

Memorandum on the Report to Parliament prepared pursuant to Article 6 of Law 243/2012

Summary

The Chairman of the Parliamentary Budget Office (PBO), Giuseppe Pisauro, submitted a memorandum to the Budget Committees of the Chamber of Deputies and the Senate engaged in the examination of the Report sent by the Government to Parliament pursuant to Law 243/2012.

Although the Government does not think it unrealistic that GDP growth in 2021 could be consistent with the forecast in Update to the 2020 Economic and Financial Document (the Update), the Report, which revises the plan to resume convergence towards the medium-term objective (MTO), is justified by the need for further support measures with respect to the provisions of the 2021 Budget Act following the restrictions introduced to contain the new wave of the COVID-19 pandemic.

The deviation only affects the current year and the authorisation requested is equal to €32 billion in terms of general government net borrowing, €35 billion in terms of the borrowing requirement and €40 billion for the net balance to be financed of the State budget on an accruals basis and €50 billion on a cash basis. As for the purposes of the deviation, the Report outlines new measures to preserve employment, support for the lower levels of government and local authorities, for the public transport system and for law enforcement authorities. In addition, additional appropriations are provided for the health sector, also in relation to the needs connected with the purchase, storage and logistics of vaccines and anti-COVID-19 drugs.

The resurgence of the pandemic and the new restrictions adopted in Italy since the autumn, although less stringent than those adopted in the spring, were reflected in a deterioration in economic performance in the final part of last year. The forecast based on the short-term models of the PBO indicates a contraction in GDP of about three percentage points for the fourth quarter of 2020, albeit with an extremely wide margin of uncertainty. Overall in 2020 the decline in GDP is expected to be around nine percentage points, in line with the forecasts of the Ministry for the Economy and Finance given in the Update and in the Draft Budgetary Plan.

For the current year, even assuming a rapid recovery beginning in the spring, it appears difficult to achieve the Government's policy target for GDP growth (6.0 per cent). The most recent forecasts by private institutions and analysts point to growth for the Italian economy of between 3.5 and 4.8 per cent in 2021. The PBO will present an update of the medium-term macroeconomic scenario in February, after the release of the preliminary estimates for GDP growth in the fourth quarter.

The deployment of measures totalling €32 billion in terms of net borrowing, corresponding to a worsening of the budget balance of 1.8 percentage points of GDP, would, *ceteris paribus*, bring the deficit for 2021 to just below 9 per cent, compared with the 7 per cent envisaged in the 2020 Update. Given the temporary nature of the new measures, from next year the Report confirms the adjustment path for the public accounts reported in the 2020 Update, which indicated a decline in the general government deficit to 4.7 per cent of GDP in 2022 and 3 per cent in 2023. In any event, the forecast for the public finance aggregates from 2021 depends significantly on developments in macroeconomic conditions, which, as noted, could be less favourable than those expected by the Government, as well as on fiscal results last year, for which the available information is still limited and whose estimated values are highly uncertain.