made it more difficult for entities with fewer resources to manage the reduction in transfers and the tightening of budget constraints during the consolidation of the public finance. The limitations imposed on the use of doubtful revenue - which became necessary to correct accounting practices that did not ensure adequate funding of spending commitments - contributed in many cases to worsening the financial difficulties of local authorities even further, although at the same time they stimulated improvements in the efficiency of collection and the adoption of spending review processes to contain expenditure within the limits of the resources actually available.

In this context, the use of payment delays and off-balance-sheet debt was a practice that, although unfair, temporarily remedied the lack of resources of a number of local authorities, postponing the necessary reduction of expenditure. The granting of advances is a temporary remedy that should not lead to the postponement of implementation of the efficiency improvements on both the expenditure and revenue sides necessary to avoid the use of accounting ploys and unfair commercial practices. If these efficiency improvements and criteria for allocating resources that ensure the funding of basic functions for all local authorities are not implemented, the temporary remedy represented by cash advances risks producing the opposite effect in the medium term, since the need to repay those advances will draw liquidity away from authorities that have had to use them, thus threatening to cause a return of the late payment phenomenon.

In the short term, however, advances appear to be a useful tool for various purposes: to channel liquidity to businesses that work with public authorities;[183] to avoid the opening of the infringement proceeding intimated by the Court of Justice; and to limit the application of the penalty mechanisms that as from 2021 will require local authorities that do not settle their commercial debts within the specified payment periods to recognise additional provisions, which would result in a further limitation in their ability to discharge these obligations.

A second problem is associated with the criterion for recognising the financial effects of advances.

It does not seem correct to assume that the portion of advances that will be used by local authorities to pay commercial debts on capital account will not impact net borrowing, since the capital expenditure of local authorities is still recorded on an accruals basis at

[183] Although in the very short term the measure may give rise to additional payment delays in the case of authorities that would have paid in this period but have instead decided to wait until January in order to use the advance.

the time of the cash outlay. The absence of effects on net borrowing implies that the Government believes that the advance will not produce any increase in payments on capital account compared with those already reflected in trend developments. This assumption of the total irrelevance of advances for the volume of overall capital expenditure does not appear conservative.

Furthermore, note that in the summary table of the financial effects, the fund for advances is classified entirely as a capital expenditure fund. Instead, it appears likely that the majority of advances will be used to pay the current portion of accounts payable, since expenditure for the purchase of goods and services is much greater than that for investments for all local authority segments.

Also worth noting is the failure to attribute positive effects on net borrowing and the borrowing requirement to the interest paid by local authorities on the advances they receive,[184] which offset the effect of higher interest expenditure incurred by the State to finance the advances.

3.4.3 Aid measures by local authorities within the State Aid Temporary Framework

Articles 54 to 62 of Decree Law 34/2020 allow local authorities to use their own resources to fund aid measures to remedy the effects of the health emergency, within the scope of the State Aid Temporary Framework adopted by the European Commission.[185] This framework is substantially incorporated in the legislation governing the types of aid and the conditions they must meet. It is therefore possible to grant aid in the form of grants, guarantees, interest rate subsidies, specific aid to companies for research and development in the field of COVID-19 and to the related investments for testing and upscaling infrastructure and for production, as well as subsidies to pay employee wages to avoid layoffs during the pandemic.

Provisions common to all these aid measures include a deadline of 31 December 2020 for granting the aid, a prohibition on aid for companies already in difficulty as at 31 December 2019 and obtaining the necessary approval of the European Commission.[186]

Additional specific provisions limit the amount of direct grants or guarantees. The main limitations concern: 1) the maximum amount of direct grants, set at €800,000 per undertaking, reduced to €120,000 for the fishery and aquaculture sector and €100,000 for the agricultural sector; 2) the maximum amount of loans that can be guaranteed, equal to the greater of 25 per cent of total turnover in 2019 and double the wage bill; 2) the term of the loan, which cannot exceed 6 years; 3) the size of the guarantee, which must not exceed 90 per cent of the loan principal where losses are sustained proportionally by the credit institution and the State, or 35 per cent where losses are

[184] Which as a transaction internal to general government does not impact net borrowing.
[185] With the Communication of 19 March as amended on 3 April 2020 and 13 May 2020.
[186] Approval was received on 21 May 2020.

first attributed to the State; 4) the amount of the fees due from undertakings for the issue of the guarantee, which must be graduated in accordance with the term of the loan.

Note that although it is expressly provided that the aid measures shall be financed out of the resources of the entities that implement them, spillover risks could arise with negative effects for the public finances as a whole. Some authorities may not be able to assess the potential risk of the aid measures (for example, an assessment of enforcement risk in the case of guarantee exposures), or they may consciously adopt strategies involving moral hazard in order to create the conditions to solicit greater State intervention in support of enterprises in its territory.

It should also be noted that the estimate provided by the Italian authorities to the European Commission of the budget to fund the State aid disbursed by authorities amounts to €9 billion.[187] EU development and cohesion funds and the related national co-financing will also be able to finance this aid. In fact, the capacity of the various local authorities to help firms will depend on the overall resources of the authorities themselves, the distribution of which may differ from that of the needs of businesses in the wake of the health crisis and its negative repercussions on the economy.

[187] That amount is given in the communication of 21 May from the European Commission approving the measures.

3.5 Measures for the healthcare sector

3.5.1 Resources and the cost of the measures

In response to the emergency health situation, a series of measures have rolled out to enable the Regional Health Services (RHSs), the Department of Civil Protection and the Special Commissioner specifically appointed to deal with the pandemic. The unexpected emergency then laid bare the need to strengthen the National Health Service (NHS) in various areas, some of which that had not been fully perceived previously (such as the capacity to cope with certain emergency situations) and others that had already been identified and had prompted an increase in funding with the 2019 Budget Act. When the pandemic arrived, the health system was already under strong pressure because of budget cuts, the downsizing of staff and beds, the failure to reinforce outpatient care, inadequacies in the reorganisation of services and unresolved territorial imbalances.[188] Looking to the future, all of the needs outlined above will have to be addressed, and it is likely that this will require an even larger increase in resources than already envisaged. Nevertheless, at this juncture it seems more necessary than ever to pay attention to the cost-effectiveness of the use of resources and to the priorities that emerged both during the health emergency and previously.

In March, with Decree Law 18/2020, ratified with amendments with Law 27/2020, a series of urgent measures were adopted (in force as long as the state of emergency continues), some in derogation from current regulations, with the aim of rapidly increasing the availability of healthcare professionals and medical equipment and expanding assistance networks in response to the COVID-19 emergency.[189] In May, Decree Law 34/2020 also introduced provisions intended to transform certain measures adopted on an emergency basis to reinforce the NHS into structural measures (notably, the increase in the availability of intensive and semi-intensive care and the expansion of territorial assistance services).

The improvement of the outpatient care network appears to be an essential objective, given the numerous shortcomings that have been reported for some time now and the evident inability to manage emergencies at the local level, which probably contributed to increasing the burden on hospitals and causing overcrowding during the most acute phase of the pandemic. The increase in beds in intensive and semi-intensive care wards appears a necessary step not only for coping with emergency situations but also for managing peak demand during influenza epidemics. However, it would be desirable for considerable flexibility to be adopted in organising operations, both in the use of staff, which in ordinary conditions could also be deployed to support other services, such as emergency rooms,

[188] See, for example, Ufficio parlamentare di bilancio (2019), "The state of healthcare in Italy", Focus Paper no. 6, December (Abstract only. Full text in Italian).
[189] A number of measures had been adopted with Decree Law 9/2020 (2 March) and Decree Law 14/2020 (9 March), which were then repealed with Law 27/2020 ratifying Decree Law 18/2020, which incorporated much of their content. In any case, the instruments and measures adopted on the basis of those decrees remain in force.

and in managing facilities, given that in the most modern hospitals, wards can be quickly transformed into intensive care units. Furthermore, it has never been more important for resources to be managed in an informed manner consistent with appropriateness objectives, in order to face the substantial claims that could also originate from providers/producers, especially from the private ones.

The funding necessary to implement the measures envisaged by the two decrees (Table 3.21) was partly allocated to the National Emergency Fund, managed by the Civil Protection Department and the Special Commissioner (€3.15 billion in 2020 alone), and partly to the Ministry of Health for subsequent transfer to the special accounts of the Special Commissioner (€1,467 billion in 2020), with another part representing refinancing of the NHS[190] (€3.203 billion in 2020, €605 million in 2021 and €1.609 billion in 2022.[191]

Section 3.5.2 summarises the main measures envisaged in the legislation. However, it should first be noted that, in addition to the most urgent measures entrusted to the Department of Civil Protection and the Special Commissioner (for example, purchasing personal protective equipment), the implementation of the reorganisation plans to strengthen intensive care services, which are to be drafted by the regions, has also been assigned to the Special Commissioner by Decree Law 34/2020. The other measures remain the responsibility of the regions, which are permitted to implement them in derogation from the limits provided for in current legislation on personnel expenditure, although they are in any case to be funded out of the national healthcare budget. However, the increase in NHS funding for the years following 2020 does not match to the associated costs indicated in the various decrees, with a particularly large shortfall in 2021: while Decree Law 18/2020 has appropriated sufficient resources to finance the expenditures provided for by previous decrees for 2020, the refinancing enacted with Decree Law 34/2020 is adequate for 2020 (taking account of the resources for strengthening the hospital network, which are to be managed by the Special Commissioner), but is subsequently insufficient for planned spending, with a gap of about €1.7 billion (Table 3.22) (of which, €1.2 billion for outpatient care, almost €400 million for hospital care and about €100 million for training). Perhaps reliance is being placed on funding already approved: the 2019 Budget Act authorised an increase of €1.5 billion in NHS funding for 2021 over 2020 (in addition to an increase of €2 billion in 2020 over 2019). Additional resources could be appropriated in the future. Moreover, NHS funding for 2022 has not yet been established.

In addition to increasing funding, Decree Law 34/2020 contains a number of provisions to ensure that the RHSs and certain other entities operating in the health sector have sufficient liquidity.

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[190] See section 3.4.1 with regard to the establishment of a fund to give the regions the resources they need to perform their functions in the areas of healthcare, assistance and education in the event they have experienced a reduction in revenue due to the health emergency.

[191] Additional small appropriations are intended to strengthen military healthcare, the Ministry of Health, Inail and the National Institute of Health.

Table 3.21 – Increase in funding of healthcare expenditure
(millions of euros)

	2020	2021	2022
Increase in NHS funding, of which:	3,203	605	1,609
DL 18/2020	*1,410*		
DL 34/2020	*1,793*	*605*	*1,609*
Increase in funding of Special Commissioner - DL 34/2020	1,467		
National Emergency Fund, of which:	3,150		
DL 18/2020	*1,650*		
DL 34/2020	*1,500*		
Total funding increase	**7,820**	**605**	**1,609**

Source: based on data from the summary statements of the financial effects of Decree Law 18/2020 and Decree Law 34/2020.

Table 3.22 – Decree Law 34/2020: NHS refinancing and the cost of the measures
(millions of euros)

	2020	2021	2022
Refinancing healthcare (NHS and Special Commissioner for the intensive reorganisation plan)	3,260	605	1,609
Cost of new measures:	3,260	1,723	1,727
Specialist training contracts	*105*	*105*	*109*
Outpatient care	*1,257*	*1,246*	*1,246*
Hospital care	*1,898*	*372*	*372*

Source: based on data from the summary statements of the financial effects of Decree Law 34/2020.

These measures include an acceleration of payments under the various financing mechanisms, even pending the completion of administrative procedures (in particular, fund allotment decisions by the Interministerial Committee for Economic Planning (CIPE)) and verification of compliance with the requirements that must ordinarily be met to disburse fund, thereby accelerating the release of about €3.375 billion according to the Technical Report. In turn, for 2020 the regions must ensure the transfer by the end of the year of 100 per cent (instead of 95 per cent) of the amounts received as financing for the NHS and the funds that they themselves have allocated to finance the RHSs.

Secondly, executive actions against NHS entities have been suspended until the end of the year. However, to ensure the payment of debts, a section has been established within the Fund to provide liquidity to the regions and the autonomous provinces for the payment of certain, determinable and enforceable debts of NHS entities, with an appropriation of €4 billion (see section 3.4.2). Regions whose RHS entities are unable to pay debts accrued at the end of last year for utilities and other services, supplies, tenders or professional services as a result of the emergency health can apply, with a resolution of the Regional Council, for cash advances from *Cassa Depositi e Prestiti* (CDP) charged to this fund (between 15 June 2020 and 7 July 2020). These advances do not represent additional resources, do not constitute borrowing and must be repaid by the regions.

3.5.2 The main measures deployed in response to the healthcare emergency

The main measures envisaged for the healthcare sector are described briefly below (see Table 3.23), breaking them down by source of funding (NHS resources, National Emergency Fund, resources managed by the Special Commissioner for the implementation of the structural improvement of hospitals).

Measures funded with NHS resources. – Of the total increase in funding for the national healthcare budget (1.410 billion), Decree Law 18/2020, ratified with Law 27/2020, allocates a significant portion to address a shortage of healthcare personnel, a situation made worse by the emergency. Spending of €760 million was first authorised to pay temporary personnel for the period of the emergency or in any case for 2020 (of which €660 million for the measures initially adopted with Decree Law 14/2020). At the same time, the regions were asked to redetermine their staffing plans. An additional €250 million were appropriated for increased overtime. Decree Law 23/2020 (the Liquidity Decree) also introduced a number of provisions regarding personnel (medical practitioners working under contract with the NHS).

Table 3.23 – Funding for emergency measures and structural improvement of the NHS *(millions of euros)*

	2020	2021	2022
Increase in NHS funding	**3,203**	**605**	**1,609**
- DL 18/2020, of which:	1,410		
Temporary personnel and overtime	*1,010*		
Upgrading assistance networks	*400*		
- DL 34/2020, of which:	1,793	605	1,609
Outpatient care	*1,257*		
Hospital personnel expenditure	*431*		
Specialist training contracts	*105*	*105*	*109*
Contribution to funding healthcare measures		*500*	*1,500*
Ministry of Health and special accounts of Special Commissioner	**1,467**		
- DL 34/2020, of which:	1,467		
Hospital organisation plans	*1,467*		
National Emergency Fund	**3,150**		
- DL 18/2020, of which:	1,650		
Purchase of ventilators (DL 14/2020)	185		
Requisitioning and other forms of acquiring medical equipment and other movable and immovable property	150		
Other needs connected with emergency	1,315		
- DL 34/2020, of which:	1,500		
Special Commissioner special accounts	*1,000*		
Department of Civil Protection	*500*		
Total	**7,820**	**609**	**1,609**
memo: effect of contribution charges borne by employers associated with increase in personnel spending	-731	-53	-53

Source: based on data from the summary statements of the financial effects of Decree Law 18/2020 and Decree Law 34/2020.

The measures authorise the recruitment of persons enrolled in the official healthcare professional associations, assistive personnel and medical specialists enrolled in the last two years of their school of specialisation who have not completed their course of studies, simple graduates of medical school who are authorised to practice the medical profession and are members of their professional associations,[192] medical, veterinary and health managers, retired medical and assistive personnel, and foreigners whose qualifications have not yet been recognised. Employment contracts were mainly linked to the duration of the emergency (self-employment and/or contract work assignments, fixed-term employment for personnel in the health professions, assistive personnel and residents). Faster mechanisms have also been established for the recruitment of residents. It is also possible to retain medical and health managers, medical personnel and assistive personnel beyond the limits set for retirement. Furthermore, fixed-term contracts can be established with doctors enrolled in general medicine training courses[193] and provisional or replacement assignments for general practitioners[194] (and paediatricians) can be awarded to graduates, even during their specialist training (also in paediatrics) or the training course in general medicine. These professionals can also be entered in the lists of emergency medical services (outpatient) and emergency medical services (outpatient) in tourist areas. For 2020, the number of hours of internal specialist contract work may be increased. In addition, the regions have set up special continuity assistance units for the home care of patients with COVID-19 who do not require hospitalisation[195] (one unit for every 50,000 inhabitants), with the same staffing of an existing continuity care centre (personnel can include doctors with a continuity care position or acting as substitutes, doctors who are attending the training course in general medicine and, on a residual basis, graduates in medicine and surgery who have qualified and are enrolled in official professional association). Special units can also be set up to provide home health care and social and health services to people with disabilities deemed particularly at risk.

Note also that Decree Law 23/2020 establishes that general practitioners, paediatricians and outpatient specialists contracted with the NHS should immediately receive the pay increases, including arrears, indicated in the guideline for the renewal of the 2016-2018 national collective bargaining agreement for medical personnel contracted with the NHS, as approved by the Regions-Healthcare Sector Committee on 9 July 2019 and 29 August 2019. The parties must undertake to complete negotiations within six months, and ensure that general practitioners are remotely available on-call all day long (such doctors must equip themselves with digital platforms at their own expense), otherwise the increases will no longer be paid. This provision does not entail greater expenditure.

Other provisions of Decree Law 18/2020 are intended to reorganise health services in a manner consistent with new priorities and to ensure that medical devices, equipment and facilities are available to respond to the emergency, with the measures remaining in force until the emergency is over. Measures already taken due to force majeure and subsequently permitted have been retained. The increase in NHS funding was intended to strengthen assistance networks by contracting with accredited or at least authorised private facilities to acquire services even if this should increase spending above the expenditure ceiling[196] (€240 million) and to ensure the availability of personnel, facilities and equipment from private-

[192] Decree Law 18/2020 also made holders of medical degrees eligible, subject to certification of skills during the internship envisaged in their course of studies.
[193] Licensed doctors enrolled in the general medicine training course were already permitted to participate in the assignment of contract positions, after any already trained and qualified doctors have been hired, subject to receiving the general medicine diploma within the time limit established by the course (Decree Law 135/2018 and Decree Law 35/2019, ratified with Law 60/2019).
[194] This was already permitted under existing rules but only in the case of a shortage of doctors.
[195] Emergency rooms are required to organise separate reception facilities for COVID-19 patients.
[196] The ceiling was raised by Law 124/2019, which had set it at the effective 2011 level, with no additional cuts, in order to encourage the signing of the contract for the personnel of private facilities.

sector providers (€160 million for fees). Other measures envisaged in Decree Law 18/2020 and Decree Law 23/2020 do not require new appropriations.

For example, Decree Law 18/2020 indicates how to ensure the supply of oxygen, also involving the network of "service pharmacies",[197] financed with funding already appropriated for this experiment. It is also possible to create permanent or temporary healthcare areas inside or outside public and private healthcare facilities or other suitable locations, in derogation from current regulations, using €50 million of the funds available for healthcare construction (Law 67/2008 as subsequent refinanced). Finally, it is also possible to postpone or suspend non-urgent outpatient and inpatient treatment, including the work of physicians operating in a private capacity while using public facilities, rules have been established governing the suspension of limits on working hours for personnel involved in the emergency and certain provisions on the processing of personal data have been adapted to the circumstances.

The subsequent Decree Law 23/2020 established that the Regions can use the funds for the equipment of general practitioners appropriated in the 2020 Budget Act to provide pulse oximeters to these doctors and sets out rules for the simplification of practices and the use of medical radiological equipment, for the testing of medicines for the emergency and to place the National Agency for Regional Health Services under the administration of an external commissioner.

The increase in funding for the national healthcare budget enacted with Decree Law 34/2020 for 2020 (€1.793 billion) is intended in part to strengthen territorial assistance (€1.257 billion), in part to increase the personnel spending of healthcare entities (€431 million, including the refinancing of certain measures envisaged in Law 27/2020 ratifying Decree Law 18/2020) and in part to expand specialist training contracts (€105 million). For this latter objective, funding has also been appropriated for the following years (€105 million for 2021 and €109.2 million for the following three years).[198] The National Healthcare Fund has also been increased by €0.5 billion for 2021, €1.5 billion for 2022 and €1 billion for the following years until 2031, generally aimed at all the measures provided for in Decree Law 34/2020 in the healthcare field.

In order to strengthen territorial assistance and assistive care, Decree Law 34/2020 charges the regions with preparing plans for strengthening and reorganising the network.[199] It also indicates a series of more specific measures, mainly directed at improving home care, reorganising and coordinating assistance at the local level and recruiting nurses and social workers.

Home care will be expanded not only for infected patients or those under quarantine and to increase monitoring related to the COVID-19 emergency, but also for people in situations of vulnerability (for example, the non-self-sufficient and those with chronic diseases). The Technical Report estimates the cost at €734 million per year, assuming that the number of people receiving assistance increases by more than 380,000. Out of the amount indicated above, personnel spending can be increased, in derogation from the limits established by current legislation, by a maximum of €265 million for 2020

[197] Service pharmacies are intended to expand the services and functions delivered by pharmacies and charged to the NHS.

[198] According to the Technical Report, the resources are sufficient to increase the number of residents in specialised courses by 4,200.

[199] The regions are also required to organise the surveillance and monitoring of nursing homes and other residential facilities.

and the same amount for 2021. Part of the resources for territorial assistance are intended to expand nursing services, including with the introduction of the family or community nurse.[200] Nurses can be hired on a self-employed basis, including contract work arrangements (at most 8 nurses per 50,000 inhabitants). The forecast expenditure for 2020 is €333 million, which according to the Technical Report should enable the hiring of 9,600 nurses. For 2021, permanent hiring is permitted, in derogation from current legislation (€480 million). The Quality of Care Fund[201] was also increased (€10 million) for 2020 to finance the nursing staff allowance, which is a component of the variable remuneration of general practitioners. The Special Continuity of Care Units (USCAs) will also be strengthened with an increase of €61 million in expenditure in 2020 for additional staff. To support the USCAs, positions can also be assigned to social workers enrolled in the official healthcare professional associations, in a manner similar to that envisaged for the recruitment of nurses (with a maximum of one social worker for every two special units). Spending is officially estimated at €14 million for 2020, assuming a maximum of 600 professionals. In addition, the regions will have to coordinate outpatient care and assistive services through specific regional operational centres, which will liaise with all services and with the emergency system, deploying IT and telemedicine tools (the cost is estimated at €72 million in 2020 and €32 million once fully operational). Finally, Decree Law 34/2020 authorised the use of rental agreements, in addition to the requisitioning of hotels or other properties envisaged in Decree Law 18/2020, in order to isolate the infected, who will be provided with home care services (€32 million for 2020).[202]

As for hospital care, apart from the measures financed with the resources of the Special Commissioner, which will be discussed later, the old and new NHS funding must cover personnel costs for 2020 and 2021 and maintenance as from 2021 of the new intensive care, emergency services and medical transport (€25 million per year).

Authorisation has been given, in derogation from current legislation, for an increase in personnel spending of up to €241 million for 2020 and €347 million for 2021 in order to cover the costs associated with the structural increase in intensive care beds and the transport of patients (€52 million in 2020 and €83 million in 2021), as well as – for 2020 only – the recruitment of personnel through a number of provisions of Law 27/2020. The provisions of Decree Law 18/2020 that increased resources for overtime pay were revised to respond to the need to increase these resources further and allow their use for different forms of incentives (€190 million in 2020).[203]

Decree Law 34/2020 authorised the regions to pay accredited facilities and public and equivalent facilities for a specific assistance function associated with the increase in costs related to the establishment of the wards and the management of the emergency and to increase rates for services provided to COVID-19 patients. These changes are to be implemented when renegotiating agreements and contracts to take account of the emergency and will last for the duration of the emergency itself. They can be made in derogation from the spending limits and other constraints of law as part of the overall funding of the NHS for 2020, with the resources appropriated by Law 27/2020 to strengthen assistance networks.

[200] A professional position charged with working closely with the individual and the family in their home and local community. The position was conceived in a Senate bill presented in June 2019 (AS 1346) and a Chamber of Deputies bill presented in July that year (AC 2021). A number of regions have already begun pilot projects.
[201] The fund is envisaged in the national collective bargaining agreement of 23 March 2005 as amended, governing relationships with general practitioners.
[202] In addition to strengthening military healthcare, other measures mainly regard data collection and surveys to collect data on the health emergency, IT tools and privacy rules, the extension of prescriptions for patients with chronic conditions and treatment plans that include the supply of medical devices for patients in home care arrangements.
[203] Decree Law 34/2020 also allows the regions to double the amounts available for personnel incentives, including allowances for nurses, with their own resources as long as the financial equilibrium of the region is preserved.

Specific rules have been established for the assignment, allotment and use of the resources appropriated by the two decrees (apart from specialist training). First, the resources are also assigned to the special statute regions and the autonomous Provinces, which in ordinary circumstances autonomously finance their own health service (about 50 per cent in the case of Sicily). The allotment is primarily decided on the basis of regions' share of the current unallocated healthcare budget[204] (except for €72.3 million to be assigned based on the funding needs connected with the distribution of the new operational centre, and €660 million initially allocated by Legislative Decree 14/2020 and distributed with a decree of the State Accountant General of 10 March 2020). Regions must administer these new NHS appropriations through a dedicated cost centre, drawing up an operational emergency management programme, which must be approved and monitored by the Ministry of Health and the Ministry for the Economy and Finance. At the same time, the deadlines for evaluating the regional recovery plans and the consequent actions to be taken have been postponed for a month. In any case, the amounts per region are indicated in specific tables attached to the decrees.

Measures financed with resources from the National Emergency Fund. – Decree Law 18/2020 calls for the National Emergency Fund (which it increased by €1.650 billion for 2020) to finance, among other things, the purchase of ventilators in the amount of €185 million (as initially envisaged by Legislative Decree 14/2020) and the requisitioning of healthcare and medical equipment and other movable and immovable property (hotels and similar facilities) for quarantine purposes in the amount of €150 million.[205] The resources are also used by the Civil Protection Department and the Special Commissioner for the urgent purchase of goods (for example, protective equipment and other medical devices[206]) and other actions to deal with the emergency. Among other things, the Special Commissioner can provide financing in the form of grants or operating financing and subsidised loans to firms producing medical devices and personal protective equipment (€50 million). Of the total increase in the National Emergency Fund provided for by Decree Law 34/2020 (€1.5 billion for 2020), €1 billion shall be transferred to the special accounts of the Special Commissioner.

Decree Law 18/2020 defined the role of the Special Commissioner in the implementation and coordination of measures necessary for containing and countering the COVID-19 emergency, indicating multiple duties regarding the organisation, acquisition and support for the production of the necessary goods to respond to the emergency (including responsibility for increasing the capacity of hospitals, the production of capital goods, the strengthening of production chains, the construction of new production plants, the organisation and monitoring of the granting of aid and the coordinated management of European funds). The Special Commissioner and the Department of Civil Protection have been authorised to carry out a series of purchases and interventions with

[204] Decree Law 18/2020 used the shares indicated for 2019, while Decree Law 34/2020 used those for 2020.
[205] Following enactment of Decree Law 34/2020, the Civil Protection Department, the Special Commissioner and the implementing entities can acquire facilities to host people under quarantine restrictions with methods other than requisitioning, using the same funds already appropriated by Decree Law 18/2020 for requisitions.
[206] Decree Law 18/2020 also permitted the production, import and sale of surgical masks and individual personal protective devices in derogation from applicable law, using simplified procedures.

maximum speed through the adoption of especially streamlined procedures, also in derogation from existing legislation.

Resources managed by the Special Commissioner for the implementation of reorganisation plans to structurally improve hospital care in the National Health Service. – Funding for the reorganisation of the hospital network (€1.467 billion) is included in the budget of the Ministry of Health and then transferred to the Special Commissioner following approval of the reorganisation plans by the regions. The Commissioner implements the plans in conjunction with the regions, but can delegate this task to the individual regional presidents, who act as delegated commissioners with no remuneration, in compliance with the directives and schedules indicated by the Special Commissioner.[207] The resources to improve hospital care (intensive and semi-intensive care, healthcare transport) include €54 million for mobile intensive care units, with the remaining €1.413 billion distributed among the regions as indicated in a table attached to Decree Law 34/2020.

The regions must prepare reorganisation plans designed to improve their capacity to respond to pandemic emergencies, expanding intensive care and high-intensity care facilities, integrating them with the regional hospital care network and implementing mechanisms for the rapid reconversion to ordinary activities, so as to structurally strengthen the public hospital system. The plans must be approved by the Ministry of Health and will be implemented in the operational programmes of the regions. The plans are monitored by the Ministry of Health and the Ministry for the Economy and Finance (for information purposes only). The plans must include the regions' indications of the additional personnel over and above the ordinary staffing levels to be hired or have already been hired under the provisions of Law 27/2020. The goal for intensive care is to make the increase of 3,500 beds permanent, thus achieving a level of 0.14 beds per 1,000 inhabitants. For 2020 only, four movable facilities with a total of 300 intensive care beds must also be available for positioning in equipped areas identified by the regions. The overall cost estimated by the Technical Report is €661 million, comprising renovations and technology systems, including €54 million for the mobile facilities. At the same time, 4,225 beds previously classified in the medical area are to be transformed into semi-intensive care bed, operating as from next year with the human resources programmed under current legislation. At least half of these beds should be immediately convertible to ICU beds. In this case, the estimated cost is €601 million in 2020. In hospitals in which care units have been identified for the hospitalisation of COVID-19 patients, the regions must make the separate handling procedures permanent, also reorganising emergency rooms to create separate areas for patients who could be contagious pending diagnosis. The expected cost of this measure is €193 million. The Decree also provides for the purchase of emergency vehicles, at a cost of €13 million. Finally, Decree Law 34/2020 establishes that the construction work strictly necessary to implement the reorganisation of the hospital network in the COVID-19 emergency can be carried out in derogation from a series of provisions, zoning plans and local building regulations, and that during the state of emergency fire safety regulations shall be simplified and works can begin as soon as the application or notice of the start of activity have been filed with the competent municipality.

[207] The works remain the property of the NHS entities and the Commissioner is also authorised to finance facilities already built by the regions.

3.6 Main measures in the education sector

The many decrees adopted during the health emergency contain a series of measures relating to education. They were initially aimed mainly at managing the various phases of the emergency, while subsequently they have been intended to fund new hiring and provide new financing.

More specifically, Decree Law 18/2020 and Decree Law 19/2020 introduced rules governing the suspension of lessons and regulating the activity of universities and institutions of advanced artistic, musical and choral training (AFAMs) during the emergency. Decree Law 22/2020 intervened with measures to govern the orderly conclusion of the school year and the conduct of State exams and to ensure the orderly start of the next school year. Decree Law 33/2020 deferred the procedures for carrying out activities in the field of education to a future measure.

Decree Law 34/2020 expanded the number of places available in competitive exams for secondary school teaching staff and increased hiring of research fellows at universities and research institutes. However, in the case of schools, hiring has been postponed until the places actually become available.

Furthermore, Decree Law 34/2020 (and to a lesser extent the decrees that preceded it) appropriated new funding for schools (for current and capital expenditure), universities, AFAMs and research bodies both in response to the emergency and, especially in the case of universities, AFAMs and research entities, to strengthen staffing on a structural level. For schools, the measures also seek to take advantage of the suspension of teaching activities to carry out school construction.

In total, the resources allocated to schools, universities, AFAMs and research entities have been increased by about €1.4 billion for 2020, €1.2 billion in 2021 and €750 million in 2022. The overall impact of the measures on net borrowing is equal to €1.4 billion in 2020, €1.1 billion in 2021 and €0.7 billion in 2022, according to the expectation that only 70 per cent of the resources for investment in scientific and technological research will be spent in 2021 and 2022 (see section 3.6.2). Funds for school construction have been increased by €30 million for 2020 alone.

3.6.1 Schools

The resources appropriated in the decrees passed in the last few months for schools, including officially recognised private schools,[208] total around €1,060 million in 2020 and €600 million in 2021 to meet the costs of the emergency, equip themselves with digital

[208] Officially recognised private schools perform a public service and are incorporated in the national educational system. They are also authorised to issue educational qualifications with the same legal value as those issued by State schools.

systems for distance learning and cope with revenue shortfalls caused by the non-payment of fees or co-payments for services.

In particular, the following measures have been taken (with Decree Law 34/2020, unless otherwise specified): 1) the allocation of €43.5 million for 2020 to public and officially recognised private schools for the extraordinary cleaning of premises and the acquisition of personal protective and hygiene equipment (Decree Law 18/2020); 2) an increase of €87 million in resources for digital innovation, of which €72 million on capital account (€2 million for officially recognised private schools), to acquire platforms for distance learning and other digital tools (also to be made available to less well-off students on loan for use) and the appropriation of an additional €9 million for contracts for technical assistants, in order to facilitate distance learning in kindergartens, primary and middle schools (Decree Law 18/2020, as ratified with Law 27/2020); 3) an additional increase of €2 million to counter socio-cultural and geographical inequalities and prevent early school leaving (Decree Law 22/2020, as ratified with Law 41/2020); 4) an increase of €331 million for 2020 in the Fund for the operation of educational institutions, in order to ensure the safe resumption of activities in the next school year (on average, each school will receive almost €40,000, with large differences between educational institutions); 5) the appropriation to the Fund for the operation of educational institutions, the rapid allotment and advance payment to public and officially recognised private schools of €39.23 million for 2020 to ensure that State exams are held safely (cleaning costs and purchase of personal protective equipment); 6) the establishment of a Fund for the COVID-19 emergency, with an appropriation of €400 million for 2020 and €600 million for 2021, to cover the cost of containing epidemiological risks in public schools;[209] 7) an increase of €15 million for 2020 in the National Fund for the Integrated Educational System for zero-to-six-year-olds, with streamlined procedures for the allocation and delivery of resources; 8) resources of €65 million for 2020 for grants to the bodies managing on an ongoing basis public and private educational services for children (from zero to three years of age) and to non-state childhood educational institutions (from three to six years of age), whether managed by the public sector (local authorities) or the private sector, to offset revenues lost due to the reduction or non-payment of fees or co-payments as a result of the suspension of school activities; and 9) the appropriation of €70 million for 2020 to fund grants to officially recognised private primary and secondary schools that are part of the national education system for the same purposes indicated in the previous point.

Decree Law 34/2020 assigned €30 million to local authorities in 2020 (emergency fund under the Unified School Construction Fund) to accelerate the implementation of urgent building renovation projects (including renovations to adapt premises to deal with pandemic conditions) while classroom activities are suspended, with the simplification of procedures in the field of school construction. Additional measures to accelerate and simplify procedures were introduced with Law 41/2020, which ratified with amendments Decree Law 22/2020, including the attribution for this year of Special Commissioner powers to the mayors and presidents of provinces and metropolitan cities for priority infrastructure projects. Planned investments and those needed to ensure the next school year can begin safely should be undertaken rapidly, both to take advantage of the fact that schools are not in use during this period and to contribute to supporting the economy.

Decree Law 34/2020 also expanded the number of positions available in competitive exams for secondary school teaching staff, although hiring will take place over time on

[209] Revenue from contributions charged to employers connected with this expenditure is expected to amount to €194 million in 2020 and €291 million in 2021.

the basis of the planning of staff needs. More specifically, the number of positions provided for in both the ordinary[210] and the extraordinary[211] competitive exams that have been called but not yet completed[212] was increased by 8,000 each.

The ordinary procedure was called with departmental decree no. 499 of 21 April 2020 to fill 25,000 positions in middle and high schools that are expected to become vacant and available for the 2020-21 and 2021-22 school years. The extraordinary procedure, which is decided on the basis of qualifications and exams, was called with departmental decree no. 510 of 23 April 2020. It involves 24,000 positions for teachers in middle and high schools with at least three years of experience, even if not continuous, between the 2008-09 and 2019-20 school years.[213] This procedure involves the competitive exam categories and types of position that are expected to become vacant and available in the school years from 2020-21 to 2022-23. Law 41/2020, ratifying Decree Law 22/2020, governs the implementation procedures for the written part of this competition.

With regard to actual hiring, it is expected that, each year, the hiring of permanent teachers from the closed list rankings and the merit list rankings for competitive exams held in 2016 and 2018[214] will be completed and that subsequently half of the remaining jobs will be filled by the winners of the ordinary competitive exam and the other half by those from the special competitive exam. With Decree Law 34/2020, permanent teachers can be hired from list resulting from the ordinary exam even after the 2021-2022 school year and they can be hired from the special competitive exam even after the 2022-2023 school year.

The Technical Report accompanying Decree Law 34/2020 estimates that the costs will be limited to the cost to acquire university training credits, charged to the State with Decree Law 126/2019, equal to €4 million in 2023. Indeed new hires, as noted earlier, will be made as vacancies arise within the overall number of hires already authorised under current legislation.[215]

Additional rules have been adopted to ensure the validity of the 2019-2020 school year despite the suspension of lessons and to govern distance education.

210 See the consolidated text of education legislation for all levels and type of school (Legislative Decree 297/94) and Decree Law 59/2017 concerning initial training and eligibility for permanent teaching positions in secondary school.

211 Decree Law 126/2019, ratified with Law 159/2019.

212 Recall that resources for short-term and occasional supply teachers were also disbursed to schools – on the basis of past spending – during the period in which classroom activities were suspended in order to foster employment and remote instruction (Decree Law 18/2020). Public schools can use these funds to hire administrative, technical support and teaching staff on fixed-term contracts. In addition, since schools are closed, school support personnel that passed a selection process authorised in 2013 may also be hired in the regional school districts.

213 Or were engaged in regional training projects that involved extraordinary activities.

214 Any remaining teachers in the close list must be transferred to the quote designated to competitive exam.

215 An appropriation of €10 million for investment (capital expenditure) has also been made for 2020 to implement an integrated information system (which according to the Report illustrating Decree Law 34/2020 will be operated by Sogei) to get around the shortcomings of the education information system of the Ministry of Education, including an improvement in the forecasting of personnel requirements in the various areas. The cost is covered by financing from the National Operational Programme “For schools – skills and facilities for learning”.

3.6.2 *Universities*

Decree Law 18/2020 and Decree Law 34/2020 have earmarked €340 million for 2020, €600 million for 2021 and €750 million for 2022 for universities, AFAMs and research bodies. Funding in 2020 will be used to acquire digital tools, which are particularly useful in these emergency conditions, and to finance exemptions from or reductions in student fees and scholarships. In subsequent years, resources will be used to significantly expand the hiring of research fellows for universities and research bodies and to promote research, including through investments. In the official estimates, however, it is expected that only 70 per cent of the resources for investments in scientific and technological research will be spent in the next two years (accordingly, the overall impact of the measures on net borrowing is limited to €525 million in 2021 and €660 million in 2022). Note that in 2016 expenditure on tertiary education in Italy represented 0.92 per cent of GDP,[216] lower than the OECD and European (23 countries) averages, which are both greater than 1 per cent, while public expenditure, at just over half a point of GDP, was among the lowest in the countries examined. In addition, public expenditure in the same year was equal to about 85 per cent of that recorded in 2010.

For 2021, the measures provide for the hiring of fixed-term research fellows of type B (RTDB),[217] in addition to the hiring already envisaged under Law 8/2020 (which had appropriated €96.5 million per year, starting from 2020, for the hiring of 1,607 research fellows) and as an exception to hiring authorisations previously in force. To this end, the Fund for the ordinary financing of universities has been increased by €200 million starting from 2021. The Technical Report accompanying Decree Law 34/2020 assumes the hiring of a further 3,331 university research fellows. Recruitment by public research bodies is also permitted, and for this purpose the ordinary fund for research bodies and institutions financed by the Ministry of Universities and Research has been refinanced with €50 million starting from 2021, which should allow the hiring of 1,044 research fellows. Any unused resources will remain in the two funds and can be used for other spending. Revenue from contributions connected with new personnel expenditure is estimated at €61 million per year from 2021.

Additional funding for universities, AFAMs and research bodies totals €340 million in 2020, €350 million in 2021 and €500 million in 2022 (the impact on net borrowing is estimated at €275 million and €410 million, respectively).

In particular, the following measures have been taken for 2020 (with the Decree Law 34/2020 unless otherwise specified): 1) Decree Law 18/2020 had established a Fund for the emergency

216 OECD (2019), *Education at a glance,* 2019, OECD Indicators, OECD Publishing, Paris.

217 Law 240/2010, article 24, paragraph 3, letter b), defines the fixed-term contracts (so-called type B contracts). The contracts are for three years and are reserved for candidates who have already been hired with type A contracts (three-year contracts renewable once for two years) or have received a qualification as a full or associate professor in a scientific field or medical speciality, or who have held for at least three years, not necessarily consecutively, research grants or post-doctoral fellowships or similar contracts, grants or fellowships at a foreign university. Type B research fellows who have qualified in a scientific field can be hired as associate professors by a university, subject to an evaluation conducted in the third year of the contract.

needs of universities, AFAMs and research bodies, with an appropriation of €50 million for 2020, which was increased by €62 million with Decree Law 34/2020, in part because the scope of the fund has been expanded – following amendments during ratification – to include university residential facilities for merit university colleges and non-state universities (this funding is mainly aimed at supporting students, research and distance learning through digital tools); 2) the Fund for ordinary university financing was increased by €165 million and the fund for the administrative operation and teaching activities of the state AFAMs was expanded by €8 million in order to grant exemptions or reductions in the all-inclusive fees paid by students; 3) the fund for ordinary financing was increased by a further €15 million to provide scholarships for doctoral students who need to postpone their course deadline, which can be granted for two months, while the duration of the research grants existing on 9 March can be extended, but without additional costs; 4) the State supplementary scholarship fund has been increased by €40 million for 2020 in order to expand the pool of beneficiaries, primarily to include those who are eligible for a scholarship but did not receive one (according to the Technical Report for Decree Law 34/2020, equal to 3.55 per cent of eligible candidates in the 2018-2019 academic year) and secondarily to those who were unable to meet the eligibility requirements in time as a result of the health emergency (with a further increase of 1.76 per cent in the number of eligible candidates): overall it is estimated that around 11,316 students will benefit from the scholarships. The lack of funds available to provide scholarships to all deserving students has been widely criticized in the past and at this time of difficulty for many families it required an urgent solution.

For the years following 2020, the following refinancings have been decided: 1) the Fund for ordinary university financing has been increased by €100 million in 2021 and €200 million from 2022 to promote research and leverage its contribution to the country's competitiveness; 2) the Fund for investments in scientific and technological research (FIRST) was increased by €250 million in 2021 and €300 million in 2022, with an estimated impact on net borrowing of €175 million and €210 million respectively, while the Ministry of Universities and Research will develop a new programme for Projects of Relevant National Interest (PRIN) carried out in collaboration with other universities and research entities.

Other provisions adapt the rules concerning the ceiling on budgets for universities and simplify and make spending procedures more flexible.

The legislation changes the rule setting a ceiling for the period 2019-2025 on the budgets of state universities equal to actual spending in the previous year increased by the growth rate of real GDP, which was established with the most recent Update to the Economic and Financial Document. This limit was raised by an amount equal to the increase in resources appropriated, in each reference year, to the Fund for ordinary university financing. The application of penalties for failure to comply, at segment level, with the budget assigned to the university system (Law 145/2018) was also postponed from 2021 to 2023, to take account of the difficulties connected with the current emergency and the need for a two-year test of the system for collecting information on research spending in the Siope database.

The procedures for the purchase of IT and connectivity equipment and services by state universities and AFAMs have been simplified and exceptions have been introduced, for 2020, to the spending limits for the purchase of equipment and services established for 2020-2022 with Law 160/2019 (which provided for annual savings of 10 per cent with respect to average annual expenditure on managing the IT sector in 2016-2017) for universities, AFAMs, public research bodies and the IIT Foundation. The procedures for obtaining funding have also been simplified in the case of international cooperation research and development projects (adopting criteria already applied in many other European countries).

Appendix 3.1

Summary of the main safety net and income support measures adopted in response to the pandemic by selected European countries

The progressive spread of the COVID-19 pandemic around the globe has forced countries to introduce broadly similar measures to counter the impact of the various restrictions on economic activity on the labour market, the income of employees and self-employed workers and, in general, the financial condition of households. These have been accompanied by measures to support the liquidity of enterprises, generally in the form of guarantees of bank loans issued by government and other institutions and, more recently, measures to facilitate and incentivise firms in strengthening their capitalisation.

This Appendix briefly summarises the main measures introduced in selected European countries (Germany, France, Spain and the United Kingdom) to offset the loss of income by workers, including the self-employed, and in general to support households. To reconstruct this set of measures, a range of documentation was consulted, including publications of international institutions, and the information present on the websites of ministries and other public bodies and agencies,[218] but it must be borne in mind that the policies aimed at addressing the economic consequences of the pandemic are constantly evolving and being updated.

Overall, the measures adopted in the various countries studied are fairly uniform. In order to support the income of payroll employees, recourse has mainly been made to

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[218] The documents used include: Anderson J., Bergamini E., Brekelmans S., Cameron A., Darvas Z., DomÍnguez JÍménez M. and Midöes C. (2020), "The fiscal response to the economic fallout from the coronavirus", Bruegel datasets,4 June; European Commission (2020), "Policy measures taken against the spread and impact of the coronavirus", Directorate General Economic and Financial Affairs, 5 May; OECD (2020), "Policy responses to the COVID-19 crisis", Table attached to the document "Supporting people and companies to deal with the COVID-19 virus: Options for an immediate employment and social-policy response", updated to 1 June; Adam S., Miller H. and Waters T. (2020), "Income protection for the self-employed and employees during the coronavirus crisis", Institute for Fiscal Studies, IFS Briefing Note BN277; Servizio Studi del Senato (2020), "Emergenza da Covid-19 e misure sanitarie e socio-economiche: i casi di Francia, Germania e Spagna", Nota breve n. 183, April; International Monetary Fund (2020), "Policies to support people during the COVID-19 pandemic", Fiscal Monitor, Chapter 1, attachment 1.1, "Fiscal measures in selected economies in response to the COVID-19 pandemic", 8 April; Mazzolari F. and Labartino G. (2020), "Misure a sostegno dei lavoratori durante l'emergenza COVID in Europa e Stati Uniti", Confindustria, Nota dal CSC, no. 3, 14 April; EU Independent Fiscal Institutions (2020), "Special update of the European fiscal monitor. In addition, information from the following websites was used:
https://travail-emploi.gouv.fr/emploi/accompagnement-des-mutations-economiques/activite-partielle;
https://www.economie.gouv.fr/covid19-soutien-entreprises/reponses-gouvernement-difficultes-independants;
https://www.economie.gouv.fr/demarrage-2nd-volet-fonds-solidarite#;
https://www.axa.co.uk/business-insurance/business-guardian-angel/government-grants-for-small-businesses-what-you-need-to-know/;
https://www.gov.uk/government/collections/financial-support-for-businesses-during-coronavirus-covid-19;
https://www.bundesfinanzministerium.de/Content/DE/Standardartikel/Themen/Schlaglichter/Corona-Schutzschild/2020-03-19-Milliardenhilfe-fuer-alle.html;
http://noticias.juridicas.com/base_datos/Fiscal/662116-rd-ley-8-2020-de-17-mar-medidas-urgentes-extraordinarias-para-hacer-frente.html;
https://revista.seg-social.es/2020/06/14/manana-se-inicia-el-plazo-para-solicitar-el-ingreso-minimo-vital/.

strengthening the mechanisms to compensate reductions in working hours, similar to the Italian wage supplementation scheme (Cassa integrazione guadagni), which seek to prevent worker layoffs and maintain the worker/employer relationship, helping firms to restart operations as soon as possible. Income support mechanisms have also been deployed for self-employed workers and small businessmen who had previously not been covered, or received less coverage, by social safety nets and labour support schemes. Finally, many measures have been envisaged to alleviate the liquidity problems of households, to facilitate access to social protection programmes, beginning with financial support for those in isolation with the disease, and to meet the care needs of family members.

Measures for payroll employees

This section focuses on measures aimed at preserving jobs and human capital at firms that have suffered a sudden drop in demand and turnover due to the direct and indirect effects of the restrictions introduced to counter the spread of the pandemic. The measures provide income support for workers who have seen their working activity reduced or suspended without losing their jobs.

France. – In the event of mandatory closure of a business, a reduction in operations or supply difficulties or impossibility of adopting the necessary preventive measures for all workers, the firm may request activation of the exceptional COVID-19 mechanism for reduced working hours (*Activité partielle - chômage partiel*).

The allowance paid to the worker by the firm covers 70 per cent of the gross wage (about 84 per cent of the net wage), or 100 per cent for workers on the minimum wage. The State makes full reimbursement of amounts up to 4.5 times the minimum wage (the SMIC), with a minimum of €8.03 per hour[219] (previously, the minimum was equal to €7.74 or €7.23, depending on the number of employees at the company). The duration of the benefits can reach one year (previously six months). There are no conditions concerning seniority, type of contract, working time (full- or part-time).

Companies must submit an application online to the Ministry of Labour. The applications can be retroactive and the submission deadlines have been extended from their ordinary length (within 30 days). If no response is received within 48 hours, the application is presumed to have been accepted (ordinary legislation provided for a response within 15 days), while the opinion of the company's Social and Economic Committee (for firms with at least 50 employees), which must normally be issued prior to any action, can be issued

[219] The minimum does not apply to apprentices and employees on a trainee position whose pay was previously below the SMIC; for them, the allowance is equal to the pay they previously received.

in exceptional circumstances after workers have been placed on reduced hours, within two months of the application date.

Exceptional allowances are available for domestic workers and maternal assistants (who look after up to four children under six years of age at their home or in specific premises). The application must be submitted through the platform that manages domestic work (CESU). The allowance is equal to 80 per cent of the net amount of hours not worked. For workers, this allowance is not subject to contributions but must be reported in their tax return. Employers will be reimbursed, but they may choose to pay a supplement to give workers their full net remuneration.

These measures should have a total cost of €24 billion, of which €16 billion from the State budget and €8 billion from UNEDIC (compulsory unemployment insurance).

The possibility for companies to offer a bonus to increase the purchasing power of their workers has been facilitated with tax reliefs.

Germany. – The measure introduced in Germany, valid retroactively from 1 March and lasting until 31 December, consists in simplifying and temporarily expanding access to the existing programme for reduced working time of employees (*Kurzarbeit*).

As part of this programme, the State pay 60 per cent of the net wages lost due to the reduction in working hours for a maximum of twelve months (67 per cent for workers with dependent children). For those whose hours are reduced by at least 50 per cent, coverage increases to 70 per cent from the fourth month and 80 per cent from the seventh month (77 and 87 per cent respectively with dependent children). These increases are guaranteed for 2020 only. The changes compared with the programme existing before the pandemic can be summarised as follows:

- eligibility for the programme for companies in which at least 10 per cent of workers (instead of a third) have had their wages fall by at least 10 per cent due to a decrease in or full suspension of working hours;
- extension of the programme to fixed-term and temp workers;
- full coverage by the Federal Employment Agency (Bundesagentur für Arbeit) of social security contributions for hours not worked. Previously the coverage was 20 per cent, which was increased to 50 per cent during the financial crisis, with the remaining half borne by the employer;
- exemption from requirement to exhaust all other forms of agreed working hours reduction (negative hour balances will not accrue in any “hour banks”).

To apply, the employer must be registered with the Federal Employment Agency. The application can be sent online or through the postal service, or it can be delivered by hand to an Agency box.

The programme is expected to cost around €10 billion and cover 2.5 million workers.

With the economic aid package approved by the Government on 3 June and currently under discussion in Parliament (and expected to enter into force in July), €5.3 billion have been allocated to stabilize social contributions at 40 per cent and €5 billion to encourage employee share ownership programmes.

Spain. – To avoid layoffs due to the slowdown in economic activity, access to the temporary furlough scheme (*Expedientes de Regulación Temporal de Empleo,* ERTE) has been expanded for various causes, including temporary force majeure.

The COVID-19 emergency was in fact considered a temporary case of force majeure and the companies that use the scheme citing this case obtain a series of advantages. More specifically, these include rapid (5 days) and retroactive authorisation and 75 per cent of social contributions to be paid by the State (100 per cent if the company has fewer than 50 employees).[220] Workers cannot be dismissed and if their working hours are suspended or reduced, they are considered to be unemployed.[221] The period of suspension is not counted for the purpose of determining the maximum period for which unemployment benefits may be received and workers who do not meet the previous contribution requirement may also be admitted. The coverage percentage is ordinarily the same as that provided for in the event of dismissal (70 per cent of the wages on which contributions were paid for the first 180 days and 50 per cent thereafter), but it was later established that workers impacted by the suspension of non-essential activities will receive full wages during the period of suspension and will have to offset the hours lost by the end of the year. The application must be made by firms through the government electronic register and must be accompanied by a report justifying the suspension of operations as a consequence of COVID-19, as well as supporting documentation where appropriate. The company must inform workers and, if any, their representatives.

With a social protection agreement, an ERTE was also introduced for companies that at least partially resume their operations, an option incentivised by the State paying a percentage of social contributions for participating firms: for employees returning to work, there is an exemption on employer contributions of 85 per cent in May and 70 per cent in June for companies with fewer than 50 employees (for companies with more employees, this is 60 per cent and 45 per cent, respectively), while for those workers who

[220] Fifty per cent of employer social contributions are charged to the State for workers who work only part of the year or who have fixed-term contracts (these are mainly in the tourism industry).
[221] Until 30 June, unemployment benefits can be combined with a temporary job in agriculture. This measure applies to the unemployed, workers whose contract has been temporarily suspended, migrant workers whose work permit expires between 15 and 30 June 2020 and young (between 18 and 21) non-Spanish citizens resident in Spain.

do not yet return to work, there is an exemption from employer contributions of 60 per cent in May and 45 per cent in June for companies with fewer than 50 employees (and 45 per cent and 30 per cent for companies with more employees). The companies involved are obliged to at least partially maintain employment (unless there is a risk of bankruptcy), may not be domiciled in an offshore financial haven and may not distribute dividends (except in special cases). The cost of these ERTE-related measures is estimated at €17.9 billion.

There is also a temporary allowance for domestic workers who have suffered reductions or suspensions of working hours. The benefit is equal to 70 per cent of wages on which contributions were paid, up to a maximum of €950 per month.

An exceptional allowance has also been established for workers with expiring temporary contracts of at least two months who are not eligible for ordinary safety net programmes. The allowance is equal to €430 for a month, possibly extendable. The maximum duration of fixed-term contracts in this emergency period can be extended.

United Kingdom – Under a measure introduced in the second half of March (Coronavirus Job Retention Scheme), employers can apply for a grant from the HM Revenue and Customs (HMRC) to cover the costs of workers who stopped working following the pandemic but have not been fired. The scheme entered into force on 1 March for four months, but was then extended until October, and employers can use it for the period they wish.

The subsidy covers 80 per cent of workers' wages (up to a maximum of £2,500 a month), plus employers' national insurance contributions and the employer pension contributions on that subsidised wage (up to the minimum pension contribution). All employers can apply, including businesses, charities, recruitment agencies and public authorities (although few public authorities that still receive public funding to cover staff costs are expected to benefit from it). The only eligibility conditions are to have started a Pay as You Earn (PAYE) payroll scheme on or before 19 March 2020, have enrolled for PAYE online and have a UK bank account. Eligible workers include apprentices, fixed-term workers, those who had stopped working between February 28 and March 19 if rehired, foreigners, vulnerable persons as specified under health guidelines or who have care responsibilities resulting from COVID-19.

Workers benefiting from this programme can be involved in voluntary work (not for their employer), look for a new job or perform training activities. The application is made online. The benefit may be refused and it must be repaid if checks reveal that the request contains inaccurate or deceptive information or is fraudulent (a special portal has been created to report cases of suspected fraud).

Households are also eligible for the domestic worker allowance.

According to estimates by the Office for Budget Responsibility (OBR) and the Resolution Foundation, the scheme will cost £42 billion, assuming that about a third of employees in the private sector benefit from it.

Income support measures for self-employed workers

This section focuses on measures to support the income of self-employed workers and small businesses that have had to cut back on business or stop trading altogether because of the pandemic. Typically these are measures made necessary by the lack of a social safety net for these taxpayers equivalent to those for payroll employees or which only provide a limited level of protection.

France. – A solidarity fund has been introduced for self-employed workers and small businesses financed by the State, the regions and the overseas communities.

The programme is aimed at shopkeepers, artisans, professionals, micro-enterprises and other economic actors[222] with any legal form (companies, sole proprietorships, associations, etc.), tax treatment or pension regime (including micro-enterprises), who started operating by January 2020 and have no more than 10 employees, turnover in the last financial year of less than €1 million, and taxable income of less than €60,000.

The benefit offsets the declared loss of turnover and can be up to €1,500, tax-free (the first part of the aid). In the most difficult cases (impossibility of settling receivables falling due within 30 days and fixed costs, including rent, and a bank's refusal to grant a loan), companies with at least one employee can also be granted, on the basis of an appropriate assessment, complementary support of between €2,000 and €5,000 to avoid bankruptcy (second part of the aid).

The conditions for obtaining the benefits are:

- to have been subject to the ban on receiving the public, even if a residual activity such as the sale of takeaway products, order pick-up and delivery, or room service has been continued;

- to have suffered a loss of turnover of at least 50 per cent in March 2020 compared with March 2019 (for the April benefit, turnover can be compared, optionally, against April 2019 or the monthly average of the entire previous year).

Applications for the first part of the aid consist of simple declarations with very partial information. For March, applications could be submitted online from 3 April 2020; for April

[222] This includes categories such as member of cooperative agricultural associations, artists-authors, companies in administration and those in the safeguard procedure. The benefit cannot be paid to firms whose manager has a full-time employment contract or is a pensioner or received at least €800 daily in March or April.

they could be submitted from 1 May. The benefit should essentially be automatic: it is granted quickly after a first-level check, while a second-level check will be carried out later.

Applications for the second part of the aid could be made from 15 April on the portals opened by the regions and required a more extensive description of the situation of the company (including the name of the bank that refused the loan).

The solidarity fund for self-employed workers and small businesses has now been funded in the amount of €7 billion, of which €500 million from the regions. Unions of municipalities and large enterprises can add contributions (insurance companies have paid in €400 million).

The *Conseil de la protection sociale des travailleurs indépendants* also automatically provides artisans and small retailers with non-taxable additional aid corresponding to the amount of contributions for the supplementary pension paid by these workers on the basis of their 2018 income, which can reach €1,250.

The payment of taxes and social contributions has been postponed for some categories of businessmen and firms (in the most difficult situations, tax reductions may also be granted on a case by case basis). The expected reduction in revenue has been estimated at €32 billion, including the relief granted to companies. Part of the revenue will be recouped later.

Furthermore, small businesses can obtain a suspension of payment of commercial rents and utility bills (if activity was halted by decree, the suspension is automatic). The latter measure is expected to cost €3 billion.

Germany. – The *Soforthilfe* programme is targeted at self-employed workers and small businesses. Thanks to a harmonisation process, these federal government subsidies complement those already provided by the Lander. Consequently, the amount of the overall benefits differs by region.

The federal programme provides one-off emergency aid to small businesses, self-employed workers and freelancers to cover operating costs (rents, business premise loans, lease payments and the like) for three months. The grants do not have to be repaid. In order to receive the support, beneficiaries must not have been in financial difficulty before March and must have incurred economic harm after 11 March. The amount can reach €9,000 for companies with up to 5 employees (understood as full-time equivalents) and €15,000 for those with up to 10 employees.

Applications are submitted online to the Lander for companies with up to 10 employees and to the federal government for those with more than 10 employees. Applicants should receive an answer within a few days.

The expected cost for the federal programme is €50 billion. Recently (3 June), the government approved new aid for businesses as part of a package of measures that has yet to be approved by Parliament. The package is worth €25 billion in 2020-2021, which should be financed by the resources left over from the *Soforthilfe*.

Tax relief is also available for small and medium-sized enterprises.

Spain. – An extraordinary benefit scheme has been introduced for those forced to cease (or reduce) their operations, with benefits granted for a month or possibly until the last day of the month in which the COVID-19 state of emergency ends. The benefit is targeted at self-employed workers (including agricultural and maritime workers, as well as members of cooperatives who have elected an independent employment relationship) whose business has been suspended or who in the month prior to the application for benefits invoiced at least 75 per cent less than their average billings in the previous half year (specific rules apply to seasonal agricultural and maritime workers and other particular categories).

The amount of the benefit is equal to 70 per cent of the amount on which contributions were paid (in the absence of a minimum contribution period, the minimum contribution base is used). Contributions are not due in the period covered by the benefit, but the period will be considered as if the contributions had been paid and will not be counted in determining the duration of any future benefits for termination of activity. The benefit can be combined with other social benefits (except for fleet shutdown in the case of maritime workers) and with continuation of the business.

The conditions for obtaining the subsidy are:

- be enrolled in the respective special social security schemes;
- if activity has not been suspended, demonstrating the 75 per cent reduction in turnover;
- be in good standing with social security payments or pay any amounts due within 30 days of the payment demand that will be sent by the social security entity.[223]

The application must be accompanied by a sort of self-certification of compliance with the requirements, can be submitted up to the last day of the month following the termination of the state of emergency and will be processed provisionally. If subsequent checks reveal that the beneficiary was not eligible to receive the aid, the benefits will have to be repaid. The reduction in activity must be proven using accounting documentation or, for those who are not required to keep such documentation, by any other means permitted by law.

[223] If trading is suspended, the surtax is not due on amounts not paid for the part of March not covered by the programme.

The budgetary effects of this measure have been quantified at €3.8 billion.

Furthermore, self-employed workers and small businesses may align their tax bases with current conditions and postpone the submission of their tax returns, accompanied by a six-month interest-free moratorium on the payment of taxes. The cost of the tax moratorium is put at €14 billion. In some cases, a six-month moratorium is also allowed for the payment of social contributions (with interest at 0.5 per cent for businesses and self-employed workers in good standing with their payments).

United Kingdom. – An Income Support Scheme has been established to counter the impact of lost profits due to COVID-19.

This programme provides self-employed workers and members of partnerships with average profits below £50,000 with a taxable grant of up to 80 per cent of the average monthly trading profits over the past three years (April 2016 - April 2019), up to a maximum of £2,500 a month. The first grants were to be paid in June and the scheme would run for at least three months.

Only those who filed a tax return for 2018-2019, traded in 2019 and 2020 and have incurred a reduction in profits due to COVID-19 are eligible for this scheme, provided their trading profits account for at least 50 per cent of taxable income.

The HMRC was charged with contacting, in mid-May, taxpayers meeting the requirements – who must confirm that their activities have been adversely impacted by COVID-19 – to make an application (online or otherwise).

The total cost is estimated at £10 billion by the Institute for Fiscal Studies, the Resolution Foundation and the OBR.

Small businesses can also apply for grants from the Small Business Grant Fund or the Retail, Hospitality and Leisure Grant Fund. These are programmes managed locally, albeit financed by the central government. The cost estimated by the OBR is €15 billion.

VAT payments have been postponed (with a total cost of £30 billion according to the OBR), as have the deadlines for tax returns for businesses and self-employed workers. In addition, like firms, self-employed workers will be able to negotiate customised "time to pay" agreements with the HMRC should they have difficulty paying taxes. In some cases (retail, tourism and leisure, nurseries), taxes on commercial properties for 2020-2021 will not have to be paid (the cost of this tax relief is estimated £13 billion by the OBR).

As regards those who work as employees, but through their own limited liability company, and are not self-employed, the entry into force of a reform of the off-payroll working rules has been postponed. The reform seeks to ensure that individuals working through a company, who are neither self-employed workers nor employees, pay broadly the same amount of tax as employees. The cost of the postponement was set at £1.2 billion.

Other income support measures for households

In this section we examine a miscellany of measures for households introduced in the wake of the pandemic in order to alleviate the burdens of care that emerged as a result of school closings, to support the income of people forced to stay at home due to the danger of contagion – including by facilitating access to protection measures in the event someone catches the disease and, more generally, access to social protection – and to ease the liquidity problems associated with the contraction in income.

France. – Paid sick leave (without cost sharing by employers) has been introduced for workers who have to stay at home to take care of their children. Until the end of April, payroll or self-employed parents affected by the closure of schools or in self-isolation were entitled to paid sick leave (90 per cent of salary or gross earnings for the first 30 days) if it proves impossible to find alternative assistance or work arrangements (e.g. remote working or flexible working). Since May, parents with payroll jobs have been placed in the less favourable partial activity regime, as noted previously. Some schools and childcare facilities have continued to operate, albeit with a reduced staff, to take care of the children of workers engaged in essential services. A simplified daily sick-leave allowance is available for self-employed workers to look after their children or who find themselves in a situation of health vulnerability that requires isolation.

Households who receive the *revenu de solidarité active* (RSA) or the *allocation de solidarité spécifique* (ASS) also receive an additional automatic benefit of €150, plus an additional €100 for each dependent child (the supplemental benefit for children is also granted to beneficiaries of personalised housing assistance who do not receive RSA or ASS).

The unemployed continue to receive the unemployment benefit and periods of confinement are not considered for the purposes of eligibility. Other specific measures are envisaged for certain categories of workers (for example, temp workers). A reform to tighten the contribution requirements for unemployment insurance has been postponed. The cost of this postponement and the extension of the subsidies is estimated at €0.5 billion. Other changes concerning pensions and housing benefits have also been deferred.

The end of the winter suspension of evictions (*trêve hivernale*), which is normally in force from 1 November to 31 March, was postponed to the end of July. Measures for the homeless have been expanded.

Germany. – Some schools and childcare facilities were planned to remain open, albeit with a reduced staff, to take care of the children of workers working in essential services. Schools have gradually reopened since 4 May.

Parents who were forced to stay home to look after their children when childcare facilities or schools closed ("no fault of your own") were entitled to paid leave equal to 67 per cent of their salary, up to a ceiling of €2,016, paid by the employer and subsequently reimbursed. In addition, wages continue to be paid in the event of a quarantine, with reimbursement to employers. There is also provision for sickness benefits for the self-employed in case of contagion. Expenditure for compulsory health insurance and long-term care is expected to increase by €5.2 billion.

Other relief measures have also been implemented, such as easier access to social security (guarantee of means of subsistence – *Grundsicherung* – including housing) for self-employed workers as well, with a six-month suspension of means-testing procedures and rapid payment for two months. Accommodation and heating costs for the first 6 months are also covered. Alternatively, an emergency child allowance can be requested and, in this case, only the income of the last month counts. Some €7.7 billion have been allocated for these measures. As part of the most recent aid package, an allowance of €300 for each child (at a cost of €4.3 billion) and aid for single-parent households (€0.75 billion) were also introduced.

The maximum duration of unemployment benefits has been extended by three months if the benefits expire between May and December.

From 1 April, failure to pay rent due to the pandemic cannot be the cause of eviction, and payments have been suspended from 1 April to 30 June. Payment of arrears must be made by 30 June 2022 to ensure that there are no losses for the owners. To help families who cannot pay utilities, such payment can be postponed without fees or risk of attachment of assets. The most recent aid package reduced the price of energy for consumers, eliminating the subsidy for renewable sources (€11 billion).

In Germany, the Lander and the local authorities also financed measures and provided tax relief. For example, local government expenditure to support housing and heating costs is estimated at €2.1 billion. The government recently decided to grant additional funding to municipalities to support social housing.

Spain. – Forms of remote working and flexible working hours have been introduced to meet the needs of childcare. Workers affected by school closings and/or who need to provide assistance to other family members are entitled to adapt their working hours as needed. This includes the suspension of their work activity, if necessary.

For payroll employees and self-employed workers, periods of contagion or isolation for COVID-19 are treated as workplace accidents for the purpose of receiving disability benefits, which are equal to 75 per cent of the wage on which contributions are paid (instead of the ordinary 60 per cent) and are provided from the first day. This allowance is financed from the public budget (€1.4 billion). In addition, paid leave was introduced for employees in "non-essential" sectors and activities for a maximum of ten days (from 30 March to 9 April). Days not worked will be recouped through overtime before the end of the year, on the basis of collective bargaining agreements.

Support programmes for vulnerable households have been introduced, including home care services and remote assistance for the elderly and disabled, support and assistance services for the homeless, minimum income schemes, assistance to single-parent households and the hiring of social workers. €600 million have been appropriated for these measures, plus an additional €300 million for assistance to the non-self-sufficient. Measures have also been put in place to tackle child poverty (with funding of €25 million). Recently, the *ingreso mínimo vital* was introduced, a form of income support for individuals in conditions of financial vulnerability (€461.53 per month for a single-member household), which can be requested from 15 June 2020, but is paid from the beginning of the month.

Unemployment benefits are automatically renewed, the rules relating to the minimum contribution period have been suspended, even for fixed-term workers, and the pool of potential beneficiaries has been enlarged.

The following measures have been introduced: the suspension of evictions for six months beyond the emergency period, the automatic extension of six months of expiring rental contracts, an automatic moratorium on rent payments for vulnerable households (and for businesses as well) in the case of large landlords (those with at least ten properties) and the possibility of deferring rent in the case of smaller owners. In the latter case, in the absence of an agreement, tenants are eligible for a zero-interest microcredit programme with a repayment period of up to ten years. The *Plan Estatal de Vivienda 2018-2021* introduces direct aid for the payment of rent and specific programmes are envisaged for certain categories of people such as victims of sexual violence and homelessness. There is also a six-month moratorium on mortgage payments for vulnerable categories and for workers who have been seriously affected by COVID-19. A three-month moratorium was also introduced for the payment of receivables and non-mortgage loans by vulnerable groups.

In the event of non-payment of utilities, public utility companies cannot stop supplies. The guarantee of the supply of water, gas and electricity (announced on 17 March for vulnerable groups) has been extended to all households and workers in the ERTE mechanism, and social benefits have been extended for the supply of electricity to self-employed workers who have gone out of business or whose income has declined by more than 75 per cent.

United Kingdom – Despite the closure of schools, some facilities have remained open for the children of people working in essential services.

Those who are unable to work because they have care responsibilities can join the part-time job scheme if they are employees, or obtain income support if they are self-employed.

Employers must pay (from the first and not the fourth day) sick pay to workers forced to self-isolate, regardless of whether they are infected or not. The cost of sick pay for a maximum of two weeks will be reimbursed for employers with fewer than 250 employees. The cost of these measures is estimated by the OBR at around £1 billion. Social protection mechanisms have also been strengthened with the New Style ESA (Employment and

Support Allowance), on a contributory basis, payable in the event of convalescence, quarantine or high health risk (obtainable from the first rather than the eighth day) for those who do not receive sick pay from their employer or the New Style Jobseeker's Allowance (JSA).

If income decreases or disappears, workers are then eligible, under certain conditions, for the Universal Credit Standard Allowance (UC) and the Working Tax Credit (WTC), whose basic allowances were both increased by £1,000 for 12 months due to the pandemic.[224] Self-employed workers will need these benefits especially until income support is paid. Those who have lost their jobs can still apply for Universal Credit. In addition to the increase in the basic allowance obtainable under the Universal and the Working Tax Credit schemes, other changes have been made to the subsidies for renters, as well as the temporary suspension of mortgage payments and evictions. In particular, the maximum benefits for housing benefit (and the housing costs element of UC) for private tenants have been increased to the 30th percentile of rents in the local area.

To strengthen the welfare system, the British Treasury estimated a cost of around £7 billion for the 2020-2021.

[224] Specifically, the benefit is no longer calculated on the basis of the UC minimum income level that the government uses to verify self-employment status. The indemnity received in application of the Income Support Scheme described above, which is considered self-employment income, affects the amount obtainable under the UC, however. For self-employed workers, the Universal Credit will be set at a level equivalent to that of employee sickness benefits. The cost of this measure is included in the £1 billion expected to support the increase in sick pay.

4. The main EU measures

4.1 The interventions of the European Central Bank

The first significant response of the euro area to the financial consequences of the COVID-19 crisis was provided by the European Central Bank (ECB). Starting from the meeting of 12 March, the Governing Council of the ECB announced a series of expansionary monetary policy measures intended to preserve the flow of credit to households and businesses, ensure favourable liquidity conditions and support the financial stability of the euro area. The measures for financial institutions included: (i) new longer-term refinancing operations (LTRO), (ii) more favourable conditions for the third series of targeted longer-term refinancing operations (TLTRO3), and (iii) a new series of untargeted, longer-term refinancing operations for the pandemic emergency (Pandemic Emergency Longer-Term Refinancing Operations, PELTRO). In addition, the ECB first strengthened the asset purchase programme (APP) and then introduced a new programme for the purchase of public and private securities for the pandemic emergency (Pandemic Emergency Purchase Programme, PEPP).

4.1.1 Measures for financial institutions

The new LTROs were conducted on a weekly basis from March to June, using fixed rate tenders with full allotment, with the aim of providing immediate liquidity support for the banking industry and safeguarding conditions on the money markets. The maturity of all operations was set to coincide with the settlement date of the fourth TLTRO III operation (24 June 2020), to which the counterparties could transfer all the refinancing obtained. The interest rate applied was equal to the average rate applied to deposits with the central bank (-0.5 per cent) for the duration of the respective transaction.[225]

With regard to TLTRO III,[226] more favourable conditions were introduced in March and the maximum borrowing allowance for counterparties was raised (from 30 to 50 per cent of eligible loans as of 28 February 2019).[227] In a subsequent decision, the Governing Council further eased the interest rate and relaxed the incentive mechanism. For operations conducted between June 2020 and June 2021,[228] the interest rate applied will be 50 basis points lower than the average rate on main refinancing operations. Furthermore, for

[225] See ECB press release of 12 March 2020.
[226] These operations are considered "targeted" because the size of the loans that the banks can obtain and the rates applied are determined on the basis of their loans to non-financial corporations and households (excluding home loans). They were announced for the first time in March 2019 and have been held on a quarterly basis as from September 2019 . The current deadline for the end of these operations is March 2021. Each operation has a term of three years.
[227] See ECB press release of 12 March 2020.
[228] See ECB press release of 30 April 2020.

counterparties whose lending is equal to the net lending benchmark, the interest rate will be 50 basis points below the average rate on the deposits facility with the central bank and in any case not higher than -1 per cent.

In addition, in March, the ECB's Supervisory Board[229] announced temporary measures to ease the capital and liquidity requirements of banks under its direct supervision. It also pointed out the need to strengthen the effect of the measures adopted by reducing the countercyclical capital buffer by national macroprudential authorities.

In April, the Governing Council of the ECB introduced temporary changes to the eligibility criteria for assets that can be pledged by counterparties to facilitate access to Eurosystem refinancing operations and to mitigate the impact of any rating downgrades on the availability of collateral.[230] Therefore, until September 2021, the ECB will accept securities that no longer have an investment-grade rating as collateral for liquidity provided to financial institutions.

The exemption from the eligibility rules for financial assets pledged as collateral applies to listed assets and to issuers of these assets that met the minimum credit quality requirements as of 7 April 2020, certified by at least one of the four credit rating agencies accepted by the Eurosystem: DBRS, FitchRatings, Moody's and Standard & Poor's. This ensures that assets and issuers with an investment-grade rating remain eligible at the time of the Governing Council's adoption of the package of collateral easing measures even if their rating falls two notches below the current minimum credit quality requirement of the Eurosystem.[231] If necessary, the ECB has declared itself ready to take additional measures to further mitigate the impact of rating downgrades, particularly with a view to ensuring the smooth transmission of its monetary policy in all jurisdictions of the euro area.

At the end of April, the Governing Council of the ECB decided to temporarily conduct pandemic emergency longer-term refinancing operations (PELTROs)[232] to provide effective liquidity support after the previously-mentioned additional LTROs expire. The PELTROs consist of seven transactions starting in May 2020 and terms staggered between July and September 2021, in line with the duration of the measures relaxing the eligibility criteria for collateral. These operations will be conducted on an indicative monthly basis as fixed-rate tenders with full allotment, applying an interest rate 25 basis points below the average rate in the main refinancing operations (currently equal to 0 per cent).

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[229] See ECB press release of 12 March 2020.
[230] See ECB press releases of 7 April 2020 and 22 April 2020. The measures adopted are intended to expand the availability of collateral for the ECB and to therefore facilitate banks' access to financing and support lending to firms and households by strengthening secured lending and increasing the Eurosystem's risk tolerance.
[231] From BBB- to BB, with the exception of ABSs, for which the acceptable rating has been lowered from A- to BB+.
[232] See ECB press release of 30 April 2020.

4.1.2 Purchases of financial assets

Focusing attention on the programmes for the purchase of financial assets in the secondary market during 2020, the recent interventions of the ECB in response to the COVID-19 emergency consist of:

1) an additional temporary envelope of €120 billion in net asset purchases up to the end of the year under the Asset Purchase Programme (APP),[233] involving the purchase of government securities and securities issued by public agencies and international institutions in the euro area (PSPP), the purchase of bonds issued by non-financial corporations of the euro area-countries (CSPP), the purchase of covered bank bonds (CBPP3) and the purchase of securities issued in the securitisation of bank loans (ABSPP). These purchases will be conducted in a flexible manner both in terms of their pace, since no monthly amount has been specified, and asset class, and will be directed towards the jurisdictions and market segments subject to the most significant tensions;

2) €1,350 billion in purchases under the new pandemic emergency purchase programme (PEPP),[234] which was introduced to counter the serious and growing threat to the monetary policy transmission mechanism and to the outlook for growth deriving from the spread of COVID-19. The PEPP includes all the types of asset eligible for the APP, as well as government securities issued by Greece, which are not yet eligible for Eurosystem programmes. Commercial paper of sufficient credit quality has also been included among the eligible assets under the CSPP. The benchmark allocation of purchases among the various countries will continue to be the capital key of the national central banks. However, purchases will be conducted in a flexible manner, allowing for fluctuations in the distribution of purchases between asset classes and jurisdictions. Purchases will continue at least until the end of June 2021 and in any case as long as the COVID-19 emergency persists. For this programme, the limit of 33 per cent on purchases of individual types of public debt security (and 50 per cent for debt securities issued by European institutions) does not apply. In addition, the minimum residual maturity of public sector securities at the time of purchase has been reduced to 70 days.[235]

These measures have been added to those already planned previously, namely €20 billion per month of purchases of public and private securities under the APP.[236] If the

[233] See ECB press release of 12 March 2020.
[234] The launch of the PEPP from 26 March 2020 was decided by the Governing Council of the ECB at its extraordinary meeting of 18 March. The initial envelope of the programme of €750 billion was increased by an additional €600 billion following the decisions of the Governing Council of 4 June 2020 in response to the downward revision of inflation forecasts.
[235] Decision (EU) 2020/440 of the ECB of 24 March 2020 on the PEPP.
[236] See ECB press release of 12 September 2019.

various programmes are added together, the ECB would have to purchase approximately €1,710 billion in public and private securities, in addition to the reinvestment of the maturing principal on securities held in the Eurosystem portfolio under both the APP and the PEPP.[237]

[237] The maturing principal payments on securities purchased under the PEPP will be reinvested until at least the end of 2022.

4.2 Measures of the European Commission, the Eurogroup and the Council

4.2.1 The European Union's general escape clause

On 23 March, the Council of the European Union activated the general escape clause provided for in the Stability and Growth Pact (SGP), concurring with the Commission's assessment[238] that the conditions for its application had been met, considering that the epidemic is causing a severe recession in the euro area and throughout the European Union.

The clause, introduced in 2011 as part of the so-called Six-Pack, involves both the preventive and the corrective arm. As regards the preventive arm, Articles 5(1) and 9(1) of Regulation 1466/97 establish that in periods of severe economic downturn for the euro area or the Union as a whole, Member States may be allowed temporarily to depart from the adjustment path towards the medium-term budgetary objective (MTO), provided that this does not endanger fiscal sustainability. As regards the corrective arm, Articles 3(5) and 5(2) establish that in the event of a severe economic downturn in the euro area or in the Union as a whole, the Council may decide, on a recommendation from the Commission, to adopt a revision of the path of reducing the deficit below the 3 per cent threshold for a Member State already in an excessive deficit procedure.

It should be remembered that currently only Romania, which has not adopted the euro, is in the corrective arm, with a decision of the Council of the Union of 17 March 2020.[239]

The Commission has therefore established that the budgetary impact of the measures that Member States are taking to support the health system and the economy will be excluded from the Commission's assessment of the Member States' compliance with the SGP, since the COVID-19 emergency is an event beyond the control of governments with a major impact on the public finances.

The Commission has specified that the application of the clause does not suspend the procedures of the SGP, but will allow the Commission and the Council to take the necessary coordination measures for budgetary policies under the Pact, while departing from the budgetary obligations that would normally be applicable.

In a note on the guidelines for the preparation of the 2020 update of the stability programmes, the Commission invited the Member States to present all the discretionary measures adopted to meet the costs of the epidemic under the heading "COVID-19

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238 See https://ec.europa.eu/info/sites/info/files/economy-finance/2_en_act_part1_v3-adopted_text.pdf.

239 See https://ec.europa.eu/info/sites/info/files/economy-finance/126_7_recommendation_for_council_recomm_bring_an_end_com2020_91_2_en_act_part1_v2.pdf.

general safeguard clause", rather than treating them as one-offs, as the clause allows Member States to depart from the normally applicable budgetary obligations.[240]

According to the Council, invoking the clause will give the Member States the necessary budgetary flexibility to take all necessary measures to support the health system and the economy, through discretionary stimulus measures, which must be timely, temporary and focused on addressing the emergency. The Council decision also emphasises that Union finance ministers remain fully committed to compliance with the SGP.

Finally, at the end of the period in which the general safeguard clause is in effect, countries will have to return to full compliance with the rules of the SGP. In particular, countries will have to commit to returning below the 3 per cent deficit threshold and resuming the path of structural adjustment towards the MTO.

The aforementioned documents from the Commission and the Council do not explicitly refer to the case of countries, such as Italy, currently in the preventive arm that should exceed the 3 per cent limit on the deficit/GDP ratio in 2020 and subsequent years.

The Commission subsequently clarified its intentions during the assessment of the 2020 stability programmes last May as part of the European Semester.

Indeed, the Commission[241] adopted a report pursuant to Article 126(3) of the TFEU for each Member State, except Romania, which as mentioned is already in the corrective arm of the Pact. These reports assessed Member States' compliance with the deficit criterion in 2020, based on the stability programmes and the Commission's spring forecast. In addition, the Commission prepared a report for France, Belgium, Cyprus, Greece, Spain and Italy to assess compliance with the debt criterion in 2019 based on outturn data. The reports examine all relevant factors, when the legislation allows, including the large and uncertain macroeconomic and fiscal impact of the COVID-19 outbreak.

In light of the current situation, the Commission has concluded that at this juncture a decision on whether to place Member States under an excessive deficit procedure should not be taken. Therefore no new procedures have been initiated. The Commission has made it clear that it will reassess the budgetary situation of the Member States on the basis of the forthcoming autumn forecast and the Draft Budgetary Plans to be presented by the euro-area Member States by 15 October this year.[242]

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240 European Commission (2020), "*Guidelines for a streamlined format of the 2020 stability and convergence programmes in light of the COVID-19 outbreak*", Note for the Alternates of the Economic and Financial Committee, 6 April 2020.

241 European Commission (2020), "*COMMUNICATION FROM THE COMMISSION. 2020 European Semester: Country-specific recommendations*", COM(2020) 500 final, https://ec.europa.eu/info/sites/info/files/2020-european-semester-csr-comm-recommendation-communication_en.pdf.

242 See COM(2020) 500 final, page 4.

Accordingly, this Commission decision confirms that while the application of the general escape clause does not suspend the procedures of the SGP, it does allow Member States to depart from the budgetary obligations that would normally be applicable.

4.2.2 Pandemic Crisis Support of the European Stability Mechanism

After the endorsement of the European Council on 23 April, on 8 May the Eurogroup approved the main elements of the new Pandemic Crisis Support (PCS) credit line.[243] It is based on an existing European Stability Mechanism (ESM) credit line called the Enhanced Conditions Credit Line (ECCL).[244]

Support is offered to all countries to reflect the symmetrical nature of the pandemic shock, with standardised terms, based on a preliminary assessment carried out by the European institutions. The only requirement to access the credit line is the commitment to use the credit, in a maximum amount equal to 2 per cent of GDP in 2019 (approximately €36 billion for Italy, €240 billion for the euro area as a whole), to support domestic financing of direct and indirect healthcare, cure and prevention related costs due to the COVID-19 crisis. This commitment would be included in an individual Pandemic Response Plan (PRP), based on standardised terms for all ESM Members (template PRP). Unlike the standard forms of assistance offered by the ESM, the Member State requesting support does not have to sign a memorandum of understanding.

The credit line will be available for the duration of the epidemic. Subsequently, the beneficiary countries undertake to strengthen their economic and financial fundamentals, in line with the European framework of budgetary discipline and the system of coordination and surveillance of public finances (Stability and Growth Pact). With regard to monitoring, the Eurogroup confirmed that the ESM will establish an early warning system, as required under Article 13(6) of the ESM Treaty, to ensure timely repayment of the support.

The early warning system analyses the ability to repay the loan for the next 12 months and assesses whether there is a risk the repayment obligation may not be honoured. This analytical work requires an assessment of the country's liquidity and its access to markets, and supplements the economic and financial analysis performed by the Commission.

Under EU law, when a country receives financial assistance in the form of a credit line, it is subject to enhanced supervision by the Commission from the moment in which the funds can be drawn, pursuant to the Regulation EU 472/2013. However, in a letter from Vice-President Dombrovskis and Commissioner Gentiloni to the President of the

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243 See https://www.consilium.europa.eu/media/44011/20200508-pcs-term-sheet-final.pdf.
244 For more information on the EMS and its support instruments, see Appendix 4.2.

Eurogroup Centeno, the Commission, in light of the symmetrical nature of the pandemic shock and the exceptional and one-off nature of the PCS, stated that:[245]

1) the Commission will focus its monitoring and the reporting requirements on the actual use of the funds to cover direct and indirect healthcare costs, reflecting the only conditionality attached to the credit line. As a consequence, the quarterly fiscal reporting required under Article 3(2) of Regulation (EU) 472/2013 will focus on the use of the funds to cover direct and indirect healthcare costs. For reasons of legal certainty, the Commission will amend Delegated Regulation (EU) 877/2013, which specifies the contents of the reports that the Commission can request from euro-area Member States that are subject to an excessive deficit procedure;

2) there is no scope for activating the enhanced monitoring of the financial system, as ordinarily required by Articles 3(3) and 3(4) of Regulation (EU) 472/2013;

3) the Commission will not carry out on-site missions to the beneficiary countries in addition to the standard ones carried out within the framework of the European Semester;

4) since the only conditionality concerns the use of funds to cover direct and indirect healthcare costs, Article 7 of Regulation (EU) 473/2013, which concerns macroeconomic adjustment programmes, does not apply in the case of the PSC;

5) the Commission sees no scope for the application of Article 3(7) of Regulation (EU) 473/2013, which concerns the recommendation to the Member State to adopt corrective measures or to prepare a macroeconomic adjustment programme, on the basis of the review missions within the enhanced surveillance mechanism;[246]

6) the enhanced surveillance exercised by the Commission will end when the resources are drawn and spent, and after the Commission has reported to the Council on the use of the funds;

7) the monitoring provided for under Article 14 (post-programme surveillance) of Regulation (EU) 473/2013 will take place thereafter, which in the case of the PCS will take place with streamlined bi-annual reports and review missions embedded in the regular European Semester surveillance cycle;[247]

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[245] See https://www.consilium.europa.eu/media/43823/letter-to-peg.pdf.

[246] See Art. 3(7) of Regulation (EU) 472/2013: "Where the Commission concludes that, on the basis of the review missions provided for in paragraph 5, further measures are needed and the financial and economic situation of the Member State concerned has significant adverse effects on the financial stability of the euro area or of its Member States, the Council, acting by a qualified majority on a proposal from the Commission, may recommend to the Member State concerned to adopt precautionary corrective measures or to prepare a draft macroeconomic adjustment programme."

[247] Under the provisions of the regulation, post-programme surveillance lasts until at least 75 per cent of the assistance received has been repaid.

8) the Commission sees no scope for the application of Article 14, paragraphs 2 and 4, of Regulation (EU) 473/2013, which concern, respectively, additional reporting on the financial system, and the necessity to adopt corrective measures within the post-programme surveillance.

On May 15, 2020, the Board of Governors definitively approved Pandemic Crisis Support, with a unanimous vote, as required under the ESM Treaty. The credit line is available to all euro-area countries, since the preliminary assessment conducted by the Commission - as required under the ESM Treaty – regarding financial stability risks, debt sustainability, bank solvency and eligibility criteria confirmed that all ESM Members are eligible for support.[248] As with the existing ECCL, Pandemic Crisis Support will also be available for 12 months, which could be extended twice for six months each. Requests for pandemic support can be made to the MES until 31 December 2022.

Within the period over which the PCS credit line is available, the Member States can draw on the financial resources, which will be disbursed in monthly instalments of 15 per cent of the total granted. However, once the support has been granted, the Member States are not necessarily required to actually draw the resources, since the funds can be considered as a form of insurance in case of need.

If the resources are disbursed, the maximum maturity of the loan is 10 years. The financial terms of PCS loans are as follows:[249]

- an up-front service fee of 0.25 per cent of the loan amount (0.5 per cent for the ECCL);
- an annual margin to be paid to the ESM of 0.10 per cent (0.35 per cent for the ECCL);
- an annual service fee of 0.005 per cent (no reduction compared with standard conditions).

On the basis of these terms and the cost of EMS funding, assuming a 7-year PCS loan, the total annual interest rate, including the annualised one-off up-front fee, would be -0.07 per cent, while in the case of a 10-year loan, the total annual rate would be 0.08 per cent, according to a statement of the Chief Financial Officer of the ESM at the end of May.[250]

In order to assess the financial attractiveness of this credit line for Italy, we assume full use of the available credit of €36 billion for a maximum maturity of 10 years. The first aspect to consider concerns the cost of accessing the PCS compared with the cost of raising funds on the market. Given the secondary market rate for ESM securities with a 10-year maturity of around -0.05 per cent (average price for the March-May quarter) and loan fees of 0.13 per cent, the total annual rate on the PCS loan would be around 0.08 per cent. This cost compares with the interest rate on

[248] See https://ec.europa.eu/info/sites/info/files/economy-finance/20-05-04_pre_eligibility.pdf.
[249] See https://www.esm.europa.eu/blog/out-box-new-esm-new-crisis.
[250] See https://www.esm.europa.eu/blog/out-box-new-esm-new-crisis.

10-year government securities, which has been around 1.4 per cent in recent weeks. Fully drawing PCS credit line as an alternative to the issuance of government securities of the same amount and maturity could reduce annual interest expenditure by €480 million, for a total of approximately €4.8 billion over the entire period. Considering the loss of revenue associated with the taxation of interest on government securities, the total cumulative savings would decline to about €4.4 billion.[251]

One issue noted by some observers is the relationship between Pandemic Crisis Support and the ECB's Outright Monetary Transactions (OMTs) described earlier. Based on the ECB decision of 6 September 2012 on OMTs, the granting of a loan or an ECCL credit line to a country by the ESM, which involves the participation of the latter in the primary market, would enable the ECB itself to intervene in the secondary market.[252] However, this is a necessary but not a sufficient condition. The decision of the ECB emphasises that the intervention of the ECB is possible: a) if it is judged by the Governing Council of the ECB, in its full discretion, to be warranted from the perspective of monetary policy transmission; and (b) as long as the conditionality of the programme accessed by the Member State is fully respected. Furthermore, on the basis of this decision, the involvement of the IMF in designing conditionality and monitoring compliance is deemed necessary.

In this regard, it should be remembered that Pandemic Crisis Support does not impose economic-financial conditionality, with the only condition being that the amounts lent are to be used exclusively to pay direct or indirect costs associated with the health crisis. It would therefore seem necessary to clarify whether compliance with this type of conditionality is sufficient for the activation of OMTs.

With regard to the possibility that the grant of PCS permits the activation of OMTs, the President of the ECB recently stated that OMT was conceived at a given historical moment and intended for particular country cases and particular circumstances where, because of national policy misguidance, there was a potential risk for euro area. The current situation is different: all countries have been impacted by a symmetrical shock. The President recalled that activation of OMTs requires that the Governing Council of the ECB deem them indispensable for the transmission of monetary policy. She then concluded that, in the current situation of symmetrical shock, the ECB's best tool for the transmission of monetary policy in the euro area is the PEPP, although OMT operations remain in the ECB's toolbox.[253]

[251] Interest income on government securities is taxed at 12.5 per cent. It is assumed that 65 per cent of securities are acquired by domestic investors (the proportion observed for the stock of securities at the end of December 2019).
[252] See https://www.ecb.europa.eu/press/pr/date/2012/html/pr120906_1.en.html.
[253] See
https://www.ecb.europa.eu/press/pressconf/2020/html/ecb.is200430~ab3058e07f.en.html.

4.2.3 *European instrument for temporary support to mitigate unemployment risks in an emergency (SURE)*

Among the instruments to deal with the economic emergency, last April the Commission proposed the establishment of the SURE (Support to mitigate Unemployment Risks in an Emergency), a fund to grant loans of up to €100 billion to EU Member States. The regulation establishing the SURE instrument (Regulation (EU) 672/2020) was approved on 19 May 2020.[254]

The objective is to complement the national resources of the Member States, supporting national instruments providing temporary income support for payroll employees and the self-employed, with the aim of reducing unemployment and the loss of income deriving from the pandemic. The prerequisite for requesting funds from the Commission is an actual or expected increase in public expenditure after 1 February 2020 due to the adoption of national measures directly related to worker income support programmes or similar measures to counter with the economic and social effects of the COVID-19 epidemic connected with the suspension or reduction of work. The instrument is *ad hoc* and temporary, therefore linked specifically and exclusively to this pandemic emergency. The instrument will be available until 31 December 2022, with possible extensions of six months each, which can be implemented by the Council of the European Union if the Commission determines that the adverse economic impact of the epidemic is persisting.

The regulation authorises the Commission to borrow on the financial markets. As happened, for example, in the case of the European Financial Stabilisation Mechanism (EFSM) established in 2010, the Commission will issue bonds on the financial markets to raise the necessary funds, which will then be transferred to the Member States in the form of loans, disbursed in instalments, at favourable rates given the high credit standing of the Union. The European Union cannot borrow to finance its budget, but the Commission, acting on behalf of the Union, can be authorised by the Council to borrow on the markets to support specific programmes and provide financial assistance to countries in economic and financial difficulty. [255]

In order to ensure a high rating for the securities issued by the Commission and to preserve the resources of the Union budget, the regulation requires Member States to provide irrevocable, unconditional and on-demand guarantees to the European Union, which shall be called pro rata to the respective shares of each Member States in the 27 member Union's (EU 27) gross national income (GNI),[256] as resulting from the Union budget for the 2020 financial year. The total guarantees must cover at least 25 per cent of the €100 billion ceiling. Considering that Italian GNI is equal to 12.7 per cent of that of the EU 27 (i.e. €1,830 billion out of about €14,400),[257] Italy should provide guarantees of about €3.18 billion out of the €25 billion needed, assuming that the fund is equal to the

[254] See https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:32020R0672&from=IT.
[255] Article 122 of the TFEU, paragraphs 1 and 2.
[256] Under the terms of the agreement for the exit of the United Kingdom from the European Union, the regulation establishing the SURE instrument does not apply to that country.
[257] See Official Journal of the European Union (2020), "*Definitive adoption (EU, EURATOM) 2020/227 of the European Union's general budget for the financial year 2020*", OJ L 57, 27.02.2020, page. 17. https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=OJ:L:2020:057:FULL&from=EN.

authorised maximum. Note that the SURE instrument will only become available after all Member States have contributed the required guarantees.

With Article 36 of Decree Law 34/2020, the MEF was authorised to enter into an agreement with the European Commission concerning the methods of payment of the guarantee.

In order to manage the loan portfolio prudently, limiting the concentration risk of exposures to individual Member States and the overall annual exposure, the regulation establishes that the share of loans granted to the three Member States representing the largest share of the loans granted shall not exceed 60 per cent of the maximum amount.

Financial assistance shall be made available by means of a Council implementing decision adopted on the basis of a proposal from the Commission in response to the request for assistance from a Member State. The Council's implementing decision contains: a) the amount of the loan, b) its maximum average maturity, c) its pricing formula, d) its maximum number of instalments and e) its availability period.

4.2.4 European Investment Bank instruments for investments to counter the economic impact of COVID-19

A number of measures have been introduced at the European level through the EIB Group, especially to counter the impact of Covid-19 on small and medium-sized enterprises.

The EIB Group is composed of the European Investment Bank (EIB) and the European Investment Fund (EIF). The EIB is the EU's long-term lending institution and its shareholders are the Member States. Thanks to its AAA credit rating, the EIB is able to raise funds on the capital markets at relatively favourable interest rates and therefore to make funds available for medium and long-term investments on advantageous terms. The EIF is the EU's specialised equity and debt capital finance arm and provides financing and guarantees for SMEs. In particular, the EIB provides three main types of products and services: 1) loans (about 90 per cent of its financial commitments) to customers (public and private) of all sizes to support growth and employment; 2) "blending", i.e. products that combine EIB loans with additional instruments, such as EU guarantees; and 3) advice and technical assistance. EIF products include: 1) venture capital and microfinance for SMEs; 2) guarantees for financial institutions, to cover loans granted to SMEs; and 3) aid to EU Member States and those acceding to the EU to develop their own equity capital markets.

The rapid lending support plan for SMEs and mid-caps

On 16 March, the EIB Group proposed a plan to rapidly mobilise up to €40 billion of loans, with the support of guarantees from the EIB itself and the EU budget, aimed at bridging loans, to suspend credit repayments mortgage payments and other measures to ease the working capital restrictions faced by SMEs and mid-caps following the COVID-19 epidemic.[258]

The financial package proposed on March 16 consists of:

- guarantee schemes for banks based on existing programmes, which will allow up to €20 billion in loans (so far a guarantee tranche of €1 billion has mobilised up to €8 billion in loans to SMEs);

- liquidity lines to financial intermediaries to provide additional working capital support to SMEs and mid-caps in the amount of €10 billion;

- asset-backed securities purchase programmes to allow banks to transfer the risk on loan portfolios, mobilising additional support of €10 billion.

As part of this programme, on 6 April the EIF approved the first measure offering guarantees to contain the impact caused by the pandemic, enabling it to activate additional financing to SMEs and mid-caps.

The European Commission unlocked €1 billion from the European Fund for Strategic Investments (EFSI), which will serve as guarantees for the EIF, which will in turn be able to provide guarantees of €2.2 billion to incentivise banks and other intermediaries to provide €8 billion in loans to SMEs and mid-caps.

The key features of these guarantees are: 1) simplified and rapid access; 2) higher risk cover, up to 80 per cent of potential losses on individual loans (as opposed to the standard 50 per cent maximum cover offered by the EIB Group); 3) a focus on working capital loans across the EU; and 4) more flexible terms, including postponements, rescheduling or payment holidays.[259]

In particular, loans from financial intermediaries for COVID-19 measures under the COSME LGF[260] programme will receive 80 per cent cover, while those under the InnovFin SMEG programme[261] will be provided 50 to 80 per cent cover at the option of the intermediary, with interest rates differentiated on the basis of the percentage guarantee. Both programmes can be combined with or complementary to national guarantee schemes. However, financial intermediaries will need to maintain a risk exposure of at least 10 per cent of loans for COVID-19 measures. The two COSME-LGF and InnovFin SMEG programmes, which have been active for some time now, have therefore been

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[258] See https://www.eib.org/en/press/all/2020-086-eib-group-will-rapidly-mobilise-eur-40-billion-to-fight-crisis-caused-by-covid-19.

[259] See https://www.eif.org/what_we_do/guarantees/news/2020/commission-eib-group-unlock-8-billions-small-medium-businesses.htm.

[260] See https://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/cosme-loan-facility-growth/index.htm.

[261] See https://www.eif.org/what_we_do/guarantees/single_eu_debt_instrument/innovfin-guarantee-facility/index.htm.

modified in response to the COVID-19 emergency. Financial intermediaries who already had access to these programmes through agreements with the EIF, can simply execute an amendment to their agreements without having to submit a new application to access the new funds for the COVID-19 emergency.

For Italy, at the moment CDP and the Banca di Credito Cooperativo potentially have access to COVID-19 funds through the COSME LGF programme, while Banca Piccolo Credito Valtellinese and Mediocredito Trentino-Alto Adige have access to COVID-19 funds through the InnovFin SMEG programme.[262] However, there is no indication that specific transactions have been finalised between these institutions and the EIF so far.

The new guarantee fund to support lending

On 3 April, the Extraordinary Board of Directors discussed a proposal by the EIB Group to establish a guarantee fund of €25 billion capable of supporting up to €200 billion for the European economy. Deploying funds through the EIB Group would allow every Member State to benefit from the EIB's AAA rating. The Guarantee Fund would complement and enhance national packages.[263]

Following the decision of the Eurogroup of 9 April to adopt the EIB's proposal, on 16 April the Bank's Extraordinary Board of Directors approved the creation of a pan-European COVID-19 guarantee fund. The guarantee fund envisages a contribution from all 27 EU Member States and will also be open to contributions by third parties, for example from the EU budget. The guarantee fund will be established under the EIB's structure of Partnership Platform for Funds (PPF) and will be formally established as soon as Member States accounting for at least 60 per cent of EIB capital have made the necessary commitments.[264]

Subsequently, on 26 May the Board of Directors of the EIB reached an agreement on the operation of the new guarantee fund, which had been endorsed by the European Council on 23 April and invited all Member States to contribute to the fund in proportion to their share in the EIB. At present, Member States are signing agreements with the EIB with a commitment to provide the guarantees. The Fund has therefore not yet begun to issue guarantees.

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[262] See https://europa.eu/youreurope/business/finance-funding/getting-funding/access-finance/search/en/financial-intermediaries?shs_term_node_tid_depth=1051&field_company_category_tid_i18n=All&field_amount_of_finance_range_value_i18n=All&field_investment_focus_tid_i18n%5B%5D=2396&combine=.

[263] See https://www.eib.org/en/press/all/2020-094-eib-group-moves-to-scale-up-economic-response-to-covid-19-crisis.htm?lang=it.

[264] See https://www.eib.org/en/press/all/2020-100-eib-group-establishes-eur-25-billion-guarantee-fund-to-deploy-new-investments-in-response-to-covid-19-crisis.

The guarantee fund will be operated by the EIB and the EIF. It will support EU companies with liquidity shortages, in collaboration with local financial intermediaries and national promotional institutions, such as CDP in Italy, which are in close contact with local enterprises. In fact, on 21 April the EIB discussed the responses to the economic consequences of the COVID-19 crisis with the French (CDC-BPI), German (KfW), Italian (CDP), Spanish (ICO) and Polish (BGK) promotional banks.[265] Following the discussion, the EIB and the promotional banks undertook to further develop cooperation, focusing on synergies between the different institutions and exploring possible joint initiatives as well as the need for new instruments to complement existing mechanisms.

The EIB Group intends to use a wide variety of products to meet market and crisis response needs, including:

- guarantees for commercial banks and national promotional institutions;
- guarantees for national guarantee schemes;
- counter-guarantees for national promotional institutions;
- support for SMEs and mid-caps financed by venture capital funds;
- purchases of asset-backed securities held by banks, in order to enable them to provide new loans to SMEs;
- venture debt to high-growth enterprises, including companies in the pharmaceutical sector.

By guaranteeing part of the portfolios held by financial intermediaries, EIB guarantee fund operations are expected to free up capital to enable an increase of €200 billion in lending to SMEs and mid-caps, as estimated by the EIB on the basis of similar programmes already in use for some time (COSME).

Member States' contributions to the fund will be made in the form of irrevocable, unconditional, first demand guarantees to the EIB and the EIF, which will cover the losses incurred pro rata to their respective contributions and they may include an upfront payment.[266]

The loans will be disbursed until 31 December 2021 to the following beneficiaries:

- at least 65 per cent to small and medium-sized enterprises;

- a maximum of 23 per cent for companies with at least 250 employees, with restrictions for companies with more than 3,000 employees;

[265] See https://www.eib.org/en/press/news/eib-and-five-national-promotional-institutions-to-cooperate-in-the-fight-against-covid-19.htm.
[266] See https://www.eib.org/en/press/all/2020-126-eib-board-approves-eur-25-billion-pan-european-guarantee-fund-to-respond-to-covid-19-crisis.

- a maximum of 5 per cent to public sector companies and entities active in the health or health-research sector, or providing essential services related to the health crisis;

- a maximum of 7 per cent can be allocated to venture and growth capital and venture debt.

The products will consist of risk-sharing instruments, including counter-guarantees for national promotional banks (75 per cent) and equity-type instruments (up to 25 per cent). The funding will be granted through financial intermediaries, commercial banks or national promotional institutions to SMEs in the Member States that are high-risk but viable in the long term and, in the absence of the COVID-19 pandemic, would meet the requirements for obtaining credit from any commercial financial intermediary. Once the funds are available, businesses will be able to apply to participating banks and intermediaries.[267]

Article 36 of Decree Law 34/2020 authorises the MEF to enter into the necessary agreements with the EIB to enable Italian participation in the guarantee fund and therefore to grant an unconditional and first demand State guarantee to the EIB. To this end, a fund with an appropriation of €1 billion for 2020 has been established for the EIB fund, as well as for the SURE instrument (see section 4.2.3), specifying that additional resources may be allocated in the future to support the State guarantees or to repay liquidity lines granted by the EIB.[268]

The EIB Group agreement with CDP

On 4 June, the EIB signed an agreement with Cassa Depositi e Prestiti (CDP) to make €1.5 billion available for Italian banks to tackle the emergency caused by COVID-19, at favourable interest rates and with long maturities. This will lead to an agreement between CDP and the Italian Banking Association (ABI) enabling financial intermediaries to use the EIB funds to grant loans to SMEs and mid-caps through the “Business Platform”, also in combination with other CDP resources.

The beneficiaries of these loans will be SMEs (companies with up to 250 employees) and mid-caps (up to 3,000 employees) operating in all productive sectors, as well as business networks, associations of businesses and businesses organisations. The projects can concern both working capital and multiannual investments and the loans can have maturities of up to 10 years. By channelling the loans also through smaller banks, the

[267] See https://www.eib.org/en/about/initiatives/covid-19-response/index.htm.
[268] See https://www.gazzettaufficiale.it/eli/id/2020/05/19/20G00052/sg.

operation will extend the financial benefits far and wide, reaching about 6,000 Italian businesses, with average support of €250,000 per project.[269]

The instruments proposed by the European Commission in collaboration with the EIB

Among the instruments proposed by the European Commission in the Next Generation EU recovery plan (see section 4.2.5), two will be implemented in collaboration with the EIB: the public sector loan facility and the solvency support instrument.

On 28 May, the Commission proposed to establish a new public sector loan facility, representing the third pillar of the Just Transition Mechanism. It will receive €1.5 billion from the EU budget and €10 billion in loans from the EIB, with the aim of mobilising up to €25-30 billion of public investment in sectors such as energy and transport infrastructure, district heating networks, public transport, energy efficiency measures, social infrastructure and other projects in the affected regions to reduce the costs of the energy transition.[270]

All investments must be made on the basis of territorial just transition plans, consistent with national energy and climate plans and with the transition to a climate-neutral economy, for the benefit of the regions most affected by the transition. Eligible projects will be public sector investments that directly benefit the territories identified in the territorial just transition plans, that receive an EIB loan under the facility and that do not generate sufficient market revenue streams.

The facility will take effect after the signing of an administrative agreement between the Commission and the EIB and will be available in Member States until December 2024. The Commission is providing technical support for the development of the territorial just transition plans to the 18 Member States that requested it.[271]

On 29 May, the Commission also proposed a new solvency support instrument of €31 billion in guarantees, of which €5 billion for 2020, which will serve to keep companies in business and protect jobs, mobilising private capital to provide rapid support to solvent European companies.

The instrument will be part of the European Fund for Strategic Investments (EFSI). It will be temporary and will focus solely on addressing the impact of the pandemic, mobilising private investment for companies currently struggling but which were not in difficulty at the end of 2019, providing partial guarantees against losses. Support will be targeted at companies that need it most in the most affected sectors, especially in Member States

[269] See https://www.eib.org/en/press/all/2020-136-covid-19-crisis-eib-and-cdp-provide-eur15-billion-for-smes-mid-caps-and-business-networks.
[270] See https://www.eib.org/en/press/all/2020-130-commission-proposes-a-public-loan-facility-to-support-green-investments-together-with-the-eib.
[271] See https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_931.

with less capacity to intervene through State aid and where the adverse economic effects have been most pronounced. This will serve to ensure a level playing field for Member States where national solvency support is more limited.

The EU budget will thus provide a guarantee to the EIB of €75 billion euros, to generate investments to support the solvency of companies of €300 billion, but the Commission estimates that the needs of companies could be between €720 billion and €1,200 billion for 2020 alone.

The instrument will work through an EU guarantee to the EIB under the EFSI to mobilise private capital. The EIB will use the guarantee to provide loans directly or through financial intermediaries, or to invest in, finance or guarantee venture capital, vehicle companies, investment platforms or national promotional banks.

Investments can be approved until the end of 2024 and the operations can be signed until the end of 2026, however 60 per cent of the financing and investment operations must have been approved by the end of 2022. In order to ensure fast operationalisation, the EIB or EIF may propose to grant support to their operations under the Solvency Support Instrument between the adoption by the Commission of this legislative proposal and the signature of the amended guarantee agreement between the Commission and the EIB.[272]

4.2.5 Next Generation EU

On 27 May 2020 the European Commission presented a "Recovery plan for Europe",[273] consisting of a recovery programme, integrated into a reinforced EU budget, to address the repercussions of the COVID-19 pandemic.

The European Council of 23 April 2020 tasked the European Commission with presenting a proposal for the establishment of a Recovery Fund, also clarifying the link with the Multiannual Financial Framework (MFF), i.e. the EU budget. The European Council also indicated that the Fund should be of sufficient magnitude and targeted towards the sectors and geographical parts of Europe most affected by the COVID-19 crisis.[274]

In the Communication "Europe's moment: repair and prepare for the next generation",[275] the European Commission argues that the EU must repair the damage caused by the crisis and prepare a better future for the next generation. Although the virus has affected all Member States, both its impact on Member States and the potential for recovery once the emergency is over is asymmetrical: countries that are most dependent on certain

[272] See https://ec.europa.eu/commission/presscorner/detail/en/qanda_20_946.
[273] See https://ec.europa.eu/info/live-work-travel-eu/health/coronavirus-response/recovery-plan-europe_en.
[274] See https://www.consilium.europa.eu/en/press/press-releases/2020/04/23/conclusions-by-president-charles-michel-following-the-video-conference-with-members-of-the-european-council-on-23-april-2020/.
[275] See https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-456-F1-EN-MAIN-PART-1.PDF.

consumer services and exports or have a high number of SMEs will be hit harder than others. Furthermore, not all countries have the same fiscal space to introduce counter-measures. This creates the risk of an imbalanced recovery, an uneven playing field and widening disparities. All this makes it necessary to respond to the impact of the virus not only at the national level but also at the EU level.

The Commission expects a contraction of EU GDP of more than 7 per cent in 2020, which could reach as much as 16 per cent in the worst-case scenario of a second wave in the autumn and extended lockdown measures. The recovery in 2021 is expected to be partial, with the impact felt acutely by people and businesses. The companies most affected will be those that offer services in direct contact with customers or rely on crowded workplaces and customer areas. For example, tourism, the social economy and cultural sectors could see a drop of more than 70 per cent in turnover in the second quarter of 2020.

Furthermore, in the Communication "The EU budget powering the recovery plan for Europe",[276] the European Commission argues that delivering the recovery plan will require massive public and private investment to close the current gap, which is estimated by the Commission at least €1,500 billion in 2020-2021 (see Appendix 3). The Commission therefore proposes to harness the potential of the EU budget to mobilise these investments, basing the proposal on two cornerstones:

1) the Next Generation EU programme, the new European recovery instrument, which would be used to increase the budget on a temporary basis by €750 billion at constant 2018 prices (at current prices the increase would be €809 billion), with new financing raised on the financial markets and channelled to Member States through EU programmes to support urgent measures to revive the economy and foster sustainable growth;[277]

2) a reinforced multiannual financial framework (MFF, the EU budget) for 2021-2027, with appropriations for expenditure commitments of €1,100 billion at constant 2018 prices over the 7 years of the planning horizon. The initiative envisages the creation of new tools and the strengthening of key programmes.[278] A number of amendments to the existing 2014-2020 MFF were also proposed to make €11.5 billion of additional funding available for 2020.[279]

[276] See https://eur-lex.europa.eu/resource.html?uri=cellar:4524c01c-a0e6-11ea-9d2d-01aa75ed71a1.0003.02/DOC_1&format=PDF.

[277] European Commission (2020), "*COMMUNICATION FROM THE COMMISSION.* The EU budget powering the recovery plan for Europe", COM(2020) 442 final, https://eur-lex.europa.eu/resource.html?uri=cellar:4524c01c-a0e6-11ea-9d2d-01aa75ed71a1.0003.02/DOC_1&format=PDF.

[278] European Commission (2020), "*Amended proposal for a COUNCIL REGULATION laying down the multiannual financial framework for the years 2021 to 2027*", COM(2020) 443 final, https://eur-lex.europa.eu/resource.html?uri=cellar:5948a946-a0cf-11ea-9d2d-01aa75ed71a1.0001.02/DOC_1&format=PDF.

[279] European Commission (2020), "*Proposal for a COUNCIL REGULATION amending Council Regulation (EU, EURATOM) No 1311/2013 laying down the multiannual financial framework for the years 2014-2020*", COM(2020) 446 final, https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-446-F1-EN-MAIN-PART-1.PDF.

These measures, which total €1,850 billion from 2021 supplement the three instruments described earlier (Pandemic Crisis Support of the ESM, SURE, and EIB guarantee), approved on 23 April 2020 by the European Council, which amount to a further €540 billion. As a result, the measures taken to sustain the EU's recovery would total €1,290 billion excluding the 2021-2027 MFF, while the overall package, including the 2021-2027 MFF, would amount to €2,390 billion.

Public investment for recovery must be carried out on the basis of the priorities identified in the European Semester, the National Energy and Climate Plans (NECPs), the Just Transition Plans and, in general, on the basis of the Green Deal, i.e. the EU's sustainable development strategy.

These investments should make the Green Deal an engine for job creation. According to Commission estimates, achieving the 2030 climate and energy goals could have an impact of 1 per cent of GDP and create nearly 1 million new jobs in the EU, while the circular economy goals are expected to create at least 700,000 new jobs by 2030.

Overview of Next Generation EU and allocation of funds raised

According to the Commission's proposal, Next Generation EU will be a one-off emergency instrument, activated for a limited period exclusively for the purpose of responding to the crisis and for recovery. The funds will be disbursed to the Member States until 31 December 2024 and will be raised on the financial markets taking advantage of the Commission's high credit rating, thus enabling the Member States to not pay additional contributions in 2021-2027.

Based on the draft EU regulation,[280] the programme provides for the creation of new instruments and the reinforcement of existing mechanisms. Of the total funds of €750 billion,[281] €500 billion will take the form of grants (transfers of €433.2 billion and public guarantees of €66.8), channelled through new EU programmes or reinforced existing initiatives, also accelerating the green and digital transition, and €250 billion in the form of loans granted on almost the same conditions as the original issue.

The Next Generation EU programme will channel funds through instruments divided into the following three pillars (Table 4.1):[282]

1. Supporting Member States to recover from the crisis:

    a. a new Recovery and Resilience Facility of €560 billion, of which €310 billion in grants and €250 billion in loans, intended to support investments and reforms,

[280] European Commission (2020), "*Proposal for a COUNCIL REGULATION* establishing a European Union Recovery Instrument to support the recovery in the aftermath of the COVID-19 pandemic", COM(2020) 441 final, https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52020PC0441R(01)&from=EN.
[281] The maximum values of the MFF, on which the European Commission's proposals are based, are expressed in constant 2018 prices.
[282] See https://eur-lex.europa.eu/resource.html?uri=cellar:4524c01c-a0e6-11ea-9d2d-01aa75ed71a1.0003.02/DOC_2&format=PDF.

including in the green and digital transition, to promote sustainable growth. Member States will have to submit recovery and resilience plans based on the priorities identified in the context of the European Semester, in line with EU strategies and national energy and climate plans. It will be offered to all Member States, but in particular to those most affected, with the technical assistance of the Commission, to ensure the most effective use of the funds;

b. the REACT-EU initiative of €55 billion, of which €50 billion in 2021 and 2022 and €5 billion brought forward to 2020 with an amendment of the 2014-2020 MFF, to increase cohesion support for Member States and close the gap between the initial crisis response measures and long-term recovery. The funds advanced to 2020 are based on a change in the rules on EU co-financing, in order to enable funding entirely from the EU budget. Funds for 2021 and 2022 will be allocated in accordance with the severity of the economic and social crisis, measured by the level of youth unemployment and the relative income of each Member State. The funds will be used to support workers, through wage supplementation schemes and youth employment measures,

Table 4.1 – Appropriations of the 2021-2027 MFF and Next Generation EU
(billions of euros, 2018 prices)

	MFF 2021-2027 (May 2020)	Of which under Next Generation EU
TOTAL MFF	**1,850.0**	**750.0**
1. Single Market, Innovation and Digital Agenda	**210.5**	**69.8**
Horizon Europe	94.4	13.5
InvestEU fund, of which:	31.6	30.3
Investing in the EU economic recovery	*15.3*	*15.3*
Strategic Investment Facility (new window)	*15.0*	*15.0*
EU Solvency Instrument under EFSI	26.0	26.0
2. Cohesion and Values	**984.5**	**610.0**
Cohesion Policy	373.2	50.0
Recovery and Resilience Facility (incl. Technical Support), of which:	560.8	560.0
Loans	*250.0*	*250.0*
Grants	*310.0*	*310.0*
3. Natural Resources and Environment	**402.0**	**45.0**
Common Agricultural Policy, of which:	348.3	15.0
Pillar II (Rural Development)	*90.0*	*15.0*
Just Transition Fund	40.0	30.0
4. Migration and Border Management	**31.1**	
5. Resilience, Security and Defence	**29.1**	**9.7**
Union Civil Protection Mechanism (rescEU)	3.1	2.0
Health programme	9.4	7.7
6. Neighbourhood and the World	**118.2**	**15.5**
Neighbourhood, Development and International Cooperation	86.0	10.5
Humanitarian Aid	14.8	5.0
7. European Public Administration	**74.6**	

Source: European Commission (2020), "*COMMUNICATION FROM THE COMMISSION.* The EU budget powering the recovery plan for Europe", COM(2020) 442 final.

SMEs, through liquidity support for working capital, and healthcare systems. The resources will also be available to assist all sectors, from tourism to culture, in making a green and digital recovery;

c. a modification of the Just Transition Fund, increasing it by €30 billion to €40 billion, to support the transition to climate neutrality, through the reskilling of workers and helping SMEs to invest in the transition and in the circular economy. The Commission also proposed a new public sector loan facility, which represents the third pillar of the Just Transition Mechanism, funded with €1.5 billion from the EU budget and €10 billion in loans from the European Investment Bank (EIB);

d. a modification of the European Agricultural Fund for Rural Development (ERDF), increasing it by €15 billion to support farmers and rural areas in making the structural changes necessary to implement the European Green Deal, supporting the achievement of the targets in the new biodiversity and Farm to Fork strategies.

2. Kick-starting the economy and helping private investment to get moving again, with:

   a. a new Solvency Support Instrument of €31 billion in guarantees, of which €5 billion advanced to 2020 through an amendment to the 2014-2020 MFF, which will serve to keep companies in business and protect jobs, mobilising private capital to provide rapid support to solvent European companies. The instrument will be part of the European Fund for Strategic Investments. It will be temporary and will focus solely on addressing the impact of the pandemic, thereby helping to stem a rapid increase in insolvencies. It will mobilise private investment for companies currently struggling, providing partial guarantees against losses. Support will be targeted at companies that need it most in the most affected sectors, especially in Member States with less capacity to intervene through State aid and where the adverse economic effects have been most pronounced. This will serve to ensure a level playing field for Member States where national solvency support is more limited. The EU budget will thus provide a guarantee to the EIB, increased by around €66 billion compared with current programmes to €75 billion, to generate investments of €300 billion in support of the solvency of companies. In addition, the European Investment Fund will be increased by €1.5 billion, financed under the 2014-2020 and 2021-2027 MFFs, to support SMEs;

   b. a modification of the InvestEU programme for investing in EU economic recovery, increasing it by €15.3 billion in guarantees to support businesses during the recovery provided they focus on EU policy priorities, mainly the European Green Deal and digitalisation;

c. the creation of a Strategic Investment Facility under InvestEU, with €15 billion in guarantees to support cross-border investments and help build key European value chains, such as in the healthcare and internet sectors with industrial, low-carbon industry and cybersecurity applications.

3. Learning the lessons of the crisis and addressing Europe's strategic challenges, through:

   a. a reinforced "EU for Health" programme (EU4Health), expanding it by €7.7 billion to €9.4 billion, to help Member States and the Union strengthen their capacity to prevent and respond to future health crises, developing and restoring their capacity for delivering care and supplying equipment and pharmaceuticals. The first strand of the programme will concern health security and crisis preparedness, supporting investments in health infrastructure and a mechanism to develop, procure and manage health crisis-relevant products, especially cross-border. The second strand will support a longer-term vision of improving health outcomes via more efficient health systems, better disease prevention and surveillance and cross-border collaboration in health;

   b. a modification of RescEU, the Union's civil protection mechanism, increasing it by €2 billion to €3.1 billion, to develop a permanent capacity for crisis management and enable the Union to invest in emergency response infrastructure, transport capacity and emergency support teams, developing and acquiring stocks and ensuring the dispatch of essential supplies and equipment at the EU level;

   c. a modification of Horizon Europe, expanding the programme by €13.5 billion to €94.4 billion to increase European support for research and innovation in the health and climate sectors, strengthening support for the competitiveness of EU industry in related sectors and promoting a recovery consistent with the goals of the European Green Deal;

   d. a modification of the Neighbourhood, Development and International Cooperation Instrument, increasing it by €10.5 billion in guarantees to €86 billion;

   e. a modification of the European Fund for Sustainable Development, increasing it by €1 billion already in 2020 through an adjustment of the 2014-2020 MFF, to help partner countries fight and recover from the impact of the pandemic;

   f. a modification of the Humanitarian Aid Instrument, increasing it by €5 billion to €14.8 billion, in support of humanitarian needs in the most vulnerable parts of the world.

To bring forward some resources, the European Commission proposes to adjust the 2014-2020 MFF in order to make €11.5 billion available already in 2020 to help the most affected regions (through REACT-EU with €5 billion), to strengthen the capital of healthy European companies (through the Solvency Support Instrument with €5 billion) and to support non-EU countries (through the European Fund for Sustainable Development with €1.5 billion).[283]

On 24 June, the Commission also announced its annual draft budget for 2021, the first year under the 2021-2027 MFF, in compliance with the requirement to submit the annual draft budget for the next year by 30 June each year.[284] The Commission proposed an ordinary EU budget of €166.7 billion,[285] to be complemented in 2021 by €344 billion of the €809 billion under Next Generation EU, of which €211 billion in grants and €133 billion in loans.[286] Note that the proposal implies that about 43 per cent of the total resources provided by the new temporary instrument would be available next year, in order to promptly address the social and economic damage produced by the pandemic.

The €344 billion for 2021 under Next Generation EU are divided into:[287]

- €131.58 billion in loans and about €132.65 billion in grants under the Recovery and Resilience Facility;
- €5.05 billion for Horizon Europe;
- €9.65 billion for InvestEU, part of which for the Strategic Investment Facility;
- €8.28 billion for the Solvency Support Instrument;
- €42.44 billion for REACT-EU;
- €7.96 billion for the Just Transition Fund;
- €530 million for RescEU;
- €1.17 billion for the new EU4Health health programme;
- €3.29 billion for the Neighbourhood, Development and International Cooperation Instrument;

283 In addition to the three pillars described here, the European Commission has also proposed to reinforce a number of programmes under the 2021-2027 MFF, including the Common Agricultural Policy, the Connecting Europe Facility, the Digital Europe Programme and others.
284 See https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_1185.
285 The values on which the Commission's budget proposal for 2021 are based are expressed in current prices, while the values for the MFF and Next Generation EU are stated at constant 2018 prices.
286 See https://ec.europa.eu/commission/presscorner/detail/it/IP_20_1171.
287 See https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/factsheet_draft_budget_v13.pdf.

- €1.32 billion for humanitarian aid.

The Commission proposal for the 2021 EU budget is now being submitted to the European Parliament and the Council, which, after the usual negotiations, will have 21 days, from 27 October to 16 November, to reach a definitive agreement.

The Recovery and Resilience Facility

The facility represents the most important new feature of the Next Generation EU instrument proposed by the Commission: it would be funded with €310 billion to be disbursed in the form of grants and €250 billion to be distributed in the form of loans.

The objective[288] of the Facility is to promote the economic, social and territorial cohesion of the Union, improving the Member States' resilience and ability to adjust to shocks, mitigating the social and economic impact of the crisis and supporting the green and digital transitions, which seek to achieve a climate-neutral Europe by 2050.

The disbursement of funds is subject to the preparation by the Member States of national recovery and resilience plans that set out the reform and investment agenda for the subsequent four years. These plans should comprise measures for the implementation of reforms and public investment projects through a coherent package, highlighting milestones and final targets for reforms and investments.[289] Investment projects must be completed within 7 years and reforms within 4 years from the adoption of the Commission's decision to grant support to the Member State.

The plans should be consistent with the priorities identified in the European Semester, with the national reform programmes, the national energy and climate plans, the just transition plans, and the partnership agreements and operational programmes adopted under the Union funds. They should include measures aimed at addressing the challenges faced by the Member States regarding their green and digital transitions, thereby fostering a sustainable recovery path. Member States will have to submit recovery and resilience plans to the Commission at the latest by 30 April, in line with the calendar of the European Semester. The plans should constitute an annex to their respective National

[288] European Commission (2020), "*Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a Recovery and Resilience Facility*", COM(2020) 408 final, https://eur-lex.europa.eu/resource.html?uri=cellar:1813ea3d-a0be-11ea-9d2d-01aa75ed71a1.0001.02/DOC_1&format=PDF.

[289] In order to support the administrative capacity of the Member States in designing and implementing reforms, the Commission has proposed the establishment of an standalone Technical Support Instrument available to all Member States as a successor to the Structural Reform Support Programme, which is coming to an end this year. See European Commission (2020), "*Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a Technical Support Instrument"*, COM(2020) 409 final, https://eur-lex.europa.eu/resource.html?uri=cellar:66ecc4d9-a0bc-11ea-9d2d-01aa75ed71a1.0001.02/DOC_1&format=PDF.

Reform Programmes. The Member States may also submit a draft plan in advance, together with the Draft Budgetary Plan (DBP).

The Commission will evaluate the plans submitted on the basis of transparent criteria, namely:

1) whether the plan is expected to effectively address challenges identified in the European Semester;

2) whether it contributes to strengthen the growth potential and economic and social resilience of the Member State, and contribute to enhance economic, social and territorial cohesion;

3) whether the plan contains measures that are relevant for the green and the digital transitions;

4) whether the cost estimate provided by the Member State is reasonable and plausible and is commensurate to the expected impact on the economy.

To that effect, a rating system for the assessment of the proposals is established to evaluate proposals. No financial contribution is awarded to the Member State if the plan does not satisfactorily fulfil the assessment criteria.

Member States will be able to receive a financial contribution in the form of grants. The maximum amount per Member State is established on the basis of an allocation key defined using a formula that takes account of a) population, b) the inverse of GDP per capita and c) the average unemployment rate of each Member State over the last 5 years (2015-2019) compared with the Union average. In order to avoid excessive concentration of resources, the inverse of GDP per capita is capped at 150 per cent of the EU average, the deviation of individual country's unemployment rate from the EU average is capped to 150 per cent of the EU average or, for relatively richer countries (GNI above the EU average), to 75 per cent.[290]

Table 4.2 shows the maximum financial contribution per Member State based on the calculation method defined in the regulation. Italy would have a distribution share of 20.45 per cent and transfers of about €63.4 billion would be available.

The financial envelope for non-repayable support of the facility will be made available in the period until 31 December 2022 for Member States' plans for recovery and resilience. After that period until 31 December 2024, if money is available, the Commission may organise calls in line with the calendar of the European Semester.

[290] European Commission (2020), "*ANNEXES to the Proposal for a REGULATION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL establishing a Recovery and Resilience Facility*", COM(2020) 408 final/3, ANNEXES 1 to 3. https://ec.europa.eu/transparency/regdoc/rep/1/2020/EN/COM-2020-408-F3-EN-ANNEX-1-PART-1.PDF.

Table 4.2 – Recovery and Resilience Facility. Maximum non-repayable support by Member State

	Share	Amount *(millions)*
BE	1.55	4,821
BG	1.98	6,131
CZ	1.51	4,678
DK	0.56	1,723
DE	6.95	21,545
EE	0.32	1,004
IE	0.39	1,209
EL	5.77	17,874
ES	19.88	61,618
FR	10.38	32,167
HR	1.98	6,125
IT	20.45	63,380
CY	0.35	1,082
LV	0.70	2,170
LT	0.89	2,766
LU	0.03	101
HU	1.98	6,136
MT	0.07	226
NL	1.68	5,197
AT	0.95	2,950
PL	8.65	26,808
PT	4.16	12,905
RO	4.36	13,505
SI	0.55	1,693
SK	1.98	6,140
FI	0.71	2,196
SE	1.24	3,849
Total	**100.00**	**310,000**

Source: European Commission (2020), COM(2020) 408 final/3 ANNEXES 1 to 3

In addition to grants, Member States will have the possibility to request a loan, which will aim at financing additional reforms and investments. The loan can be requested and granted until 31 December 2024.

The request for a loan can be made together with the plan, or at a different moment in time accompanied by a revised plan. The amount of the loan will be not higher than the difference between the total cost of the recovery and resilience plan, revised where relevant, and the maximum financial contribution. The maximum volume of the loan for each Member State will not exceed 4.7 per cent of its Gross National Income. An increase of the capped amount will be possible in exceptional circumstances subject to available resources. Upon decision on the loan request, the Commission will conclude a loan agreement with the Member State concerned.

Payments in respect of non-repayable transfers and loans will be made in biannual instalments, subject to achievement of the specified milestones and final targets. The Member State concerned will report on a quarterly basis within the European Semester on the progress made in the achievement of the reform commitments, with such reports being appropriately reflected in the National Reform Programmes. In the event of a negative assessment by the Commission, the payment of all or part of the transfers or loans shall be suspended or cancelled in the extreme case of repeated non-compliance by the Member State.

The Commission's proposals for the 2021-27 MFF and the Own Resources Decision

Under the Treaty on the Functioning of the European Union (TFEU), the European Union has the power to provide itself with the means necessary to attain its objectives and carry through its policies and has a certain degree of discretion in the choice of means, as long as it complies with the budgetary rules provided for in the Treaty.[291] The so-called "Own Resources Decision" is a legal act of the Union, of a quasi-constitutional nature, which determines the amount of the Union's own resources to be used to finance its programmes.[292]

The MFF, on the other hand, is intended to ensure that Union expenditure develops in an orderly manner and within the limits of its own resources and is currently established for 7 years.[293] The Union's annual budget is adopted in compliance with the MFF.[294] The MFF sets the amounts of the annual ceilings on commitment appropriations by category of expenditure. The categories of expenditure correspond to the Union's major sectors of activity. The large majority of the Union's financial means is made up of its own resources: customs duties, national contributions based on VAT and national contributions based on GNI.

Recourse to borrowing is allowed in certain cases, such as those provided for in Article 122 of the TFEU.[295] Under the principle of budgetary discipline (Article 310(4) of the

[291] See Article 311, first and second paragraphs, of the TFEU: The Union shall provide itself with the means necessary to attain its objectives and carry through its policies. Without prejudice to other revenue, the budget shall be financed wholly from own resources.
[292] The Own Resources Decision follows a special legislative procedure set out in Article 311, paragraph 3, of the TFEU, under which the Council shall unanimously and after consulting the European Parliament adopt a decision, and that decision shall not enter into force until it is approved by the Member States in accordance with their respective constitutional requirements.
[293] The Treaty provides for a minimum duration of 5 years (Article 312(1)).
[294] See Article 312(2) TFEU: The Council, acting in accordance with a special legislative procedure, shall adopt a regulation laying down the multiannual financial framework. The Council shall act unanimously after obtaining the consent of the European Parliament, which shall be given by a majority of its component members. The European Council may, unanimously, adopt a decision authorising the Council to act by a qualified majority when adopting the regulation referred to in the first subparagraph.
[295] Financial assistance to Member States in difficulty.

Treaty), recourse to borrowing is allowed on the condition that the Union is able to repay the debt itself and service that debt. To this end, it is necessary that the so-called "own resources ceiling", established with the Own Resources Decision, be set sufficiently high to ensure each year sufficient financial space for the full coverage of all the liabilities of the Union. The ceiling established in the Own Resources Decision therefore determines the maximum amount of own resources that the Union can call from the Member States in a given year to finance its expenditure, including liabilities resulting from the exceptional recourse to borrowing by the Commission on behalf of the Union. The difference between a) the own resources ceiling under the multiannual budget and b) the actual expenditure ceiling (the MFF payments ceiling) plus other revenue (e.g. taxes on EU staff salaries and fines for violations of competition rules) represent the safety margin (headroom) to ensure that the Union is able - in all circumstances - to meet its financial obligations, even in times of recession. The headroom is essential for the Union to maintain a high rating when it borrows on the financial markets.

In May 2018 the Commission had proposed a ceiling for commitments of €1,134 billion, at 2018 prices, for the 2021-2027 MFF, equal to 1.11 per cent of EU Gross National Income (GNI), and a payment ceiling of €1,104 billion, equal to 1.08 per cent of EU GNI.[296] However, the negotiations between the Member States have not yet produced an agreement on the MFF.

Compared with the 2018 proposal, the Commission's current proposal[297] retains the same payment ceiling, while the commitment ceiling decreases from €1,134 billion to €1,100 billion. With the new proposal, the Commission confirms, in principle, the overall system, with particular regard to the current priorities of the Union, namely the dual green and digital transition, a transition to which the available funding is closely linked. The key difference between the 2018 proposal and the current one is the Next Generation EU instrument described earlier.

Precisely with the aim of implementing Next Generation EU, the Commission proposal modifies the ceilings on own resources. In May 2018, the Commission had proposed a commitment ceiling and a ceiling for annual calls for own resources for payments of, respectively, 1.35 per cent and 1.29 per cent of EU GNI.

First, as EU GNI - on which the ceilings are based - is expected to decrease in absolute value due to the crisis, the Commission feels it necessary to increase the own resources

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296 European Commission (2018), "*Proposal for a COUNCIL REGULATION laying down the multiannual financial framework for the years 2021 to 2027*", COM(2018) 322 final, https://eur-lex.europa.eu/resource.html?uri=cellar:f5965d24-4ed6-11e8-be1d-01aa75ed71a1.0002.02/DOC_1&format=PDF.

297 European Commission (2020), *"COMMUNICATION FROM THE COMMISSION - The EU budget powering the recovery plan for Europe*", COM(2020) 442 final, https://eur-lex.europa.eu/resource.html?uri=cellar:4524c01c-a0e6-11ea-9d2d-01aa75ed71a1.0003.02/DOC_1&format=PDF.

ceilings on a permanent basis to 1.46 per cent of EU gross national income for commitments and to 1.40 per cent for payments.[298]

Furthermore, to accommodate the potential liabilities relating to the exceptional and temporary power to borrow in order to finance Next Generation EU, the Commission proposes to exceptionally and temporarily increase the ceilings by 0.6 per cent of EU gross national income, bringing that for commitments to 2.06 per cent and that for payments to 2.0 per cent, until the liabilities linked to Next Generation EU have been covered and by 31 December 2058 at the latest. In addition, the Commission's proposed Own Resources Decision adds the provision that "Where the authorised appropriations entered in the budget are not sufficient for the Union to comply with its obligations resulting from borrowing … the Member States shall make the resources necessary for that purpose available to the Commission".

Thanks to this proposal for the own resources ceilings, in order not to further increase the pressure on Member States' budgets and further increase their public debt, the European Commission will be able to issue up to €750 billion in bonds on behalf of the Union in 2021-2024, with maturities from 3 to 30 years. The increase in the headroom highlighted above is therefore essential to be able to finance Next Generation EU with debt.

All revenue and payment flows based on Next Generation EU, including interest paid, will be shown distinctly in the budget to illustrate their temporary and exceptional character.[299] In fact, the resources deriving from the placement of the securities are defined as "other revenue", i.e. one-off resources intended for particular expenditure items, which permit the reinforcement of the action of the Union. Unlike the Union's "own resources", i.e. the Union's regular and "final" (i.e. not subject to repayment) revenues, this "other revenue" must be repaid.[300]

The funds raised will be repaid between 2028 and 2058, through the future budgets of the Union, using new own resources, greater national contributions, the renewal of loans, or a combination of these options.

In order to facilitate the repayment of the funds and reduce the pressure on national budgets, the Commission proposes to review the system of own resources by the end of the 2021-2027 cycle. The Commission proposes to retain current resources (customs

[298] European Commission (2020), *"Amended proposal for a COUNCIL DECISION on the system of Own Resources of the European Union",* COM(2020) 445 final,
https://ec.europa.eu/info/sites/info/files/about_the_european_commission/eu_budget/com_2020_445_en_act_v8.pdf.
[299] European Commission (2020), *"COMMUNICATION FROM THE COMMISSION - The EU budget powering the recovery plan for Europe*", COM(2020) 442 final,
https://eur-lex.europa.eu/resource.html?uri=cellar:4524c01c-a0e6-11ea-9d2d-01aa75ed71a1.0003.02/DOC_1&format=PDF.
[300] See https://ec.europa.eu/commission/presscorner/detail/en/QANDA_20_1024.

duties, national contributions based on VAT and GNI) and add others to contribute to the Union's priorities (climate change, circular economy and fair taxation).

The European Commission had in fact already proposed own resources in 2018 based on a simplified value-added tax and on non-recycled plastics packaging waste, and intends to propose new own resources in the future, which could include:

- the extension to the maritime and aviation sectors of an Emissions Trading System-based own resource, to generate about €10 billion per year;
- a carbon border adjustment mechanism, to raise between €5 billion and €14 billion a year;
- an own resource based on the operations of enterprises that draw significant benefits from the EU single market, to raise about €10 billion a year;
- a digital tax, building on proposals of the OECD, applied on companies with an annual global turnover above €750 million, to generate up to €1.3 billion a year.

According to the European Commission, These new own resources could help finance the repayment of and the interest on the market finance raised under Next Generation EU. If introduced by 2024, Member States' national contributions to the 2021-2027 multiannual financial framework could decrease as a share of their economy compared with their payments in 2020. Note that the borrowing costs for the grant component of Next Generation EU will be paid by the EU budget. It is estimated that these costs will amount to up to €17.4 billion during the 2021-2027 financial framework.[301]

On its part, the European Parliament passed a resolution last May requesting an immediate and permanent increase in own resources, proposing a common consolidated corporate tax base, a tax on financial transactions, resources deriving from the Emissions Trading System, a plastics contribution and a carbon border adjustment mechanism.

The discussion between the Member States has begun and also concerns rebates (compensatory corrections of the national contribution to the EU budget for certain countries[302]): the European Commission continues to believe that the phasing out of these corrections would make the MFF more balanced, but eliminating them would entail disproportionate increases of contributions for certain Member States in 2021-2027, so they could be phased out over a much longer period of time than previously proposed.

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[301] See https://eur-lex.europa.eu/resource.html?uri=cellar:4524c01c-a0e6-11ea-9d2d-01aa75ed71a1.0002.02/DOC_1&format=PDF.

[302] Following the exit of the United Kingdom from the European Union, rebates are received by Denmark, Germany, the Netherlands and Sweden, whose contributions to the EU budget are reduced by several hundred million euros. Austria received a rebate until 2016. See https://ec.europa.eu/info/strategy/eu-budget/revenue/own-resources/correction-mechanisms_en.

The next steps

The European Commission has invited the Council and the European Parliament to rapidly examine the new proposals for the 2021-27 MFF and Next Generation EU, with a view to reaching a political agreement at the level of the European Council by July 2020. An early decision on the proposal to amend the current financial framework will allow additional funding to be made immediately available for REACT-EU, the Solvency Support Instrument and the European Fund for Sustainable Development. The European Commission will work closely with the European Parliament and the Council to finalise an agreement on the future 2021-2027 MFF by the early autumn, meaning that the MFF could be up and running on 1 January 2021.

On his part, following the meeting of 11 June 2020[303] the President of the Eurogroup Centeno stated that the Eurogroup had been mandated to work on the recovery and that, in discussing investment needs, it will focus on the quality of expenditure and work on the complementarity of national and EU level recovery plans. Finance ministers looked at how they can best coordinate their efforts when putting together their recovery plans. Coordination, in particular within the euro area, is key to avoiding divergence and the build-up of imbalances. According to Centeno, given that the European Semester is at the heart of the Recovery and Resilience Facility, taking into account the euro-area recommendations would be an appropriate way to give a legitimate euro-area angle to the recovery funds.

Finally, after the meeting of the European Council on 19 June 2020, the President of the Commission noted that the Heads of State and Government of the Union unanimously agreed that the severity of this crisis justifies an ambitious common response, one that combines solidarity, investment and reforms.[304] The President acknowledged the issues that remain to be resolved, and which will be the subject of the next discussion of the European Council scheduled for July:

1. the overall size of the Next Generation EU instrument;
2. the balance between loans and grants;
3. the allocation key among the Member States;
4. the size of the MFF, and the issues of own resources and rebates.

4.2.6 Comments on the initiatives of the European institutions

Any comparison of the three main instruments proposed at the European level in response to the crisis, namely Pandemic Crisis Support (PCS) under the ESM, the SURE, and the Recovery and Resilience Facility (RRF), can only be preliminary at this juncture, as

[303] See https://www.consilium.europa.eu/it/press/press-releases/2020/06/11/remarks-by-mario-centeno-following-the-eurogroup-videoconference-of-11-june-2020/.
[304] See https://ec.europa.eu/commission/presscorner/detail/en/STATEMENT_20_1137.

the information available is still incomplete. Only the first instrument (PCS) is available to the Member States, while the second (SURE), although approved, is not yet available, while the third (RRF) has been proposed by the Commission but still needs to be approved by the Member States, and discussions and negotiations over many of its key features are still under way.

As a first general consideration, it is important to recall that the PCS and the SURE grant loans and, therefore, if actually requested, their use would have an impact on net borrowing and they would both be included in the definition of public debt used for the Stability and Growth Pact. The main component of the RRF, on the other hand, consists of grants, which would not impact the balance or the debt (it would represent an entry in the general government accounts offsetting the related expenditure). The RRF also has an additional component of loans whose use would, like the PCS and SURE loans, have an impact on net borrowing and would fall within the definition of public debt used for the Stability and Growth Pact.

The PCS instrument has the advantage of already being operational. Loans under the programme can have a maximum duration of 10 years, and we have a general indication on the annual cost including additional fees, as announced by the Chief Financial Officer of the ESM a few weeks ago (-0.07 for a 7-year loan, +0.08 for a 10-year loan, with the values estimated as at the end of May). The loan is granted in monthly instalments equal to 15 per cent of the total loan. About €36 billion could be granted to Italy, equal to 2 per cent of GDP. If this volume of loans were requested and granted, an initial preliminary estimate suggests that the savings for Italy compared with issuing 10-year BTPs would amount to about €4.4 billion over 10 years (considering interest expenditure and the loss of revenue from the taxation of interest on government securities).

Furthermore, the conditionality on the loans in this case (unlike the other lines of the ESM) is limited to a requirement to actually use the funds to meet the direct and indirect health costs of the pandemic. However, current regulations identify a number of procedures and institutions that would not seem consistent with the absence of conditionality within the PCS. Under Regulation (EU) 472/2013, when a country receives financial assistance from the ESM it is subject to enhanced surveillance both during the loan disbursement period and subsequently (post-programme surveillance) until 75 per cent of the credit has been repaid. As provided for under the regulation, enhanced surveillance means that the Council of the European Union, acting on a proposal of the European Commission with a majority vote, may recommend corrective measures.

Furthermore, as confirmed by the Eurogroup, the ESM will apply its early warning system, provided for under Article 13(6) of the ESM Treaty, to ensure timely repayment of the loan. The early warning system analyses the ability to repay the loan for the next 12 months and assesses whether there is a risk that the repayment obligation may not be honoured. This analytical work requires an assessment of the country's liquidity and its access to markets, and supplements the economic and financial analysis performed by the Commission.[305] The Memorandum of Understanding on the working relations between the Commission and the ESM, in particular in respect of the enhanced surveillance provided for by Regulation (EU) 472/2013, provides for confidential exchanges of information and data between the two parties, joint review missions to beneficiary countries and coordination between the two institutions prior to the publication of their respective reports during post-programme surveillance. In practice, during the six-monthly post-programme surveillance missions of the Commission and the ECB in the borrower countries, ESM officials participate in meetings with local authorities to address issues relating to the early warning system of the ESM.[306]

With regard to the first point, however, the Commission declared in a recent letter from Vice-President Dombrovskis and Commissioner Gentiloni to the President of the Eurogroup Centeno that the enhanced surveillance provided for under Regulation (EU) 472/2013 will apply in a simplified manner to the recipients of PCS support, in light of the symmetrical nature of the pandemic shock and the exceptional and one-off nature of the PCS.[307] In particular, the letter argues that there is no scope for the application of the articles of the regulation concerning the request for corrective measures (Articles 3(7) and 14(4)) in the case of granting PCS. It should be noted that, clearly, an amendment of the regulation in the manner indicated by the letter (as well as a clear decision to exclude the early warning procedures usually provided for under the ESM) would be preferable from the point of view of legal certainty.

On the other hand, the use of the ESM, in addition to having the advantage of low interest rates, would reduce the Treasury's demand for market financing caused by the significant increase in borrowing needs linked to both the decline in revenues and the measures put in place by the Government in responding to the COVID-19 emergency. This would reduce refinancing risk, with a possible favourable impact on government securities yields. The favourable impact could be even greater if the Eurosystem decides to engage in OMTs with countries that access PCS.

In the case of the SURE, the funds loaned must be used to complement the national resources deployed to establish or strengthen temporary income support schemes for workers. Accordingly, the reinforcement of the Italian wage supplementation mechanisms could fall within the measures eligible for support.

However, the regulation that established the instrument, although approved, will only become operational when all countries have contributed the required guarantees, such as to cover 25 per cent of the ceiling, which cannot exceed €100 billion. The terms applied

[305] As noted earlier, surveillance during the disbursement of loans and subsequently (post-programme surveillance) is performed by the Commission and the Council, in collaboration with the ECB, within the framework of the provisions of Articles 121 and 136 of the TFEU.

[306] See, for example, the Commission report, prepared in collaboration with the ECB, on the 10th post-programme surveillance mission in Portugal in June 2019 (https://ec.europa.eu/info/sites/info/files/economy-finance/ip113_en_pps_pt.pdf).

[307] https://www.consilium.europa.eu/media/43823/letter-to-peg.pdf

to the loans (amount, maximum average maturity, pricing formula, maximum number of instalments, and period of availability) are not known and will only be specified in the implementing decision with which the Council of the European Union approves the Commission's proposed loans to individual Member States.

In any case, as for the PCS, the savings on interest expenditure should also be significant for these loans, since the Commission will apply to the beneficiary countries the same terms that it will pay to the subscribers of the debt securities issued on the financial markets to raise the funds. Note that the European Union currently enjoys an elevated credit standing (AAA for Fitch and Moody's, AA for Standard & Poor's), and can therefore borrow on favourable terms. It should also be noted that the earlier comments on the PCS concerning the effect of the lower Treasury demand for financing on the market could also apply to SURE loans.

The resources that could be lent to Italy cannot exceed 20 per cent of the fund, i.e. €20 billion assuming that the fund is established at the maximum level permitted by the regulation (€100 billion). The 20 per cent ceiling can be deduced from the rule in the regulation which, in order to avoid excessive concentration, establishes that the share of loans granted to the three Member States representing the largest share of the loans granted shall not exceed 60 per cent of the maximum amount.

In the case of the RRF, the negotiations between the Member States are still under way. Consequently, the Commission's proposed regulation could undergo significant changes, given the current distance between the negotiating positions regarding, for example, the balance between loans and grants, the allocation key[308] and the conditions to be applied to beneficiaries, as also stated by the President of the European Council Michel and the President of the Commission van der Layen.

As pointed out at the beginning of the note, the advantage of the RRF is the preponderance of grants over loans. Even if – to finance the grants - Italy, like other countries, has to increase its contributions to the EU budget (the amount of which also depends on the decisions that will be taken concerning own resources), the net benefit for Italy should still be positive thanks to the parameters envisaged for the award of grants. Furthermore, the timing of the inflows and outflows also appears favourable, considering the immediate need for financial resources: while grants will be disbursed in 2021-2027, any increase in contributions from Member States would only begin in 2028.

[308] The draft regulation establishes Italy's allocation key for grants at 20.45 per cent. The reference in the formula for determining the allocation key to average unemployment in the last 5 years has been criticised by some observers, who argue that it is not connected with the effects of the pandemic. The reference has been defended by the President of the Commission. See G. Wolff, *"EU priorities and the recovery during Covid19"*, Testimony at the Committee on EU Policies of the Italian Chamber of Deputies, 18 June 2020. https://www.bruegel.org/2020/06/eu-priorities-and-the-recovery-during-covid19/ and L. Codogno, "*Audizione: esame congiunto del Programma di lavoro della Commissione per il 2020 e della Relazione programmatica sulla partecipazione dell'Italia all'Unione europea nell'anno 2020*", 3 June 2020.

It is important in any case to emphasise that the grants and loans under the RRF are not exempt from conditionality, although in a context where the preferences on the policy priorities of the beneficiary country should be taken into consideration by the Commission (referred to as the "ownership" of reforms by beneficiaries). The disbursement of grants is strictly conditional on the preparation of a well-structured, credible national investment and reform plan, in line both with the challenges that the country must face and with the priorities defined by the Union (the dual green and digital transition). However, these priorities must pass the scrutiny of the Commission, which will rate the national plans. No financial contribution is awarded to the Member State if the plan does not satisfactorily fulfil the assessment criteria. Payments in respect of non-repayable transfers and loans will be made in biannual instalments, subject to achievement of the specified milestones and final targets.

Furthermore, it should be assessed whether Article 1(1)(b) of Regulation (EU) 472/2013 applies in the case of the RRF: "This Regulation lays down provisions for strengthening the economic and budgetary surveillance of Member States whose currency is the euro, where those Member States: …. request or receive financial assistance from one or several other Member States or third countries, the European Financial Stabilisation Mechanism (EFSM), the European Stability Mechanism (ESM), the European Financial Stability Facility (EFSF), or another relevant international financial institution such as the International Monetary Fund (IMF)".

Finally, it should be considered that the conditions of any loan requested under the RRF (amount, average maturity, pricing, period of availability, maximum number of instalments and the repayment plan) are not known and will be specified in an agreement between the Commission and the beneficiary Member State. However, it is important to consider the favourable effect of the likely long maturity of the loans granted. Indeed, since the funds raised by the European Union on the financial markets will have to be repaid between 2028 and 2058, it is reasonable to believe that the loans will also have to be repaid by the beneficiaries over a similar time frame.

In conclusion, this initial preliminary analysis finds a series of benefits and costs for each of the instruments deployed by the European institutions. With regard to the *speed with which the programmes can be implemented*, only the PCS is immediately available. For the SURE, it will be necessary to wait for the Member States to make the guarantee available in the coming months, while for the RRF the Member States must reach agreement on its key features, with the hope that it can be fully operational starting from January 2021. In terms of *impact on the public accounts*, the transfers under the RRF should not affect either general government net borrowing or debt, while the use of loans under the PCS, the SURE and the RRF loan component would increase net borrowing and the public debt under the definition used for the Stability and Growth Pact. Any increase in national contributions to the EU budget to repay the debt contracted in 2021-2027 to finance the RRF transfers would only occur starting from 2028. As to the *maximum amount of aid*, the RRF could represent a significant source of funding for Italy's recovery measures in the coming years, while the PCS and, even more so, the SURE appear to be more limited in scope although potentially important to alleviate the need for the

Treasury to raise funds on the markets. As regards *the interest rates charged on the loans*, the three instruments should not involve significant differences and would represent a benefit for Italy considering the high credit standing of the issuers of the securities whose funding would then be transferred to Italy.

Finally, the comparison with regard to *conditionality* appears more differentiated. As far as the SURE is concerned, the conditionality requirements seem relatively light, as the only restriction is on the use of the resources (temporary income support schemes for workers). This constraint also characterises the PCS, since the use of loans is linked to the financing of the direct and indirect costs of the pandemic. With regard to the other ESM instruments, the enhanced surveillance of the Commission will be performed in a simplified manner, as notified by the Commission to the President of the Eurogroup. However, as stated by the Eurogroup itself, the early warning system of the ESM also applies to the PCS, which means assessing a country's ability to repay its debt. In the case of the RRF, although the framework is still being defined, the disbursement of the funds is strictly conditional on the preparation and implementation of reform and investment plans by the beneficiary countries, as assessed and approved by the Commission, that take account not only of the policy preferences of the countries, but also of the priorities determined by the Union. Finally, it should be borne in mind that accessing the instruments available will probably be considered within the ordinary surveillance of the Stability and Growth Pact with regard to macroeconomic and public finance stability.

Appendix 4.1

The European Stability Mechanism

The establishment of a permanent stability mechanism (European Stability Mechanism, ESM) for the euro area was made possible by a specific amendment to Article 136 of the Treaty on the Functioning of the European Union (TFEU), which authorises the establishment of a stability mechanism.[309] The ESM, therefore, despite having the nature of an intergovernmental organisation, nevertheless finds its legal basis in the TFEU.

The ESM flanked and then replaced the transitional financial stabilisation instruments (European Financial Stabilisation Mechanism, EFSM,[310] and European Financial Stability Facility, EFSF[311]). On the basis of its founding treaty, which was signed on 2 February 2012 and entered force in October 2012, following ratification by the euro-area Member States, the ESM is established as an intergovernmental organisation under international public law with headquarters in Luxembourg.

Purpose

The purpose of the ESM shall be to mobilise funding and provide stability support under strict conditionality,[312] appropriate to the financial assistance instrument chosen, to the benefit of ESM Members which are experiencing, or are threatened by, severe financing problems, if indispensable to safeguard the financial stability of the euro area as a whole and of its Member States. For this purpose, the ESM shall be entitled to raise funds by issuing financial instruments or by entering into financial or other agreements or arrangements with ESM Members, financial institutions or other third parties. In particular, the ESM raises funds by issuing money market instruments, as well as medium and long-term debt with maturities of up to 30 years.

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[309] The amendment of Article 136 of the TFEU introduced the following third paragraph: "The Member States whose currency is the euro may establish a stability mechanism to be activated if indispensable to safeguard the stability of the euro area as a whole. The granting of any required financial assistance under the mechanism will be made subject to strict conditionality".

[310] The EFSM was created in 2010 with Regulation (EU) 470/2010 to provide conditional financial assistance for the implementation of structural reforms by the Member States. It provided loans to Ireland and Portugal and a bridge loan to Greece. With €60 billion in funding, raised by the European Commission on the financial markets, it currently has a lending capacity of €13.2 billion. The available margin (the difference between the annual own resources ceiling in the MMF of the EU and effective budget appropriations) serves as a guarantee for investors who purchase the securities issued by the Commission.

[311] The EFSF is a corporation (*société anonyme*) established under Luxembourg law, which continues to operate to manage the loans already granted. It will be liquidated once all the loans have been repaid. It has a service contract with the EMS, which provides it with administrative services and other support. The CEO of the EFSF is currently also the Managing Director of the ESM. See European Financial Stability Facility, Société Anonyme, "*Financial Statements, Management Report and Auditor's Report"*, 31 December 2018.

[312] Such conditionality may range from a macroeconomic adjustment programme to continuous respect of pre-established eligibility conditions. (see Article 12, paragraph 1, of the ESM Treaty).

Capital and support capacity

The capital stock of the ESM is €704.8 billion, of which €80.5 billion already paid in, with the remainder to be paid on call. The share of each country in the capital of the ESM is equal to the share of that country in the capital of the ECB. The number of voting rights of each ESM member is equal to the number of shares assigned to that country out of the total ESM capital already paid in. Italy's total share of the capital amounts to €125 billion, of which €14 billion have been paid, corresponding to 17.78 per cent of the capital.[313] Article 8(5) of the ESM Treaty limits the liability of each member of the ESM to its portion of authorised capital, and no member of the ESM shall be liable, by reason of its membership, for the obligations of the ESM.[314]

Paid-in capital cannot be used to provide assistance to member countries, and is invested in high quality financial assets, securing the strength and credit standing of the ESM as an issuer of liabilities.[315] To date, the ESM has provided assistance to Greece (€61.9 billion), Spain (€41.3 billion) and Cyprus (€6.3 billion), for a total of €109.5 billion.[316] The maximum lending capacity of the ESM to member countries is €500 billion. Since the outstanding loans of the ESM amount to €89.9 billion, the residual lending capacity currently amounts to about €410 billion (Table A4.1.1).[317]

Table A4.1.1 – Programmes implemented by the ESM and share of beneficiaries in ESM capital

	Duration of programme	Principal repayments	Funds disbursed *(billions of euros)*	*Outstanding (billions of euros)*	ESM contribution key *(percentage)*
Spain	Dec. 2012-Dec. 2013	From 2022 to 2027	41.3	23.7	11.81
Cyprus	Apr. 2013-Mar. 2016	From 2025 to 2031	6.3	6.3	0.19
Greece	Aug. 2015-Aug. 2018	From 2034 to 2060	61.9(1)	59.9	2.79
Total			**109.5**	**89.9**	

Source: ESM.
(1) €86 billion committed.

313 Germany has the largest contribution key (26.94 per cent), followed by France (20.23 per cent), Italy and Spain (11.81 per cent).
314 A ruling of Germany's federal constitutional court of 12 September 2012 found that the ESM Treaty was constitutional, on the condition that Germany's financial commitment associated with the ESM did not exceed its subscribed capital (liability ceiling), equal to about €190 billion, unless a vote of the German parliament approves exceeding that limit. In addition, the confidentiality obligations under the ESM, established in the Treaty, cannot be invoked in respect of the German parliament, which must always be kept informed of the ESM's activities. In March 2014, the German court reaffirmed that the ESM did not violate the rights of the German parliament to decide issues concerning Germany's budget as long as parliament could exercise control over the mechanism by voting on each decision.
315 Fitch's has rated it AAA, while Moody's has issued a rating of Aa1.
316 Overall, the EFSF and its successor, the ESM, have lent €295 billion.
317 ESM (2019), "*2018 Annual report*".

Governance

The governance arrangements of the ESM provide for a Board of Governors, a Board of Directors and a Managing Director. Each euro-area country appoints a governor and an administrator.[318]

Support programmes must be approved by both boards, with a unanimous vote by the Board of Governors and a qualified majority of the Board of Directors (80 per cent of voting rights) required.[319]

Support instruments

The support instruments provided for under the ESM Treaty are:

1) loans, again subject to a macroeconomic adjustment programme.[320] The adjustment programme must also be approved, by qualified majority, by the Council of the European Union pursuant to Article 7, paragraph 2, of Regulation (EU) 472/2013 (the so-called "Two-Pack"), which was issued after the signing of the ESM Treaty.[321] Loans are disbursed in one or more tranches, the disbursement of which is approved by the Board of Directors each time. In the preamble to the Treaty, it is also stated that "In accordance with IMF practice, in exceptional cases an adequate and proportionate form of private sector involvement shall be considered in cases where stability support is provided accompanied by conditionality in the form of a macro-economic adjustment programme."[322] Furthermore, the preamble also says that: "... Heads of State or Government have stated that the ESM loans will enjoy preferred creditor status in a similar fashion to those of the IMF, while accepting preferred creditor status of the IMF over the ESM".[323]

2) precautionary financial assistance, which can take the form of loans or purchases of government securities on the primary market. The support has an availability period of

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[318] The governors are the ministers of finance of the member countries, while directors are high-ranking officials of the ministries of finance. The chairperson of the Board of Governors is currently the President of the Eurogroup.

[319] Where the Commission and the ECB both conclude that it is necessary to urgently adopt a decision to grant or implement financial assistance to respond to a threat to the economic and financial sustainability of the euro area, in order to ensure the effectiveness of the ESM decision-making system that decision shall be taken by a qualified majority of 85 per cent of capital. Since Germany, France and Italy have voting rights in excess of 15 per cent of capital, each of these companies can therefore veto decisions taken using the emergency procedure.

[320] This instrument has been used so far for Cyprus (2013) and Greece (2015). Prior to the establishment of the ESM, loans had been granted to Ireland, Portugal and Greece through the EFSM and the EFSF.

[321] Following approval of the programme, the Council acting by a qualified majority on a proposal from the Commission, shall decide on any change to be made to that programme, in order to take proper account, inter alia, of any significant gap between macroeconomic forecasts and realised figures, including possible consequences resulting from the macroeconomic adjustment programme, adverse spill-over effects and macroeconomic and financial shocks. See Regulation (EU) 472/2013, Art. 7, paragraph 5.

[322] See the 12th recital of the EMS Treaty.

[323] See the 13th recital of the EMS Treaty.

one year, extendable only twice for six months each. Once granted, the credit can be drawn at the discretion of the Member State over the term of the support. If the policy conditions are violated after the grant of support, or the commitments adopted are insufficient to resolve the threat to financial stability, the Board of Governors can terminate the credit line and the Member State must apply for a loan, with a full macroeconomic adjustment programme.

The first credit line is the Precautionary Conditioned Credit Line (PCCL), for countries that meet the following eligibility requirements: a) compliance with the Stability and Growth Pact, b) sustainable public debt, c) absence of solvency problems in the banking system, d) compliance with commitments undertaken under a macroeconomic imbalance procedure, e) a track record of accessing international capital markets on reasonable terms, and f) a sustainable external position. The eligibility criteria must continue to be met after the PCCL has been granted.

The second credit line is the Enhanced Conditions Credit Line (ECCL) for countries that, while not meeting one or more of the eligibility criteria for the PCCL, maintain a sound economic and financial situation. A country that is granted an ECCL, in addition to meeting the eligibility criteria, in consultation with the Commission and the ECB, must adopt measures to correct the weaknesses identified in the eligibility analysis.

The grant of an ECCL or the drawing of the first tranche of a PCCL marks the start, for the entire availability period of the credit line, of an enhanced surveillance procedure by the Commission, in agreement with the ECB, the European Supervisory Authorities (ESAs), the European Systemic Risk Board (ESRB) and, where appropriate, the IMF. Enhanced surveillance covers the country's financial system.

3) primary market purchases of government securities, i.e. the Primary Market Support Facility (PMSF), to complement a loan or credit line. The purchases of the ESM cannot normally exceed 50 per cent of the value of the individual debt issue.

4) secondary market purchases of government securities, i.e. the Secondary Market Support Facility (SMSF). The facility can be used by countries with a macroeconomic adjustment programme. Countries that are not under such a programme are eligible if there is market turbulence, provided that a) their economic and financial situation remains sound, b) all the eligibility criteria for the PCCL are met, and c) that the country, in consultation with the Commission and the ECB, takes corrective action, where appropriate.

5) loans for indirect bank recapitalisation.[324]

6) direct recapitalisation of financial institutions.

[324] This instrument was used for Spain (2012).

The maximum funds that can be granted to Member States is not specified in the ESM Treaty or in the guidelines on the use of support instruments. This therefore constitutes an ad hoc decision. It should also be noted that each disbursed loan tranche has its own principal repayment deadline, with a grace period being granted: the interest accruing from the moment the tranches are disbursed is paid annually, while repayment of the principal only begins a few years later. For example, Cyprus will start repaying the principal amount on its loan only in 2025 and will complete repayment in 2031 (Table A4.1.1). Early repayment of principal is allowed, upon request of the borrower, subject to the approval of the Board of Directors.

To date, ESM support has been granted in the forms of the loans referred to in point 1) and the indirect recapitalisation of banks.[325]

The procedure for granting support

The procedure for granting stability support is the same for all existing instruments. Requests for support must be submitted to the Chairperson of the Board of Governors, who entrusts the following tasks to the European Commission, in liaison with the ECB:

a) to assess the existence of a risk to the financial stability of the euro area as a whole or of its Member States, unless the ECB has already submitted an analysis (under the ESM Treaty, this is necessary for secondary market purchases by the ESM);

b) to assess whether public debt is sustainable. Wherever appropriate and possible, such an assessment is expected to be conducted together with the IMF;

c) to assess the actual or potential financing needs of the ESM Member concerned. On the basis of the above assessments, the Board of Governors may decide to grant stability support to the ESM Member concerned in the form of a financial assistance facility. In this case, the Board of Governors entrusts the European Commission – in liaison with the ECB and, wherever possible, together with the IMF – with the task of negotiating, with the ESM Member concerned, a memorandum of understanding (an "MoU") detailing the conditionality attached to the financial assistance facility. The content of the MoU shall reflect the severity of the weaknesses to be addressed and the financial assistance instrument chosen. In parallel, the Managing Director of the ESM prepares a proposal for a financial assistance facility agreement, including the financial terms and conditions and the choice of instruments, to be adopted by the Board of Governors.

The MoU shall be fully consistent with the measures of economic policy coordination provided for in the TFEU, in particular with any act of European Union law, including any

[325] The introduction of other types of support instrument is possible under Article 19 of the ESM Treaty, subject to unanimous approval by the Board of Governors.

opinion, warning, recommendation or decision addressed to the ESM Member concerned.

The European Commission shall sign the MoU on behalf of the ESM,[326] subject to prior compliance with the conditions referred to above and approval by the Board of Governors. The Board of Directors approves the financial assistance facility agreement detailing the financial aspects of the stability support to be granted and, where applicable, the disbursement of the first tranche of the assistance. The European Commission – in liaison with the ECB and, wherever possible, together with the IMF – is entrusted with monitoring compliance with the conditionality attached to the financial assistance facility.

On its part, the ESM activates its early warning system, as required under Article 13(6) of the ESM Treaty, to ensure timely repayment of the loan. The early warning system analyses the ability to repay the loan for the next 12 months and assesses whether there is a risk the repayment obligation may not be honoured. This analytical work requires an assessment of the country's liquidity and its access to markets, and supplements the economic and financial analysis performed by the Commission.

[326] In the draft reform of its founding treaty, the ESM is expected to play an active part in the negotiations with the member country, working alongside the Commission. Furthermore, in the future the ESM will be involved in the assessment of debt sustainability, in the determination of conditionality and in monitoring.

Appendix 4.2

The European Commission's estimate of the impact of the crisis and the Next Generation EU recovery programme

On 27 May 2020, the European Commission's staff published a working document[327] analysing the damage caused by the COVID-19 pandemic to the European economy, according to which the capital losses (equity) due to the decline in corporate profits in the 2020 and 2021 will be between €700 billion and €1,200 billion, with some sectors, such as tourism and transport, more affected than others. Furthermore, an investment gap of at least €1,500 billion is also expected in 2021 and 2022, both directly attributable to the crisis and the additional needs that it has brought out, and to achieve the green and digital transitions, which are not directly linked to the crisis.

According to European Commission estimates, EU GDP will drop by 7.4 per cent in 2020, with a partial recovery of 6.1 per cent in 2021. The Commission's spring forecast also lays out two even more unfavourable alternative scenarios, which point to a fall in GDP of 11 per cent in 2020 in the event of a second wave of contagion and of 16 per cent in the case of longer-lasting containment measures. The document estimates that permanent job losses will bring the unemployment rate to around 9 per cent in the Union, undoing three years of improvement in the labour market.

The public finances could be permanently weakened due to an increase in public spending, reflecting the measures taken to tackle the crisis, and a reduction in tax revenues as a result of the decline in income. The Commission's spring forecast estimates an increase in the average government deficit in the EU from near balance in 2019 to 8.5 per cent of GDP in 2020.

The containment measures will have a major impact on companies' production and income in 2020, with large differences between sectors and countries. In particular, the entertainment, hospitality and transport sectors are estimated to experience the largest losses in real gross value added in 2020, ranging from 20 per cent to 40 per cent compared with 2019 levels. The impact of the crisis also depends on Member States' economic structures and their capacity to absorb and respond to the shock. The Member States most affected are those in which the weight of the most exposed sectors, such as tourism, is greatest and in which there is a larger concentration of small businesses. As a result, GDP losses in 2020 are expected to be particularly large in Greece, Spain, Italy and Croatia, at around 9.5 per cent compared with recessions of between 6 and 7.5 per cent expected in other Member States. Some labour markets will be especially affected, including those in France, Italy, Spain and Estonia, where job losses of 5 per cent are expected for 2020,

[327] See https://ec.europa.eu/info/sites/info/files/economy-finance/assessment_of_economic_and_investment_needs.pdf.

while other Member States will see their employment levels drop by no more than 3 per cent in the same period.

The support that countries can provide their economies through the State Aid Temporary Framework can also vary widely. According to the data available as of 1 May 2020, the approved aid measures in the Member States to address the crisis amounted to a total of €1.9 trillion, of which €996 billion in Germany (52 per cent of aid and 29 per cent of GDP), €324 billion in France (13.4 per cent of GDP), €302 billion in Italy (17 per cent of GDP), €54 billion in Belgium (11 per cent of GDP) and €27 billion in Spain (2.2 per cent of GDP). This disparity also depends on the fiscal headroom available to each country.

The recapitalisation of companies will be necessary to offset the losses incurred during the crisis and to restore balance sheets. Simulations carried out using company-level data indicate that the need to restore corporate equity in 2020 could be around €720 billion in the baseline scenario and up to €1,200 billion in the stress scenario with extended containment measures. This need would be particularly great in accommodation and food services, arts and entertainment, and to a lesser extent in wholesale and retail trade, transportation and manufacturing.

Investment will be significantly affected by the crisis due to the high level of uncertainty, limits on the availability of investment products and the deterioration in lending conditions. The impact of the crisis in the Union will almost exclusively be in the private sector, although investment in both the public and private sectors was already insufficient before the crisis. In its analysis, the European Commission distinguishes investment needs into the following types (table A4.2.1):

Table A4.2.1 – Total cumulative investment needs in 2020-2021
(billions of euros at current prices)

	Public	Private	Total
Investment gaps following the crisis			
Basic investment gap (relative to pre-crisis trend)	15	831	846
Avoid declining public capital stock as % of GDP	200		200
Total investment gaps unrelated to policy			**1,046**
Investment needs for green and digital transitions			
Green transition			940
Climate mitigation and energy 2030 targets			*680*
Wider environmental objectives, beyond climate			*260*
Digital transformation			250
Strategic investment (for EU autonomy on critical value chains)			40
Total investment needs for green and digital transitions			**1,230**

Source: European Commission (2020), "*COMMISSION STAFF WORKING DOCUMENT.* Identifying Europe's recovery needs", SWD(2020) 98 final.

1. basic investment gaps due to the crisis impact, obtained from the difference between the European Commission's autumn 2019 and spring 2020 projections, which suggest a cumulative decline in investment of €846 billion in 2020 and 2021, of which €831 billion in private investment, with substantial differences between Member States;

2. additional strategic investment gaps exposed by the crisis, such as excessive dependence on imports of strategic goods and services, such as medical and pharmaceutical products, raw materials and key technologies, food, strategic digital infrastructures, security and other strategic areas, which is provisionally estimated at €20 billion per year;

3. investment needs irrespective of the crisis, including additional needs to achieve the green transition and digital transformation, estimated at €595 billion per year as a minimum, of which €470 billion to achieve the EU's 2030 climate and environmental policy goals and €125 billion for the digital transition, which are partly already planned by the Member States;

4. investment needs to avoid a decline in the ratio of the public sector capital stock to GDP, given that even before the crisis public investment was not sufficient to hold this ratio constant, with the gap estimated at around €100 billion per year, with a greater need in countries with high debt levels.

In assessing these estimates, however, it must be borne in mind that the different investment needs may overlap. For example, meeting part of the basic and public sector investment needs could at the same time lead to investments in the green transition and the digital transformation. Given this partial overlap, a conservative estimate of the total minimum investment needs in the Union amount to at least €1,500 billion in 2020 and 2021, most of which in the private sector. Realising these investments would therefore enable for a rapid recovery from the COVID-19 crisis and a transition to a sustainable and more productive economy at the same time.

The additional public financing needs due to the impact of the COVID-19 crisis, which implies greater expenditure and lower tax revenue, are estimated at nearly €1,700 billion for the Member States in 2020-2021. Taking account of the estimated pre-crisis gross financing needs of €3,700 billion, the total financing needs for the public sector amount to about €5,400 billion.

Finally, the simulations conducted with the European Commission's QUEST model show the possible impact of Next Generation EU on the European Union compared with the baseline scenario. The simulation exercise assumes that 93.5 per cent of the funds are used for public investments, mainly through grants to Member States, while 6.5 per cent of the funds are used as loss provisioning for financing of private investments through the EFSI and InvestEU, which according to the Commission enable the mobilisation of a significantly larger volume of investment. It is assumed that the supported investment is distributed equally between 2021 and 2024, or 25 per cent a year, and that 50 per cent of the loans and 100 per cent of the grants are used by Member States for public investment, while the remaining 50 per cent of loans are used for current public expenditure.

With these assumptions, it is estimated that Next Generation EU will have a permanent positive effect on the Union's real GDP, raising it by about 1.75 per cent in 2021 and 2022, and up to 2.25 per cent in 2024. Given the increase in productivity due to public investment, GDP remains above baseline levels even in the medium and long term and up to a percentage point higher ten years later. It is estimated that up to 2 million more jobs will be created in the medium term, raising the level of employment by 1 per cent compared with the baseline scenario. The investment multiplier effect of Next Generation EU leads to a reduction in the debt/GDP ratio, which on average should decrease by 0.75 percentage points in the short term and by 3 percentage points by 2030 compared with the baseline scenario, thanks to the effect on the denominator of this ratio.

The impact of Next Generation EU is differentiated by Member State, counteracting the forces of divergence resulting from the crisis. Using an illustrative allocation key for apportioning the support among the Member States, for the sole purpose of a preliminary estimation of the potential effects of Next Generation EU, it is estimated that Member States with below average levels of GDP per capita would benefit from the greatest stimulus to economic activity, with GDP levels 4.5 per cent higher in 2024 for those with lower debt and with GDP levels 4.25 per cent higher for those with higher debt (such as Italy), while countries with an above average level of GDP per capita would experience a positive impact on GDP of 1.25 per cent in 2024.

According to the illustrative allocation key, high-income Member States would receive 24.5 per cent of Next Generation EU funds, low-income, low-debt Member States would receive 25 per cent, and low-income, high-debt Member States would receive 50.6 per cent. Under the same illustrative key, which uses the allocation keys used for Recovery and Resilience Facility support, for all €750 billion of Next Generation EU, Italy would receive a total of €153 billion in grants and loans in 2021-2027 and would contribute €96.3 billion overall between own resources and national contributions, thus receiving a net €56.7 billion. Note that these assumptions are used for the sole purpose of representing Next Generation EU in a stylised macroeconomic model to estimate its impact and do not represent the actual allocation of funds and contributions.

Finally, it is estimated that Next Generation EU would not significantly increase the debt of any group of Member States. It would fall by 5 percentage points in higher-debt Member States (such as Italy) and by 3.25 percentage points in lower-debt Member States in 2024. Over the long-term, debt is expected to fall further, by 8.5 percentage points in higher-debt Member States (such as Italy) and by 7 percentage points in those with lower debt. In higher-income Member States, public debt is expected to increase slightly in the short term and remain at most 1 percentage point above the baseline scenario, before returning to the baseline level by 2030.

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