# Working Paper no. 2/2021
# “Assessing Italy's public debt dynamics in the medium term with the PBO framework: Illustrative scenario analysis for the post-Covid period”


## Abstract

This paper describes the main tool used by Italy’s Parliamentary Budget Office (PBO) to assess public debt dynamics in the short-to-medium term, i.e. the deterministic DSA framework, and illustrates possible scenarios for Italy's post-Covid public debt ratio using this framework. The main characteristic of the PBO's deterministic DSA framework is to consider the feedback effects between fiscal consolidations/expansions and the macroeconomic scenarios. Moreover, the treatment of interest expenditure takes into account a relatively wide range of instruments characterising Italy's public debt. The results of the illustrative scenarios show that in the 2021-24 period, the debt ratio should decrease, although at a mild rate from 2023, even if nominal GDP growth resulted lower than expected by the government. In the period after 2024, with a neutral fiscal stance and assuming that the current low interest rates gradually return to higher historical levels, projections of the debt ratio depend crucially on the assumptions of post-pandemic trend GDP. If it is assumed that GDP returns to pre-pandemic or higher trend levels, the decline of the debt ratio should continue in the medium term. Conversely, if it is assumed that the pandemic has inflicted a permanent negative "shift" on trend levels ("partial loss" scenario), a reverse towards rising public debt dynamics cannot be excluded. Thus, a neutral fiscal stance from 2025 would not suffice to ensure a declining or stable public debt dynamics in a more conservative, but still realistic, scenario. Alternatively, a significant structural fiscal consolidation from 2025 (half a percentage point each year) could stabilise the debt ratio, albeit at a high level, even in the "partial loss" scenario.