2022 Budgetary Policy Report

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.