

Hearing as part of the examination of the proposed National Recovery and Resilience Plan

Summary

Chiara Goretti, member of the Board of the Parliamentary Budget Office (PBO), spoke at a hearing before the Budget and Treasury Committee of the Chamber of Deputies and the Budget and EU Policies Committees of the Senate, meeting jointly as part of the examination of the proposed National Recovery and Resilience Plan (NRRP), which was submitted to the houses of Parliament on 15 January 2021.

In her remarks, Goretti focused on the financial framework underlying the NRRP, its impact on the macroeconomic scenario over a long-term perspective, the proposed lines of intervention and the reforms envisaged in the Plan.

The proposed NRRP identifies the resources earmarked for Next Generation EU (NGEU) purposes in an approach that integrates this new instrument with a part of the European Multiannual Financial Framework (MFF) and with national programming.

Overall, the total resources dedicated to the NRRP missions over the 2021-2026 period amount to €311.9 billion and are distributed in accordance with the classification given in Table 1.

Table 1 – Total NRRP resources for 2021-2026 (1)
(billions of euros)

	Existing RRF projects (a)	New RRF projects (b)	Total RRF projects (c)=(a)+(b)	ReactEU (d)	Total NGEU (e)=(c)+(d)	ESI/NOP funds (f)	EAFRD (g)	Budget programming 2021-2026 (h)	Total NRRP (i)=(e)+(f)+(g)+(h)
Grants		68,9	68,9	13,0	81,9				81,9
Replacement loans (of which: SCF)	65,7	21,8 (21,2)	87,5 (21,2)		87,5 (21,2)				87,5 (21,2)
Additional loans		40,1	40,1		40,1				40,1
Difference between uses and sources of funding		14,4	14,4		14,4				
Non-NGEU funds						6,9	1,0	80,05	87,95
Total	65,7	145,22	210,91	13,0	223,91	6,9	1,0	80,05	311,86

Source: based on NRRP data.

(1) Totals may not match due to rounding of decimals.

The NRRP proposes to draw on all European funds available to Italy through the Recovery and Resilience Facility (RRF), amounting to €196.5 billion (divided into €68.9 billion in grants and €127.6 billion in loans, of which replacement funds amounting to €87.5 billion and additional funding of €40.1 billion), as well as a further €14.4 billion in projects “in reserve”, for a total of €210.9 billion (Table 1, column (c)). This will be accompanied by €13 billion in grants under the ReactEU programme (table 1, column (d)). This gives total resources under the NGEU of €223.9 billion (table 1, column (e)). The additional funding

compared with the public finance trend scenario amounts to €122 billion, equal to the sum of €68.9 billion in RRF grants, €13 billion in ReactEU grants and €40.1 billion in additional RRF loans.

One component of the NRRP resources, concerning both the “new projects” of the RRF and the ReactEU programme, has already been specified in the 2021 Budget Act, totalling about €38 billion (equal to about 31 per cent of the total) over the 2021-2026 period.

The information on the Plan’s financial framework needs to be fleshed out. In fact, apart from what appear to be partial numerical inconsistencies both within the Plan presented and with the content of previous documents, significant portions of the financial framework have yet to be defined more fully and should include, in particular, a detailed and circumscribed presentation of the measures and their timing, thereby permitting an overall assessment of the use of the resources and their impact on the economic system.

Additional information would make it possible to resolve the ambiguities concerning both the additional projects (€14.4 billion) and the resources (€21.2 billion) in funding advanced from the Development and Cohesion Fund (DCF) for 2021-2027.

In the former case, the Plan refers to a possible “leverage effect” and the need to establish a “safety margin” should some projects not be considered eligible by the European Commission. A quantitative distinction should therefore be made between NGEU resources, private resources attracted through the “leverage effect” and resources budgeted as a safety margin. It seems plausible to say that these loans, while increasing - in the current NRRP exposure – the total resources of the NGEU programme by €14.4 billion, should not be considered as additional as they will be removed in the final version of the NRRP. If they were private resources, activated through this “leverage effect”, the impact on macroeconomic conditions could be increased, but not through the public channel.

In the second case, the advance from and subsequent replenishment of the DCF, announced in the document, should be clarified. It would appear that the intention is to accelerate the implementation of expenditure under the DCF for projects that fall within the scope of that Fund and are at a more advanced stage of development. The advance of €21.2 billion from the DCF should be drawn (probably starting from the next Budget Act on the basis of what will be planned by the 2021 EFD) from resources already incorporated in the public finance trend scenario and, in this sense, can be financed through NGEU replacement loans, which will not produce an increase in the absolute value of the public debt but will instead change its temporal distribution, reflecting an advance of the deficit. These developments, their impact on macroeconomic conditions and any fiscal feedback effects in terms of increased revenue due to additional growth, as well as the timing of the replenishment of the DCF resources advanced as envisaged in the NRRP, will likely be illustrated in the 2021 EFD.

Finally, it is expected that the definitive NRRP will specify the temporal distribution of the resources that are reported in an undifferentiated manner as the sum of the amounts available, on the one hand, and the uses, on the other. It would therefore be advisable to indicate the temporal distribution of the use of NRRP resources in the individual years over the 2021-2026 period, with more detailed information than that contained in the current document.

The PBO conducted a simulation using the MeMo-It macroeconomic model to determine the order of magnitude of the impact of the NRRP on the Italian economy. The simulation should be considered preliminary, as it is based on summary information on both the use of resources and the timing of their use.

The simulation shows that the expansionary effect of the NGEU programme on the Italian economy would be almost uniformly distributed over the period considered, reaching over 1 percentage point of GDP in the first three years (2021-23) and a further increase of similar magnitude in the following three years. Overall, at the end of the programming period, in 2026, the use of NGEU resources would raise Italy's GDP by about 2.5 percentage points. The average fiscal multiplier would be greater than one as the exogenous stimulus focuses on public investments, which typically have considerable power to activate growth in macroeconomic models.

In the first three years of the period covered by the simulation, the estimates presented in the NRRP, which are also preliminary, show no significant differences with those of the PBO, while in the following three years the expansionary effects given in the NRRP tend to be greater. At the end of the horizon of the exercise, GDP would exceed that in the baseline scenario by three percentage points in the NRRP estimates and by almost 2.5 points in the PBO exercise.

There may be many reasons for this divergence. The evaluation in the NRRP is based on the assumption that expenditure is of high quality and efficiency, so as to structurally raise productivity and therefore potential growth in the medium to long term. However, such qualitative characteristics of expenditure cannot be assessed at the current stage of definition of the Plan.

Reflecting the objectives of the EU regulation that details the criteria for using the resources of the NGEU programme, the draft NRRP is a many-layered document, based on strategic axes, transversal priorities, missions, which represent structural "thematic" areas of intervention, and functional components. The components in turn are divided into 48 lines of intervention, which in turn are divided into investments, below which the individual projects will be selected.

The NRRP is a preliminary text for use in the parliamentary discussion, as indicated by the generic and partial description of numerous sections of the document. Although the choice of priorities among the lines of intervention within the European objectives is an

eminently political issue, it is nevertheless possible to emphasise that the fragmentation of initiatives as presented in the NRRP appears excessive, threatening to dilute the Plan's potential structural impact on the country, with a dispersion of resources that may prevent achievement of the stated policy objectives. Ensuring efficacy would probably require abandoning certain lines of intervention and concentrating resources on a smaller number of priorities in order to have a more visible impact on those selected.

A number of specific issues emerge in the version of the Plan sent to Parliament.

- 1) The document does not employ uniform criteria for allocating resources to individual projects, perhaps understandably given the diverse nature and variety of sectors affected (grants to individuals, investments by public concession holders, public investments in the strict sense, sectoral policies). The European regulatory framework requires that the final objectives of each investment be specified, with a final demonstration of their implementation, but also sets tight deadlines for the commitment of the funds and the execution of the works. The implementation readiness of projects is certainly a precondition for their selection, but this would risk jeopardising another of the strategic objectives of the Plan, namely fostering a rebalancing of the country's territorial disparities. This precondition could be combined with territorial equity in its implementation, provided that it is accompanied by adequate planning support for the entities implementing projects so as to ensure access to funding also for those administrations that are historically slow in planning and using resources.
- 2) The draft EU regulation requires detailed specification of investments and reforms: resources shall be made available to Member States provided that their use is accompanied by reforms identified in accordance with the EU's country-specific recommendations. The Plan appears weak in detailing this two-fold line of action, i.e. using resources and implementing reforms. The information it provides is generic, including that on the costs associated with the implementation of the reforms themselves, as envisaged in the draft European regulation. Reaching consensus on the reform guidelines in order to develop the final version of the Plan will require a challenging dialogue between Parliament, civil society and the social partners.
- 3) Taking account of the need to accelerate the tendering and execution of projects, which may require exceptions to ordinary procedures, including those intended to counter criminal activity, the NRRP does not seem to pay adequate attention to which new tools can be adopted to effectively combat criminal infiltration, fraud and corruption in the management of projects financed by the Plan. In particular, the draft regulation requires the introduction of a system for the collection, organisation and analysis of standardised categories of data and information in order to prevent, detect and correct serious irregularities, as well

as the strengthening of the capacity to recover unduly disbursed resources by the managing authorities of European funds.

- 4) The NRRP lacks detailed information on the individual investments, in particular their timing, progress indicators and the qualitative and quantitative objectives to be achieved. It is understandable that, at the current stage of the Plan, some of this information is still being developed, but its availability is an indicator of the state of progress of a project and therefore of the possibility of rapid and effective completion, within the planned timeframe and with the planned results. The completeness and transparency of information and the related monitoring and control activities is a precondition for informing Parliament during the implementation of the NRRP. To this end, it is necessary to establish that each method and each database used in any impact assessment shall be made available to researchers in order to replicate it independently.
- 5) Almost all the lines of intervention listed in the NRRP are paralleled by ordinary budget policies, regulated by law, with their own funding and procedures for allocating resources on the basis of predetermined parameters, often based on long-term sectoral planning and dedicated administrative arrangements. The tight timeframe for the completion of spending procedures might suggest the adoption of extraordinary mechanisms, but speed of implementation should not compromise another important purpose of the Plan, namely the internalisation and valorisation of a new approach to designing public policies, based on the identification of priorities, the selection of the projects that best meet those priorities, and the measurement and control of the expected results. One priority objective is certainly to spend every euro of the funds well, but the NGEU's contribution will be even greater if it leads to a new administrative perspective, to an enhanced capacity for implementing public policies.