Hearing on the 2022 Budget Bill

Summary

The Chairman of the Parliamentary Budget Office (PBO), Giuseppe Pisauro, testified today at a hearing before the Budget Committees of the Chamber and Senate as part of the examination of the 2022 Budget Bill.

In his remarks, Chairman Pisauro analysed the contents of the budget package, focusing attention on the macroeconomic framework within which the Budget Bill is set and discussing the PBO's assessments of its overall structure, developments in the main public finance aggregates in the light of the proposed initiatives and the main measures envisaged in the legislation.

The macroeconomic framework in the light of the budget package. – The Budget Bill is part of the macroeconomic and public finance policy framework set out for the 2022-2024 period in the Draft Budgetary Plan (DBP), which confirmed the forecasts presented in the most recent Update to the Economic and Financial Document (EFD Update). In this regard, the PBO endorsed both the trend and policy macroeconomic scenarios in the 2021 EFD Update, although underscoring the threats to growth in the coming years.

For 2021, the DBP projects a 6.0 per cent increase in GDP, significantly better than that envisaged in the spring in the 2021 Economic and Financial Document (EFD). The scenario for 2022 incorporates the impact of the budget measures, which would bring the MEF's forecast for GDP growth to 4.7 per cent, half a point above that in the trend scenario. The expansionary effect of the budget package would decline to two-tenths of a point of GDP the following year (with GDP growth of 2.8 per cent, compared with 2.6 per cent in the trend scenario) and would dissipate entirely in 2024.

Subsequent to publication of the EFD Update, Istat released its preliminary estimate of GDP growth for the third quarter of 2021 (2.6 per cent on the previous quarter), which was better than the pace expected both by the major forecasters and the Government at the time the MEF's macroeconomic scenario was defined. According to estimates formulated using the PBO's short-term models, in the fourth quarter of this year - assuming the absence of new restrictions to combat the health emergency - GDP is forecast to expand by just under 1 percentage point compared with the previous period. Considering growth of 0.7 per cent, the variation in GDP in 2021 as a whole would total 6.3 per cent, with output potentially returning to its level prior to COVID-19 as early as next winter. Even if economic growth was nil in the last three months of the year, GDP growth in 2021 would still come to 6.1 per cent, just above the Government's target.

There has also been a resurgence of the pandemic in Italy in recent weeks, which could affect economic activity between the final part of this year and the start of the next. In the view of the PBO panel of forecasters, other adverse scenarios could also emerge,

creating an environment mainly exposed to downside risks. In comparison with the recent forecasts issued by institutions and private analysts, the Government's GDP targets are cautious for 2021, while they lie at the upper end of the range of projections for the coming years.

Overall, the Budget Bill and the Tax Decree (no. 146/2021) expand the budget deficit by 1.2 percentage points of GDP in 2022 (€23.3 billion), 1.5 points in 2023 (€29.9 billion) and 1.3 points in 2024 (€25.7 billion), of which between 80 and 90 per cent is attributable to expenditure measures. According to a simulation performed with the macroeconometric model used by the PBO (MeMo-It), the impact of the measures on the Italian economy would boost growth in 2022 and 2023 by 0.5 and 0.3 points of GDP respectively, while the effect would be slightly restrictive in the final year of the forecast period. These effects are very similar both to those indicated by the Government and those estimated by the PBO in the context of the endorsement process for the macroeconomic scenarios in the 2021 EFD Update.

The budget package and its financial impact. – The DBP retained the policy objectives of the EFD Update: a deficit of 5.6 per cent of GDP in 2022 (compared with an estimated 9.4 per cent for this year), which would decline to 3.9 per cent in 2023 and 3.3 per cent in 2024. In the Government's plans, the debt/GDP ratio, which increased by more than 20 percentage points in 2020 (to 155.6) and is expected to decline this year (to 153.5 per cent), should decrease to 149.4 per cent in 2022, 147.6 per cent in 2023 and 146.1 per cent in 2024, about 12 percentage points of GDP higher than that registered for 2019 and about 3 points higher than expected for 2024 in the EFD Update's trend scenario (143.3 per cent).

Compared with the trend, the budget envisages expansionary measures equal to 2 per cent of GDP in 2022, declining to 1.9 per cent in 2023 and 1.8 per cent in 2024. Resources funding these measures amount to 0.7 per cent of GDP next year, 0.4 per cent in 2023 and 0.6 per cent in 2024. For 2022, expansionary measures will amount to €37 billion, with expected funding resources of €13.7 billion and a consequent increase of €23.3 billion in the deficit. For 2023-2024, expansionary measures are expected to increase by comparison with 2022 (€38.4 billion in 2023 and €37.8 billion in 2024), while funding resources will contract (€8.5 billion in 2023 and €12.2 billion in 2024), with a consequently greater impact on the deficit in nominal terms (equal to €29.9 billion in 2023 and €25.7 billion in 2024).

A number of general observations on the budget package. – Against the background of an improvement in the trend accounts compared with the EFD - based on more favourable macroeconomic and interest rate developments - the budget is expansionary, while maintaining the gradual reduction in the deficit. In the policy scenario, the deficit would exceed 3 per cent of GDP in the last year of the planning period and a primary deficit would persist, at just under 1 per cent.

The measures are undefined in certain respects, and to some degree the budget package is a work in progress, with the postponement of certain choices that will likely be determined during the process of parliamentary approval. For example, only the fundamental principles of the tax reform are currently delineated, with only the overall definition of the appropriation to the fund for the reduction of the fiscal burden and a general indication of its scope of intervention.

The expansionary tilt of the budget measures is mainly attributable to a significant increase in expenditure (between 1 and 1.4 per cent of GDP), and current expenditure in particular (equal to between 0.8 and 1 per cent of GDP), some of which partially offsets the expiry of the support measures implemented in response to the pandemic.

With regard to the nature of the measures, after the substantial support provided in 2021-2022, some provisions extend (in some cases by just one year) previously approved programmes with a concomitant progressive reduction of their benefits. Others are more structural, with permanent or long-term impacts on the public finances. Yet other measures may need to be renewed in the short term, such as those aimed at limiting the effects of price increases in the electricity and natural gas sector.

Finally, specific attention should be given to the programmes connected with the implementation of the NRRP or the complementary measures. The budget package contains measures consistent with the broad objectives of the NRRP, finances infrastructure measures excluded from the NRRP and funds provisions intended to lend continuity to the NRRP itself after 2026. Other provisions increase current spending to finance operating expenditure, with high ongoing costs starting from 2027, when the infrastructure envisaged in the NRRP should be completed.

As the implementation of the NRRP entails an extension of budgetary decisions beyond the three-year planning period, in the presence of structural measures, which therefore have permanent effects on current expenditure as well, it would be helpful to produce a clearer representation of the time profile of the public finance scenario at least until 2026 or even 2030, the year in which the ratio of debt to GDP is expected to fall below its 2019 level, as indicated in the EFD Update.

As already noted by the PBO on multiple occasions, while it is desirable to fully implement the envisaged commitments - in particular those relating to investment – actually doing so appears to be a challenge. Given the administrative and organisational burdens associated with the effort, the issue of the ability of the administrative machinery of government to activate spending arises. It would appear necessary to upgrade the organisational capabilities of government, with the hiring of qualified professional personnel to be deployed where the most evident shortcomings emerge. The changes initiated in these areas should represent an initial occasion to exploit the opportunity to reorganise the distribution of public employees in a manner that takes account of the new priorities, eliminating the planning and personnel management limitations connected in

part with measures freezing or restricting turnover, which have long impacted staffing levels.

The achievement of the objectives of the public finance policy scenario, which is exposed to domestic and international macroeconomic risks and those linked to the timing of the end of the pandemic emergency, will depend on the ability to implement both the NRRP measures and the new expansionary budget package, with the greatest effort going towards consolidating a lasting recovery in growth after the rebound seen this year.

The last part of the hearing is devoted to a qualitative and quantitative analysis of the main measures, ranging from the superbonus tax credit for energy and seismic upgrades to measures targeted at firms, changes in the field of pensions and social safety net programmes and measures concerning healthcare, public employment and tax collection.

Superbonus. – The Budget Bill extends, with a different extent, the multiple tax credits available for spending on energy efficiency upgrades, the reduction of seismic risk and building renovations and for garden improvements, with a total expenditure in 2022-2036 of €30.8 billion. Of this, €14.1 billion have been allocated to the energy and seismic upgrade superbonus, bringing the total resources appropriated to finance this incentive since its introduction to €33.3 billion.

Given the attractiveness of the incentive and the absence of a ceiling on public expenditure, the hearing analyses the data on the effective use of the programme. Monitoring data from ENEA for October shows, in summary: 1) total eligible investments of over €9.7 billion, which correspond to future subsidies of about €10.7 billion: with two months to go in 2021, projects already approved for subsidies represent about 85 per cent of those expected in initial official estimates for the first 18 months of the programme; 2) the projects have involved a relatively small number of building units (about 57,700, of which 8,356 condominiums, equal to 0.7 per cent of total buildings with more than four housing units) with high average expenditure (about €169,000 per building; €573,600 for condominiums and €100,000 for single-family buildings and other functionally independent units); 3) a rapid increase in expenditure in recent months, with a growth trend that does not appear to be diminishing (€2.2 billion in October, compared with about €1.8 billion the previous month); 4) average expenditure by segment that has increased from month to month; 5) a different territorial distribution of subsidised spending under the superbonus compared with that under the existing ecobonus programme, with a partial territorial rebalancing of the distribution of benefits: while more than 72 per cent of the subsidised expenditure under the ecobonus programme was carried out in the North and only 11 per cent in the South, under the superbonus programme the shares are 44 per cent and 34 per cent respectively.

A number of factors could help explain these initial figures on the use of the superbonus programme. First, the large size of the tax credit and the possibility of receiving a discount in supplier invoices against the credit or transferring the tax credit to a third party has

enabled also relatively low-income or liquidity-constrained taxpayers to take advantage of the programme. Second, the growing demand for energy upgrading services may have contributed to upward pressures on the prices of subsidised services and raw materials, as reported by sector operators and Istat price surveys. Looking ahead, higher prices could, on the one hand, push expenditure even closer to the individual ceilings, increasing the overall cost for the State, and, on the other hand, in the case of projects with a cost already close to the ceiling, reduce spending on interventions qualifying for the subsidy. Third, the elimination of the contraposition of the interests of suppliers and buyers as a result of the full coverage of costs by the incentive may have influenced the prices agreed on the eligible works and increased the overall cost of the programme.

Finally, given the generosity of the subsidy programme and the transferability of the tax credit to third parties, fraud could have impacted the overall cost of the programme, as noted by the Revenue Agency. Precisely in order to counter these effects, the Budget Bill provides for the application of new spending ceilings for specific categories of goods and the recently issued Decree Law 159/2021 provides for a general strengthening of controls by the Agency, including preventive checks of potentially irregular positions.

Firms. – The measures in favour of firms mainly consist of extensions of the loan incentive and support programmes adopted in 2020 and 2021, as well as a number of sector-specific interventions.

A first group of measures, which must be evaluated jointly, consists of: 1) the repeal and replacement of the patent box system with a mechanism providing for a deduction (from income tax and the regional business tax - IRAP) of 190 per cent of research and development costs incurred in relation to specific intangible assets; and 2) the extension to 2025 (and in some cases to 2031) of certain tax credits for investments in tangible and intangible assets and in research and development (in the case of research and development, this benefit cannot be used in conjunction with the super-deduction mentioned above). The rationale of the first incentive has substantively changed: under the patent box mechanism – which exempted (from income tax and IRAP) 50 per cent of income from the use of certain types of intangible assets and capital gains from their sale (if 90 per cent are reinvested) – investment was incentivised by increasing the net return on intangible assets. The new deduction and tax credits calculated on the basis of spending instead seek to expand research and development more directly, reducing its cost and remunerating the positive externalities that this produces for innovation and growth, allowing firms with a more modest or longer-term profit outlook to benefit. Under current legislation, the patent box system and the tax credit coexist and therefore both purposes are pursued.

With regard to implementation, companies will have a number of subsidy options. Those who had not opted for the patent box system by 22 October 2021 (date of entry into force of Decree Law 146/2021) and, once fully operational, all firms will be able to choose between the super-deduction and the tax credit. In this case, the super-deduction is

potentially more generous than the tax credit, but the choice will depend on the different profitability outlook of firms: in the case of firms that do not earn sufficient income, the tax credit, although less generous, could give them more immediate access to benefits through offsetting against other taxes. Companies that opted for the patent box system by 22 October 2021 may confirm the optional regime and also take advantage of the tax credit if they incur costs for research and development, combining the two tax benefits, or may opt immediately to use the new super-deduction. The patent box system will certainly be retained by firms that have no deductible expenses for eligible assets. For others, given the generosity of the deduction compared with the tax credit, the choice will depend on the additional implicit tax saving provided by the patent box mechanism.

With regard to the latter case, 2019 financial data for corporations supplemented by administrative data drawn from tax returns was used to extract the not-financial companies that opted for the patent box and simultaneously benefited from the tax credit for research and development expenditure (764 companies) and assess the attractiveness of moving to the new system set out in Decree Law 146/2021 and the Budget Bill. The analysis shows that 82.1 per cent of firms would not have benefitted from switching to the new regime. Of these, 38.1 per cent are large companies (with turnover of more than €50 million), which account for 88.6 per cent of the loss (negative benefit), which averages €2.11 million. For firms that would benefit, the average benefit is less than 10 per cent of the average loss and, again, is concentrated among large firms (73.1 per cent).

A second significant measure tightens rules on the revaluation of tangible and intangible assets and equity investments and the alignment of their tax reporting values with financial reporting values introduced with Decree Law 104/2020 and amended with the 2021 Budget Act. Given its generosity, this mechanism has been widely used. As of the end of October, the first of three annual instalments of just over €3 billion had been collected (of which €2.5 billion from the 3 per cent tax in lieu and €0.7 billion from the discharge of tax liability on the positive revaluation balances at the special rate of 10 per cent), compared with an official forecast of €144.7 million, which implies €245.5 billion in actual revaluations/realignments compared with the approximately €14.5 billion expected. However, the higher revenues in the first three years will be followed by lower receipts subsequently due to the deduction of greater depreciation charges from the tax base for income tax (IRES/IRPEF and IRAP) over the useful life of the revalued assets. The measure in the Budget Bill is therefore aimed at reducing the significant impact of the mechanism in terms of the expected revenue reduction in the coming years by extending – solely for intangible assets amortised over 18 years (trademarks and goodwill) – the period for amortising the higher value recognised for tax purposes from 18 to 50 years. Alternatively, companies can continue to amortise over 18 years by paying an additional 9 per cent tax on revaluations up to €5 million, 11 per cent for values exceeding €5 million up to €10 million and 13 per cent for the portion exceeding €10 million. Finally, in consideration of the substantial weakening of the preferential tax treatment, the option of revoking the tax effects of the revaluation is permitted with the refunding or offsetting of the taxes in lieu paid.

First, the measure alters the tax advantage of the preferential mechanism as a result of the lengthening of the depreciation period, the discounted value of which depends on the discount rate. From this perspective, some firms may find it advantageous to opt for the revocation of the tax effects of the revaluation and the refund of the taxes in lieu already paid. On the other hand, even with a potential depreciation over 18 years, the effective deductibility of the depreciation charges depends on the firms' taxable income, reducing the real value of the tax savings and, therefore, some firms could find that lengthening of the depreciation period is less disadvantageous than for others.

Second, the option to continue to amortise the assets over 18 years with the payment of an additional tax does not appear attractive given the high rates of the surtax. In particular, for the alignment of the financial reporting and tax reporting values of trademarks and goodwill, this mechanism is even less attractive than that envisaged under the ordinary system for mergers, which involves a rate of 16 per cent but over a reduced depreciation period of 5 years.

Third, the recovery of tax revenue from the measure is critically dependent on the relative share of assets in the categories affected by the changes compared with the total revalued assets. In this regard, the Technical Report accompanying the legislation assumes that intangible assets account for 90 per cent of total revaluations (€220.9 billion compared with the €245.5 billion implicitly calculated on the basis of effective payments of the tax in lieu) and attributes this share entirely to the revaluation/realignment of trademarks and goodwill. The official revenue valuation could be imprudent, as the share of revaluations attributable to tangible assets could be greater than the €24.6 billion considered in the Technical Report (the difference between the €245.5 billion in total revaluations and the €220.9 billion attributable to intangible assets only) and some firms may have also revalued equity investments, which the Technical Report does not appear to take into account.

A third important measure is the further extension, to 30 June 2022, of the extraordinary public guarantee scheme for SMEs through the Central Guarantee Fund. However, the extension is accompanied by a reduction in the maximum amount of the guarantee, the reintroduction of the payment of a fee to the Fund for granting guaranteed loans and the establishment of a transitional regime from 1 July to 31 December 2021.

The PBO assessed the evolution of loan applications and the granting of guarantees between 2020 and 2021 and the implications for the overall bank debt and leverage of firms. Mediocredito Centrale data show that firms continued to use the Fund in 2021, albeit at a slower pace than in 2020. Applications tended to be for larger amounts and, among these, there was a shift in the composition of applications from corporations towards partnerships and individuals.

Financial reporting data available for 2020 and information in the Mediocredito Centrale database indicate that firms that applied for guaranteed loans have actually increased

their bank borrowing to a greater extent than other companies. Moreover, those firms have seen their leverage deteriorate more sharply, particularly in the sectors most affected by the health emergency.

The labour market and social safety net programmes. – After the extension of wage supplementation (CIG) for COVID-19 reasons for the textile sector and the services industry, all employers are now able to access the wage supplementation system until the end of the year. The extension paves also the way to the restructuring on a universal basis of safety net programmes for persons in continuing employment, which is scheduled in the Budget Bill to begin as from 2022. The measures change the rules for safety net mechanisms for the labour market, both for persons still in employment (the wage supplementation funds and benefits paid through bilateral agreements) and the unemployed (the NASPI and DIS-COLL programmes). The measures appear to be designed to make permanent some of the features that the safety net has acquired in recent years, when their scope of action was rapidly expanded through waivers to their rules in order to counter the economic disruption caused by the COVID-19 emergency.

To achieve this goal, the role of bilateral funds has been strengthened, especially for micro-enterprises in the services sector. The funds will have to operate using the same eligibility criteria as the ordinary CIG (CIGO) and special CIG (CIGS) programmes. This dual "track" – public and private – has both advantages and problems. The advantages include the fact that expenditure is constantly linked to the resources of the bilateral funds (including the FIS), which are financed with the contributions from their members. However, the requirement for the bilateral funds to be self-sufficient does not *a priori* eliminate the possibility that the public budget might be called upon to bail them out if the current contribution rates, as reformulated by the Budget Bill, are not sufficient to ensure their ongoing solvency, especially in the case of large-scale adverse events.

On the other hand, the involvement of State support in the event of adverse events that cannot be dealt with independently by the funds will certainly take place in a more orderly and verifiable manner when the wage supplementation system has been reformed to provide more universal coverage and the bilateral system can draw on its own financial resources.

The Budget Bill further expands the pool of potential NASPI beneficiaries and postpones the reduction in benefits. More significant are the changes to the DIS-COLL system, with the doubling of the duration of benefits, the postponement of benefit reductions and the payment of imputed IVS pension contributions. To register for DIS-COLL, participants must pay a contribution rate equal to that envisaged under the NASPI unemployment benefit programme.

Citizenship Income. – The Budget Bill establishes an annual expenditure commitment for the Citizenship Income programme starting from 2022 equal to that appropriated for

2021 (€8.8 billion) and for this purpose provides additional annual funding of €1.1 billion compared with the initial one.

The total volume of resources allocated to finance the measure appears to be consistent with the trends in expenditure observed on the basis of the latest available data. If monthly expenditure in the last three months of the year remains equal to the €736 million recorded in September (the most recent data available), expenditure for 2021 would total about €8.7 billion. Monthly expenditure of the same amount would total about €8.8 billion on an annual basis, corresponding to the amount of resources appropriated by the Budget Bill, enabling disbursement of benefits to some 1,350,000 households and 2,970,000 people.

The Budget Bill also amends the rules governing the procedures regarding work obligations and monitoring. These changes concern both the programme beneficiaries and the institutional entities involved in managing the mechanism.

As regards beneficiaries, the conditional requirements for receiving benefits have been tightened, especially as regards the formal and substantive commitments in terms of willingness to participate in job placement programmes. The number of suitable job offers that can be rejected has been reduced from three to two and after the first rejection the second offer can regard jobs located anywhere in the country. In addition, offers for part-time and fixed-term jobs are also considered suitable.

As regards the institutional entities involved in the management of the Citizenship Income, the Budget Bill established specific new duties in the various areas of action, generally in order to strengthen beneficiary monitoring and placement activities.

The data on work and social development projects implemented in the first two and a half years of the programme have been impacted by the pandemic and reveal problems in the ability of administration entities to implement the procedures provided for in the legislation establishing the Citizenship Income. The provisions of the Budget Bill which provide for an increase in direct meetings between beneficiaries and entities (at least monthly) could run into operational obstacles and not be implemented, at least in the short term. This could reduce the desired deterrent effect for those individuals who, employed in undeclared work, could be most affected by this type of requirement.

The expansion of operational capacity resulting from the involvement of accredited employment agencies could help distribute workloads and increase the effective take-up rates of beneficiaries. At the same time, the extension of the definition of a suitable offer to include part-time and fixed-term jobs could generate more opportunities for Citizenship Income beneficiaries with few qualifications to reconnect with the labour market. In this context, in which the number of suitable offers is likely to increase, the reduction in the number of offers that can be rejected from three to two (one of which can be for a job located anywhere in the country) could prove to be too restrictive.

On the other hand, the revision of the Citizenship Income programme envisaged in the Budget Bill does not address the main problems highlighted over the course of the debate that has developed concerning the programme's effectiveness as an anti-poverty tool, an issue that is also the subject of the recent report of the Scientific Committee for the assessment of the Citizenship Income. The most widely discussed issues include: an equivalence scale that disadvantages large households, despite the fact that there is a greater concentration of poverty among minors compared with other age groups; the high marginal rate that discourages regular work (80 per cent and 100 per cent with the update of the ISEE declaration); the length of the required period of residence in Italy; and the weight of asset holdings in the selection of beneficiaries, in view of the challenges of liquidating such assets.

Pension measures. – The Budget Bill introduces temporary and permanent measures. The former include the extension to 2022 of the possibility of retiring under the Women's Option and the *APE sociale* – the early retirement programme for hardship categories (with an updating of the list of jobs with especially heavy duties that qualify for the programme) and the introduction, again for 2022, of a Quota 102 pension mechanism (sum of age and years of contributions) in replacement of the Quota 100 version, which expires on 31 December 2021, postponing to next year the choices concerning the elimination of the quota mechanism, which represents a selective departure from ordinary rules.

Quota 102 mechanism meets the need to mitigate, for one year, the "discontinuity" in the pension eligibility requirements that would be created between those who will meet the Quota 100 requirements at 31 December 2021 and those who will not. The measure has a significantly smaller impact in terms of duration, pool of potential beneficiaries and expenditure compared with Quota 100, which it overlaps. The Quota 102 version is targeted at that marginal cohort of potential pensioners that will not be able to take advantage of Quota 100 because they fall one year short of meeting the seniority requirement at 31 December 2021. This group includes workers who, compared with the ordinary old-age requirements, could retire a maximum of 3 years early (2.5 years considering the moving start-date windows).

By contrast, the measure concerning the National Insurance Institute for Italian Journalists (INPGI) is of a permanent nature. In light of the financial disarray of the accounts of that privatised pension fund, which has already been the subject of repeated warnings from the Court of Auditors, the Budget Bill decrees the merger of INPGI into INPS as from 1 July 2022, including positions relating to both disability, old-age and survivors (IVS) pensions (the INPGI-AGO pension fund, which replaces the payroll employees pension fund (FPLD) operated by INPS) and the unemployment and wage supplementation benefits of journalists working as payroll employees. INPGI will continue to perform its role as a privatised pension fund for freelance journalists or those on contract work assignments (the INPGI-GS pension fund replacing the separate pension fund operated by INPS). In other words, the changes represent a spin-off similar to those

often witnessed in the banking sector (with a nationalised bad bank and a market-based newco).

Transitional and guarantee provisions are envisaged in the legislation. These include safeguarding people insured by INPGI who will meet pension requirements under existing legislation governing the institute by 30 June 2022, while pensions for the others will be calculated on a pro-rated basis: contribution histories up to 1 July 2022 will be treated under the more advantageous rules valid for the INPGI system, while the general rules of the FPLD system will apply to subsequent contributions.

Apart from any assessment of equity, the broad transitional and guarantee provisions create scope for a variety of litigation: in the coming years, workers belonging to the same pension fund (INPS FPLD) will be recipients of different benefits, with more favourable treatment of those transferred from INPGI.

Data from the Supervisory Commission for Pension Funds (COVIP) and the warnings issued by the Court of Auditors demonstrate that structural imbalances have been detectable for some time. Nevertheless, INPGI-AGO has continued to accrue growing deficits and rapidly consume assets. If carried out under these conditions, the bailout using public funds will not only induce an underestimation of the ineffectiveness of surveillance, but also provide an ex-post reward for the moral hazard assumed by fund management bodies and sector representatives, representing a dangerous precedent within the basic pension system.

With regard to pension benefits, the transition phase and the pro-rated treatment envisaged for the transfer of INPGI-AGO to INPS appear to run counter to the reforms of the first pillar of INPS, designed to keep expenditure under control while guaranteeing medium/long-term sustainability, the internal reorganisation of social spending and the future of younger generations.

Healthcare. – The pandemic emergency has shone a light on the shortcomings of the Italian National Health Service (NHS) and prompted a rethinking of the size of the overall healthcare budget and the actions to be taken to make the health system more resilient. NRRP investments are an example of the priority being given to this sector, but they are also a prelude to a greater commitment in terms of current expenditure.

The 2022 Budget Bill increases the funding of the NHS by about €2.3 billion in 2022, €3.8 billion in 2023 and €4.9 billion in 2024, with: 1) an increase in the standard National Health System funding requirement of €2 billion in 2022, €3.2 billion in 2023 and €4.2 billion in 2024, expanding this item by an overall €2 billion per year compared with 2021; 2) a refinancing of the fund for innovative pharmaceuticals; 3) an expansion of resources for specialist training contracts; and 4) a small reduction in funding to cover the extension to 2022 of the fund for access to psychological services. In addition, €1.85 billion are earmarked for the purchase of COVID-19 vaccines in 2022. The Budget Bill mainly provides

for measures to expand staffing (including the permanent hiring of temporary personnel), continue funding for certain measures adopted during the health emergency (reducing waiting lists, retaining special continuity care units), implement the plan for the response to an influenza pandemic, increase the ceiling on pharmaceutical spending and update the essential package of health services (although the essential package introduced in 2017 for specialist outpatient and prosthetic care have still not been applied). Increased personnel expenditure will generate revenue increases of €662 million in 2022, €447 million in 2023 and €512 million in 2024.

Considering the trend forecasts for healthcare expenditure in the EFD Update, assuming that the increase in funding in the 2022 Budget Bill translates in full into greater outlays, healthcare expenditure as a proportion of GDP would be equal to 6.3 per cent in 2024, below that in 2019 (6.4 per cent). Therefore, from a financial point of view, it does not seem that the intention is to implement an effective structural strengthening of the NHS but rather to confirm previous choices concerning the allocation of resources, which place Italy among the European countries with the lowest – and progressively declining - healthcare expenditure.

Social policies. – For 2022-2024, the Budget Bill allocates a total of €941 million, of which €550 million for social inclusion measures appropriated to the fund for the non-self-sufficient and €391 million as an increase in the Municipal Solidarity Fund (FSC) for educational and child services as well as school transport for students with disabilities and social services in the municipalities of Sicily and Sardinia. With regard to social inclusion measures, the legislation defines essential service levels for specific areas (social services, disabilities, and social exclusion and non-self-sufficiency of the elderly) in line with the actions envisaged under the NRRP. A minimum level of service supply is set on a local basis for educational services for children (nursery schools and day-care centres), to be achieved by 2027. The level is set equal to a number of places (including private services) – equivalent in terms of standard cost to full-time nursery school places – equal to 33 per cent of the population aged 3 to 36 months. However, the setting of the target creates a number of critical issues concerning the entities actually obliged to comply with the minimum level and the inclusion of private services in the calculation, and generates some implementation difficulties that could lead to allocative inefficiencies.

Public investment. – The 2022 Budget Bill envisages a variety of measures to support public investment by refinancing existing instruments or establishing new programmes. The most important measure is an increase in the funding of the Development and Cohesion Fund (DCF) for the 2021-2027 programming period, with the appropriation of an additional €23.5 billion, evenly distributed between 2022 and 2029. The Budget Bill also authorises a total of €15.4 billion to finance the programme contracts of the State Railways and the National Motorway Agency for the coming years, which mainly concern investments and extraordinary maintenance of infrastructure. A specific provision allocates €5 billion between 2022 and 2035 (€200 million over 2022-2024) to upgrade the Adriatic railway backbone in order to accelerate the development of the high speed/high

capacity characteristics of the line. A further spending authorisation of €3.7 billion in total (with allocations distributed from 2022 to 2036, of which €300 million in the next three years) is dedicated to the construction of infrastructure for mass rapid transit in the cities of Genoa, Naples, Rome, Milan and Turin. Alongside other measures connected with the upgrading of infrastructure, part of the investment expenditure proposed in the budget is intended to combat climate change, in particular with the establishment of two funds: the first, included in the budget of the Ministry of Sustainable Infrastructure and Mobility, is the fund for the sustainable mobility strategy, which has total funding of €2 billion from 2023 to 2034; the second - with total funding of €2.3 billion from 2026 to 2035 - is established with the Ministry of Ecological Transition and will help ensure the effective implementation of the National Air Pollution Control Programme.

Public employment. – The Budget Bill appropriates a gross total of about €3.1 billion for this sector over the 2022-2024 period, which generate induced effects on revenue of €1.4 billion. Net expenditure would therefore amount to about €1.7 billion (€483 million in 2022, €626 million in 2023 and €565 million in 2024). The appropriations will finance various measures: professional career paths and ancillary remuneration (in implementation of Legislative Decree 80/2021); new hiring of permanent staff and ordinary magistrates; training of public employees; ancillary remuneration for the senior officials in the police forces and armed forces; an increase in overtime for the personnel involved in the “safe roads” operation. Furthermore, the Budget Bill allocates €310 million for 2022 and €500 million from 2023 to renewals of bargaining agreements for the 2022-2024 period. These amounts had already been appropriated in the 2021 Budget Act and therefore have no impact on the balances in the current budget. Furthermore, in the absence of the renewal of the public employment contracts for the three-year period 2019-2021, the Budget Bill authorizes the payment of the contractual delay indemnity also for the three-year period 2022-24 which constitutes an anticipation of the benefits deriving from the renewal. This indemnity is covered by the resources automatically included for this purpose in current legislation (310 million for 2022 and 500 million starting from the following year).

Tax collection and governance of the Revenue Agency. – The Tax Decree and the Budget Bill also contain provisions governing the resumption of tax collection activities after the suspension imposed in response to the COVID-19 crisis and changes to the governance arrangements of the tax collection agent and the remuneration system of collection services. On this front, the Budget Bill modifies the organisational model of the national tax collection service with changes to the governance of the Revenue Agency-Tax Collection, whose policy-setting and control functions are entrusted to the Revenue Agency, to the system for remunerating tax collection services, which is charged to the State budget, eliminating collection fees and charges, a change that causes a small but increasing permanent reduction in State revenue. The provisions partially implement those contained in the enabling bill for the reform of the tax system (Chamber of Deputies Act no. 3343) for the same area.

By again modifying only some aspects of the institutional and procedural arrangements for tax collection – which have already undergone various changes in recent years - and neglecting others that contribute equally to the efficiency of the tax collection system, there is a risk that the measures will only produce partial effects, as happened with the recent 2016 reform, which had been adopted in part in response to urging from international organisations. The latter reform made significant organisational improvements without however resolving other issues, such as, for example, the complex management of the backlog of outstanding arrears, with the possible establishment of an automated mechanism for writing off uncollectable positions and a revision of the system of "notices of uncollectable positions", an enhancement of the powers of the collection agent in the initiation of enforcement procedures, an expansion of the database of the Financial Relations Archive with information updated more frequently and a rationalisation of the instalment payment system. The need for a comprehensive revision of the entire collection system therefore remains, and is becoming an increasingly urgent issue in the effort to enhance the efficiency of the administrative structure and protect the interests of the State, avoiding partial measures and incomplete reforms.

The governance provisions represent a further step towards the completion and creation of the one-tier collection system handled entirely by the Revenue Agency. However, the structure delineated by the bill does not yet appear sufficient to ensure the necessary organisational and operational synergies for efficient tax collection, not only in the activity of central offices but also and above all that of local units.