Budgetary Policy Report

June 2024

Summary

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*The Budgetary Policy Report of the Parliamentary Budget Office (PBO) examines **recent trends and prospects for the Italian economy and public finance**; it also contains thematic **in-depth analyses** concerning the **retrospective review of the Italian economy and public finance, the evolution of family and corporate taxation, the evolution of pensions and employment,** and recent policies for **long-term care** in Italy.*

In this 2024 edition of the Report, marking the 10-year anniversary of the PBO's activities, the perspective of the analyses has also been developed in relation to the decade 2014-2023.

2023 and future prospects

The international and the Italian economy

After the pandemic, the world economy is more unstable and uncertain. The COVID-19 pandemic has upset the global balances. Governments and central banks reacted promptly with economic policies that were in some cases innovative, but the onset of new geopolitical tensions led to an inflationary wave that required new interventions to mitigate price rises; the reaction of monetary policy was contractionary, that of fiscal policy was on the whole expansionary.

The Italian economy continued to grow faster than the euro area last year. Italy's GDP decelerated to 0.9 per cent, a pace still higher than both the pre-pandemic 20 years and the euro area (for the third consecutive year). Growth was mainly driven by domestic demand net of inventories. On the supply side, the increase in value added came from the construction sector and, to a greater extent, from services; agriculture contracted again and industrial establishments (excluding construction) shrank for the second year in a row.

Production activity accelerated in the first three months of the year, but subsequently weakened. In the first quarter of 2024, Italy's GDP increased by 0.3 per cent with respect to the previous quarter (from 0.1 per cent in the previous period), due to the increase in value added in all the main sectors except for manufacturing. In the current quarter the cyclical phase would have worsened; the persistent weakness of the industry would have been compounded by a slowdown in construction, following the rescheduling of incentives for the residential sector. However, services activity is still growing, also driven by the tourism sector.

Macroeconomic forecasts

The government's forecasts of the macroeconomic scenario are considered adequate, but they assume a strong recovery in global trade. The expectations on international exogenous variables in the Government's forecast documents are overall consistent with those of the major international institutions (for world GDP and global trade) and with market prices (interest rates, exchange rates and commodity prices). However, assumptions are exposed to downside risks; geopolitical tensions and ongoing conflicts, in Ukraine and the Middle East, dampen international trade flows and expose commodity markets to high volatility.

The Economic and Financial Document (DEF) 2024 presents a trend scenario in which GDP expands at 1.0 per cent in 2024, accelerates in 2025 (1.2 per cent) and slows down in 2026-27 (to 1.1 and 0.9 per cent respectively). In comparison with the policy scenario of the Update to the DEF (NADEF) 2023, the change in output is smaller (0.2 percentage points) in 2024 and 2025, as it considers the high uncertainty of the geopolitical scenario. In the 2024 DEF forecast scenario, economic growth is almost entirely driven by domestic demand components throughout the forecast horizon, only in 2025 a small positive contribution from net foreign demand is expected.

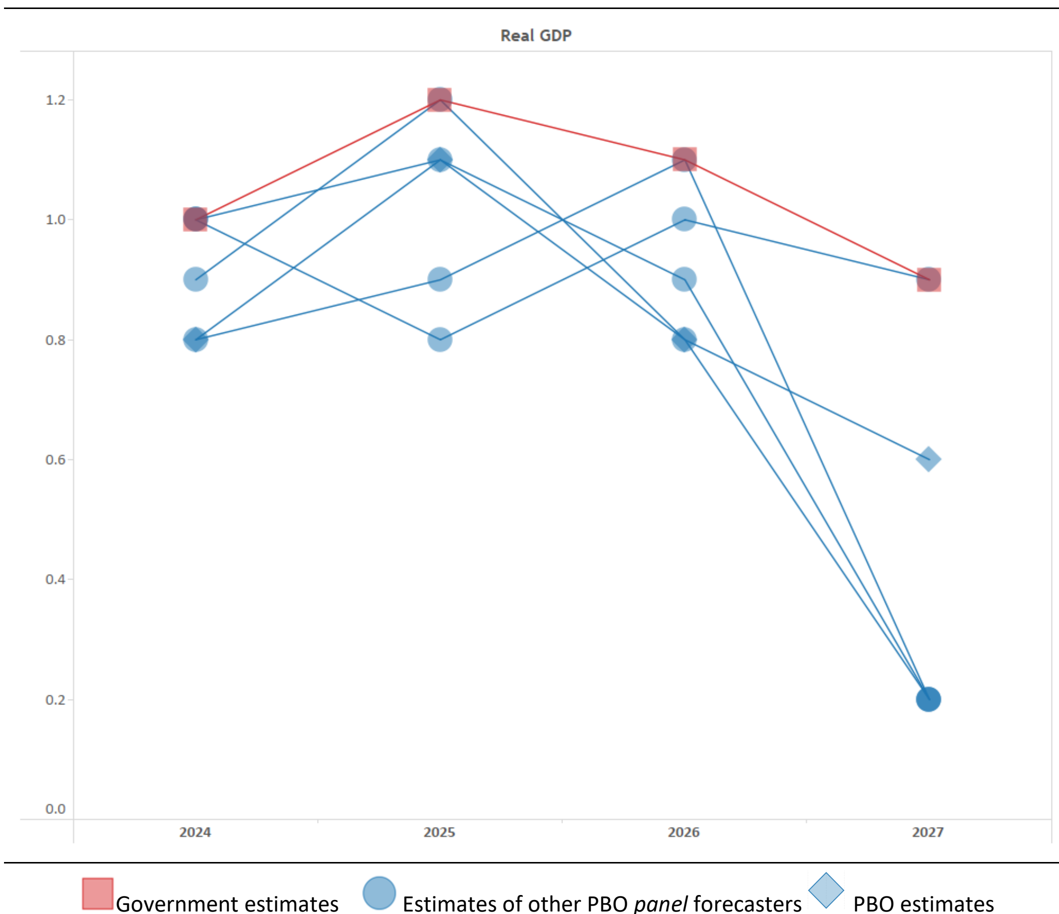
The Parliamentary Budget Office (PBO) has endorsed the trend macroeconomic scenario of 2024 DEF, but underlining numerous risks. The Government's forecasts of GDP (real and nominal), which incorporate the continuing boost from the investment programmes in the National Recovery and Resilience Plan (NRRP), appears to fall over the horizon within an acceptable range over the forecast period, although they are at the upper bound of the PBO panel's estimates over the four-year period 2024-27 (Figure 1).

The PBO reports risks that are overall balanced in the short term, but in the medium term predominantly tilted to the downside. The forecasts are exposed to exogenous and external shocks, such as geopolitical tensions and fragile world trade, as well as significant uncertainties about NRRP developments and construction investments; there is also uncertainty about upcoming central bank interventions, as well as the risk aversion of financial market participants. Critical environmental and climate issues persist in the background. Risk factors on our country's macroeconomic forecasts for the coming years remain on the downside, as do expectations on the global economic environment.

PBO's macroeconomic forecasts do not deviate significantly from those of the Government but are slightly more cautious. The PBO expects a GDP expansion of 0.8 per cent this year, a temporary acceleration in 2025 to 1.1 per cent and a slowdown thereafter (to 0.8 per cent in 2026 and 0.6 per cent in 2027). Growth estimates have been revised slightly downwards compared to those of last autumn, mainly due to the deteriorating international context. With respect to nominal dynamics, consumer inflation is expected to fall to around 1.5 per cent in 2024 and gradually to converge towards two per cent afterwards; however, geopolitical instability is such that inflation in the coming years

could turn out to be more volatile than expected. Nominal GDP is expected by the PBO to grow by 3.5 per cent on average over the two-year period 2024-25, before slowing to just below 3.0 per cent at the end of the forecasts (2027).

Figure 1 – Real GDP, trend scenario

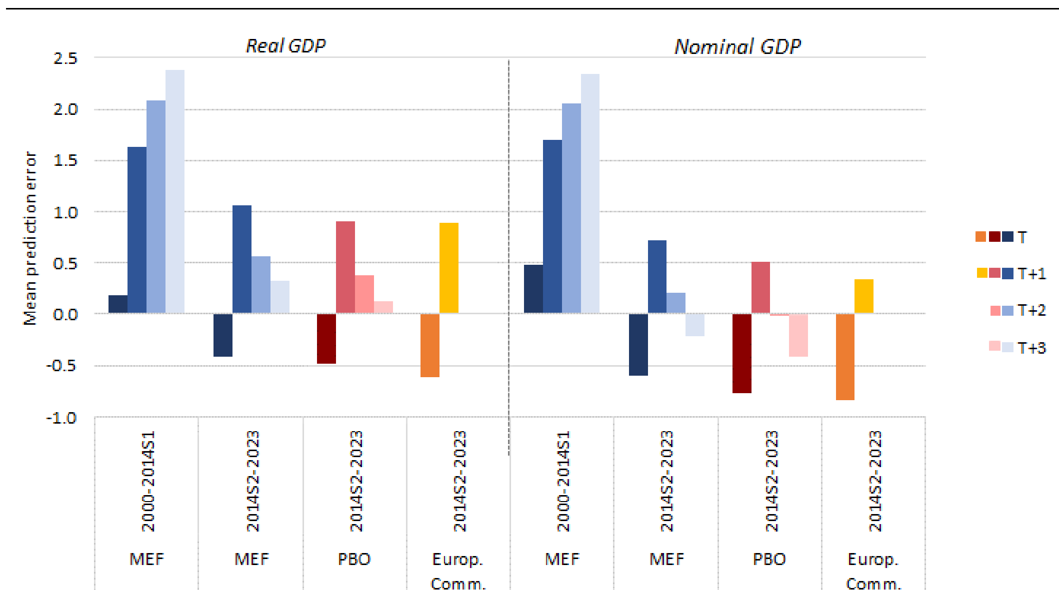


Government estimates   Estimates of other PBO *panel* forecasters   PBO estimates

NRRP expenditure could induce an increase in GDP by almost three percentage points cumulatively in 2026. According to PBO's updated estimates, the full and prompt implementation of the measures envisaged in the NRRP would, at the end of the period, lead to a GDP level about three per cent higher than in the baseline scenario, about half a percentage point below the Ministry of Economy and Finance's (MEF) estimates. The general impulse of the Plan on the level of GDP is similar in the assessments made by the PBO with two different econometric tools. A simulation is carried out with the MeMo-It model, which mainly captures the effects resulting from exogenous changes in demand components, first of all capital accumulation; it is estimated that in the final year of the Plan (2026) the level of GDP would be 2.9 per cent higher than in the baseline scenario. The exercise is also carried out with the dynamic stochastic general equilibrium model (DSGE) developed by the European Commission (QUEST III R&D), which is also able of capturing the effects of the medium-term supply-side. The impact on GDP estimated with the QUEST III R&D model is almost identical to that estimated with MeMo-It, and also the distribution of effects in the two models is similar.

The optimism of the Government's forecasts has been greatly reduced over the past decade since the establishment of the PBO. Since the establishment of the PBO in 2014, government forecasts, on the real and nominal GDP, were less optimistic and on average similar to that of other institutions, such as the PBO and the European Commission (Figure 2). Nevertheless, the COVID crisis brought about unprecedented fluctuations in the economic variables, so that the average size of the forecast errors increased for all forecasters, including the MEF.

Figure 2 – Error measures for Italy's GDP forecasts before and after 2014 (1)



Source: calculations based on forecasts by MEF, PBO and the European Commission.
(1) 2014S1 refers to the first half of 2014 and thus includes the 2014 DEF, while the 2014 NADEF (first policy document validated by the PBO) falls in the following interval (2014S2-2023). Diagnostics on nominal GDP start from 2003 due to lack of some data in the previous years.

Over the last five years, official forecasts for the current year have been lower on average than the historical figure, while those for the following years remain optimistic. The analysis on the forecasting errors of the last five years, which therefore include the pandemic recession and the subsequent recovery, shows how macroeconomic forecasts have tended to underestimate the economic trends of the current year, overestimating instead those of the following year, which is the most relevant for the economic policy planning. Focusing on all past forecasts for the year 2023, the Government's expectations of real GDP growth were almost always higher than those of the PBO, which ex post were slightly closer to the final ISTAT figure. The nominal GDP dynamics for 2023, on the other hand, were underestimated, especially in the forecasts made in 2020-21.

Public finance in 2023

General government deficit in 2023 amounted to 7.4 per cent of GDP, down from the previous year when it stood at 8.6 per cent, but still high for the fourth consecutive year.

The primary deficit in relation to GDP also decreased, from 4.3 per cent to 3.6 per cent. The Superbonus and the Facade Bonus (tax reliefs for building renovation works) have had a significant and growing impact on the deficit over the years. Also for Transition 4.0, the impact on public accounts was higher than expected.

The deficit was higher than the 5.3 per cent expected in the NADEF 2023 estimates of last September, mostly because of the effects of the Superbonus. Not including these impacts and the larger-than-expected impacts related to the Transition 4.0 supporting measure, the deficit would have been 0.2 percentage points of GDP lower than the NADEF policy objective.

The GDP impact of interest expenses was 3.8 per cent, down from 4.2 per cent in the previous year, mainly due to the decline in the revaluation of inflation-indexed securities. The weighted average cost of new issues increased by about 2 percentage points to 3.8 per cent, influenced by increases in the monetary policy rates, and reached its highest level in the last 15 years.

For the third consecutive year, the public debt-to-GDP ratio has continued to decline to 137.3 per cent of GDP; the reduction is 3.2 percentage points from 140.5 per cent in the previous year and 17.6 percentage points from the peak of 155.0 per cent in 2020. The reduction of the ratio, despite the still high deficit, was favoured not only by the *snow-ball* effect, but also by the favourable impact of the stock-flows component due to the different accounting rules for the Superbonus, cash accounting on debt and accrual on deficit.

Public finance in 2024 and in the 3-year period 2025-27

Last April's DEF 2024 contains only the trend scenario; the preparation of a new policy scenario has been postponed to the presentation of the Medium-Term Fiscal Structural Plan (MTP), which should take place by 20 September.

Under current legislation (without considering the renewal of some measures that expire in 2024), the public deficit would decrease significantly in the current year to 4.3 per cent of GDP, in line with the 2023 NADEF target, mainly due to the significant scaling down of the Superbonus effects, and then fall to 3.7 per cent in 2025, 3 in 2026 and 2.2 in 2027. Primary balance as a percentage of GDP, although showing a marked improvement compared to the year 2023, is expected to remain negative in 2024 (-0.4 per cent), to grow and become increasingly positive in 0.3 per cent in 2025, 1.1 per cent in 2026 and 2.2 per cent in 2027. Interest expenditure as a ratio of GDP is expected to gradually increase from the current year, 3.9 per cent, until 2027, when it would reach 4.4 per cent. The amendments in the process of conversion of Decree Law 39/2024 concerning the Superbonus have a favourable effect on the deficit, which, as envisaged in the 2024 DEF, has been brought back to the target values as a percentage of GDP of the 2023 NADEF, i.e. 3.6 per cent in 2025 and 2.9 per cent in 2026.

The ratio between public debt and GDP is expected to increase until 2026, when it would reach 139.8 per cent, before falling by two-tenths of a percentage point in 2027. The debt profile until 2026 is significantly affected, through their impact on the stock-flows adjustment, by considerable tax offsets related to the tax incentives for the construction sector in recent years. These compensations are substantially reduced in 2027.

Should the MTP's objectives be confirmed in line with current-legislation scenario, it will be necessary to identify adequate financial resources within the next budget law for the unchanged policies to be confirmed and for possible new interventions. According to PBO's estimates, confirming in 2025 some of the measures financed only for the current year by the last budget law would have an impact on net borrowing of approximately EUR 18 billion (Table 1). If we added to this amount other expenditures usually included in unchanged policies, such as the expenses for the next three-year contractual period for public employees (2025-27), the total impact on net borrowing could exceed that indicated in the DEF (by slightly less than 20 billion). In the DEF, it is stated that priority will be given to refinancing the cut in the labour tax wedge. In this respect, it will have to be clarified whether it is intended to make the measure structural by finding corresponding financial resources to cover it.

Tab. 1 **– Impact of the interventions financed for 2024 only by the 2024 budget law** *(millions of euro)*

	Net borrowing deterioration
Partial exemption of employees' social security contributions (Budget Law for 2024) (1)	10,790.0
Support measures for investments in the Southern SEZs and refinancing of the New Sabatini (Budget Law for 2024)	1,900.0
International missions (Budget Law for 2024) (1)	960.0
Corporate welfare tax deduction and productivity bonuses (Budget Law for 2024)	832.9
Measure to support destitute people (Budget Law for 2024)	650.0
First stage of the personal income tax reform (2)	615.8
Reduction of the RAI licence fee from EUR 90 to EUR 70 (Budget Law for 2024)	430.0
Zeroing of social security contributions for permanent female employees with two children up to 10 years of age (Budget Law for 2024) (1)	368.1
Increase in the First Home Mortgage Guarantee Fund (Budget Law for 2024)	282.0
Increase in the Fund for People Fleeing the War in Ukraine (Budget Law for 2024)	274.0
Early retirement measures (Budget Law for 2024) (1)	260.5
Various measures for the management of emergencies related to natural disasters (Budget Law for 2024) (1)	239.8
Extension of the public exam for Police and Armed Forces for Safe Streets and Stations (Budget Law for 2024) (1)	149.8
Refinancing Social Fund for Training and Employment (Budget Law for 2024)	140.0
Other measures (Decree Law 145/2023 and Budget Law for 2024)	279.3
Total	**18,172.2**

Source: elaborations on data from the technical Reports and summary tables of the financial effects of the various measures and the Chamber of Deputies and Senate Study Service Dossier on Decree Law 19/2024, part II - financial profiles.
(1) Impact net of revenue effects. - (2) Impact net of resources from the Fund for the implementation of the tax enabling law.

The public finance scenario presents several elements of uncertainty, related to the downside risks on growth mentioned above, critical issues in the implementation of the NRRP, and risks related to future trends in tax credits. Although the recent Decree Law No. 39/2024 introduced measures to limit the burden of the Superbonus for the coming years, unexpected effects cannot be excluded in view of what has happened over the past years. Further elements of uncertainty arise from the impact of the Transition 4.0 and 5.0 incentives. In general, it seems appropriate to strengthen the monitoring and control mechanisms for tax credits still in use.

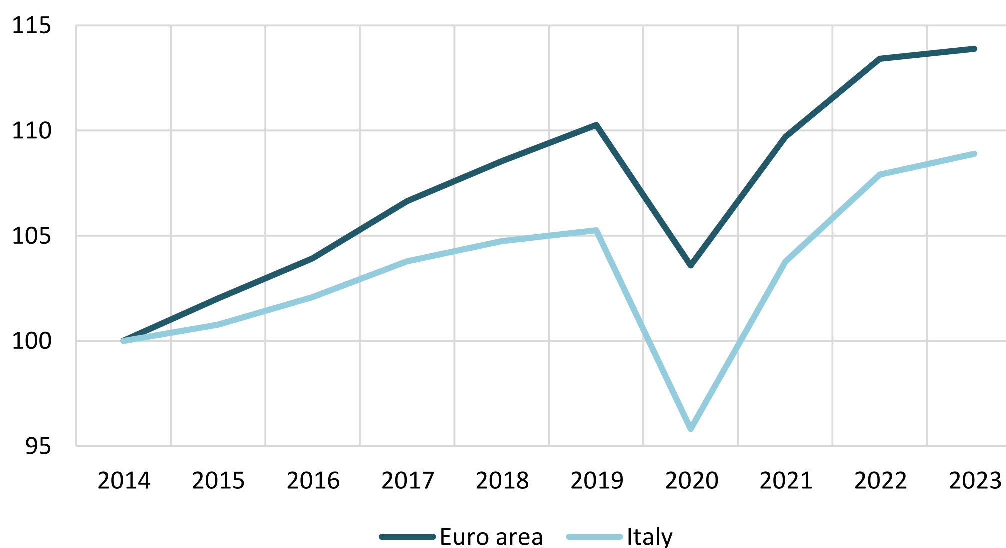
An analysis of the Italian economy and public finance in the decade 2014-2023

The past decade was characterised by very strong exogenous shocks against which the economic policy reacted with innovative measures. In the years after the sovereign debt crisis, the European Central Bank (ECB) launched a *quantitative easing* programme and the European Union strengthened and introduced new safeguards to support public finances solidity, including independent fiscal institutions such as the PBO in Italy. With the pandemic, the intensity and frequency of shocks has further increased. In 2020, we experienced an unprecedented recession. The European response was quick and innovative, but in recent years there have been further unexpected adverse events, such as wars and the energy crisis, which make the European scenario still fragile.

The gradual exit of the economy from the financial crisis: 2014-19

Between 2014 and 2019, Italy's GDP growth was always lower than that of the euro area (Figure 3)**.** Investments were constrained by the public component as well as by economic uncertainty and the fragility of the banking system. Private consumption suffered from low consumers' confidence and stagnation of real incomes. Public expenditure decreased slightly, reflecting the consolidation measures taken to contain public debt. Italian exports recorded, instead, a high annual growth (3.0 per cent), even if lower than in the euro area. Structural weaknesses were evident on several fronts, including the low diffusion of innovation, the small size of enterprises and the lag on advanced infrastructure. These factors contributed to limiting the product per capita.

Figure 3 – GDP of the euro area and Italy
(chain-linked volumes; index numbers; 2014 = 100)



Source: Eurostat.

Flexibility "at the margin" of fiscal rules

In 2014, the EU's economic governance was strongly focused on the stability of the accounts, which was seen as the most appropriate response to the financial crises of the previous years. Many of the innovations in the European governance introduced since 2011 and implemented in Italy in the Constitution, in the reinforced Law 243/2012 and in amendments to the accounting law (Law 196/2009) were aimed at ensuring a return to sustainable public finances through fiscal adjustments.

Nevertheless, the practical application of some of the numerical rules, especially that of debt reduction, revealed certain limitations, such as: pro-cyclicality; the failure to protect public investment; and the significant role of non-observable variables such as potential output. Consequently, the Commission Communication of January 2015 indicated additional margins of flexibility over and above those already allowed by law for exceptional events. In particular, deviations from fiscal adjustments were allowed in relation to cyclical conditions, the implementation of structural reforms and certain investment programmes. Moreover, in 2018 the Commission allowed flexibility on the grounds of a new criterion, the 'margin of discretion'.

In the period 2014-19, Italy complied with the rules on structural balance and expenditure thanks to the introduced flexibility, which resulted in continuous postponements of the year scheduled for reaching the medium-term objective (MTO). The flexibility given to Italy over the five-year period 2015-19 can be estimated at around 33.1 billion of euro (approximately 1.9 percentage points of GDP). Also, with the exception

of 2013, the numerical rule of debt reduction in relation to GDP was always disregarded by Italy but this did not lead to the opening of an excessive deficit procedure due to the consideration of 'relevant factors'.

The introduction of flexibility margins in the EU rule framework meant an improvement on the previous rigid interpretation of the rules but did not favour medium-term planning. Specifically, the granting of margins was based on a year-by-year negotiation between the Member States and the Commission, and this did not offer certainty not only on the medium-term strategy but also on the orientation of the budget law for the following year.

Implications on flexibility for the fiscal policy in Italy

The introduction of more flexibility in the fiscal rules at EU level has allowed to identify financial spaces for undertaking actions to support the economy. Between 2014 and 2019, nine Reports were submitted to Parliament to change the adjustment path towards the MTO, increasing in that way the deficit from the previously set targets. At the same time, fiscal policy was conditioned by the Governments' willingness to avoid tax increases that were introduced in the previous policy documents to improve balances (so-called indirect tax safeguard clauses).

As a consequence of this public finance strategy, during the period under review, the stance of fiscal policy was on the whole moderately expansionary and counter-cyclical. Despite the expansionary fiscal policy, thanks mainly to a lower interest expenditure, the deficit in relation to GDP halved from 3 per cent in 2014 to 1.5 per cent in 2019. After its peak in 2014 (135.4 per cent), the ratio between public debt and GDP decreased overall by 1.2 percentage points.

The perspective of fiscal policy was essentially annual, lacking any real medium-term planning. The systematic modification of fiscal objectives and the application and deactivation of VAT and excise duties clauses led to difficulties in interpreting the medium-term plans presented in the official documents and implemented through budget laws. Moreover, budget laws frequently envisaged measures with permanent and increasing effects on expenditure, often counterbalanced by transitory and unclear interventions on revenue.

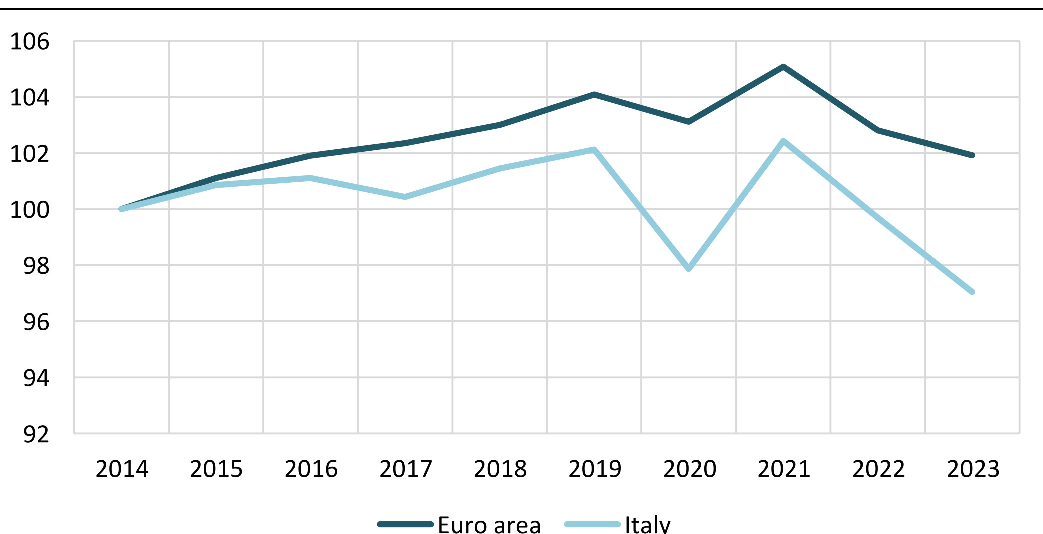
The impact of the pandemic crisis and the energy crisis: 2020-23

With the pandemic, geopolitical and economic equilibria became more unstable and economic policies responded strongly. COVID-19 severely affected the global economy, causing an unprecedented shock; in Italy, in 2020, GDP shrank by 9.0 per cent, as never

happened before in peacetimes. The European institutions responded with innovative economic policies, both of monetary easing and new counter-cyclical programmes. Two years later, the Russia-Ukraine conflict shook again the global economy, causing a sudden increase in the prices of raw materials, especially energy, also due to rationing in the flows from Russia to Europe; methane quotations on the Amsterdam market (TTF) at the end of August 2022 came close to EUR 340 per MWh, a value never reached before. Pressures at the origin of the production chain quickly shifted to consumer prices, also undermining the stability of inflation expectations; central banks then quickly changed the orientation of their monetary policy, turning it more restrictive.

After the pandemic, the Italian economy was strongly driven by the use of public resources and showed signs of resilience. In 2020-23, average GDP growth was 1.1 per cent, slightly higher than in the euro area. Investments have grown significantly, driven by extremely generous tax incentives for housing but also by incentives for innovation. This has encouraged the creation of new enterprises, whose start-up under more difficult conditions than usual anticipates a more solid development in the future. Private consumption, on the other hand, was weak on the whole, held back by lockdowns in 2020-21 and price increases in the following two years. Public expenditure increased by 0.9 per cent yearly and public investment recovered quickly. Italian exports grew faster than in the euro area, indicating recoveries in competitiveness but also the flexibility of the firms most exposed on foreign markets. Government interventions have been effective in mitigating the effects of price increases especially for poorer households, but nevertheless inflation has induced a substantial contraction in real incomes (Figure 4), to the detriment of households' purchasing power.

Figure 4 – Real per capita incomes in Italy and in the euro area
(index numbers 2014=100)



Source: Eurostat.

Among the possible explanations for Italy's growth differentials in comparison to Europe, there is the different boost provided by the public budget, both before and after the pandemic, when the gaps were reversed. Between 2014 and 2020, Italy's GDP increased about one percentage point less per year than the euro area, with the public sector absorbing more resources as its primary budget surplus was above that of the area. In the period 2020-23 the differentials reversed and the growth of the economy was stronger in Italy, although slightly. In the average of the last four years, public budgets have recorded large deficits, due to the effect of the pandemic crisis; Italy's primary deficit has clearly exceeded that of the euro area, which resulted in a more expansionary fiscal policy in Italy than in the area. Basically, among the causes that may have affected Italy's differences in growth compared to Europe, there is the fiscal policy, as well as many other factors, even of a structural nature.

A counterfactual historical simulation shows that an alignment to the euro area's fiscal stimulus would have smoothed out but not completely cancelled Italy's growth delay, both in 2014-19 and in 2020-23. Assuming to close the gap between Italy's primary surplus (as a ratio of GDP) and that of the euro area, through simulations of the econometric model MeMo-It, the growth differential with the euro area would have narrowed, but remained large in 2014-19. The ratio between public debt and GDP would have increased, resulting in 2019 about four percentage points higher than the historical value. In the 2020-23 period, instead, counterfactual public finance would have been less expansive, the growth of the Italian economy would have been lower than historical growth, and the delay in relation to the euro area would have continued, even if narrowing considerably. This exercise shows therefore the importance of structural factors, beyond the demand stimulus of the fiscal policy. Thus, it is appropriate to continue and strengthen the reform efforts aimed at increasing the potential of the Italian economy.

EU coordinated response to common shocks

In order to allow Member States to give an immediate and coordinated response to the health emergency and to mitigate the socio-economic consequences of the pandemic, on 20 March 2020 the European Commission decided to activate the general safeguard clause included in the Stability and Growth Pact. Thanks to the clause, Member States were able to deviate from their fiscal obligations set out in the European regulatory scenario.

Furthermore, between 2020 and 2023, the EU has prepared a coordinated strategy to cope with the double shock. In April 2020, the Commission proposed the establishment of SURE and on 27 May presented 'The Plan for Europe's Recovery' consisting of a medium-term recovery programme based on two pillars: (i) the NGEU programme, through which it was envisaged to make available 750 EUR billion; and (ii) the EU's

multiannual budget with an allocation of 1.074 EUR billion. More recently, REPowerEU aims to support the prompt and gradual reduction of the EU's dependence on imported Russian fossil fuels.

The EU's response to the double shock that has struck the continent since 2020 seemed more appropriate than the response to the financial crises of the previous decades; however, further steps toward European fiscal capacity remain a priority.

The role of fiscal policy to counter recession and the negative effects of high inflation

For Italy, the suspension of the EU fiscal rules and the ordinary regulation on State aids has allowed to increase the deficit in order to finance measures supporting citizens and businesses. During 2020, the overall impact on general government net borrowing as a result of the numerous decree-laws issued to counter the pandemic emergency was unprecedented, estimated at 108.2 billion, or 6.5 per cent of GDP.

A feature of 2021, in addition to continuing support policies in the face of the pandemic crisis, is the preparation of the NRRP. The resources mobilised through the Plan as a whole, to be used between 2021 and 2026, amounted to approximately 236 EUR billion, largely consisting of funding from the NGEU programme.

Fiscal policy in the two-year period 2022-23 was characterised by interventions to tackle the energy emergency. The estimated *ex-ante* gross burdens of these interventions amount to 70 billion in 2022, corresponding to 3.6 per cent of GDP, and 30.7 billion in 2023, corresponding to 1.5 per cent of GDP. Over time, the measures introduced have been increasingly targeted at supporting low-income families.

As a consequence of the public finance strategy, the stance of fiscal policy in the period under review was expansionary until 2022 and restrictive in 2023; this trend was counter-cyclical with the exception of 2022. In 2020, the deficit reached 9.4 per cent of GDP, the highest value since 1995; in the following three years, the deficit decreased by two percentage points but remained still high. The ratio between public debt and GDP, after reaching a peak in 2020 (155 per cent), decreased by almost 18 percentage points in the following three years.

Italy's fiscal policy responded promptly to the emergencies brought by the double crisis, in the health and energy sector; however, the impact of an expansionary fiscal policy that was not selective enough resulted in a high debt-to-GDP ratio that, although decreasing from 2021, has not yet returned to pre-crisis levels. The decision to extend the extraordinarily generous building renovation incentives beyond the emergency will affect the decline of this ratio in the coming years.

The new scenario of the EU's fiscal rules

The new system of rules of the Stability and Growth Pact aims to strengthen national responsibility for fiscal planning through the presentation by the Member States of MTPs, lasting four or five years, which will have to define a programme of structural reforms and public investment and outline a path for net primary expenditure, to be agreed with the European Commission and the Council of the EU. The net expenditure path will have to ensure the continuous and plausible decline of debt as a ratio of GDP over the medium term, compliance with common numerical 'safeguards' and with the adjustments required in the event of the excessive deficit procedure being opened. The annual fiscal surveillance also requires Member States to submit a Progress Report by 30 April each year which will be based on monitoring the actual path of the single indicator of the net primary expenditure financed at national level.

The new European governance favours the transition to multiannual fiscal planning. The focus on the sustainability of public finances in the medium term and the demand of the inclusion in the MTPs of commitments on reforms and investments provides an incentive to strengthen the quality of fiscal policy at national level. However, the new European *governance* seems to disregard a very important aspect concerning the consideration of the appropriate fiscal orientation for the Euro area as a whole.

Implications for fiscal targets and the role of reforms and investments

The adjustment required for Italy to comply with the new regulatory scenario is estimated by the PBO at 0.5-0.6 percentage points of GDP per year on a seven-year adjustment path. For the three-year period 2025-27, the evolution of the deficit-to-GDP ratio under current legislation scenario presented in the DEF appears consistent with the indications of the new EU regulatory scenario.

The need for ambitious and long-lasting consolidation will make it necessary to identify economic policy priorities. Even after the end of the NRRP it will be advisable, as well as required by European rules, to maintain a high level of public investment. At the same time, the expected increase in the costs associated with the demographic transition and the more uncertain but potentially high costs to cope with the energy and climate transitions are likely to impose cuts in other components of the budget. Cuts in the tax burden would impose further reductions or cuts in expenditure programmes. To avoid this, tax reform will have to find financing resources within the tax system itself.

The necessary fiscal consolidation would be facilitated by a strengthening of actual and potential growth as a result of the reforms and investments included in the NRRP and, in prospect, in the MTPs. As an illustration, using the European Commission's QUEST III R&D model, PBO estimates that the reforms contained in the NRRP relating to education and research, active labour market policies, public administration, justice and competition

and procurement could have an overall impact on the level of GDP of 9.6 percentage points in the long run (2050). Focusing exclusively on the reforms to improve active labour market policies and training, according to PBO analyses carried out with the model adopted by the EU for estimating potential output, an alignment towards EU standards would lead to a decrease in the equilibrium unemployment rate, such that in the medium to long run the potential growth would increase by about one percentage point.

In depth analyses

The evolution of taxation on households

Over the last decade, the personal income tax (Irpef) has been affected by various intervention that have reduced the tax burden, often at the expense of the fairness of the levy and its redistributive capacity. They have changed both the structure of the tax, with the redrawing of the profile of rates, brackets and deductions, and the taxable amount, with the exclusion of several assets from the principle of progressiveness.

The first intervention in the decade on the structure of the tax dates back to 2014 and concerned the introduction of the ***80-euro bonus*** to support the purchasing power of employees with low and medium wages, also in the face of a declining dynamic of the real wages in the first two quintiles of the distribution. This **significantly reduced the levy for taxpayers with lower incomes, but produced large irregularities in marginal tax rates**, which peaked at around 80 per cent on incomes for which the *bonus* was rapidly decreasing.

Subsequent interventions, planned in 2017, 2020 and 2021, were mainly motivated by the need to correct distortions in effective tax rates by first benefiting taxpayers with intermediate levels of income (between 28,000 and 40,000 euro) **and then incomes above 40,000 euro**.

In order to assess the effect of all the interventions over the past decade, a comparison was made between the levy structure applied in 2024 and that in force in 2014. However, in order to grasp the effect on disposable income over a medium to long period of time, it is necessary to consider the impact of the fiscal drag, i.e. the increase in the levy resulting from the non-indexation of the tax calculation mechanism according to the change in purchasing power. The topic, which remained on the sidelines of the debate for the long period when price dynamics were moderate, has gained relevance again in the light of the inflationary crisis that started in 2021 and lasted until 2023.

For an employee without family responsibilities, it appears that the reforms have led to a reduction in the average tax rate throughout the income distribution. **However, if we also take into account the effect of the fiscal drag, the average tax rate increases for almost all income levels** (only for a short range of incomes immediately above 30,000

euro there is a reduction in the average tax rate of up to one percentage point). **The negative effect of the fiscal drag over the considered ten years outweighs the positive effect of regulatory changes.**

For an employee without family responsibilities, the reforms have resulted, throughout the whole income distribution and compared with the legislation in force in 2014, in a reduction in the average effective rate of about half a percentage point for low incomes, more pronounced for incomes above 24,000 euro and corresponding to a few cents of a point for high incomes. **However, if we consider the loss of purchasing power due to inflation, the average rates are generally higher than those paid in 2014.**

Figure 5 translates the effects on average tax rates in terms of variation in disposable income (2024 values) for point values of income. The white circles represent the difference between the tax paid in 2024 and the tax due in 2014 for the same contribution capacity brought back to the current price level.

Figure 5 – Change in disposable income as a result of regulatory changes and fiscal drag between 2014 and 2024
(employee without family responsibilities)

For 2024 incomes between 10,000 and 30,000 euro, the reduction in disposable income compared to 2014 ranges between 96 euro at 15,000 euro and 351 at 25,000 euro. Instead, a taxpayer with a taxable income in 2024 of 35,000 euro sees an increase in his

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disposable income by 85 euro compared to 2014 as a result of the lower average tax rate. For higher incomes, the effect of fiscal drag over the ten-year period remains almost constant, while the contribution of reforms declines, bringing the net effect back into negative territory. At 100,000 euro of income, the additional taxation compared to the value at current prices of the tax paid in 2014 for the same contribution capacity is just over 1,000 euro.

The analysis focuses on the structure of the tax and does not take into account the cut in social security contributions in force in 2024, which, for incomes below 35,000 euro, more than compensates for the actual tax increase highlighted above.

An analysis using the PBO's microsimulation model shows that for employees the regulatory changes led to a reduction in the levy of about 3 percentage points, which is, however, more than offset by the effect of the fiscal drag of about 3.6 percentage points, resulting in a negative disposable income balance of about 0.6 points. For pensioners and self-employed, both effects, regulation and fiscal drag, are smaller.

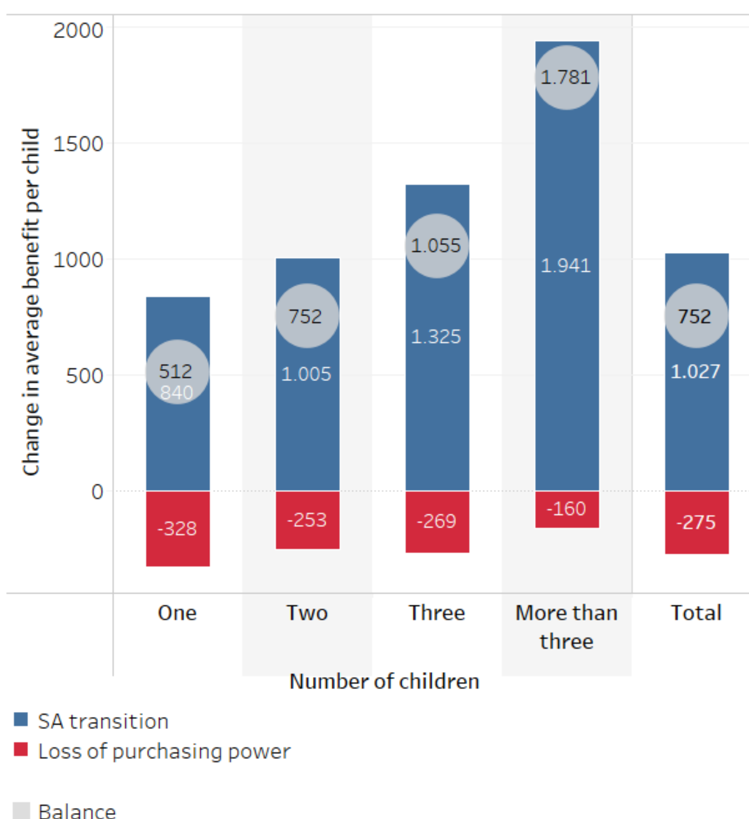
These changes in the structure of the personal tax **have been accompanied by a gradual erosion of the taxable amount, which has reduced the fairness of the levy and its redistributive capacity**. While financial incomes were excluded from the taxable amount of the progressive tax as soon as it was introduced, over time various other forms of income have been subject to a flat tax or exempted altogether. For example, for the self-employed, the flat tax regime, initially envisaged for small taxpayers, has been extended three times in the last decade by removing the constraints that previously limited access to it and raising the upper revenue limit for accessing it to 85,000 euro. In this way, a significant share of self-employment income has been removed from the progressiveness of Irpef, resulting in a violation of the principle of horizontal equity of the levy, creating disparities in the levy both between recipients of different types of income (self-employed and employed), and between self-employed workers.

The paragraph also traces the regulatory evolution involving support for families with children, with the introduction of the Single Allowance (SA), which from March 2022 replaced the two main pre-existing institutions, the Irpef deductions for dependent children and family allowances, **and several minor measures.** The original version of SA, also in the light of a smaller number of beneficiaries than estimated, has been modified by making more generous the amounts payable to disabled children who have reached the age of majority and to families with children under one year of age and for large families with children up to three years of age.

Similarly to the exercise conducted for the personal tax, **the PBO' microsimulation model was used to assess the distributional effects of the current measures to support families with children compared to those in force in 2014, considering also the change in purchasing power.** The introduction of the SA mainly rewarded larger families as the change in the average benefit per child increased with family size (Figure 6). This, in fact,

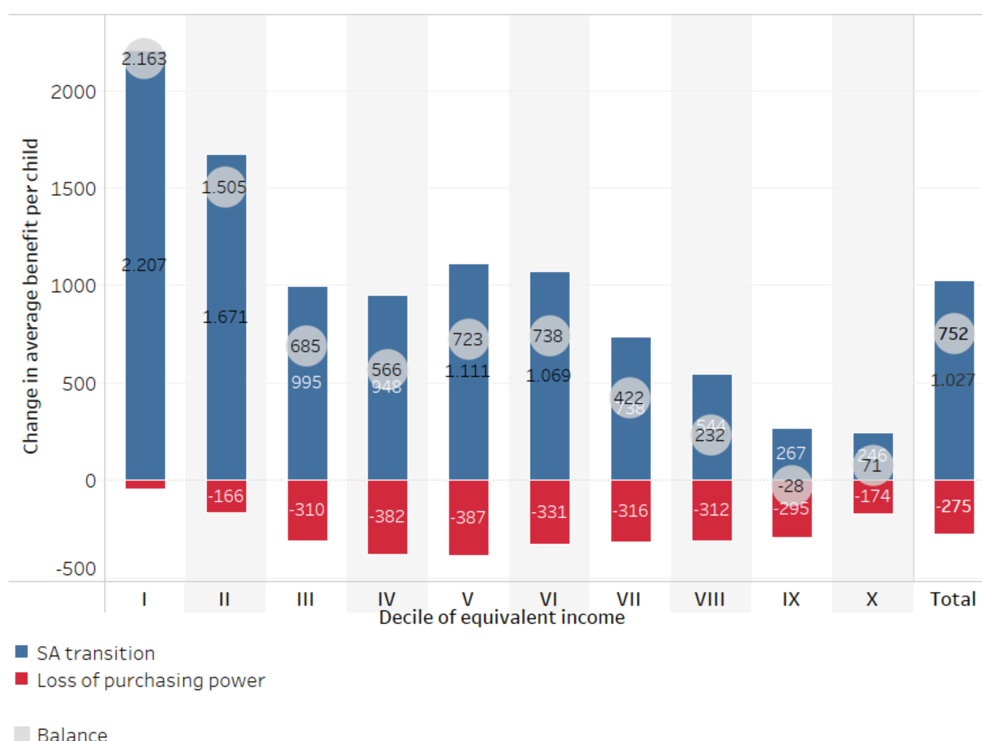
is highest for families with more than three children (1,941 euro), resulting more than twice that estimated for one-child family (840 euro). However, if one considers the loss of purchasing power achieved over the period, **a comparison in real terms between what was received at the beginning and at the end of the decade shows a reduction in benefits ranging from a minimum of 160 euro for families with more than three children to a maximum of 328 euro for those with only one child.**

Figure 6 – Change in average benefit per child - Analysis by number of children



The effect is, however, positive for the poorest 20 per cent families, mainly due to the extension of child support payments to households that previously did not benefit from them because they had either an income below the minimum taxable amount for income-tax purposes or a tax liability smaller than the tax deduction (so-called '*incapienti*') or not employed (Figure 7). The 'devaluation' effect of the benefits starts to be significant from the third decile by decreasing the average benefit per child due to the introduction of the SA (amounting to 995 euro) to 685 euro. Finally, for the richest 20 per cent families, the comparison between the benefit of the SA and the revalued value to date of what would have been obtained by applying the 2014 regulations, is negative or minimal and ranges between -28 and 71 euro: for these families, the positive effect of the regulatory changes is not such as to compensate the negative effect of the loss of purchasing power.

Figure 7 – Change in average benefit per child - Analysis by decile of equivalent income



The evolution of corporate taxation

Over the period 2011-2021, the total number of enterprises (corporations and unincorporated firms) decreased, while the number of capital companies increased, raising their share of the total from 27 per cent to 40 per cent. There are no major changes to the sectoral and size distribution. However, **some underlying trends of the Italian production system are confirmed, with a further increase in the share of enterprises in Services (from 64.5 per cent in 2011 to 69.3 in 2021) and the traditional dimensional and territorial imbalance.** There is still a predominance of small enterprises (around 95 per cent) and companies registered in the Centre-North compared to the South, for which, however, the share in relation to the total shows an increase.

The main economic indicators – profitability and economic/financial riskiness – **have shown a widespread improvement across sectors and size classes since 2015.** These trends are confirmed even in the last five years despite the two consecutive crises in the three-years period 2020-22. In these years, however, there have been asymmetric effects in the different business sectors both in the negative and positive phases of the recovery. The strongest dynamics in profitability are observed in the Construction sector (from 2020), in the Energy sector (from 2021) and in the Financial sector (from 2023).

Accordingly, over the same period, there has been a progressive reduction in corporate tax revenues (Ires and IRAP) in relation to both total direct taxes and GDP, which has stopped only in recent years. Two main factors can be identified that influenced this trend.

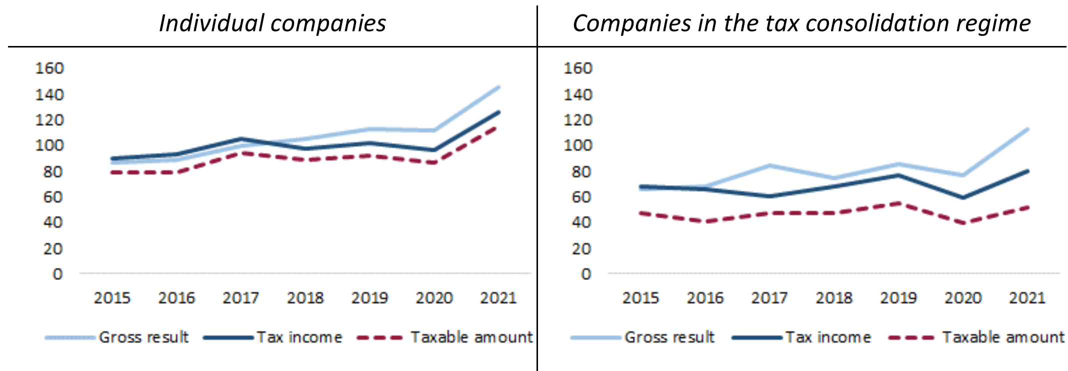
The first relates to the connection between profitability and the taxable amount under the same tax system structure. The natural correlation between these two variables shows an asymmetry in the different phases of the business cycle. In the expansion phases, past losses, generated in previous years and in unfavourable economic times, which did not find immediate capacity (smoothing effect of losses on a multi-year basis) can be discounted from the taxable amounts. In the analysis, this effect is documented by the expansion of past losses (accumulated during crisis periods) actually deducted from 2015 and the amount still to be deducted in the coming years.

The second factor concerns the discretionary tax policy measures that have been implemented. The past decade is characterised by a plurality of interventions that reduced the tax burden on businesses both during the economic recovery phase (2016-19) and coinciding with the last two crises (since 2020). Three important trends can be observed in this respect. The reduction of the statutory tax rate and the introduction of the Aid to Economic Growth (ACE), which were provided in the first part of the last decade, can still be placed in the reform process aimed at containing tax competition and increasing the neutrality of the levy with respect to business choices. A second trend can be identified in the return to investment incentive policies with a clearer industrial policy orientation. A third trend concerns tax policy instruments. In the last years, most of the incentives (and deductions) have been confirmed (transformed) into tax credits, which are characterised by a more immediate and certain usability as they are not conditioned by tax capacity. This shift, with the same reduction in the tax burden of companies over time, leads to a broadening of the taxable amount and of the overall Ires revenue, since tax credits, from an accounting point of view, are recorded on the expenditure side (under contributions to production or investment contributions, depending on their nature and level of chargeability) and not as a reduction in revenue.

It should also be noted that tax regulations result in a mismatch between the economic and the tax definition for many balance sheet items, which can result in a broadening or narrowing of the taxable amount.

With the help of PBO's Medita model and with reference to capital companies, the effects of misalignment are quantified by highlighting the weight of the different elements that generate it. Since 2017, the misalignment more directly referable to different purposes of the tax rules (the so-called twin track), which includes tax relief policies acting through deductions, **produces an overall reduction in the potential taxable amount (difference between gross income and tax income) that increased over time until affecting all sectors in 2021** (Figure 8).

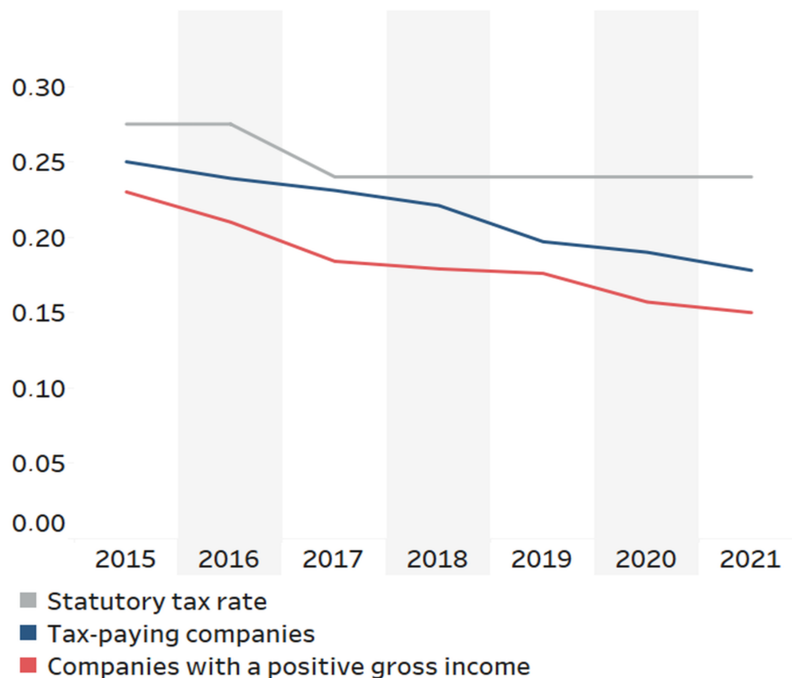
Figure 8 – Positive gross income, tax income and taxable amount
(billion euros)



Source: elaborations on PBO's Medita model.

The difference between the effective tax rate (calculated on gross income before tax changes in the strict sense) and the statutory tax rate provides a synthetic measure of the divergence between income and taxable amount. Specifically, **compared to a statutory tax rate of 27.5 per cent until the end of 2016 and 24 per cent thereafter, the effective tax rate for individual companies and companies in the tax consolidation regime with a positive taxable amount is 25 per cent in 2015 and decreases progressively to 17.8 in 2021** (Figure 9).

Figure 9 – Statutory and effective tax rates for companies with a positive taxable amount and for all companies with a positive income profit (1)



Source: elaborations on PBO's Medita model.
(1) For companies in the financial sector, the rate is calculated net of the 3.5 per cent surtax introduced from 2017 (2016 Stability Law) at the same time of the Ires reduction from 27.5 to 24 per cent. The surcharge was counterbalanced, in order to take into account the peculiarities of the sector, with an extension of the deductibility of interest expenses.

If all companies with a positive gross income are considered, thus including those for which the taxable amount goes to zero at the end of the process, the effective tax rate is further reduced from 23 per cent to 15 per cent between 2015 and 2021. An important component of this effect is the increase in depreciation as an incentive for investments. As of 2019, this measure has been converted into a tax credit and − once its effects have worn off and with the same levy structure − an approximation of the effective rate to the legal rate should be observed.

The analysis of the tax policy that has concerned companies over the past decade suggests some considerations with respect to the reform path outlined in the enabling law on the tax reform. One of the implementing decrees of the enabling act provided for the abolition of the ACE from 2024. This leads to a non-negligible broadening of the taxable amount (according to estimates in the technical report, 4.8 billion in 2025 and 2.8 when fully operational) for a large number of companies with significant sectoral differences. It is not so much a question of the abolishment of a tax benefit as of a structural change in the levy and the renunciation −as it currently stands − of tax neutrality on the company's choice of the sources of financing.

A global assessment, also with respect to the redistributive consequences of the tax burden among companies, would however require knowledge of the other measures that will be adopted in the implementation of the enabling act. In this regard, it should be noted that the enabling law also provides for a more general investment and employment incentive consisting in the application of a reduced tax rate on profits used or, alternatively, an increased deduction of expenses made for investments or new hirings. **The same legislative decree that abolished the ACE provided – only for 2024 − an augmented deduction just for an increase in the employment levels. It is not yet clear what are the prevailing objectives of the reform process that has just begun.**

The experience with recent incentive policies could be a useful point of reference for the review of tax benefits envisaged by the enabling law on the tax reform and the delegation to the Government on the review of the system of incentives for companies. Over the past decade, corporate subsidies have been targeted at specific sectoral and territorial objectives, significantly affecting both their liquidity and their willingness to invest. Although these incentives have been weakened in recent years and are in any case expected to be phased out, it should be noted that they will continue to have an effect on public accounts in the coming years, defining a tighter path in terms of available resources for being confirmed or revised.

The enabling law on the tax reform envisages a strengthening of the approximation path between economic and tax definition of values with the aim of simplifying and rationalising the process of defining the taxable amount thereby reducing compliance costs for companies. **The effects of broadening or narrowing the taxable amount will depend on the direction of the changes, which**, as the analysis conducted by PBO has shown, **may have significant redistributive effects.**

Pensions and employment in the last decade

Analysed along the perspective of pension measures, the period 2004-2023 is almost perfectly divided into two decades, the first characterised by the stiffening and tightening of retirement requirements and the second by their relaxation. The tightening took place for fiscal consolidation purposes through structural changes, the most important of which were the raising of retirement requirements both for old age and seniority, their automatic linking to improvements in life expectancy at age 65, and the increase in the frequency of updating the coefficients for transforming the notional amount into income. The subsequent relaxation took place, instead, by means of temporary measures, while awaiting a future overall reorganisation oriented towards flexibility, based on intervals of age and/or seniority values within which one could freely choose, accepting, in some cases, corrections of the pension amounts.

Over the same twenty years, the labour market has also changed considerably, with an initial proliferation of fixed-term and para-subordinate contracts while maintaining the rules of open-ended contracts (from 2003 to 2011) and a subsequent phase in which the better framing of fixed-term contracts and the downsizing of para-subordination was accompanied by the reform of open-ended contracts with the revision of Article 18 of the Workers' Statute (from 2012).

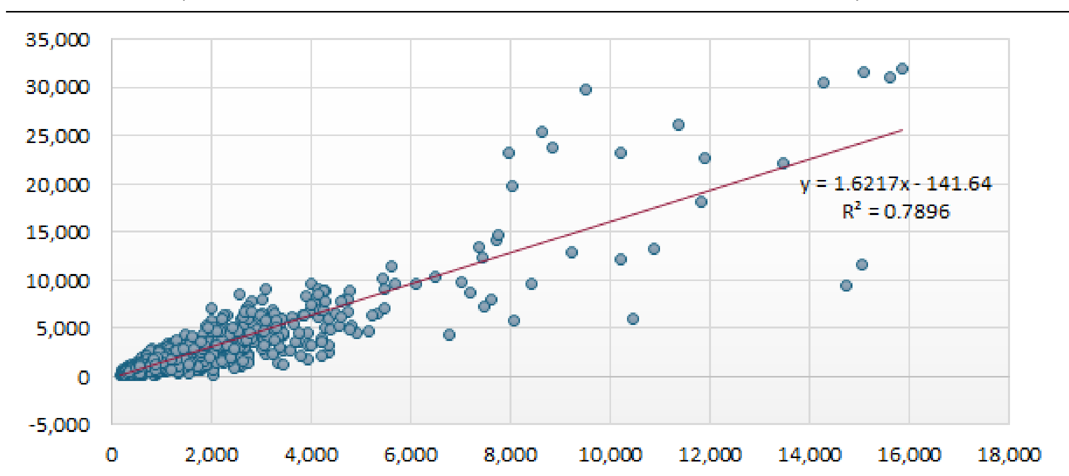
If in the debate the reintroduction of flexibility in retirement requirements has found and finds a general consensus to meet individual preferences that also influence family well-being and labour productivity, the prospect of it being accompanied by the contributory recalculation of allowances is less supported. It is a debate that has been going on for at least two decades, but that recently, driven by the not particularly favourable economic trend and the increasing marginalisation of young people, has more directly intertwined with labour market issues and, thus, with the possibilities opened up by labour reforms.

The lowering of retirement requirements is wished by many in order not to keep demotivated and unproductive elderly people at work and to encourage generational change in the workforce, making room for the innovative skills and human capital of young people, who would otherwise risk being impoverished without making their full contribution. More generally, easier access to retirement is seen by many as a way of boosting the career progression of those employed in the middle age groups, either with the same employer or also through professional changes, again bringing new energy and skills into roles of responsibility and choice. According to the proportions of this replacement and the productivity boost that might result from it, the higher pension expenditure to be faced in the short to medium term might find some endogenous coverage, thus reducing the need for actuarial adjustments of pensions. These and other considerations have been the subject of intense academic debate on the so-called *lump-of-labour* hypothesis, i.e. whether retirement exits constitute a channel for opening up opportunities for accessing the labour market, improving individual positions and increasing overall productivity.

Recent literature has so far analysed the connection between retirements and employment trends in the years 2004 to 2014, characterised by tightening of pension requirements and ongoing labour reforms. There are still no analyses of the subsequent period, characterised by the relaxation of pension rules and labour legislation that stabilised around the new principles of the *Jobs Act* with the amendments made to it by the Dignity Decree. **Moreover, the analyses available up to now have focused on the aggregate effect as well as on the age and gender dimensions, but leaving in the background the type of contract,** which instead, after the *Jobs Act*, has assumed a not negligible relevance on the dynamics of entry and exit from work.

The PBO gives an initial contribution to fill this gap with a fixed-effects panel econometric estimate that attempts to explain the dynamics over the last decade of activations and terminations of the various types of labour contracts and of transformations to permanent contracts on the basis of groups of explanatory variables, including old-age and retirement flows. With more recent contributions on *lump-of-labour* focused on the previous decade, the analysis shares the use of long historical series, in this case at provincial level, and the advantage of observing the phenomenon entirely a posteriori. Regression seeks statistical and controlled confirmation of three stylised facts that characterised the labour market over the decade: the correlation between retirements and net activations of fixed-term contracts (Figure 10), the correlation between retirements and contract transformations to permanent contracts (Figure 11) and the correlation between net activations of fixed-term contracts and transformations to open-ended contracts (Figure 12).

Figure 10 – Correlation between old-age and seniority retirements and net fixed-term contract activations at provincial level (30-50 age group)
(retirements on the x-axis, contractual movements on ordinate)

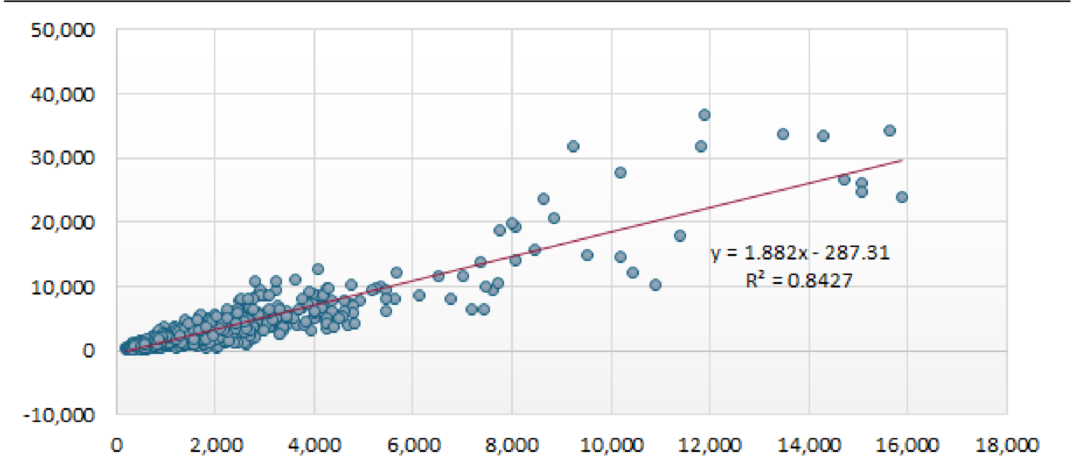


Source: elaborations on INPS data.

From the analysis, it results that each termination of an employment contract due to retirement was associated, on average over the past decade, with an increase in fixed-term employees of 0.7 and the transformation of 1.7 contracts from fixed-term to permanent. The net effect on the stock of employed persons was therefore positive but limited (+0.7

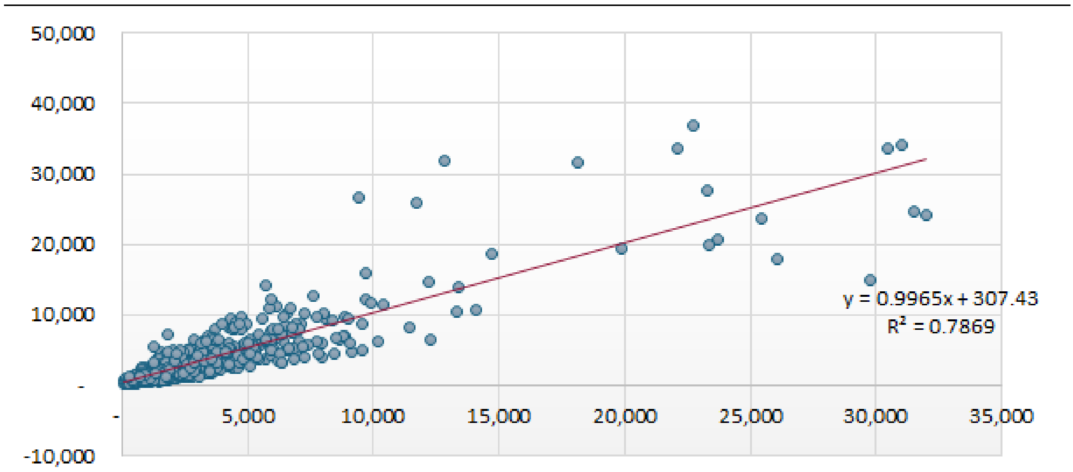
new entrants) and, moreover, achieved thanks to fixed-term contracts; however, there was also an internal reorganization of the employed, towards permanent contracts.

Figure 11 – Correlation between old-age and seniority retirements and transformation of fixed-term into permanent contracts at provincial level (30-50 age group) *(retirements on the x-axis, contractual movements on ordinate)*



Source: elaborations on INPS data.

Figure 12 – Correlation between net fixed-term contract activations and transformation of fixed-term into permanent contracts (30-50 age group) *(contractual movements)*



Source: elaborations on INPS data.

One possible interpretation is that the sharp increase in fixed-term contracts and transformations into permanent contracts, which has been going on for several years and has significantly involved young people, has benefited also from retirements. On the other hand, no evidence emerges of a possible effect of retirements on direct recruitment for permanent positions. Since the *Jobs Act* started in 2015, these results are conditioned by the new rules for fixed-term contracts and permanent contracts with increasing protections. In particular, the almost perfect upward co-evolution between net fixed-term

contract activations and transformations into permanent contracts over the ten years examined may reflect both the constraint on the proportion that each employer must maintain between fixed-term and permanent employees (20 per cent) and the limit on the duration of fixed-term contracts (referred either to a single contract or to renewals thereof, or to the sum of several contracts over time).

In conclusion, it cannot be excluded that the re-establishment of less restrictive pension requirements may facilitate turnover between generations, the entry of younger people into work, and also the stabilisation of those already employed. But this proportion is far off what debated in 2019 when, at the introduction of "Quota 100" – the first temporary channel for leaving with requirements below the ordinary ones – it was hoped for at least three new employees for every pensioner without any particular regard to contractual arrangements. **It does not seem plausible, therefore, that measures in this direction can be self-financed in the short to medium term without weighing on budget balances, taking resources away from other instruments of the welfare system,** which were created expressly to perform redistributive functions and which in the meantime are looking for new coverage, such as benefits for families with children, the fight against poverty – including poverty in old age – and health and long-term care benefits.

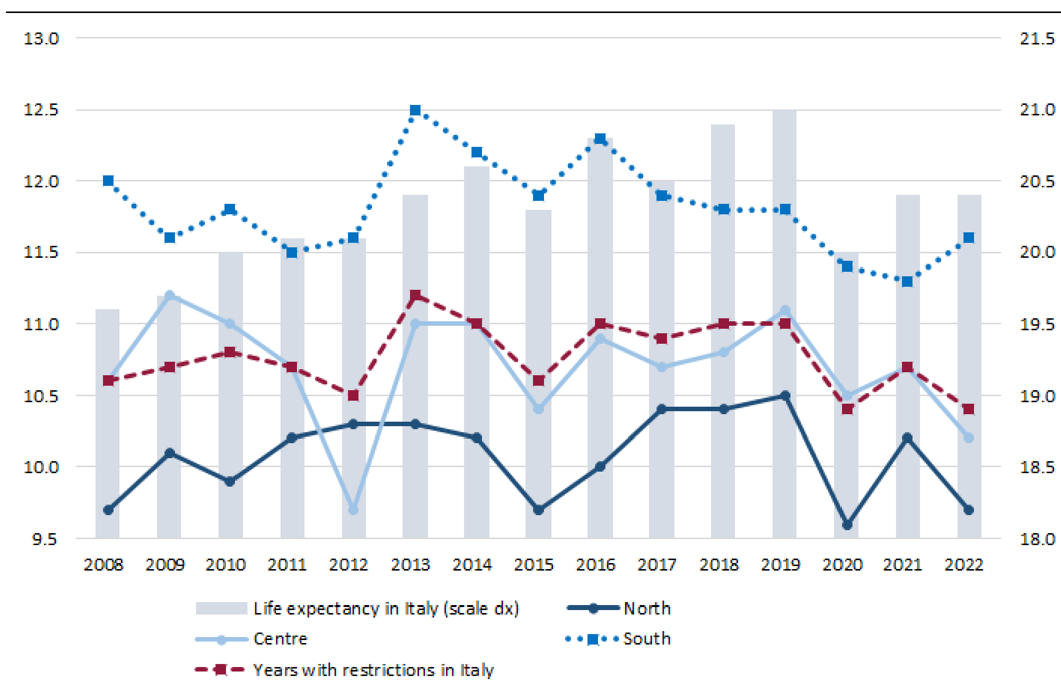
A possible review of retirement requirements, towards a flexible set-up with age and seniority intervals within which the worker can choose, should be accompanied by the application of actuarial corrections for the shares of pensions calculated with the old wage-based rules. The budgetary law for 2024 has already prudently moved in this direction, renewing "Quota 103" for a further year, but with the significant change of the recalculation of pensions with the new rules based on notional accumulation of contributions and the actuarial transformation of the capital into annuities.

Long-term care policies in Italy: lights and shadows in recent reforms

This chapter analyses the NRRP's two parallel reforms on disability and non-self-sufficiency, which were approved within the scheduled deadlines but postponing many fundamental issues.

The possibility of needing *long-term care* (LTC) services at some point in one's life has long been recognised as one of the new social risks. The population concerned by LTC in Italy is rather large, mainly as a result of high life expectancy and the large part of the population aged at least 65 (about a quarter), so the need for public intervention in the sector is great. Surveys carried out in this area show that a significant need for more support to families is perceived. However, a note of optimism for the future may come from the low percentage of people with severe limitations, compared to the European average, and from observing the evolution of the number of years lived with limitations as life expectancy increases, rather stable in the past (Figure 13).

Figure 13 – Life expectancy at 65 and years lived with limitations by geographical breakdown



Source: calculations based on data from ISTAT.

Several countries have already acted to introduce a LTC system, although the models are very differentiated and, in the EU, only the Netherlands, Sweden and Denmark have strong systems (public spending at 3.5 per cent of GDP) and based on providing real services. **Italy, with an expenditure of less than 2 per cent over the last decade, ranks among the countries that devote an intermediate level of resources to the sector,** but the model is mainly based on monetary transfers, free of spending constraint, generally used to compensate family caregivers or to purchase personal care services, not always with regular contracts. Consistent with this approach, subsequent regularisation measures were introduced over time. The regions have adapted the existing resources to organise LTC policies, building differentiated models, according to available resources, organisational capacities and preferences for different types of intervention. The range of services is also extremely diversified between individual municipalities and social districts (*ambiti territoriali sociali*, ATS) and overall, not very developed. The knowledge of the interventions implemented, especially at local level, is not satisfactory.

A positive aspect of the reforms is the introduction of a uniform assessment procedure, for acknowledging both the condition of disability and that of non-self-sufficiency, aimed at simplifying the definition of care needs and access to services. The implementation times, however, are rather long.

Instead, the issue of whether a new *welfare* sector dedicated to addressing the risk of non-self-sufficiency has actually been introduced remains controversial. From the point of view of institutional engineering, the National system for care of the non-self-sufficient

elderly population (*Sistema nazionale per la popolazione anziana non autosufficiente* - SNAA) would ultimately seem to concern only social assistance, not the health component, but this is also a result of the different nature of social rights and health rights in Italy, with the second constitutionally protected and the first still very confused and indeterminate, therefore difficult to claim. In fact, **the reforms remained cautious in defining the Essential Levels of Benefits (Livelli essenziali delle prestazioni),** not even indicating a predefined time progression of service objectives. Thus, the asymmetry between social assistance and health care is reconfirmed, and along with it, the fears of those who saw in a hypothetical national system for LTC, overriding the NHS, the risk of also weakening the right to health. A strong commitment will be needed both in planning and implementing the interventions to integrate the health and social components.

Reforms offer an important role to the Third Sector, and it is hoped that sectoral associations, as well as those representing beneficiaries and social partners, will be involved in the planning of services. The risk, also considering the entrepreneurial role of a relevant part of the Third Sector, is to give too much voice, in the organisation of public intervention, to the interests of private providers, who aim to enlarge their market with a substitute function. Active ageing measures, being largely of a voluntary or promotional nature, end up weakening the objective of assuming strong public responsibility for non-self-sufficiency.

As far as the management, integration and delivery of services and benefits are concerned, such as their reinforcement, many aspects appear to be unsolved, postponed or simply not addressed. The NRRP finances, up to its end, the increase in integrated home care (ADI) to 10 per cent of persons over 65 years of age, but with very low average care intensity. Integration, standards of home and residential services, training and qualification of staff and caregivers are mostly postponed to future regulations. The so called "universal benefit" remains a very limited programme, the evolution of which has not been planned. There is some confusion also about the threshold age for being considered elderly. Rather than concretely outlining the development of public services, the emphasis is placed on the logic of networking and horizontal subsidiarity. This and the abandoning of the concept of adequacy of care intensity led to the design of a LTC system in which it is not the need that determines the support provided to the person, but it is the aid available, searched and combined in various ways, that determines the supply.

The deferrals and gaps of the legislative decrees are mainly based on the limited financing of the reforms, which relied on the NPRR investments, which will end in 2026, and on the resources available under the existing legislation, which include only the allocation of a few hundred million for social and home care services for non-self-sufficiency (budget law for 2022) and for policies for people with disabilities (budget laws for 2020, 2022 and 2024).