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2022 Budgetary Policy Report

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SUMMARY

The 2022 Budgetary Policy Report develops, with updated information on certain new aspects that have emerged in the meantime, the testimony given at the hearings on the Update to the Economic and Financial Document (Update) and on the budget package by the PBO Chairman, Giuseppe Pisauro, before the Budget Committees of the Chamber of Deputies and the Senate on 5 October and 23 November respectively.

The first chapter analyses the international and national **macroeconomic scenario**, taking due account of the most recent short-term indicators. The latter confirm, albeit within a general environment of economic expansion, differing trends across geographical areas, mainly due to differences in the progress of vaccination campaigns: while vaccination, including booster shots, is proceeding at a rapid pace in the advanced countries, most of the developing countries are suffering from vaccine shortages. The new Omicron variant of the virus, while showing itself to be extremely transmissible, does not seem to cause more severe symptoms than earlier variants.

In Italy, after the confirmation of rapid growth in the third quarter (GDP grew by 2.6 per cent on the previous quarter), signs of a slowdown have also emerged, partly attributable to the resurgence of the pandemic.

For 2021, the Draft Budgetary Plan (DBP) projects GDP growth of 6.0 per cent, significantly higher than the pace envisaged in the spring in the 2021 Economic and Financial Document (EFD). The scenario for 2022 incorporates the impact of the budget package, with GDP growth forecast by the Ministry for the Economy and Finance (MEF) at 4.7 per cent. Considering developments in the first three quarters of the year and assuming no change in GDP in the fourth quarter, the growth achieved for 2021 is equal to 6.2 per cent, already above the Government's projections. As also noted in the endorsement exercise for the policy scenario in the Update, the MEF's expectations for the coming years instead lie close to the upper bound of the range of forecasts produced by leading private and public institutions, which is especially relevant, considering the various risks to which the scenario for the Italian economy is exposed. These risks, which are balanced overall for 2021, appear to be mainly on the downside for the next few years, i.e., the period in which the macroeconomic forecasts are most relevant for developments in the public finances.

The second chapter of the Report is dedicated to an analysis of trends in the **public finance** aggregates and a detailed examination of the financial effects of the budget as presented by the Government to Parliament.

The budget package is made up of Decree Law 146/2021 and the 2022 Budget Bill. On the basis of the Technical Reports accompanying the measures, the budget measures will produce a deterioration in general government net borrowing compared with current legislation of 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).

Thanks to favourable developments in macroeconomic conditions, the Update and the DBP forecast a significant improvement in the policy profile of the debt/GDP ratio with respect to that delineated in the EFD, with the ratio beginning to decline already this year. The path of reduction should consolidate over the next few years: in 2024 the debt should be just above 146 per cent of GDP, or about half the distance between the 2020 level (155.6 per cent) and the pre-COVID figure (134.3 per cent in 2019).

As already noted in the hearings, a number of comments can be made concerning the budget package.

- The measures are undefined in certain respects, and to some degree the budget package is a work in progress (for example, this includes the tax reform), with the postponement of certain choices that will likely be determined during the process of parliamentary approval.

- The expansionary stance of the budget measures is mainly attributable to a significant increase in expenditure, current expenditure in particular. It should be noted that much of current expenditure is of a permanent nature. In this regard, last July the recommendations of the Council of the EU for Italy included limiting the increase in current expenditure financed at the national level; moreover, at the end of November the European Commission, in its opinion on the DBP, invited Italy – in order to contribute to the pursuit of a prudent budgetary policy – to adopt the necessary measures within its budgetary process to curb the growth of current expenditure financed at the national level.

- The budget package contains a mix of interventions, some of which extend (in certain 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.

- The numerous provisions concerning the implementation of the NRRP or the complementary measures entail an extension of budgetary decisions beyond the three-year planning period; in some cases these measures are structural, and thus have permanent effects on the public accounts. 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 pre-crisis level, as indicated in the Update and confirmed in the DBP.

- To achieve this goal, it appears crucial to keep the budget aggregates on the consolidation path envisaged in the DBP and, starting from 2025, to provide for balances that ensure, on average, annual debt reductions of around two points of GDP. These are greater than those set out in the Update's policy scenario for 2023 and 2024.

- The achievement of the objectives of the public finance policy scenario, which is exposed to domestic and international macroeconomic risks and to 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 chapter considers the **main measures** contained in the Budget Act and the Tax Decree, providing qualitative and quantitative analyses as well as more general observations. The content largely overlaps with that presented at the 23 November hearing on the Budget Bill, differing only in a number of data updates and changes that take account of the amendments to the Tax Decree introduced during the process of ratification into law.

More specifically, this chapter of the Report analyses the following programmes:

- the 110 per cent tax credit for energy and seismic upgrades (**superbonus**), whose provisions are also assessed in the light of the information on the first phase of application drawn from ENEA monitoring data for the entire month of November;

- the extensive package of measures for **firms**, including changes relating to the patent box mechanism and other incentives for investments in tangible and intangible assets and in research and development, the preferential treatment of the revaluation of intangible assets, as well as the extension to 30 June 2022 of the extraordinary public guarantee scheme for SMEs operating through the Central Guarantee Fund, with a view to gradually returning the Fund to normal operations. Quantitative analyses benefit from the use of the PBO's MEDITA model for corporations;

- measures affecting **pensions**, with an extension to 2022 of the possibility of retiring under the Women's Option and the *APE sociale* – the early retirement programme for hardship categories – and the introduction, for one year, of a Quota 102 pension mechanism (where 102 id the sum of age and years of contributions) in replacement of the Quota 100 version. Particular attention is devoted to the transfer of pension positions managed by the National Insurance Institute for Italian Journalists (INPGI) to INPS, including positions relating to both disability, old-age and survivors (IVS) pensions and the unemployment and wage supplementation benefits of journalists working as payroll employees, in light of the long-standing financial disarray of the accounts of that institute;

- measures for the **labour market**, with the extension of wage supplementation for COVID-19 reasons for certain sectors still suffering the impact of the crisis, thereby ensuring that all employers can access that programme until the end of the year, and the structural reorganisation of **safety net programmes** for persons

still in employment and the unemployed, continuing the process already begun with the Jobs Act;

- measures to support the **healthcare system**, the priorities of which were highlighted by the pandemic emergency, but for which – despite the expansion of resources allocated to health – expenditure in 2024 would be lower as a ratio to GDP than in 2019 (6.3 per cent, compared with 6.4 per cent);

- **public investment**, which will be supported, inter alia, with an increase in the resources of the Development and Cohesion Fund (DCF), the financing of the programme contracts of the RFI (the Italian rail network infrastructure operator) and the National Motorway Agency and the allocation of resources to fight climate change;

- measures for **public employment**;

- 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 of collection services.

1. THE MACROECONOMIC ENVIRONMENT

1.1 Recent economic developments

1.1.1 The international economy

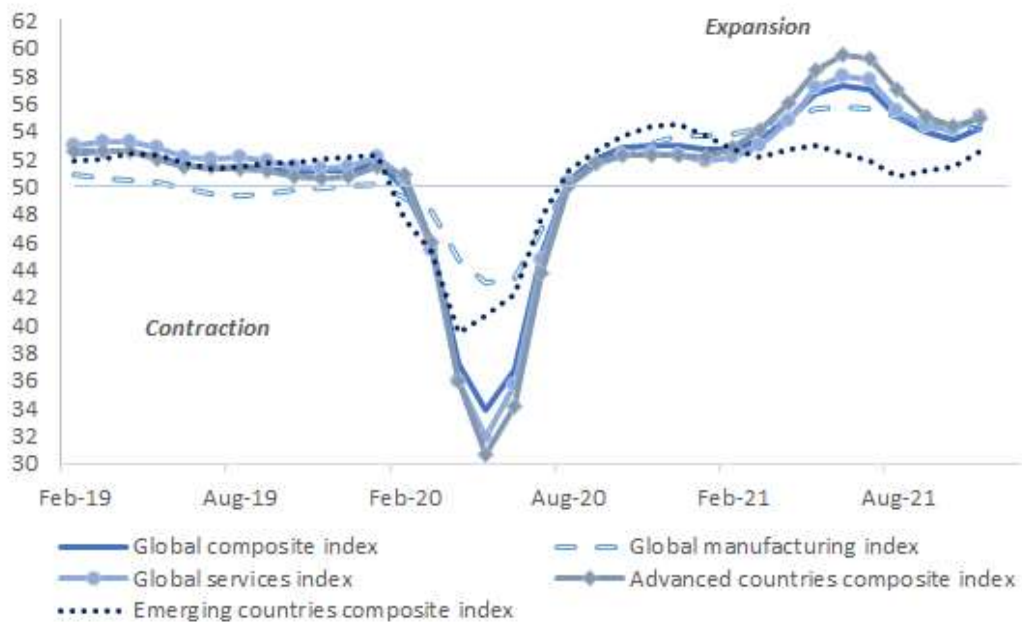
After about a year since the start of COVID-19 vaccination campaigns, more than half of the world's population appears to have received at least an initial dose, while about 45 per cent are fully vaccinated. However, the state of progress of prevention campaigns differs greatly among the various geographic areas of the world, reflecting shortages of vaccines in the developing countries. The new wave of infections has demonstrated the effectiveness of vaccines in preventing the most serious effects of the disease, and a number of the advanced countries have begun administering booster shots. The new Omicron variant of the virus, while showing itself to be extremely transmissible, does not seem to cause more severe symptoms than the previous variants.

In the major economies, vaccinations and the easing of social distancing measures enabled a swift resumption of activity during 2021. The United States, the euro area and China recorded strong increases in GDP, which in the first three quarters as a whole expanded by 5.7, 5.2 and 9.8 per cent respectively compared with the same period of 2020. The global economic situation continues to be impacted by frictions in the international logistics system and supply bottlenecks, which have increased costs and caused shortages of production inputs. After declining between June and October, the PMI indices reflecting the outlook of purchasing managers improved slightly in November (Figure 1.1). According to the most recent forecasts by the International Monetary Fund, world GDP is expected to grow by 5.9 per cent this year, the combined effect of a similar increase for the United States, more moderate growth for the euro area (5.0 per cent) and a sharper expansion for China (8.0 per cent). In 2022 the global economy is expected to decelerate, although maintaining a high pace of growth (4.9 per cent) by historical standards.

Despite the slowdown in recent months due to supply difficulties, international trade growth exceeded 11.0 per cent in the first nine months of the year compared with the same period of 2020 (the change acquired for 2021 as a whole came to 9.2 per cent).

Problems in international logistics and supply constraints, together with the sudden increase in demand, have significantly impacted the prices of raw materials. Brent oil, which at the beginning of the year was quoted at just under $52 per barrel, had reached close to $83 per barrel in the final part of November. The changes introduced with Decree Law 139/2021 have redesigned the Personal Data Protection Code in a less restrictive fashion, adapting it more closely to Regulation (EU) 2016/679, providing for a general simplification of data processing procedures to be followed by government entities in pursuit of the public interest, while respecting the freedoms and rights of the interested parties and the oversight of the Italian Data Protection Authority.

Figure 1.1 – PMIs for the main areas



Source: JP Morgan, IHS Markit.

A number of issues remain with regard to the innovative scope of the provisions for combating tax evasion and boosting the efficiency of tax collection efforts. The first concerns the ability of tax authorities to acquire the technological resources and statistical-IT skills needed to use the information potentially available to them. The second regards the possibility of effectively exploiting the interoperability of databases, including those not yet employed (for example, electronic invoicing data), in order to apply advanced methods of credit risk analysis. In this regard, it is desirable for the reform of tax collection mechanisms to eliminate the need for the Revenue Agency to apply credit recovery procedures to each individual position and enable it to make use of advanced data analysis to adapt collection strategies depending on the risk profile of the individual taxpayers. Over the same period, the euro weakened against the US currency by around 6 per cent, from 1.22 to 1.13 dollars per euro.

The 2022 Draft Budgetary Plan (DBP) confirms the international exogenous variables contained in the Update of the 2021 Economic and Financial Document (the Update). For international trade, the central forecast remains consistent with that in the Update, although the downside risks have amplified (Table 1.1) Market prices have changed, however, as volatility has significantly increased recently, especially for oil prices, reflecting in part the resurgence of the pandemic. Taking account of the recent quotes on futures contracts (updated to December 3), Brent is expected to close 2021 with an average price of $70.4 per barrel, compared with the $67.9 assumed in the DBP. For 2022, the difference should be greater, at almost $8 per barrel ($73.8 under current market conditions, compared with $66 in the DBP).

Table 1.1 – World trade (1)

	Percentage growth rates		Differences with previous forecasts	
	2021	2022	2021	2022
MEF (20 October)	10.8	5.7	2.0	0.5
European Commission (11 November)	9.1	6.3	0.6	0.3
IMF (12 October)	9.7	6.7	0.0	-0.3
OECD (1 December)	9.3	4.9	1.1	-0.9

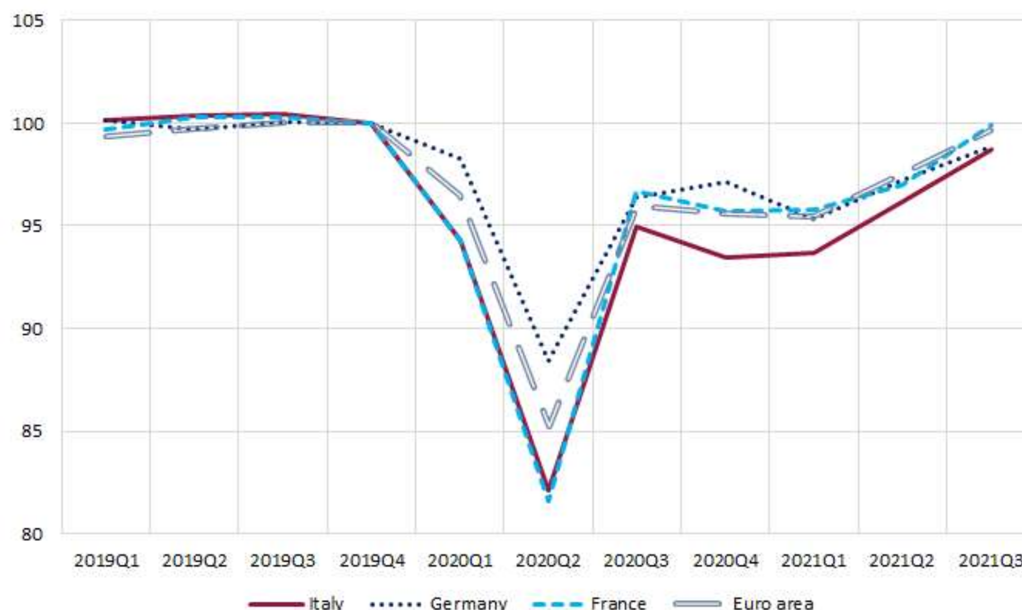
(1) For the MEF, the figures regard growth in Italy's key foreign markets. The previous forecasts regard those in the EFD from April for the MEF, May for the European Commission, April for the IMF and March for the OECD.

With regard to the exchange rate of the euro against the dollar, on the other hand, the technical assumption of invariance with respect to the average for the last 10 working days would result in a slight depreciation this year (to $1.18 from $1.20) and a steeper contraction next year ($1.13 compared with $1.18). Essentially, the updating of the DBP assumptions would currently imply an increase in commodity prices in euros, thus increasing the risk of inflation.

1.1.2 The Italian economy

The quarterly accounts released by Istat at the end of November confirmed the 2.6 per cent quarter-on-quarter growth of GDP in the third quarter of 2021, recouping additional ground on the decline registered in the first half of 2020. However, economic activity remains 1.3 percentage points below the level recorded in the final part of 2019, in line with Germany but slightly behind France and the euro area average (Figure 1.2). Positive quarterly developments were registered in the third quarter for value added in industry and, above all, services (up 0.7 per cent and 3.4 per cent, respectively), while the agricultural sector recorded a decline of more than 2 percentage points. On the demand side, domestic spending made a positive contribution (net of inventories) of 2 percentage points (of which 1.7 points attributable to consumption and 0.3 points to gross fixed investment). Inventories made a contribution of about one-tenth of a point to growth, while the contribution of net foreign demand was around half a percentage point, as the quarterly change in export growth (3.4 per cent) outpaced that in imports (2.1 per cent). Italy's sales abroad in the third quarter also performed better than those of its main European partners, with growth of 1.7 per cent in Germany and 3.0 per cent in France. The statistical carry-over impact on Italy's GDP growth this year amounts to 6.2 per cent, an improvement of one-tenth of a point compared with the preliminary figures.

Figure 1.2 – GDP of euro area and its three largest economies
(index, 2019Q4=100)



Source: based on Eurostat data.

Economic indicators point to a continuation of the expansion in the last quarter of the year, although signs of a slowdown due to the current resurgence of the pandemic have also emerged. According to estimates formulated using the short-term models of the Parliamentary Budget Office (PBO) in the fourth quarter GDP is expected to expand by about half a percentage point on the previous period, assuming no imposition of new restrictions in response to the health emergency.

In industry, the quarterly increases in the first two quarters of 2021 (1.5 and 1.2 per cent, respectively) were followed by a further expansion of output in the third (1.0 per cent). In September, the sector's activity was about 1.5 percentage points above the value registered immediately preceding the pandemic (February 2020). After the peak recorded in May (62.3), the PMI for the manufacturing sector remained well inside the area indicating expansion, posting a marked improvement in November (to 62.8 from 61.1 in October), driven by demand conditions, albeit against a background of growing strains on logistics, the availability of materials and production costs. The Istat index of confidence in the sector recently recovered from the declines seen in August and September, reaching a level close to the July high in November. Output in construction in September increased by 0.5 per cent compared with the previous period, bringing the change acquired for the current year to 21.6 per cent. In the summer quarter as a whole, construction activity was 13.6 percentage points higher than in the period prior to the pandemic. The climate of confidence in the construction industry this year consolidated the expansion that began in the spring of 2020. The services sector, which in 2020 was more severely affected than all other industries by the containment measures deployed to combat the pandemic, began to recover rapidly in the spring, benefiting from the gradual easing of restrictions on economic activity and personal mobility. The sector's PMI improved until the early summer months, and then fluctuated around historically high levels. The Istat index of sector confidence strengthened further on average in the third quarter, with all the main components showing gains, before declining slightly in October and November. Demand indicators also continued to recover in the second half of the year. Retail sales grew in the summer quarter as a whole, rising by 0.8 per cent in volume terms compared with the previous period, before increasing further in October (0.2 per cent). New

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vehicle registrations increased by an average of almost 13 percentage points in the first ten months of this year compared with the same period in 2020. However, this mainly reflected the base effect attributable to the exceptional decline recorded in April last year. Restricting the analysis to the average for the other nine months, the year-on-year rise was barely positive (0.2 per cent). With regard to capital accumulation, the Bank of Italy Survey on Inflation and Growth Expectations reports an upward revision of firms' investment plans for the final part of the year. Demand for capital goods benefited from the improvement in profit expectations, as well as from very relaxed conditions on the credit market, reflecting the still very expansionary stance of monetary policy. Positive signs also emerge from the fifth edition of the Special Survey of Italian Families, conducted by the Bank of Italy between August and September. Household expectations for economic conditions and the labour market turned positive for the first time since the spring of last year, despite the fact that the outlook for spending remains cautious, especially among less well-off households. Foreign merchandise trade performed strongly in the summer: despite the monthly downturn in September, the value of sales abroad increased by 2.8 per cent in the third quarter as a whole compared with the April-June average, with intermediate and capital goods making the largest contributions. The uncertainty of households and firms as measured by the PBO index is expected to gradually diminish in 2021, especially in the manufacturing and services sectors.

The gradual strengthening of economic activity during the year had a positive effect on the labour market. In the third quarter, employment increased by 0.4 per cent, reflecting a more pronounced increase in payroll employment (especially those on fixed-term contracts) and a decline in self-employment. Over the same period, the employment rate stabilised at around 58.3 per cent, while the unemployment rate continued to fluctuate at just above nine per cent. Developments in hourly contractual wages remained substantially in line with the weak trend posted in recent quarters.

The consumer price index increased by 0.7 per cent in November compared with the previous month, accelerating to 3.8 per cent year-on-year (from 3.0 per cent in October), driven by the increase in the price of energy goods and, to a lesser extent, food (processed and unprocessed) and transport-related services. The inflation acquired for 2021 is equal to 1.9 per cent for the general index and 0.8 per cent for the core component (net of energy and unprocessed food).

According to the projections developed with the PBO's short-term models, in the fourth quarter of this year GDP should expand on the previous quarter by less than one percentage point, assuming no new restrictions are imposed to contain the health emergency.

1.2 Macroeconomic forecasts

1.2.1 The Government's scenario

The macroeconomic forecast in the 2022 DBP is unchanged on that presented in the latest Update, projecting GDP growth for this year of 6.0 per cent, significantly better than that envisaged in the spring in the 2021 Economic and Financial Document (EFD). Economic activity in 2021 would be driven by domestic components, while foreign demand should provide a minimal contribution. In the following years, the contribution of net exports would be slightly negative, while that of the domestic components would remain positive but decreasing. The macroeconomic scenario developed by the Ministry for the Economy and Finance (MEF) is impacted by considerable impetus from investment. Capital accumulation would benefit from spending on projects under the National Recovery and Resilience Plan (NRRP), especially in construction. Household consumption would grow more moderately, reflecting the gradual decline in the propensity to save.

The 2022 scenario in the DBP incorporates the impact of the budget package, with GDP growth forecast by the Ministry for the Economy and Finance (MEF) at 4.7 per cent, half a point above the trend scenario. The following year the expansionary effect of the budget measures would decline to two-tenths of a point of GDP (2.8 per cent, from 2.6 per cent of the trend) and dissipate entirely in 2024 (Table 1.2). The strengthening of economic activity attributable to the budget measures would be founded on investment and government consumption (both of which would exceed the trend scenario by about 1 percentage point). Exports would remain unchanged compared with the current legislation scenario, while imports would increase, with the result that the balance of payments on current account would decline as a proportion of GDP. The faster growth of output would not have a significant impact on prices and costs. Accordingly, nominal GDP would expand by 6.4 per cent in 2022. The labour market would improve, with the unemployment rate declining by 0.1 percentage points in 2022 and 0.2 points on average in 2023-2024 compared with the current legislation scenario.

By comparison with the recent forecasts of other institutions and private analysts, the Government's GDP targets are currently cautious for 2021 (Table 1.3). After the date publication of the Update, Istat released GDP data for the third quarter of 2021, which showed growth of 2.6 per cent on the previous quarter, a stronger performance than expected both by leading forecasters and by the Government at the time of the EFD in the macroeconomic scenario produced by the MEF. The growth acquired for 2021 (the overall variation for the year if GDP should record no growth in the fourth quarter) is equal to 6.2 per cent, already better than the Government's projections. By contrast, the forecasts of the MEF for the next few years instead lie closer to the upper bound of the range of projections formulated by the major private and public institutions, which is especially significant in consideration of the risks associated with developments in the pandemic and world trade.

Table 1.2 – Trend and policy macroeconomic scenario in the 2021 Update (DBP 2022) (1)

	2021		2022		2023		2024	
	Trend	Policy	Trend	Policy	Trend	Policy	Trend	Policy
GDP and demand								
GDP	6.0	6.0	4.2	4.7	2.6	2.8	1.9	1.9
Imports	11.6	11.6	6.6	6.9	4.4	4.8	3.6	4.0
National final consumption	3.9	3.9	3.7	4.2	1.9	2.1	1.5	1.5
Household consumption	5.2	5.2	4.8	5.0	2.4	2.7	2.0	2.0
Expenditure of general government and non-profit institutions serving households	0.7	0.7	0.4	1.7	0.3	0.4	0.1	-0.2
Investment	15.5	15.5	5.8	6.8	4.3	4.9	4.0	4.3
Exports	11.4	11.4	6.0	6.0	4.1	4.1	3.1	3.1
Contribution to GDP growth								
Net exports	0.2	0.2	-0.1	-0.1	0.0	-0.1	-0.1	-0.2
Inventories	-0.1	-0.1	0.2	0.2	0.2	0.2	0.0	0.1
Domestic demand net of inventories	5.9	5.9	4.0	4.6	2.4	2.7	2.0	2.0
Prices								
Import deflator	7.1	7.1	2.6	2.6	1.2	1.2	1.2	1.2
Export deflator	3.2	3.2	2.1	2.1	1.2	1.3	1.2	1.2
GDP deflator	1.5	1.5	1.6	1.6	1.4	1.5	1.5	1.7
Nominal GDP	7.6	7.6	5.8	6.4	4.1	4.3	3.4	3.6
Consumption deflator	1.5	1.5	1.6	1.6	1.3	1.4	1.5	1.7
Labour market								
Unemployment rate	9.6	9.6	9.2	9.1	8.6	8.4	7.9	7.7
Assumptions for international variables								
World trade	10.4	10.4	8.6	8.6	5.2	5.2	4.2	4.2
Oil price (FOB, Brent)	67.9	67.9	66.0	66.0	62.9	62.9	60.7	60.7
Dollar/euro exchange rate	1.20	1.20	1.18	1.18	1.18	1.18	1.18	1.18

(1) Percentage changes, except for contributions to GDP growth (percentage points), unemployment rate, exchange rate and oil price. As a result of rounding growth rates to nearest decimal point, the sum of changes in quantities in volume terms and the associated deflators may not equal nominal changes.

Table 1.3 – Comparison of Italian GDP growth forecasts

		GDP			
		2021	2022	2023	2024
Oxford Economics [(1)]	6-Dec	6.3	4.5	2.4	0.8
OECD	2-Dec	6.3	4.6	2.6	
CER[(1)]	15-Nov	6.4	4.3	2.4	2.2
Prometeia [(1)]	12-Nov	6.2	4.0		
European Commission	11-Nov	6.2	4.3	2.3	
Consensus Economics [(1)]	8-Nov	6.1	4.2		
Confindustria	18-Oct	6.1	4.1		
International Monetary Fund	12-Oct	5.8	4.2	1.6	1.0

(1) Adjusted for number of working days.

1.2.2 Endorsement exercise

The PBO performed its institutionally mandated endorsement exercise for the macroeconomic forecasts in the 2021 EFD Update, which comprise a trend scenario on a current legislation basis and a policy scenario. European legislation requires the endorsement of policy forecasts but, in agreement with the MEF, the PBO extends the exercise to also include the trend scenario. The endorsement horizon encompasses the minimum time frame required by European regulations for the DBP, namely 2021-2022. For the next two years (2023-2024), the PBO in any case evaluates the realism of the Government's forecasts, which have a significant impact on public finance estimates and therefore on the sustainability of the debt.

The exercise was conducted by the PBO with the customary methodology, based on a comparison of the MEF scenarios with five separate forecasts, using shared assumptions for the international exogenous variables and the public finance measures.

The endorsement exercise is performed on the basis of a comprehensive analysis of the MEF's macroeconomic scenarios, drawing on a variety of information sources: 1) the PBO forecasts for short-term developments in GDP and the components of demand; 2) the annual forecasts obtained by the PBO using the PBO-Istat econometric model, used within the scope of the framework agreement with that institution; 3) the annual forecasts produced specifically by the independent forecasters (CER, Oxford Economics, Prometeia and REF.Ricerche) that make up the PBO forecasting panel; and 4) monitoring of the most recent projections available from other national and international institutions. An analysis of the internal consistency of the schedules produced by the MEF with the set of international exogenous variables was also performed. The overall assessment, based on these instruments, naturally takes account of the uncertainty that characterises the forecasts. In order to perform a like-for-like comparison with the MEF's projections, the assessments of the PBO panel members (including the PBO's projections) were formulated on the basis of the same assumptions for exogenous international variables adopted by the MEF. In addition, for the policy scenario, the PBO panel adopted the same assumptions used for the budget package for 2022-2024, developed by the PBO taking account of the content of the Update and certain information received from MEF on the differences between the public finance assumptions incorporated in the policy scenario and those in the trend scenario.

The PBO transmitted its endorsement of the 2021-2022 trend macroeconomic scenario on 24 September, giving a positive assessment of the plausibility of the Government's forecasts, but at the same time noting the presence of various elements of uncertainty representing mainly downward-oriented risks over the forecast horizon.[1] The GDP forecast in the Update's trend macroeconomic scenario over the endorsement horizon appears generally acceptable, as it falls within the range delineated by the PBO panel forecasts. In 2021 as a whole, the Government expects GDP growth of 6.0 per cent, recovering almost two-thirds of last year's decline. In 2022, the Government's trend scenario shows the Italian economy continuing to recover at a rapid pace (4.2 per cent), thanks above all to the stimulus imparted by the NRRP.

[1] The endorsement letter is available at https://www.upbilancio.it/wp-content/uploads/2021/09/Lettera-validazione-QMT-NADEF-2021-con-allegato.pdf.

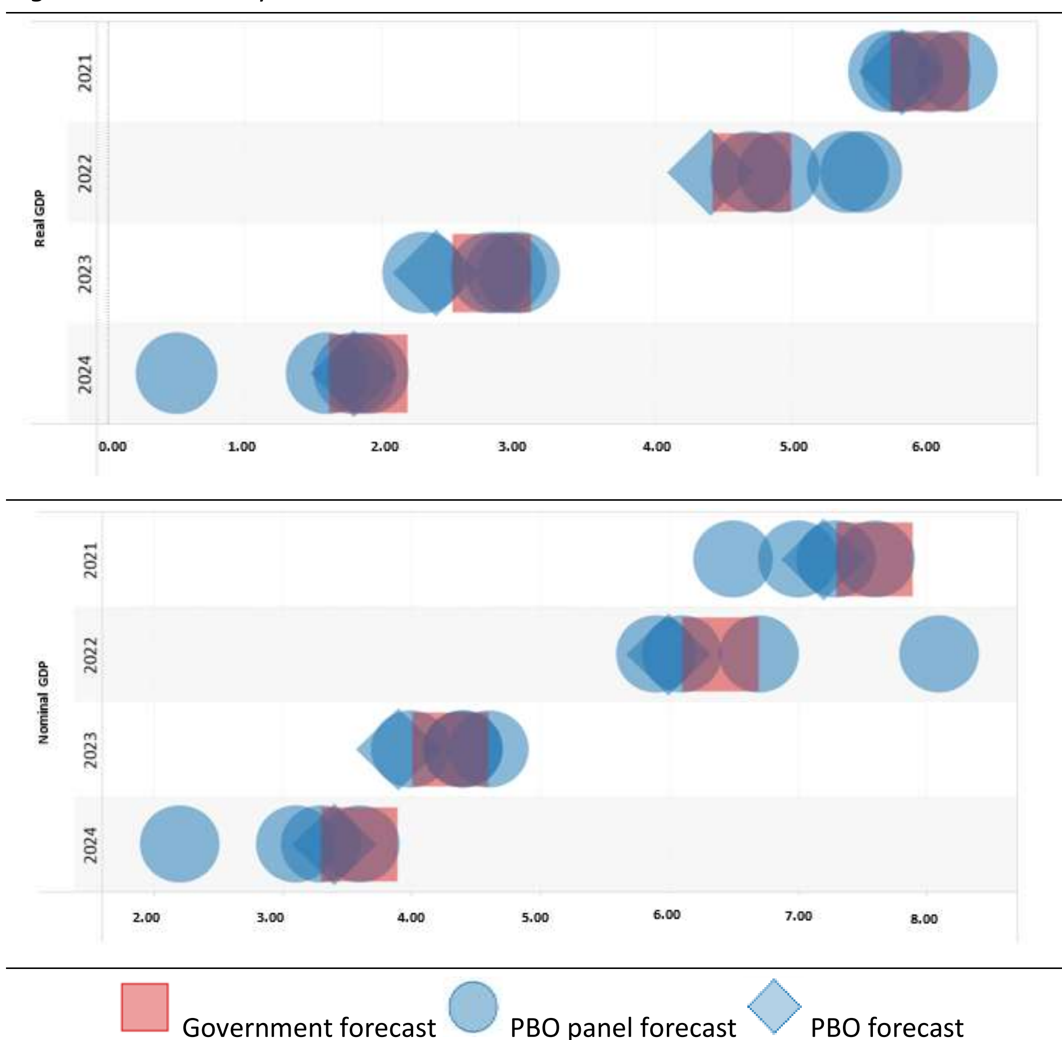
With regard to the growth determinants in the trend macroeconomic scenario, the forecasts for the main components of aggregate demand in 2021 appear to be consistent with the median assessments of the PBO panel. The expansion of the economy is largely attributable to the internal drivers of demand, while the contribution of net exports would be limited. The increase in exports exceeds that in foreign demand, while the dynamics of imports are more in line with developments in the domestic factors that activate foreign purchases. For next year, the evolution of the major components of resources and uses in the MEF forecast is also consistent with the expectations of the PBO panel, and there are no significant misalignments with respect to the interval of acceptable values. On the other hand, foreign trade growth in the Government's macroeconomic trend scenario appears to lie below the lower bound of the PBO panel's forecasts, due in part to developments in the variables that drive foreign demand. However, net exports make a substantially neutral contribution to GDP growth, similar to the median projections of the PBO panel. The forecasts for costs, prices and the labour market appear slightly optimistic for 2021. The change in the GDP deflator is just above the upper bound of the estimates of the PBO panel and coincides with that in the private consumption deflator, whereas it should be lower due to the deterioration in the terms of trade. The result is a change in nominal GDP aligned with the upper bound of the PBO panel estimates. With regard to the labour market, the MEF's projection for employment growth (in terms of FTEs) this year is well above the upper end of the endorsement interval. In 2022, the forecasts for nominal variables and the labour market are virtually consistent with the expectations of the PBO panel forecasters. The dynamics of the GDP deflator in the 2021 Update trend scenario lies between the median and the upper bound of the projections of the PBO panel for October, similarly to the change in nominal GDP.

In the Government's trend forecasts, GDP is expected to slow down in the 2023-2024 period, coming close to the median of the range of forecasts produced by the PBO panel in both real and nominal terms. However, Italy's real GDP growth rate at the end of the forecast horizon is significantly higher than the estimates for potential output formulated before the pandemic and appears to incorporate more rapid capital accumulation, attributable to the NRRP. The projections formulated by the MEF for investments in the two-year period are higher than the median values of the PBO panel estimates (at the end of the period covered by the macroeconomic scenario, investment is about one-fifth higher than in the years preceding the pandemic), while those for the other demand components appear acceptable in comparison with the panellists' expectations. Price projections for the final two years of the forecast horizon in the 2021 Update lie in the upper portion of the interval delineated by the PBO panel. The change in the GDP deflator comes close to the upper bound in 2023 and reaches it in 2024. As a result, nominal GDP growth lies just below the upper bound of the PBO panel range in both years, with the cumulative change in the 2023-2024 period (7.5 per cent) greater than that projected by almost all of the panel forecasters. With regard to the labour market, employment growth is just below the highest values in the endorsement interval in both years. The employment rate in the macroeconomic trend scenario of the Update increases over the entire horizon, starting at a very high level in 2022 compared with historical levels (i.e., the time series available since 1977). The forecasts for the unemployment rate also appear optimistic, coming in below the lower bound of the PBO panel forecasts.

As regards the policy scenario in the Update, the endorsement exercise assessed 2022 only, when the effects of the planned economic policy interventions will make themselves felt. The PBO assessed the Government's macroeconomic policy forecast in October,

deciding to endorse it since the estimated values for the main variables fell within the acceptability range delineated by the PBO panel forecasts (Figure 1.3).[2] The main factors supporting the plausibility of the Update's policy macroeconomic scenario are the following: the forecast for 2022 GDP growth (4.7 per cent) is close to the median value of the forecast interval and the increase in nominal GDP (6.4 per cent) is just slightly above it; b) the impact of the budget measures on economic activity in 2022 is similar to that estimated by the PBO panel; and c) the PBO panel is substantially in agreement with the deceleration of GDP expected by the MEF between 2021 and 2022. The policy macroeconomic scenario for the Italian economy nevertheless appears to be exposed to multiple risk factors that are greater than those for the trend scenario. Since GDP is already expanding at a rapid rate in the MEF trend scenario, the expansionary stimulus of the budget measures in 2022 could be less pronounced than expected, due to the possibility of supply struggling to meet the additional demand.

Figure 1.3 – Policy macroeconomic scenario forecasts



[2] The endorsement letter is available at https://www.upbilancio.it/wp-content/uploads/2021/10/UPB_Lettera-validazione-QMP-NADEF-2021.pdf.

With regard to the determinants of growth for next year, the policy macroeconomic scenario in the 2021 Update is characterised by a considerable contribution from domestic demand, whose estimates for the main components are on the whole close to the median values projections of the PBO panel. Similarly to the trend macroeconomic scenario, the dynamics of the variables relating to foreign trade are below the lower bound of the PBO panel range. The contribution of net exports to GDP growth, while substantially neutral, nevertheless lies between the median and the upper bound of the panel's range of variation.

The price forecasts presented in the policy macroeconomic framework of the Update fall between the median and the upper bound of the endorsement interval. The growth of the GDP deflator is almost half a percentage point higher than the median of the panel forecasts, while remaining distant from the upper end of the range of variation (the difference between the upper bound and the lower bound is almost 1.5 percentages points, confirming the substantial uncertainty of the estimates). Consequently, even the change in nominal GDP exceeds (albeit slightly) the median value of the panellists' projections.

The MEF's policy macroeconomic scenario for the 2023-2024 period appears slightly optimistic compared with the forecasts produced by the PBO panel. In 2023, real GDP growth (2.8 per cent) is close to the median of the PBO forecasters, which however lies just below the upper bound. In 2024, due to considerable uncertainty, the panel interval widens significantly, and the change in GDP forecast by the Government reaches the upper bound. The growth of the demand components is consistent with the panel's estimates, with the exception of investment, which exceeds the median, especially in the final year. As already noted for the trend scenario, GDP growth in the 2023-2024 is faster than that recorded by the Italian economy in the pre-crisis period, depending crucially on the impulse of expenditure and reforms under the NRRP. The timing and effectiveness of these interventions therefore represent a key factor in supporting such a favourable macroeconomic scenario.

Price dynamics for the 2023-2024 period fall within the endorsement range, approaching to the median value of the panel forecasts. An exception is the growth of the import deflator in 2023, which comes close to the upper bound of the range of variation. The evolution of the GDP deflator in the two-year period under consideration is close to that of the median assessments of the PBO forecasters. Nominal GDP growth is also aligned with the median of the panel's projections for 2023, while at the end of the Update's horizon it appears optimistic, as it coincides with the upper bound of the PBO panel forecasts. With regard to the labour market, the Update projections for 2023-2024 are relatively optimistic, as already noted for the trend scenario. The unemployment rate is below the lower bound of the panellists' estimates. The employment rate at the end of the period reaches 63.4 per cent, 4.4 points higher than the record high of 59.0 per cent recorded in 2019.

1.2.3 Risk factors underlying the forecast

The scenario for the Italian economy is surrounded by risks of various kinds, mainly on the downside as regards the coming years, i.e., in the period in which the macroeconomic

forecasts are most relevant for the public finances (the forecasts for the public budget for this year are mainly based on data and monitoring information available during the year).

The forecasts for the coming quarters are based on the assumption that the current wave of infections does not strain the healthcare system to an extent that would require the imposition of new restrictions on economic activity in Italy. Vaccination campaigns have proven effective in reducing the most severe symptoms of COVID-19, but immunisation efforts have currently reached less than half of the world's population. The discovery of the new Omicron variant has made it clear that the time needed to exit the pandemic is still very uncertain. However, the vaccine toolbox could soon be supplemented by antiviral drugs, which would improve the course of the disease, especially for the most vulnerable.

From a medium-term perspective, the international economic environment delineated by the major forecasters now appears favourable, but if logistical friction and supply bottlenecks are resolved more slowly than expected, foreign demand growth next year could be threatened.

Another risk is associated with the assumption, implicit in the MEF's macroeconomic scenario, that Italy will be able to make full, timely and efficient use of the European funds available under the Next Generation EU programme in order to implement the investment projects envisaged in the NRRP. This presupposes the actual availability of considerable unused production capacity, especially in the construction sector; otherwise, this sector could experience supply-side constraints in responding to the considerable increase in public demand, thus dampening the multiplicative effects on other production sectors. The partial, delayed or inefficient implementation of the projects would undermine a significant factor supporting growth.

In the medium term, a more favourable scenario cannot be ruled out, as the high level of precautionary savings accumulated by households over the past year would foster a more rapid recovery in consumer spending if uncertainty were to decline more permanently. However, the current upsurge in inflation, driven by the rise in energy prices and the shortage of semi-finished goods, could be more persistent than envisaged by central banks. In this case, the increase in prices would affect household purchasing power and could trigger a monetary policy reaction, with adverse effects on economic activity.

Over a longer time horizon, a crucial factor will be the stance of economic policies. When the pandemic is eradicated and the world economy returns to steady growth, it will be necessary to reduce accumulated financial imbalances. Any mismatches in the cycle of recovery between countries could affect the risk premiums demanded by markets for economies with particularly high levels of debt, possibly also triggering financial tensions. For the countries of the European Union, these risks will depend to a considerable extent on the new system of fiscal rules now under discussion.

2. THE PUBLIC FINANCES

2.1 The trend scenario

The Update revised the public finance trend forecasts reported in last April's EFD, taking account, on the one hand, of the improvement in macroeconomic conditions and more favourable developments in interest rates and, on the other, the financial effects of the legislative measures approved following the publication of the EFD. More specifically, the new trend forecasts incorporate: 1) the impact of Decree Law 59/2021 and Decree Law 73/2021 as well as other measures of smaller financial impact; 2) the results of the monitoring of the public accounts during the year; 3) the use of the resources provided for in the final version of the Next Generation EU (NGEU) recovery plan; and 4) Istat's revisions of the national accounts data.

On 22 September Istat published its revision of the resources and uses account and the general government account for the 2018-2020 period to take account of information obtained after the estimate released the previous April on the occasion of the transmission of the report on the deficit and government debt to Eurostat. The new national accounts estimates led to corrections of net borrowing as a percentage of GDP in 2019-2020. With regard to 2019, thanks to an upward revision of GDP, the deficit improved from 1.6 to 1.5 per cent of GDP. For 2020, the revisions led to a deterioration in the deficit from 9.5 to 9.6 per cent of GDP. In absolute value, the deficit increased by €1.6 billion due to lower revenues (-€3.3 billion) only partially offset by a downward revision of expenditure (-€1.7 billion). On the revenue side, both direct taxes (-€1.6 billion) and indirect taxes (-€1.3 billion) declined as a result of the revision of the estimate of payments due in 2020 but postponed to subsequent years in accordance with legislation introduced in response to the economic-health emergency. The 2020 accounts were corrected downwards to ensure the accurate registration of flows on an accruals basis, in compliance with the provisions of ESA 2010. On the expenditure side, capital expenditure was decreased by €1.5 billion, mainly attributable to expenditure on gross fixed investment. Under current expenditure, an increase in compensation of employees (€0.4 billion) was more than offset by a decrease in other current expenditure (€0.5 billion).

It is important to remember that the trend forecasts take account of the spending that will be financed with grants under the Recovery and Resilience Facility (RRF) in accordance with the profile indicated in Table 2.1. To these amounts, it should be added spending that will be financed with grants as part of recovery assistance for cohesion and the territories of Europe (ReactEU) and those made possible by RRF loans for additional measures (Table 2.2 shows loans for both additional and existing measures[3]). The tables show that in each year of the 2021-2023 period these expenditures are lower than those assumed in the EFD, with a shift forward in the use of European resources concerning only the public investment component. However, the composition of loans may have changed, with the use of additional loans in 2021-2023 rather than the profile envisaged in the EFD.

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[3] The EFD indicated €12.9 billion in additional loans for 2024, while the Update does not provide any information in this regard and does not distinguish between loans for additional or existing measures. In addition, the share of loans for additional measures compared with loans for existing measures was increased in the final version of the NRRP.

Table 2.1 – Impact of the RRF on forecasts – Grants
(percentage of GDP)

		2021	2022	2023	2024	2025	2026
Revenue from RRF grants							
RRF grants included in revenue forecasts	Update	0.3	0.7	1.0	0.7	n.a.	n.a.
	EFD	0.6	0.9	1.4	0.5	0.2	0.0
Expenditure funded with RRF grants							
Total current expenditure	Update	0.1	0.2	0.2	0.1	n.a.	n.a.
	EFD	0.1	0.1	0.2	0.1	0.0	0.0
Gross fixed investment	Update	0.1	0.2	0.3	0.3	n.a.	n.a.
	EFD	0.4	0.5	0.8	0.2	0.1	0.0
Capital transfers	Update	0.1	0.3	0.3	0.2	n.a.	n.a.
	EFD	0.1	0.3	0.3	0.2	0.0	0.0
Other costs funded with RRF grants							
Reduction in tax revenue	Update	0.0	0.1	0.2	0.2	n.a.	n.a.
	EFD	0.0	0.0	0.1	0.1	0.1	0.1

Source: 2021 EFD and 2021 Update.

Table 2.2 – Impact of the RRF on forecasts – Loans
(percentage of GDP)

		2021	2022	2023	2024	2025	2026
Expenditure funded with RRF loans							
Total current expenditure	Update	0.0	0.0	0.0	0.1	n.a.	n.a.
	EFD	0.2	0.2	0.0	0.1	0.1	0.1
Gross fixed investment	Update	0.3	0.6	0.8	1.4	n.a.	n.a.
	EFD	0.5	0.5	0.5	1.0	0.9	0.8
Capital transfers	Update	0.1	0.0	0.0	0.0	n.a.	n.a.
	EFD	0.1	0.2	0.2	0.2	0.2	0.1

Source: 2021 EFD and 2021 Update.

The analysis of the information contained in the Update would be improved if detailed data on expenditure financed using European resources, expressed not only in relation to GDP but also in absolute value, were published, distinguishing between loans for additional or existing measures and not limiting the data to the RRF. In order to enhance our understanding of expenditure trends, it would also be appropriate for official documents to expressly indicate the time profile of the use of the resources, with an indication of any changes compared with previous plans, of the 2021-27 Development and Cohesion Fund (DCF), whose programming was brought forward with its inclusion in the NRRP.

As happened in the EFD, the resources relating to the Rural Development programme, the Just Transition Fund (JTF) and other programmes were probably not considered for prudential reasons and in view of the relatively low value of the amounts involved.[4]

[4] Under the ESA 2010 accounting rules, those resources and the associated expenditure have a neutral impact on the deficit.

It should be recalled that the European Commission has already disbursed (on 13 August) an advance to Italy, equal to 13 per cent of all non-repayable financial contributions (grants) and loans, of about €24.9 billion, of which €9 billion in respect of grants and €15.9 billion of loans.

The entire trend deficit reduction path in the Update is more favourable than that indicated in the EFD.

For 2021, the EFD indicated two deficits: a trend deficit – equal to 9.5 per cent of GDP – and another deficit – equal to 11.8 per cent of GDP – that included the deterioration of €40 billion (2.3 per cent of GDP) associated with the request for a deviation contained in the Report to Parliament pursuant to Article 6 of Law 243/2012, which had not yet been translated into legislation. Subsequently, Decree Law 59/2021 and Decree Law 73/2021 used the resources made available with the deviation that was approved by Parliament. As noted at the beginning of the section, the trend deficit for 2021 in the Update takes account of the provisions of the two decrees.

Instead of increasing to the 11.8 per cent estimated in April, in 2021 the deficit would reach 9.4 per cent, just under that registered the previous year, before contracting to less than half that in 2022 and then gradually decreasing until 2024 (Table 2.3). In particular, the deficit is expected to fall below 3 per cent of GDP in the 2023-2024 period.

After the 9.4 per cent of GDP registered for 2021, the deficit would decrease to 4.4 per cent in 2022 and then to 2.4 per cent in 2023 and 2.1 per cent in 2024. The primary balance, i.e., net of interest expenditure, which showed a substantial deficit in 2020, would remain negative and large this year and next. In the 2023-2024 period, the balance would return to a surplus of a few tenths of a per cent of GDP. After a slight increase in 2020, the ratio of interest expenditure to GDP would fall again until 2024. The ratio of public debt to GDP, after having increased by more than twenty-one percentage points in 2020 (from 134.3 per cent in 2019 to 155.6 per cent), is expected to decrease successively in each of the years of the forecast period, reaching 143.3 per cent in 2024 thanks to the downward trend in the deficit and the growth of the economy.

This improvement in balances in the forecast period is the consequence of a number of factors: the expected end of the health emergency, the temporary nature of most of the measures adopted so far to counter the impact of COVID-19, the positive effects on revenue of the particularly strong performance of the economy, as well as the fiscal feedback effect connected with the expansionary impact of the measures of the Recovery and Resilience Plan (NRRP) on the tax base.

The remainder of the section provides further details on the trend public finance scenario.

Estimates for 2021 – Net borrowing is expected to total an estimated 9.4 per cent of GDP in 2021, down from the 9.6 per cent recorded in 2020. This is well below the 11.8 per cent indicated in the EFD, which included the effects of the deviation of €40 billion requested in the Report to Parliament presented together with the EFD.

Table 2.3 – Consolidated general government revenue and expenditure account: trend forecasts

	Millions of euros					% of GDP					Growth rates			
	2020	2021	2022	2023	2024	2020	2021	2022	2023	2024	2021	2022	2023	2024
EXPENDITURE														
Compensation of employees	173,767	179,401	188,787	183,289	183,843	10.5	10.1	10.0	9.4	9.1	3.2	5.2	-2.9	0.3
Intermediate consumption	150,881	161,930	153,614	154,048	153,753	9.1	9.1	8.2	7.9	7.6	7.3	-5.1	0.3	-0.2
Social benefits of which:	399,171	403,970	403,750	410,400	418,970	24.1	22.7	21.4	20.9	20.7	1.2	-0.1	1.6	2.1
Pensions	*281,451*	*287,640*	*296,240*	*304,730*	*312,420*	*17.0*	*16.2*	*15.7*	*15.6*	*15.4*	*2.2*	*3.0*	*2.9*	*2.5*
Other social benefits	*117,720*	*116,330*	*107,510*	*105,670*	*106,550*	*7.1*	*6.5*	*5.7*	*5.4*	*5.3*	*-1.2*	*-7.6*	*-1.7*	*0.8*
Other current expenditure	74,657	87,645	80,831	79,673	79,362	4.5	4.9	4.3	4.1	3.9	17.4	-7.8	-1.4	-0.4
Total current expenditure net of interest expenditure	**798,476**	**832,946**	**826,981**	**827,410**	**835,927**	**48.3**	**46.8**	**43.9**	**42.2**	**41.3**	**4.3**	**-0.7**	**0.1**	**1.0**
Interest expenditure	57,252	60,480	55,282	52,449	50,445	3.5	3.4	2.9	2.7	2.5	5.6	-8.6	-5.1	-3.8
Total current expenditure of	**855,728**	**893,425**	**882,263**	**879,858**	**886,373**	**51.8**	**50.2**	**46.8**	**44.9**	**43.8**	**4.4**	**-1.2**	**-0.3**	**0.7**
Healthcare spending	*123,474*	*129,449*	*125,708*	*123,554*	*124,428*	*7.5*	*7.3*	*6.7*	*6.3*	*6.1*	*4.8*	*-2.9*	*-1.7*	*0.7*
Total capital expenditure	**88,758**	**107,333**	**93,577**	**94,895**	**94,937**	**5.4**	**6.0**	**5.0**	**4.8**	**4.7**	**20.9**	**-12.8**	**1.4**	**0.0**
Gross fixed investment	42,595	51,000	59,000	65,185	69,654	2.6	2.9	3.1	3.3	3.4	19.7	15.7	10.5	6.9
Capital grants	17,617	24,665	26,976	24,548	20,645	1.1	1.4	1.4	1.3	1.0	40.0	9.4	-9.0	-15.9
Other transfers	28,546	31,668	7,601	5,162	4,637	1.7	1.8	0.4	0.3	0.2	10.9	-76.0	-32.1	-10.2
Total final expenditure net of interest expenditure	**887,234**	**940,278**	**920,558**	**922,305**	**930,864**	**53.7**	**52.8**	**48.9**	**47.1**	**46.0**	**6.0**	**-2.1**	**0.2**	**0.9**
Total final expenditure	**944,486**	**1,000,758**	**975,840**	**974,754**	**981,309**	**57.1**	**56.2**	**51.8**	**49.7**	**48.4**	**6.0**	**-2.5**	**-0.1**	**0.7**
REVENUE														
Total tax revenue	479,482	513,565	538,835	557,172	572,296	29.0	28.9	28.6	28.4	28.3	7.1	4.9	3.4	2.7
Direct taxes	250,977	260,662	265,761	275,067	281,949	15.2	14.6	14.1	14.0	13.9	3.9	2.0	3.5	2.5
Indirect taxes	227,546	251,419	271,558	280,568	288,795	13.8	14.1	14.4	14.3	14.3	10.5	8.0	3.3	2.9
Capital taxes	959	1,484	1,516	1,537	1,552	0.1	0.1	0.1	0.1	0.1	54.7	2.2	1.4	1.0
Social contributions	228,641	232,806	252,324	260,360	269,055	13.8	13.1	13.4	13.3	13.3	1.8	8.4	3.2	3.3
Actual contributions	224,262	228,326	247,786	255,767	264,405	13.6	12.8	13.2	13.1	13.1	1.8	8.5	3.2	3.4
Imputed contributions	4,379	4,480	4,538	4,593	4,650	0.3	0.3	0.2	0.2	0.2	2.3	1.3	1.2	1.2
Other current revenue	74,747	78,194	84,234	83,485	81,296	4.5	4.4	4.5	4.3	4.0	4.6	7.7	-0.9	-2.6
Total current revenue	**781,911**	**823,082**	**873,877**	**899,480**	**921,095**	**47.3**	**46.3**	**46.4**	**45.9**	**45.5**	**5.3**	**6.2**	**2.9**	**2.4**
Non-tax capital revenue	3,175	8,428	17,566	26,247	16,530	0.2	0.5	0.9	1.3	0.8	165.4	108.4	49.4	-37.0
Total final revenue	**786,045**	**832,994**	**892,959**	**927,265**	**939,178**	**47.5**	**46.8**	**47.4**	**47.3**	**46.4**	**6.0**	**7.2**	**3.8**	**1.3**
memo Fiscal burden						*42.8*	*41.9*	*42.0*	*41.7*	*41.5*				
BALANCES														
Primary balance	**-101,189**	**-107,284**	**-27,599**	**4,960**	**8,314**	**-6.1**	**-6.0**	**-1.5**	**0.3**	**0.4**				
Current balance	**-73,817**	**-70,343**	**-8,385**	**19,622**	**34,723**	**-4.5**	**-4.0**	**-0.4**	**1.0**	**1.7**				
Net borrowing	**-158,441**	**-167,764**	**-82,880**	**-47,489**	**-42,132**	**-9.6**	**-9.4**	**-4.4**	**-2.4**	**-2.1**				

Source: 2021 Update.

The deficit is smaller than that expected in the EFD for several reasons. First, GDP has grown faster than previously expected. Furthermore, as happened last year, less-than-expected use was made of the resources made available under the anti-crisis decrees. Roughly, we can estimate a similar contribution – between €15 billion and €20 billion – from higher revenues linked to faster economic growth and lower expenditure attributable to the less-than-expected use of resources by the measures adopted than initially estimated (related in part to grants). Finally, another factor is an upward revision of the revenue estimate – in the light of the monitoring performed using the most recent data available on tax payments – attributable to a change in the calculation of postponed tax payments, with an adverse impact on the accounts for 2020 and an improvement in those for 2021.

To understand the factors that led to the new estimate of the deficit for this year, it is helpful to compare the trend forecasts of the general government account for 2021 contained in the Update, which incorporates the effects of Decree Law 59/2021, Decree Law 73/2021, Decree Law 77/2021, Decree Law 79/2021 and Decree Law 80/2021 (with a deficit of €167.8 billion) and the trend

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forecasts published in the EFD, which did not reflect the effects of these decree laws and show a deficit of €165.1 billion, equal to 9.5 per cent of GDP (Table 2.4). This comparison indicates a deterioration of €2.6 billion in the deficit, instead of the €39.9 billion that would result – other things being equal – from adding the effects to the face value of the decrees issued after the EFD.

Table 2.4 – Consolidated general government revenue and expenditure account: differences between 2021 Update forecasts and 2021 EFD trend scenario *(millions of euros)*

	2020 [1]	2021	2022	2023	2024
EXPENDITURE					
Compensation of employees	411	2,064	1,595	-2,905	129
Intermediate consumption	81	3,958	1,336	-896	-374
Social benefits of which:	-241	1,570	1,770	1,460	1,550
Pensions	*-223*	*-420*	*670*	*1,820*	*1,830*
Other social benefits	*-18*	*1,990*	*1,100*	*-360*	*-280*
Other current expenditure	-411	451	-1,889	-3,576	-4,071
Total current expenditure net of	-160	8,042	2,811	-5,917	-2,768
Interest expenditure	-57	2,905	541	-1,053	-1,529
Total current expenditure of which:	-217	10,946	3,353	-6,971	-4,295
Healthcare spending	0	2,311	2,086	-2,677	18
Total capital expenditure	**-1,516**	**1,095**	**1,442**	**2,133**	**8,110**
Gross fixed investment	-1,599	-4,663	10	-1,216	6,066
Capital grants	34	-2,612	532	1,608	703
Other transfers	49	8,369	900	1,740	1,340
Total final expenditure net of interest	**-1,676**	**9,135**	**4,254**	**-3,785**	**5,343**
Total final expenditure	**-1,733**	**12,040**	**4,795**	**-4,838**	**3,814**
REVENUE					
Total tax revenue	-2,930	10,154	13,917	13,017	12,981
Direct taxes	-1,588	6,556	5,558	3,930	2,864
Indirect taxes	-1,344	3,419	8,167	8,885	9,910
Capital taxes	2	179	192	202	207
Social contributions	-2	5,183	8,090	8,315	10,353
Actual contributions	0	5,183	8,090	8,315	10,353
Imputed contributions	-2	0	0	0	0
Other current revenue	-496	-855	2,606	3,216	1,712
Total current revenue	**-3,430**	**14,304**	**24,422**	**24,346**	**24,840**
Non-tax capital revenue	114	-5,065	-2,746	-7,331	3,729
Total final revenue	**-3,314**	**9,419**	**21,868**	**17,218**	**28,777**
memo Fiscal burden	*-0.3*	*-0.2*	*0.1*	*-0.1*	*-0.1*
BALANCES					
Primary balance	**-1,638**	**283**	**17,615**	**21,002**	**23,435**
% of GDP	*-0.1*	*0.2*	*1.0*	*1.1*	*1.2*
Current balance	**-3,213**	**3,359**	**21,070**	**31,317**	**29,136**
% of GDP	*-0.2*	*0.2*	*1.2*	*1.6*	*1.4*
Net borrowing	**-1,581**	**-2,621**	**17,074**	**22,055**	**24,963**
% of GDP	*-0.1*	*0.1*	*1.0*	*1.3*	*1.3*
Trend nominal GDP	1,982	41,189	47,599	55,024	60,124

Source: 2021 EFD and 2021 Update.
(1) The differences with respect to 2020 are due to the Istat revision issued on 22 September 2021.

Maintaining the same assumptions, expenditure should have been €34.1 billion greater and revenue should have been €5.8 billion lower. Instead, in the account reported in the Update, the latter are €9.4 billion higher, reflecting the more favourable performance of the economy, the updated monitoring data and the revision of the estimated impact of the postponement of tax payments noted earlier. These factors therefore more than offset both the effects of the reduction in revenue attributable to the decrees listed above and the reduction in non-tax capital income due to the decrease in RRF grants allocated to this item following the aforementioned decision to postpone part of the investment expenditure.

Expenditure, which – as just noted – should have been €34.1 billion higher than the EFD trend estimates, were instead only €12 billion higher in the Update, essentially reflecting the lower actual use than previously estimated of the programmes adopted during the year.

Compared with last year, the 2021 deficit estimated in the Update reflects, in addition to a slight reduction in interest expenditure as a percentage of GDP (from 3.5 to 3.4 per cent, although the figure is higher in absolute value; Table 2.3), a persistently large primary deficit similar to that registered last year (6.0 per cent of GDP compared with 6.1 per cent). This is due to a substantially equal reduction as a percentage of GDP both in expenditure net of interest (to 52.8 per cent, compared with the previous 53.7 per cent) and in revenue (to 46.8 per cent, compared with the previous 47.5 per cent).

Again as a percentage of GDP, both expenditure and revenue decrease compared with 2020 on current account and increase on capital account. In the case of expenditure, primary current expenditure would decrease as a proportion of GDP from 48.3 per cent to 46.8 per cent, while capital expenditure would rise from 5.4 per cent to 6.0 per cent. On the revenue side, current revenue would drop from 47.3 per cent to 46.3 per cent and capital revenue (tax and non-tax) would increase from 0.3 per cent to 0.6 per cent of GDP. The fiscal burden would decline from 42.8 per cent to 41.9 per cent, reflecting decreases as a percentage of GDP of all the main components except indirect taxes.

Primary expenditure is expected to rise by 6 per cent compared with 2020 – by €53 billion in absolute value, after the increase of €76.6 billion recorded in 2020 – reflecting increases of 4.3 per cent in primary current expenditure and 20.9 per cent in capital expenditure. All expenditure components are affected by the measures adopted by the Government to counter the economic and health emergency. More specifically, the largest increases in current expenditure are registered in other current expenditure (17.4 per cent) – which includes transfers and grants to firms and households – and intermediate consumption (7.3 per cent) – which mainly reflect the growth in spending in the healthcare sector.

As regards capital expenditure, rapid growth is expected for all expenditure items, with the largest rises coming in investment grants (40 per cent, after a jump of 23.3 per cent in 2020) and investment (19.7 per cent), while the increase in other transfers would still be substantial (10.9 per cent, after having more than quadrupled in 2020 compared with 2019), incorporating the effects of the measures providing non-repayable grants to support firms and VAT number holders under the provisions of Decree Law 41/2021 and Decree Law 73/2021, as well as the estimated value of provisions recognised in respect of

the standardised guarantees introduced with the decree laws approved starting from 2020.

Total revenue would grow by 6.0 per cent, or about €47 billion in absolute value, largely recouping the decrease of over €57 billion recorded in 2020. Direct tax revenue (+3.9 per cent) is affected by the measures envisaged in the 2021 Budget Act and subsequent decree laws, in particular the provisions making permanent the personal income tax credits for employees and the extension of tax credits for spending on energy efficiency upgrades and building renovations as well as the special transitional rules for the ACE mechanism (allowance for corporate equity) for capital increases. Indirect taxation increases significantly (+10.5 per cent) after the sharp contraction recorded in 2020, with a recovery in particular of business taxes and gaming taxes. Social contributions (+1.8 per cent) reflect the contribution relief for employment in disadvantaged areas provided for in the Budget Act and the expansion of exemptions provided for in Decree Law 41/2021 concerning the payment of social contributions due from self-employed workers and professionals.

The forecasts for 2022-2024 – As noted earlier, the trend deficit is projected as in decline over the 2022-2024 period, falling by half to 4.4 per cent of GDP in 2022 (from the 5.4 per cent expected in the EFD) and declining further to 2.4 per cent in 2023 (3.7 per cent in the EFD) and then 2.1 per cent in 2024 (3.4 per cent in the EFD). The primary deficit shrinks in 2022, contracting to 1.5 per cent of GDP, before becoming a surplus of 0.3 per cent and 0.4 per cent in 2023 and 2024 respectively. This favourable trend mainly reflects the continued decline in expenditure net of interest, which would fall as a percentage of GDP from 52.8 per cent in 2021 to 46 per cent in the last forecast year.

After the further increase expected for 2021, primary expenditure in absolute value is expected to decrease by 2.1 per cent in 2022, before turning slightly upwards the following two years (respectively by 0.2 per cent and 0.9 per cent). As a percentage of GDP, after the peaks registered in the 2020-2021 period, expenditure net of interest would decrease in all years and in all components, except for investment spending. The decline would largely reflect the decrease in primary current expenditure (which would fall to 43.9 per cent in 2022, 42.2 per cent in 2023 and 41.3 per cent in 2024), with reductions coming in particular from social benefits and other current expenditure. Capital expenditure is expected to decrease less as a percentage of GDP (falling to 5.0 per cent in 2022, 4.8 per cent in 2023 and 4.7 per cent in 2024). While investment expenditure would increase in relation to GDP, rising from 2.9 per cent in 2021 to 3.4 per cent in 2024, the other components of the aggregate would decline, in particular other capital expenditure, which would fall from 1.8 per cent to 0.2 per cent over the same period in reflection of the termination of the temporary measures adopted in response to the COVID-19 emergency. Interest expenditure would decline to 2.9 per cent of GDP in 2022, 2.7 per cent in 2023 and 2.5 per cent in 2024 and would also decrease in absolute value, falling below the amounts projected for 2023-2024 in the EFD (Tables 2.3 and 2.4).

Revenue would show a substantial increase in absolute value in 2022 (7.2 per cent, Table 2.3) before slowing in subsequent years (with increases of 3.8 per cent in 2023 and 1.3 per cent in 2024). Total revenue would remain at around 47 per cent of GDP, reflecting in part the developments in non-tax capital revenue, where part of the NGEU subsidies are registered. The fiscal burden would rise by a tenth of a point to 42 per cent in 2022, and then fall to 41.7 per cent in 2023 and 41.5 per cent in the last year of the forecast period, reflecting the initially growing and then stable profile of indirect taxes and social contributions in relation to GDP – essentially due to the effects of legislative measures – and the steady decline in direct taxes, again as a percentage of GDP. Other current revenue would be greater in absolute value than the levels projected in the EFD (Table 2.4).

On the occasion of the presentation of the DBP, the trend scenario on a current legislation basis set out in the Update was revised to take account of the financial effects of Decree Law 130/2021 (the "Utility Bill Decree") and the most recent monitoring information. The provisions of the decree do not affect the level of the deficit, as the financial impact will be an equal reduction in revenue and expenditure. Conversely, the monitoring of the public finances has found that the trend forecasts for revenue can be improved by an annual average of €1.25 billion over the entire 2021-24 period (thanks to carry-over effects), with a consequent reduction of a tenth of a point of GDP in the deficit in 2022 and 2024. More specifically, in addition to more favourable performance than that assumed in the Update's expectations for social contributions, the monitoring of tax payments for the entire month of September found revenue increasing, including that associated with self-assessed taxes paid by taxpayers complying with the composite fiscal reliability indicators (ISA).

2.2 The policy scenario

The policy scenario in the Update delineates a budgetary policy approach divided into two phases. In the first, covering the 2022-2023 period, the stance of fiscal policy will remain expansionary with respect to trend developments, which are already reflecting the initial stimulus deriving from the implementation of the NRRP, until the moment in which GDP and employment are expected to reach and exceed the trend underlying the period before the crisis. According to the updated forecasts, this will occur in 2024, the year from which the second phase will therefore begin, when fiscal policy, through the achievement of adequate primary surpluses, will be more sharply oriented towards reducing the structural deficit and accelerating the debt/GDP ratio in order to bring it back to close to pre-crisis levels by 2030.

The updating of the public finance forecasts on a current legislation basis has created budgetary flexibility for expansionary measures with respect to the trend while at the same time producing levels of the deficit and the debt as a percentage of GDP that are lower than those envisaged in the EFD (Table 2.5).

The planned budget measures would increase the deficit with respect to the trend scenario by 1.2 percentage points of GDP in 2022, 1.5 points in 2023 and 1.2 points in 2024, as simply indicated by the difference between the policy and trend deficits. Net borrowing is expected to amount to 5.6 per cent of GDP next year, after registering an estimated 9.4 per cent for 2021, before decreasing to 3.9 per cent in 2023 and 3.3 per cent in 2024.

Since the policy structural deficit in the Update is lower in 2021 than that estimated in the EFD and unchanged in subsequent years, it is not necessary to submit the report required under Article 6 of Law 243/2012 to Parliament.

Table 2.5 – Public finance indicators (1)
(percentage of GDP; positive numbers = improvement in balance)

			2021 Update			
	2019	2020	2021	2022	2023	2024
Trend net borrowing (a)	**-1.5**	**-9.6**	**-9.4**	**-4.4**	**-2.4**	**-2.1**
Change (a')	*0.6*	*-8.0*	*0.2*	*5.0*	*2.0*	*0.3*
Net budget measures (b)				**-1.2**	**-1.5**	**-1.2**
Policy net borrowing (c=a+b)	**-1.5**	**-9.6**	**-9.4**	**-5.6**	**-3.9**	**-3.3**
Change (c')	*0.2*	*-8.0*	*0.2*	*3.8*	*1.7*	*0.6*
Memo: policy net borrowing in EFD	**-1.6**	**-9.5**	**-11.8**	**-5.9**	**-4.3**	**-3.4**
Policy debt (d)	**134.3**	**155.6**	**153.5**	**149.4**	**147.6**	**146.1**
Memo: policy debt in EFD		*155.8*	*159.8*	*156.3*	*155*	*152.7*

Source: based on data from the 2021 Update.
(1) Totals may not match due to rounding of decimals.

Compared with the scenario set out in the EFD, the debt/GDP ratio would decrease more sharply with respect to 2020 [questa parte andrebbe eliminata anche dalla versione in italiano]. The ratio, which increased by more than 20 percentage points in 2020 to 155.6 per cent, is forecast to decrease this year to 153.5 per cent, with the Government expecting it to decline to 149.4 per cent in 2022, 147.6 in 2023 and 146.1 in 2024, about 12 percentage points of GDP higher than the level registered in 2019 (see section 2.4). In 2024, this ratio would nevertheless be about 3 points higher than that expected in the trend scenario (143.3 per cent).

The DBP retained the policy objectives set out in the Update.

2.3 *The financial effects of the budget package*

The public finance package is composed of Decree Law 146/2021 and the 2022 Budget Bill. According to the Technical Reports accompanying these measures, the budget package – as sent by the Government to Parliament – will produce a deterioration in general government net borrowing compared with current legislation of 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) (Table 2.6). Compared with the Update, the budget would therefore be slightly more expansionary in 2024 (by 0.1 percentage points of GDP).

Table 2.6 – Decree Law 146/2021 and the 2022 Budget Bill: budget package for 2022-2024 and impact of Decree Law 146/2021 on 2021(1)
(millions of euros and percentage of GDP)

	2021	2022	2023	2024
USES	**4,029.2**	**37,005.1**	**38,414.8**	**37,818.9**
As a % of GDP	*0.2*	*2.0*	*1.9*	*1.8*
Uses in DL 146/2021	***4,029.2***	***453.5***	***113.6***	***102.8***
Increases in expenditure	3,869.2	25,721.6	28,061.2	25,840.3
Current	*1,722.2*	*17,821.4*	*19,051.7*	*17,876.4*
Capital	*2,147.0*	*7,900.2*	*9,009.5*	*7,963.9*
Decreases in revenue	160.0	11,283.6	10,353.6	11,978.6
RESOURCES	**4,266.9**	**13,747.2**	**8,504.1**	**12,168.3**
As a % of GDP, of which	*0.2*	*0.7*	*0.4*	*0.6*
Resources in DL 146/2021	***4,266.9***	***470.5***	***140.9***	***156.4***
As a % of GDP	*0.2*	*0.02*	*0.01*	*0.01*
Increases in revenue	374.6	8,314.5	7,573.6	6,870.9
Decreases in expenditure	3,892.3	5,432.6	930.5	5,297.4
Current	*1,555.3*	*3,260.7*	*275.0*	*2,113.9*
Capital	*2,337.0*	*2,172.0*	*655.5*	*3,183.5*
NET REVENUE	**214.6**	**-2,969.0**	**-2,779.9**	**-5,107.6**
As a % of GDP	*0.01*	*-0.2*	*-0.1*	*-0.2*
NET EXPENDITURE	**-23.1**	**20,288.9**	**27,130.7**	**20,542.9**
As a % of GDP	*0.00*	*1.1*	*1.4*	*1.0*
Current	*166.9*	*14,560.7*	*18,776.7*	*15,762.5*
Capital	*-190.0*	*5728.2*	*8354.0*	*4780.4*
NET BORROWING	**237.8**	**-23,258.0**	**-29,910.6**	**-25,650.6**
As a % of GDP	*0.01*	*-1.2*	*-1.5*	*-1.3*
Net borrowing net of DL 146/2021	***237.8***	***16.9***	***27.3***	***53.6***
As a % of GDP	*0.01*	*0.00*	*0.00*	*0.00*

Source: based on data from the summaries of financial effects attached to Decree Law 146/2021 and the 2022 Budget Bill. Accordingly, this does not take account of the effects of the amendments to Decree Law 146/2021 during ratification into law.
(1) The various items for 2022-2024 do not include an annual €6 billion in current expenditure that Decree Law 146/2021 appropriates to establish the universal allowance, which was funded with a reduction of the same amount in current expenditure for the Tax Reform Fund established with Article 1, paragraph 2, of the 2021 Budget Act (Law 178/2020).

Compared with the trend scenario, the budget plan envisages expansionary measures ("uses" in Table 2.6) equal to 2 per cent of GDP in 2022, which decline to 1.9 per cent in 2023 and 1.8 per cent in 2024. Resources to fund the measures amount to 0.7 per cent of GDP next year, 0.4 per cent in 2023 and 0.6 per cent in 2024.

In the tables, the values for uses and funding resources do not take account of provisions included in Decree Law 146/2021, which in the overall consideration of the financial effects of the budget package have a zero net impact over the three-year period. This is the €6 billion in annual current expenditure allocated, with Decree Law 146/2021, for the establishment of the universal allowance, funded – with provisions in the same decree – through a reduction of the same amount in current expenditure for Tax Reform Fund established with Article 1, paragraph 2, of the 2021 Budget Act (Law 178/2020). If these amounts were also included in the tables, both uses (due to higher current expenditure) and resources (due to lower current expenditure) would be €6 billion higher in each of the years from 2022 to 2024.

Decree Law 146/2021 has a marginal impact on the net effect of the budget package, limiting itself to improving the impact on the deficit by €0.2 billion in 2021 and by a few tens of millions in the following three years. For this year, the decree provides for €4 billion in uses – especially in the areas of revenue, the labour market and the railway and national defence sectors – associated with resources covering the funding of the measures of about €4.3 billion, deriving essentially from spending cuts, particularly on capital account.

For 2022, expansionary measures amount to €37 billion, for which funding resources of €13.7 billion have been identified, with a consequent increase of €23.3 billion in the deficit (Table 2.6). Among the uses (€25.7 billion in increased expenditure and €11.3 billion in lower revenue), the largest measure (equal to 16 per cent of total uses) regards the implementation of the first stage of the tax reform, with a reduction of €6 billion in the fiscal burden in addition to other reductions already envisaged under current legislation. Other measures reducing revenue are intended to contain increases in electricity and gas prices. The other main uses of resources involve current expenditure (almost €18 billion overall, around 48 per cent of uses) regarding the healthcare sector, the reorganisation of social safety net programmes, measures for the family and social policies, including those refinancing the Citizenship Income and pension measures, and provisions for local government entities. A substantial portion of measures involving capital expenditure (totalling about €8 billion, or more than 21 per cent of uses) is intended to support firms, with the refinancing of guarantees for SMEs and the "Nuova Sabatini" instrument subsidising the purchase of capital assets, the financing of the RFI (the Italian rail network infrastructure operator) programme contract and local government infrastructure.

With regard to finding the resources to fund the measures (€8.3 billion in increased revenue and €5.4 billion in lower expenditure), half of the increase in revenue will be generated by changes in the rules governing the revaluation of firms' tangible assets, while other revenue will come from the extension of the contribution for the special wage supplementation programme to categories that are currently exempt, as well as contribution revenue connected with the increase in expenditure on public employees. The expenditure cuts include the termination of the cashback programme and the abolition of the fund for social

safety net reform provided for in Decree Law 73/2021 under current expenditure. These are supplemented by the defunding of capital expenditure contained in Section II of the Budget Bill, essentially relating to reductions in appropriations for the State Railways and for defence programmes.

Uses increase in 2023-2024 compared with 2022 (€38.4 billion in 2023 and €37.8 billion in 2024), while resources decrease (€8.5 billion in 2023 and €12.2 billion in 2024), with a consequent increase in the impact on the deficit (equal to €29.9 billion in 2023 and €25.7 billion in 2024). With regard to uses, the substantial effects of many of the expenditure increases, in particular those for pensions, safety net programmes and public sector hiring, are compounded by the greater impact of both the decrease in the fiscal burden and the various building tax credits, as well as tax credits supporting firms. With regard to the resources covering the funding of these measures, the increase in revenue, the scale of which declines over the two-year period, combines with a sharp decrease in spending cuts in 2023 followed by a new increase in 2024. More specifically, in the latter year, the greatest expenditure decreases on the current expenditure side are attributable to the abolition of the fund for the pension system reform, while those on the capital spending side regard the reprogramming set out in Section II of the Budget Bill, which brings forward expenditure for the Italian Railways and defence programmes to the previous year.

Finally, in the context of the use of financial resources, about €900 million per year have been allocated to both current funds (about 85 per cent) and funds on capital account to meet urgent needs and expenditure that are expected to be implemented during the year.

The budget package has a different impact on general government borrowing requirement (which is measured on a cash basis) and the net balance to be financed (which is measured on a commitment basis) of the State budget. Looking at 2022, while net borrowing deteriorates by €23.3 billion, as noted above, the impact on the net balance to be financed in €45.6 billion and that on the borrowing requirement is €17.2 billion.

A number of specific measures have a significant impact on the net balance to be financed and/or the borrowing requirement but not on net borrowing (Table 2.7). More specifically, the following have a significant impact on the net balance to be financed and the borrowing requirement and no or almost no impact on net borrowing: the increase in the revolving fund for subsidised rate loans to exporting firms and the establishment of the Italian climate revolving fund (in this case there is also a slight impact on net borrowing due to the disbursement of grants as well as the costs of managing the fund). Revolving funds are accounts in which the fund’s assets are used for loans or other purposes, with the understanding that expenditures are periodically reimbursed to enable future spending. As such they are items of a financial nature that do not impact net borrowing.

Table 2.7 – Decree Law 146/2021 and 2022 budget Bill: specific large-value measures with differentiated impacts on the public finance balances –2022 *(millions of euros)*

Article [1]	Par.	Description of measure	Net balance to be financed	Borrowing requirement	Net borrowing
12	1	Increase in rotating fund for subsidised loans to exporting firms	1,500.0	1,500.0	
14		Refinancing of Guarantee Fund for small and medium-sized enterprises			3,000.0
29		Transfer to INPS of pension operations of National Insurance Institute for Italian Journalists (INPGI)	110.5		
Various articles Budget Bill and Art. 11 DL 146		Imputed contributions associated with social safety net programmes for workers	1,745.4		
39	1-3	Refinancing of the Guarantee Fund for purchases of primary residences by young people	242.0		242.0
154		Establishment of Italian Climate Fund	840.0	840.0	40.0
195		Increase in rotating fund for the implementation of *Next Generation EU* - Italy pursuant to Article 1, paragraph 1037, of Law 178/2020	10,000.0		
197		Fund for settlement of Treasury subsidies for Italian Post Office	4,300.0		
198		Extension of suspension of single mixed treasury system pursuant to Article 7 of Leg. Dec. 279/1997		-6,000.0	
Art. 4 DL 146		Supplement of grant to Revenue Agency - Tax Collection by the Revenue Agency for 2020-2022		100.0	100.0

Source: based on data from the summaries of financial effects attached to Decree Law 146/2021 and the 2022 Budget Bill. Accordingly, this does not take account of the effects of the amendments to Decree Law 146/2021 during ratification into law.
(1) Unless otherwise indicated, the articles refer to the 2022 Budget Bill.

The net balance to be financed and net borrowing increase but the refinancing of the guarantee fund for the first home purchases by young people does not impact the borrowing requirement, as these are standardised guarantees.[5]

The supplement of the grant to *Agenzia delle entrate-Riscossione* (Revenue Agency–Tax Collection) by the Revenue Agency for the 2020-2022 period, provided for in Decree Law 146/2021, affects the borrowing requirement and net borrowing but not the net balance to be financed. This is an increase in expenditure that does not involve the State budget but which is made possible through the use of the Agency's own resources.

The following have an effect only on the net balance to be financed: the transfer to INPS of the positions of the National Insurance Institute for Italian Journalists (INPGI) in respect of disability, old-age and survivors (IVS) pensions and the unemployment and wage supplementation benefits of journalists working as payroll employees, which will give rise to liabilities charged to INPS and covered by the State, with no impact on the other two

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[5] Recall that the expected loss on standardised guarantees can be estimated with relative precision on the basis of the statistically expected enforcement risk, corresponding to the value of likely enforcement actions against the guarantees issued. Under the provisions of ESA 2010, such guarantees are considered a capital transfer to the beneficiaries and therefore impact on general government net borrowing at the time of the guarantee is granted. There are no effects on the borrowing requirement at the time the guarantee is granted, while the actual disbursement of liquidity is recognised at the time the guarantee is enforced.

balances as the INPGI is part of the general government sector; the amounts of the imputed contributions associated with social safety net programmes for workers (also contained in Decree Law 146/2021); the increase in the revolving fund for the implementation of Next Generation EU referred to in Article 1, paragraph 1037, of Law 178/2020, enabling the disbursement of national advances to entities in respect of EU resources, which increases the net balance to be financed (but does not impact the borrowing requirement or net borrowing, as it is already incorporated in the trend figures for these aggregates), partly with a view to taking account of the final breakdown of loans into those for additional measures and those for existing masures, with an increase of €13.5 billion in the amount of the former; the fund for the settlement of Treasury subsidies to the Post Office, which has no effect on the borrowing requirement or net borrowing, as they were already recorded when pensions were paid to beneficiaries through the postal circuit.

The fund is intended to enable the accounting settlement (over an estimated period of 12 years) of the items registered in the suspended account deriving from the payment, through the postal channel, of pensions managed by INPS through the use of Treasury advances. Following settlement (through definitive transfers to INPS, converting previous Treasury advances to settle the INPS debt), INPS may recognise the gradual reduction of its debt to the Treasury in its accounts.

The extension of the suspension of the single mixed treasury system pursuant to Article 7 of Legislative Decree 279/1997 in order to avoid the possible adverse financial effects of the transfer from the "traditional" single treasury system expiring on 31 December 2021 to the single mixed treasury system, which involves local authorities, healthcare entities, universities and port authorities, improves the borrowing requirement only, as this involves Treasury transactions of a financial nature.

Finally, the refinancing of the Guarantee Fund for small and medium-sized enterprises only increases net borrowing, with an estimate of expected losses based on the Fund's operations for 2022 and spread over multiple years. At the time the guarantees are granted, the provision made by the Fund is recorded in the general government account and recognised for the purposes of net borrowing. The allocation for the net balance to be financed takes place subsequently, in accordance with the time profile of expected losses, which begins in 2024.

2.3.1 The main measures

Examining the components of the budget package – as submitted by the Government to Parliament – the main measures can be identified within the thematic sections into which the Budget Bill is divided,[6] based on the use of cumulative net resources for 2021-2024 (see Tables 2.8, 2.9 and 2.10 for a breakdown of uses and resources).

[6] Title II and Title XIV of the Budget Bill have been merged into a single group entitled "Revenue measures".

Table 2.8 – Effects of Decree Law 146/2021 and the 2022 Budget Bill on the general government revenue and expenditure account (1)
(net amounts in millions of euros; increases (-) and decreases (+) in the deficit)

	2021	2022	2023	2024
SECTION I BUDGET BILL AND DL 146/2021				
Revenue measures	-360.0	-2,829.5	-5,137.7	-5,326.1
Fund for reduction of fiscal burden		*-6,000.0*	*-7,000.0*	*-7,000.0*
Deferral of plastic tax and sugar tax		*-650.4*	*126.5*	*-61.5*
Abolition of tax collection fees		*-482.0*	*-534.5*	*-654.8*
Deduction of revaluation of intangible assets over 50 years		*4,264.2*	*2,594.2*	*2,379.8*
Growth and investment		-3,489.7	-2,208.5	-5,608.3
SME Guarantee Fund		*-3,000.0*		
110% tax credit on energy and seismic upgrades, etc.		*-9.8*	*-335.3*	*-2,232.6*
Extension of tax credit for building renovations and energy efficiency enhancements		*47.2*	*-421.7*	*-1,414.5*
Tax credit for investments in capital goods, research and development, innovation and ecological and digital transition			*-636.8*	*-1,744.2*
Expansion of subsidies of investments by SMEs under Nuova Sabatini programme		*-240.0*	*-240.0*	*-120.0*
Work, families and social policies	-353.0	-3,820.7	-4,099.5	-1,912.4
Citizenship Income Fund (includes DL 146/2021)	*-200.0*	*-1,155.3*	*-1,154.9*	*-1,154.4*
Early retirement - Quota 102 mechanism		*-175.7*	*-679.3*	*-542.8*
Extension of "Women's Option" early retirement programme		*-111.2*	*-317.3*	*-480.1*
Extension of APE sociale early retirement programme		*-141.4*	*-275.0*	*-247.6*
Support for the disabled and the non-self-sufficient		*-256.0*	*-406.0*	*-406.0*
Reorganisation of social safety net programmes		-1,471.6	-1,790.3	-1,396.5
Reform of social safety net programmes		*-2,821.0*	*-1,616.3*	*-1,327.5*
Fund to finance reform measures for social safety net programmes		*1,497.8*		
Healthcare		-3,483.5	-3,306.3	-4,354.6
Increase in funding of National Health Service		*-1,356.9*	*-2,817.2*	*-3,740.3*
Fund for the purchase and distribution of vaccines and other pharmaceuticals against SARS-CoV-2		*-1,850.0*		
Schools, universities and research		-446.4	-644.8	-783.8
Culture, tourism, information and innovation		-808.0	-865.0	-510.0
Italian participation in European Union and international organisations		-282.5	-288.5	-341.5
Sustainable infrastructure and mobility, ecological transition, energy and seismic resilience		-3,603.4	-2,191.6	-2,385.8
RFI programme contract		*-450.0*	*-800.0*	*-805.0*
Measures to contain electricity and gas prices		*-2,000.0*		
Local authority road infrastructure, Jubilee celebrations, earthquakes and other natural events		*-555.4*	*-670.8*	*-890.8*
Agricultural policy measures		-222.3	-218.1	-211.8
Regions and other local authorities		-1,697.2	-1,587.1	*-1,544.2*
Reduction of contribution to public finances of special statute regions		*-772.2*	*-772.2*	*-772.2*
Renegotiation of repayment plans for advances to regions and other local authorities		*-86.1*	*-207.9*	*-178.1*
Public administration and public employment		-482.8	-625.5	-565.4
Additional resources for new professional careers in public entities		*-185.4*	*-185.4*	*-185.4*
Additional resources for ancillary remuneration of public employees		*-185.4*	*-185.4*	*-185.4*
Funds		-992.8	-900.6	-936.2
Fund for urgent measures		*-600.0*	*-500.0*	-500.0
Fund to finance legislative measures expected to be approved in 2022-2024		*-391.8*	*-390.8*	-405.8
Financial and final provisions	950.8	1,553.5	86.8	96.2
Increase in plant grants to State Railways	*-1,500.0*			
Support measures and capitalisation incentives for SMEs (tax credit)	*1,600.0*			
Suspension of cashback programme		*1,502.3*		
TOTAL SECTION I	**237.8**	**-22,076.8**	**-23,776.5**	**-25,780.3**
SECTION II BUDGET BILL				
Refinancing, reprogramming and defunding	**0.0**	**-1,181.2**	**-6,134.1**	**129.7**
TOTAL BUDGET PACKAGE	**237.8**	**-23,258.0**	**-29,910.6**	**-25,650.6**

Source: based on data from the summaries of financial effects attached to Decree Law 146/2021 and the 2022 Budget Bill. Accordingly, this does not take account of the effects of the amendments to Decree Law 146/2021 during ratification into law.
(1) Totals may not match due to rounding of decimals.

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Table 2.9 – Main measures of Decree Law 146/2021 and the 2022 Budget Bill
(net amounts in millions of euros)

		2021	2022	2023	2024
Section I	**NET EXPENDITURE**	**-23**	**20,289**	**27,131**	**20,543**
TITLE III - Growth and investment	SME Guarantee Fund		3,000		
	Tax credit for investments in capital goods, research and development, innovation and ecological and digital transition			637	1,744
	110% tax credit on energy and seismic upgrades, etc.			114	971
	DTA tax credit for business combinations		231	694	
	Expansion of subsidies of investments by SMEs under Nuova Sabatini		240	240	120
	Group total		***3,621***	***1,846***	***2,998***
TITLE IV - Work, families and social policies	Citizenship Income Fund (includes DL 146/2021)		1,155	1,155	1,154
	Early retirement - Quota 102 mechanism		191	687	535
	Support for the disabled and the non-self-sufficient		256	406	406
	Extension of "Women's Option" early retirement programme		111	317	500
	Special extension of sundry wage supplementation instruments		553	191	
	Social fund for employment and training		245	210	210
	Extension of APE sociale early retirement programme		141	275	248
	Fund for early retirement of workers at distressed firms		150	200	200
	Elimination of Fund for pension system reform		-9	-1	-1,820
	Group total (includes DL 146/2021)	***726***	***3,575***	***3,864***	***1,918***
TITLE V - Reorganisation of social safety net	Reform of social safety net programmes		3,396	3,012	2,568
	Fund to finance reform measures for social safety net programmes		-1,498		
	Group total		***2,027***	***3,140***	***2,576***
TITLE VI - Healthcare	Increase in funding of National Health Service		2,000	3,232	4,218
	Fund for the purchase and distribution of vaccines and other pharmaceuticals against SARS-CoV-2		1,850		
	Increase in specialist training contracts for physicians		194	319	347
	Innovative Pharmaceuticals Fund		100	200	300
	Group total		***4,146***	***3,753***	***4,867***
TITLE VII - Schools, universities and research	Fund for ordinary university financing (FFO)		250	515	765
	Ordinary fund for research entities and institutions (FOE) and other research funds		185	375	445
	Fund for improving educational services		210	210	210
	Elimination of National Research Agency		-184	-184	-184
	Group total		***812***	***981***	***1,272***
TITLE VIII - Culture, tourism, information and innovation	Electronic student card for 18-year-olds (cultural purchases)		230	230	230
	Single national tourism fund		115	140	90
	Group total		***808***	***865***	***510***
TITLE IX - Italian participation in European Union and international organisations	Funding of Italian Development Cooperation Agency		99	199	249
	Group total		***282***	***288***	***341***
TITLE X - Sustainable infrastructure and mobility, ecological transition, energy and seismic resilience	RFI programme contract		450	800	805
	Resources and subsidies for areas affected by earthquakes or other natural events (extension of state of emergency, special commissioner offices, etc.)		262	201	301
	Funds for celebrations and operational coordination of 2025 Jubilee of the Catholic Church		150	250	300
	Road infrastructure of local authorities (development and maintenance)		190	220	290
	Group total		***1,650***	***2,192***	***2,386***
TITLE XI - Agricultural policy measures	***Group total***		***140***	***192***	***197***
TITLE XII - Regions and other local authorities	Reduction of contribution to public finances of special statute regions		772	772	772
	Renegotiation of repayment plans for advances to regions and other local authorities		86	208	178
	Increase in remuneration of mayors		100	150	220
	Group total		***1,717***	***1,617***	***1,588***
TITLE XIII - Public administration and public employment	Additional resources for ancillary remuneration of public employees		360	360	360
	Additional resources for new professional careers in public entities		360	360	360
	Fund for permanent hiring in public entities		100	200	250
	Group total		***890***	***1,135***	***1,051***
TITLE XIV - Revenue measures	***Group total (DL 146/2021)***	***200***			
TITLE XV - Funds	Fund for urgent measures		600	500	500
	Fund to finance legislative measures expected to be approved in 2022-2024		392	391	406
	Group total		***993***	***909***	***964***
TITLE XVI - Final financial provisions	Support measures and capitalisation incentives for SMEs (tax credit) (DL 146/2021)	-1,600			
	Suspension of cashback programme		-1,502		
	Increase in plant grants to State Railways (DL 146/2021)	1,500			
	Reduction in funds and other coverage (DL 146/2021)	-1,150	-27	-34	-34
	Group total (includes DL 146/2021)	***-949***	***-1,554***	***-87***	***-96***

Table 2.9 – *(cont.)* Main measures of Decree Law 146/2021 and the 2022 Budget Bill *(net amounts in millions of euros)*

Section	Group	Measure	2021	2022	2023	2024
		NET EXPENDITURE *(cont.)*				
Section II [(2)]	Refinancing	Development and Cohesion Fund (DCF) - 2021-2027 programming		319	592	891
		International peace-keeping missions			1,200	300
		Adverse rulings of the European Court of Justice		261	311	250
		Increase in resources for development contracts		400	250	100
		Investment in defence and security sector		69	200	353
		Increase in National Fund for local public transit		100	200	300
		Fund for reimbursement of tax in lieu for revaluation of trademarks		500		
		IPCEI (Important Projects of Common European Interest - technological development)		250	250	
		Group total		***3,133***	***3,846***	***2,970***
	Reprogramming	Reprogramming of RFI appropriations			2,400	-2,400
		Investment in defence and security sector			600	-600
		Group total		***-50***	***3,050***	***-3,000***
	Defunding	Reduction of RFI appropriations		-1,100	-400	
		Group total		***-1,902***	***-462***	
		NET REVENUE	**215**	**-2,969**	**-2,780**	**-5,108**
Section I	TITLE II - Reduction of tax and contribution burden	Fund for reduction of fiscal burden		-6,000	-7,000	-7,000
		Abolition of tax collection fees		-482	-535	-655
		Deferral of plastic tax and sugar tax	0	-650	127	-62
		Group total		***-7,288***	***-7,766***	***-7,740***
	TITLE III - Growth and investment	110% tax credit on energy and seismic upgrades, etc. (includes tax effects)	0	-10	-222	-1,261
		Extension of tax credit for building renovations and energy efficiency enhancements (includes tax effects)	0	47	-422	-1,415
		Group total		***132***	***-362***	***-2,610***
	TITLE IV - Work, families and social policies	Subsidies for young people (up to age 36) purchasing a primary residence or entering into rental contract		-260	-70	-40
		Contributions charged to employers (includes DL 146/2021)		11	23	24
		Group total (includes DL 146/2021)	***373***	***-245***	***-235***	***6***
	TITLE V - Reorganisation of social safety net programmes	Reform of social safety net programmes (includes tax effects)		575	1,396	1,240
		Group total		***555***	***1,350***	***1,180***
	TITLE VI - Healthcare	Contributions charged to employers		662	447	512
		Group total		***662***	***447***	***512***
	TITLE VII - Schools, universities and research	Contributions charged to employers		366	336	488
		Group total		***366***	***336***	***488***
	TITLE X - Sustainable infrastructure and mobility, ecological transition, energy and seismic resilience	Measures to contain electricity and gas prices		-2,000		
		Contributions charged to employers		46		
		Group total		***-1,954***		
	TITLE XI - Agricultural policy measures	***Group total***		***-83***	***-26***	***-15***
	TITLE XII - Regions and other local authorities	Contributions charged to employers		20	30	44
		Group total		***20***	***30***	***44***
	TITLE XIII - Public administration and public employment	Contributions charged to employers		407	510	485
		Group total		***407***	***510***	***485***
	TITLE XIV - Revenue measures	Deduction of revaluation of intangible assets over 50 years		4,264	2,594	2,380
		Group total (includes DL 146/2021)	***-160***	***4,459***	***2,629***	***2,414***
	TITLE XV - Funds	Contributions charged to employers			8	28
		Group total			***8***	***28***
	TITLE XVI - Final financial provisions	***Group total (includes DL 146/2021)***	***1***	***0***	***0***	***0***
Section II	Refinancing	Contributions charged to employers			300	100
		Group total			***300***	***100***
		NET BORROWING	**238**	**-23,258**	**-29,911**	**-25,651**

Source: based on data from the summaries of financial effects attached to Decree Law 146/2021 and the 2022 Budget Bill. Accordingly, this does not take account of the effects of the amendments to Decree Law 146/2021 during ratification into law.
(1) Totals may not match due to rounding of decimals. – (2) The documentation sent to Parliament details the effects of the individual Section II measures exclusively in terms of the net balance to be financed. For current expenditure items, the effects in terms of net borrowing shown in the table are the same as those indicated in the Budget Bill. Capital expenditure is estimated by the PBO excluding measures deemed to have no impact on this balance (financial items) and applying to the individual measures an implementation coefficient consistent with the totals for refinancing and reprogramming indicated in the summary detailing the financial effects attached to the 2022 Budget Bill.

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Table 2.10 – Effects of Decree Law 146/2021 and the 2022 Budget Bill on the general government revenue and expenditure account (1) (2)
(gross amounts in millions of euros)

	2021	2022	2023	2024
USES	**4,029**	**37,005**	**38,415**	**37,819**
As a % of GDP	*0.2*	*2.0*	*1.9*	*1.8*
Increases in expenditure	**3,869**	**25,722**	**28,061**	**25,840**
Increases in current expenditure	***1,722***	***17,821***	***19,052***	***17,876***
Section I	*1,722*	*16,435*	*16,934*	*16,676*
Increase in funding of National Health Service	0	2,000	3,232	4,218
Reform of social safety net programmes	0	3,396	3,012	2,568
Citizenship Income Fund (includes DL 146/2021)	200	1,155	1,155	1,154
Reduction of contribution to public finances of special statute regions	0	958	958	958
Fund for the purchase and distribution of vaccines and other pharmaceuticals against SARS-CoV-2	0	1,850	0	0
Fund for urgent measures	0	600	500	500
Fund for ordinary university financing (FFO)	0	250	515	765
Early retirement - Quota 102 mechanism	0	191	687	535
Special extension of sundry wage supplementation instruments (includes DL 146/2021)	543	582	191	0
Additional resources for ancillary remuneration of public employees	0	360	360	360
Additional resources for new professional careers in public entities	0	360	360	360
Support for the disabled and the non-self-sufficient	0	250	400	400
Extension of "Women's Option" early retirement programme	0	111	317	500
DTA tax credit for business combinations	0	231	694	0
Increase in specialist training contracts for physicians	0	194	319	347
Fund to finance legislative measures expected to be approved in 2022-2024	0	247	246	261
Parental leave, paid leave, replacement services vouchers and sick pay (DL 146/2021)	696	0	0	0
Electronic student card for 18-year-olds (cultural purchases)	0	230	230	230
Social fund for employment and training	0	245	210	210
Extension of APE sociale early retirement programme	0	141	275	248
Fund for improving educational services	0	210	210	210
Innovative Pharmaceuticals Fund	0	100	200	300
Fund for permanent hiring in public entities	0	100	200	250
Fund for early retirement of workers at distressed firms	0	150	200	200
Funding of Italian Development Cooperation Agency	0	99	199	249
Renegotiation of repayment plans for advances to regions and other local authorities	0	86	208	178
Increase in remuneration of mayors	0	100	150	220
Integrated Promotion Fund and other measures for internationalisation of firms	0	150	150	151
Fund for financial restructuring of municipalities with structural deficits attributable to socio-economic characteristics	0	300	150	0
Full implementation and extension to 10 days of leave for fathers in payroll employment	0	114	117	119
Fund for the development of Italian mountain areas (with elimination of national fund for mountains and fund for mountain communities)	0	110	110	110
Resources to finance and develop the essential functions of provinces and metropolitan cities	0	80	100	130
Fund for COVID-19 emergency established at Ministry of Education	0	300	0	0
National Unified Tourism Fund	0	100	120	60
Reimbursement of interprofessional funds that finance the training of workers receiving wage supplementation benefits	0	120	120	0
Municipal Solidarity Fund	0	50	75	110
Solidarity Fund for Air Transport Sector (DL 146/2021)	0	212	0	0
Support for opera and symphony foundations	0	100	50	0
Fund for implementation of national atmospheric pollution control programme	0	0	50	100
Refinancing of "Safe Roads " and "Terra dei fuochi" initiatives	0	8	137	0
Increase in grant from Revenue Agency to Revenue Agency - Tax Collection for 2020-2022 (DL 146/2021)	100	0	0	0
Gaming revenue to be transferred to Autonomous Province of Trento and Bolzano (DL 146/2021)	100	0	0	0
Other measures (includes DL 146/2021)	83	593	729	676
Section II (3)	*0*	*1,386*	*2,117*	*1,200*
International peace-keeping missions	0	0	1,200	300
Adverse rulings of the European Court of Justice	0	261	311	250
Increase in National Fund for local public transit	0	100	200	300
Fund for reimbursement of tax in lieu for revaluation of trademarks	0	500	0	0
Fund for structural economic policy measures (FISPE)	0	0	75	120
Fund to support exit from pandemic	0	145	0	0
Other measures	0	380	331	230

Table 2.10 – *(cont.)* Effects of Decree Law 146/2021 and the 2022 Budget Bill on the general government revenue and expenditure account (1) (2)
(gross amounts in millions of euros)

	2021	2022	2023	2024
USES ***(cont.)***				
Increases in capital expenditure	***2,147***	***7,900***	***9,009***	***7,964***
Section I	*2,147*	*6,153*	*4,231*	*6,194*
SME Guarantee Fund	0	3,000	0	0
Tax credit for investments in capital goods, research and development, innovation and ecological and digital transition	0	0	637	1,744
RFI programme contract	0	450	800	805
Increase in plant grants to State Railways (DL 146/2021)	1,500	0	0	0
110% tax credit on energy and seismic upgrades, etc.	0	0	114	971
Ordinary fund for research entities and institutions (FOE) and other research funds	0	145	325	395
Resources and subsidies for areas affected by earthquakes or other natural events (extension of state of emergency, special commissioner offices, etc.)	0	259	201	301
Funds for celebrations and operational coordination of 2025 Jubilee of the Catholic Church	0	140	240	290
Expansion of subsidies of investments by SMEs under Nuova Sabatini programme	0	240	240	120
Support Fund for industrial transition	0	150	150	150
Fund to finance legislative measures expected to be approved in 2022-2024	0	145	145	145
Funding of sustainable road infrastructure of regions, provinces and metropolitan cities	0	80	120	200
Increase in State cofinancing of subsidised insurance in agriculture	0	0	178	178
Acceleration of national defence modernisation and upgrading programmes (DL 146/2021)	340	0	0	0
Increase in fund for the development of investment in the cinema and audio-visual industries	0	110	110	110
Grants to municipalities for extraordinary maintenance of town roads and street furniture	0	110	100	90
National fund for urban renewal of municipalities with a population under 15,000 inhabitants	0	200	80	20
Grants to local authorities for final engineering design	0	150	150	0
Funds to support rentals and purchase of primary residence	0	242	12	12
Special fund to support publishing industry	0	90	140	0
Fund for urgent flood damage projects (DL 146/2021)	187	0	0	0
Industrial and research activities in high-tech sectors (marine, aeronautical and aerospace)	0	80	30	20
Investments for the development and modernisation of rail infrastructure	0	20	40	50
Resources to metropolitan cities and provinces to secure bridges and viaducts	0	0	0	100
Fund for the revision of materials prices in public contracts	0	100	0	0
Incentives for purchase of low-emission vehicles (DL 146/2021)	100	0	0	0
Other measures (includes DL 146/2021)	20	443	419	492
Section II (3)	*0*	*1,747*	*4,779*	*1,770*
Reprogramming of RFI appropriations	0	0	2,400	0
Development and Cohesion Fund (DCF) - 2021-2027 programming	0	319	592	891
Investment in defence and security sector	0	69	800	353
Increase in resources for development contracts	0	400	250	100
IPCEI (Important Projects of Common European Interest - technological development)	0	250	250	0
Fund for distressed firms	0	100	100	100
Public support for compulsory liquidation of small banks	0	200	0	0
Food districts	0	140	0	0
Other measures	0	268	387	326
Decreases in revenue	**160**	**11,284**	**10,354**	**11,979**
Section I	*160*	*11,284*	*10,354*	*11,979*
Fund for reduction of fiscal burden	0	6,000	7,000	7,000
Extension of tax credit for building renovations and energy efficiency enhancements	0	106	1,214	1,739
Measures to contain electricity and gas prices	0	2,000	0	0
Extension of tax credit for building renovations and energy efficiency enhancements	0	17	311	1,565
Abolition of tax collection fees	0	482	535	655
Reform of social safety net programmes	0	1,216	121	104
Deferral of plastic tax and sugar tax	0	650	121	0
Contribution exemptions and relief	0	119	238	84
Subsidies for young people (up to age 36) purchasing a primary residence or entering into rental contract	0	260	70	40
Extension to 2022 of preferential income taxation in agriculture industry	0	0	238	0
Extensions, suspensions and restructuring of tax, contribution and concession payments and associated penalties (DL 146/2021)	160	0	0	0
Other measures (includes DL 146/2021)	0	266	210	175
Tax effects	***0***	***167***	***297***	***616***
Reform of social safety net programmes	0	39	286	456
Contribution exemptions and relief (includes DL 146/2021)	0	128	11	0
Other measures	0	0	0	160

Table 2.10 – *(cont.)* Effects of Decree Law 146/2021 and the 2022 Budget Bill on the general government revenue and expenditure account (1) (2)
(gross amounts in millions of euros)

	2021	2022	2023	2024
RESOURCES	**4,267**	**13,747**	**8,504**	**12,168**
As a % of GDP	*0.2*	*0.7*	*0.4*	*0.6*
Decreases in expenditure	**3,892**	**5,433**	**931**	**5,297**
Decreases in current expenditure	***1,555***	***3,261***	***275***	***2,114***
Section I	*1,555*	*3,261*	*275*	*2,114*
Elimination of Fund for pension system reform	0	9	1	1,820
Suspension of cashback programme	0	1,502	0	0
Fund to finance reform measures for social safety net programmes	0	1,498	0	0
Reduction in funds and other coverage (includes DL 146/2021)	604	39	36	36
Reduction of contribution to public finances of special statute regions	0	186	186	186
Special extension of sundry wage supplementation instruments (DL 146/2021)	423	0	0	0
Parental leave, paid leave, replacement services vouchers and sick pay (DL 146/2021)	342	0	0	0
Emergency Income (DL 146/2021)	115	0	0	0
Other measures (includes DL 146/2021)	71	26	52	72
Decreases in capital expenditure	***2,337***	***2,172***	***656***	***3,184***
Section I	*2,337*	*220*	*194*	*184*
Support measures and capitalisation incentives for SMEs (tax credit) (DL 146/2021)	1,600	0	0	0
Reduction in funds and other coverage (includes DL 146/2021)	550	2	0	0
Elimination of National Research Agency	0	184	184	184
Fund for national emergencies (Civil Protection) (DL 146/2021)	187	5	0	0
Other measures (includes DL 146/2021)	0	30	10	0
Section II (3)	*0*	*1,952*	*462*	*3,000*
Reduction and reprogramming of RFI and State Railways appropriations	0	1,100	400	2,400
Investment in defence and security sector	0	340	0	600
Fund to offset financial effects not provided for in current legislation (cash only)	0	400	0	0
Other measures	0	112	62	0
Increases in revenue	**375**	**8,315**	**7,574**	**6,871**
Section I	*375*	*8,315*	*7,274*	*6,771*
Deduction of revaluation of intangible assets over 50 years	0	4,264	2,594	2,380
Reform of social safety net programmes	0	1,830	1,803	1,800
Contribution exemptions and relief (includes DL 146/2021)	370	185	0	0
DTA tax credit for business combinations	0	94	286	72
Extensions, suspensions and restructuring of tax, contribution and concession payments and associated penalties (DL 146/2021)	0	160	0	0
Other measures (includes DL 146/2021)	0	70	70	167
Tax effects	***0***	***198***	***1,166***	***771***
Extension of tax credit for building renovations and energy efficiency enhancements	0	154	792	401
110% tax credit on energy and seismic upgrades, etc.	0	7	89	318
Deferral of plastic tax and sugar tax	0	0	247	0
Other measures	0	38	37	52
Contributions charged to employers	***5***	***1,513***	***1,354***	***1,581***
Section II	*0*	*0*	*300*	*100*
Contributions charged to employers	***0***	***0***	***300***	***100***
NET REVENUE	**215**	**-2,969**	**-2,780**	**-5,108**
NET EXPENDITURE	**-23**	**20,289**	**27,131**	**20,543**
Current	*167*	*14,561*	*18,777*	*15,763*
Capital	*-190*	*5,728*	*8,354*	*4,780*
NET BORROWING	**238**	**-23,258**	**-29,911**	**-25,651**
As a % of GDP	*0.01*	*−1,2*	*−1,5*	*−1,3*

Source: based on data from the summaries of financial effects attached to Decree Law 146/2021 and the 2022 Budget Bill. Accordingly, this does not take account of the effects of the amendments to Decree Law 146/2021 during ratification into law.
(1) Totals may not match due to rounding of decimals. – (2) The various items for 2022-2024 do not include an annual €6 billion in current expenditure that Decree Law 146/2021 appropriates to establish the universal allowance, which was funded with a reduction of the same amount in current expenditure for the Tax Reform Fund established with Article 1, paragraph 2, of the 2021 Budget Act (Law 178/2020). – (3) The documentation sent to Parliament details the effects of the individual Section II measures exclusively in terms of the net balance to be financed. For current expenditure items, the effects in terms of net borrowing shown in the table are the same as those indicated in the Budget Bill. Capital expenditure is estimated by the PBO excluding measures deemed to have no impact on this balance (financial items) and applying to the individual measures an implementation coefficient consistent with the totals for refinancing and reprogramming indicated in the summary detailing the financial effects attached to the 2022 Budget Bill.

The most substantial initiatives regard *revenue measures* (Section I, Title II and Title XIV, €13.7 billion), including greater use of the fund to reduce the fiscal burden, in the amount of €6 billion in 2022 and €7 billion annually from 2023, in order to reduce personal income tax (IRPEF) and regional business tax (IRAP). Considering existing measures under current legislation, the resources allocated for this purpose amount to €8 billion annually starting from 2022. More specifically, measures involving personal income tax seek to reduce the tax wedge on labour and effective marginal rates, to be achieved through the reduction of one or more tax brackets and the comprehensive revision of tax credits for payroll employee income and the supplementary benefit (which is an integral part of the "€100 bonus"). IRAP will be modified with a reduction in the tax rate. The introduction of the so-called sugar tax and plastic tax has also been postponed to 2023. Provisions on the governance and remuneration of national tax collection services have been introduced, with the elimination of collection fees (see section 3.10). Changes have also been made to the rules governing the revaluation of assets and the realignment of the tax values of firms envisaged in Decree Law 104/2020, with an improvement in the deficit of €9.2 billion over the 2022-2024 period (see section 3.2.2).

Growth and investment (Section I, Title III, €11.3 billion) are being supported with a variety of measures to sustain the growth of firms by facilitating access to credit and liquidity through the SME Guarantee Fund. Other measures include the extension, for different years and with declining rates, of the various tax credits for real estate redevelopment, while various other tax credits have been extended to support firms in their investments in digital capital goods, in research and development, the ecological transition and technological innovation, while the so-called "Nuova Sabatini" capital goods subsidy programme has been refinanced (see sections 3.1 and 3.2).

Initiatives targeted at *work, families and social policies* (Section I, Title IV, €10.2 billion) include the reorganisation of the Citizenship Income programme, with the refinancing of the instrument and a simultaneous change in its operation and that of employment centres (see section 3.3). Other measures concern the pension system, first with the revision of the early retirement mechanism for 2022, requiring 64 years of age and 38 years of contributions to retire. At the same time, the fund for the reform of the pension system has been abolished. The *APE sociale* early retirement programme has been extended for one year, with an expansion of the categories of workers eligible (from 15 to 23), as has the so-called "Women's Option" early retirement programme (see section 3.4). In addition to measures aimed at supporting the transition from the health emergency, other initiatives include measures to ensure the essential levels of nursery services (see section 3.7) and for the non-self-sufficient and those with disabilities.

Other measures regard the *reorganisation of the social safety net* (Section I, Title V, €4.7 billion), with provisions extending the ordinary wage supplementation mechanism (CIG) to firms with fewer than 5 employees and the special wage supplementation mechanism (CIGS) to those with more than 15 employees, regardless of sector, that do not participate in bilateral solidarity funds. The expansion contract has also been extended until 2023.

This instrument provides for the facilitated early departure of employees close to retirement age with the concomitant subsidised hiring of young people. Other measures address safety net protections in the event of involuntary unemployment, with the expansion of eligibility for the NASPI unemployment benefit programme to intermittent workers and the lengthening of the period before benefits begin to be reduced, as well as amendments of the DIS-COLL unemployment benefit programme (see section 3.5).

With regard to *healthcare* (Section I, Title VI, €11.1 billion), the National Healthcare Fund has been increased by €2 billion in 2022, €3.2 billion in 2023 and €4.2 billion in 2024 (in Table 2.8, the amounts are shown net of contributions charged to employers on personnel spending), while an additional €1.9 billion has been appropriated for anti-COVID vaccines to be used in 2022 (for these and other measures, see section 3.6).

Another group of lower-value measures include initiatives to support the following sectors: *schools* (professional skills of teachers), *universities* (recruitment of teaching and technical-administrative staff) and *research* (Section I, Title VII, €1.9 billion); *culture* (in particular, cinema and entertainment, opera and symphony foundations and publishing, in addition to the electronic student card for 18-year-olds), *tourism, information and innovation* (Section I, Title VIII, €2.2 billion); *Italian participation in the European Union and international organisations* (Section I, Title IX, €0.9 billion) in order to strengthen Italy's action in the field of international development cooperation; and *agricultural policies* (Section I, Title XI, €0.7 billion), with an increase in State co-financing of subsidised insurance in agriculture.

Numerous other measures regard *sustainable infrastructure and mobility, the ecological transition, energy and earthquake resilience* (Section I, Title X, €8.2 billion). The initiatives concern the financing of the RFI programme contract and the containment of the effects of price increases in the electricity and gas sector. Resources are also allocated to the road infrastructure of regions, provinces, metropolitan cities and municipalities, to the 2025 Jubilee, to reconstruction connected with earthquakes in central Italy and to the prevention of seismic risk and other natural events. For more on measures involving public investment, see section 3.8.

With regard to initiatives targeted at *regions, local authorities and territorial cohesion* (Section I, Title XII, €4.8 billion), the contributions of the special statute regions to the public finances have been reformulated and repayment plans for advances of liquidity to regions and local authorities for the payment of certain, determinable and enforceable accounts payable will be renegotiated, with savings in interest expenditure giving local government greater spending capacity. Resources are also earmarked for municipalities for urban regeneration and for the performance of the basic functions of provinces and metropolitan cities as well as for an increase in the remuneration of mayors and local administrators.

Numerous measures involve *public administration and public employment* (Section I, Title XIII, €1.7 billion). The main initiatives concern: ancillary remuneration of personnel and professional career paths for non-executive personnel of government entities established with the 2019-2021 bargaining round; permanent hiring at State entities, non-economic public bodies and agencies as well as digital, ecological and administrative training of public employees. For more on the various initiatives in the area of public employment, see section 3.9.

Resources have been appropriated for a number of *funds* (Section I, Title XV, €2.8 billion). More specifically, these include determination of the size of the special funds – on both current and capital account – to finance legislative measures that are expected to be approved in the 2022-2024 period; an increase in the fund for urgent needs of €600 million in 2022 and €500 million annually in 2023 and 2024.

Section I closes with *final financial provisions* that reduce the deficit overall (Section I, Title XVI, €2.7 billion). In the Budget Bill, these include the termination at 31 December 2021 of the programme granting cash reimbursements for purchases made using electronic payment instruments (the cashback programme), with savings of €1.5 billion in 2022. Expansionary measures for 2021 in Decree Law 146/2021 include an increase in plant grants to the State Railways, the acceleration of programmes for national defence modernisation and upgrading and an increase in the fund for urgent flood damage remediation projects. The picture is completed with the funding coverage provisions contained in Decree Law 146/2021, which for 2021 envisage: a reduction of the fund to finance capitalisation incentives for SMEs, the definitive transfer to the State tax authorities (without therefore reallocation to expenditure programmes) of revenue deriving from administrative sanctions imposed by the Antitrust Authority, and the use of special funds for the re-registration of current and capital expenditure carryovers.

The budget package is completed by the measures for the financing, reprogramming and defunding for existing expenditure authority contained in *Section II*, which increase the deficit in 2022 and 2023 by €1.2 billion and €6.1 billion respectively, but slightly reduce it in 2024 (€0.1, billion). For 2023, the measures especially impact spending under the Development and Cohesion Fund, peace-keeping missions and, above all, the reprogramming of RFI appropriations, which have been brought forward from 2024 to 2023.

2.3.2 General remarks

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

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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. More specifically, the appropriation to the fund for the reduction of the fiscal burden and a general indication of its scope of intervention are only defined in general, with no specific identification of the new structure of taxation and the beneficiaries: the initial steps of the tax reform thus remain to be defined, with only the fundamental principles of the reform being delineated so far.

With particular regard to the fund for the reduction of the fiscal burden, note that the content of the article in the Budget Bill fully overlaps the albeit very general language of the enabling bill for tax reform recently sent to Parliament. The general criteria and principles enumerated in the latter include the abolition of IRAP and the transformation of the current system of personal income taxation into a dual model. The enabling bill also affirms the need to lower average and marginal effective income tax rates to encourage labour supply and participation. The other area of full overlap is on the financial side. The provisions of the Budget Bill use and expand the resources of the fund established with the 2021 Budget Act (€2 billion in 2022 and €1 billion from 2023) that represents one of the sources of financing for the enabling bill. As a result, in the absence of other budget appropriations, the remaining resources available for implementing the enabling bill would be the estimated increase in permanent revenue deriving from the improvement in voluntary compliance (Article 1, paragraph 5 of the 2021 Budget Act) and any potential revenue generated by the reorganisation of the tax system during implementation of the enabling legislation.

The expansionary stance of the budget measures is attributable to a reduction in revenue (of 0.1-0.2 per cent of GDP) and, to a greater extent, 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 current spending offsets the expiry of the support measures implemented in response to the pandemic. However, it should be emphasised that a large part of this current expenditure is permanent.

One of the recommendations of the European Council to Italy last July was to limit the growth in nationally financed current expenditure. Furthermore, at the end of November, in its opinion on the DBP, the European Commission invited Italy to take the necessary measures within the national budgetary process to limit the growth of nationally financed current expenditure in order to contribute to the pursuit of a prudent fiscal policy.

Capital expenditure was already expected to grow significantly in the trend scenario of the Update, largely sustained by spending financed with additional loans under the NGEU and the complementary fund envisaged in Decree Law 59/2021, which is being used to deploy national resources to support the measures provided for in the NRRP.[7] This expenditure component should already reach around €70 billion on a trend basis in 2024 (with an average annual growth rate of over 13 per cent from 2021), exceeding by more

[7] The Update indicates that the national complementary plan of €36.5 billion will have an impact of €0.85 billion in 2021, €4.75 billion in 2022, €4 billion in 2023 and €3.5 billion in 2024.

than €10 billion the level achieved in 2009, the peak year before consolidation led to a decrease in expenditure until 2018. Thanks to the measures provided for in the budget package for additional resources on the national side , the volume of investment has been expanded, especially in the 2022-2023 period.

As already noted by the PBO on multiple occasions, while it is desirable to fully implement the envisaged commitments, actually doing so appears to be a challenge. Given the administrative and organisational burdens associated with the implementing 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.

With regard to the nature of the measures, after the substantial support provided in 2020-2021, a variety of initiatives are envisaged. Certain measures 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, which will in turn affect the path of reduction of the debt/GDP ratio. 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, such as gender equality or young people. It also finances infrastructure measures excluded from the NRRP, such as road infrastructure, and funds provisions intended to lend continuity to the NRRP itself after 2026, as in the case of healthcare construction facilities (mainly hospitals). Yet other provisions of the package increase current spending to finance operating expenditure, with a heavy impact starting from 2027, when the infrastructure envisaged in the NRRP should be completed, as in the case of measures to support the operation of nursery school services.

As the implementation of the NRRP entails an extension of budgetary decisions beyond the three-year planning period, and given the presence of structural measures in the budget package, 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, in view of the fact that the latter is the year in which the ratio of debt to GDP is expected to return to close to its pre-crisis level, as indicated in the Update and confirmed in the DBP.

To achieve this objective, it appears crucial to keep the budget aggregates along the planned path of reduction, since, on average, reductions in the ratio of about two points

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of GDP would be necessary for each year starting from 2025. These decreases are greater than those envisaged in the Update’s policy scenario for 2023 and 2024.

It is therefore necessary to lend continuity to the setting of budgetary policy in order to maintain the strategy underpinning the Update in the years to come as well, when sufficiently large primary surpluses will be required. In particular, according to the planning document, starting from 2024 it will be necessary to moderate the growth in current government spending and increase tax revenue by combating tax evasion. On the one hand, it appears necessary to immediately identify the scope for corrective actions on the spending side, conducting an analysis to identify the elements on which to act while seeking to establish a clear scale of priorities and address the critical issues for the more effective use of the budgetary resources available, thereby improving the quality of spending. On the other hand, more extensive analysis and more incisive action to combat tax evasion will play a useful role, alongside budget consolidation, in achieving the objectives for reducing the fiscal burden. The implementation of a tax reform that eases the tax burden will be credible only if accompanied by the achievement of a level of the debt/GDP ratio that is significantly lower than at present.

The achievement of the objectives of the public finance policy scenario, which is exposed to domestic and international macroeconomic risks (as highlighted in section 1.2.3) 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.

2.4 Developments in the debt/GDP ratio

Thanks to favourable developments in the macroeconomic environment, the Update and the DBP envisage a significant improvement in the policy profile of the debt/GDP ratio compared with that delineated in the EFD, with the start of a decline as early as this year. At the end of 2021, debt should amount to 153.5 per cent of GDP, a reduction of over two percentage points compared with the 2020 level (Table 2.11). In 2022 the reduction in the ratio should be approximately double that (4.2 points of GDP), while in the following two years the decline would be less marked, at 1.8 percentage points of GDP in 2023 and 1.5 points in 2024. With this policy profile, in 2024 the stock of debt is expected to be just over 146 per cent of GDP, or about half the distance between the 2020 level (155.6 per cent) and the pre-COVID level (134.3 per cent in 2019). The two documents reaffirm the commitment to return to the latter level by 2030.

In the 2021 EFD, the debt/GDP ratio was expected to rise by 4 points by the end of the year (to 159.8 per cent), while in 2022 a rather gradual decline would have begun, lowering the ratio to 152.7 per cent in 2024 (Figure 2.1). About three-quarters of the difference between the forecasts for 2021 reported in the two documents was attributable to higher nominal GDP growth (since the nominal growth rate assumed in the EFD was 2 percentage points lower), while the remainder was explained by the trend improvement in budget balances (attributable, at least in part, to the effects on revenue and expenditure of the stronger growth in output).

Compared with the trend, however, the forecast value for the debt in 2024 is 2.8 percentage points greater than in policy scenario in the Update, which under current legislation is forecast at 143.1 per cent of GDP. According to the Government's estimates, therefore, the expansionary effect on GDP associated with the public finance package for the 2022-2024 period (of between 1.2 and 1.5 points of GDP per year) only partially offsets the greater accumulation of debt necessary to finance it.

Table 2.11 – Determinants of the change in the policy debt/GDP ratio (1)
(percentage of GDPs)

	2019	2020	2021	2022	2023	2024
Debt/GDP ratio	134.3	155.6	153.5	149.4	147.6	146.1
Change in debt/GDP ratio	-0.1	21.4	-2.1	-4.2	-1.8	-1.5
Primary surplus [2] (accruals basis)	**-1.8**	**6.1**	**6.0**	**2.6**	**1.2**	**0.8**
Snowball effect [3], of which:	**1.6**	**14.9**	**-7.6**	**-6.2**	**-3.5**	**-2.6**
Interest expenditure/nominal GDP	*3.4*	*3.5*	*3.4*	*2.9*	*2.7*	*2.5*
Contribution of nominal GDP growth	*-1.7*	*11.5*	*-11.0*	*-9.2*	*-6.2*	*-5.1*
memo: Average cost of debt	*2.5*	*2.4*	*2.3*	*2.0*	*1.9*	*1.7*
memo: Net borrowing	*-1.5*	*-9.6*	*-9.4*	*-5.6*	*-3.9*	*-3.3*
Stock-flow adjustment, of which:	**0.1**	**0.3**	**-0.5**	**-0.5**	**0.6**	**0.3**
Cash-accrual difference			*-1.7*	*-1.0*		
Net acquisition of financial assets, of which:			*1.1*	*0.7*		
Privatisation receipts			*0.0*	*0.0*		
Debt valuation effects and other			*0.0*	*-0.2*		

Source: based on data from the 2021 Update and the 2022 DBP.
(1) Totals may not match due to rounding of decimals. – (2) A primary surplus with a positive sign indicates a deficit and therefore increases the debt/GDP ratio. – (3) The snowball effect is calculated as the sum of interest expenditure as a percentage of nominal GDP and the contribution of nominal GDP growth, given by $(d_{t-1}/PIL_{t-1})*(-g_t/(1+g_t))$, where d_{t-1} is the debt at time t-1 and g_t is the nominal GDP growth rate at time t.

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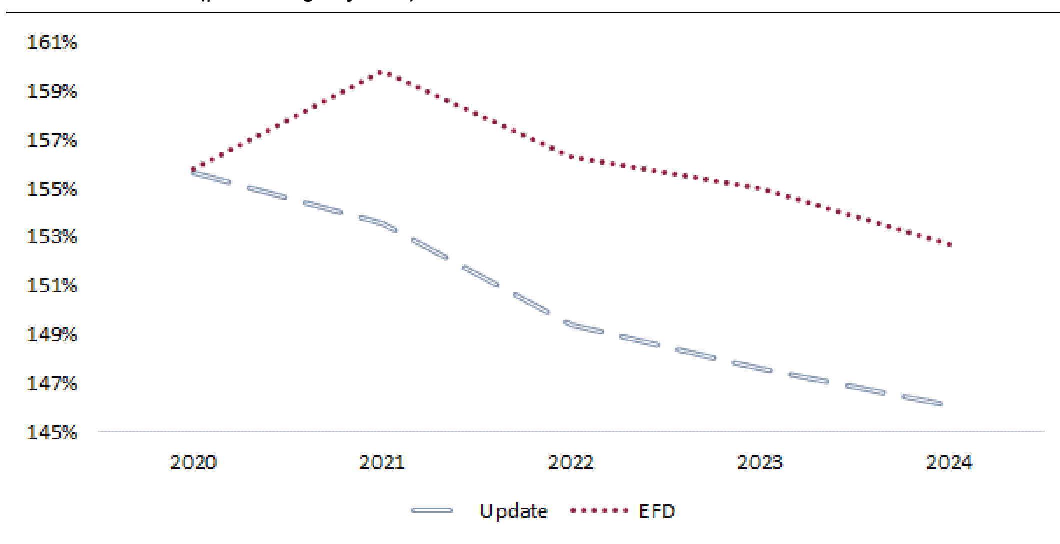
Figure 2.1 – Comparison of policy developments in the debt/GDP ratio between the EFD and the Update
(percentage of GDP)



Source: based on data from the Update and EFD for 2021.

Breaking down the dynamics of the ratio between policy debt and GDP into its various determinants, the primary balance has an unfavourable impact of almost 11 points of GDP over the entire 2021-2024 period. For this year (and, to a lesser extent, in 2022), this mainly reflects the operation of automatic stabilisers and the emergency measures adopted in response to the health crisis, while in the final three years it is mainly attributable to the economic recovery measures to be activated under the NRRP, as well as those in the Budget Bill (Table 2.11).

The unfavourable impact of the primary balance is more than offset by the snow-ball effect – linked to the differential between interest expenditure and the contribution of nominal GDP – with a contribution of nominal GDP growth of 11 points in 2021 alone and more than 20 points in the following three years. Furthermore, the slowdown in the nominal growth rate expected from 2022 onwards would be partially offset by a progressive reduction in the incidence of interest expenditure (from 3.5 per cent of GDP in 2020 to 2.5 per cent in 2024), reflecting a decline in the average cost of debt to below 2 per cent in the last two years considered. Consequently, even with significantly lower inflation than the monetary policy target, real GDP growth of less than 1 per cent per year would be sufficient to keep the differential between nominal growth and the average cost of debt in positive territory. These considerations are based on the yield curve assumptions used in the development of the policy scenario proposed by the Government, which – being based on the structure of forward rates from last September – point to rather gradually increasing yields until 2024, especially on the long-term segment of the curve. This assumption has been somewhat jeopardised by interest rate developments in the last quarter, mainly in the form of greater-than-expected inflationary pressures and to the possible reaction of monetary policy authorities.

In the 2021-2024 period, the stock-flow adjustment would make a substantially zero contribution overall, helping to reduce the debt in the first two years and increasing it the following years, with an average annual impact on the order of half a point of GDP.

The DBP provides a breakdown of some items of the stock-flow adjustment for 2021-2022, but the information available is not sufficient to fully analyse the factors underlying the dynamics of this component. The main factors contributing to the favourable impact expected for this year – 1.7 points of GDP thanks to cash-accrual differences – should include the impact of the different criteria used to account for the anti-crisis measures based on an extension of tax and social security contribution deadlines, since the revenue paid late under these provisions – while leaving net borrowing unchanged, calculated on an accruals basis – improve the borrowing requirement in the year in which the payments occur. Another factor to include would be the receipt in August of the advance on RRF grants (equal to 13 per cent of the €68.9 billion currently envisaged for Italy, i.e., about €9 billion). Finally, cash developments connected with the exceptional business support measures in the form of government guarantees could also play a role.

Similar reasons could explain much of the debt reduction (1 point of GDP) attributed to the cash-accrual difference in 2022. For that year, the Update forecasts cash inflows associated with RRF grants of more than 0.4 per cent of GDP compared with the value of capital revenue considered in the general government account to sterilise RRF loans. In addition, various business support measures adopted in 2020-21 provided for the rescheduling of suspended payments (tax, social security contributions and administrative) with positive cash effects in 2022 amounting to approximately 0.2 points of GDP.

Turning to the increase in the debt that the Government ascribes to the acquisition of financial assets (1.1 points of GDP in 2021 and 0.7 points in 2022), the planning documents do not give detailed information on the composition of the item, but only the reference to relevant transactions in this regard. The forecasts for this item should reflect the conclusion of transactions for the purchase of equity investments in large corporations (including the repurchase of SACE), in particular through the activation of the fund "*Patrimonio Destinato*".

A number of measures launched during the emergency could also have adverse impacts in 2023-2024 (again, this probably includes the operations of "*Patrimonio Destinato*" and the enforcement of guarantees), as could, to a lesser extent, cash-accrual mismatches due to the implementation of the NRRP (including the "repayment" of advances already collected through transfers from the European Union for reimbursements of RRF loans that are smaller than the value of the loans registered in the general government account).

2.4.1 The impact of the Eurosystem's purchase programme on the Italian government securities market

Between January and November 2021, the Eurosystem's purchases of financial assets on the secondary market continued at a rapid pace, albeit more slowly than in 2020. Summing the operations of the various programmes, the Eurosystem purchased around €1,014 billion of public and private securities for the euro area as a whole: more specifically, €223 billion under the Asset Purchase Program (APP) and €791 billion under the Pandemic Emergency Purchase Program (PEPP). Furthermore, purchases also included the reinvestment of principal repayments on the maturing securities of the APP and PEPP programmes in the Eurosystem portfolio. A total of about €142 billion in Italian

government securities were purchased on the secondary market, of which €19 billion under the APP and an estimated €124 billion under the PEPP.

For this year, it is estimated that total purchases of financial assets by the Eurosystem for the euro area as a whole would amount to about €1,060 billion, of which €240 billion under the APP (a monthly pace of €20 billion) and €820 billion under the PEPP (assuming an average monthly pace of around €68 billion).

For 2022, Eurosystem purchases of financial assets for the euro area as a whole are forecast to total around €513 billion, of which €240 billion under the APP (continuing at a monthly pace of €20 billion) and €273 billion under the PEPP (assuming the completion of the programme with the purchase of the securities necessary to reach the envelope of €1,850 billion).

At its meeting of 28 October 2021, the Governing Council of the European Central Bank (ECB) confirmed that it would continue purchases under the PEPP with a total envelope of €1,850 billion at least until the end of March 2022 and, in any case, until it judges that the coronavirus crisis phase is over. In addition, the Governing Council continues to judge that favourable financing conditions can be maintained with a moderately lower pace of net asset purchases under the PEPP than in the second and third quarters of the year.

Using a number of assumptions, the possible impact of the Eurosystem's purchase programme on the Italian government securities market for 2021 and 2022 can be estimated, i.e., the net flow of securities that will have to be absorbed by private investors.

Gross issues of government securities in 2021 were an estimated €517 billion, lower than in 2020 (Table 2.12). This estimate derives from a forecast of issues to cover the State sector borrowing requirement of €158 billion[8] and maturing securities estimated at €380 billion, net of loans under the SURE programme (Support to mitigate Unemployment Risks in an Emergency) of about €11 billion and RRF loans of around €16 billion.[9]

For 2022, gross issues of government securities are forecast at €462 billion, a significantly smaller amount than in 2021. This estimate derives from a forecast of issues to cover the State sector borrowing requirement of €100 billion[10] and maturing securities estimated at €390 billion, net of RRF loans of about €23 billion.[11]

With regard to Eurosystem purchases, it is assumed, on the basis of the final published data for purchases made since the beginning of the COVID-19 emergency, that on average 80 per cent of total purchases under the asset purchase programmes will be of government securities issued by euro-area countries.

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[8] Equal to 8.9 per cent of 2021 GDP, as indicated in the 2021 NADEF on page 74.

[9] Equal to 0.9 per cent of 2021 GDP, as indicated in the 2021 NADEF on page 65.

[10] Equal to 5.3 per cent of 2022 GDP, as indicated in the 2021 NADEF on page 74.

[11] Equal to 1.2 per cent of 2022 GDP, as indicated in the 2021 NADEF on page 65.

Table 2.12 – Gross issues of Italian government securities net of Eurosystem purchases *(billions of euros)*

	2020	2021	2022
State sector borrowing requirement (a)	159	158	100
Redemptions of government securities (b)	376	380	390
Change in Treasury liquidity account (c)	10	5	-5
EU loans: SURE (d)	17	11	0
EU loans: RRF (e)	0	16	23
Gross primary market issues of government securities (f) = (a) + (b) + (c) - (d) - (e)	**528**	**517**	**462**
APP and PEPP secondary market purchases of government securities (g)	175	148	45
APP and PEPP secondary market reinvestment of maturing government securities (h)	34	42	48
APP and PEPP gross secondary market purchases of government securities (i) = (g) + (h)	**209**	**190**	**93**
Gross primary market issues of government securities net of APP and PEPP (l) = (f) - (i)	**319**	**327**	**370**

Source: based on data from the 2021 Update, ECB, Bank of Italy and MEF.

Since in 2020 the cumulative purchases of Italian government securities diverged from the capital key (i.e. Italy's stake in the ECB's capital) and amounted to 19 per cent of the total purchases of government securities, it is assumed that purchases of such securities in 2021 maintained the share observed in the first part of the year, while for 2022 they were conducted so as to ensure they would be in line with the Italian capital key, which is about 17 per cent, for the 2020-2022 period overall.

In order to estimate the reinvestment of principal repayments on maturing securities, the Italian capital key is applied to the aggregate data published by the ECB for total maturing government securities under the APP and added to an estimate of the reinvestment of maturing amounts under the PEPP, using a number of assumptions developed on the basis of information on the stock and the average life of the securities in the portfolio.

With these assumptions, the Eurosystem's secondary market purchases of Italian government securities for 2021 are estimated at about €190 billion (of which €42 billion from the reinvestment of principal repayments on maturing securities), or 37 per cent of total forecast gross primary market issues of the Treasury (Table 2.12).

In this scenario, gross issues of government securities net of Eurosystem purchases on the secondary market would amount to €327 billion, €8 billion greater than the previous year, despite the fact that gross issues on the primary market declined by €11 billion in the same period.

Estimated net issues of government securities net of Eurosystem purchases on the secondary market would be slightly negative for 2021 and equal to about -€2 billion, while last year this estimate was a negative €14 billion (Table 2.13).

For 2022, Eurosystem purchases of Italian government securities on the secondary market are forecast to amount to about €93 billion (of which €48 billion from the reinvestment of principal repayments on maturing securities), or 20 per cent of total forecast gross primary market issues of the Treasury.

Table 2.13 – Net issues of Italian government securities net of Eurosystem purchases

	2020	2021	2022
State sector borrowing requirement (a)	159	158	100
Change in Treasury liquidity account (b)	10	5	-5
EU loans: SURE (c)	17	11	0
EU loans: RRF (d)	0	16	23
Net issues of government securities (e) = (a) + (b) - (c) - (d)	**152**	**137**	**73**
APP and PEPP secondary market purchases of government securities (f)	175	148	45
Maturing SMP government securities (g)	-9	-9	-9
Net secondary market purchases of government securities (h) = (f) + (g)	**166**	**139**	**36**
Net issues of government securities net of APP and PEPP and maturing SMP securities (i) = (e) - (h)	**-14**	**-2**	**37**

Source: based on data from the 2021 Update, ECB, Bank of Italy and MEF.

Gross issues of government securities net of Eurosystem purchases on the secondary market in 2022 would amount to €370 billion, €41 billion more than in 2021, despite the fact that gross issues on the primary market decreased by €54 billion in the same period. Estimated net issues of government securities net of Eurosystem purchases on the secondary market would turn positive in 2022 and equal to about €37 billion.

The calculation also reflects the fact that the Eurosystem did not reinvest the principal repayments of maturing securities acquired under the Securities Markets Programme (SMP), i.e., the first programme of ECB intervention in the government securities market to preserve the financial stability of the euro area.

Finally, the share of debt held by the Bank of Italy would rise from 21.6 per cent in 2020 to around 25 per cent in 2021 and about 26 per cent in 2022.

To estimate the stock of debt held by the Bank of Italy in 2021 and 2022, net purchases of government securities in the secondary market estimated for 2021 and 2022 (Table 2.13) are added to the stock of debt held by the Bank of Italy at the end of 2020. The simplified assumption that all purchases of government securities in 2021 and 2022 by the Eurosystem are made by the Bank of Italy is also used.

2.4.2 Sensitivity of the debt/GDP ratio to macroeconomic assumptions

This section examines the sensitivity of the policy path of the debt/GDP ratio presented in the Update with respect to alternative assumptions for the inflation rate and the real growth rate.

The baseline scenario for the analysis (the “Update scenario”) is represented by the policy evolution of the debt/GDP ratio outlined by the Update for the 2021-2024 period. The alternative scenario (the “PBO scenario”) is based on the growth forecasts for real GDP and the GDP deflator developed by the PBO for the same period.

In the PBO scenario, the ratio between the primary balance and GDP is calculated by applying an elasticity of 0.544 for this balance to the real growth differential between the PBO scenario and the Update scenario, consistent with the estimates updated by the European Commission in

2019.[12] Similarly, an elasticity for the primary balance of 0.15 is applied to the inflation differential between the two scenarios.[13] It is also assumed that the inflation differential is partially translated onto nominal fixed interest rates and account is taken of the impact of that differential on interest expenditure connected with inflation-linked securities.[14]

The PBO macroeconomic scenario forecasts lower real growth rates over the entire programming horizon compared with the Update scenario (with a difference of two-tenths of a point on 2021, rising to four-tenths of a point in 2023 and then narrowing to one-tenth in the last forecast year), while the GDP deflator would be higher in the first two years (two-tenths and one-tenth of a point, respectively) and then similar overall in the following two years.

With this macroeconomic scenario, the simulation assumptions described above produce a less favourable trajectory for the debt/GDP ratio than that envisaged by the Government. In the PBO scenario, debt would start to decline in relation to GDP as early as 2021 as well, albeit to a lesser extent (reaching 154.3 per cent of GDP) and would fall by a further 3.5 points in the following year (to 150.7 per cent, 1.3 points higher than the policy profile in the Update). In the PBO scenario, the path of debt reduction would flatten significantly from 2023: in the two years, the overall reduction would be 1.5 points of GDP. In 2024, the debt would therefore be equal to 149.3 per cent of GDP, 3.2 percentage points higher than the ratio expected in the Update (Figure 2.2).

Almost two thirds of this difference is explained by the smaller favourable contribution of nominal output growth on the ratio (a less positive snow-ball effect), while the remainder would reflect the impact the slower growth on the primary balance (marginally offset by the reduction in interest rates induced by a slightly slower growth in the GDP deflator than forecast in the Update).

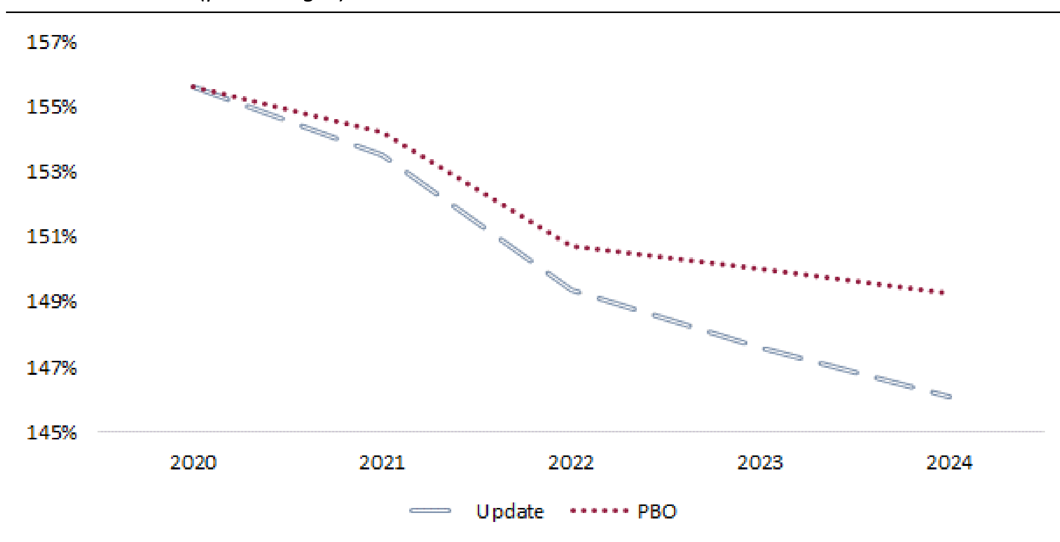
To take account of the uncertainty in the forecasts, we conducted stochastic simulations, i.e. simulations where the macroeconomic variables that influence the dynamics of the debt/GDP ratio (real GDP growth rate, growth rate of the GDP deflator, short-term interest rate and the differential between short-term and long-term interest rates) are subjected to temporary shocks, based on their historical variability and correlation, in order to obtain a large number of scenarios for the forecast horizon of the Update and determine probability intervals.

[12] Mourre et al. (2019), *The Semi-Elasticities Underlying the Cyclically-Adjusted Budget Balance: An Update & Further Analysis*, European Economy Discussion Paper, n. 098, European Commission.

[13] The impact of changes in the inflation rate on the primary balance was estimated on the basis of Attinasi et al. (2016), "The effect of low inflation on public finances", Chapter 10 in S. Momigliano (ed.), *Beyond the austerity dispute: New priorities for fiscal policy*, Banca d'Italia, making a number of specific adjustments to take account of changes in Italian legislation governing the indexing of a number of major expenditure items in the years following those considered in that work.

[14] See also Ufficio parlamentare di bilancio (2016), "2017 Budgetary Policy Report", Appendix 3.3. It should be noted that the methodology for estimating interest expenditure in alternative scenarios has recently been improved by revising the breakdown of the debt into its various components (inflation-linked securities have been moved from the short-term component to the non-maturing long-term component) and introducing a link between the yield of index-linked securities and the inflation differential between the baseline and alternative scenarios.

Figure 2.2 – Sensitivity of the debt/GDP ratio to growth and inflation assumptions *(percentages)*



Source: based on 2021 Update data.

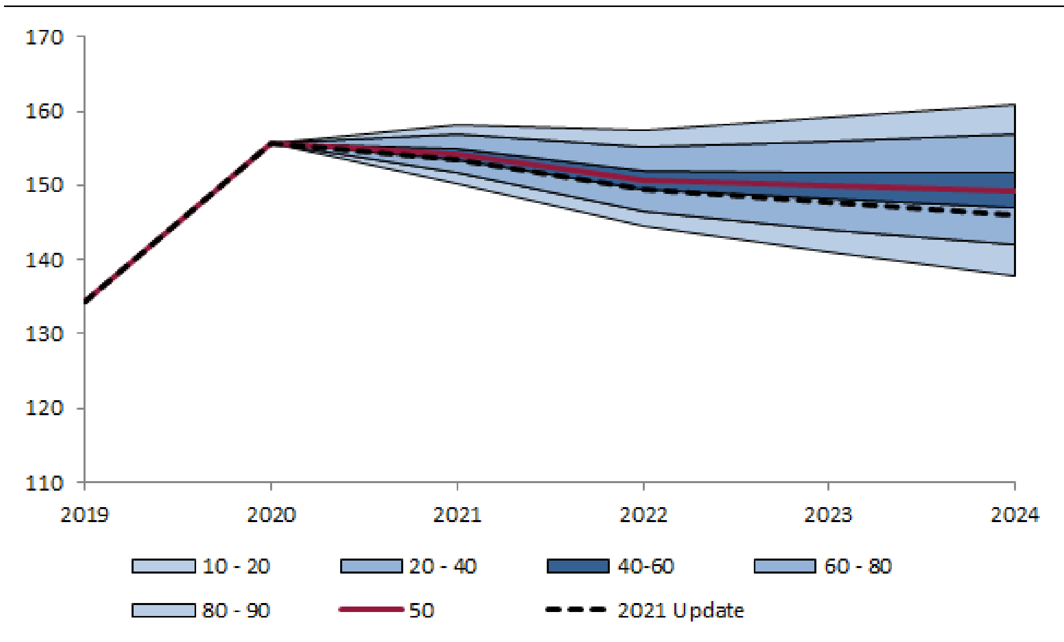
More specifically, 5,000 possible trajectories are estimated for the debt/GDP ratio, considering developments in the ratio that are consistent with the macroeconomic forecasts (real GDP growth and GDP deflator) developed by the PBO as described at the beginning of this section.

Given these assumptions, this procedure enables the construction of a probability fan chart of the ratio between debt and GDP (Figure 2.3). The distribution obtained puts the policy ratio in the Update close to the 40th percentile over the time horizon of the forecast: this means that about 60 per cent of the scenarios generated put debt/GDP ratio above that projected by the Update. This means that there is a relatively high risk that the evolution of the ratio for the entire 2021-2024 period will be less favourable than expected in the policy scenario in the Update.

From these stochastic simulations it is also possible to infer the probability of a reduction in the debt/GDP ratio compared with the previous year (Figure 2.4).[15] More specifically, this probability is equal to 68 per cent in 2021 and rises to a very high 96 per cent in 2022, before declining in subsequent years to reach 60 per cent in 2024. Thus, the analysis suggests that there is about a one in three chance that the debt/GDP ratio will start increasing again at the end of the forecast horizon.

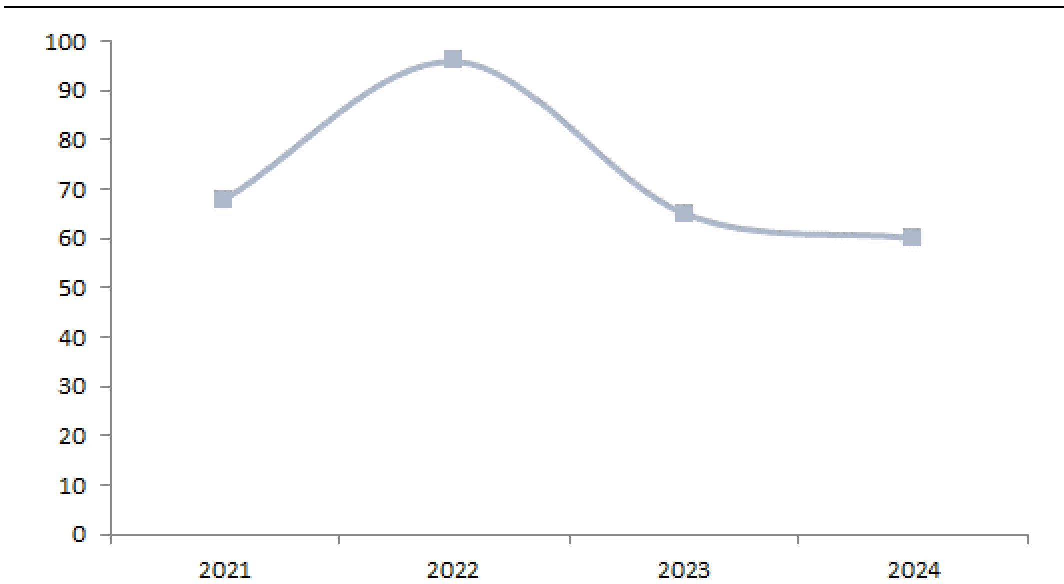
[15] For each year in the period covered by the analysis, we observe the number of simulations where the debt/GDP ratio declines compared with the previous year and express that number as a ratio of the total number of simulations conducted.

Figure 2.3 – Stochastic analysis of evolution of debt/GDP ratio
(percentage points)



Source: based on 2021 Update data.

Figure 2.4 – Implicit probability of a reduction in the debt/GDP ratio compared with previous year
(percentage points)



Source: based on 2021 Update data.

3. MAIN MEASURES IN THE BUDGET BILL

In this section we focus on the main measures contained in the budget package, taking into account, where necessary, the amendments made to Decree Law 146/2021 during its ratification into law.[16] In particular, we discuss qualitative and quantitative analyses of the superbonus tax credit, measures for firms, the Citizenship Income programme, measures relating to pensions and social safety net programmes, and provisions concerning healthcare, social policy, public investment, public employment and tax collection.

3.1 Extension of the superbonus and ecobonus programmes

Article 9 of the Budget Bill extends with different modalities the multiple tax credits granted for spending on energy efficiency and upgrade projects for buildings, initiatives to reduce seismic risk and improve the condition of buildings and development projects for gardens. Overall, the measures are expected to generate net costs of €30.8 billion in the 2022-2036 period, of which about 84 per cent will be concentrated in the years 2024-2029.

This section focuses on the measure with the most significant financial effects, known as the superbonus mechanism, and another incentive programme for energy upgrade projects, the ecobonus.

The superbonus, which was introduced with Decree Law 34/2020 and subsequently expanded and extended,[17] grants incentives in the form of a tax credit equal to 110 per cent of the spending incurred to increase the level of energy efficiency of existing buildings (thermal insulation of the building envelope and replacement of air conditioning systems with centralised systems) or for seismic resilience projects. Also eligible for subsidies is ancillary spending ("drew in" works) necessarily carried out in conjunction with the main projects, relating to the energy efficiency of individual houses, the installation of photovoltaic systems and infrastructure for charging electric vehicles and the elimination of architectural barriers.[18] Eligible beneficiaries include condominiums, individuals not operating as a business,[19] autonomous public housing institutes (IACP), housing cooperatives with undivided ownership, voluntary and social promotion associations, and amateur sports associations and companies (for changing room facilities only). The superbonus can be used in the form of an ordinary tax credit (in tax returns over a period of 5 years) or as a tax credit that can be transferred to third parties, including to the supplier, who then

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[16] Bill ratifying Decree Law 146/2021 (A.S. 2426) was approved by the Senate on 2 December 2021 and sent to the Chamber of Deputies on 6 December (A.C. 3395).

[17] The rules governing the superbonus were amended with Decree Law 104/2020, the 2021 Budget Act (Law 178/2020), Decree Law 59/2021 and Decree Law 77/2021.

[18] To qualify for the superbonus, the energy upgrade works must produce an improvement of at least two energy efficiency classes (or raise the building to the top class), while seismic projects must reduce risk in seismic zones 1-3.

[19] Beneficiaries of the incentive programme include individual property owners for "drew in" works, owners of buildings containing between 2 and 4 individually registered residential units and owners of single-family buildings on the condition that the latter are their principal residence.

grants a discount in their invoices (up to the amount of the spending), credit institutions and financial intermediaries.

The ecobonus programme, governed by Article 14 of Decree Law 63/2013, consists of tax credits of 50 or 65 per cent of the costs incurred for energy upgrade projects such as, for example, the purchase and installation of solar screen systems and windows including fixtures, the replacement of heating systems with systems equipped with condensing boilers or heat generators powered by biomass fuels. The tax credit rises to 70 per cent for energy upgrades involving more than 25 per cent of the gross the condominium building envelope with an incidence exceeding 25 per cent of the gross dispersing surface of the building and to 75 per cent for interventions aimed at improving energy performance in winter and summer of the common parts of condominium buildings. Finally, the tax credit is equal to 80 or 85 per cent if the intervention is aimed jointly at the energy requalification and the reduction of the seismic risk of condominium buildings falling in the seismic zones 1, 2 and 3 if they determine the passage to, respectively, one or two lower risk classes. The Ecobonus can be used in the form of a tax credit over 10 years or through a tax credit transferable to third parties, including to the supplier for the application of the discount on the invoice, and to credit institutions and financial intermediaries.

The Budget Bill revises the duration of the superbonus programme. More specifically:

- it provides for an extension of one year, from 31 December 2022 to 31 December 2023, of the tax credit of 110 per cent of spending by condominiums and individuals for works involving buildings consisting of two to four units;

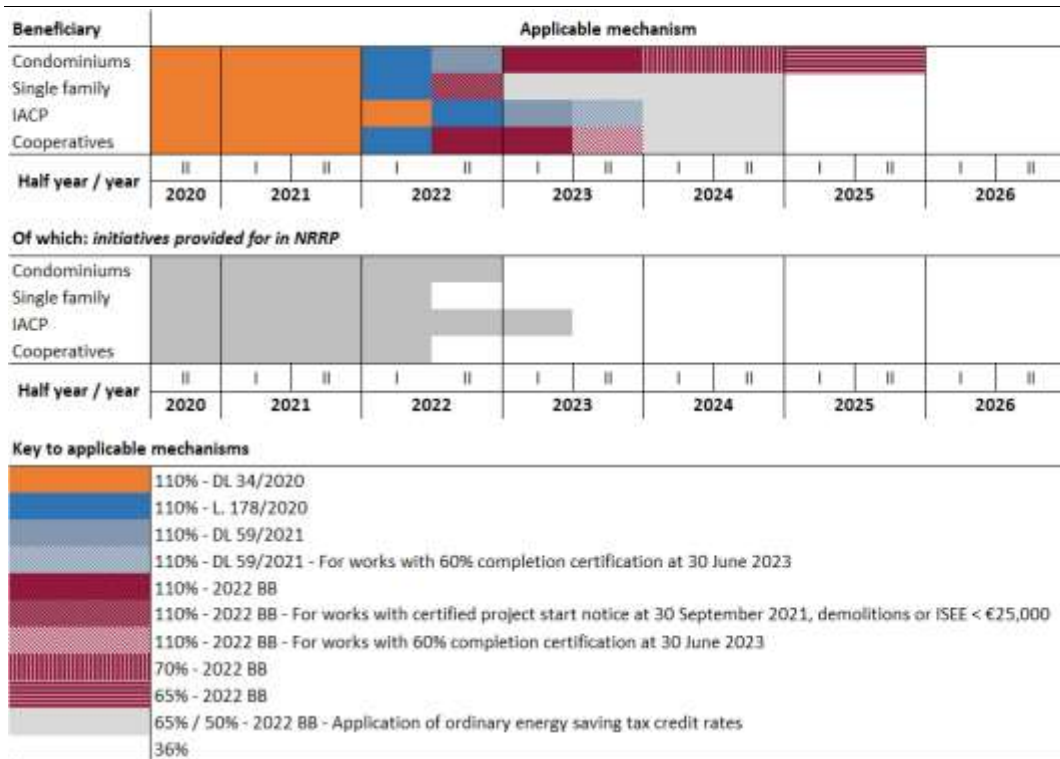
- for the same beneficiaries indicated in the previous point, it extends the duration of the superbonus programme to include 2024-2025 but gradually reduces the tax credit: from 110 per cent to 70 per cent for costs incurred in 2024 and 65 per cent for those incurred in 2025;

- it unifies the system for undivided-ownership cooperatives with that for IACPs by extending the deadline from 30 June 2022 to 30 June 2023 (to 31 December 2023 for spending on projects of which at least 60 per cent is completed by 30 June of that year);

- it provides for an extension of six months, from 30 June to 31 December 2022, of the 110 per cent tax credit for costs incurred by individuals who own single-family buildings used as their principal residence that, as at 30 September 2021, have already begun work or which involve demolition and reconstruction activities. In the absence of these conditions, the extension is only granted to property owners with an ISEE (equivalent economic status indicator) not exceeding €25,000.

Figure 3.1 summarises the duration of the superbonus programme resulting from the subsequent extensions (including those provided for in the Budget Bill) by type of beneficiary. Note that the superbonus programme now expires well after the date indicated in the corresponding section of the NRRP (Investment 2.1 of Component 3 of Mission 2), albeit recognised at a lower rate.

Figure 3.1 – Extensions and rates applicable to projects subsidised through the superbonus programme in 2020-2026



More specifically, the NRRP provides for an extension of the superbonus programme from 2021 to 2023 (to 30 June 2023 for projects carried out by IACPs, provided that at least 60 per cent of the works have been completed by the end of 2022; to 31 December 2022 for projects carried out by condominiums, provided that at least 60 per cent of the works have been completed by 30 June 2022) with a goal, to be achieved by the end of 2025, of renovating over 100,000 buildings, for a total of about 36 million square metres of upgraded area, of which 3.8 million for seismic resilience purposes. The forecast energy savings will amount to about 191 Ktoe/year, with a reduction of about 667 KtonCO_2/year in greenhouse gas emissions. Decree Law 59/2021 – which concerns the National Plan for complementary investments supplementing the NRRP programmes with national resources – has already given legislative approval for these extensions, and indeed for IACPs grants an extension of an additional six months until 31 December 2023. Overall, between the NRRP and the complementary investment plan, €18.513 billion have been appropriated to refinance the superbonus (€13.95 billion under the NRRP, of which €10.255 billion to finance existing projects, and €4.564 billion related to the complementary plan to finance the aforementioned extensions). These resources could be increased by a maximum of €0.32 billion financed by the React-EU programme.

Again with regard to the superbonus, the Budget Bill also established: 1) that the tax credit for spending incurred in the years after 2022 must be divided into four equal annual instalments instead of five; 2) that, to prevent tax avoidance, the congruity of prices – to be certified by qualified technicians – shall be determined on the basis of official regional price lists and the maximum values to be fixed for certain categories of materials with a decree of the Minister for the Ecological Transition to be issued within thirty days of the date of entry into force of the Budget Act.

As regards the ecobonus programme (Article 14 of Decree Law 63/2013), which involves energy upgrade interventions not specifically falling within the scope of application of the superbonus, the Budget Bill, among other things, provides for an extension of the 65 and 50 per cent tax credits for the 2022-2024 period for all taxpayers. The distribution of the tax credits over ten years has not been changed.

Moving on to the financial aspects of these programmes, the Technical Report accompanying the Budget Bill has calculated the cost of the superbonus extension measures at about €14.1 billion in total (Table 3.1), consisting of about €14.7 billion in outlays and €0.6 billion in increased revenue from the expansion of taxable income. The financial effects are protracted over a decade due to the possibility of benefiting from the ordinary tax credit or the transferable tax credit relating to the superbonus over a period of 5 years (4 years for spending incurred after 2022), half the time envisaged by the legislation in force prior to Decree Law 34/2020 (10 years). Some 82 per cent of the decrease in revenue will be registered as from 2025. The largest cost is connected with the extension of the application of the superbonus to condominiums at the rate of 110 per cent for 2023 and a reduced rate in 2024 and 2025, which alone amounts to about €13.2 billion.

Table 3.1 – Increase in costs associated with extensions of the superbonus and ecobonus programmes
(millions of euros; increases (-) and reductions (+) of the deficit)

Overall extensions of energy upgrade programmes		Total	2022	2023	2024	2025	2026	2027-2037
TOTAL	Direct	-18,474	-37	-528	-2,827	-3,794	-4,723	-6,565
	Indirect	767	38	141	346	215	141	-113
	Total	**-17,706**	**1**	**-388**	**-2,481**	**-3,580**	**-4,582**	**-6,677**
Superbonus extension								
Condominiums	Direct	-13,800	0	-127	-2,287	-3,146	-4,027	-4,213
	Indirect	610	0	54	316	203	150	-113
	Total	**-13,190**	**0**	**-74**	**-1,971**	**-2,943**	**-3,877**	**-4,325**
Single family	Direct	-822	-16	-283	-218	-218	-218	130
	Indirect	26	7	34	-14	0	0	0
	Total	**-796**	**-9**	**-249**	**-232**	**-218**	**-218**	**130**
Cooperatives	Direct	-100	-1	-14	-32	-27	-27	-1
	Indirect	3	0	2	2	-1	0	0
	Total	**-97**	**0**	**-12**	**-30**	**-28**	**-27**	**-1**
TOTAL	Direct	-14,722	-17	-424	-2,536	-3,391	-4,271	-4,083
	Indirect	639	7	89	303	202	150	-113
	Total	**-14,083**	**-10**	**-335**	**-2,233**	**-3,188**	**-4,121**	**-4,196**
Ecobonus extension								
TOTAL	Direct	-3,751	-20	-104	-291	-404	-452	-2,481
	Indirect	128	30	52	43	12	-9	0
	Total	**-3,623**	**11**	**-52**	**-248**	**-391**	**-461**	**-2,481**

Source: based on estimates given in the Technical Report accompanying the 2022 Budget Bill.

The total resources allocated to finance the superbonus from its introduction to today amount to €33.3 billion (table 3.2).

The cost of extending the superbonus is accompanied by about €3.6 billion connected with extending the ecobonus at 65 and 50 per cent,[20] for a total decrease in tax revenue of €17.4 billion.

The Technical Report does not specify the assumptions underlying the quantifications, referring to the Technical Report accompanying the original legislation, which in turn adopts the method adopted in the Technical Reports of previous legislation in this area.

In order to assess the cost of renewing the increased tax credit, the Technical Reports regarding past extensions of the ecobonus referred to expenditure carried out in the previous years of the programme. In order to assess the differential cost attributable to the extension of the increased rate, it was assumed that if the measure had not been renewed, eligible expenditure would have decreased by 50 per cent. This prudential assumption required that only 50 per cent of the tax credits granted at the pre-increase rate be assessed as a cost under current legislation (and therefore be deducted from the overall cost of the extension). The evaluation of the costs of the superbonus programme (in the Technical Report accompanying Decree Law 34/2020), expressly adopting this approach, assumed that expenditure would double compared with subsidised spending under the 65 and 50 per cent ecobonus mechanism. In this case, however, the context was significantly different, given that for the introduction of a new measure it was not possible to refer to an *ex ante* expenditure level in which this subsidy was available.

Overall, it is difficult to predict the actual impact of the greater incentives on spending decisions, a circumstance made more problematic by the fact that the superbonus for the first time fully covers costs, with higher subsidised spending ceilings than those envisaged for other real estate incentive measures.

In this uncertain environment, given the absence of a ceiling on the cost charged to the public finances, it is particularly important to analyse the data on actual use of the programme.

An indication of the scale of subsidised interventions in the first phase of application of the 110 per cent superbonus programme can be found in the monitoring data prepared by ENEA pursuant to Article 1, paragraph 5, of Decree Law 59/2021.

Table 3.2 – Estimated costs of the superbonus programme
(millions of euros; increases (-) and reductions (+) of the deficit)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	**Total**
DL 34/2020	-22.5	-956.6	-2,961.7	-2,886.1	-2,713.0	-2,713.0	-1,315.7	978.3	216.4	216.4	196.3	-10.1	-49.5	0.0	0.0	0.0	0.0	**-12,021.0**
DL 104/2020	-0.3	-5.5	-4.2	-4.2	-4.2	-4.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	**-22.6**
2021 BA	0.0	400.6	209.2	-1,655.4	-1,468.9	-1,376.1	-2,003.7	729.7	6.4	9.7	18.6	104.1	50.1	-37.8	0.0	0.0	0.0	**-5,013.3**
DL 59/2021	0.0	3.9	113.4	-570.0	-671.9	-623.9	-615.6	60.0	67.7	29.8	24.5	25.4	30.5	-10.1	-3.4	0.0	0.0	**-2,139.7**
DL 77/2021	0.0	0.0	-1.0	-10.1	-9.3	-8.8	-8.8	3.9	0.3	0.4	0.4	0.4	0.3	-0.2	0.0	0.0	0.0	**-32.5**
2022 BB	0.0	0.0	-9.8	-335.3	-2,232.6	-3,188.3	-4,121.0	-3,762.4	-1,272.6	-398.7	611.9	198.0	196.7	175.0	78.3	15.7	-37.8	**-14,082.9**
Total	**-22.8**	**-557.6**	**-2,654.1**	**-5,461.1**	**-7,099.9**	**-7,914.3**	**-8,064.8**	**-1,990.5**	**-981.8**	**-142.4**	**851.7**	**317.8**	**228.1**	**126.9**	**74.9**	**15.7**	**-37.8**	**-33,312.0**

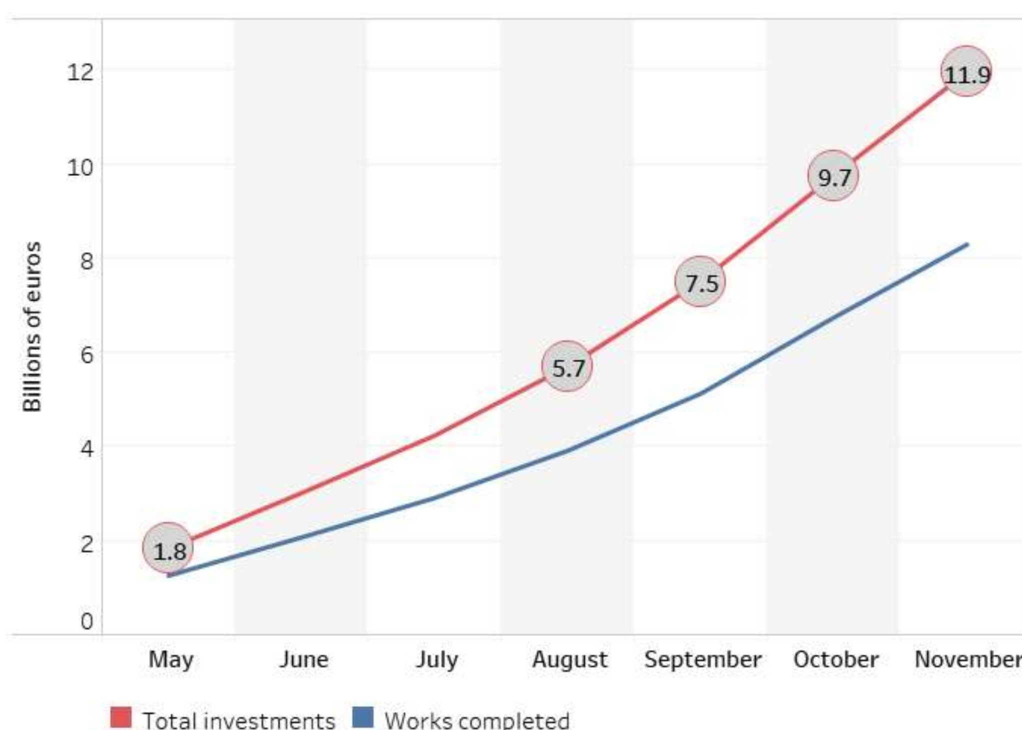
Source: Technical Reports accompanying the legislation indicated.

[20] The 80 and 85 per cent tax credits for spending on projects to jointly reduce seismic risk and improve energy performance have also been extended to 2024. This programme is not considered in this section in view of its negligible financial impact (€19.7 million over 2022-2035).

As of 30 November, the monitoring indicates total facilitated investment in energy upgrades (therefore excluding seismic resilience projects) of over €11.9 billion, which correspond to about €13.1 billion in future subsidies. With one month to go before the end of 2021, projects already approved for subsidies exceed those expected for the first 18 months of the programme by about €400 million,[21] although this does not take account of the downward revision of expenditure for 2020 contained in the Technical Report accompanying the 2021 Budget Act.

The monitoring data, which are also available at 31 May, 31 August, 30 September and 31 October 2021, also show a very pronounced increase in certifications in recent months. In fact, there has been an increase from about €1.8 billion in certified works at the end of May to about €11.9 billion at the end of November. In the last two months, the volume of certified works was around €2.2 billion, compared with around €1.8 billion in September (Figure 3.2).

Figure 3.2 – ENEA monitoring report: total investments certified in 2020-2021 eligible for tax credit and works completed in the months indicated (1)
(billions of euros)



Source: based on data from ENEA "*Super Ecobonus 110 per cento*" monitoring reports, various editions.
(1) As no reports are available for June and July, the data has been obtained through interpolation.

[21] The Technical Report accompanying Decree Law 34/2020 can be used to quantify, with some approximation, spending of about €11.5 billion eligible for subsidies for total projects involving energy upgrading and photovoltaic plants.

Certified investments have involved a relatively small number of building units: about 69,400, of which 10,339 condominiums, which represent 0.82 per cent of total buildings with more than four housing units,[22] and 35,542 single-family buildings, or 0.54 per cent of the total. As can be seen from Table 3.3, the percentage of condominiums involved in subsidised projects is slightly higher in the South (0.96 per cent), while that for single-family buildings is higher in the Centre and the North (0.70 and 0.58 per cent respectively).

The average spending per project is high however, at about €172,000 per building: for condominiums it reaches an average of €574,200 and for other buildings (for single-family houses and other functionally independent units, 59,000 in total) it came to about €100,000. The monitoring data also shows that the average expenditure by segment has increased from month to month, reflecting two possibilities: on the one hand, more complex projects may have been certified and, on the other, the cost of projects may have increased in general.

Due first and foremost to the different categories of eligible works, but also to the different size of the incentives involved (tax credits of 50 and 65 per cent instead of 110 per cent), the projects subsidised under the superbonus differ significantly from those that benefited in the past from the ecobonus mechanism, which involved a much larger number of lower-value projects (about 395,000, for an average unit cost of about €8,800). It is also interesting, however, to observe the difference in the territorial distribution of subsidised expenditure under the two types of programme. Figure 3.3 shows the regional distribution of the ratio between the annual subsidised expenditure with the superbonus observed by the ENEA monitoring at 31 October and the subsidised expenditure under the ecobonus programme in 2019. This is considerably higher in the South than in the Centre and in the North. For example, in Calabria annual subsidised spending under the superbonus is more than 10 times that previously subsidised with the ecobonus, over 6 times greater in Campania and Sicily, 3 times greater in Lazio and 1.2 times greater in Lombardy.

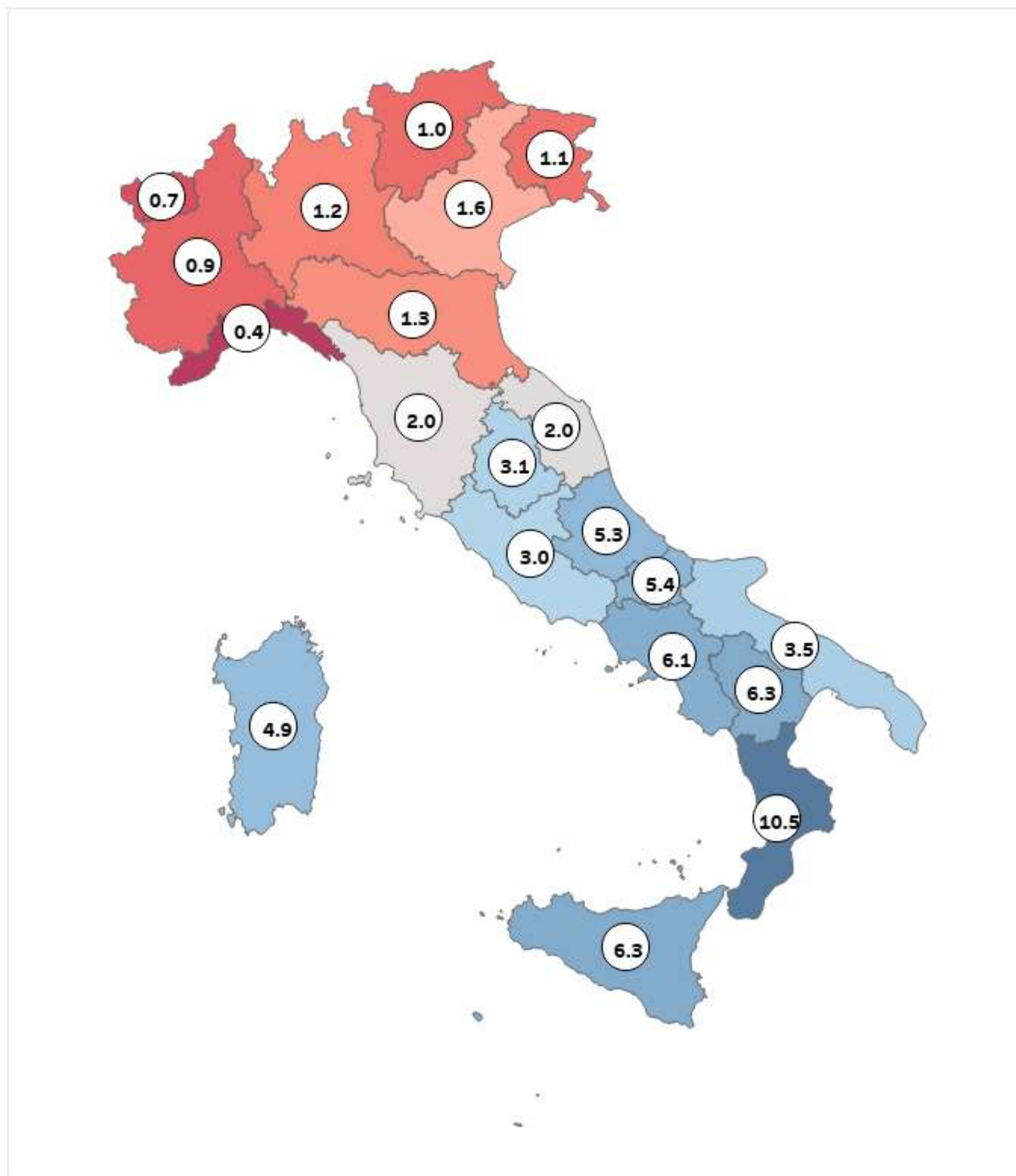
Table 3.3 – Condominiums and single-family buildings benefitting from superbonus programme as a percentage of total buildings
(at 30 November 2021)

	Building type	
	Single family	Condominium
North	0.58%	0.73%
Centre	0.70%	0.84%
South	0.46%	0.96%
Total	0.54%	0.82%

Source: based on data from ENEA "*Super Ecobonus 110 per cento*" monitoring reports, various editions, and the 2011 Istat survey of the population and housing.

[22] Data from 2011 Istat survey of the population and housing.

Figure 3.3 – Ratio between annual subsidised spending under superbonus programme from July 2020 to October 2021 and annual subsidised spending under ecobonus programme in 2019



Source: based on data from ENEA "*Super Ecobonus 110 per cento*" monitoring reports and "*Rapporto Annuale Detrazioni Fiscali 2020*" (2020 Annual Report on Tax Credits).

Conversely, in Piedmont, Liguria and Valle d'Aosta, the average annual expenditure subsidised under the superbonus programme was lower than that subsidised with the ecobonus. This has produced a partial territorial rebalancing of the distribution of benefits: while more than 72 per cent of the subsidies under the Ecobonus flowed to the North and only 11 per cent to the South, under the Superbonus the shares are 44 per cent and 34 per cent respectively.

A number of factors could help explain this initial evidence on the use of the superbonus programme.

First, the large size of the tax credit and the possibility of using it through a discount granted in the supplier invoice or by transferring it to third parties has enabled relatively low income or liquidity constrained taxpayers to take advantage of the programme. This could be one of the possible explanations of the differences in the territorial distribution of the superbonus compared with the ecobonus and other similar measures. The availability of microeconomic data regarding the pool of beneficiaries and the spending incurred will enable us to obtain more precise information in this regard.

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 (although the areas covered do not perfectly overlap with those involved in the subsidy programme). The latter show evidence of overheating prices in the construction sector, with the construction costs of buildings increasing since July 2020 by 12 per cent for industrial buildings and 5 per cent for residential dwellings, respectively, while there were no significant increases in consumer prices (+1.3 per cent from July 2020 to October 2021, approximately half the rise in the general index). Looking ahead, higher prices could, on the one hand, push expenditure even closer to the 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 projects 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. In this regard, the Revenue Agency detected various cases of fraud during the first phase of implementation of the superbonus, primarily in the form of the transfer of non-existent tax credits for building projects that were never carried out, reporting the identification of some €800 million in tax credits that “almost certainly did not exist”.[23] Precisely in order to counter these effects, as noted earlier the Budget Bill provides for the application of new spending ceilings for specific categories of goods to be identified with decrees of the Minister for the Ecological Transition, while the recently issued Decree Law 159/2021 provides for a general strengthening of controls by the Agency, including preventive checks of potentially irregular positions.

[23] “*Bonus edilizi, l’agenzia delle Entrate scopre 800 milioni di crediti inesistenti*”, interview with the Director of the Revenue Agency, *Il Sole 24 ore*, 7 November 2021.

3.2 Measures for 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. Some of these measures also produce effects over a longer time horizon than the typical three-year period. According to official estimates, taxation is expected to increase by €3.2 billion in 2022, €0.6 billion 2023 and €0.3 billion in 2024. This will be accompanied by an increase in expenditure associated with the refinancing of the SME Guarantee Fund and funds to promote exports and internationalisation equal to €3.15 billion in 2022 and €0.15 billion from 2023. Overall, net borrowing improves negligibly in 2022 and by €0.5 billion and €0.2 billion in 2023 and 2024 respectively (Table 3.4).

The main measures analysed in this section include: the extension of incentives for investment in tangible and intangible assets and in research and development (section 3.2.1); the tightening of rules governing the revaluation of business assets and the alignment of tax reporting values with financial reporting values (section 3.2.2); and measures to boost the liquidity of firms and the refinancing of the SME Guarantee Fund (section 3.2.3).

Table 3.4 – Effect of measures for firms on net borrowing
(millions of euros; increases (-) and reductions (+) of the deficit)

	2022	2023	2024
Tax credits for tangible and intangible assets 4.0	0.0	-636.8	-1,406.9
Tax credits for R&D, technological innovation, design, aesthetic innovation, ecological and digital transition 4.0	0.0	0.0	-337.3
"Nuova Sabatini" subsidy programme	-240	-240	-120
Extension and expansion of incentive programme for businesses aggregation	-137.0	-412.6	66.1
Redetermination of scope of application of Southern Italy tax credit	-6.1	0.0	0.0
Sectoral measures	-720.7	-687.7	-256.4
Modification of preferential treatment of revaluation of business assets and realignment of tax reporting values	4,264.2	2,594.2	2,379.8
Total change in taxation	**3,160.4**	**617.1**	**325.3**
Refinancing of SME Guarantee Fund	-3,000	0.0	0.0
Measures for internationalisation of firms	-150	-150	-151
Total	**10.4**	**467.1**	**174.3**

Source: based on data from the summaries of financial effects attached to the Tax Decree and the 2022 Budget Bill. Accordingly, this does not take account of the effects of the amendments to Decree Law 146/2021 during ratification into law.

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3.2.1 *Subsidies for investments in tangible and intangible assets and in research and development*

Article 10 of the Budget Bill extends (but reduces) certain incentives for investments in tangible and intangible assets and in research and development from 2023 to 2025 (and in some cases to 2031). These measures were introduced in 2021 with the 2020 Budget Act (Law 160/2019, Article 1, paragraphs 198-209) and then extended to 2022 with the 2021 budget package (Law 178/2020, Article 1, paragraphs 1051-1065). The extension for more than one year should enable companies to endow their investment choices with longer term scope.

Overall, the Technical Report quantifies the increase in expenditure for these measures (tax savings for firms) at €0.6 billion in 2023, €1.7 billion in 2024, €2.8 billion in 2025, €2.6 billion in 2026, €1.7 billion in 2027, €0.9 billion in 2028, €0.7 billion in the years 2029-2032, €0.5 billion in 2033 and €0.2 billion in 2034 (€14.1 billion over the entire period). In the first year, more than 80 per cent of resources are allocated to incentives for investments in tangible assets. This percentage gradually decreases in favour of subsidies for intangible investment in research and development (Table 3.5).

The incentives focus only on specific purposes in line with the framework of the objectives of reviving competitiveness, the ecological transition and environmental sustainability pursued by the NRRP. The latter provides for a specific investment programme aimed at supporting the Transition 4.0 tax incentives (Component 2 of Mission 1), to which €13.4 billion have been allocated, in addition to €5.1 billion financed with the resources of the National Plan for complementary investment, which under the provisions of Decree Law 59/2021 supplements the measures envisaged in the NRRP.

Tax credit for investments in capital goods 4.0. – The most financially significant measure – €0.6 billion in 2023, €1.4 billion in 2024, €2.1 billion in 2025, €1.6 billion in 2026, €0.9 billion in 2027 and €0.1 billion in 2028 – is the tax credit for investments in capital goods, which was extended to include 2023-2025. As under the previous legislation, the subsidy also applies to assets purchased by 30 June 2026 provided that by 31 December 2025 the relative order has been accepted by the seller and a deposit of at least 20 per cent of the cost has been paid.

Table 3.5 – Financial effects of incentives for investments in tangible and intangible assets and in research and development
(millions of euros)

	2023	2024	2025	2026	2027	2028	2029-32	2033	2034
Tangible and intangible assets 4.0	-637	-1,407	-2,145	-1,654	-884	-146	0	0	0
Research and development	0	-250	-500	-750	-750	-750	-750	-500	-250
Technological innovation, design and aesthetic innovation	0	-52	-78	-105	-53	-27	0	0	0
Ecological or digital transition 4.0	0	-36	-54	-72	-36	-18	0	0	0
Total	**-637**	**-1,744**	**-2,776**	**-2,580**	**-1,723**	**-941**	**-750**	**-500**	**-250**

Source: Technical Report accompanying the 2022 Budget Bill.

Recall that the 2020 Budget Act replaced the preferential increase in deductible depreciation charges (in force since 2015 and introduced with the 2016 Budget Act) with a tax credit equal to a percentage of the expenditure incurred for investment in new capital goods, setting differentiated rates that varied depending on the type of assets and decreased as expenditure increased. The 2021 Budget Act extended the mechanism to 2022, increasing and diversifying the rates, increasing eligible expenditure and expanding the scope of application.[24]

Table 3.6 summarises the features of the tax credit in 2022 (current legislation) and in the period covered by the extension. More specifically, a number of changes will take effect as from 2023:

1) the credit is limited to investments in tangible assets functional to the technological and digital transformation of companies (letter (b) of the table) and to those relating to intangible assets connected with previous investments (letter (c)) (respectively, those indicated in attachments A and B annexed to Law 232 of 11 December 2016); investments in other capital goods are not eligible;

2) the tax credit rates are halved from 2023 for investments in tangible assets (letter (b)) and are reduced in 2024 (from 20 to 15 per cent) and in 2025 (to 10 per cent) for intangible assets (letter (c)).

Table 3.6 – Main features of the tax credit in previous legislation, current legislation and that proposed in the Budget Bill

Subsidised investments	Size of investment *(millions)*	2020 Budget Act	2021 Budget Act (current legislation)		2022 Budget Bill		
		1.1.2020-31.12.2020 [(1)]	16.11.2020-31.12.2021	1.1.2022-31.12.2022	1.1.2023-31.12.2023	1.1.2024-31.12.2024	1.1.2025-31.12.2025
a) New capital equipment (excluding non-instrumental transport equipment)	up to 2	6%	10% [(2)]	6%	Not applicable	Not applicable	Not applicable
b) New high-tech instrumental capital goods (Annex A – Industry 4.0 – L. 232/2016)	0-2.5	40%	50%	40%	20%	20%	20%
	2.5-10	20%	30%	20%	10%	10%	10%
	10-20	0%	10%	10%	5%	5%	5%
c) New instrumental intangible assets (*software* used in technology transformation) (Annex B – L. 232/2016)	0-0.7	15% [(3)]	20%	20%	20%	15%	10%
	0.7-1	0%					
d) Other new intangible assets	Up to 1	0%	10% [(2)]	6%	Not applicable	Not applicable	Not applicable
Temporal allocation of incentive		5 annual instalments	3 annual instalments	3 annual instalments	3 annual instalments	3 annual instalments	3 annual instalments

(1) In all cases the subsidy also applies to assets purchased by 30 June of the following year as long as by 31 December of the last year of the subsidy programme the associated order has been accepted by the seller and a deposit of at least 20 per cent of the cost has been paid. – (2) The credit is increased to 15 per cent for instruments and devices for use in flexible working arrangements. – (3) Divided into three annual instalments.

[24] For more information, see Audizione sulla legge di bilancio per il 2021 (in Italian) and the subsequent 2021 Budgetary Policy Report.

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Tax credit for R&D and technological innovation. – The Budget Bill extends the tax credit for research and development, technological innovation and other innovative activities beyond 2022, differentiating durations, rates and maximum limits for subsidised spending by the type of investment. More specifically: for research and development activities (fundamental research, industrial research and experimental development in science and technology) the incentive is extended for 9 years, until 2031; for technological innovation and design and aesthetic conceptual activities and for technological innovation activities for the ecological transition or digital innovation 4.0, the extension runs until 2025. The incentive has also been weakened by reducing the subsidy rates, but the expenditure ceilings for calculating the tax credit have been raised. Table 3.7 shows the structure of the credit in 2022 and in the years covered by the extension for the various subsidised goods.

Recall that the 2020 Budget Act introduced a tax credit for investments in research and development, in the ecological transition and in technological innovation 4.0 intended to strengthen competitiveness.[25] Firms resident in Italy are eligible for the tax credit, regardless of their legal form or sector. From the outset, the measure provided for different percentage tax credits depending on the type of investment. With the extension to 2022, the scale of the subsidy has been expanded with an increase in the subsidy rate and expenditure ceilings.

The extension of the tax credit for investments in research and development must be assessed in conjunction with the changes made to the patent box system (as will be seen below, this is still in force only for firms that opted for it for the residual duration of the option).

The patent box mechanism is a favourable tax regime in force since 2015 (Article 1, paragraphs 37-45 of the 2015 Stability Act, Law 190/2014). All generators of corporate income can exercise a renewable option – valid and irrevocable for 5 years – to exempt (from income tax and IRAP) 50 per cent of income from the use of certain types of assets (e.g., software, patents, designs and models, processes and formulas) and capital gains (if 90 per cent are reinvested) from their sale. Trademarks are excluded however. The rules have been amended several times, and until 2019 a prior agreement with the Revenue Agency (ruling) was necessary to be eligible for the system. This was mandatory in all cases of direct use of the asset and optional in other cases.

Table 3.7 – Main features of the tax credit for R&D and technological innovation under current legislation and that proposed in the Budget Bill

Subsidised investments		Current legislation	2022 Budget Bill		
		1.1.2022-31.12.2022	1.1.2023-31.12.2023	1.1.2024-31.12.2025	1.1.2026-31.12.2031
Research and development	Rate	20%	10%	10%	10%
	Ceiling	4 million	5 million	5 million	5 million
Technological innovation; design and aesthetic conceptual development	Rate	10%	10%	5%	Not applicable
	Ceiling	2 million	2 million	2 million	
Ecological transition and digital innovation 4.0	Rate	15%	10%	5%	Not applicable
	Ceiling	2 million	4 million	4 million	

[25] This credit, which took effect for the tax period subsequent to 31 December 2019, essentially replaced the tax credit for investment in R&D envisaged in Article 3 of Decree Law 145/2015, which was terminated in advance in 2019.

This procedure made determining eligibility for the measure highly complex and uncertain, slowing access to the preferential regime. With Decree Law 34/2020, the procedure was simplified by establishing a general procedure for self-assessment of the benefit.

The Tax Decree repealed the patent box mechanism and envisaged a new renewable optional system – valid for 5 years and irrevocable – 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 the same intangible assets eligible for legal protection defined in the patent box legislation (including trademarks). At the same time, the decree also established that those opting for the deduction may not take advantage of the tax credit for the same research and development activities.

Note that new system (created with the changes made to the patent box mechanism and the extension of the tax credit) substantially changes the purpose of the incentives.

With the patent box, investment in research and development is encouraged by increasing the net return on intangible assets. However, it should be emphasised that it was also introduced in response to tax competition from other countries that have adopted similar measures (Belgium, France, the United Kingdom, Luxembourg, the Netherlands, Spain). In this case, the preferential treatment is intended to encourage both the transfer to Italy of intangible assets currently held abroad by Italian or foreign companies, and their retention in Italy, preventing their relocation abroad.

The deduction introduced with Decree Law 146/2021 to replace the patent box system and the tax credit calculated on the basis of spending instead seek to expand research and development more directly (regardless of results), reducing its cost and remunerating the positive externalities that this produces for innovation and growth, allowing firms with a more modest or long-term profit outlook to benefit.

Finally, in general, the coexistence of a patent box mechanism and the tax credit (or deduction) would be preferable, as it would reconcile the two purposes of the incentives. On the other hand, other factors must also be taken into account, including the particular complexity of applying the patent box rules, especially the determination of the portion of income eligible for preferential treatment. The combined provisions of Decree Law 146/2021 and the Budget Bill rule out the possibility of having a system in which the two types of subsidy coexist, but steps are taken towards a general simplification of the system. The latter would especially favour smaller companies and those that have not accessed the programme. In fact, the largest companies have generally already invested at the administrative level to prepare the documentation required to take advantage of the patent box tax exemption regime.

In particular, as specified in the Technical Report, the new mechanism may entail a series of benefits for businesses such as: a) a significant simplification of the benefit calculation mechanism; b) the reduction of the administrative burden for beneficiaries; c) greater certainty and speed in the use of the benefit compared with the current system; and d) a significantly lower level of complexity and related mitigation of the current uncertainty deriving from potential challenges from the tax authorities.

From an applicative standpoint, firms will therefore have a number of subsidy options:

1) 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: for a firm subject to IRES (corporate income tax), 25.1 per cent of expenditure with the deduction[26] and at most 20 or 10 per cent of expenditure in 2022 and the 2023-2025 period respectively (up to 2031 for certain activities) with the tax credit. However, 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.

2) firms that opted for the patent box system by 22 October 2021 may confirm the optional regime during the residual duration of the option 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 companies that opted for the patent box and simultaneously benefited from the tax credit for research and development expenditure (764 companies).[27] For these companies, simulations were conducted with the PBO's MEDITA model to assess the attractiveness of moving to the new system set out in Decree Law 146/2021 and the Budget Bill. More specifically, the size of the benefit or loss for each company was estimated and the distribution by company size was assessed.

The analysis shows that 82.1 per cent of firms would not have benefited from switching to the new regime (Table 3.8). Of these, 38.1 per cent are large companies (with turnover of more than €50 million), accounting 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).

[26] The figure 25.1 is given by 90 per cent of the investment (equal to 100) multiplied by the sum of the IRES and IRAP rates. For individuals, that percentage depends on the marginal personal income tax rate.

[27] Following the simplification of the rules governing eligibility for the patent box mechanism and the expansion of the incentive to the tax credit for R&D spending (from 2020), the number of beneficiary firms may have increased significantly in 2020.

Table 3.8 – Attractiveness of new mechanism for R&D expenditure deductions

		% of total	Firms with no benefit			Firms with benefit		
			Number	Amount	Average loss *(euros)*	Number	Amount	Average benefit *(euros)*
Micro	92	68.5	10.0	0.3	-30,678	21.2	2.6	7,399
Small	197	80.2	25.2	3.0	-109,674	28.5	10.6	22,518
Medium	202	82.7	26.6	8.0	-272,477	25.5	13.7	32,231
Large	273	87.5	38.1	88.6	-2,112,938	24.8	73.1	177,326
Total	**764**	**82.1**	**100.0**	**100.0**	**-908,703**	**100.0**	**100.0**	**60,219**

Source: findings of simulations conducted with the PBO's MEDITA model.

3.2.2 Revaluation of intangible assets

The Budget Bill (Article 191) 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 (Article 110) and amended with the 2021 Budget Act (Law 178/2020, Article 1, paragraph 83). More specifically, for intangible assets depreciated over 18 years (trademarks and goodwill), the period for amortising the higher value recognised for tax purposes has been increased from 18 to 50 years. Alternatively, companies can continue to depreciate over 18 years by paying an additional 9 per cent tax (over the 3 per cent tax already paid) 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.[28] Finally, in consideration of the substantial impact of the weakening of the preferential tax treatment on firms' investment decisions, the option of revoking the tax effects of revaluations made pursuant to Decree Law 104/2020 is permitted with the refunding or offsetting of the taxes in lieu paid.

Article 110 of Decree Law 104/2020 provided that companies (corporations, excluding those that adopt international accounting standards, commercial and non-commercial entities, partnerships, retail enterprises, sole proprietorships and non-resident subjects with permanent establishments) could revalue the business assets and equity investments recognised in their 2019 financial statements in their 2020 financial statements. The higher value recognised in the financial statements could also be recognised for tax purposes – with the deduction of the increased depreciation charges from the tax base for income tax (IRES and IRPEF) and IRAP, with an overall tax savings of 27.9 per cent (for corporations) spread over the depreciation period of the assets – against the payment of a tax in lieu of 3 per cent in three equal instalments. Furthermore, the tax liability on the positive revaluation balance, which gives rise to a suspended tax reserve for IRES/IRPEF and IRAP purposes that would become taxable in the event of distribution to shareholders, could be discharged, in whole or in part, with the payment of a 10 per cent tax in lieu. The same legislation also reopened the time limit, for the same type of assets eligible for revaluation, for the realignment for tax purposes of the higher statutory values recognised in the

[28] To return the rates to those in force prior to the changed introduced with Decree Law 104/2020: 12 per cent on revaluations up to €5 million, 14 per cent for values exceeding €5 million up to €10 million and 16 per cent for the portion exceeding €10 million.

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financial statements, and Paragraph 83 of Article 1 of the 2021 Budget Act extended eligibility to goodwill and other intangible assets that would otherwise have been excluded. This option makes it possible to eliminate the existing misalignments between financial and tax reporting values deriving from previous corporate finance operations carried out on a tax neutral basis or from previous revaluations without fiscal relevance (such as that provided for in Decree Law 185/2008).

In recent years, the revaluation of business assets has mainly been intended to strengthen the capital of firms. In the most critical period of the health emergency, it also gave firms a tool to absorb the greater losses expected in 2020. Decree Law 104/2020 and the 2021 Budget Act granted particularly favourable conditions and significantly increased the attractiveness and flexibility of the rules for the revaluation of company assets and investments in subsidiaries and associated previously adopted. More specifically, these changes included: 1) the possibility of attributing relevance, even if only for financial reporting purposes, to the revaluation (last allowed in 2008); 2) the significant reduction of the rate of the tax in lieu discharging the liability on the increased depreciable and non-depreciable values; 3) the possibility of even revaluing individual assets without having to comply with the constraint of using uniform categories of assets envisaged in previous revaluations; and 4) the recognition of the tax effects immediately in the year following the revaluation (and not from the third or fifth year as provided for in previous revaluations).

Following the high rate of participation of firms in the preferential programme, which had been seriously underestimated in the Technical Reports accompanying Decree Law 104/2020 and the 2021 Budget Act, but was already incorporated in the trend forecasts of the Update, the legislative change is intended to mitigate the significant impact of the measure in terms of revenue reduction expected in the coming years. According to the new official forecasts, the change should produce a negligible increase in revenue in 2021, followed by €4.3 billion in 2022 and just under €3 billion in each year in the 2023-2039 period (Table 3.9). From 2040 to 2071 it will generate an annual loss of revenue of about €1.2 billion due to the lengthening of the depreciation period and an increase of €0.9 billion in 2072.[29]

On the revaluations data from previous years, the Technical Reports accompanying Decree Law 104/2020 and the 2021 Budget Act quantified an increase in revenue from the first instalment of the tax in lieu of €144.7 million in 2021 (€434 million for the three instalments as a whole). At the end of September, on the occasion of the Update and on the basis of the data available at the time, the official estimate was revised significantly upwards, raising the estimated revenue from the first instalment of the tax in lieu to €3.15 billion (€9.45 billion for the three instalments as a whole), a value in line with income tax return data up to the end of October (€3.2 billion, of which €2.5 billion from the 3 per cent substitute tax and €0.7 billion from the discharge of tax liability on the positive revaluation balances at the special rate of 10 per cent). These amounts imply €245.5 billion in actual revaluations/realignments compared with the approximately €14.5 billion implied (but not specified) in the original Technical Reports.

[29] A reconstruction of the official quantification of the total effects of the combined provisions of Decree Law 104/2020, the 2021 Budget Act and the 2022 Budget Bill, which was performed by the PBO using the assumptions adopted in the Technical Report accompanying the Budget Bill, finds an overestimation of the loss of revenue of about €600 million in 2022 and €300 million a year from 2023 to 2026.

Table 3.9 – Official quantification of the financial effects of the revaluation of business assets
(millions of euros)

	2021	2022	2023	2024	2025	2026	2027	2028-2039	2040-2071	2072
1) Tech Reports DL 104/2020 (Art. 110) and 2021 BA (para. 83)	144.7	61.4	-138.3	-191.5	-197.0	-197.0	n.a.	n.a.	n.a.	n.a.
2) Update to EFD forecast (current legislation)	3,150.0	-6,409.2	-2,333.2	-5,333.2	-5,333.2	-5,333.2	-2,644.8	-3,809.4	0.0	0.0
3) 2022 BB (Art. 191)	16.0	4,264.2	2,594.2	2,379.8	2,379.8	2,379.8	2,714.2	2,572.1	-1,237.3	945.7
4) Net effect after 2022 BB (2+3)	**3,166.0**	**-2,145.0**	**261.0**	**-2,953.4**	**-2,953.4**	**-2,953.4**	**69.4**	**-1,237.3**	**-1,237.3**	**945.7**

Source: estimates given in Technical Reports accompanying Decree Law 104/2020, the 2021 Budget Act (BA) and the 2022 Budget Bill (BB).

However, the substantial revenue in the first three years (€9.45 billion from the tax in lieu) will be followed by lower receipts subsequently due to the deduction of greater depreciation/amortisation charges from the tax base for income tax (IRES/IRPEF and IRAP) in the amount of about €68.5 billion over the useful life of the revalued assets. Considering the revenue from the tax in lieu, the decrease in revenue over the entire period would total €59 billion (based on the Technical Report, the forecast in the Update put that figure at €70 billion).

A number of observations can be made with regard this measure.

a) First, the measure alters the tax advantage of the preferential mechanism as a result of the lengthening of the depreciation period, the present value of which depends on the discount rate: with a rate of 1 per cent, for example, a revaluation of €100, which would produce a gross nominal tax savings of €27.9 (€24.9 net of the tax in lieu), would produce a tax savings of €27.1 (€24.1) or €25.4 (€22.4) over a depreciation period of 18 or 50 years, respectively. For firms, which pay a tax in lieu over a period of three years, this represents a deferral of the tax benefit – with a period of 18 years, the tax in lieu is repaid in 2 years of depreciation, while with a period of 50 years, this only occurs after the fifth year – with an impact on the certainty of business planning and decision-making (generally more directed at the short and medium term). 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.

b) Second, the option to continue to amortise the assets over 18 years with the payment of an additional tax does not appear attractive give 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.

c) Third, the significant revenue impact of reducing the deductibility of depreciation charges compared with current legislation is considerably dependent on the relative share of assets in the categories affected by the changes compared with the total revalued assets. 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 payments of the tax in lieu) and attributes this share entirely to the revaluation/realignment of trademarks and goodwill.[30] In addition to being highly incentivised by the very advantageous rate, for these assets the revaluation/realignment is characterised by a number of changes compared with previous editions. More specifically, for intangible assets, revaluation is possible even if they are not recognised in the financial statements. Consequently, a trademark (or a patent) can be revalued even if the related costs, sometimes minimal, have been recognised through profit or loss only (Italian Accounting Standards Board (OIC) interpretation no. 7/2020).[31] Furthermore, goodwill, which can only undergo realignment, had never been covered by this type of legislation as the revaluations excluded intangible assets that could not be considered an asset and had no legal protection (long-term capitalised costs such as leasehold improvements).

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.

More specifically, examining the financial statements of non-financial corporations already available for 2020,[32] we can observe both the change in the revaluation reserve – to which the amount of the revaluation must be recognised – between 2019 and 2020 and changes in non-current tangible and intangible assets in the same years. The former amounts to about €135 billion and accounts for almost 60 per cent of the €245.5 billion in total revaluations/realignments performed (this excludes revaluations carried out by all other companies, including those in the financial sector, and the entire value of realignments, which should be reflected in the revaluation reserves for previous years). As regards changes in non-current assets, companies that also register an increase in revaluation reserves report an increase of about €100 billion in the value of tangible

[30] The Technical Report uses this percentage on the basis of information drawn from the financial statements of the larger taxpayers involved.

[31] In general, the assets might not be recognised in the financial statements either because they have been fully depreciated or because the costs were recognised through profit or loss only. For the purposes of revaluation *"fully depreciated assets are considered to be held if they are recognised in the financial statements or accounts or, for the persons referred to in the last sentence of paragraph 1, are entered in the register book of depreciable and depreciable assets or, for fully depreciated intangible assets, if they are still protected pursuant to applicable law"* (Law 342/2000). In addition, *"it is frequently the case that intangible assets, while retaining a significant economic value, are no longer represented in the associated asset items of the financial statements either because they are fully depreciated or because the costs incurred for their acquisition were expensed in full in the year they were incurred"* (Assonime, Circular no. 23 of 2006).

[32] Data from the Bureau van Djik database were used to analyse 664,974 non-financial corporations that had already filed their 2020 financial statements, representing 55 per cent and 83 per cent of the number and turnover, respectively, of the universe of corporations.

assets between 2019 and 2020. Part of this can be attributed to investments (in each of the previous two years, investments amounted to about €25 billion). The remainder, however, would be attributable to revaluations, and could greater than the amount indicated in the Technical Report (€24.6 billion). By way of example, assuming the revaluation of tangible assets by just over the €24.6 billion indicated in the Technical Report (for example, €45.5 billion) and non-current tangible assets of €200 billion, the increase in revenue could be less than €600 million in 2022 and €400 million a year in the following period.

3.2.3 Measures supporting business liquidity

The Budget Bill extends the extraordinary public guarantee scheme for SMEs operating through the Central Guarantee Fund to 30 June 2022. The extension is however granted taking account of the need to gradually return the Fund to normal operations. Accordingly, the extension of the extraordinary scheme has been accompanied by two changes to existing legislation: first, starting from 1 January 2022, the maximum amount of the guarantee is being reduced from 90 to 80 per cent of the loan amount for the smaller-value transactions referred to in Article 13, letter m), of Decree Law 23/2020. Second, starting from 1 April 2022, guarantees will no longer be granted free of charge. Instead, they will be subject to the payment of a one-off fee to the Fund, for both smaller-value transactions and the larger-value operations referred to in Article 13, letters c) and n) of Decree Law 23/2020.[33] Finally, from 1 July 2022 the conditions set out in Decree Law 23/2020 will no longer be applied to new guarantee applications. However, in order to ensure an orderly transition, from 1 July to 31 December 2022 the Fund will operate under a transitional regime in which: a) the default risk assessment model will again be applied[34] – although, in an exception to those assessment criteria, even companies in class 5, i.e. the riskiest borrowers, will continue to be eligible for Fund support; b) for loans requested for non-investment purposes by less risky companies (those in classes 1 and 2 of the assessment model), the maximum guarantee declines to 60 per cent. In addition, when the transition is complete, each year the Budget Act will set a maximum limit on the commitments that the Fund can assume in respect of its guarantees of loans requested by firms: for 2022, the ceiling has been set at €50 billion, in addition to the €160 billion in overall commitments assumed by the Fund through 31 December 2021 (at 31 October 2021, guarantees amounted to €155.2 billion, with Mediocredito Centrale (MCC) – which operates the Fund – estimating a further €4.8 billion to be granted in the last two months of 2021).

To ensure the Fund can continue to operate, its resources will be increased by €3 billion in the 2024-2027 period (€0.52 billion for 2024, €1.7 billion for 2025, €0.65 billion for 2026 and €0.13 billion for 2027). Overall, since March 2020, the Fund has been allocated resources equal to €19.7 billion to cover the risk of financial losses associated with the

[33] With the same rationale of gradually returning the Fund to ordinary operations, Decree Law 73/2021 had already reduced the maximum guarantee from 100 to 90 per cent for smaller-value transactions and from 90 to 80 per cent for larger transactions.

[34] See Part IX, letter A, of the eligibility conditions of the Guarantee Fund.

corporate defaults (€22.7 billion including the new appropriation by in Budget Bill). As of 19 November 2021, provisions for risk of almost €19 billion had been made and the net resources currently available in the Fund amounted to €5.1 billion.

Based on the data provided by MCC (Table 3.10), between March 17 and December 31, 2020, 1,381,616 applications were received by the Fund from 1,148,884 companies (many firms made more than one application) with loan applications worth about €120.8 billion. During 2021, companies continued to use the Fund, albeit at a slower pace: between 1 January and 31 October, 422,914 applications were received from 324,803 companies for total financing of about €60.7 billion. The applications were concentrated in the first six months of the year (in particular between January and March and in June). Overall, applications received and loans requested in 2021 represent respectively 30.6 and 50.2 per cent of those received and requested in 2020.

Applications for smaller amounts (so-called "liquidity" transactions) slowed significantly in 2021 and their relative weight in total loans granted consequently decreased significantly, especially from June. While in 2020 such applications represented 76 per cent of total applications and 17.1 per cent of loan value, in 2021 these percentages fell to 29 per cent and 0.4 per cent respectively.

Table 3.10 – Loans and guarantees of the SME Fund (1)
(amounts in millions of euros)

	Type of guarantee	Number of firms	Number of applications	Amount of loan	Amount of guarantee
2020					
Corporations	Rating	138,359	239,142	90,494	76,717
	Liquidity	289,850	305,479	7,032	7,031
Partnerships/individuals	Rating	72,217	92,356	9,662	8,042
	Liquidity	722,584	744,639	13,570	13,570
Total of which:		**1.148.884** (2)	**1,381,616**	**120,759**	**105,361**
Rating		*210,576*	*331,498*	*100,156*	*84,759*
Liquidity		*1,012,434*	*1,050,118*	*20,602*	*20,602*
2021					
Corporations	Rating	117,177	184,141	48,742	4,586
	Liquidity	34,225	34,554	802	124
Partnerships/individuals	Rating	94,784	115,783	9,658	1,424
	Liquidity	87,655	88,436	1,526	282
Total of which:		**324.803** (2)	**422,914**	**60,727**	**6,417**
Rating		*211,961*	*299,924*	*58,400*	*6,010*
Liquidity		*121,880*	*122,990*	*2,328*	*407*

Source: based on Mediocredito Centrale data. The figures for 2020 regard the period from 17 March to 31 December, while those for 2021 regard the period from 1 January to 31 October.
(1) Using the terminology of the Mediocredito Centrale database, "liquidity" refers to smaller-value transactions guaranteed in full by the State (Art. 13, para. 1, letter m) of Decree Law 23/2020), while "rating" refers to larger-value transactions (Art. 13, para. 1, letters c) and n) of Decree Law 23/2020). – (2) The total number of firms does not equal the sum of the individual items because some firms submitted more than one application, some of which also regarding different types of transaction.

In 2021, applications for larger-value loans (so-called “rating” transactions) dominated and there was a shift in the composition of applicants between corporations on the one hand and partnerships and individuals on the other. While in 2020 the majority of “rating” applications and more than 90 per cent of the related loan value regarded corporations, in 2021 partnerships and individuals also made use of the measure, receiving almost 17 per cent of the total loans granted in the first ten months of the year. More specifically, between 2020 and 2021, corporations saw a 20 per cent decrease in applications and a 50 per cent decline in the related loan value, while partnerships and individuals saw an increase of 25 per cent in applications with no change in loan value.

The average value of guarantees fell in 2021 for both corporations and partnerships, but the reduction was more pronounced for the latter (from €126,124 to €109,819).

The Fund recognised an average provision of about 13 per cent on total guarantees granted on loans from 1 January to 31 October 2021, equal to €6.4 billion. Overall, the probability of default of firms that submitted applications through October 31, 2021 is on average higher than that recorded the previous year (the average provision in 2020 was 12.3 per cent). However, the deterioration seems to be connected above all with the applications for “liquidity” guarantees from corporations and, above all, partnerships. The percentage provision for “rating” guarantees was broadly unchanged (with a slight reduction for partnerships).

As regards the sectoral, size and territorial distribution of guaranteed loans, the data for the final months of 2021 do not reveal significant differences in the observations made with regard to 2020 and the first five months of 2021 (please see the memorandum of the Chairman of the Parliamentary Budget Office on the bill ratifying Decree Law 73/2021).

The financial statement data available for 2020 – regarding 664,974 non-financial corporations – and the information available in the Mediocredito Centrale database can be used to analyse: a) the actual propensity of companies to have recourse to State-guaranteed debt; b) the effects on their balance sheets in terms of leverage.[35] The analysis shows that companies 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.

Companies whose 2020 financial statements are available represent 55 and 83 per cent respectively of the number and turnover of non-financial corporations active in 2019. With regard to total debt (equal to €1,807 billion) and bank debt (€291 billion), they represent 81 and 87 per cent of the respective totals.

Among the firms considered, 11.9 per cent did not meet the eligibility requirements for the Fund. In 2020, some 258,000 firms – 44 per cent of those eligible – submitted at least one application for a government guarantee, for a total loan amount equal to €83.6

[35] The index is calculated as the ratio of bank debt to total shareholders’ equity.

billion. In 2021, applications were received from 94,189 companies for €39.3 billion in financing. Of these firms, more than two-thirds had already applied in 2020: the new loans therefore add a further €28.3 billion to the €83.6 billion already requested. The remaining applications were instead submitted by companies that applied to the Fund for the first time in 2021 (around €11 billion in loans).

Restricting the analysis to 2020, companies that had access to the Fund increased their total bank borrowing by 17.4 per cent (Table 3.11). Specifically, more than 90 per cent of these companies not only completely replaced maturing debt from the previous year but actually increased it. Overall, about half of the debt of the companies that have used the Fund is backed by public guarantees. On the other hand, the bank debt of firms that, despite being eligible for guarantees, did not have recourse to the Fund, increased by 5.3 per cent. The largest companies, which are not eligible for the SME Fund but are potentially eligible for the SACE Fund, recorded an increase of 20.6 per cent in their bank borrowing. In general, these are greater increases than those recorded on average in previous years, especially for firms that have applied for guaranteed loans.

The generalised increase in debt in 2020 has had an impact on the financial balance of companies. This can be seen through the change in their leverage between 2019 and 2020 (Table 3.12): 7 per cent of firms that made use of the Fund (around 18,000 companies) saw their leverage increase. The percentage is above average for sectors that have been especially hard hit by the health emergency: accommodation, food service and tourism, arts and entertainment, personal services and other services. By contrast, lower-than-average percentages were registered in the chemical and pharmaceutical industries, agriculture, mining and utilities. About 5,000 companies (less than 2 per cent) improved their position from one year to the next. In this case, although less sectoral variability is observed, sectors that registered an increase in turnover or small losses had a higher percentage of firms whose financial situation improved. The other two groups – the largest companies, which are not eligible for the Fund, and those that did not apply for a guarantee – did not see a significant increase in companies whose position deteriorated.

Table 3.11 – Increase in bank borrowing of non-financial corporations between 2019 and 2020

	Number	Increase in bank debt
SMEs with guarantees from Fund	258,757	17.4%
Other SMEs	326,993	5.3%
Firms not eligible for Fund	79,224	20.6%
Total	**664,974**	**14.8%**

Source: based on Mediocredito Centrale data and simulations with the PBO’s MEDITA model.

Table 3.12 – Financial soundness of non-financial corporations *(percentages)*

	Firms whose financial position deteriorated			Firms whose financial position improved		
	SMEs with guarantees from Fund	Other SMEs	Firms not eligible for Fund	SMEs with guarantees from Fund	Other SMEs	Firms not eligible for Fund
Accommodation, food services and tourism	17.8	9.4	12.8	2.9	4.5	6.0
Arts and entertainment	14.3	7.4	9.5	2.6	3.5	4.7
Personal services	14.8	5.8	10.1	2.5	3.8	5.9
Textiles	7.9	4.7	7.5	1.6	2.3	3.7
Other services	8.9	4.2	8.5	2.5	3.4	4.8
Real estate, professional and rental activities	5.4	2.5	5.0	1.4	1.8	3.0
Other manufacturing	4.6	2.3	4.8	2.1	1.6	2.5
Construction	3.7	3.0	4.4	1.2	2.2	2.8
Transportation	6.7	4.5	7.9	2.4	2.8	4.6
Wholesale and retail trade	6.3	3.5	6.5	1.9	2.6	4.2
Mining and utilities	4.3	2.3	4.4	2.5	2.9	3.6
Agriculture	3.8	3.4	6.9	2.4	3.1	4.8
Chemicals and pharmaceuticals	3.2	2.0	1.8	4.1	2.5	4.3
Food products	6.9	4.5	6.8	3.3	3.5	3.3
Total	**7.0**	**3.3**	**5.4**	**1.9**	**2.3**	**3.2**

Source: based on Mediocredito Centrale data and simulations with the PBO's MEDITA model.

3.3 *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 budget. 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 it.

As regards beneficiaries, the conditional requirements for receiving benefits have been tightened, especially as regards the formal and substantive commitments in terms of availability to participate in job placement programmes. In summary, the Budget Bill provides for:

- a reduction in the time limit for submitting the declaration of immediate availability for work (DID) by adult beneficiaries who are not exempt from work obligations.

The DID should be signed at the same time as Citizenship Income application is submitted. Until now, however, the DID must be submitted by all adult and non-exempt members of the family unit requesting the Citizenship Income within thirty days of the grant of benefits, regardless of referrals to job centres (JC) or municipal social services departments, which are required to schedule a meeting with the parties involved unless an Inclusion Agreement has already been activated;

- the introduction of new contact obligations for Citizenship Income recipients, which must now involve in-person meetings:
    - there is now a specific obligation to visit an employment centre or municipal anti-poverty department at least once a month to verify compliance with the commitments undertaken with regard to active job search efforts or as part of an inclusion project;
    - Work Agreements and Inclusion Agreements must necessarily provide for beneficiaries to participate periodically in direct in-person activities and interviews;
- the expansion of the definition of an appropriate job offer in terms of the type of work and its remuneration. Specifically:
    - unlike the situation under current legislation, appropriate jobs may also include fixed-term and part-time jobs (provided that the number of hours is no less than 60 per cent of those for a full-time job as provided for in collective bargaining agreements) or jobs inherent to supply contracts (provided that their duration is at least three months). The rewards

intended for employers are consequently extended to include positions offered on a fixed-term basis and are no longer conditional on prior notification of vacancies on the ANPAL platform;

  - the limits on remuneration have been redefined, referring as before to 110 per cent of the maximum monthly benefit for a single individual, including the rent allowance. However, from next year this level will have to be re-proportioned on the basis of effective working hours. In any case, remuneration cannot be lower than the minimum wage provided for in collective bargaining agreements;

- the tightening of the rules governing appropriate job offers and the characteristics for defining them as such. Specifically:

  - benefits shall be forfeited after rejection of two appropriate offers, instead of the three previously required;

  - in the definition of the appropriateness of job offers, the limits on the distance between the place of work and the residence of the Citizenship Income beneficiary have been revised: the first job offer is considered appropriate if the distance does not exceed 80 kilometres or if travel time by public transport is less than 100 minutes (instead of the 100 kilometres previously provided for, with the same travel time limit), while the second offer can regard a job located anywhere in the country;[36]

  - a penalty of €5 is introduced for each month starting from the rejection of the first appropriate offer. The reduced benefits, net of the additional allowances for rent and mortgage payments, cannot in any case fall below the threshold of €300 multiplied by the equivalence scale. The reduction shall also apply following the renewal of the measure and shall be revoked if a member of the household begins work as a payroll employee or in self-employment for at least one full month. The reduction shall not apply to households composed exclusively of members who are exempt from the obligations for receipt of Citizenship Income benefits, to those with members under three years of age or with severe disabilities or who are not self-sufficient. Any cost savings resulting from these penalties shall be certified by INPS and, if deemed permanent, shall be subtracted from the overall financial resources

[36] Express rules governing fixed-term or part-time work are also established: for both the first and second job offers, the place of work must not be more than 80 kilometres from the beneficiary's residence and in any case it must be reachable by public transport within the maximum time limit of 100 minutes.

appropriated for the Citizenship Income programme and channelled into financing active participation policies;

  - the types of criminal offence making persons ineligible for the programme in the ten years following their conviction have been expanded. In addition to the crimes of mafia activities, terrorism, massacre and fraud against the State, offenses now include burglary, robbery, receiving stolen goods and money laundering, and drug production and trafficking. For some of these offenses, the penalty may be shorter than the period of ineligibility for the programme.

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.

- For municipalities, the new rules provide for:
  - an expansion of their role in verifying personal data, to be performed at the time applications are submitted. Specifically, sample audits shall be conducted on the basis of pre-established criteria and for specific at-risk cases on the basis of reports received from INPS, which in turn verifies the congruity of declarations by individuals using the databases at its disposal and information shared by the National Registry of the Resident Population. Municipalities have 120 days to conduct specific audits for reported cases and benefits will not be paid during this period. If the requirements are met, benefits will start from the date of submission of the application. If the municipality does not reply by the time limit, benefits will be paid in any case and the person responsible for the procedure at the municipality will be liable for prosecution for causing losses to the Treasury in the event it is determined the beneficiary was ineligible;
  - an obligation to activate a minimum number of Community Benefit Projects involving at least one-third of the Citizenship Income beneficiaries resident in the municipality.[37]
- INPS is responsible for preparing a plan for auditing any foreign assets held by programme beneficiaries.

[37] Community Benefit Projects are the socially useful activities already provided for in the original legislation, which are developed by municipalities with the collaboration of third-sector entities where appropriate. Consistent with their skills, Citizenship Income beneficiaries are required to participate without pay for at least eight hours per week, which can be increased to sixteen, or lose their benefits. In any case, performance of the activities and compliance with the obligations remain subject to activation of the projects.

- Employment agencies accredited by the Ministry of Labour and Social Policy are involved in matching job demand and supply for Citizenship Income beneficiaries and, if a beneficiary is hired, they will receive 20 per cent of the incentive envisaged for the employer, which is consequently reduced by the same amount. Furthermore, with regard to the Worker Employability Guarantee (GOL) programme envisaged in Component 1 of Mission 5 of the NRRP, the agencies shall notify job centres and ANPAL of the rejection of an appropriate job offer by Citizenship Income beneficiaries under penalty of exclusion of the agency from participation in the GOL programme.

- ANPAL shall prepare a monitoring and comparative evaluation program of the employment services involved, assessing whether to revoke participation in the GOL programme if issues are uncovered.

The Technical Report does not associate any reduction in expenditure with the provisions for strengthening oversight arrangements and the rules governing the obligations laid down in the Budget Bill.

The total resources appropriated to fund the measure, which is equal to the amount established for 2021 (€8.8 billion), appears to be consistent with the spending trends observed on the basis of the latest available data.[38] In the first nine months of 2021, expenditure for the Citizenship Income and Citizenship Pension reached €6.5 billion, about €1.1 billion more than in the corresponding period of the previous year (Figure 3.4). The increase is mainly attributable to the growth experienced in the most severe phases of the pandemic: between March 2020 and April 2021, the number of beneficiaries increased by about 330,000.[39] Since the Spring of 2021, the rise in monthly spending has stabilised and, starting from August, has been trending down. If the monthly expenditure figures in the last three months of the year remain at the €736 million registered in September (the most recent data available), total spending for 2021 would reach about €8.7 billion. Monthly expenditure of the same amount would amount to about €8.8 billion on an annual basis, corresponding to the resources appropriated in the Budget Bill, ensuring the payment of benefits to some 1,350,000 households and 2,970,000 people.

Again with regard to income support policies for people in economic difficulty, recall that the Emergency Income programme is no longer available. It had been introduced with Decree Law 34/2020 to counter the impact of the economic effects of the pandemic and was extended several times, most recently with the second "Sostegni" Decree (Decree Law 73/2021).

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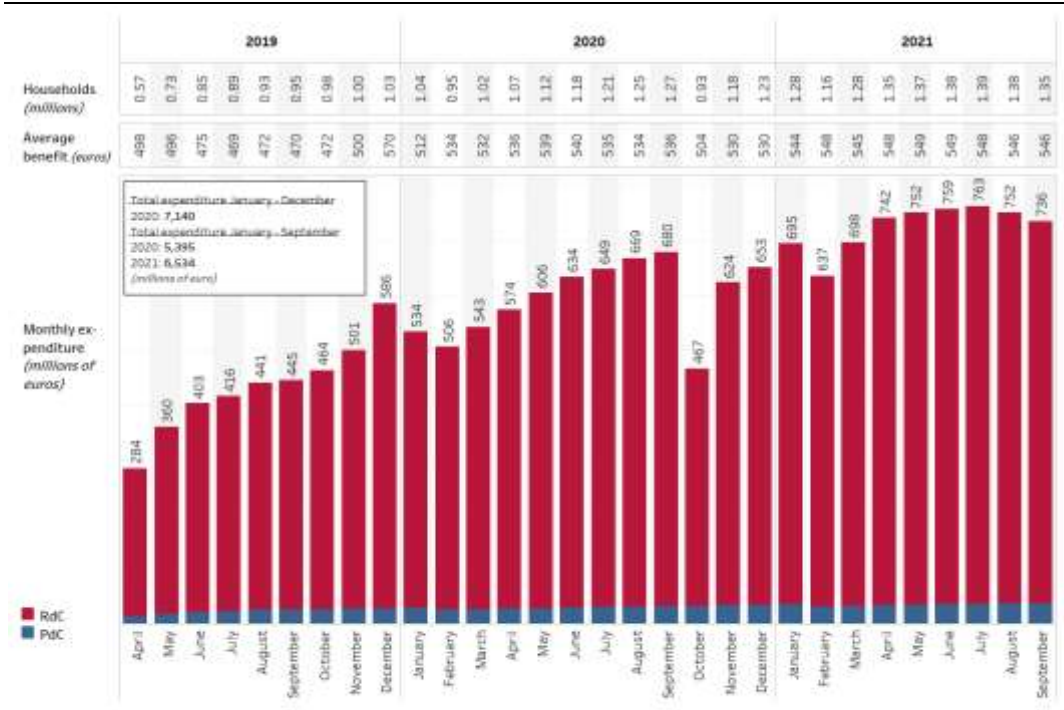
[38] INPS (2021), "*Osservatorio sul Reddito e Pensione di Cittadinanza*", November. The data for disbursements in October are not given in the text or the figures as they are provisional.

[39] Since the proportion of Citizenship Income beneficiaries has increased compared with Citizenship Pension beneficiaries, who receive smaller benefits, the overall average benefit has also increased, going from about €530 in March 2020 to just under €550 in 2021.

Figure 3.4 – Expenditure, beneficiaries and average benefits under Citizenship Income and Pension programme (April 2019 – September 2021)



Source: based on data from INPS (2021), *Osservatorio statistico Reddito/pensione di cittadinanza*, October.

With this instrument, which essentially covered monthly payments up to September 2021, €830 million were disbursed to about 300,000 households in 2020 and €1.8 billion to 550,000 households in the first ten months of 2021.[40] As previous analyses have shown,[41] some potential beneficiaries of the Citizenship Income programme preferred to use the Emergency Income benefit to support household incomes during the pandemic, partly in reflection of the fewer obligations associated with active policies.

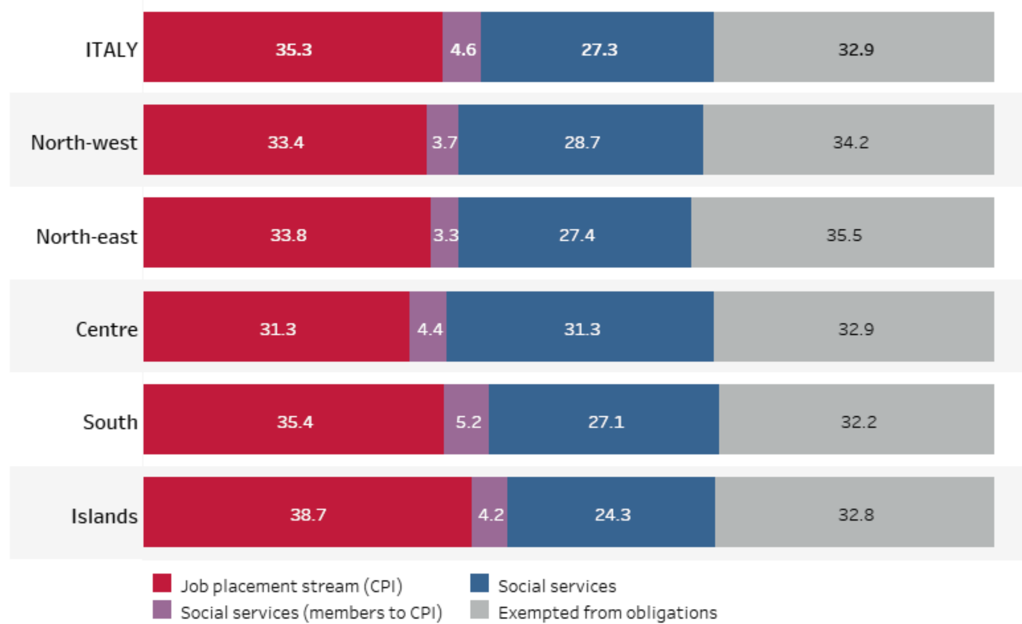
In addition to spending, the pandemic has certainly impacted other aspects of the operation of the Citizenship Income programme, including the obligations concerning job placement and social inclusion, the elements at the centre of the reform being introduced with the Budget Bill. The strong turbulence in labour market – which triggered an upsurge in the number of people seeking employment and assistance and a decrease in job opportunities – and the restrictions on the freedom to move and meet have slowed the start of procedures to get beneficiaries involved in the labour force and combat social exclusion. But apart from contingent factors, analyses of the first two and a half years of the Citizenship Income programme have identified various structural problems linked, on the one hand, to the operational difficulties of the administrative machinery (job centres and municipal social services) and, on the other, to the weak professional backgrounds of the beneficiaries of the support policies.

[40] One month of benefits still has to be disbursed in 2021.

[41] Ufficio parlamentare di bilancio (2021), "Il Reddito di emergenza a un anno dalla sua introduzione", Flash no. 2, June (In Italian).

According to data drawn from the Citizenship Income Information System of the Ministry of Labour and Social Policy for April 2021 (Figure 3.5), the approximately 2.8 million beneficiaries[42] are divided virtually equally among those exempt from obligations (about 910,000, or 32.9 per cent), those involved in job placement programmes (about 980,000, or 35.3 per cent) and those involved in social inclusion programmes (880,000, or 31.9 per cent, of whom 4.6 per cent have family members in the job placement stream).[43] The percentage of beneficiaries involved in job placement programmes is slightly higher in the South.[44]

Figure 3.5 – Breakdown of Citizenship Income beneficiaries by participation programme, April 2021 (1)



Source: based on data from the Ministry of Labour and Social Policy (2021), Citizenship Income Information System, April.
(1) Does not include Citizenship Pension beneficiaries.

[42] Does not include Citizenship Pension beneficiaries, who are in any case exempt from the obligations.

[43] The following are exempt from the obligations: beneficiaries of the Citizenship Pension or any form of pension income, people over the age of 64 and minors, people with disabilities (as defined pursuant to Law 68 of 12 March 1999 and ascertained by the competent medical commissions) or those whose health condition does not permit participation in the activities involved. People with income above the no tax area (€8,150 for payroll employees and €4,800 for the self-employed) or with working hours of more than 20 hours a week and members with dependents (children under three years, disabled and non-self-sufficient family members) may also be exempted. Households with at least one non-exempt adult member employed in the previous two years or beneficiary of NASPI unemployment benefits even if expired for less than a year or in any case a party to a service agreement within the two previous years are directed to job centres for verification of the subjective requirements. Family units benefiting from the Citizenship Income that have no members meeting the above requirements are sent to social services. See Circular no. 187 of 14 January 2020 of the Ministry of Labour and Social Policy.

[44] The participation procedure provides for households with at least one member subject to the work requirement to be directed to a job centre, while others are directed to social services, with the exception of those composed entirely of exempt members. Using this procedure, more than 46 per cent of beneficiary households are directed to job centres, with a larger percentage being registered in the South and Islands.

The involvement of beneficiaries in participation programmes has been partial for both paths. As underscored in the report of the Citizenship Income Scientific Evaluation Committee,[45] ANPAL data at 30 September 2021 show that just over a third of beneficiaries required to enter into a Work Agreement were placed with a job centre and, of these, only a quarter participated in subsequent active policy activities, generally limited to orientation activities. No information is available on the number and characteristics of job offers made to beneficiaries and those that led to hirings.

A number of analyses have highlighted the objective difficulties in placing Citizenship Income beneficiaries due to the weakness of their employment backgrounds. The 2021 INPS Report shows that about one-third of Citizenship Income beneficiaries had work experience in the year preceding their application and about 84 per cent of them had less than three months of experience. ANPAL[46] also notes that over 70 per cent of those involved in Work Agreements have no more than a middle school qualification and, overall, have a very high profiling index, which measures the probability of not being employed after 12 months (0.876 on a scale between 0 and 1, where 1 indicates maximum difficulty of employment). Even higher values are found in the southern areas of the country, which is also characterised by a less dynamic labour market.

Significant delays were also accumulated in the social inclusion stream during the pandemic: as highlighted by the same report, since the introduction of the Citizenship Income in mid-April 2021, about two-thirds of households referred to social services have been assigned to an assistant for onboarding, which was completed for only a quarter of them, with the greatest difficulties encountered in the southern areas of the country. The failure to complete the onboarding of beneficiaries has manifested itself with increasing severity over time, reflecting the difficulty in eliminating the delays accumulated during the pandemic. Among the cohort of beneficiaries who began the process between October 2020 and March 2021, the national average onboarding rate (cases for which preliminary analysis has begun) was 6 per cent.

The launch of Community Benefit Plans prepared by municipalities also suffered considerable delays. Approximately 40 per cent of municipalities had initiated at least one Community Benefit Plan as of 31 October 2021. Here, too, however regional variability is considerable, with the highest percentage found in Puglia (85 per cent). Around 94,000 places were offered, which is still a long way from the coverage objective indicated in the Budget Bill, which is one-third of resident beneficiaries.

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[45] See *Relazione del Comitato Scientifico per la valutazione del Reddito di Cittadinanza*, October 2021.

[46] Focus ANPAL no. 6/2021.

No information is available regarding beneficiary compliance with obligations, both as regards the number and type of job offers submitted and rejected, and the penalties connected with non-participation in the required activities.[47]

In the context described above, in which the main issues appear to lie in the challenges faced by job centres and local governments in getting people started in their participation programmes, the provisions of the Budget Bill that provide for an increase in direct contacts between beneficiaries and the entities involved (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, as provided for in the Budget Bill, could help distribute workloads and increase the effective onboarding rates for beneficiaries. At the same time, the extension of the definition of an appropriate 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 appropriate 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 Citizenship Income Scientific Evaluation Committee. 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 tax 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.[48]

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[47] Under current legislation (Article 7, paragraph 7, of Legislative Decree 4/2019) in case of a no-show without justified reason by a single member of the household, one month's payment shall be deducted on the first occasion, two months for a second absence and, in the event of another absence, the benefits shall be revoked.

[48] For more details see the Hearing of the PBO Chairman, Giuseppe Pisauro, of 5 February 2019 and the Hearing of PBO Board member, Alberto Zanardi, of 6 March 2019 (Summaries in English. Full text in Italian).

3.4 Pensions

The Budget Bill introduces a number of temporary measures concerning pensions. More specifically, it establishes, for 2022 only, 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. In addition, again for 2022 alone, it extends the possibility of retiring under the Women's Option early retirement programme and the *APE sociale* (the early retirement programme for hardship categories).

The permanent measures include the decision to merge part of the National Insurance Institute for Italian Journalists (INPGI) into the INPS as from 1 July 2022. This includes positions relating to disability, old-age and survivors (IVS) pensions (the mandatory pension pillar) and the unemployment and wage supplementation benefits of journalists working as payroll employees (see the next section).

The Budget Bill introduces other less significant measures. Two specific funds are established: the first, with funding of €150 million for 2022 and €200 million a year for the 2023-2024 period, will facilitate the early retirement of workers aged at least 62 in small businesses in financial distress;[49] the second, with funding of €20 million in 2022, €40 million in 2023 and €60 million from 2024, will finance equalisation measures for the personnel of the armed forces, police departments and fire departments in light of the special nature of their careers. Furthermore, the calculation of the defined-benefit segment of mixed pensions for the personnel of civilian police forces has been revised on a more favourable basis.[50]

Finally, on the basis of the Technical Report, the Budget Bill provides for the reduction of the expenditure authorisation that finances the "Fund for the revision of the pension system through the introduction of additional forms of early retirement and measures to incentivise the hiring of young workers" established with the 2019 Budget Act (Article 1, paragraph 256), leaving only the resources necessary from 2022 to cover existing spending commitments (essentially those connected with the Quota 100 early retirement mechanism and other smaller pension-related measures provided for in Decree Law 4/2019). This will produce small expenditure reductions in 2022 and 2023, €1.8 billion in 2024, €2.8 billion in 2025, between €3.3 billion and €3.8 billion in each year of the 2026-2031 period and €3.9 billion from 2032.

Quota 102. – The early retirement programme with joint age and contribution history requirements (Quota 100) has been renewed as Quota 102, requiring at least 64 years of

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[49] Criteria and procedures will be specified with a subsequent ministerial decree.

[50] The rate for each year of service used to calculated the defined-benefit portion of pensions has been set at 2.44 per cent. Costs are estimated at €28.2 million in 2022, gradually rising to €57.5 million from 2031.

age and 38 years of contributions to qualify for retirement. Once people have met the requirements, they can retire immediately or do so at a later time.[51]

Quota 100, the mechanism established with Decree Law 4/2019, enables retirement for those who have reached at least 62 years of age and 38 years of contributions by 31 December 2021. The statutory monitoring activity of INPS, updated to last September, found that 445,148 applications were submitted under the programme, of which 355,311 were accepted (172,545 private-sector employees, 113,368 public employees and 69,398 self-employed workers, including para-employee workers). The average pension amount for accepted applications is about €1,975[52] and the average age at the commencement of benefit payments is 64 years for both women and men, with beneficiaries retiring an average of two years early compared with the ordinary retirement requirements.[53]

An overall assessment of actual expenditure under the Quota 100 system compared with the initial estimates contained in the Technical Report accompanying Decree Law 4/2019 needs to consider the entire period for which this retirement option is available (up to at least 2025). Although as of September participation was lower than originally forecast, workers can still opt for the programme and it cannot be ruled out a priori that those who meet the Quota 100 requirements and choose not to retire in 2021 may participate later at a higher take-up rate than that assumed in the Technical Report accompanying Decree Law 4/2021.

Quota 102 shares other characteristics with the Quota 100 programme: it is aimed at private and public-sector employees, self-employed workers and para-employees (does not include self-employed professionals registered with their profession's pension fund). Private-sector workers have a rolling window of 3 months and public workers one of 6 months in which they can retire;[54] the contribution requirement can also be achieved with the accumulation of contributions from multiple funds administered by INPS (contributions paid into pension funds of the professions are excluded); and pensions paid under the Quota system can be combined with income from payroll employment and self-employment only after a beneficiary has met age requirement for the old age pension.[55]

The Technical Report provides a conservative estimate of the highest number of pensions expected under the Quota 102 mechanism at the end of each year: 16,800 at the end of 2022, 23,500 at the end of 2023, 15,100 at the end of 2024, 5,500 at the end of 2025 and

[51] As with the previous Quota 100 system, potential beneficiaries must meet the requirements in the year in which the measure is in force. This entitles them to retire either during the year or subsequently. As is discussed later, it operates differently from the "*APE sociale*" early retirement scheme, which is instead valid only in the years specified in the associated legislation (its renewal with the Budget Bill counts for 2022 only).

[52] On average, just under €2,100 a month for private-sector workers, more than €2,150 for public-sector workers and about €1,380 for the self-employed and para-employees.

[53] Between 2019 and 2024, requirements for an old-age pension are at least 67 years of age and at least 20 years of contributions (as from 2025, the requirement increases by 3 months to account for the increase in life expectancy), the requirements for early retirement are 42 years and 10 months of contributions for men and 41 years and 10 months for women (they do not change until 2026, when they will be adjusted for increases in life expectancy). For newly hired workers since 1 January 1996, the requirements for the additional retirement channel open to them are, between 2019 and 2024, at least 64 years of age and at least 20 years of contributions as long as the pension is at least 2.8 times the amount of the social pension (from 2025, the age requirement will be adjusted by 3 months for increases in life expectancy).

[54] Schools, music conservatories and universities continue to apply fixed start-date windows that prevent personnel from retiring during the school/academic year.

[55] Income from occasional self-employment up to limit of €5,000 a year can be combined immediately.

1,000 at the end of 2026. The increase in expenditure (net of tax effects and considering the increase in severance payments) would amount to just under €1.7 billion in the 2022-2026 period (€175.7 million in 2022, €679.3 million in 2023, €542.8 million in 2024, €287.5 million in 2025 and -€1.4 million in 2026).

In the transition from Quota 100 to Quota 102, the decision to leave the contribution requirement unchanged and instead increase the age requirement is acceptable, as this is a mechanism that allows early retirement from the labour market. The measure has a significantly more limited scope in terms of duration, pool of potential beneficiaries and expenditure than the Quota 100 mechanism. First, the requirements have to be met over a period of one year rather than three, and so the system is targeted at a smaller group of potential beneficiaries in terms of age (one-third the size of the Quota 100 pool and without the initial stock of potential retirees that already met the requirements at the start of that programme). Second, the new mechanism largely overlaps the previous system. Those who at the end of 2022 will have reached 64 years of age at the end of 2021 (the time limit to qualify for Quota 100) more than meet the age requirement for Quota 100 (at least 62 years). Quota 102 is therefore aimed at a marginal cohort of potential retirees that did not qualify for Quota 100 because at 31 December 2021 they fell one year short of the contribution requirement. This group includes workers who, compared with the ordinary old-age requirements, could retire a maximum of 3 years early (2.5 considering the moving start-date windows).

For these reasons, it is plausible that the size of the group affected by Quota 102 and the higher expenditure will have the same order of magnitude as the new Quota 100 pensions that the Technical Report of Decree Law 4/2019 estimated would have been added in 2021 to the stock already accumulated in the two previous years. The official estimates are consistent with this order of magnitude and with the results of the simulations conducted by the PBO with the microsimulation model based on the sample of active taxpayers released annually by INPS.

The measure introduced with the Budget Bill 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, as they do not meet them and want to retire as from 1 January 2022, would have to meet the ordinary requirements for old age and early retirement pensions. The redesign of the operating rules of the pension system to make eligibility requirements more flexible while appropriately reflecting this in the amount of benefits paid – an issue on which debate has been under way for some time – has been postponed to next year. From 2022 it is to be hoped that conditions will be more favourable for structural interventions.

Women’s option. – This retirement channel can be used by women who by 31 December 2021 have 35 years of contributions and are aged at least 58 for employees and 59 for the self-employed (excluding those enrolled in the separate pension fund operated by INPS).

School, university and conservatory personnel can file an application for termination of service with effect from the beginning of the following school/academic year.

Retirement under the Women's Option mechanism entails accepting full recalculation of benefits under the defined-contribution system in accordance with Legislative Decree 180/1997.[56] Pension payments begin after a moving start-date window of 12 months for employees and 18 months for self-employed women.[57] Once the requirements are met by 2021, beneficiaries can also retire later.

The Women's Option was introduced on an experimental basis with Law 243/2004 for female workers aged at least 57 (58 if self-employed) and with 35 years of contributions by 31 December 2015. The option was then renewed with Decree Law 4/2019 for workers aged at least 58 (59 if self-employed) and 35 years of contributions by 31 December 2018. The 2020 and 2021 Budget Acts (respectively, Law 160/2019 and Law 178/2020) extended the programme by one year, retaining the age and contribution requirements and moving the time limit by which they had to be met ahead one year (to 31 December 2019 and 2020 respectively). This expanded the pool of potential beneficiaries to workers who at the end of 2018 had failed to achieve the requirements because they fell one year short of meeting the criteria for age, contribution history or both.

Drawing in part on data from INPS monitoring of previous renewals of the programme, the Technical Report estimates that the new extension of the Women's Option will give rise to an additional 17,000 pensions in 2022, 28,200 in 2023, 29,100 in 2024, 24,200 in 2025, 15,000 in 2026, 7,600 in 2027 and 1,100 in 2029. The increase in expenditure (net of tax effects and considering the increase in severance payments) would amount to just under €1.7 billion in the 2022-2029 period (€111.2 million in 2022, €317.3 million in 2023, €480.1 million in 2024, €448.5 million in 2025, €268.3 million in 2026, €165.5 million in 2027, €33 million in 2028 and €131.3 million in 2029). The estimates are confirmed both by extrapolations based on INPS monitoring data for the renewal of the Women's Option for 2020, and by the PBO simulations conducted using the micro-simulation model for the sample of active taxpayers released annually by INPS.

The INPS monitoring programme, updated to last September, provides information on the current Women's Option mechanism,[58] i.e., that launched in 2019 and extended to 2020 and 2021. As at 30 September, 64,464 applications had been received by INPS, of which 51,266 were approved (with a rejection rate of just over 17 per cent), a backlog of 1,134 applications for pensions taking effect by October 2021 and one of 3,522 taking effect subsequently. The applications submitted regard 18,632 pensions with a presumed effective date from 2019, 20,937 from 2020, 22,922 from 2021, 686 from 2022 and 4,287 from subsequent years. The average monthly amount of the

[56] Implementing the possibility, granted with Article 1, paragraph 2, of Law 335/1995, to have the pension computed exclusively using the rules of the defined-contribution system.

[57] The moving windows differentiate the moment pension requirements are met from the moment the right to payment of pension benefits accrues. The rules of moving windows are those in Article 12 of Decree Law 78/2010, ratified with amendments by Law 122/2010. School, university and conservatory personnel are subject to the provisions set out in Article 59, paragraph 9, of Law 449/1997.

[58] The pool of potential beneficiaries of the first Women's Option programme (that begun in 2014) can be considered equal to zero by now, given that workers who at 31 December 2015 had at least 35 years of contributions have by now at the very least qualified for the ordinary early retirement option.

pension, calculated on the basis of accepted applications, is about €1,050 (€1,251 for public-sector employees, €1,072 for private-sector employees, and just over €800 for the self-employed).

One year later, this additional renewal of the Woman Option shares not only the age and contribution requirements with the previous mechanism, but also the fact of being available when the other retirement channels are the same as those already available the previous time. In particular, the requirements for retiring on an old-age pension, ordinary early retirement pension and one of the Quota programmes (Quota 100 in 2021 and Quota 102 in 2022)[59] remain the same. It seems entirely plausible that participants and costs of the new Women's Option will be on the same order of magnitude as the previous renewal, the effects of which had been assessed on the basis not only of the register of active taxpayers but also the findings of the ongoing monitoring of the two renewals approved even earlier. This consistency is reflected in the estimates contained in the Technical Report.

APE sociale. – For private- and public-sector employees, the self-employed and para-employees[60] belonging to certain job categories, the option of receiving an allowance during the period separating them from qualifying for an ordinary old-age pension has been extended to 2022 upon achievement of certain age and contribution requirements. Compared to the requirements in 2021, the Budget Bill updates the categories of jobs with especially heavy duties that, having been performed for a certain number of years, are considered to represent a state of need and facilitates access to this programme by the unemployed (it is no longer necessary that they have completed their unemployment benefits for at least three months).

Eligible workers qualify for the *APE sociale* programme by having reached at least 63 years of age and having paid contributions, depending on the case, for at least 30 or 36 years. For the period elapsing between the moment of retirement and fulfilment of the statutory requirements for an old-age pension, beneficiaries receive benefits equal to the value of the pension benefit calculated at that time but in any case not exceeding €1,500 gross per month (not subject to revaluation). The beneficiary loses entitlement these benefits upon qualifying for ordinary early retirement. The benefits can be combined with income from payroll or para-employee employment up to a maximum of €8,000 per year and income from self-employment up to a maximum of €4,800 per year. It is not compatible with NASPI or other unemployment benefits.

To be eligible for the *APE sociale* programme, workers must belong to at least one of the following categories: the involuntary unemployed, including those who became so following the ordinary expiry of a fixed-term contract; persons assisting non-self-sufficient or disabled relatives and kin up to the second degree; those with a disability rating of at least 74 per cent; employees involved in particularly demanding and risky activities for at least six in the last seven years before applying for the *APE sociale* programme, or for at least seven years in the last ten.

The Technical Report estimates gross expenditure of €141.4 million in 2022, €275.0 million in 2023, €247.6 million in 2024, €185.2 million in 2025, €104.5 million in 2026 and

[59] In 2020, when the Women's Option programme was renewed, another year still remained to meet the Quota 100 requirements. The same combination will occur again next year with the Quota 102 programme.

[60] This still does not include members of the professions who are enrolled in their profession's pension fund.

€16.9 million in 2027, for a total of €970.6 million over the entire period. The estimate appears consistent with extrapolations from INPS monitoring data.

More specifically, INPS monitoring data, updated to last July, shows that in 2017 and 2018, the first two years in which it was possible to apply for the *APE sociale* programme,[61] 18,160 and 22,696 applications were received, inclusive of the initial "stock" effect.[62] Once this effect dissipated, applications fell to 12,555 in 2019 and 11,389 in 2020, including the few remaining in the backlog. The partial figure for 2021, reproportioned to the entire year and including the backlog of applications, would be between 15,600 and 17,900 applicants,[63] with an approximate increase of between 4,300 and 6,500.[64] This would be an overestimate, because there are many applications still in the backlog and some may be rejected. It is plausible that applications may also increase due to the continuation of the difficulties associated with the crisis, which has made the *APE sociale* option attractive for marginal groups of individuals who otherwise would have remained at work or been involved in active job search activities.

If the expenditure estimated by INPS for the *APE sociale* in place in 2020 – just under €500 million between 2020 and 2025 – is reproportioned for the estimated pool of applicants in 2021, the expenditure forecast for the *APE sociale* in place in 2021 can be put at between just under €690 million and almost €785 million in the 2021-2026 period. The estimates in the Technical Report appear to be conservative with respect to this range.

3.4.1 Transfer to INPS of the pension positions of the National Insurance Institute for Italian Journalists

In light of the financial disarray of the accounts of the National Insurance Institute for Italian Journalists (INPGI), 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 employee pension fund (FPLD)[65] operated by INPS) and the unemployment and wage supplementation benefits of journalists working as payroll employees. INPGI will continue to perform its

[61] The *APE sociale* was introduce for the first time with Law 232/2016 (Art. 1, para. 179). It has been extended each year since them.

[62] In conducting impact assessments, two effects must be considered. The first is the "stock" effect, which in the early years includes among potential beneficiaries those who more than meet the minimum requirements. The second is the "carry-over" effect, which every time the measure is extended opens up the possibility of participation by those that did not participate in previous years despite meeting the eligibility requirements.

[63] The lower limit is obtained if the reproportioning takes account of the fact that the legislation establishes that applications can be submitted in three periods during the year: by 31 March, by 15 July and by 30 Novmber. The upper limit is obtained if expenditure accrued in the first seven months of the year is reproportioned directly to the full twelve months of the year.

[64] The Technical Report accompanying Law 78/2020 estimated this pool at 13,900 beneficiaries.

[65] *Fondo Pensione Lavoratori Dipendenti*.

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). Transitional and guarantee provisions are envisaged in the legislation.

First, the pension rights of persons insured under the INPGI system who meet pension requirements in accordance with current rules in force for the Institute by 30 June 2022[66] have been preserved, while pensions for 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,[67] while the general rules of the FPLD system will apply to subsequent contributions. Second, workers whose first contribution credit was registered between 1 January 1996 and 31 December 2016 will continue to apply the rules under the INPGI system, which do not set a contribution ceiling.[68] Third, the more advantageous INPGI calculation rules will apply until 31 December 2023 for unemployment and wage supplementation benefits, although management has been transferred to the INPS Temporary Benefits Fund. Those for employees in general will only take effect from 2024. The same safeguard has been introduced for injury benefits, which, although paid by INAIL, will only be aligned with those for employees in general from 2024.

Finally, a group of no more than one hundred INPGI employees,[69] selected by competitive exam from among permanent staff, will be transferred to INPS while retaining the pension calculation rules already in force in INPGI and keeping the fixed portion of their remuneration unchanged.[70] If the latter exceeds that paid to the equivalent professional grades at INPS, the difference will be gradually narrowed in subsequent pay rounds.

The Technical Report estimates a total cost of €2.5 billion until 2031 for the transfer of INPGI-AGO to INPS (no estimates are provided for the following years), of which nearly €1.6 billion will be funded from resources made available under Decree Law 34/2019.[71]

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, while INPS offices will host employees whose contract provides for different fixed remuneration from their peers.

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[66] Pension rights accrued prior to 30 June 2022 in the INPGI fund are not lost even if not provided for under the FPLD.

[67] INPGI adopted defined-contribution rules only as from 2017 and only for contributions made from that year.

[68] Which sets a ceiling on annual remuneration for which mandatory disability, old-age and survivors pension contributions are due for all workers who began their working life from 1996 onwards.

[69] The financial statements for 2020 indicate that the Institute employed a total of 181 personnel.

[70] A subsequent ministerial decree will establish the comparative tables for the placement of former INPGI-AGO personnel in positions at INPS.

[71] These are unused resources allocated under paragraph 2 of Article 16-*quinquies* of Decree Law 34/2019 to fund measures to ensure the financial balance of the INPGI-AGO fund and ensure its medium/long-term sustainability: €159 million for 2023, €163 million for 2024, €167 million for 2025, €171 million for 2026, €175 million for 2027, €179 million for 2028, €183 million for 2029, €187 million for 2030 and €191 million as from 2031.

The state of the INPGI accounts had already been the subject of warnings from the Court of Auditors as early as 2004 and debated at least since 2011, when the then Minister of Labour sought to tackle the problem, clashing over the legal autonomy of the Institute itself.[72]

The last positive evaluation by the Court of Auditors of the technical budget of INPGI dates back to 2001.[73] Three years later, in 2004, with regard to the AGO fund, the Court said it expected critical issues to emerge as early as 2017 in the balance between contribution revenue and benefit payments and the possibility that its assets would fall to zero from 2034.[74] Warnings of this nature have been reiterated over the years: particularly significant are those of 2009 (Resolution no. 95/2009) and 2010 (Directive 58/2010), which began to point to the end of the second decade of the 2000s as a crucial moment, both with regard to the contribution/benefit deficit and the start of the deterioration in assets. The latest assessment by the Court of Auditors (Directive no. 1 of 12 January 2021) concerns the technical budget for 2018, noting that, with reference to the AGO fund, "... the Institute is facing critical challenges in the ordinary performance of its institutional activity" while, with regard to the GS fund, "... we have not [found] critical issues in terms of its prospective resilience and expected solvency".

Despite this, the accumulation of deficits continued for many more years, permitting the disbursement of benefits that the Institute could not afford, which have now been fixed for the transition phase and, above all, in the pro-rata calculation of pensions looking forward. Once the limit of unsustainability has been reached, the fund in deficit (the AGO) has been separated out, with its shortfalls being transferred to INPS and, thus, the public budget, while the private and autonomous nature of the other fund (the GS) has been retained.[75] 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). Considerable distance remains between the bailout envisaged in the Budget Bill and the requests addressed to the INPGI only two years ago in the Note of 29 July 2019 of the Ministry of Labour and Social Policy:[76] suspend optional benefits, limit the growth of the pension liability, harmonise rules with those of the general mandatory pension

[72] See the INPGI website for the reply of the then President to Minister Fornero.

[73] Directive no. 20/2001 says: "*The projections in the technical budget, while obviously subject to the manifestation of the assumptions underpinning the calculations, show the fund to be in substantial balance, with surpluses, albeit small ones, from the first to the last year considered (from 40 billion in 1998 to 65 billion in 2012), with net assets tending upwards and a constant legal reserve over the entire fifteen-year period sufficient to cover five years of pension payments due as of 1997*". The values in the citation are given in Italian lire.

[74] Directive no. 80/2004 says: "*The projections in the technical budget, while obviously subject to the manifestation of the assumptions underpinning the calculations, depict a critical situation for operations as regards contribution revenue and benefit payments in the years from 2017 to 2037 (in the previous and subsequent periods contribution revenue should exceed benefit outlays), while assets, which are increasing until 2017, would then begin to decline before reaching zero in 2034. These forecasts should be considered carefully by INPGI, as they clearly underscore the need for continued close monitoring of developments in pension and welfare operations but also for the development of solutions that can ensure the medium/long-term equilibrium of operations and prevent future erosion of assets*".

[75] Although it is currently registering surpluses and does not give evidence of assets problems, its members are generally lower-income para-employees and freelancers. This group is characterised by considerable precariousness/flexibility in its working conditions. In addition, there is already a risk of inadequate future pensions if incomes and contributions remain at their current levels.

[76] See the recent Directive no. 1 of 12 January 2021 of the Court of Auditors (page 16, note 9).

system and, if not sufficient, adopt an even more rigorous system until the accounts can be reorganised.

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 of fund management bodies and sector representatives, representing a dangerous precedent within the first pension pillar, which currently includes twenty-three funds privatised between 1994 and 1996, including the INPGI-GS, which remains alive after the spin-off of INPGI-AGO. This is happening while the Budget Bill is giving private organisations, such as the bilateral funds, responsibility for providing wage supplementation benefits to all employees not already insured through the ordinary and special wage supplementation funds (CIGO/CIGS) and for the same reasons authorised for CIGO/CIGS (see section 3.5), asking them to prepare to finance benefits entirely through their own budgets with funds raised from their members.

On the pension side, the transition phase and the pro-rata 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.[77] With regard to the labour market, the transfer of one hundred INPGI-AGO employees to INPS while maintaining their fixed remuneration if it is higher than the equivalent salary for their INPS position, provides a much greater protection than that available, through safety net programmes, to ordinary private-sector employees in the event of the bankruptcy of their employer.

However, even if belated and with the moral hazard and unfair treatment issues noted earlier, this solution is still preferable to the other proposal, advanced in recent months, to shift certain types of employees who perform communication-related duties (not necessarily journalists) from the pool of persons insured by INPS to the INPGI-AGO fund.[78] This solution would not only have reduced the active taxpayers of INPS, but would have also represented a merely temporary solution to the structural problems faced by INPGI-AGO.

The rest of this section analyses the COVIP data on the economic and financial condition of INPGI and other privatised pension funds.

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[77] The Budget Bill renews the Quota system for one year only and, compared with previous years, raises the age requirement by two years (64 rather than 62). The Women's Option has been renewed for the fourth time (the third consecutive), but in order to retire early compared with pensions through the general mandatory pension system pensions must be recalculated entirely on the basis of the defined contribution system.

[78] Among other issues, the proposal regarded employees that are involved in communication activities in a general sense, with the real possibility that their current duties would be transformed over time into functions/positions not involved in communication at all.

INPGI-AGO in the COVIP data. - The data published by COVIP in its annual reports and its summary reports on the pension funds for members of the professions give a general overview of the pension funds as a whole and enable a more detailed analysis of the INPGI-AGO accounts.

The summary report on privatised funds published by COVIP in 2014 (the first available in the online documentation) did not contain an analysis at the level of the individual funds, but even then, it noted the inadequacy of the supervisory system for two reasons. The first is that the system is divided between the supervision of investments and asset management by COVIP, on the one hand, and the supervision of pension and regulatory aspects by the Ministry of Labour and Social Policy and the Ministry for the Economy and Finance, on the other.[79] The second reason is that the supervisory system is more focused on repression than on prevention.[80] For some time now, the regulatory framework governing pension funds (both category-specific and open funds) has been evolving towards preventive oversight approaches coordinated at the European level, and it is desirable that the supervision of these funds should also move in the same direction.

For all the funds, the ratio between pensioners and members (Figure 3.6) worsened between 2015 and 2020, while showing a small improvement for INPS.[81] The fastest deterioration has been experienced by the National Pension and Welfare Institute for the Medical Profession (ENPAM) (+26 per cent) and the slowest by the Legal Profession Pension Fund (+5 per cent). The two INPGI funds (GS and AGO) are located close to the lower limit of this range (respectively +8 and +9 per cent).[82]

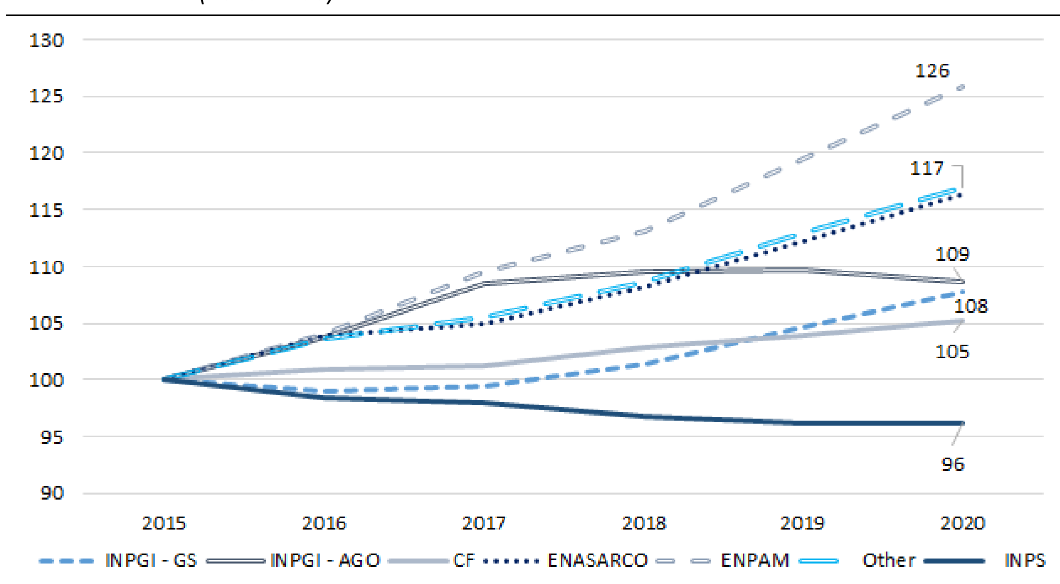
[79] In fact, the current system requires COVIP to assess the appropriateness of asset management operations per se (resources) and the ministries to assess the adequacy of the retirement requirements and benefit calculation rules (expenditure).

[80] In the summary reports, COVIP notes that the supervisory system "*is dated, as it is based on rules from the privatisation decrees …, which are primarily focused on punishing violations of the law, with the consequent placement of the funds under a special commissioner* …".

[81] COVIP specifies that it considers members to be those persons who are required to pay contributions during the reference year and retirees those who paid contributions and received pension benefits during the reference year. It is not clear if members also include persons who made contributions in the past but in the reference year are neither contributors nor pensioners. In any event, if these persons were included and were eliminated to enable a comparison with INPS data, the funds' pensioners/members ratio would increase. For INPS, reference is made to all disability, old-age and survivors pension funds (excluding welfare benefit funds). The improvement in the dependency ratio of the INPS funds in recent years is likely to reflect the increase in the number of defined contribution positions (from 25.1 million in 2015 to 25.5 million in 2020) and the 2012 reform (the "Fornero reform"), which increased requirements for old-age and early retirement pensions and expanded use of the defined contribution calculation criterion for work years from 2012 to include workers who in 1996 had at least 18 years of contributions.

[82] In addition to the two INPGI funds, these include the three funds with the largest number of members, while the other funds are grouped under "Other".

Figure 3.6 – Ratio of retirees to contribution payers of the privatised pension funds and INPS (1)
(2015 = 100)



Source: based on COVIP and INPS data.
(1) In addition to the two INPGI funds, these include the three funds with the largest number of members, while the other funds are grouped under "Other".

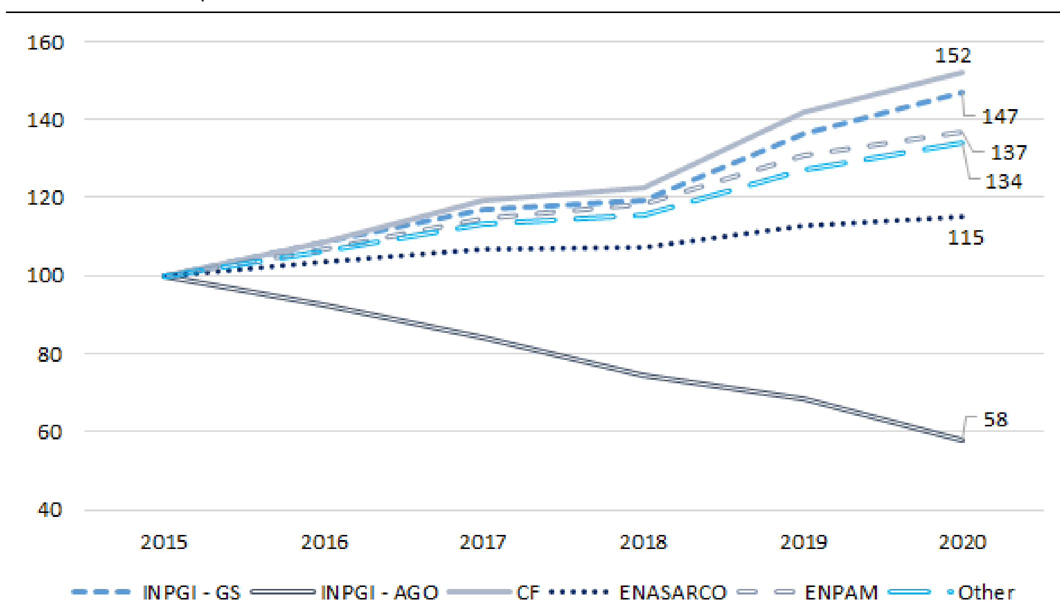
The initial information on current balances at the individual fund level was published by COVIP in the 2017 summary report. In that year, two funds posted negative balances between contributions and benefits: the INPGI AGO fund (-€176 million) and the Pension and Welfare Fund for Self-Employed Surveyors (CIPAG) (-€43 million). In 2019, the deficit funds were the same: INPGI-AGO, with a shortfall of -€188 million and CIPAG with -€47 million. In 2020, due in part to the COVID-19 crisis, the number of funds posting deficits went from two to five: INPGI-AGO with -€212 million, CIPAG with -€88 million, the National Insurance and Assistance Institute for Labour Consultants (ENPACL) with -€65 million, the National Insurance Institute for Agriculture Workers (ENPAIA) with -€8 million and the National Notary Pension Fund (CNN) with -€3 million.

While INPGI-AGO reports the worst current balance by far, INPGI-GS has steadily registered surpluses: €41 million in 2017, €42 million in 2018, €44 million in 2019 and €19 million in 2020.

The deterioration in the dependency ratio erodes, by running current deficits, the assets held by INPGI-AGO[83] (Figure 3.7 and Table 3.13). In just five years between 2015 and 2020, assets have almost halved (-48 per cent). However, the assets of the other funds have increased by between +52 per cent (the Legal Profession Pension Fund – Cassa Forense) and +15 per cent (National Welfare Institute for Commercial Agents – ENASARCO).

[83] The pensions paid by the funds are financed on a pay-as-you-go basis. Nevertheless, in addition to annual contributions from members, resources for pensions are supplemented by income from investments in securities and real estate.

Figure 3.7 – Total assets of privatised pension funds (1)
(2015 = 100



Source: based on COVIP and INPS data.
(1) In addition to the two INPGI funds, these include the three funds with the largest number of members, while the other funds are grouped under "Other".

Table 3.13 – Total assets of the privatised pension funds
(millions of euros)

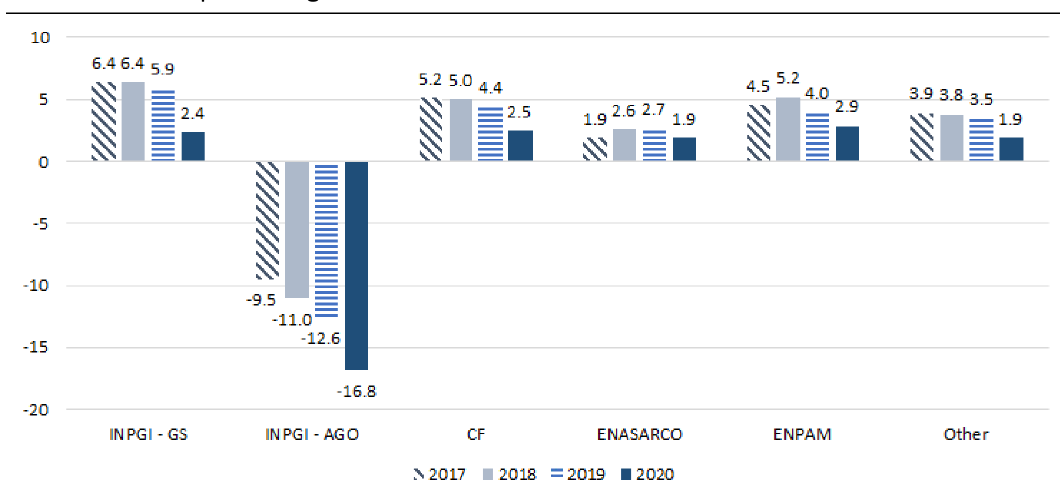
	2012	2013	2014	2015	2016	2017	2018	2019	2020
ENPAM	16,007	16,822	18,493	19,168	20,468	21,948	22,711	25,041	26,254
CF	7,092	8,267	9,674	10,731	11,640	12,790	13,124	15,236	16,333
INARCASSA	7,183	7,908	9,056	9,602	10,293	11,136	11,215	12,406	13,041
CNPADC	5,206	5,925	6,482	6,991	7,660	8,399	8,656	9,858	10,560
ENASARCO	6,928	6,950	7,072	7,326	7,577	7,814	7,852	8,251	8,435
ENPAF	1,892	2,290	2,472	2,607	2,762	2,887	2,923	3,269	3,491
CNPR	2,277	2,429	2,449	2,442	2,504	2,582	2,556	2,696	2,746
CIPAG	2,407	2,499	2,526	2,465	2,503	2,620	2,610	2,661	2,682
ENPAIA - GOS	1,965	2,007	2,195	2,263	2,300	2,215	2,285	2,350	2,361
ENPAP	839	926	1,077	1,192	1,318	1,468	1,538	1,839	2,038
CNN	1,575	1,517	1,557	1,550	1,590	1,616	1,619	1,741	1,739
EPPI	891	972	1,099	1,176	1,277	1,391	1,476	1,637	1,732
ENPACL	739	812	939	1,034	1,121	1,231	1,273	1,395	1,476
INPGI - AGO	2,458	2,412	2,347	2,190	2,024	1,848	1,628	1,495	1,265
EPAP	651	719	794	838	891	975	968	1,089	1,163
ENPAPI	514	561	705	733	811	901	964	1,006	1,112
ENPAV	411	467	524	591	656	729	782	909	1,007
FASC	680	718	764	803	840	883	903	938	957
ENPAB	411	451	504	550	594	657	691	777	835
INPGI - GS	422	461	513	549	596	643	656	750	808
ONAOSI	453	445	490	487	409	395	377	407	432
ENPAIA - GSPA	116	129	147	158	168	172	178	190	198
ENPAIA - GSA	21	23	27	30	33	35	38	43	48

Source: based on COVIP data.

Evaluated with respect to assets, the current deficits clearly show the critical and deteriorating condition of INPGI-AGO (Figures 3.8 and Table 3.14). In 2017 its deficit was equal to 9.5 per cent of the value of assets, this came to 11 per cent in 2018, 12.6 per cent in 2019 and 16.8 per cent in 2020. Excluding the 2020 figure, which was influenced by the COVID-19 crisis, the trend of the previous three years would have consumed all its assets in less than eight years. Cassa Forense, ENASARCO, ENPAM and the group of all other funds ("Other") have instead maintained positive current balances (as a percentage of assets), although they weakened slightly between 2017 and 2019. The negative current balances of INPGI-AGO stand in contrast to strong surpluses of INPGI-GS, which posted a surplus of +2.4 per cent in 2020, after 6.4 per cent in 2017 and 2018 and 5.9 per cent in 2019.

Overall, these data suggest two considerations. First, they confirm that the financial situation of INPGI-AGO has exceeded critical thresholds at least since 2017.[84] Nevertheless, instead of adopting effective corrective measures, deficits continued until the COVID-19, after which it became clear that loss-making could no longer be sustainable. The second consideration is that between 2017 and 2019, the current balances of many of the other funds also deteriorated, reflecting the rising trend in the dependency ratio highlighted above.

Figure 3.8 – Balance between contributions and benefits of the privatised funds as a percentage of fund assets



Source: based on COVIP and INPS data.
(1) In addition to the two INPGI funds, these include the three funds with the largest number of members, while the other funds are grouped under "Other".

[84] The data on assets published by COVIP also reveal an alarming development the previous year, because between 2015 and 2016 the value of assets fell by about one-tenth, an entirely anomalous percentage for a portfolio of assets managed for pension purposes in years not affected by market crises.

Table 3.14 – Balance between contributions and benefits of the privatised funds as a percentage of fund assets

	2017	2018	2019	2020
ENPAPI	8.0	7.6	8.3	7.9
ENPAP	6.1	6.9	6.4	6.1
ENPAV	8.0	8.6	7.2	5.6
EPAP	4.6	4.8	4.7	4.4
CNPADC	5.6	5.7	5.1	3.3
EPPI	5.3	5.2	5.1	3.3
ENPAM	4.5	5.2	4.0	2.9
ENPAF	4.0	3.4	3.1	2.6
ENPAB	5.8	6.5	5.9	2.5
CF	5.2	5.0	4.4	2.5
INPGI - GS	6.4	6.4	5.9	2.4
ONAOSI	1.0	1.6	1.7	2.3
ENASARCO	1.9	2.6	2.7	1.9
CNPR	1.6	1.4	1.9	1.7
FASC	1.9	3.4	1.9	1.1
INARCASSA	3.8	3.4	3.2	1.1
ENPAIA - GSA	8.6	7.9	7.0	0.0
ENPAIA - GSPA	4.1	3.9	3.2	0.0
CNN	3.5	2.4	2.2	-0.2
ENPAIA - GOS	1.5	1.1	0.4	-0.3
CIPAG	-1.6	-2.1	-1.8	-3.3
ENPACL	5.3	5.4	3.7	-4.4
INPGI - AGO	-9.5	-11.0	-12.6	-16.8

Source: based on COVIP data.

3.5 Additional wage supplementation options to counter the crisis and the reform of social safety net programmes

The budget package also contains temporary and permanent measures addressing social safety net programmes. This section first focuses on the temporary extension of wage supplementation programmes for COVID-19 reasons set out in the Tax Decree for certain industries that are still affected by the pandemic, thus enabling all employers to access wage supplementation programmes up to the end of the year (section 3.5.1). Second, it provides an overview and initial qualitative assessment of the restructuring of the social safety net system for those benefiting from wage supplementations and for the unemployed envisaged in the Budget Bill, comparing it with the structure of the Jobs Act (section 3.5.2).

3.5.1 Additional wage supplementation options to counter the crisis

The Tax Decree contains additional selective provisions concerning wage supplementation benefits for COVID-19 reasons. More specifically, COVID-19 will continue to be available as a justification for accessing wage supplementation programmes until 31 December 2021 for workers who, at the date of entry into force of the measure, are employed by firms in one of three categories: those normally not insured under CIGO/CIGS, those enrolled in bilateral funds and those active in the textile, wearing apparel and leather products industries (ATECO codes 13, 14 and 15). Employers who have recourse to wage supplementation programmes may not start lay off procedures or fire workers for just cause until the end of the year.

The legislation preceding the Tax Decree put employers insured under the CIGO/CIGS system in a position to reduce the use of layoffs as much as possible once the moratorium on dismissals was lifted at the end of June. These employers can use the normal CIGO/CIGS procedures free of additional surcharges until the end of 2021 without risk of exceeding their cumulative benefit usage ceilings.

Decree Law 41/2021 (the “Sostegni” Decree) granted 13 weeks of additional coverage for COVID-19 reasons to be used between 1 April and 30 June 2021 for employees of employers insured under the CIGO/CIGS programmes and 28 weeks for use between 1 April and 31 December 2021 for employees of employers enrolled in the bilateral funds (including the Wage Supplementation Fund – FIS) or employees of employers with no insurance for the interruption/suspension of work. For the former, the end of the moratorium on dismissals was set at 1 July (coinciding with the end of the period in which COVID-19 could be invoked to obtain benefits), while for the latter it was set at 31 October (two months before the end of the period in which COVID-19 could be invoked).

Subsequently, Decree Law 73/2021 (the second “Sostegni” Decree) granted a further 26 weeks of COVID-19 benefits to mitigate the possible consequences of the first lifting of the moratorium on dismissals, which can be drawn upon until 31 December 2021 on the basis of collective agreements for maintaining employment levels, for employees of employers still in a state of severe distress due to the crisis (turnover in the first half of 2021 more than 50 per cent lower than in the

corresponding period of 2020). For other employers (those in stronger financial condition), any recourse to the normal CIGO/CIGS programme was made more attractive with the cancellation, until 31 December 2021, of the additional contribution (a sort of co-payment for drawings on the programme) due from employers. Employers who had exhausted most or all of their cumulative benefit usage allowance as a result of making recourse to the CIGO/CIGS programme for normal reasons (alternatively to or in conjunction with COVID-19 reasons) were granted an additional 13 weeks of wage supplementation for COVID-19 reasons, to be used by 31 December 2021, again subject to a requirement to not fire employees.[85]

Finally, in light of the continuing difficulties caused by the crisis, Decree Law 99/2021 (later repealed and reintroduced as a supplement to Decree Law 73/2021) contained provisions to aid textile, wearing apparel and leather products industries, postponing the moratorium on layoffs to 1 November, four months after the termination of the moratorium for employers covered by the CIGO/CIGS programme. At the same time, another 17 weeks of wage supplementation benefits for COVID-19 reasons were granted, to be used between 1 July and 31 October 2021, on the condition that no employees could be laid off.[86]

The Tax Decree moves in the same direction but for employers enrolled in the bilateral funds (including the FIS) and those without insurance. They are permitted to draw a further 13 weeks of wage supplementation benefits for COVID-19 reasons between 1 October and 31 December 2021, but only if the 28 weeks already usable between 1 April and 31 December had already been authorised and the period for using the latter had ended. If employers had used these 28 weeks without interruption from 1 April, they would have run out in October.[87] For this reason, the Tax Decree includes October in the period in which the new weeks of benefits can be used, making it possible to cover all the remainder of the period between the lifting of the moratorium on redundancies and the end of the year.

Similarly, the Tax Decree grants employers in the textile, wearing apparel and leather products sectors – which, although insured under CIGO/CIGS, were treated for wage supplementation purposes by the legislation preceding the Tax Decree as equivalent to employers enrolled in the bilateral funds and FIS and those without insurance – a further 9 weeks of benefits for COVID-19 reasons between 1 October and 31 December 2021. Such firms could only use the additional support if the period for using the 17 weeks already granted between 1 July and 31 October had expired.[88] If employers had used these 17 weeks without interruption from 1 July, they would have run out at the end of October and therefore the Tax Decree makes it possible to cover the remainder of the year. All employers who have recourse to the new weeks of COVID-19 benefits are prohibited from laying off employees.

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[85] Article 73 of the Budget Bill strengthens this protection, granting access to the exceptional CIGS programme in 2022-2023 for a maximum of 52 weeks to be used by 31 December 2023 to employers involved in corporate reorganisations or in situation of particular distress that have reached the cumulative benefit ceilings provided for in the Jobs Act (see section 3.5.2).

[86] A more detailed summary of the legislation is provided in INPS Circular no. 125 of 9 August 2021.

[87] Considering months of 30 days, which are composed of just under 4.3 weeks.

[88] Among other things, the Tax Decree supplements the resources funding the 17 weeks already granted (€80 million, of which €31 million in imputed contributions) in view of the number of applications received and the findings of the INPS monitoring programme. The larger-than-expected number of applications were one of the factors prompting the grant of the additional 9 weeks of benefits.

After the amendments to the Tax Decree, all employers are placed on the same level until 31 December 2021, regardless of the industry in which they operate and the type of safety net programme they can use (whether insured with CIGO/CIGS, enrolled in bilateral funds and the FIS or without insurance for interruptions/suspensions of operations). They have all been placed in the condition to be able to avoid firing employees and to take advantage of the system of wage supplementation appropriate to the problems/needs emerging in the final phase of the pandemic. With this "bridge" until the end of the year, the Tax Decree not only continues to safeguard employment while the economic recovery is strengthening and the vaccination campaign is completed, but is also pave the way to the restructuring on a universal basis of the wage supplementation programmes, which is scheduled in the Budget Bill to begin as from 2022 (see section 3.5.2).

The expenditure estimates given in the Technical Report are based on the monitoring conducted by INPS (survey of September 2021) and appear conservative.

For those enrolled in bilateral funds and the FIS and for those without insurance coverage, the beneficiary pools are assumed to be equal to those who received COVID-19 wage supplementation benefits in June from employers who had already applied for at least 20 weeks of wage supplementation support (i.e., they had already planned to use a significant portion of the weeks then available). These pools have been increased to take account of the backlog of applications and the risk that market difficulties will persist until the end of the year.[89] The average number of wage supplementation hours per month has also been prudentially increased by 10 per cent compared with the values recorded in June, while the average hourly amount of benefits (including the family allowance) and the average hourly amount of the imputed contributions are unchanged. Finally, it is assumed that all 13 of the new weeks of support are used. On this basis, expenditure will amount to an estimated €657.9 million, of which €408.1 million for direct benefits and €249.8 million for imputed contributions.

For workers in the textile, wearing apparel and leather products sectors, the Technical Report assumes that all employers who have applied for the weeks already usable under existing legislation will have recourse to the additional 9 weeks for the same beneficiary pool as in June, increased to take account of pending applications. The average number of wage supplementation hours per month, the average hourly amount of benefits (including the family allowance) and the average hourly amount of imputed contributions are unchanged from those used in the Technical Report accompanying Decree Law 99/2021 (which had extended COVID-19 wage supplementation for these industries). On this basis, expenditure will amount to an estimated €140.5 million, of which €85.9 million for direct benefits and €54.6 for imputed contributions.

The INPS monitoring data (Tables 3.15 and 3.16) offer a basis for more general considerations concerning the use of wage supplementation and the consequences of lifting the moratorium on dismissals for employers insured under CIGO/CIGS.

[89] The percentage increase of the beneficiary pools was nearly 36.5 per cent for those enrolled in bilateral funds and about 23.8 per cent for employers without insurance coverage.

Table 3.15 – Use of COVID-19 wage supplementation benefits between January and July 2021 by reference month

Reference month	Type of wage supplementation	Beneficiaries (both direct payments and adjustments)	Hours of wage supplementation	Benefits paid	Remuneration lost
January	Ordinary	559,602	35,134,506	225,143,415	439,168,682
	Solidarity funds	626,318	53,029,539	320,675,882	585,076,381
	Exceptional	554,410	42,014,628	250,902,604	445,011,036
	Total	**1,740,330**	**130,178,673**	**796,721,901**	**1,469,256,099**
February	Ordinary	552,712	35,140,542	233,888,474	453,468,889
	Solidarity funds	608,898	48,293,015	312,533,988	552,030,798
	Exceptional	527,123	38,879,299	247,429,194	420,401,566
	Total	**1,688,733**	**122,312,855**	**793,851,656**	**1,425,901,253**
March	Ordinary	534,807	36,254,402	211,900,668	437,920,446
	Solidarity funds	770,343	61,103,623	352,012,255	660,806,585
	Exceptional	639,350	48,801,641	274,666,501	524,153,213
	Total	**1,944,500**	**146,159,665**	**838,579,424**	**1,622,880,244**
April	Ordinary	552,252	33,458,255	205,137,633	410,912,144
	Solidarity funds	673,373	53,279,494	317,134,266	587,086,587
	Exceptional	615,100	47,059,038	274,804,525	507,347,055
	Total	**1,840,725**	**133,796,787**	**797,076,425**	**1,505,345,787**
May	Ordinary	494,369	30,001,580	190,496,917	376,858,854
	Solidarity funds	484,152	36,253,908	220,907,413	408,978,969
	Exceptional	447,968	32,993,029	198,375,133	361,094,832
	Total	**1,426,489**	**99,248,518**	**609,779,463**	**1,146,932,655**
June	Ordinary	408,875	24,764,411	151,231,367	308,609,087
	Solidarity funds	341,747	23,427,564	140,103,435	265,464,162
	Exceptional	310,723	22,851,589	134,424,159	254,253,273
	Total	**1,061,345**	**71,043,563**	**425,758,961**	**828,326,522**
July	Ordinary	62,551	3,180,765	20,130,784	41,887,914
	Solidarity funds	219,999	16,437,568	97,174,482	186,919,420
	Exceptional	215,468	17,570,335	102,220,559	196,429,038
	Total	**498,018**	**37,188,668**	**219,525,824**	**425,236,371**

Source: based on INPS monitoring data.

Table 3.16 – Use of normal wage supplementation at July 2021 (reference month)

Mese/anno di competenza	Type of wage supplementation	No. Of beneficiaries	Number of hours paid	Amount paid	Remuneration lost
Luglio	Ordinary	82,065	3,962,083	24,643,297	49,800,542
	Solidarity funds	87	8,568	53,991	102,067
	Exceptional	0	0	0	0
	Total	**82,152**	**3,970,650**	**24,697,288**	**49,902,609**

Source: based on INPS monitoring data.

In July, the beneficiaries of the CIGO programme for COVID-19 reasons numbered 62,551, all in the textile, wearing apparel and leather products sectors, for a total of about 3.2 million hours of wage supplementation benefits. In the same month, beneficiaries of wage supplementation for normal reasons (not COVID-19) numbered 82,065, a sharp decrease compared with those who in the previous month had been beneficiaries of COVID-19 CIGO benefits who, excluding those in the textile, wearing apparel and leather products

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sectors, totalled an estimated 346,324.[90] On average, only 23.7 per cent of CIGO COVID-19 beneficiaries continued to receive ordinary wage supplementation benefits the following month.[91] At the same time, Istat data[92] also show permanent employment remaining broadly unchanged at one month, two months and three months from the expiry of the layoff moratorium (Figure 3.9).[93]

The most recent data released by Istat on the sectors benefitting from the extension of wage supplementation benefits confirm the reasonableness of the measure from a prudential perspective. In September, seasonally adjusted data from the index of industrial production in volume terms (Figure 3.10) show the decline registered in the textiles, wearing apparel and leather products sectors compared with pre-crisis levels, that anyway should be recouped by the end of the year in the light of current trends and of firms' short-term expectations for production, orders and sales prices (which have been positive for some months now) (Table 3.17).[94]

As for the employers in services and trade – sectors in which businesses are largely uncovered by the CIGO/CIGS programmes and tend to be enrolled in the bilateral system or are completely without insurance for interruption/suspension of operations – Istat data already show a sufficient return to pre-crisis levels in August. More specifically, seasonally adjusted data from the index of turnover in services (Figure 3.11) show that, for the aggregate of all sectors, the gap with respect to the pre-crisis situation is less than 1.5 percentage points, although there is a non-negligible dispersion by segment, with that for "Renting, travel agency services and business support services" still experiencing a gap of about 15 percentage points. The statistics for the expectations of firms for production, orders and selling prices have already been positive for some months for services as well.

[90] It is assumed that the number of beneficiaries of COVID-19 wage supplementation in June is the same as those observed in INPS monitoring in July (62,551).

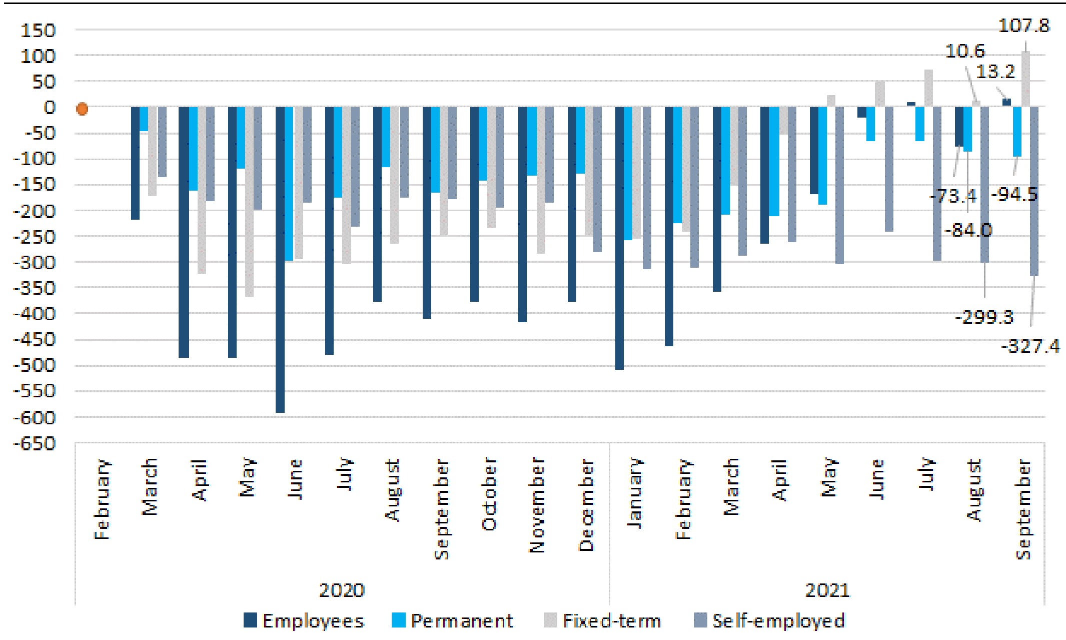
[91] On the basis of this information, the Tax Decree redetermines the expenditure ceiling already established for the increase in weeks of CIGO/CIGS benefits available to employers who had used all or close to all of their cumulative benefit usage allowance, reducing it by €245 million, of which €96 million in imputed contributions.

[92] Istat (2021), "*Occupati e disoccupati*", data released on 30 September 2021.

[93] Seasonally adjusted figures put the number of payroll employees on permanent contract at 14.95 million in June, 14.951 million in July, 14.932 million in August and 14.921 million in September. Fixed-term employees increased in July (+26,000 on June) before decreasing in August (-36,000 on June) and increasing again in September (+61,000 on June). Self-employed workers decreased in July (-56,000), were broadly unchanged in August and declined again in September (-86,000 on June).

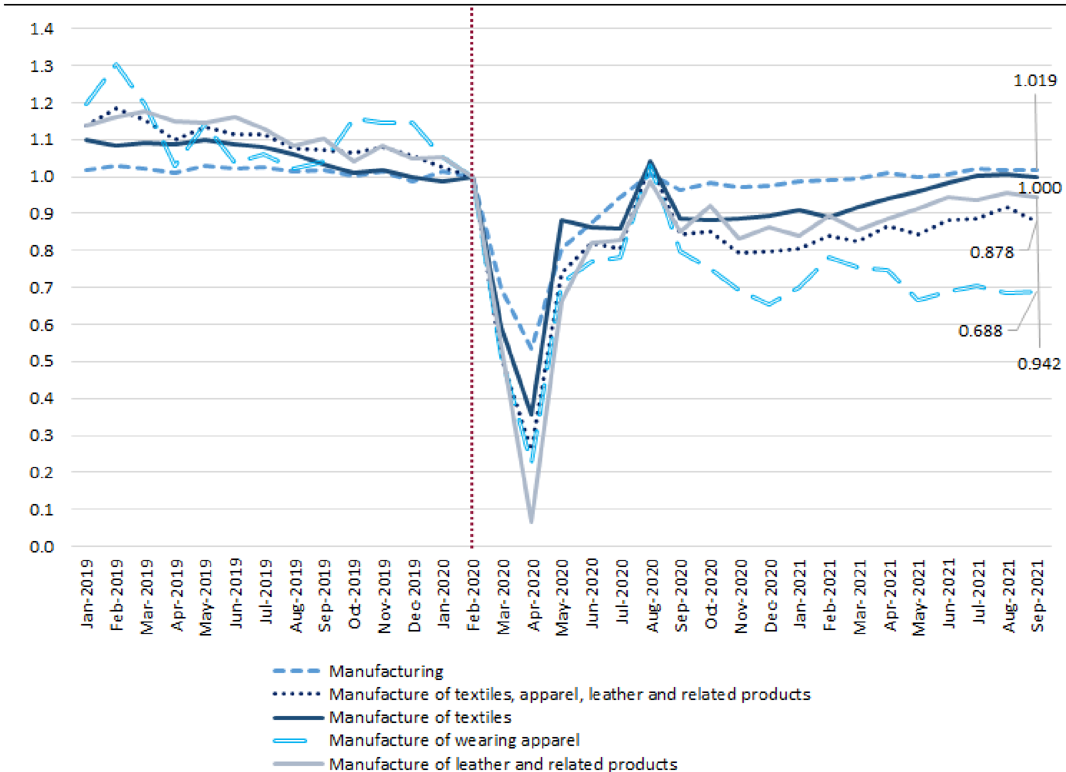
[94] Expectations are also positive in the segment "Manufacture of wearing apparel", which is that with the largest gap compared with the pre-crisis situation.

Figure 3.9 – Payroll employment (permanent and fixed-term) and self-employment
(thousands, seasonally adjusted; change on February 2020)



Source: based on data from Istat Labour Force Survey.

Figure 3.10 – Index of industrial production
(seasonally-adjusted volumes; February 2020 = 1)



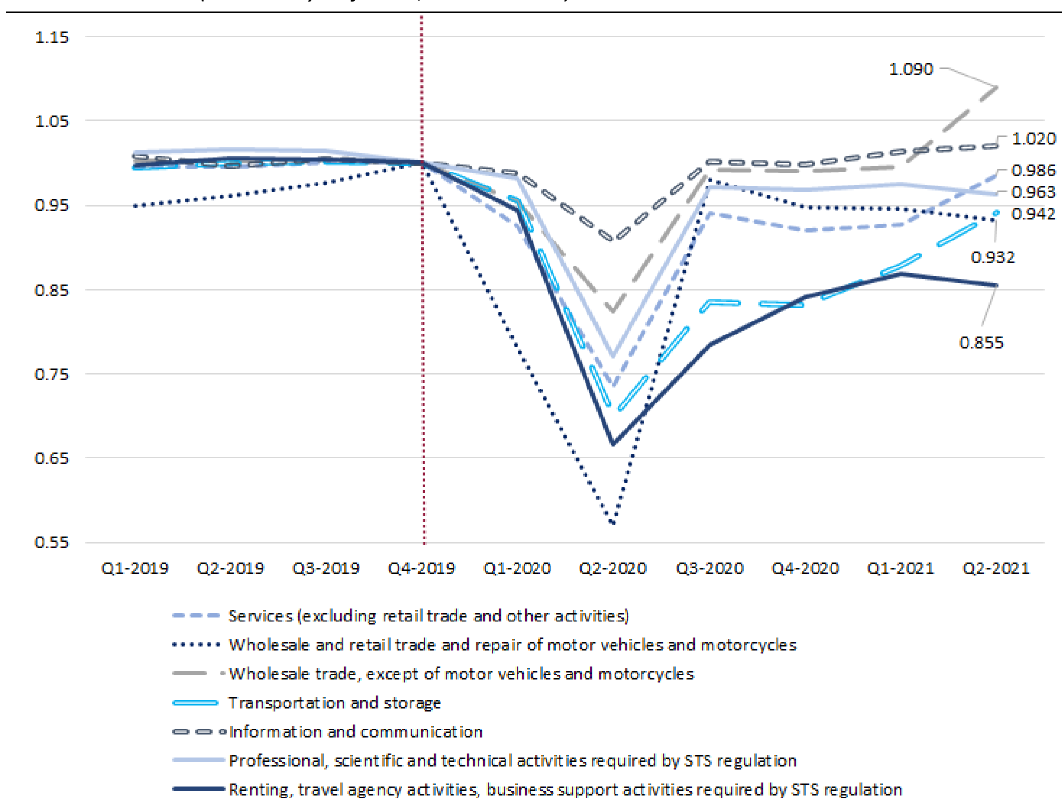
Source: based on Istat data.

Table 3.17 – Assessments of current developments and short-term expectations of manufacturing firms: textile sector compared with manufacturing overall *(raw data)*

		Oct-2020	Nov-2020	Dec-2020	Jan-2021	Feb-2021	Mar-2021	Apr-2021	May-2021	Jun-2021	Jul-2021	Aug-2021	Sep-2021	Oct-2021
Manufacturing	Assessment of order books - balance	-24.2	-27.6	-23.1	-23.8	-16.4	-11.8	-5.1	-1.4	5.1	10.2	5.6	6.4	10.7
	Expectations for order books - balance	-1.9	-19.7	-0.8	4.7	12.5	12.3	14.5	20.7	19.5	14.6	16.8	18.6	16.8
	Expectations for production - balance	-0.2	-18.1	-1.8	3.6	10.7	11.1	13.7	17.9	18.2	14.6	15.4	17.8	14.4
	Expectations for selling prices - balance	-1.4	-4.5	2	6.7	10.1	13.5	17.9	26.4	29.6	31.9	31.5	29.4	36.9
	Expectations for employment - balance	-6.8	-8.5	-6.9	-2.7	0.6	1.1	3	4.7	6.3	5.9	6.5	6.2	5.4
Manufacture of textiles, apparel, leather and related products	Assessment of order books - balance	-59.8	-60.4	-61	-59.3	-58.3	-58	-45.7	-44.1	-33	-23	-25.6	-19.5	-15.5
	Expectations for order books - balance	-21.9	-41.2	-14.2	-11.3	-11.4	-9.2	3.3	7.7	14.3	17.2	16.4	16.1	15.6
	Expectations for	-22.8	-37.8	-18.4	-17.1	-16.4	-13.1	4.3	4.3	10.9	13.5	13.6	15.4	11.2
	Expectations for selling	-6.3	-9.3	-1.3	-5.3	-2.6	-1.6	3.8	13.2	14.1	24.8	23.8	26.5	32.8
	Expectations for employment - balance	-23.6	-23.5	-24.5	-18.6	-15.6	-17.7	-15.4	-13.3	-10.5	-11.7	-5.9	-5.7	-6.8
Manufacture of textiles	Assessment of order	-58	-54.6	-65.1	-56.4	-54.2	-46.5	-34.4	-33.8	-34.2	-10.4	-19.4	-9.8	-10.5
	Expectations for order	-19.3	-38.4	-15	-2.2	5.1	6.6	9.9	1.7	21.7	16	18.9	17.6	9.5
	Expectations for production - balance	-18.8	-31.4	-9.5	-1.8	4.8	6.1	9.9	1.2	15.2	13.3	20.9	22.5	10
	Expectations for selling prices - balance	-4	-4.2	-4.3	2.8	7.5	8.1	16.4	27.2	32.3	42	40.7	42.1	49.5
	Expectations for employment - balance	-25.9	-13.6	-22	-15.1	-13.2	-20.4	-17.8	-12.6	-6.6	-7.8	-0.4	-7.5	-2.8
Manufacture of wearing apparel	Assessment of order books - balance	-57.6	-60.9	-57.1	-56.1	-56.5	-57.9	-53.2	-53.7	-33	-28.5	-32.6	-26.1	-18.9
	Expectations for order books - balance	-26	-41.6	-20.8	-10.2	-20.5	-25.9	-2.1	3.8	14.2	22.1	14.9	14.9	14.9
	Expectations for production - balance	-26.2	-33.7	-22.3	-16.7	-19.1	-22.3	0	-2.8	12.4	17.6	10.5	15.4	17.2
	Expectations for selling prices - balance	-8.8	-11.3	-4.6	-5.4	-5.9	-6.1	-2.6	2.3	5.5	8.6	8.7	9.9	16.4
	Expectations for employment - balance	-21.9	-23.1	-25.6	-25.1	-19.4	-18.6	-18.8	-19.9	-16.7	-15.4	-9.3	-6.8	-9.6
Manufacture of leather and related products	Assessment of order books - balance	-63.3	-64.3	-62	-64.9	-63.2	-67.5	-46.5	-41.8	-32	-26.8	-23.2	-20.2	-15.8
	Expectations for order books - balance	-19.7	-42.9	-6.4	-19.3	-14.6	-3.9	3.9	16.6	8.9	12.7	16.2	16.4	20.9
	Expectations for production - balance	-22.2	-47.1	-21	-29.3	-29.9	-18.1	4.6	14.3	6.1	9.3	11.3	9.9	5.7
	Expectations for selling prices - balance	-5.5	-11.3	4.4	-11.3	-6.9	-4.1	0.9	14.1	9.4	28.8	26.6	32.4	36.8
	Expectations for employment - balance	-23.7	-31.6	-25.4	-14.6	-13.4	-14.8	-9.8	-6.7	-6.8	-10.9	-6.4	-3.1	-6.8

Source: based on Istat data.

Figure 3.11 – Index of turnover in services
(seasonally adjusted; Q4-2019 = 1)

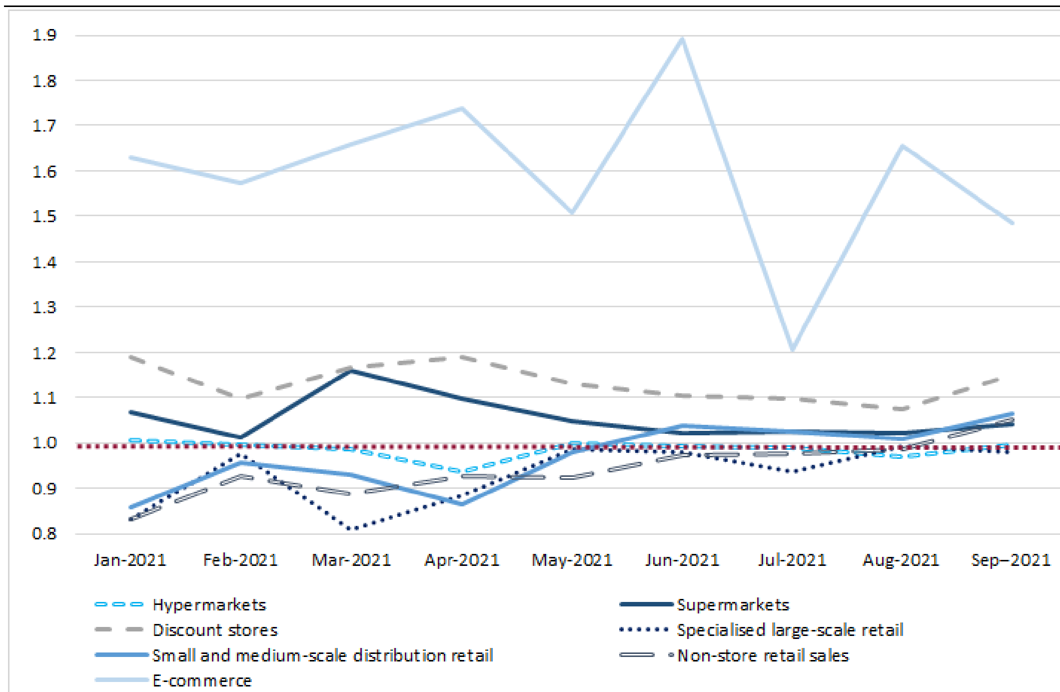


Source: based on Istat data.

Finally, retail trade, however measured (by segment, by distribution channel, by volume or value; Figures 3.12 and 3.13), seems to have left the crisis behind except for small gaps still being registered by non-specialised hypermarkets and non-store sales. Except for the latter (which, however, represent a very small proportion of sales channels as a whole), the expectations of retailers for sales, orders and selling prices have been positive for some months now, confirming the strength of the recovery of pre-crisis levels.

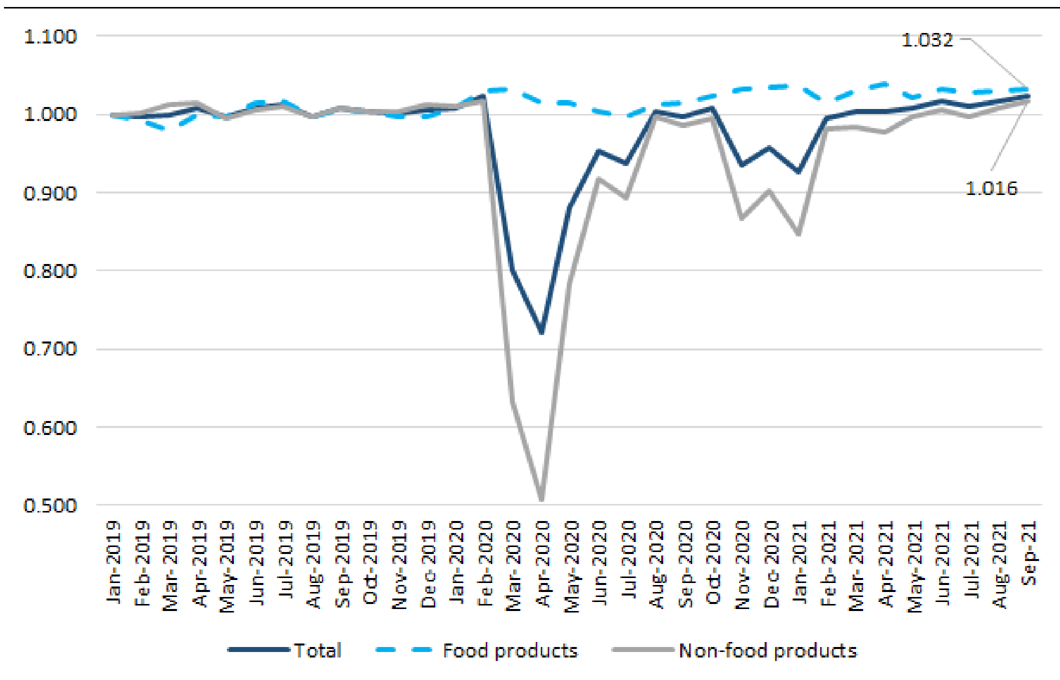
Taken together, the INPS and Istat data suggest that the measure introduced with the Tax Decree provides a response to some of the risks that in the final part of the year could still impact sectors/markets where the moratorium on firing expires on 1 November. The underlying objective, which seems sound, would be to place all employers on the same level until 31 December 2021, regardless of the sector in which they operate and the type of safety net programme they have access to.

Figure 3.12 – Index of retail trade sales
(raw data, ratio with respect to same month of 2019)



Source: based on Istat data.

Figure 3.13 – Index of retail trade sales
(seasonally adjusted volumes; January 2019 = 1)



Source: based on Istat data.

3.5.2 *The reform of social safety net programmes*

The Budget Bill changes the rules governing safety net mechanisms for the labour market, both for persons still in employment (the wage supplementation funds and benefits paid through bilateral mechanisms) 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 authorised under the State Aid Temporary Framework[95] in order to counter the economic disruption caused by the COVID-19 emergency, financed in part with the direct support of European programmes. This was necessary not only for Italy but for all European countries, even those traditionally without safety net mechanisms for those still in employment, which introduced them on an emergency basis to keep businesses and industries operating.[96]

Wage supplementation. – The introduction in March 2020 of COVID-19 as a reason granting access to the wage supplementation funds made it possible to extend the coverage of these programmes to almost all employees, regardless of industry, segment or employer size.[97] Without this, only firms insured under the CIGO/CIGS wage supplementation programmes (typically manufacturing industry) that had not reached their cumulative benefit usage ceiling would have had access to wage supplementation benefits. All others would not have been eligible, in particular those without insurance coverage (generally micro-enterprises in the services and trade sectors), but also those whose wage supplementation support would have been borne by the bilateral funds (trade and services firms with more than five employees), which were reformed too recently (with the Jobs Act of 2015) to have accumulated sufficient independent resources. The universal coverage achieved with the introduction of COVID-19 as an eligibility criterion is being made permanent with the Budget Bill, which also improves

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[95] See the recent summery “*Gli aiuti di Stato nell’epidemia da COVID-19: il quadro europeo*“, by the Research Department of the Chamber of Deputies.

[96] See, for example, the two reports on the use of SURE loans (“The temporary Support to mitigate Unemployment Risks in an Emergency”) that show how resources were directed primarily at small firms in wholesale and retail trade, accommodation and food services (https://ec.europa.eu/commission/presscorner/detail/it/IP_21_4822) and used in large part to provide benefits to cover the reduction or suspension of working hours (known as short-time work schemes). “*Sixteen of the nineteen Member States benefitting from SURE have used the support to help finance short-time work schemes. In the first half of 2021, many Member States supported by SURE extended their short-time work schemes to respond to new waves of the pandemic. The six Member States which requested SURE top-ups in early 2021 have either changed the design of the schemes already benefitting from SURE or set up new measures. As of August 2021, the majority of the Member States that used SURE to finance short-time work schemes have not yet phased out the support, although some Member States have already discontinued the use of their short-time work schemes. Over half of the total amount of financial assistance under SURE was allocated by Member States to support short-time work schemes. Over 40% was to support similar measures, including almost one third for measures for the self-employed …*”.

[97] The option of accessing wage supplementation for COVID-19 reasons, entirely financed by public finances, terminated last June for the beneficiaries normally insured through the ordinary CIGO and CIGS programmes and will end at the end of 2021 for all others (for more details, see section 3.5.1).

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certain unsatisfactory aspects of current legislation that the COVID-19 crisis has brought to the fore.[98]

The importance of having two types of safety net programme – for those still employed and for the unemployed – had already been underscored during the financial crisis of 2008-2012.[99] At that time, similarly to what has happened during the COVID-19 crisis, the measures to counter the crisis included an exceptional extension of wage supplementation benefits to sectors and segments that were not covered by the ordinary system, both to mitigate the impact of the crisis and to be able to preserve as much as possible employment and production chains for the subsequent recovery. After the crisis, the Jobs Act of 2015 addressed the reorganisation of the operation of wage supplementation programmes.

More specifically, the Jobs Act obligated all employers not already insured under the CIGO/CIGS programmes who employ more than five employees to enrol in one of the bilateral funds, either newly created funds, alternative funds[100] or the Wage Supplementation Fund (FIS),)[101] which are required to provide the same benefits as CIGO/CIGS in their respective grounds for activation.[102] The funds can only pay out benefits within the limits of the resources raised from their members. The newly created funds establish their contribution rates in their founding statute,[103] respecting the proportion that two –thirds are charged to employers and one-third to workers. For alternative funds, the minimum rate is 0.45 per cent of gross wages, divided between employers and workers in the proportions specified in the founding statutes. For the FIS, the rate is 0.65 per cent for firms with more than 15 employees and 0.45 per cent for others and is entirely paid by employers. In case of access to benefits, employers enrolled in new and alternative funds pay an additional fee (the so called "tiraggio" charge) equal to at least 1.5 per cent of the unpaid gross wages; this contribution rises to 4 per cent for FIS members.

For the CIGO programme, contribution rates vary between 1.7 and 4.7 per cent depending on the sector and the size of the company and are paid by employers; for the CIGS programme, employers contribute 0.6 per cent and employees 0.3 per cent. In both cases, the additional "tiraggio" charge is increasing with the duration of wage supplementation benefits, and equal to 9 per cent for the first 52 weeks, 12 per cent from the 53rd to the 204th week and 15 per cent beyond 204 weeks.

In conjunction with expanding the pool of potential beneficiaries, the reorganisation of wage supplementation programmes by the Jobs Act also modified the reasons for which employers could seek support and the duration of that support. After years of overlap and confusion, the reasons justifying access are now divided into ordinary motives – those relating to short-term negative events usually connected to the cyclical nature of the markets – and special motives – those relating to a need for more extensive restructurings/reorganisations. As regards the duration of

[98] Such as, for example, the elimination of the dual ceiling on the amount of benefits (Article 54), the introduction of a bonus mechanism that reduces the additional contribution (Article 55), the expansion of the scope for combining wage supplementation benefits with payroll employment contracts (Article 57) (Table 3.18).

[99] For an overview of safety net programmes in Italy see Ufficio parlamentare di bilancio (2018), "Labour market safety net after the Jobs Act", Focus Paper no. 9 (Summary in English. Full text in Italian).

[100] Funds already active in the sectors/segments in which bilateral systems were historically most developed.

[101] The FIS serves a residual function, enrolling employers who do not make an explicit choice to register with some other fund.

[102] The bilateral funds provide an ordinary allowance. The alternative funds and the FIS may, depending on circumstances, provide an ordinary allowance or a solidarity allowance. The latter is larger and is based on agreements between the social partners to minimise the reduction in working hours for individual workers and all employees as a whole.

[103] Approved by the Ministry of Labour and Social Policy and the Ministry for the Economy and Finance.

benefits, mandatory limits have been set to mark the difference with respect to unemployment benefits. Employers may not have recourse to the CIGO/CIGS programmes for any reason for more than 24 months in a moving five-year period and, within this overall constraint, recourse for the reasons granting access to the CIGO programme cannot exceed 13 consecutive weeks (extendable up to a maximum of 52) and 52 weeks in a moving two-year period, while recourse to the CIGS programme for a "corporate crisis" cannot exceed 12 months. Once the maximum duration has been reached, a sufficient period of normal operations must elapse before a company can access benefits again (52 weeks for the CIGO programme, two-thirds of the duration of the previous period of benefits for the CIGS programme).[104]

The Budget Bill's modifications are consistent with the Jobs Act and continue its work (Table 3.18). After the extensive use of COVID-19 reasons for accessing the programmes, which effectively made access to wage supplementation universal, this feature has been made permanent. The possibility of similar future scenarios impacting Italy, like most of the western industrial countries, has prompted policy-makers to permanently equip the country with this safety net arrangement, rather than relying on resuming the programme as an emergency measure, with all the limitations, dysfunctions, delays and challenges of providing support that so often characterise emergency measures. Creating a more universal system takes advantage of the fact that the Jobs Act has already returned the operation of wage supplementation mechanisms to an insurance foundation, specifying the benefits, maximum duration and related contribution obligations. The changes expand the scope of action of an institution whose financial and regulatory features had already been redesigned.

The range of potential beneficiaries insured through the CIGO programme has been extended to include home workers and all apprentices and the minimum requirement to be eligible for benefits has been reduced from 90 to 30 effective days of work. The obligation to enrol with a bilateral fund, whether a new fund, an alternative fund or the FIS, has been extended to all employers not already covered by CIGO who employ at least one worker.[105] The pool of potential CIGS beneficiaries has been rationalised, becoming a subset of those insured through the CIGO programme with more than 15 employees. The CIGS programme also insures air transport and airport management companies and political parties/movements, regardless of the number of employees.

[104] The restrictions on duration and renewed access are more detailed. See Ufficio parlamentare di bilancio (2018), *op. cit.* There is also a limit on the number of hours of wage supplementation benefits as a proportion of the number of hours workable by the average number of workers employed in a given production unit.

[105] The pool of potential CIGO and CIGS beneficiaries are no longer the same, although they do overlap considerably. They are defined in two separate lists.

Table 3.18 – Summary of the main measures modifying safety net programmes for persons benefiting from wage supplementations

Changes in Budget Bill	Current legislation (Legislative Decree 148/2015)
Art. 52 –The potential beneficiaries of CIGO/CIGS have been expanded to include home workers and all apprentices (not just those with a vocational contract). The minimum effective seniority requirement to be eligible for benefits has been reduced from 90 to 30 days.	**Art. 1** – The beneficiary pool includes payroll employees. Apprentices are included only if they have a vocational apprenticeship contract. Executives and home workers are not eligible.
Art. 53 – For the purposes of determining company size , all employees are considered, including managers, home workers and apprentices.	Current legislation contains no provisions , common to all safety net programmes or workers benefiting from wage supplementations, that define company size.
Art. 54 – From 2022, the maximum amount of wage supplementation benefits no longer depends on the reference monthly salary and is in line with the upper limit of the previous legislation.	**Art. 3** – Benefits are subject to two separate monthly ceilings (in 2015 euros): €971.1 for salaries equal to or lower than €2,102.24 and €1,167.91 for higher salaries.
Art. 55 – From 2025, a bonus mechanism will reduce the additional contribution (the “tiraggio” charge) for employers who do not make recourse to the CIGO/CIGS programmes for at least 24 months after their previous use of the programmes. The special cases concerning the additional contribution no longer hold.	**Art. 5** – Three additional contribution rates are applied depending on the duration of wage supplementation over a moving five-year period: 9 per cent up to 52 weeks, 12 per cent over 52 weeks and up to 104 weeks and 15 per cent over 104 weeks.
Art. 57 – The possibility of combining the use of wage supplementation benefits with payroll employment have been expanded. For payroll employment contracts of less than 6 months, wage supplementation is only temporarily suspended (the duration is not consumed). The common conditions imposed on the recipients of all wage supplementation benefits have been repealed (Art. 65 below reintroduces them for recipients of CIGS benefits only).	**Art. 8** – Workers involved in self-employment or payroll employment during the period of wage supplementation are not entitled to benefits for the days worked. The beneficiaries of wage supplementation benefits for CIGO/CIGS reasons (including those disbursed by bilateral funds such as the ordinary allowance and the solidarity allowance) are subject, if more than 50 per cent of their hours have been suspended, to the conditions provided for under active policies (Art. 8 of Legislative Decree 148/2015 and Article 22, paragraph 1, of Legislative Decree 150/2015).
Art. 60 – From 2022, CIGS coverage will be mandatory for all employers not registered in bilateral funds who employ more than 15 employees. The CIGS programme also insures air transport and airport management companies and political parties/movements, regardless of the number of employees. Art. 66 of the Budget Bill redefines the scope of application of the bilateral funds, making them mandatory for all employers not registered with the CIGO programme. The combined provisions of Articles 60 and 66 make the scope of application of CIGS a subset of the CIGO programme: all employers insured with CIGO coverage are also insured under the CIGS programme if they have more than 15 employees.	**Art. 20** – The eligible beneficiaries of CIGO and CIGS are listed in two positive lists. They are not the same, although there is considerable overlap.
Art. 61 – The transition processes identified and regulated by the MLSP and the MISE also qualify for CIGS as "corporate reorganisations". From 2022, in the cases of CIGS activated with the purpose of "solidarity contract", the two ceilings provided for the reduction of working hours (see the column on the right) have increased respectively to 80 and 90 per cent.	**Art. 21** – If an employer invokes the “solidarity contract” reason for access to wage supplementation, the average reduction in working hours must not exceed 60 per cent of the daily, weekly or monthly hours. For each worker, the total reduction in working hours over the entire period in which supplementation benefits are paid may not exceed 70 per cent.
Art. 62 – For 2022, the exceptional extension of CIGS pursuant to Art. 22-bis (see the right-hand column) is only valid for "solidarity contracts". From 2022, CIGS for "business reorganisation" or "business crisis" purposes can be extended for 12 months on the basis of trade union agreements concerning re-employment or self-employment, with support from regional governments where appropriate. It is not required for these companies to be of strategic economic importance that present significant employment problems. Workers who benefit from the extension are involved in the Worker Employability Guarantee (GOL) programme (a new active policy programme provided for under the NRRP).	**Art. 22-bis** – Until 2022, CIGS can be extended up to 12 months for companies of strategic economic importance that present significant employment problems.
Art. 81 – Employers who hire on permanent contracts workers who are receiving the benefits referred to in Art. 62 (see above) are entitled to a monthly grant equal to 50% per cent of the CIGS benefits that would have been paid to workers for a number of months not exceeding twelve. Employers who in the previous and subsequent 6 months do not undertake collective or individual layoffs for just cause are eligible for the incentive.	
Art. 82 – Workers receiving the benefits referred to in Art. 62 (see above) can be hired on vocational apprenticeship contracts regardless of age. Since apprenticeship contracts are open-ended , employers who hire workers using them are eligible for the incentive referred to in Art. 81 (see above).	**Art. 44, paragraph 1, Legislative Decree 81/2015** – Vocational apprenticeship contracts are generally aimed at young people aged between 18 and 29.
Art. 63 – All employers with more than 15 employees, in addition to those in the air transport and airport management sector and political parties/movements, are required to contribute to the CIGS programme, with a contribution rate of 0.6 per cent to be paid by employers and 0.3 per cent by workers. If they exceed the threshold of 15 employees, the members of the newly established bilateral funds, alternative funds and the FIS that disburse benefits (wage supplementation allowance) for the reasons envisaged under the CIGS programme are required to pay the same contribution rates (see Art. 66 below).	**Art. 23** –Employers insured under the CIGS programme are required to pay the contributions as follows: 0.6 per cent to be paid by the employer and 0.3 per cent to be paid by the employee.

Table 3.18 – *(cont.)* Summary of the main measures modifying safety net programmes for persons benefiting from wage supplementations

Changes in Budget Bill	Current legislation (Legislative Decree 148/2015)
Art. 65 – The common conditions imposed on recipients of CIGO/CIGS benefits have been repealed. CIGO recipients are no longer subject to obligations, while specific conditions have been reintroduced for recipients of CIGS benefits. A subsequent decree of the MLPS will specify methods of implementation of the training and retraining initiatives.	**Art. 8** – Currently, the beneficiaries of wage supplementation benefits for CIGO/CIGS reasons (including those disbursed by bilateral funds such as the ordinary allowance and the solidarity allowance) are subject, if more than 50 per cent of their hours have been suspended, to the conditions provided for under active policies (Art. 8 of Legislative Decree 148/2015 and Article 22, paragraph 1, of Legislative Decree 150/2015).
Art. 66 – Employers not insured through the CIGO programme who employ at least one employee must participate in a bilateral fund that offers at least the same benefits as CIGO and CIGS. Employers who does not register in a bilateral fund are registered in the Wage Supplementation Fund (FIS) de jure (see below). Art. 66 of the Budget Bill redefines the scope of application of the CIGS programme, making it mandatory for all employers not registered in bilateral funds. The combined provisions of Articles 60 and 66 make the scope of application of CIGS a subset of the CIGO programme: all employers insured with CIGO coverage are also insured under the CIGS programme if they have more than 15 employees.	**Art. 26** –Employers who do not fall within the scope of either CIGO or CIGS and who employ more than 5 employees must join a bilateral fund that offers at least the same benefits as provided under CIGO and CIGS.
Art. 67 – Employers who employ at least one employee in the sectors in which the alternative bilateral funds are already active can join them to fulfil their insurance obligation. If the alternative funds do not comply with the new provisions, employers registered with them merge into the FIS. Since 2022, the Alternative Funds provide only one benefit identical to that of the Bilateral Funds: the "Assegno di integrazione salariale" (see Article 69 below).	**Art. 27** – Employers in the craft and temp worker sectors who have more than 5 employees are required to register in the alternative funds. If they do not register in an alternative fund and do not register in another fund, they are registered with the FIS de jure. Alternative Funds can pay out the ordinary allowance and / or the solidarity allowance.
Art. 68 – All employers with at least one employee, not insured with CIGO and not registered in another bilateral fund (including alternative funds) are de jure registered with the FIS. From 2022, the FIS will disburse the wage supplementation allowance (see Art. 69) for the same reasons as CIGO/CIGS. With regard to CIGO , the duration of benefits differs for employers who employ up to 5 employees (maximum 13 weeks in the moving two-year period) and over 5 employees (maximum 26 weeks in the moving two-year period). From 2022, the limit that linked the benefits payable by the FIS to ten times the contributions due by members is repealed. At the same time, the CIGO contribution rates (for the employer alone) have been redetermined: 0.50 per cent for employers with up to 5 employees, 0.80 per cent for those with more than 5 employees. An incentive mechanism has been introduced that reduces the "tiraggio" charge for employers who employ up to 5 employees and who have not applied for FIS benefits for at least 24 months.	**Art. 29** – All employers with more than 5 employees that are not insured with CIGO/CIGS and are not registered with any other bilateral fund (including alternative funds) are registered with the FIS de jure. The FIS pays an ordinary allowance (limited to employers with more than 15 employees) and the solidarity allowance for both CIGO and CIGS reasons. The ordinary allowance can be disbursed for at most 26 weeks in a moving two-year period. The solidarity allowance can be paid for at most 12 months in a moving two-year period. Benefits are payable in an amount up to ten times the contributions due from members, equal to 0.45 per cent for employers with up to 15 employees and 0.65 per cent for those with more than 15.
Art. 69 – The bilateral funds disburse the wage supplementation allowance, which is equal to the benefits provided by the wage supplementation programmes and has a duration at least equal to that of the ordinary and special wage supplementation benefits. The wage supplementation allowance also entitles beneficiaries to the family allowance. Representatives of employers and workers sit on the administrative committee of the bilateral funds. In light of its national importance, the representatives of the organisations of employers and workers of greatest national importance sit on the FIS administrative committee.	**Arts. 30/31** – Bilateral funds and alternative funds can pay the ordinary allowance. The FIS can pay the ordinary allowance only if the employer has more than 15 employees. The FIS and the alternative funds can also pay a solidarity allowance on the basis of collective agreements to avoid excess staffing and multiple layoffs for justified objective reasons.
Art. 72 – The possibility of signing an expansion contract has been extended to 2022 and 2023. The minimum size of firms that can use it has been reduced from 100 to 50 employees.	**Art. 41** – Until 2021, in order to foster generational turnover and skills development, the social parties may enter into an expansion contract, which provides for the hiring of new workers and, at the same time, a reduction in the working hours of existing employees and/or "pre-pension benefits" for older workers.
Art. 73 – Employers involved in a reorganisation or who are still particularly affected by the crisis can access , if they have reached their cumulative benefit usage ceiling, an additional 52 weeks in the 2022-2023 period (see the section on wage supplementation with for COVID-19 reasons).	
Art. 74 – From 2022, employees embarked on fishing vessels will also be eligible for CISOA benefits.	Currently, the CISOA programme covers agricultural employees (labourers, workers, office staff, managers, apprentices) with permanent contracts registered in the lists of agricultural payroll employees. During the crisis, the fishing sector was supported with COVID-19 wage supplementation benefits.
Art. 75 – For 2022, the CIGO contribution rates paid to the FIS and the CIGS contribution rates have been reduced as a post-crisis subsidy measure. For the FIS, the reduction is 0.35 percentage points for employers with up to 5 employees, 0.25 percentage points for employers with between 6 and 15 employees, 0.11 percentage points for employers with more than 15 employees, 0.56 points for companies operating in the retail or tourism sectors with more than 50 employees. For the CIGS programme, the reduction is 0.63 percentage points for employers with more than 15 employees.	

The bilateral funds can be accessed for the same reasons as the CIGO and CIGS programmes and pay a wage supplementation allowance (Assegno di integrazione salariale)[106] whose amount and duration are at least equal to CIGO/CIGS benefits. The wage supplementation allowance also entitles beneficiaries to the family allowance.[107] In the case of circumstances covered by CIGO, the FIS pays the wage supplementation allowance and the related family allowance for no more than 13 or 26 weeks, depending on the size of the company (up to five employees and above this threshold).[108] Wage supplementation benefits, whether paid through CIGO/CIGS or the bilateral funds, cannot exceed a monthly amount of €1,167.91 (2015 euros) for all income levels.[109]

The CIGO/CIGS contribution rates do not change, but the Budget Bill establishes that all the members of the bilateral funds will be subject to CIGS contributions[110] if they have more than 15 employees (0.6 per cent paid by the employer and 0.3 per cent by the worker). Previously, those enrolled in the bilateral funds had no specific contribution obligations under the CIGS programme, despite the fact that the funds were already required to also pay benefits for the reasons allowed under the CIGS programme. For members of newly established bilateral funds and alternative funds, the contribution obligations already provided for under the Jobs Act, which are now to be understood as CIGO contributions,[111] have not been changed (since a specific CIGS contribution has been introduced). For the FIS, the contribution obligations for CIGO purposes have been set at 0.5 per cent for firms with up to 5 employees and 0.8 per cent for larger firms, a slight increase for firms already subject to enrolment obligations (in addition to new specific obligations for CIGS purposes).

The narrower scope of action of the FIS, together with the smaller ordinary and additional contributions than those paid by CIGO members and the newly established and alternative bilateral funds, could suggest that this fund is responsible for a basic level of benefits. In all likelihood, FIS membership will include a significant portion of the micro-enterprises not yet required to obtain insurance, and these may prefer less demanding insurance solutions.

A bonus mechanism has also been introduced. With effect from 2025, it will reduce the additional contribution (“tiraggio” charge) for employers who do not make recourse to the CIGO/CIGS programmes for at least 24 months after their previous use of the

[106] The wage supplementation allowance (Assegno di integrazione salariale) replaces the ordinary allowance (Assegno ordinario), which has been eliminated.

[107] The solidarity allowance (Assegno di solidarietà) has been eliminated and it is specified that the wage supplementation benefits include the family allowance, as is already the case with benefits paid through the CIGO/CIGS programmes.

[108] Under current legislation, the FIS may pay the solidarity allowance and, for firms with more than 15 employees only, the ordinary allowance for a period equal to that for the appropriate CIGO/CIGS benefits. The Budget Bill allows the FIS to disburse the wage supplementation allowance only, regardless of firm size, and introduces specific shorter durations for FIS benefits than the equivalent CIGO/CIGS benefits.

[109] Under current regulations, there are two ceilings: €971.1 for salaries equal to or less than €2,102.24 (2015 euros) and €1,167.91 for higher salaries (2015 euros).

[110] For benefits they are required to provide for CIGS reasons.

[111] For benefits they are required to provide for CIGO reasons.

programmes: the reduction will be from 9 to 6 per cent for durations up to 52 weeks and from 12 to 9 per cent for durations over 52 weeks up to 104 weeks.[112] A similar mechanism has also been introduced for the FIS, providing for a 40 per cent reduction in the additional contribution (from 4 per cent to 2.4 per cent).[113]

Two changes introduced with the Budget Bill could play a significant role in supporting the transformation and modernisation of companies in terms of their eco-compatibility, digitisation and skills upgrading, three pillars of the NRRP. The transition processes identified and regulated by the Ministry of Labour and Social Policy and the Ministry of Innovation and Economic Development have also been included in the "corporate reorganisation" reason for CIGS activation. In addition, greater flexibility has been introduced in the use of the solidarity contract, which is one of the tools for expanding the employment base with the hiring of people with new professional skills.[114]

Among the temporary measures, the possibility of signing an expansion contract[115] has been extended to 2022 and 2023. At the same time, the minimum size of firms that can use it has been reduced from 100 to 50 employees.

The Budget Bill also introduces a number of changes intended to enhance the links between wage supplementation programmes, active labour policies and the labour market. More specifically, the possibility of combining the use of wage supplementation benefits with payroll employment have been expanded.[116] From 2022, accessing CIGS benefits for "business reorganisation" or "business crisis" purposes can be extended for 12 months on the basis of trade union agreements concerning re-employment or self-employment, with support from regional governments where appropriate. Workers who benefit from the extension are involved in the Worker Employability Guarantee (GOL)

[112] Beyond 104 weeks, the additional contribution remains at 15 per cent.

[113] The bonus mechanism has not been introduced for new or alternative bilateral funds, but the additional contribution they are subject to is already lower (1.5 per cent).

[114] Under current legislation, if an employer invokes the "solidarity contract" reason for access to wage supplementation, the average reduction in working hours must not exceed 60 per cent of the daily, weekly or monthly hours of the workers involved in the same contract. For each worker, the total reduction in working hours over the entire period in which supplementation benefits are paid may not exceed 70 per cent. With the Budget Bill, the two ceilings have been raised to 80 and 90 per cent, respectively.

[115] In order to foster generational turnover and skills development, the social parties may enter into an expansion contract, which provides for the hiring of new workers and, at the same time, a reduction in the working hours of existing employees and/or "pre-pension benefits" for older workers. See the Memorandum of the Chairman of the PBO on Bill 3132 ratifying Decree Law 73 of 25 May 2021 (Summary in English. Full text in Italian).

[116] For payroll employment contracts of less than 6 months, wage supplementation is only temporarily suspended. Under current legislation, workers involved in self-employment or payroll employment during the period of wage supplementation are not entitled to benefits for the days on which they work.

programme.[117] They can be hired on vocational apprenticeship contracts regardless of age and their hiring on permanent contracts gives rise to an *ad hoc* incentive for employers.[118]

As regards active policies, the common conditions imposed on the recipients of CIGO/CIGS benefits[119] have been repealed. CIGO recipients are no longer subject to obligations, while specific conditions have been reintroduced for recipients of CIGS benefits.[120] The rationale for this change may lie in the desire not to involve in active labour market programmes workers who still have an ongoing employment relationship with their current employer that is likely to continue, as happens when the CIGO programme is activated for temporary, non-structural difficulties.

To summarise, the Budget Bill's changes to the Jobs Act extend the coverage of wage supplementation programmes to all employees. To achieve this goal, the bilateral system, which was already involved on a more limited scale under the Jobs Act, will become responsible for delivering benefits to workers not covered by the INPS wage supplementation funds. 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. Budget autonomy and the very governance of the Funds entrusted directly to the social partners involved should help to limit the possible moral hazard associated with accessing benefits. It avoids directly burdening the INPS budget with benefits for a very large and variegated, and as such more difficult to control, universe of beneficiaries represented by retail trade and service companies.

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 future scenarios in which large-scale adverse events become, after the 2008-2012 crisis and the COVID-19 crisis, more likely than in the past.[121] On the other hand, the involvement of State support in the event of adverse

[117] New active policy programme provided for under the NRRP.

[118] Employers are entitled to a monthly grant equal to 50% per cent of the CIGS benefits that would have been paid to workers for a number of months not exceeding twelve. Employers who in the previous and subsequent 6 months do not undertake collective or individual layoffs for objective just cause are eligible for the incentive.

[119] Beneficiaries of CIGO/CIGS wage supplementation benefits (including those disbursed by the bilateral funds in the form of ordinary and solidarity allowances) for more than 50 per cent of working hours are subject to the conditions provided for by active labour policy programmes (Article 8 of Legislative Decree 148/2015 and Article 22, paragraph 1, of Legislative Decree 150/2015).

[120] A subsequent decree of the Ministry of Labour and Social Policy will specify the procedures for implementing training and retraining initiatives.

[121] For the bilateral funds (excluding pre-existing funds), the Technical Report specifies that: "*… Note that the transposition of the new legislation must be negotiated through agreements – between the main labour organisations and employer organisations in the sector affected by the fund – that amend the decrees governing the operation of the funds. Also considering that those funds must achieve financial balance each year, the financial effects can be calculated once the agreements are modified. For this reason, reference is*

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.[122]

The combination of these measures entails an increase in net borrowing of €2.6 billion in 2022, €0.8 billion in 2023, €0.3 billion in 2024 and €35 million in 2025. Starting from 2026 revenue take place, rising to €133 million in 2031, the last year considered by the Technical Report. The associated imputed contributions amount to €1.6 billion in 2022, €1.3 billion in 2023 and €1.0 billion in 2024, before stabilising at an average of €0.8 billion between 2025 and 2031.

NASPI and DIS-COLL. – The Budget Bill moves along the same lines as the Jobs Act for unemployment benefit programmes as well. Compared with earlier legislation, the Jobs Act expanded the pool of beneficiaries, but at the same time strengthened the link between benefit amounts and recent remuneration. It also tied the duration of benefits to contribution histories, while winding down benefits more sharply (Table 3.19).[123] The Budget Bill further expands the pool of potential NASPI beneficiaries by including, from 2022, agricultural workers on permanent contracts with cooperatives and their consortia and eliminating the eligibility requirement of 30 days of effective work in the 12 months preceding the start of unemployment. The 3-per-cent-per-month decrease in benefits applies from the first day of the sixth month (from the first day of the eighth month for beneficiaries over fifty) instead of the fourth.

The changes to the DIS-COLL programme are more significant, with the doubling of the duration of benefits, the postponement of the start of benefit reductions from the fourth to the sixth month and the payment of imputed pension contributions. After this expansion, participants must pay a contribution rate equal to that envisaged under the NASPI unemployment benefit programme (a base rate of 1.6 per cent).[124]

Overall, the changes to NASPI and DIS-COLL programmes appear to be adaptations of the characteristics already established by the Jobs Act to the more challenging conditions in the post-COVID-19 labour market.

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made to those agreements …". For the FIS, the Technical Report indicates that the contribution rates were set with the intention of achieving budget balance from 2024. The self-sufficiency of the FIS will depend on the accuracy of the assumptions used to determine the rates ensuring balance.

[122] In other words, the scenario with respect to which we must assess the possible moral hazard risks connected with receiving benefits and State-sponsored bail-outs is a situation (recently experienced with the activation of COVID-19 as a reason for accessing benefits) in which the State budget performs a last payer, but in emergency conditions and without existing mechanisms.

[123] For a description of the NASPI and DIS-COLL programmes, see Ufficio parlamentare di bilancio (2018), *op. cit.*

[124] See Ufficio parlamentare di bilancio (2018), *op. cit.*, page 66.

Table 3.19 – Overview of the main measures modifying safety net programmes for the unemployed

Changes in Budget Bill	Current legislation (Legislative Decree 22/2015)
Art. 76 – From 2022, to receive NASPI benefits, the eligibility requirement of 30 days of effective work in the 12 months preceding the start of unemployment has been eliminated. The decrease in benefits has been slowed: 3 per cent per month from the first day of the sixth month (from the first day of the eighth month for beneficiaries over fifty). Also eligible for NASPI benefits are agricultural workers on permanent contracts with cooperatives and their consortia that transform, manipulate and market agricultural and zootechnical products produced mainly by them or their members.	**Arts. 2 and 3** – To receive NASPI benefits, workers must have at least 30 days of effective work in the 12 months preceding the start of unemployment. Benefits are reduced by 3 percent per month starting from the first day of the fourth month. Potential NASPI beneficiaries include payroll employees, including apprentices, members of cooperatives who work within the cooperative and artistic personnel, employees of government entities on non-permanent contracts. Agricultural workers with permanent and fixed-term contracts and equivalent workers (smallholders, participating family members, small direct farmers) covered by agricultural unemployment benefits are not eligible.
Art. 77 –From 2022, the duration of DIS-COLL benefits is equal to the number of months of contributions credited in the period from 1 January of the previous year until the start of unemployment, within a maximum of 12 months. DIS-COLL benefits are reduced by 3 percent per month starting from the first day of the sixth month of use. For the periods in which DIS-COLL benefits are drawn, the imputed IVS pension contributions are paid in relation to the average monthly income within a limit of 1.4 times the maximum monthly amount of the DIS-COLL benefits received. A contribution rate equal to that of the NASPI programme (a base rate of 1.61 per cent) is payable for enrolment in the DIS-COLL programme.	**Art. 15** –The duration of DIS-COLL benefits is equal to half of the number of months of contributions credited in the period from 1 January of the previous year until the start of unemployment, within a maximum of 6 months. DIS-COLL benefits are reduced by 3 per cent per month from the first day of the fourth month of use. The DIS-COLL programme does not pay imputed contributions. A contribution rate of 0.51 per cent is payable for enrolment in the DIS-COLL programme.

In terms of net borrowing, the measures described will involve expenditure of €0.1 billion in 2022, €0.5 billion in 2022 and €0.6 billion from 2024. The related imputed contributions amount to €0.1 billion in 2022 and 2023 and €0.1 billion from 2024.

3.6 Healthcare

The 2022 Budget Bill increases the overall funding of the National Health Service (NHS) by €2.284 billion in 2022, €3.751 billion in 2023 and €4.865 billion in 2024, with (Table 3.20): an increase in the standard National Health System funding requirement of €2 billion in 2022, €3.232 billion in 2023 and €4.218 billion in 2024, expanding this item by an overall €2 billion per year compared with 2021 (when it amounted to €122.061 billion); refinancing of the fund for innovative pharmaceuticals with €100 million, €200 million and €300 million in 2021, 2022 and 2023, respectively; an expansion of resources for specialist training contracts for physicians (€194 million in 2022, €319 million in 2023 and €347 million in 2024) to supplement the funds previously appropriated for the next few years, which according to the Technical Report will enable the financing of a total of about 12,000 new contracts per year; and a reduction of €10 million in funding to cover the extension to 2022 of the fund for access to psychological services for the most vulnerable segments of the population. Since some of the planned measures relate to personnel, associated revenue from taxes and contributions is estimated at around €662 million in 2022, €447 million in 2023 and €512 million in 2024, which will reduce the impact of increases in healthcare spending on the public finances. In addition, €1.85 billion are earmarked for the purchase of COVID-19 vaccines in 2022, supplementing the resources allocated to the fund established in 2020 (Law 178/2020). These are resources needed, according to the estimates in the Technical Report, for the acquisition of products for which commitments have been made within the centralised procurement procedures managed by the European Commission.

The cost of the following measures provided for in the Budget Bill will be financed with the NHS budget (Table 3.21): the implementation of the national strategic plan for the preparation and response to an influenza pandemic (PanFlu) 2021-2023 (current expenditure), the extension of flexible employment relationships and the permanent hiring of medical personnel currently on temporary contracts, the strengthening of territorial assistance, the implementation of the plan for waiting lists, the updating of the maximum rates for hospital assistance, an increase in the ceiling for direct pharmaceutical expenditure, the updating of essential care standards, the expansion of child and adolescent neuropsychiatric services and the recruitment of additional psychologists, the grant of an emergency services indemnity and the extension of the regulations governing special continuity care units. We will return to some of these measures in more detail below. The overall estimate of the increased expenditure necessary to implement these measures exceeds the increase in funding by about €90 million in 2022, while it remains significantly lower than that in the following two years, at about €1.8 billion a year.

Table 3.20 – Impact of the budget package on the healthcare field
(millions of euros)

	2022	2023	2024
Total increase in NHS funding requirement, of which:	2,284	3,751	4,865
Financing standard NHS funding requirement	*2,000*	*3,232*	*4,218*
Innovative pharmaceuticals fund	*100*	*200*	*300*
Increase in specialist training contracts (1)	*194*	*319*	*347*
Financing fund for access to psychological services	*-10*		
Revenue from taxes and contributions	-662	-447	-512
COVID-19 drugs and vaccines	1,850		
Fund for access to psychological services	10		
Italian Cancer League	2	2	2
Impact on net borrowing	3,484	3,306	4,355

Source: Technical Report accompanying the Budget Bill.
(1) The amount increases in subsequent years before stabilising at €543 million from 2027.

Table 3.21 – Increase in expenditure funded by standard NHS funding requirement provided for in Budget Bill
(millions of euros)

	2022	2023	2024
Plan for preparation and response to influenza pandemic (1)	200	350	
Extension of flexible employment and permanent hiring of medical personnel on temporary contracts	690	625	625
Strengthening of territorial assistance	91	150	328
Waiting list plan	500		
Maximum rates for hospital care	-	-	-
Ceiling on direct pharmaceutical procurement	185	375	575
Update of essential care standards	200	200	200
Expansion of child and adolescent neuropsychiatric services and recruitment of additional psychologists	28		
Emergency services indemnity	90	90	90
Special continuity care units (extension to 30 June 2022)	105		
Total	**2,089**	**1,790**	**1,818**

Source: Technical Report accompanying the Budget Bill.
(1) For 2023, figure refers to maximum expenditure. The amount will be determined by State-Regions Conference.

The overall funding granted must also finance charges for the payment to personnel, including non-employee staff operating for the NHS on a contractual basis, of the indemnity for the delay in the renewal of the collective bargaining agreement for 2022-2024.[125]

With the amendment approved by the Senate during the ratification of Decree Law 146/2021 into law, as part of a package of provisions to support the health service of the

[125] The percentage increases over the standard salary tables provided for in the Budget Bill for the indemnity for delayed renewal of bargaining agreements are also valid for the NHS (see section 3.9). Note that the 2019-2021 agreements for healthcare personnel have not yet been signed.

Region of Calabria,[126] a solidarity contribution of €60 million per year was also authorised for 2024 and 2025 (as was already the case for 2022-2023) for that region, to be funded out of the NHS budget, to ensure the delivery of essential care standards and the implementation of the recovery plan, ensure compliance with payment deadlines (after an audit of the debt recorded up to 31 December 2020) and ensure compliance with Constitutional Court ruling no. 168 of 24 June 2021.[127]

The presentation of the bill containing implementation measures for the 2019-2021 Health Pact and the expansion of territorial assistance, connected with the budget decision and announced in the Update, is pending.

As regards the distribution of resources among the regions, pending the issue of the implementing decree, the bonus share for the NHS funding[128] will continue to be allocated on a temporary basis in 2020 (as it has been since 2012), taking due account of the rebalancing criteria indicated by the Conference of Regions and Autonomous Provinces.

In addition, the special criteria for the allotment between the Regions used for many measures adopted to counter the COVID-19 pandemic, which also allowed the special statute regions and the autonomous provinces – which normally finance their regional health service (RHS) independently (Sicily only partially) – to access specific additional funding, will not be applied for the increase in resources provided to finance the annual increase of €2 billion in the standard NHS funding requirement, except in cases where this is explicitly established by the Budget Bill (i.e., the implementation of PanFlu 2021-2023, initiatives to reduce waiting lists, the expansion of neuropsychiatric and psychological services and assistance). All regions and autonomous provinces will also receive funding

[126] This package includes provisions (which are valid even if the regional system is no longer managed by a special commissioner) concerning: 1) the expansion of the administrative personnel of regional healthcare entities responsible for invoicing, of personnel of the regional health service of Calabria (to ensure full operation of centralised healthcare management), of the personnel of the National Agency for Regional Health Services (AGENAS) (to ensure support for the activities of the commissioner) and of the personnel of the Finance Police (so that it can collaborate in managing litigation); the suspension of the offsetting of the out-of-region care balance resulting from the allotment of the funding for 2022, which will be paid over five years as from 2026; and a moratorium on enforcement actions against the entities of the regional health service until the end of December 2025. With a ruling filed on 7 December 2021, the Constitutional Court declared that the extension until 2021 (Decree Law 183/2020) of the moratorium on enforcement actions against NHS entities introduced as a result of the health emergency for 2020 (Decree Law 34/2020) was unconstitutional.

[127] The ruling declared unconstitutional the provisions of Decree Law 150/2020 containing urgent measures for the restoration of the healthcare system of Calabria, ratified with amendments with Law 181/2020, where they do not provide for the State to directly fund the special commissioner's operations; require the region to provide the special commissioner with 25 personnel as a "minimum" and not a "maximum"; do not provide for the approval of a new recovery plan presented by the region (in order to receive the solidarity grant) as an alternative to the operating programme for the continuation of the recovery plan presented by the commissioner for 2022-2023.

[128] This is equal to 0.25 per cent of ordinary funding. For 2021 only, it was raised to 0.32 per cent. The bonus was to have compensated the regions that had: 1) established a regional procurement and tendering centre with an annual volume of procurement of goods and services exceeding a certain threshold; 2) introduced measures to ensure the financial balance of hospitals while complying with the principle of fee-for-service (Law 191/2009).

to refinance the special continuity care units.[129] An authentic interpretation has also clarified that the eligibility of special statute regions and autonomous provinces for State funding to implement the provisions of Decree Law 34/2020 concerning the expansion of territorial assistance and the reorganisation of the hospital network is limited to 2020 and 2021.

With the amendment approved by the Senate during ratification of Decree Law 146/2021 into law, the issue raised by the regions concerning funding for health emergency measures in 2021,[130] which they still consider insufficient, was also addressed. The regions complained about the difficulty of achieving balanced budgets this year, with the consequent risk of having to apply the mandatory rebalancing mechanisms such as increases in the personal income surtax and IRAP rates and the prohibition on non-mandatory spending. These would be especially serious measures at a time when the pandemic has not yet abated. The situation would be aggravated by difficulties on the revenue side and the spending constraints imposed on emergency funding, which prevent a flexible use of resources to adapt responses to the differing needs of the individual regions.[131] For this purpose, a fund was therefore established with resources of €600 million as a definitive State contribution to the additional expenditure incurred to counter the emergency by the regions, whose funding contributes to the definition of the balances of the regional health services. The special statute regions will also be eligible for this fund. The allotment of the resources will be defined in an agreement to be reached in the State-Regions Conference by the end of this year. Furthermore, it will be possible to release the resources allocated in 2021 for the emergency from the individual funding lines, but only following an audit to be carried out by the Ministry of Health by the end of the year on the basis of a detailed report, submitted by the regions by 23 December, on the services provided under the different rules adopted to respond to the health emergency during 2021, which the Ministry will audit for consistency with the activities envisaged by that legislation, with particular regard to waiting lists.

The strengthening of the health care system, indicated both in the explanatory report accompanying the Budget Bill and in the Update, has become a shared objective after the COVID-19 pandemic shone a light on the well-known shortcomings[132] of the NHS and prompted a rethinking of the size of the overall healthcare budget and the priorities to be addressed. The latter include the excessive erosion of prevention, the insufficient scale of

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[129] The amendment approved by the Senate during ratification into law of Decree Law 146/2021 clarifies that the resources appropriated with Decree Law 73/2021 (€46 million and €23 million for 2021 and 2022 respectively) to foster an increase in the efficiency of public and contracted private facilities (which provide specialist and diagnostic laboratory services using automated systems) were also allocated to all regions, including those with special statutes.

[130] See the press release of the Conference of Regions and Autonomous Provinces "*Risorse per la sanità nel 2021 e criticità per i bilanci regionali: Regioni incontrano i capigruppo di Senato e Camera. I problemi sul tappeto e le proposte*", 16 November 2021.

[131] These constraints were lifted for 2020 with Decree Law 73/2021, as ratified with Law 106/2021.

[132] See, for example, Ufficio parlamentare di bilancio (2019), "The state of healthcare in Italy", Focus no. 6 (Summary in English. Full text in Italian).

territorial assistance and the inadequacy of staffing levels, especially with regard to nurses and certain medical specialisations. Furthermore, in light of the investments in the health sector envisaged in the NRRP, an increase in current expenditure will be necessary, especially for personnel, to make it possible to manage and operate new categories of healthcare facility (for example, community health centres and community hospitals) and strengthen existing facilities (for example, intensive care units).

To assess the scale of the commitment to healthcare in the Budget Bill, the possible impact of the budget package on expenditure can be considered. The EFD and the Update contain the Government's trend forecasts for current health expenditure by general government entities, which display very moderate growth. The expenditure reduction planned for 2022 is explained by the extraordinary nature of some spending in 2020 and 2021. The discontinuous trend in subsequent years reflects the assumptions adopted on the renewal of 2019-21 contracts. Furthermore, the forecasts also consider (see the EFD): 1) a rate of growth in the various expenditure aggregates consistent with average trends in recent years (which were affected by a series of expenditure reduction measures); and 2) expenditure containment measures already planned under current legislation. With these assumptions, health expenditure as a ratio of GDP would drop from 7.5 per cent in 2020, the year of the pandemic, to 6.3 per cent in 2024 according to the EFD and to 6.1 per cent in the Update forecasts (Table 3.22).

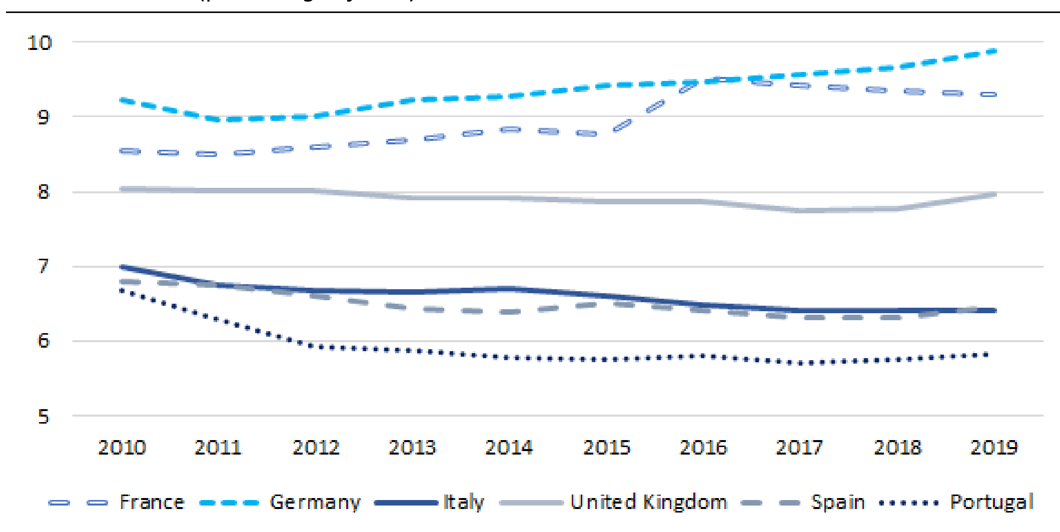
Thanks to the increase in funding in the 2022 Budget Bill, assuming that it is fully translated into greater outlays, healthcare expenditure as a proportion of GDP would be equal to 6.3 per cent in 2024, although this would still be below that in 2019 (6.4 per cent). Therefore, from a financial point 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 (Figure 3.14).

Table 3.22 – Healthcare expenditure in Italy (1)
(millions of euros and percentages of GDP)

	2019	2020	2021	2022	2023	2024
Trend expenditure 2021 EFD	115,706	123,511	127,138	123,622	126,231	124,410
% of GDP	*6.4*	*7.5*	*7.3*	*6.7*	*6.6*	*6.3*
Trend expenditure 2021 Update	115,706	123,511	129,449	125,708	123,554	124,428
% of GDP	*6.4*	*7.5*	*7.3*	*6.7*	*6.3*	*6.1*
Trend expenditure 2021 Update + increase in standard NHS funding requirement				127,992	127,305	129,293
% of GDP				*6.8*	*6.4*	*6.3*
Trend expenditure 2021 Update + funding requirement increase + vaccine fund				129,842	127,305	129,293
% of GDP				*6.9*	*6.4*	*6.3*

Source: based on data from the 2021 EFD, the 2021 Update and the Technical Report accompanying the 2022 Budget Bill.
(1) Data for 2019 and 2020 drawn from Istat final outturns.

Figure 3.14 – Healthcare expenditure (government/compulsory schemes) *(percentage of GDP)*



Source: OCSE, Global Health Expenditure Database.

In the decade preceding the pandemic, the healthcare sector in the southern European countries made a significant contribution to restoring health to the public finances by reducing health expenditure in relation to GDP,[133] with a decline in Italy of almost six-tenths of point. Meanwhile, expenditure in France and Germany continued to absorb an increasing share of resources, while in the United Kingdom the reduction in previous years was recouped at the end of the period.

Based on OECD data, per capita public spending in 2019, measured at purchasing power parity, was $2,701 in Italy. It was much higher in Germany ($5,514), France ($4,415) and the United Kingdom ($3,533) and lower in Spain ($2,543) and Portugal ($2,041).

Additional funding may subsequently be appropriate with the Budget Acts for the next two years, but future choices will in any case be conditioned by the decision to reduce the structural deficit and lower debt with restrictive budgetary policies starting from 2024.

3.6.1 Measures to expand staffing levels in the National Health Service

The measures to structurally strengthen NHS staffing contained in the Budget Bill remain in principle subject to compliance with spending limits, while the link with a demonstration of planning capacity by the Regions has been partly eased. Expenditure ceilings remain substantially unchanged from the levels established, temporarily, for the 2019-2021 period. However, in order to adjust staffing levels to the new standards for territorial assistance, whose setting is provided for in the Budget Bill, an exception to

[133] Among others, see Reeves, A., McKee, M., Basu, S. and Stuckler, D. (2014), "The political economy of austerity and health care: Cross-national analysis of expenditure changes in 27 European nations 1995-2011", in *Health Policy* vol. 115, pages 1-8; Mladowsky, P., Srivastava, D., Cylus, J., Karanikolos, M., Evetovits, T., Thomson, S. and McKee, M. (2012), "Health policy in the financial crisis", in *Eurohealth Observer*, vol. 18, no. 1, pages 3-7; ; Gabriele, S. (2015), "*Crisi, austerità, sistemi sanitari e salute nei paesi dell'Europa meridionale*", in Meridiana, Welfare mediterraneo, Viella, no. 83.

spending constraints has been allowed, within the limits of the resources allocated. On the planning front, an assessment of staffing needs appears essential for effective management of health services. However, the urgency of the interventions requires that all the hiring procedures be carried out with the utmost speed, eliminating the usual delays. It is not clear whether the finalisation by the Budget Bill of the process for developing a methodology for determining the staffing requirements, including a gradual revision of hiring procedures, would imply some possible future expansion of the budget for strengthening the human resources of the NHS.

More specifically, the Budget Bill facilitates the consolidation of NHS personnel, to be carried out both through the renewal of certain provisions that have permitted hiring staff on fixed-term contracts to deal with the health emergency[134] and the permanent hiring of temporary staff who served, at least in part, during the health emergency.[135]

Specifically, in accordance with the provisions of Decree Law 18/2020, ratified with amendments with Law 27/2020, for 2022 as well, subject to ascertaining the impossibility of using staff already in service or drawing from existing lists of successful competitive exam candidates, freelance positions – including continuous and coordinated contractual relationships – can be awarded to physicians in their last and penultimate years of their specialisation courses, while individual fixed-term employment contracts can be awarded to both physicians still completing their specialist studies[136] or to personnel from the health professions and unlicensed assistive personnel. Assignments granted previously can also be extended to no later than the end of 2022.

Furthermore, while referring to existing provisions designed to overcome non-permanent hiring in government (Decree Law 75/2017), the Budget Bill defines specific requirements for the permanent hiring of medical personnel and unlicensed assistive personnel to be implemented between mid-2022 and the end of 2023, in line with the three-year staffing plan. To be selected, this personnel must: 1) have been hired on a fixed-term basis through competitive exam, including selection procedures for fixed-term positions conducted to respond to the health emergency (Decree Law 18/2020, ratified with amendments with Law 27/2020); 2) have completed at least 18 months of service as of 30 June 2022, of which 6 since 31 January 2020. The priority criteria for permanent hires will be established by the individual regions. Other permanent hiring initiatives shall be implemented through selective procedures.

From 2022, the spending limit in force for health care personnel (with permanent or fixed-term employment relationships, continuous and coordinated contractual relationships or other forms of flexible employment or agreements)[137] is equal to the expenditure in 2018, increased each year by 5 per cent of the increase in the Regional Health Fund (Decree Law

[134] The hiring of simple university graduates and retired personnel permitted under legislation adopted in response to the emergency is no longer allowed.

[135] The extensions and permanent hiring may also be carried out by regions and autonomous provinces that independently fund their health service from their own budgets.

[136] With an amendment approved by the Senate during ratification of Decree Law 146/2021 into law, private healthcare facilities accredited with the public system may hire doctors completing their specialist training at those facilities on a fixed-term part-time basis, as already provided for public facilities (Law 145/2018).

[137] Including resources for ancillary remuneration, which is in turn subject to limitations.

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35/2019, ratified with Law 60/2019), net of contractual increases.[138] As already envisaged for 2019-2021 only, the Budget Bill confirms the increase of this percentage to 10 per cent and the possible granting of an extension to 15 per cent for individual regions if additional objective staffing needs should emerge, provided that the economic and financial balances of the regional health service are not jeopardised.[139] This latter increase remains subject to the adoption of a methodology for determining the staffing needs of NHS entities.

The Budget Bill establishes that this methodology shall be determined within 180 days of the entry into force of the Budget Act with a decree of the Minister of Health, in agreement with the Minister for the Economy and Finance, subject to an agreement in the State-Regions Conference and acting on a proposal of the National Agency for Regional Health Services (AGENAS). The methodology must be consistent with the qualitative, structural, technological and quantitative standards of hospital care (Ministerial Decree 70/2015), with those for territorial assistance, to be defined, and with the criterion of programming human resources and training by the Regions (Law 145/2018, which refers to the 2019-2021 Health Pact) and, finally, must comply with the overall expenditure ceiling. In turn, the regions, on the basis of the methodology for determining staffing levels, must prepare specific plans for their three-year requirement, which must be approved by the Working Group for compliance verification and by the Standing Committee for the verification of the delivery of essential care standards, also to ensure the invariance of overall expenditure.

Note that Ministerial Decree 70/2015 indicates a standard for number of beds (including rehabilitation and long-term care) of 3.7 per 1,000 inhabitants. According to Eurostat data, the number of beds in Italy in 2018 was 3.2 per 1,000 inhabitants, a modest level compared with the EU27 average (5.3 beds). The standards of hospital care are currently under review. The regulation for the definition of organisational, quantitative, qualitative and technological standards for territorial assistance, on the other hand, must be issued – according to the Budget Bill – by 30 April 2022. This is incorporated in an enabling reform[140] provided for under the NRRP, but it is expected that the standards will be expanded further compared with the scope of the latter.

According to data from the Ministry of Health at 23 April 2021[141] prepared by the Court of Auditors for the 2021 Report on the coordination of the public finances, 83,180 personnel had been recruited since the beginning of the emergency, of whom about one quarter were doctors (21,414) and more than a third were nurses (31,990). The overall number subsequently decreased to fewer less than 76,000 at 7 May, probably due to the decline in staffing needs connected with the health emergency and the expiry of contracts. Physicians still completing their specialist studies accounted for 23.5 per cent of doctors, while licensed non-specialists accounted for 26 per cent. Among the remaining doctors, those on permanent contracts accounted for 12.5 per cent. Personnel on

[138] Alternatively, where higher, the ceiling is given by the value recorded in 2004 reduced by 1.4 per cent. That limit had been introduced in 2007 and subsequently renewed, allowing gradual achievement of the limit in 2020 with a decrease of at least 0.1 per cent annual from the 2018 Budget Act, as long as the regional health service was not running a deficit.

[139] The regions could obtain additional increases in the ceilings connected to the structural reduction in expenditure for external services incurred prior to the entry into force of Decree Law 75/2017.

[140] Enabling reforms are defined as measures designed to ensure the implementation of the Plan and, in general, remove administrative, regulatory and procedural obstacles that impact economic activity and the quality of services provided to the public and to enterprises (NRRP, part 2, Reforms and investment, page 32).

[141] The figures may not be uniform due to possible differences in the accounting policies adopted by the individual regions and local health authorities.

permanent contracts reached 27.4 per cent among nurses and 23.7 per cent for others. There were large differences between macro areas.

The Technical Report estimates the potential increase in expenditure for the extension of flexible employment relationships and permanent hiring of temporary staff at €690 million in 2022 and €625 million from 2023, taking account of the expected spending limits.

In order to ensure the implementation of the regulation on standards for territorial assistance, healthcare entities may hire payroll employees, including in derogation from expenditure restrictions, and contract personnel. To this end, maximum spending of €91 million for 2022, €150 million for 2023, €328 million for 2024, €591 million for 2025 and €1.015 billion from 2026 has been authorised, which will be divided among the regions with a decree of the Minister of Health, in agreement with the Minister for the Economy and Finance, taking account of the objectives of the NRRP. The expenditure requirement was estimated by taking into account the funding already made available with Decree Law 34/2020 (home care and nursing services) and by the NGEU fund (home care) and, as the regulation on the standards for territorial assistance had not yet been finalised, on the basis of a document to be agreed within the Steering committee for the 2019-2021 Health Pact.

The measures in the Budget Bill for implementing the regional operational plans for the reduction of waiting lists, which are to be restructured by January 31 next year, will also produce an increase in personnel. The provisions already envisaged have been extended further, until the end of 2022.

These provisions make it possible: a) to request additional services from personnel with increased fees; b) in order to increase hospitalisations, to hire on a fixed-term basis, also in derogation from national collective bargaining agreements for the sector, to establish self-employment relationships and continuous and coordinated contractual relationships or to use staff hired under the provisions of Decree Law 18/2020 (referred to above); c) in order to expand outpatient specialist assistance, to increase the number of hours of assistance provided by external contracted personnel; and d) only if these measures are insufficient, to acquire services from the private sector, through the amendment of contractual agreements (in derogation of the provision imposing a ceiling on the volumes and total annual expenditure for such purchases), while still guaranteeing the financial equilibrium of the regional health services.

Expenditure of €500 million is permitted in 2022 to reduce waiting lists, of which at most €150 million on accredited private facilities. The allotment of the two amounts is set out in specific tables of the Budget Bill,[142] but funding for the purchase of services from private-sector providers can be supplemented on the basis of specific regional requirements within the maximum authorised expenditure. If the regional requirement is

[142] While the overall amount of €500 million is allotted on the basis of the share of funding for 2021, the €150 million are distributed in accordance with the proportion of purchases of private-sector services for inpatient and outpatient services.

lower than forecast, following an audit by the Ministry of Health, the excess funds will remain available to the regional health service involved.

According to the data from the Ministry of Health given in the 2021 Report on the coordination of the public finances of the Court of Auditors, in 2020 hospitalisations declined by 1.3 million compared with 2019 (-17 per cent), of which 42.6 per cent for urgent cases, amounting to €3.7 billion if valued on the basis of national rates. In addition, outpatient specialist visits decreased by about 144.5 million (90 per cent public services, especially laboratory analyses), amounting to €2.1 billion (gross of co-payments). In the private sector, rehabilitation services decreased most markedly. The Court of Auditors also notes that the funds appropriated and not used represent 67 per cent of those appropriated at the national level, with percentages of 96 per cent in the South, 45 per cent in the Centre and 54 per cent in the North, although the figures may be subject to inaccuracies caused by differences in the procedures used for recording costs.

The Budget Bill also extends the provisions on special continuity care units (until 30 June 2022, when territorial assistance will be able to benefit from permanent hiring of temporary staff), with an estimated cost of €105 million. It also extends those aimed at strengthening territorial and hospital-delivered child and adolescent neuropsychiatry services and those for protecting psychological health and well-being (until 31 December 2022), through the recruitment of health professionals, social workers and psychologists on a freelance basis, including continuous and coordinated contractual relationships. The new breakdown of the funding, amounting to almost €28 million, is specified in tables.

Finally, the Budget Bill provides for the recognition of an emergency services indemnity to medical executives (with a maximum total gross annual amount of €27 million) and medical personnel (€63 million) within the scope of their respective national collective bargaining agreements.

3.6.2 Expenditure ceilings, essential care standards and fees

The Budget Bill increases the ceiling on direct pharmaceutical expenditure by 0.15 per cent of funding in 2022, 0.3 per cent in 2023 and 0.45 per cent in 2024, bringing it to 8 per cent, 8.15 per cent and 8.3 per cent, respectively.[143] The overall pharmaceutical expenditure ceiling has also been raised in step with this, reaching 15 per cent in 2022, 15.15 per cent in 2023 and 15.3 per cent in 2024. It is reiterated that the ceilings can be re-determined annually during the drafting of the Budget Act, within the overall ceiling, based on developments in the pharmaceuticals market and treatment requirements. However, the increase in expenditure ceilings is subject to the annual update by the Italian Medicines Agency (AIFA), by November 30 of the previous year, of the list of drugs that can be reimbursed by the NHS, based on cost-effectiveness criteria and considering the

[143] The funding is considered net of activities not accounted for by local health authorities.

alignment of the prices of therapeutically interchangeable pharmaceuticals, subject to an opinion from the Technical Scientific Commission (CTS).

The cost of increasing expenditure ceilings is estimated by the Technical Report at €185 million for 2022, €375 million for 2023 and €575 million for 2024, amounts that seem to correspond to the difference given by applying the old and new spending ceilings. However, it must be borne in mind that if pharmaceutical expenditure for direct purchases continues to exceed the ceiling, as is likely to happen even if the latter is raised, companies would have to reimburse half of the overshoot through the pay-back mechanism, and therefore the costs actually borne by the regional health services would be halved.

The expenditure ceiling for medical devices do not include purchases related to the health emergency in 2020 and 2021, which are funded under specific provisions. In addition, the mechanism that provided for the coverage of part of any overshoot of the spending ceiling for medical devices (set at 4.4 per cent of funding) by device companies has not yet been applied.

Starting from 2022, the Budget Bill then allocates €200 million a year of the NHS budget for the annual update of essential care standards, provided for in the Prime Minister's Decree of 12 January 2017 concerning the review of essential care standards but still not implemented. However, it should be noted that the essential care standards introduced in 2017 for specialist outpatient and prosthetic care have still not been applied. Their implementation was subject to the publication of decrees governing the maximum fees for these forms of assistance, which have not yet been issued, reflecting, among other things, concerns about the cost of the new essential care standards and the associated funding.[144] Please see section 3.7.1 regarding essential service levels for home assistance integrated with health services for the non-self-sufficient or the elderly with limited autonomy or at risk of social exclusion.

The legislation also provides for a revision of the maximum hospital rates for hospitalisations for ordinary acute patients and day hospital cases and of the classification systems for hospital discharge forms, to be implemented by 30 June 2023. For services paid by the NHS, these fees may not be exceeded.[145] The cost of this revision is not quantified in the Technical Report, which merely observes that it must be compatible with NHS funding and will still be charged against the standard NHS funding requirement.

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[144] Considering the hearing of Minister Grillo on the policies of the Ministry of Health before a joint session of the Health Committee of the Senate and the Social Affairs of the Chamber of Deputies on 2 August 2018, the funding shortfall would amount to about €600 million. Note that the 2016 Stability Act had allocated €800 million of the standard NHS funding requirement for implementation of the new essential care standards.

[145] Previous legislation allowed regions not running a deficit to specify higher fees as long as these were funded out of their own budgets.

3.6.3 *Patients mobility across regions*

This year the Budget Bill again increases the total funding of the long-term programme of building renovation and technological modernisation by €2 billion (Law 67/1988 and subsequent refinancing), which thus reaches €34 billion.[146] However, it emphasises that the signing of "programme agreements" and the transfer of resources remain subject to the annual specified limit determined on the basis of the effective funds available in the State budget.

Since it is believed that until 2026 the Regions will be committed to using resources under the NRRP, the modifications of the budget appropriations made through the Budget Bill, indicated in Section II, are included only from 2024, with €20 million for that year, €30 million for 2025, €200 million for 2026-2034 and €150 million for 2035. On a current legislation basis, the bill also appropriates €1.31 billion for 2022, €1.505 billion for 2023 and €1.335 billion for 2024 to support the regions in healthcare facility construction. Accordingly, the overall appropriation for 2024 comes to €1.355 billion. The impact of the increase in funding of healthcare construction on net borrowing cannot be calculated on the basis of the summary schedule of the financial effects of the Budget Bill, since the details of the refinancing are not provided.

The Budget Bill also allows partial use of the current-legislation resources of the long-term programme (€902 million) to ensure the supply of means necessary for the implementation of PanFlu (healthcare goods, such as personal protective equipment, in the amount of €860 million and equipment for research and development of information systems for epidemiological surveillance in the amount of €42 million). According to the Technical Report, the indication of these purposes would be possible as the funding under current legislation is largely unused and, in part, not even assigned.

In this regard, according to the data provided in the 2021 Report on the coordination of the public finances of the Court of Auditors, at the end of 2020, 86 agreements had been signed by the regions as part of the long-term investment programme, for a total of about €12.8 billion (compared with the €23.3 billion available),[147] of which €11.2 billion had been authorised. Compared with an overall percentage of resources associated with signed agreements as a proportion of total allocations of 55 per cent, in the North the special statute regions (SSRs) reached 72 per cent, while ordinary statute regions (OSRs) posted 60 per cent. The proportions for the OSRs in the Centre and the South were between 53 and 55 per cent, while the SSRs in the South were at just 40 per cent. Resources approved for funding compared with those envisaged under signed agreements reached almost 87 per cent, with many regions at or close to 100 per cent. Campania (34 per cent), the

[146] Resources for healthcare facility construction and technological modernisation, equal to €24 billion in 2018 (Law 191/2009), have been steadily increased in subsequent Budget Acts.

[147] The resources were allotted to the regions with CIPE Resolution no. 52/1998 net of resources assigned with CIPE Resolutions no. 53/1998, no. 65/2002, no. 97/2008 and no. 98/2008, CIPE Resolution no. 51/2019 and the 2021 Budget Act.

Autonomous Province of Bolzano (59 per cent), Puglia (67 per cent) and Lazio (85 per cent) lagged behind.

The allotment of the new resources among the Regions this time mirrors that under the current health funding requirement for 2021 (excluding the Autonomous Provinces of Trento and Bolzano),[148] with access to the funds going on a preferential basis to regions that have exhausted their resources on a current legislation basis following the signing of the agreements. As regards purchases under the PanFlu programme, the share of expenditure authorised for each region, including the Autonomous Provinces of Trento and Bolzano, will be indicated on the basis of a specific survey with (a) decree(s) of the Ministry of Health, in agreement with the Ministry for the Economy and Finance, subject to an agreement in the State-Regions Conference, but for each Region the cost will have to be borne with the resources due to it under current legislation (for the Autonomous Provinces of Trento and Bolzano, it will be charged against existing funding that has not yet been allotted). However, the shares assigned to the Regions with the 2021 Budget Act, concerning both the €2 billion increase in funding for the long-term programme established with the same law, and the €2 billion allocated in the Budget Act for the previous year, may be revised.

[148] See Law 191/2009, which amended Law 386/1989 on the coordination of the finances of the Region of Trentino-Alto Adige and the Autonomous Provinces of Trento and Bolzano with the tax reform.

3.7 Social policy

The Budget Bill defines essential service levels for specific areas, implementing measures envisaged in the NRRP. With the exception of socio-educational services, the text of the bill limits itself to outlining the areas of intervention for which service guarantees are envisaged and providing for their expansion without setting any objectives. More specifically, the bill establishes measures concerning social services, disability and social exclusion consistent with the actions envisaged in Component 2 of Mission 5 ("Inclusion and cohesion"). It also provides for the allocation of resources necessary for the operating expenses for childcare services in line with the expected expansion from the implementation of the investments provided for in Mission 4 ("Education and Research").

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) to fund an expansion of municipal social services. The latter resources will be allocated both for the achievement of essential service levels for childcare services and for the expansion of school transport for students with disabilities and of social services in the municipalities of Sicily and Sardinia (Table 3.23).

3.7.1 Policies for social inclusion and the non-self-sufficient

The Budget Bill defines essential service levels as interventions, services, activities and integrated services of a universal nature provided throughout national territory to guarantee quality of life, equal opportunities, non-discrimination, and the prevention, elimination or reduction of conditions of disadvantage and vulnerability (Article 43, paragraphs 1-3). In order to contribute to the implementation of the measures provided for in the NRRP, their implementation and management is entrusted to territorial social areas (TSAs).[149]

Table 3.23 – Increase in the funds for enhancing social policies
(millions of euros)

	2022	2023	2024	2025	2026	2027	2028	2029	2030
Fund for non-self-sufficient	100	200	250	300	300	300	300	300	300
Municipal Solidarity Fund	94	127	170	218	327	1,007	1,017	1,027	1,033
Childcare services	*20*	*25*	*30*	*50*	*150*	*800*	*800*	*800*	*800*
School transport for the disabled	*30*	*50*	*80*	*100*	*100*	*120*	*120*	*120*	*120*
Social services in Sicily and Sardinia	*44*	*52*	*60*	*68*	*77*	*87*	*97*	*107*	*113*
Total	**194**	**327**	**420**	**518**	**627**	**1,307**	**1,317**	**1,327**	**1,333**

Source: Technical Report accompanying the 2022 Budget Bill.

[149] Law 328/2000, Article 8, paragraph 3, letter a).

Acting on an initiative of the Minister of Labour and Social Policy in agreement with the Minister of Health and the Minister for the Economy and Finance, the guidelines and planning documents for their application will be defined and the appropriated resources will be allotted with an agreement in the Unified Conference.

The Budget Bill also establishes that within eighteen months, the other essential service levels in the social sphere, other than those for the non-self-sufficient, which will be discussed later, will be defined in specific decrees. During initial application, the essential service levels identified as priorities within the 2021-2023 national plan of social interventions and services[150] will be defined. They concern: a) social emergency response; b) supervision of social services personnel; c) social services for protected discharge from care facilities; d) prevention of family removal; e) services for the homeless; f) projects for "dopo di noi" in order to support the disabled after family members are no longer able to assist them and to support an independent life for the disabled. The national resources already appropriated for these purposes by the National Intervention Plan together with resources from EU funds and the NRRP (Investments 1.1, 1.2 and 1.3 of Mission 5) allocated for these purposes contribute to their financing. Furthermore, the Budget Bill also establishes that these essential service levels must be in line with the service objectives set out in the Prime Minister's Decree of 1 July 2021.[151]

Note that Mission 5 ("Inclusion and Cohesion") allocates €1.45 billion for social infrastructure, families, communities and the third sector, in particular providing for the strengthening of territorial social services with the aim of defining personalised approaches for the care of families, minors, adolescents, the elderly and people with disabilities. The same Mission provides for the adoption of a framework law for a comprehensive system of measures in favour of the non-self-sufficient elderly (Reform 1.2) and the creation of various lines of investment to support the vulnerable (Investment 1.1), projects to enhance the independence of people with disabilities (Investment 1.2) and temporary housing (Investment 1.3).

New appropriations are envisaged for direct social assistance services aimed at guaranteeing the continuity and quality of home and social life for non-self-sufficient elderly people. To this end, the Fund for the non-self-sufficient has been expanded by €100 million for 2022, €200 million for 2023, €250 million for 2024 and €300 million from 2025. In particular, the Budget Bill identifies three areas of intervention: 1) home social assistance and social assistance integrated with health services; 2) social relief services for non-self-sufficient elderly people and their families; 3) social support services for non-self-sufficient elderly people and their families.

The Technical Report indicates that in 2018 socio-welfare home assistance integrated with home services was provided to about 186,000 elderly people (1.3 per cent of the reference population). Based on the costs incurred and the expected increases, the Report estimates that coverage of 2.6 per cent will be achieved in 2025. This level does

[150] Approved by the Protection and Social Inclusion Network (Legislative Decree 147/2017, Article 21) at its session of 28 July 2021.

[151] Service objectives and monitoring procedures to define the level of services provided and the use or resources for the funding and development of social services.

not appear to take account of demographic developments, which would reduce coverage by 0.3 percentage points.

The legislation then provides for the NHS and TSAs to ensure non-self-sufficient elderly people have access to social and socio-health services through unified contact offices located in community health centres. The personnel assigned to these activities must assess an individual's capabilities in order to determine the assistance necessary to enable that person to remain in their community, thereby reducing the risk of isolation and recourse to hospitalisation. Based on these assessments, an individual project will be developed jointly with the non-self-sufficient person and their family members, identifying the tasks to be performed by operators and the contribution of the family. The offer of services and support can be supplemented by grants that can only be used as remuneration for the care work performed by operators with an employment relationship.

Subsequent instruments to be issued by the President of the Council of Ministers will determine the methods of implementation, monitoring and verification of the achievement of the objectives set for the elderly who are not self-sufficient.

3.7.2 Policies for socio-educational services

The Budget Bill increases the Municipal Solidarity Fund (MSF) by €75 million over the 2022-2024 period to cover the operating costs of childcare services. An increase of €800 million is planned from 2027 (Table 3.23), in line with the timing of the construction of the new structures envisaged in the NRRP.

Recall that Mission 4 "Education and Research" and, in particular, Investment 1.1, provides for the construction, renovation and securing of nurseries and preschools in order to expand education services and places available for children aged 0-6. The measure seeks to create about 265,000 new places by the end of 2025 and exceed the European target of 33 per cent coverage of the population aged 3-36 months.

The amounts appropriated are intended exclusively to increase the places in nursery schools and day-care facilities up to the minimum level that each municipality or territorial area is required to provide. This level is defined as the 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.

The minimum level of coverage was introduced in the Update, which underscored the need to: "*ensure that at least 33% of the population of resident children in the age group from 3 to 36 months can use the service on a local basis looking forward*".

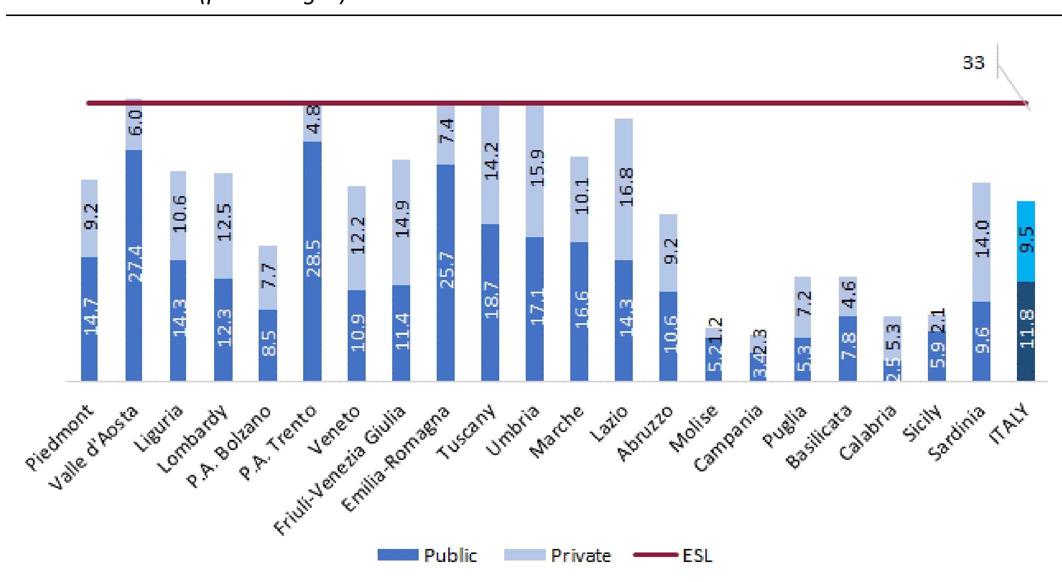
In addition, note that Article 2, paragraph 3, of Legislative Decree 65/2017 identified which services for children should be provided: a) nursery schools and day-care facilities; b) sections for children aged 24-36 months; c) supplementary services divided into: play areas, centres for children and families; home educational services. Article 4 of the legislative decree also establishes a target of 33 per cent coverage on a national basis, instead of the current local-level objective.

The setting of essential service levels on a local basis for nursery schools and day-care facilities only raises a number of problems. It is unusual that the essential service level has been specified within a provision concerning the municipal equalisation mechanism (MSF) which only involves the territories of the ordinary statute regions together with those of Sicily and Sardinia. It therefore excludes the municipalities of other special statute regions and the Autonomous Provinces of Trento and Bolzano from achieving this objective.

A second issue is represented by the inclusion of places offered by private-sector providers in the calculation of achievement of the objective, as these facilities are subject to only limited public powers of intervention and oversight. For example, in the extreme case in which the target has been reached in a territory only thanks to private-sector services, the interruption of these services would automatically lead to non-compliance with the essential service level requirement, without the municipality being able to intervene immediately.

In Italy, places in educational services in 2019 covered 26.9 per cent of the population under the age of 3: 21.2 per cent were provided nursery schools and day-care facilities and the remaining 5.7 per cent jointly by sections for children aged 24-36 months (3.4 per cent) and supplementary early childhood services (2.3 per cent).[152] With regard to nursery schools and day-care facilities only, 11.8 per cent of the places were provided through public facilities, while the remaining 9.5 per cent was provided by private-sector operators. The coverage rate and the public/private breakdown of services available exhibit strong territorial variability: the minimum coverage rate was recorded in Campania (5.8 per cent, of which 3.4 per cent public) while the maximum, 33.4 per cent, was registered in Valle d'Aosta and in the Autonomous Province of Trento. Friuli-Venezia Giulia, a region not subject to the limit set by the legislation under review here, provides coverage of 26.2 per cent, of which 14.9 is delivered by the private sector (Figure 3.15).

Figure 3.15 – Coverage rate of places in nursery schools and day-care facilities by operator and region –2019
(percentages)



Source: based on Istat data.

[152] See Istat (2021), "*Nidi e servizi integrativi per la prima infanzia – Anno educativo 2019-2020*", November.

The third problem regards the fact that the essential service level refers exclusively to nurseries and day-care facilities, effectively excluding the contribution of other services for children that, in any case, contribute to achievement of the European objective and are recipients of the resources provided for in the NRRP.

Achieving the specific minimum level for by municipality or territorial basin also involves implementation difficulties that could lead to allocative inefficiencies. The considerable demographic variety of municipalities, especially smaller towns, raises the problem of the existence of an adequate reference population for the service. Even if the Budget Bill establishes that the essential service level can be achieved within a territorial basin – without, however, providing any definition of this area[153] – for certain territorial communities, in particular those located in geographically disadvantaged areas, there is a risk of having to make a trade-off between compliance with the essential service level and that of the minimum scale of the service.

Take the situation in 2019 as an example. In that year, 58 per cent of municipalities did not offer any nursery or day-care services. About 40 per cent of these territories are concentrated in the South and just under 20 per cent in Piedmont. Molise registered the greatest difficulties (90.4 per cent) (Figure 3.16). Many of the municipalities with no nursery or day-care facilities have few children under 3 years of age. Considering that a day-care facility must provide a minimum of 6 places, this structure would be adequate to achieve the essential service level target in situations where at least 18 children are present. On the other hand, in municipalities where the number of potential users is smaller, it would be necessary to group together with neighbouring towns. The estimates indicate that these territories correspond to about 40 per cent of municipalities that currently do not offer any services. The regions in which this phenomenon is most common are Valle d'Aosta (67.3 per cent), although it has already reached the expected essential service level on a regional basis, Liguria (63.8 per cent) and Piedmont (60.9 per cent). Conversely, Calabria, where 80 per cent of municipalities do not offer any nursery or day-care services but only 22 per cent are facing a minimum size restriction, needs to create the necessary structures to reach at least the target.

The Budget Bill also provides for the achievement of the minimum level to take place progressively, through the setting of annual service objectives, with different levels by demographic bracket. From 2022 the various service objectives will be set to favour the most disadvantaged territories with respect to a maximum threshold set at 28.88 per cent. The targets will be increased annually until they reach 33 per cent on a local basis in 2027. The funding will be distributed annually, on the basis of a proposal from the Technical Commission for Standard Requirements, with a decree of the Minister of the Interior, in agreement with the other competent ministries and after agreement in the State-City and Local Authorities Conference.

Finally, the Budget Bill also excludes the operating costs of nursery schools – previously calculated at 50 per cent – from the cost of individual services that structurally deficient municipalities are required to cover.

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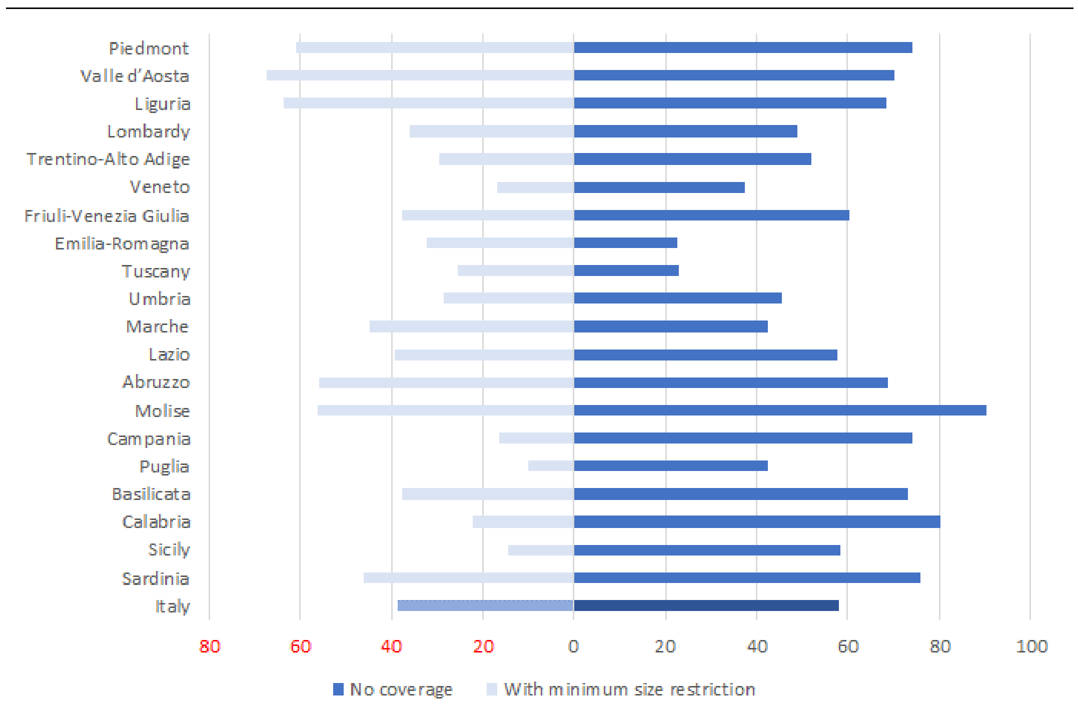
[153] For example, in the case of non-self-sufficiency, the TSAs have been identified (see section 3.7.1).

Figure 3.16 – Municipalities with no nursery or day-care facilities and municipalities at risk of overshooting size requirements
(percentages)



Source: based on Istat data.

3.8 Public investment

The 2022 Budget Bill envisages a variety of measures to support public investment by refinancing existing instruments or establishing new programmes. The provisions often cover a much longer time horizon than the three-year period, mostly aimed at promoting long-term infrastructure growth programmes.

From a financial point of view, 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. Note that, in terms of appropriations, the seven-year programming period (in this case 2021-2027) may also cover some subsequent years (in this case up to 2029).

The DCF is the main tool for implementing policies for economic, social and territorial development, with the particular aim of removing existing disparities. For this purpose, a regulatory constraint requires that at least 80 per cent of the DCF shall be allocated to the areas of the South. Together with the use of the European Structural Funds, it represents the main instrument of cohesion policy. The Fund is intended to finance strategic projects of various kinds: infrastructure or intangible projects; those of national, interregional or regional importance; large projects or investments divided into functionally connected individual interventions. To ensure consistency and unity in the use of resources, the DCF programming cycles are linked to the seven-year horizon that characterises the EU's multiannual financial framework. With specific regard to the 2021-2027 programming cycle, the use of DCF resources must also take account of the investment and reform policies provided for in the NRRP. For this reason – and to accelerate the implementation of the measures – the programming of €15.5 billion (of the total of €50 billion initially allocated with the 2021 Budget Act to the 2021-27 DCF) was brought forward in the NRRP. To ensure compliance with the additionality requirement for the use of the DCF, this amount was subsequently restored to the Fund with Decree Law 59/2021. With the exception of the programming merged into the NRRP, as usual the resources of the Fund will be distributed through resolutions of the Interministerial Committee for Economic and Sustainable Development Planning (CIPESS, formerly CIPE), as part of its role in the coordination and planning of national economic policy, in accordance with EU initiatives.

The Budget Bill also authorises a total of €15.4 billion to finance the RFI and ANAS programme contracts. In particular, the RFI contract is divided into two parts: i) one part for 2022-2026 investments (€5.75 billion appropriated overall for the 2024-2036 period), which governs the programming of infrastructure projects to upgrade facilities, increase safety, ensure compliance with regulatory requirements and, more generally, enhance the efficiency of existing infrastructure (so-called "light" projects), as well as the construction of new railway works for the modernisation and development of the network ("heavy" projects); and ii) one part for 2022-2027 services (€5.1 billion in total in the reference period), which governs the financing of the operation and extraordinary maintenance of the network, necessary to guarantee safe operations, and the financing of other operating costs associated with railway operations. As far as ANAS is concerned, the programme contract for the 2021-2025 period is not divided into multiple parts and concerns the construction of various infrastructure projects, with total appropriations of €4.55 billion between 2023 and 2036.

During their term, the programme contracts are subject to updates, including annual revisions, which may involve amendments of both the content and scheduling of the interventions. The time horizon of budget appropriations for the investments agreed in the contracts is considerably longer than the reference period of the contract itself due to the implementation times of the projects, which, especially in the case of complex road and railway infrastructure, may exceed the duration of the programme contracts. With regard to investment in railway infrastructure, note that the reprogramming and defunding provisions of Section II of the Budget Bill for the next three years entail a net reduction in current legislation appropriations for 2022 and 2024 (of €1.1 billion and €2 billion, respectively), while the resources available for 2023 have been increased (by €1.6 billion).

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. A decree of the Ministry of Sustainable Infrastructure and Mobility (MIMS, in agreement with the MEF), to be issued by 28 February 2022, will establish the criteria for the allotment, use and monitoring of these resources, giving priority to the preparation or completion of the design activity.

By the same date, another MIMS decree – again in agreement with the MEF, to be adopted on the basis of an agreement reached in the Unified Conference – will establish the allotment criteria (and the procedures for revocation if the resources are not used) for the €3.35 billion fund (€450 million in appropriations over the next three years and the remainder by 2036) to be allocated to extraordinary maintenance and structural upgrading of the road network managed by local authorities. These criteria must take account of both the size and complexity of the network managed by the various entities, defined on the basis of indicators of its vulnerability with respect to specific natural and human phenomena.

Infrastructure spending also includes the €1.4 billion available to metropolitan cities and provinces from 2023 to 2029 to ensure the safety of existing bridges and viaducts, or to build new infrastructure to replace that with structural problems. More immediately (i.e., by 15 January 2022), a decree of the Ministry of the Interior will allot an additional €300 million among municipal governments (€200 million for 2022 and €100 million for 2023) for the extraordinary maintenance of roads, sidewalks and urban furniture. The funds will be parameterised to the size of the municipalities (from €10,000 for municipalities of up to 5,000 inhabitants to €350,000 for those with more than 250,000 inhabitants), which will have to begin execution of the works by 30 July 2022 (for resources relating to next year) and to repay - in whole or in part - the amounts received in the event of non-compliance with this deadline or only partial use of the resources. In addition, a grant of €200 million (distributed between 2022 and 2027) has been assigned to Emilia-Romagna for the construction of the Cispadana regional motorway. Finally, partly with a view to facilitating the implementation of the interventions envisaged in the NRRP in accordance

with established timetable, for 2022-3023 grants to local authorities for definitive engineering and executive planning for works to enhance the safety of their territory and roads and for the structural consolidation and energy efficiency upgrading of their buildings will be increased by €300 million (in addition to the €370 million already allocated under current legislation). The measures envisaged in the NRRP will be considered a priority in the allocation of these resources.

Part of the investment expenditure financed by the Budget Bill is aimed at combating climate change, in line with the Communication of the European Commission of 14 July 2021 "Fit for 55" – a package of proposals aimed at reducing net emissions by at least 55 per cent by 2030 compared with 1990 levels – and with the NRRP measures in the Missions "Green revolution and ecological transition" and "Infrastructure for sustainable mobility". The establishment of two funds represents an important initiative in this direction. The first, in the MIMS budget, is the Fund for the Sustainable Mobility Strategy, with total funding of €2 billion from 2023 to 2034 (however, the resources are limited to €50 million per year in 2023-2024) "for, among other things, the renewal of the local public transit bus fleet, the purchase of hydrogen-fuelled trains on non-electrified railway lines, the construction of urban and tourist cycle routes, the development of intermodal rail freight transport, the adoption of alternative fuels for ships and airplanes and the renewal of vehicles used for road transport". Once again, the general criteria for allocating the fund among the various purposes will be defined in a MIMS-MEF interministerial decree (for which the law does not set a deadline for adoption), while one or more subsequent decrees will identify the projects eligible for funding and operational details concerning the activation and monitoring of resources.

The second fund – with €2.3 billion in funding and appropriations that gradually increase from the €50 million planned for 2023 to €200 million annually from 2026 to 2035 – has been established under the aegis of the Ministry for the Ecological Transition and will support the effective implementation of the National Air Pollution Control Programme (pursuant to Legislative Decree 81/2018 transposing Directive (EU) 2016/2284) and compliance with the commitments to reduce polluting emissions undertaken by Italy, based on procedures to be established through specific ministerial decrees. Note that one of the reforms envisaged by the NRRP focuses precisely on the adoption of laws and regulations for the control of atmospheric pollution, seeking to align national and regional legislation and to introduce the related accompanying measures for the reduction of emissions of atmospheric pollutants and climate-altering gases. In particular, the objective of the reform is the establishment of a national air pollution control programme consistent with the national (and supranational) legislation noted above, which should take place with a Prime Minister's Decree to be issued by the end of 2021.

Additional resources to fund investment spending by local authorities in the years to come include those allocated to the Fund for the development of the Italian mountains, established under the aegis of the Presidency of the Council of Ministers. It is intended to finance projects for the protection and development of mountain areas and support

measures for totally or partially mountain municipalities, with a maximum of €100 million in 2022 and €200 million as from the following year (€2.9 billion overall by 2036). The resources of the Fund will be allotted with a decree of the Minister for Regional Affairs and Local Authorities (subject to an agreement in the Unified Conference for measures managed by regions or local authorities), which will divide the resources into a share under State responsibility and one to be assigned to the regions and autonomous provinces for matters of regional or local responsibility. This new fund brings together the resources currently allocated (for partially similar purposes) to the National Mountain Fund (€20 million in 2022 and €5 million annually from 2025 to 2034) and the Supplementary Fund for Mountain Municipalities (almost €10 million annually from 2022 to 2030 and €5 million annually from 2031 onwards).

A fund has also been established at the MEF for capital expenditure related to the celebrations of the 2025 Jubilee, with appropriations from 2022 to 2026, for a total budget of €1.3 billion. These amounts will finance "the planning and implementation of works and projects" serving the event, but the legislation does not provide any details about the entities that will actually be involved or the criteria and procedures for allotting the funds. At the same time, provision has also been made for the establishment of a fund to cover current expenditure (operational coordination and expenses relating to services to be delivered to participants) totalling €110 million, distributed over the same time horizon.

Finally, Section II of the Budget Bill provides for net refinancing of about €2.3 billion of investment spending relating to the defence and security sector for the 2022-2024 period. For investments relating to healthcare, see section 3.6.3.

3.9 Public employment

The Budget Bill contains various measures regarding public employment. The main provisions concern professional career paths and ancillary remuneration, while others provide for new hiring of permanent staff and ordinary magistrates, training of public employees, ancillary remuneration for senior officials in the police forces and armed forces and an increase in overtime pay for the personnel involved in the “safe roads” operation.

The Budget Bill appropriates a gross total of about €3.1 billion for this area over the 2022-2024 period (€890 million in 2022, €1,136 million in 2023 and €1,051 million in 2024), 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).

Professional career paths and ancillary remuneration. – In implementation of Decree Law 80/2021, €720 million have been appropriated for the 2022-2024 period – divided equally between the years – to fund the new professional career paths and ancillary remuneration.

Starting from 2022, in order to define the new professional career paths for non-executive personnel within the collective bargaining process for the 2019-2021 period, the resources available to State entities have been increased – within an overall expenditure ceiling of 0.33 per cent of the 2018 wage bill – by €200 million a year. Applying the same percentage, €160 million a year have been allocated to other government entities.

Decree Law 80/2021 introduced measures to enhance the level of the work and administrative capacity of government entities with a view to implementation of the NRRP. Among the measures adopted, Article 3 provides for measures for the development of public employees. In particular, for non-executive personnel, with the exception of school staff, an additional functional area has been added for the career placement of highly qualified personnel. Remaining personnel will be placed in at least three functional areas (the current system provides for three). New criteria have been introduced for career progressions both within the same area and between different areas. The identification of new areas has been left to the collective bargaining process.

With regard to ancillary remuneration, from 2022 general government entities[154] can increase the resources allocated for this purpose by a percentage of the total wage bill in 2018, up to a maximum expenditure limit of €360 million gross per year (of which €200 million relating to state entities and €160 million to other entities). According to the Technical Report, this percentage is 0.22 per cent of the 2018 wage bill. A special fund has been set up for State entities at the Ministry for the Economy and Finance; other entities will have to finance any increase from their own budgets.

Decree Law 80/2021 also allowed (Article 3, paragraph 2) the limits on accessory remuneration (including for executive personnel) to be exceeded. The restrictions had been established in

[154] As defined in Article 1, paragraph 2, of Legislative Decree 165/2001.

Legislative Decree 75/2017, which provided, without prejudice to specific legislation, that the annual amount could not exceed the amount determined for 2016.

The methods and criteria for implementing any increase will be established within the national collective bargaining process for the 2019-2021 period.

Other measures. – The Budget Bill envisages other measures for which it has appropriated a total of €170 million gross in 2022, €416 million in 2023 and €331 million in 2024. More specifically, two funds have been established under the aegis of the Ministry for the Economy and Finance. The first – with an appropriation of €100 million for 2022, €200 million for 2023 and €250 million as from 2024 – is intended to finance new permanent hiring. The second fund – with an appropriation of €50 million starting from 2022 – is intended to fund digital, ecological and administrative training for public employees. In order to expand staffing levels in the ordinary judiciary, the hiring of 82 employees is planned for 2023, while gross expenditure of €5.8 million has been authorised in 2023 and €6.9 million in 2024, gradually increasing until 2032. Furthermore, in addition to the provisions of current legislation, the hiring of ordinary magistrates selected in the competition for 310 places announced in 2021 has been authorised at a cost of €1.8 million in 2022, €12.6 million in 2023 and €13.8 million in 2024, increasing slightly through 2031. Starting from 2022, in addition to existing provisions, a further €10 million will be appropriated for the ancillary remuneration of senior officials of the police forces and armed forces. For personnel involved in the “safe roads” operation, remuneration of overtime work has been increased from 40 to 47 hours per month, increasing expenditure by €8.2 million in 2022 and €137.1 million in 2023.

In connection with the health emergency, the Tax Decree extended the employment of an additional 753 personnel in the “strade sicure” operation from 31 October to 31 December 2021, at a cost of €5.1 million, of which €1.3 for overtime. The group of personnel involved was also increased by a further 400, who were employed in the period from 25 October to 3 November 2021 on the occasion of the G20 meetings.

Finally, as public employment contracts for the 2019-2021 period have not yet been renewed, the Budget Bill authorises the disbursement of indemnities for non-renewal of collective bargaining agreements for 2022-2024 as well. As required under the Public Employment Act (Article 47-bis, paragraph 2, of Legislative Decree 165/2001), the indemnity represents an advance on the benefits deriving from the renewal. For the moment, the indemnity corresponds to an increase on the standard pay scales of 0.3 per cent for the second quarter of 2022 and 0.5 per cent starting from July 2022 and is funded by the resources automatically included in current legislation for this purpose (€310 million for 2022 and €500 million starting from the following year). These amounts cover the indemnities for non-renewal relating exclusively to State-sector personnel (whether hired under private law contracts or under public law rules), while the costs connected with the employment contracts of other entities must be met through their respective budgets.

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