

The 2021 Budgetary Planning Report

Summary

The 2021 Budgetary Planning Report prepared by the Parliamentary Budget Office (PBO) is devoted to analysing the 2021 Economic and Financial Document (EFD) and elaborates on the substance of the parliamentary hearing held by the Chairman, Giuseppe Pisauro, on 21 April as part of the preliminary examination of the EFD by the Budget Committees of the Chamber and the Senate.

The Report is divided into two chapters, the first of which is dedicated to an analysis of the macroeconomic scenario and the forecasts underlying the EFD for the 2021-2024 period. In accordance with the procedure provided for in the framework agreement with the Ministry for the Economy and Finance (MEF) and with the support of the panel of independent forecasters consisting of CER, Oxford Economics, Prometeia and REF.ricerche, the PBO assessed the macroeconomic scenarios published in the EFD for the four-year forecasting period, ultimately endorsing them.

The rate of real GDP growth this year is lower than the median forecast of the panel, while it is close to the upper bound in 2022, thus representing a risk for the forecast in the EFD. Comparing the MEF's policy macroeconomic scenario with projections recently issued by leading institutional and private forecasters, the EFD's macroeconomic scenario is also acceptable, albeit ambitious for the next few years. The macroeconomic scenario for Italy nevertheless remains exposed to various factors of uncertainty, primarily attributable to the evolution of the pandemic and the success of vaccination campaigns in Italy and the rest of the world. The risk factors are varied and mainly on the downside, both in the short and medium/long term.

The second chapter of the Report is dedicated to an analysis of the trend and policy scenario for the public finances set out in the EFD, of the information provided in the National Recovery and Resilience Plan (NRRP) in the version presented by the Government to Parliament on April 26 and subsequently submitted to the European Commission, and of the policy scenario for developments in the public debt.

Compared with the trend scenario, the public finance policy scenario outlined in the EFD points to a deterioration in the public finance balances for the 2021-2023 period, with net borrowing of 11.8, 5.9 and 4.3 per cent of GDP in 2021, 2022 and 2023 respectively, before returning to the trend level (3.4 per cent) in 2024. The policy public finance scenario updated in the EFD also revises the objectives with respect to those indicated last autumn: the return of the deficit to 3 per cent of GDP slips from 2023 to 2025 and the path towards the MTO is recalibrated to bring the debt/GDP ratio back to the pre-crisis level (134.6 per cent) by the end of the decade.

The factors explaining the differences between the policy public finance scenario and the trend figures include the revision of the NRRP and the addition of national resources. As anticipated at the hearing of the Minister for the Economy and Finance on 8 March 2021, the new version of the NRRP maintains the basic approach of the proposal presented by the previous Government, but addresses several important aspects more comprehensively, incorporates some of the guidelines that emerged from the parliamentary examination of the proposed measures and takes account of information that has become available in recent months.

The overall resources envisaged in the final version of the NRRP have been increased. The total value of the projects included in the Plan increases by over €11 billion compared with the previous version (if we also consider the €14.4 billion in excess spending proposed in that version) to about €236 billion, enabling an increase, in absolute value, in the resources appropriated for virtually all of the planned programmes. Within this total amount, additional resources have been increased by €44.5 billion compared with the Plan proposed last January. This increase is equal to the sum of the €31 billion of national resources connected with the complementary investment fund and the €13.5 billion of RRF lending transformed from replacement loans into additional loans. The final version of the Plan is also places a greater emphasis on structural reforms, identifying two areas in particular - public administration and justice – as candidates for far-reaching reforms that are expected to have a significant impact on the economic, administrative and social structure of the country. The NRRP focuses on the objectives, the tools for implementation and the timing of these “horizontal” reforms. These are ambitious and complex projects, which at the moment are only sketched out at the conceptual level and whose more detailed definition will require a substantial body of implementing legislation that will have to be introduced on a tight timetable.

It should also be noted that the final version of the NRRP has added information concerning the governance of the Plan itself. The structure for the implementation of the NRP is divided into three levels: effective management of the various interventions by central government, regions and local authorities; centralised operational coordination by a dedicated unit established at the MEF; and the establishment of a steering committee at the Presidency of the Council of Ministers to exercise high-level political authority. Finally, the implementation of the NRRP will be accompanied by a constant flow of information for the various stakeholders, including the general public, to be disseminated through a special portal.