SUMMARY AND CONCLUSIONS

The economy and public finance in the face of the crisis

Economic background

1. *The extraordinary pandemic of early 2020 has struck at a time in which the macroeconomic context was already marked by a significant slow-down and a very uncertain international outlook, at the end of 2019, only marginally reassured by some progress in trade relations between the USA and China. According to the assessments of the International Monetary Fund made last January, world trade in 2020 was expected to regain strength albeit remaining below 3% (compared to 1% in 2019), while world growth was expected to consolidate the levels achieved in 2019 (around 3%). Against this backdrop, relatively stable inflation conditions were expected, with rates of change in consumer prices slightly above 1.5 percent, and accelerating slightly, in the advanced economies. Market forecasters and other major international bodies, such as the OECD and the European Commission, had produced similar scenarios.*

2. *As far as Italy is concerned, the official forecasts set out in the Update to the DEF (Economic and Financial) Document of last September, which were then confirmed in the Budget Planning Document, showed a modest recovery, with the GDP growing from 0.2 percent in 2019 (0.3 percent in ISTAT's final figures) to 0.6 percent in 2020. These projections were also subject to downside risks in light of the significant slowdown in economic activity in the last quarter of 2019. However, with the outbreak of the health emergency in Italy and the spread of the virus worldwide, followed by the lockdown decision in early March, the economic situation underwent a radical change.*

3. *The key features of this upheaval are described in detail in the recent Economic and Financial Document (DEF), which provides an acceptable description of the economic outlook and, therefore, of the difficult environment facing public policies. The estimates which, exceptionally, limit the forecasting horizon to the 2020-21 two-year period, and refer to a single macroeconomic scenario (not distinguishing between the baseline scenario and the programmatic scenario), indicate that the real GDP will shrink by 8 percent in the current year and then partially rebound in 2021 (+4.7 percent). The deviation from the 2019 DEF Update forecasts is, of course, quite significant, measuring over 5 percentage points, cumulatively, over the two-year period. It is further estimated that the annual change in the GDP deflator should be 1% this year and 1.4% in 2021, so that the nominal GDP would fall by 7.1% this year and grow by more than 6 percentage points next year. Overall, the forecasted outlook appears consistent with the assumptions* *made regarding the intensity and timing of the return to activity in the currently "frozen" sectors. According to the estimates presented in the Document, the recession would affect all the components of aggregate demand, except for public consumption. Household spending would drop by over 7%, while gross fixed capital formation would shrink by over 12%. The impact on exports would reach 14.4%, partially compensated, as far as the balance of payments is concerned, by imports, which would also substantially decline (13%), as a result of the drop in domestic demand. The contribution to the recession of the change in stocks would be -0.7 points. In 2021, even the limited rebound would affect all demand components, albeit with differing degrees of intensity. The forecasted scenario envisages a labour market strongly affected by the crisis, with an increase in the unemployment rate from 10 to 11.6 percent in 2020. Thanks to the significant strengthening of non-standard monetary policies and the new Pandemic Emergency Purchase Programme (PEPP) of securities by the ECB, the projected scenario would not be accompanied by significant tensions on the financial markets, with an interest rate on long-term securities in Italy equal to 1.4 percent (compared to 1.9 percent in 2019 and 1.2 percent in 2020, according to last autumn's draft budgetary plan).*

4. *The projected forecasting dynamics appear consistent with the currently available information, although there is great uncertainty. The crisis will have a significant economic impact through the direct and indirect, internal and external supply and demand channels. In fact, we are faced with a peculiar crisis, which hardly compares with other known upheavals in our modern economic history and which has been triggered by an exogenous event similar to a natural disaster, entailing the sudden freezing of a part of the production system (the so-called non-essential sectors). The shock has primarily affected the supply side of the economy, but is also accompanied by a fall in demand, the dimensions of which will ultimately depend on the response to the economic policies that will be implemented. Public policy is tasked with mitigating the effects that would be produced if the fall in supply, in the sectors put on hold, were to result in a fall in workers' incomes, without adequate compensation measures, and therefore in the further shrinking of demand and employment. The distinctive features of the crisis are also generating a rapid restructuring of demand: some sectors, such as food, health care, or the remote reorganisation of production activities, are growing, although this growth is more than compensated by the fall in trade and in the catering, recreational, cultural, tourist sectors and, generally speaking, the production of goods and services subject to the effective administrative rationing of demand. On the other hand, a decisive drop in private investments is expected, since the immediate reaction of households and businesses to an uncertain future is to put on hold and postpone investment projects. An important role in determining the size of the drop in production in Italy will be how the pandemic affects foreign demand. With the collapse of international trade, which could turn out to be around 10% on an annual basis, the traditional markets for our products are shrinking. In some decisive sectors, such as tourism, the adverse effects are likely to be prolonged over time, due to the different timing with which the emergency is affecting the main areas of the world. Finally, as far* *as demand is concerned, the long-term effects on the climate of confidence will be significant: in fact, the worsening of expectations, of which there was already evidence in the ISTAT data for March and in the volatility indices of the financial markets, which signal values higher than those recorded during the 2008 financial crisis, could hamper the possible rebound effect and negatively affect consumption and investment decisions and plans.*

***5.** Ultimately, the Italian economy (and, likewise, the global economy) is experiencing one of its most troubled periods, which will have both short-term effects, as already mentioned, and long-term effects, which must be kept in mind and from which opportunities to be seized could also arise. Among the latter, it is worth mentioning how the remote activities that are being tested could boost the development of the digital economy, resulting in an overall increase in system productivity; the possible rebalancing of manufacturing activities inside and outside the countries; the drive towards modernising the health systems and the development of telemedicine. Crucially, we will need to understand how the inflation rate of economies will evolve, between the strain produced by a drop in demand and the drive due to costs; equally important for public finances will be the evolution of the "underlying" interest rate.*

***6.** In the case of Italy, the crisis has come about in an economic situation, in the recent and less recent past, characterised by structural problems and vulnerabilities that need to be taken into account when necessarily devising a policy strategy for restarting the economy. We can only mention a few of these aspects here. Firstly, the current recession is affecting Italy at a stage in which the gross domestic product had recovered only half of the losses recorded in the wake of the double recession of 2009 and 2012 (equal to about 9 percentage points of the GDP). The external components alone of aggregate demand have exceeded, for some years, the 2007 level. During both the 2008 post-crisis recessions and the recovery phases of 2014-15, the growth differential, with respect to the euros area as a whole and its main partners, remained wide and even grew wider.*
Secondly, falling income trends, in Italy, have been decisively affected by the poor dynamics of gross fixed capital formation. From this point of view, the new crisis has dealt a severe blow to a recovery process that was already struggling. This Court, in various forms, has often highlighted the role played in the limited accumulation of capital by the public investment component and the ensuing need for adequate revitalisation. However, the data show that there is ample room for improvement and recovery for private investments. These dropped by about 30 percentage points between the beginning of the great crisis and 2014, recovering only marginally since. The construction component trend is particularly negative, which once again emphasises the issue of tangible infrastructure. On the other hand, the intangible component alone has recorded an upward trend, which also significantly affects the growth of system productivity. Comparing this trend with those observed in Germany, France and Spain shows that Italy has been the only country that, over a number of years, has made negative net investments

in terms of product quotas, i.e., the new capital accumulation was not even sufficient to offset depreciation, with the consequent erosion of the capital stock. Only by implementing a structured plan will it be possible to recover lost ground on this front and lay the foundations, also through a strong push towards investments and intangible infrastructure, for boosting the potential growth, which clearly requires the strengthening of overall factor productivity.

Public accounts

***7.** No less sudden and significant are the changes recorded in the public accounts, between the 2019 Update and the 2020 DEF, the milestones of which are described in the Report.*
Last autumn, the Government prepared the 2020 budget package in the light of the forecasts for the end of 2019 and the general trends over the following three years, which confirmed some favourable conditions. With regard to revenues, the improvement in the expected results was based on mandatory electronic invoicing, the entry into operation of reliability indicators in replacement of the so-called "studi di settore (turnover presumption index)", the increase in contribution revenue as a result of the coming to an end of the contribution relief measures for newly hired employees, introduced by the 2015 Jobs Act; the growth in dividends collected during the year by the Cassa Depositi e Prestiti and the Bank of Italy. Regarding expenditure, the forecasts that incorporated the growth of the "reddito di cittadinanza" (citizenship or basic income) and the "Quota 100" (early retirement) schemes were substantially fulfilled, with an interest expenditure of 3.4 percent, down year-by-year by more than €3 billion. Indebtedness was estimated at 2.2 percent for 2019 and the trend for the following three years showed a clear improvement, with respect to the forecasts set out in the DEF in April: net borrowing was forecast at 1.4 percent of the GDP in 2020, 1 percent in the following year and 0.9 percent in the final year. The primary surplus stood at 2 percent in 2020 and set to remain at the same level over the entire period.

***8.** This was the backdrop to the budget law approved on 23 December 2019, which took into account the effects of Legislative Decree 124/2019 and also set out the financial outlines of other legislative measures, including the measures for reducing the tax wedge and providing support to households, for which the relevant resources had been identified.*
The decision was to slow down the process of fiscal consolidation and to focus on a set of redistribution measures which, beginning with the cancellation of the VAT clause for the current year, could reduce the tax burden on the more vulnerable segments of the population, stimulating public investment and promoting the conditions for more sustained growth.
Compared to the baseline trend under the current legislation, a worsening of the net borrowing of the general government sector is expected, by 0.9 percent of the GDP in

2020, 0.7 percent in 2021 and 0.5 percent in 2022. The programmatic deficit is expected to remain stable at 2.2 percent in 2020, before dropping to 1.8 percent in 2021 and 1.4 percent in 2022.
Expansionary measures amounting to 1.8 percent of the GDP in 2020, 1.7 percent in 2021 and down to 1.4 percent in 2022 are envisaged. However, net of the interventions on the safeguard clauses, the new provisions imply expansionary effects, obviously to a lesser extent, but increasing over the three-year period, from 0.5 in 2020 to 1.2 and 1.3 percent in 2021 and 2022, respectively. The financial resources allocated for covering them amount to 0.9 percent of the GDP over the entire three-year period.
Regarding 2020, the expansionary measures will employ approximately €32.3 billion, against which resources of approximately €16 billion are expected, with a consequent deficit increase of approximately €16.2 billion. The expected drop in revenues is just under 27 billion; increased expenditure amounts to about 5.3 billion, 60% of which for current expenditure.
Overall, the measures entail a net reduction in revenues, in 2020, of about 16 billion (about 0,9% of the GDP). Net of the clause, an increase in revenue of about 7 billion is envisaged. In 2020, the tax burden is expected to remain stable at 42% (the same level as in 2019), compared to 42.6% in the baseline scenario. Net expenditure is expected to rise by only 139 million in 2020, increasing progressively in the following two years to 13.2 billion in 2022 (0,7% of the GDP).

***9.** The measures focus on a few headline targets, especially in 2020. The tax reduction measures take up 84.4% of the planned resources in the year. Of lesser importance are the measures for the growth and for the South of Italy, to which 4.5 percent of net investments have been allocated, and the measures for households and disabled persons (2.4 percent), for the regions and local authorities (2.1 percent) and for refinancing the previous regulatory provisions (2 percent). Only 1% has been allocated for public-sector employees and public investment in the first year.*
In the following years, the policy mix changes radically: 53.1 and 33.4 percent of resources are allocated for cutting taxes in the two years, respectively, while both development measures, with 19.2 and 26.6 percent of investments, and refinancing measures (6.7 and 8 percent) are set to increase significantly. Investments and measures for households and the disabled will also increase, absorbing 11.3 and 8 percent of resources at the end of the period. Public-sector employees and the regions and local jurisdictions account for 4% of total resources. The percentage of those allocated for welfare, health and culture is more limited.
The framework of the funding provisions relating to the measures is also rather complex. A composite set of fiscal provisions is expected to account for more than 36.7 percent of resources in 2020: these consist mainly of revenue increases from baseline reviews, the revenue produced by the Isa (summary reliability indexes) removed from the 2019 financial year, the revaluation of equity investments and corporate assets and the freezing of certain deductions. A set of provisions that remains important in the following two

years as well, when one-off revenues will be replaced by revenues from the overhauling of the flat-rate tax scheme and the abolition of substitute taxation.
The measures to combat tax and contribution evasion and fraud, introduced with the Legislative Decree 124/2019, account for 20% of the expected funding sources in 2020, a proportion that rises to 29% at the end of the period. Closely related to these are also the revenues included in the area of intervention on the digital economy and taxation, referring both to the taxation of online transactions and measures in favour of payment traceability: only 1.9 percent of resources in 2020, rising to over 9 percent in 2022.
Of note, although decreasing over the three-year period, are the reductions in expenditure and the cuts in funding provided in the second section of the budget law, which also include cuts in the financial allocations of government departments, as well as a further reduction in the resources allocated to the "Quota 100" retirement scheme. These account for over 21% of resources in 2020, dropping to 19% in 2022.
Expected revenues from the gaming sector and the renewal of concessions are also growing; they account for 8.6% of the funding in the first year and 11.5% in the final year. The weight of environmental and health protection measures is increasing over the three-year period (mainly regarding the new measures applicable to the production of plastics and sweetened beverages). These are expected to account for 2.1% of resources in 2020 and 5.4% in 2022.
Finally, less than 2% of the resources come from the reformulation of tax expenditures and subsidies.

10. *The approach adopted for the budget law is characterized, regarding revenues, by the effort to reabsorb pockets of tax evasion and avoidance, pursued primarily through the extensive use of measures that encourage the voluntary disclosure of hidden income and the more accurate measurement of the contribution capacity of individual taxpayers and businesses; but also by new measures which, although designed to pursue virtuous objectives, do not appear to be included in a more comprehensive reform process aimed at achieving fairness and simplifying the system as a whole, with a view to building a more favourable environment for growth and the protection of natural resources.*
Faced with the difficult task of walking the fine line between balancing the budget and keeping the economy growing, in which every effort must be made to reverse the rate of growth, also a rather difficult task, the definition of a comprehensive expansionary plan to boost our economy has yet again been postponed. The use of funds and frequently putting off the actual definition of the measures to the future prolongs the time needed for their implementation (despite the introduction of very close deadlines) and ultimately reduces their effectiveness.

11. *Against a general economic background strongly influenced by the coronavirus epidemic, from which a significant drop in the GDP is expected, the DEF has recently revised its forecasts for 2020 and 2021, also to take into account a better-than-expected 2019 outcome.*

In fact, the deficit recorded in 2019 was 1.6 percent: 0.6 percent of GDP lower than the forecast (2.2 percent), mainly due to the confirmed improvements on the revenue side, the first signs of which had appeared at the end of the year, during the examination of the budget law.
In absolute terms, the budget deficit, compared to 2018, dropped by 9.5 billion (from 38.8 to 29.3 billion). In addition to revenues (which grew in absolute terms by just under 23 billion), which more than offset an increase in primary expenditure of 17.7 billion, a great contribution to this result was also provided by the fall in interest expenditure (-4.3 billion). The primary surplus rose by 5.2 billion (1.7 percent of GDP compared to 1.5 in 2018). Fiscal burden increased by 0.5 percent to 42.4 percent.
The improvement in revenues mainly reflected the accentuated trend in direct taxation (up from 14.1 to 14.4 percent of the GDP), social security contributions (from 13.3 to 13.5 percent) and other current revenues (from 4.3 to 4.5 percent), while the expansion in spending was due to the trend in welfare benefits (up from 19.7 to 20.2 percent) and investments (from 2.1 to 2.3 percent).

***12**. If, in the Government's assessments made before the crisis, the improvement of the 2019 accounts would have been reflected in the 2020 accounts, reducing the expected deficit from 2.2 to 1.8 percent, the current macroeconomic forecasts produced in the wake of the shock induced by the health emergency are now affecting the baseline scenario. According to the new outlook, the 8.6 percent fall in the GDP, compared to DEF Update, will result in an increased deficit of 4.1 GDP points. On the other hand, the measures introduced by the "Cura Italia" decree have an impact on the net borrowing of 1.2 GDP points. The new baseline deficit will therefore rise to 7.1 percent of GDP.*
Compared to the forecast set out in the NTI (technical notes), the new tendency for 2020 involves increased final expenditure of 26.2 billion. As a result of the sharp reduction in the GDP, expenditure will rise from 46.6 to 54.8 percent of the GDP.
Among current expenditure, spending for social benefits in cash increased by over 10 billion, as a result of a 2 billion drop in pension spending and an increase of around 13 billion in other benefits (redundancy funds and income support measures).
There was also an increase in intermediate consumption expenditure, which was affected by the ISTAT's review of data from previous years and the increase in expenditure linked to the health emergency (+4 billion).
Capital expenditure is still related to recent measures (liquidity support measures for businesses and the strengthening of SME guarantee funds) and the increase in investment grants, which grew by just under 5 billion.
More limited, albeit significant, is the change in investments (+1 billion), while other capital expenditures are directly affected by the change in the perimeter of the public entities to be included in the general government sector.
The drop in revenues totals more than €52 billion, compared to the expectations for 2020. This is mainly due to the fall in tax revenues, of which 22,9 billion of indirect and 17,5 billion of direct taxes. Also significant is the drop in social security contributions (16.3 billion), while non-tax capital revenue alone is revised upwards due to the expected

increase in European Regional Development Fund inflows, in connection with the new more streamlined criteria for using the funds, as a means for accelerating growth.
Final revenues in relation to the GDP are slightly higher than estimated in the NTI, representing a 0.9 point increase in terms of the GDP. Fiscal burden has dropped to 42.2 percent in 2020 and is expected to reach 43.3 percent in 2021.

***13**. In the face of the new baseline scenario, which involves a substantial increase in the estimated deficit, the Government has included further actions in the DEF, specifying their relevant purpose. The first action is aimed at increasing the resources already earmarked last March and appears to confirm the overall nature of those measures: strengthening the health care and safety system, business credit and capitalisation; job protection and income support; support for the inclusion and investment policies adopted by local governments; speeding up the payment processes by public administration entities; postponing tax deadlines and providing support to businesses and the self-employed. Proposals have also been made to freeze increases of VAT and excise duty from 2021 as a result of the safeguard clauses. To achieve these objectives, the Report to Parliament envisages a debt increase of 55.3 billion in 2020 and 26.2 billion in 2021, including 19.8 billion for deactivating the increases of VAT and excise duty. The Report contains the authorisation to extend the temporary budgetary deviation by a decade, precisely for the purpose of deactivating the clause.*
Of a regulatory nature is the further package of measures aimed at simplifying administrative procedures, to foster public and private investments. These measures are partly temporary, to restart the economy, and partly of a structural nature, aimed at adapting the internal regulations to the more simplified provisions, within the minimum levels required by European legislation.
The implementation of these measures entails a further increase of net borrowing to 173.3 billion (10.4% of the GDP) in 2020 and over 101 billion in 2021 (5.7%). The public debt is set to increase over the two-year period to 155.7 and 152.7 percent of the GDP, respectively. An assessment that, however, does not take into account the effects that the planned measures may have on the macroeconomic framework.
The decision, reflected in the DEF, is to postpone the definition of an effective policy framework until after the emergency phase when it will be possible, probably in next September's Update, to evaluate the effects of the economic restart and the measures that will have to accompany it. The definition of a debt reduction pathway has also been deferred.
The strategies that could be adopted to foster renewed growth are also mentioned: in addition to the acceleration of public works projects already underway, the set of innovative projects linked to the European Green Deal.
For the purposes of assessing the impact on the restart process, more detail will be needed as regards the lines of action that need to be implemented, in order to pick up again, once the emergency is over, the reform process that the country was in dire need of even before the pandemic hit our economy. Tax reform, the completion of the system for financing the local authorities and communities, definite and sustainable retirement

schemes, a shared project for community health care and the relevant resources, a nationwide infrastructure construction programme financed by both the public and private sectors, a community-focused health care system built on the solidarity framework that emerged in connection with the Covid-19 crisis. These are only a few of the issues that are already being tackled and regarding which the NRP (National Reform Programme) will undoubtedly be able to provide concrete elements and pathways that can give us clearer prospects for restarting our economy.

The debt

***14.** In 2019, public debt amounted to 134.8% of the GDP. This is the highest level reached since after World War I, although it has stabilised compared to 2018 and is lower than previously expected. The stabilisation of the debt/GDP ratio recorded in 2019 is, as usual, the result of the interaction of several factors: a) the differential between the average cost of debt (still significantly decreasing) and the nominal GDP growth (down due to the deceleration of the real GDP) has put an upward pressure of 1.8 points (the so-called "snowball effect"); b) the primary surplus put a downward pressure of 1.7 points; c) finally, an essentially neutral role was played by the items that directly affect the stock however without being part of the deficit (financial transactions, any proceeds from the disposal of securities, issue discounts and premiums, exchange rate effects on foreign currency debt, etc.).*

***15.** As far as the outlook is concerned, the Document, given the extraordinary nature of the times in which it has been prepared, offers no real policy framework for the debt as well and limits its assessments to 2020-21. In the "with new policies" scenario, the nominal value grows by 177 billion. Following the reduction of the nominal GDP, equal to 7.1 percent (the real GDP will drop by -8 percent), the debt-to-GDP ratio will increase from 134.8 to 155.7 percent. At the end of the following year, the stock will increase, compared to 2019, by 283 billion euros above the pre-Covid-19 level, with the actual size increasing to around 2,700 billion euro. In 2021, as a share of the GDP, the recovery would be 3 percentage points. The main determinant of the algebraic breakdown of the approximately 21 points of increase expected for this year is the reduced economic growth. In addition to the fall in the real GDP (by 11.6 points), the primary balance (which turns negative again after ten years) contributes to the increase by 6.8 points; the average cost of debt by 3.7 points and the stock-flow component by 0.3 points. The only factor that mitigates the increase in the ratio, by 1.5 points, is inflation (measured by the change in the GDP deflator).*

***16.** The phase we are going through is so severe that public budgets must unquestionably and necessarily expand. In many respects, the prospective sustainability of public finances in many countries today rests precisely on the ability to appropriately expand* *public debt. With regard to the difficult challenges we are all faced with, we can mention here only a few of the factual elements capable, on the one hand, of interpreting them in a historically retrospective way and, on the other, of appreciating them against the backdrop of the major differences in the public finance circumstances of the main countries of the euro area.*

With regard to the former, the historical series of the debt-to-GDP ratio shows that the forecast for 2020 remains below the peak recorded by Italy after World War I, when the debt reached almost 160% of the GDP. For international comparison purposes, in addition to the well-known and current experience of Japan, which recorded a debt-to-GDP ratio of 237 percent in 2019, the experiences of the United Kingdom, France and the Netherlands, in terms of public debt growth, should be noted. Respectively, the debt exceeded 270% in 1946, 237% in 1921 and 223% soon after World War II (1946). In the other major advanced countries, the United States recorded a peak, again in 1946, of 121 percent, while in the case of Germany the maximum value is just over 80 percent, recorded in 2010.

As for the starting conditions, although better than expected in the short term, the result achieved by Italy, in 2019, in terms of the debt/GDP ratio was well below the targets set in previous years. The DEF of five years ago - the first official document to include the 2019 financial year in the forecast - envisaged a decline from 132.5% to 120%. In this regard, it should be remembered that the initial conditions of the debt-to-GDP ratio are also significant: considering the three factors that influence change (i.e., the differential between average cost and growth, the primary balance and the component defined as "residual" above), if they are equal, the higher the initial level the higher the increase. Moreover, when the debt exceeds 100 percent of the GDP, the accumulation process due to the positive differential between average cost and growth rate tends to accelerate (snowball effect). In Italy, between 2007 and 2019, the debt-to-GDP ratio increased by 30.6 percentage points. Public debt algebra shows that, at the same conditions, historically recorded with regard to the interest rates and other determinants of the ratio (primary, growth, etc.), if the starting point had been aligned with the average of France and Germany (64 percent compared to the actual 104), its growth would have been contained in 16 points. It would, in fact, have been lower, considering that lower levels of debt would have paid a lower risk premium, therefore lower interest rates, and probably higher economic growth.

***17.** The present crisis has come at a time when the public finances of advanced countries were, generally speaking, in good shape, mainly because the trend in the "underlying" interest rates has brought the average cost of debt below the growth rate of the economy in many countries. This, however, is not so true in the case of Italy, the only country, among the major ones, where the above-mentioned trend has not been produced in the last two years. Given the circumstances, there is a higher possibility of increasing the debt-to-GDP ratio the more credible the guarantee, after the temporary and inevitable expansionary phase, of placing it over a suitable period of time, within the framework of a slow but continuous debt repayment process. From this point of view, we can agree*

with the programmatic indication, set out in the Document, that the recovery strategy will require an appropriate mix of a significant primary surplus and decisive measures aimed at improving investments and growth.
Finally, with regard to public debt, it should be noted that, in addition to the explicit debt, the assessment of all the contingent liabilities is also important. Therefore, it is necessary to emphasise the update, contained in the Document, of the outstanding public guarantees at the end of 2019, amounting to 88 billion euros euro (4.9 percent of the GDP, of which 27 percent issued to the financial sector), the largest portion of which has been issued through the Central Guarantee Fund, all the more so in light of the role that has and will be further taken on, presumably, in the near future, by the guarantees (so-called "Liquidity Decree"). In this regard, we must highlight the relatively favourable position of Italy compared to the other European countries.

The measures for combating tax evasion in the 2020 budget law

18. *The second part of the Report focuses on three fiscal policy issues that are still open despite being central to the debate for some years now, but regarding which only slight progress has been made, to date, and are far from having been adequately resolved.*
The first issue is the fight against tax evasion, which is at the heart of the 2020 budget law. Many of the relevant provisions are based on the experience built up in the fight against tax evasion and avoidance.
The measures included in the 2020 budget law significantly strengthen the regulatory mechanisms aimed at combating tax evasion. On the one hand, by way of a range of provisions aimed at preventing specific behaviours, such as undue tax rebates, the failure to pay withholding taxes and contributions in works and service contracts, the extension of the reverse charge in the provision of services with a prevalent use of labour, the complex set of measures for the prevention of fraud in energy products; on the other hand, by way of incisive changes to the law relating to tax offences and the broader possibility of using data mined from the registry of financial relations, not just in connection with tax return checks but also to foster compliance. Taken together, they represent the pillars of a coordinated strategy and are consistent with the measures adopted in 2019 with regard to electronic invoicing and receipt transmission.
Furthermore, not least in terms of importance, the changed approach to the use of non-cash means of payment has led to the (albeit gradual) lowering of the cash threshold, the obligation to make all transactions traceable, as a precondition for eligibility to deduct charges for IRPEF (income tax) purposes, the financial incentives granted to promote the use of credit and debit cards. It is reasonably expected that these measures will lead to the progressive disclosure of concealed income, with consequent beneficial effects on the tax compliance of Italian taxpayers.
Finally, the fight against tax evasion could be further boosted by other actions relating to electronic invoicing and receipt transmission.
An increase in the effectiveness of electronic invoicing could come from the move from optional to mandatory for certain taxpayer categories (more than 1.8 million

individuals). This is in view of the importance, for the proper functioning of the system, of developing a full picture of transactions between economic operators, given the level of simplification attained by the currently available technologies. The general changeover to electronic invoicing for all operators would, moreover, make it possible to electronically manage the full VAT registration, payment and declaration process, thus enabling the tax authorities to provide pre-compiled return forms with great benefit for self-employed workers and businesses opting for the flat-rate scheme.

Furthermore, electronic receipt transmission too should be completed, as soon as possible, for all taxpayers operating vis-à-vis final consumers, together with the timely launching of the already planned receipt lottery scheme.

As regards the importance of activities by the tax authorities, both in terms of their ability to subsequently control tax positions and, above all, in terms of support to compliance, we must stress the need to strengthen the number and quality of staff. In the wake of the initiatives already launched several years ago, such as the pre-compiled returns and notices aimed at promoting compliance and the timely correction of errors and inconsistencies, it would be useful to develop a capacity for preventive information and exchange with taxpayers, by making available to them all the facts stored in the tax administration databases before compliance and, first and foremost, the financial, economic and structural data concerning taxpayer activities.

In essence, it is a question of fully implementing a multi-faceted strategy based on a modern collaborative approach by the administration, centred on the timely use of databases and the capacity to interact with taxpayers through all available technologies, especially electronic technology, combined with the traditional ex-post control tools.

Tax expenditures

***19.** The issue of tax breaks has been a focus of attention of scholars and political players for several decades, initially with a greater emphasis on the transparency and efficiency of the tax system, and more recently with a view to their abolition in order to recover revenue. Despite all this attention, there is no unanimity either on the identification and characteristics of the reports that should favour transparency or on the effects and possibilities of reforming tax benefits. As far as the identification of tax expenditure is concerned, the main issue concerns the alternative between theoretical benchmarks or benchmarks identified on the basis of the applicable legislation. In the former case, tax expenditure is identified as a deviation from the ideal model of taxation, while in the latter it is identified as a departure from the current standard of taxation. Clearly both paths are extremely rough going: the theoretical model is not unique and invariable over time and countries may decide to make different choices. Likewise, identifying which is the current standard model and which elements can break away from it is an exercise that scholars are unlikely to agree on. The international comparison of tax expenditures, also due to the mixed nature of the quantification and classification methods, is a potential source of misunderstanding and therefore extremely difficult to carry out. However, some common elements can be found in all the experiences of developed countries: although* *annual reports have now become a key good practice in the budgeting process, tax benefits tend to increase from year to year and it is always rather difficult to limit or remove them, even in periods of need to consolidate public accounts. The analysis of the specific Italian situation follows these general trends. The issue of tax breaks has been brought to the attention of scholars since the first decades of the formation of the Italian State and limitation and removal of favourable tax regimes was considered a cornerstone of the tax reform of the 1970s, although unfortunately disregarded. Several censuses followed the reform - the most important in the early 1990s - but it was only with the reform of public accounting, enshrined in Law 196/2009, as part of the increasing European coordination of budgetary procedures, that it became mandatory to attach an annual census of tax expenditures to the budget. In Italy too, therefore, transparency has been enhanced in order to block the proliferation of favourable tax treatments, which, however, have continued to increase in both number and amount. The latest report identifies 533 tax expenditures for an approximate amount of 62 billion euro, featuring a very high degree of fragmentation. In fact, 13 tax expenditures alone feature an estimated cost in excess of one billion, totalling 42 billion and accounting for 67% of the overall value. This subset is largely made up of rules facilitating IRPEF income tax and, in particular, tax breaks relating to home ownership. For about 65% of the measures, on the other hand, the cost is either very low (in any case, less than 10 million euros) or extremely difficult to quantify. The distributive effect of these benefits linked to home ownership tends to be regressive, particularly in the case of benefits linked to renovations and energy efficiency.*

The possibility that tax breaks may overlap with spending measures for the same objectives poses a problem of efficiency. The Report on Tax Expenditures for 2020 specifically investigates this potential overlap, which, however, was found in only 10% of cases. By way of example, the policy to promote nursery school enrolment was analysed, which features the coexistence of tax deductions and cash grants to households, to which we may add the public expenditure directly incurred by local authorities for municipal nursery school services. In this case too there may be an uneven distribution effect, at least at the community level, given that the supply of nursery school services changes considerably from region to region.

20. *The majority of tax breaks for businesses, which have followed one another seamlessly over the last few decades, have been focused on reducing the user cost of capital to drive tangible or intangible investment expenditure. In recent years, also in relation to the increasing constraints imposed by State Aid regulations, the better targeting of aid has been replaced by a horizontal approach, which, while leading to a reduction of implementation costs has nevertheless raised doubts as to the effectiveness of measures implemented through automatic tax break mechanisms. The empirical analyses on the evaluation of the effectiveness of tax breaks are actually very limited, both because of the difficulty of accurately estimating the additionality or the anticipatory effects triggered*

by the breaks, and because of the difficulty of collecting adequate data. At the same time, the specific characteristics of the tax breaks for businesses also raises problems as to the fact-finding scope of tax expenditure censuses: the time lag between ex-ante estimates, on which the reports are based, and the disclosure of data on the decisions taken by businesses prevents a timely picture of the costs of such measures.
The combination of these considerations therefore requires an urgent discussion on the architecture of current tax benefit analyses. Increased transparency, which, through the Annual Report, puts the issue of tax relief at the centre of the political debate during the autumn budget session, has not been followed up on by a reduction of new tax expenditures, nor by an assessment of their effectiveness and distributive effects, which should in any case underlie any reform project. On the contrary, the debate remains focused on which individual tax expenditures can be abolished in order to free up more revenue, without comprehensively re-designing taxes or the objectives of the tax breaks.

Local government finance. Criticalities and prospects

***21.** The strong drop in local government revenue in the face of the health emergency and how the central government should financially support local governments are the underlying issues for tackling the reform of the funding system.*
The Report contains an overview of the criticalities and prospects of the Italian system of decentralised taxation. A number of factors need to be taken into account. First and foremost, there is the purpose of the funding. In this regard, the process of decentralisation in Italy has suffered several setbacks. Concerning the key functions of the Regions, the essential service levels other than in the health care sector have not yet been clearly defined, as a result of which a process for going beyond the historical expenditure criterion has not yet been established. Moreover, the recent instances of differentiated regionalism could potentially create more obstacles on the path towards the achievement of a stable framework of symmetrical federalism. For the local authorities too, the process of defining the needs associated with their fundamental functions appears to have grinded to a halt and there has been much uncertainty, over the years, with regard to the role of specific sources of funding.

***22.** The funding system too is still incomplete and subject to frequent changes. In the Regions, the current method of financial coverage of essential levels, to which a significant percentage of local taxes is allocated, does not leave much leeway for financing unrestricted spending with the said taxes. Of the approx. 37 billion revenue from IRAP and IRPEF, about 30 billion are tied to health care expenditure, to which are added less than 7 billion from regional vehicle excise duty and revenue from several minor taxes, the distribution of which depends on the tax-raising capacity of each Region. With regard to the 2018 assessments, over two thirds of the total revenue from IRAP and IRPEF surtax were tied to financing health care services. Therefore, the room for manoeuvre of the Regional governments is limited to 16 billion euros, accounting for 14.6* *percent of the total revenue from local taxes, without considering that not all the higher tax revenue from IRPEF and IRPEF surtax - with respect to the health care percentage - can be deemed an expression of the Regions' tax-levying powers, given that in some Regions the increase has become necessary - because it is mandatory - in the case of imbalances in the health care sector. The result is the predominant weight of devolved, which include the co-partnerships and the shares of the equalizing fund, which account for more than 60% of the total revenue.*

***23.** Concerning tax-levying by local governments, Legislative Decree 23/2011 provides for an overarching reorganisation of municipal taxation and a simplification of the tax system as a whole. However, over the years, many of the measures originally included in the decree have been disregarded. The four main taxes, with the exception of the TARI (waste disposal tax), which is a tariff and guarantees a total revenue of less than 7 billion euros in the ordinary statute Regions, secure a flow of resources to municipalities amounting to approximately 15 billion euros, with the majority of this amount coming from the IMU property tax. The lesser taxes, in total, secure a revenue of less than 1 billion euros. Under the current system - and also in the plans to reorganise and simplify the system, later shelved - the key focus is on property taxation. In fact, the levying of taxes on real estate has the advantage of complying with the principle of benefit as a criterion for tax distribution, since it can be reasonably assumed that the value of municipal services - or the lack thereof - significantly affects the value of real estate. Thus, the beneficiaries and the financers of the services tend to coincide. Following the exemption of the principal dwelling, this relationship ceases, and the main municipal tax ends up affecting many people for whom the virtuous circle between taxation and political representation is interrupted.*

***24.** Finally, the equalisation mechanisms put in place so far appear to produce rather uncertain effects, as regards both the distribution arrangements and the extension of the equalisation of essential levels and tax-levying capacity. To a certain extent, the greatest weakness lies in the difficulty of drawing a clear line between functions responding to different rationales and posing different problems. The core functions generally involve the definition, at central level, of essential service levels, with the aim of ensuring substantial uniformity between local authorities regardless of specific regional orientations. For non-core functions, on the other hand, the type and level of service provision should be left to the free determination of the local authorities, on the basis of a system of local preferences and needs. Concerning these functions, the central government should merely ensure the adequate allocation of resources in all areas.*
In this respect, in the Italian experience, there seems to be no clear - and probably appropriate - trend towards separating the funding and equalisation of core functions from the funding and equalisation of non-core functions.
The lack of this choice also reflects the difficult interaction between the forms of tax levying intended for the funding of the local governments and the need, expressed by

many parties, to overhaul the entire national tax system, at least in its quantitatively more relevant components. This overhaul should logically precede the definition of the funding structure of local governments, in order to ensure the necessary balance, in terms of both the separation of the sources of taxation and the coordination between central, regional and municipal levying.

Social security and welfare expenditures

***25.** With the increase in government debt, required to address the current economic and social crisis, in the coming years, there should not be a shift of focus from certain particularly important items in the government budget, on which the long-term sustainability of public finance balances rests in many ways. Among these, social security and welfare expenditures play a primary role, expected to come under pressure as a result of the ageing population and the projected increase in the old-age dependency ratio. Both issues are addressed in the Report, mainly with a view to re-interpreting the results of the significant regulatory innovations introduced with the "Quota 100" and Citizenship Income measures a year on and in the light of the comparison between the final 2019 data and the objectives pursued.*

***26.** According to ISTAT data relating to the Social Protection Account, total expenditure on social benefits in cash, including both social security and welfare benefits, amounted to 361.2 billion in 2019, up by 3.7 percent on an annual basis (2.1 in 2018) and 5 tenths of a point in relation to the GDP (from 19.7 to 20.2 percent). Concerning the outlook, the recent Economic and Financial Document estimates a very significant increase for 2020 (6.9 percent) followed by a substantial stabilisation in the following year (compared to the 3.5 and 3.2 percent forecast in the Technical Notes to the 2020 Budget Law). These significant increases reflect both long-term trends and the legislative decisions set out in the 2019 Budget Law, Decree-Law 4/2019 introducing the "Quota 100" and Citizenship Income measures and, lastly, Decree Law 18/2020.*

***27.** In 2019, the social security component, in its various forms, totalled 317 billion euros, with an annual increase of approximately one point higher year-over-year (2.8 compared to 1.9 percent). Expenditure on pensions (and annuities) amounted to over 275 billion euro, an increase of 2.4 percent per year (1.8 percent in 2018). Its impact on the GDP was 15.4 (up from 15.2 year-over-year), a more favourable result than estimated in the DEF of April 2019 (+15.5 percent) and in subsequent updating documents (DEF Update and NTI). There was a modest annual increase of sickness benefits (+1.1 percent compared to +4.8 percent in 2018), and negative changes were recorded in wage subsidies (-4.2 percent, after the -32 percent drop in 2018) and family allowances (-4.8 percent).*

28. *The comparison of the final expenditure data on welfare benefits in cash and its two main macro components (pensions and other benefits) with the different forecasts made for 2019 in the Economic and Financial Documents, starting from 2015 (first available data), shows that in nominal terms actual expenditure was more than six billion less than expected at the beginning of the five-year period, although its weight in terms of the GDP was two tenths higher than expected (20.2 compared to 20 percent). In terms of incidence, the difference was substantially nil on pension expenditure and more significant on other welfare benefits (+0.3 points). Nominal expenditure on pension benefits alone, 8.9 billion euros lower than planned at the beginning of the 2015-19 five-year period, is mainly the result of weaker than expected consumer pricing: inflation measured in terms of the change in the household expenditure deflator was almost four points lower than expected during the period.*

29. *As regards the development of pension expenditure in the short term, the DEF estimates an increase of 2.3%, on average, over the 2020-21 two-year period, compared to a better-than-expected final result. Both for the current year and the next, the forecasted rates are lower than those set out in the NTI (3.4 percent). In terms of GDP impact, expenditure on pensions, equal to 15.4 percent in 2019, could increase to 17 percent this year, due to a clear "denominator effect", then down to 16.4 percent in 2021.*

30. *According to the data sent to this Court, in connection with the preparation of the report on the Ministry of Labour and Social Policies (within the framework of the Report on the General Financial Statement of the Italian State for 2019), as of 22 January 2020, a total of 229,000 applications had been received in 2019, for the "Quota 100" measure: 40 percent from employees in the private sector, 28 percent from self-employed workers (including those who benefited from the rules concerning cumulation) and 33 percent from public-sector employees. Compared to the forecasts in the Technical Report, the participation rate was significantly lower, particularly for civil servants and the self-employed, and the number of retirements under the "Quota 100" scheme in 2019, therefore, amounts to about 58% of the prudential forecasts. The vast majority of early retirements through the "Quota 100" scheme involved male workers.*

31. *An interesting aspect of the figures on the "Quota 100" scheme is the geographical distribution of the applications and, being closely related, the link between the propensity to exercise the option and the responses of the different areas, especially in terms of its effects on the labour market. In this regard, the analyses contained in the Report, with reference to the breakdown of the data by province, highlight an upward trend moving from North to South, although with significant differences within each macro-area. A dedicated Focus in the Report contains an estimate of the relationship between the applications filed and five economic indicators identified as relevant: the ratio of* *pensioners to employees, the per-capita disposable income, the total and youth unemployment rates, the employment rate, the percentage of population in the 62-66 age group. The graphical analysis of the correlations shows the presence of clusters, confirmed by the statistical analysis. In particular, the cluster analysis led to the identification of five main geographical clusters. The estimates also offer several initial insights into the controversial issue of the effects of the "Quota 100" scheme on the labour market and, in particular, the replacement rate between retirees and newly-hireds. There are signs that the rate is presumably lower than expected and, in any case, lower than one. This is consistent with recent Bank of Italy estimates.*

***32.** Already during the Parliamentary Audition on Decree Law 4/2019 and, subsequently, in the 2019 Report on the coordination of public finance, the Court, in offering initial assessments of the social security actions implemented through the 2019 budget measures, had commented on the macro-financial soundness of these actions. The quantitative and qualitative information that has become available to date confirms the opinion expressed at the time. Some of the detailed information regarding the applicant base highlighted how this instrument has also served the purpose of addressing situations of deprivation and hardship experienced by persons close to meeting the standard eligibility requirements; however, in this respect, one of the most delicate aspects is retirement age flexibility, concerning which, thanks to Law 214/2011, the original flexibility guaranteed by the Dini reform has been reinstated by the current legislation for workers subject to a fully contributory scheme (who started working on 1/1/1996), who can retire at the age of 64. Taking into account the fact that, as time goes by, the difference in treatment between those who started working in 1996 and those who started only slightly earlier will become increasingly apparent (with the former being able to leave work at 64 and the latter having to wait a further three years to retire, at 67).*

***33.** Concerning pension benefits, it would be important to design a definite framework for the medium and long term, capable of ensuring the flexibility that is also needed for the functioning of the labour market and for economic, financial and social sustainability. A balanced pension system is decisive for balanced public finances. Ultimately, regardless of the effects of the "Quota 100" scheme, it is necessary to preserve the soundest elements of our public finance system, reaffirming the design and overall rationale of Law 214/2011 and ensuring the focused management of the existing waived institutions (the "APE sociale" scheme, etc.), also on the basis of the contribution that may come from the two study groups provided by the 2020 budget law (on strenuous jobs and the relationship between the social security and welfare components of expenditure). This would ensure the prospects of restoring an absolutely necessary balance to the sector.*

__34.__ In 2019, welfare expenditure also contributed to the relatively less buoyant growth in social benefits than initially expected. Expenditure for benefits in cash and in kind amounted to approximately 53 billion, up 6.6 percent year-on-year (+3.7 in 2018). Cash benefits, which account for 83 percent of the aggregate, amounted to almost 44 billion and increased by 10.2 percent (3.6 in 2018). In relation to the GDP and public expenditure net of interest, total expenditure on assistance accounts for 2.9 percent (2.4 in cash and 0.5 in kind) and 6.5 (5.4 in cash and 1.1 in kind) respectively. Over the last year, growth appeared to be very significant and was driven, on the one hand, by programmes aimed at combating socio-economic hardship and, on the other, by the so-called "80 Euro Bonus" for lower-middle/low income employees since 2014. Social benefits in cash other than pensions alone (which are systematically taken into account in the planning documents) have increased by 7.8 percent, a figure that, although quite significant, has remained below the forecast set out in both the 2019 DEF (+8.3 percent) and the DEF Update and the more recent NTI (+8 percent). For the 2020-21 two-year period, the recent DEF envisages expansion at an average rate of 5.9 percent (compared to 4.8 and 2.1 percent in the NTI). The increase is affected both by the reclassification of resources as a result of the reduction of the tax wedge, referred to in Decree-Law 3/2019, as part of expenditures, and of the first job support measures launched with Decree-Law 18/2020. Concerning expenditure in cash, the Citizenship Income scheme became particularly important in 2019, in both quantitative and qualitative terms.

__35.__ With reference to the data for 2019 as a whole, a total of 1,041,000 households were covered by the programme (including Citizenship Pension beneficiaries), amounting to just over 2.5 million individuals. The households have been found to be located predominantly in Southern Italy (60.6 percent), 36 percent of them made up of a single member and 88 percent with a head of the household of Italian nationality. Minors are featured in 36% of beneficiary households, while 21% of the households include disabled people. The average benefit provided under the programme is 493 euros per month (532 euros for Citizenship Income, 222 euros for Citizenship Pension); in the case of single-member families, the average benefit was 392 euros, while households with 5 members received 625 euros per month on average. The results in terms of households involved are below the estimates, which, in the official evaluations for 2019, contemplated 1,248,000 families and about 3.5 million people in need of income support.
The scheme, one year on from its introduction, has confirmed its effectiveness in the fight against absolute poverty. According to preliminary estimates, thanks to the Citizenship Income scheme, the absolute poverty rate may have dropped by 1.5 points (from 8.4 to 6.9 percent). The scheme has also possibly affected income distribution: the Gini coefficient, which measures statistical dispersion intended to represent income or wealth inequality in a nation, appears to have dropped to 31.4%, from 32.5% in 2018.

__36.__ However, the evaluation of the results achieved by the Citizenship Income scheme needs to take into account several profiles and, beyond its quantitative aspects (e.g. a *below-target household involvement rate), there are many points that should be examined with a view to possible improvement, on the basis of the experience built up in the first year. The amount of resources appears to be unbalanced, to the detriment of large-sized households and those with children and disabled people. There is no rate of involvement of non-Italian families proportionate to the spread of poverty in these segments of the population. There is room for a much larger role of the local social services, compared to that of the Job Centres. The involvement of the third sector in the management of the scheme could be greater. These issues will have to be addressed also taking into account the new economic and social context created by the Covid-19 emergency. Against this backdrop, some aspects will probably have to be better calibrated, also ensuring adequate coordination between the Citizenship Income scheme and several of the measures launched to counter the problems caused by the health crisis, since the establishment, under Article 44 of Decree 18/2020, of the Fund for income of last resort (Reddito di ultima istanza). Another step that needs to be taken, to ensure the scheme's capability to (albeit temporarily) counteract the situations of economic hardship, such as those arising out of the current emergency, is to speedily update the ISEE (indicator of the Equivalent Economic Situation), which measures the financial situation of households, to be able to effectively photograph the actual needs of households.*

37. *As regards the second pillar of the Citizenship Income scheme, aimed at promoting active labour market policies, the results appear at present to be largely unsatisfactory and confirm the concerns raised by this Court from the start. The available data, communicated by ANPAL Servizi, show that as at 10 February 2020 the beneficiaries of the scheme who found a job after the approval of their application total about 40 thousand. Above all, there are no signs of a greater dynamism of the Job Centres than in the past. Micro-data relating to the quarterly labour force surveys (situation at the end of September 2019) processed by the Court confirm that the weaknesses of the Job Centres are still all largely in place: a) only a limited proportion of job seekers - 23.5 percent - applied to a Job Centre in the year ending September (compared to 23.3 percent at the end of 2018); b) the proportion of job seekers finding a job from a Job Centre is extremely low, only 2.2 percent; c) the role of informal channels (relatives, friends and acquaintances) when seeking a job remains predominant (87.2 percent, compared to 87.9 percent in 2018). These data show that there is still a great deal of room for improvement in Italy, in the services sector, to increase the efficiency of matching labour supply and demand and that the worthwhile challenge of improving job centres in this country has yet to be won.*

38. *After launching the Citizenship Income scheme, the welfare policy focus of the 2020 budget law is on supporting the birth rate and households in general, especially with regard to non-independent living and disability, which is laudable, considering that Italy is lagging behind in this field. The measures focusing on households and resolving the birth rate problem are, generally speaking, justified both economically and socially, and* *those enacted with Law 160/2019 seem to move in the right direction, considering that demographic developments are, together with technical progress, a decisive variable for long-term development, and that in Italy the declining birth rate and the persistently low levels of female participation in the labour market may have contributed to the deceleration of the potential GDP recorded over the last decade, which trends must definitely be countered. The population in Italy has decreased, between 1/1/2019 and 1/1/2020, by 116,000 people and, what is more to the point here, the number of children registered at birth was just 435,000, an all-time low. The fertility rate, equal to 1.46 children per woman in 2010, has dropped to 1.29 in the latest survey. Despite the reduction in demand, the unsatisfactory dynamics of the supply of services has exacerbated the imbalance between available nursery places and the potential need (with a ratio of less than one to four, compared to a European target of 33 per cent). From this point of view, however, the persistence, reported by the ISTAT surveys, of a high desired birth rate (2 children per woman) remains encouraging. This is the right direction, although we should not forget that the shift in the composition of social expenditure in favour of components other than those for old age, in the budgetary policy decisions made in recent decades, has led to limited leeway. It is necessary to strengthen the "nursery school voucher" scheme, which, however, is not in itself sufficient to ensure a significant leap forward for childcare policies. There is now ample evidence pointing to the need to address the issue of encouraging female participation in the labour market, in conjunction with the more general issue of providing more widespread welfare and school services for children, which, as shown in the Report, tend to be too few and far between in Italy, especially in certain areas.*

Healthcare and the new Pact for Health

39. *The emergency that the country is facing has emphasized the indubitable fact that we need to be able to count on an efficient health care system that can effectively respond to threats the severity of which is heightened by an increasingly open and globalized economic system. This experience has also highlighted the strengths and weaknesses of the system, underlining the inescapability of certain decisions we were already faced with, beyond the extraordinary emergency produced by an unexpected "enemy".*
The Report retraces the changes that have occurred since the financial crisis at the beginning of the decade: the gradual reduction in public expenditure on health care and the growing role played by citizens; the contraction of permanent staff and the increasing use of fixed-term or consultancy contracts; the reduction in hospitalisation facilities and community care; the slowdown in investments.
The result is a very complex picture that does not lend itself to over-simplified interpretation.
Clearly, the successes recorded in recent years in the reabsorption of imbalances in the use of resources has not always prevented critical issues from emerging, which now need to be tackled and resolved: the differences in the quality of services provided in the various areas of the country; staff shortages due to the constraints introduced in

connection with the financial restructuring process, the limitations in planning the necessary professional resources, but also the progressive withdrawal from the public sector; the inadequacies of community-focused care, despite the increasing numbers of non-independent and chronic patients; the slow progress of investments, which have been sacrificed to meet current needs.
These difficulties have been made harsher, in perspective, by the growing demographic imbalance and the consequent burden on staff. It is a well-known fact that, in just 20 years' time, looking at the forecasts, the ratio will change to one pensioner every two people of working age, reducing the wealth generated and the public resources available in the face of increased health and care needs. Moreover, the decrease in the resources available for the retirement of today's younger generations raises serious questions about the possibility, in the future, of requiring citizens to spend more and more for social and health care services no longer covered by the national health system.
The rising share of expenditure is due partly to difficulties in accessing public services, because of long waiting lists or imbalances in the tariff system, and partly to the ageing of the population and the increase in the number of non-independent patients (who require care not just for performing activities of daily living, but also as a result of increasingly widespread chronic diseases), as well as a greater awareness of how certain behaviours are conducive to maintaining good health. To this we must add the development of innovative treatments and robotics, which open up new spaces for more effective methods of treatment (even more so in the near future). A trend that risks increasing the differences between people, depending on the area where they live or their income.
Hence the need to wonder which decisions should be taken, knowing full well that increasing funding for the public system entails carefully reconsidering the - hitherto predominant - use of measures involving direct monetary transfers or lower taxation. But also bearing in mind that control of expenditure in recent years, within the framework of an allocation of resources aimed at ensuring essential care levels, also in relation to other objectives that are considered a priority in some cases, should be maintained, in order to avoid inefficiency and mismanagement, like in the past, preventing the translation of increased funding to the health care system into effective services for the public. Hence, there is also the need to continue along the path set by the Pact for Health, signed last December, aimed at strengthening the expenditure planning capacity at community level. This is the goal of the projects launched in recent years, which can count on large amounts of information and knowledge that have transformed the health care system into one of the country's major assets.

40. *Over the last two years two negative elements have become more and more conspicuous, undermining the staff structure of the health care system: the continued constraints on personnel expenditure, which have been in place for some time now, and the shortage of specialist personnel, especially in some areas of the country.*
As a result of the limited staff turnover in the Regions subject to debt repayment plans, and the hiring constraints adopted in other Regions (subject to restrictions on spending), the

number of permanent staff in the national health system has dropped sharply. At 31 December 2018, it was lower than in 2012 by about 25,000 workers (about 41,400 less if compared to 2008).

Between 2012 and 2017, the permanent staff (medical, technical, professional and administrative personnel) employed by the local health authorities, hospitals, universities and public IRCCS (scientific institutes for research, hospitalization and health care) shrank by just under 27,000 (-4 percent). In the same period, the use of flexible staff, up by 11,500 units, only partially offset this decrease. The reduction in personnel has assumed different characteristics and dimensions between Regions subject to debt repayment plans and those that are not. In the former, the number of permanent staff dropped by more than 16,000, albeit with significant differences between the regions: there were particularly large staff cuts (in the range of between 9 and 15 per cent) in Molise, Latium, and Campania, which are attributable to reductions. Slightly fewer staff cuts were recorded in Calabria and Sicily, while Abruzzo and Apulia were interested by much smaller reductions, especially considering the increases in temporary staff numbers. In the Regions not subject to debt repayment plans the decline was much smaller (-2.4 per cent).

Over the period, medical staff numbers dropped by more than 3,100 (-2.9 per cent), while nursing staff numbers dropped by just under 7,400 (-2.7 per cent). This change was partly offset by increases in staff hired under fixed-term contracts, with 2,400 doctors and 6,222 nurses more. The decrease in the number of doctors, however, was concentrated in the Regions subject to debt repayment plans, with 2,867 staff members, mainly in the 3 larger regions, which however had cut more than 2,800 staff. In the Regions not subject to debt repayment plans, the number of doctors dropped by only 242, which was more than offset by the growth in hiring under fixed-term contracts (+1220).

The same trend applies to nursing staff. The decrease is 5.6 per cent in the Regions subject to a repayment plan: approximately 5,000 staff, mainly concentrated in the three largest Regions, which have downsized staff by over 3,500, and Molise (-10.9 per cent) as well, due to the relative weight of cuts compared to overall staff numbers. In the Regions not subject to a recovery plan, the recorded decrease in staff totalled 2,378 units, which was more than offset by the increase in hiring under fixed-term contracts (+3,148).

In short, the data prompts us to analyse staff cuts with a degree of caution: while not underestimating the problem that it may represent in certain areas, the drop in staff numbers has been limited, over the last five years, in the majority of the Regions.

Some general framework data allow us to highlight controversial aspects, to which the interventions aimed at reconciling budgetary needs and the protection of the legitimate needs of the professionals have contributed, but which have ended up fuelling the distortions that we are facing today.

In terms of the number of physicians, our country is at the top of the European rankings: 3.9 doctors per 1000 inhabitants in Italy, compared to 4.1 in Germany, 3.1 in France and 3.7 in Spain. In Italy, an increase in the average age of staff in this category is confirmed (also thanks to the hiring freeze): more than 50 per cent of staff members are aged 55+, the highest proportion in Europe and over 16 points above the OECD average; these are mainly consultants.

This is not the case for nursing staff, the number of graduate nurses in our country being well below the European average, with more restricted boundaries for their use despite the growing role they could play in an environment that features an increasingly elderly population.
In recent years, moreover, the constraints placed on recruitment in health care, although made inevitable by the strongly imbalanced accounts, have increased the difficulties of finding a stable job at completion of the specialisation course and an adequate salary. This is the reason why so many trained medical staff are leaving the country to search for work elsewhere: in the last 8 years, in fact, according to OECD data, over 9,000 doctors trained in Italy have moved abroad to work. The United Kingdom, Germany, Switzerland and France are the markets that more than any other have provided a response to legitimate requests for employment and an adequate salary, when unfulfilled by the Italian private sector. This situation, while speaking well of the quality of education and training in this country, could dampen the effectiveness of the measures put into place for enhancing specialised training, if not supported by incentives for effectively counteracting the highlighted distortions.

41. *The crisis has also and above all turned the spotlight on the risks inherent in the delays in strengthening district and community-focused facilities, compared to the enormous effort put into enhancing the efficiency and adequacy of hospitals. The policy of concentrating hospital care in large specialised facilities, while reducing the number of smaller facilities, which, because of the limited number of patients and availability of technology, were unable to guarantee adequate levels of care, may have had a rationale, insofar as the protection of public health was concerned (and the Esiti database provided clear evidence to this effect), the lack of an effective system of community-based care services has left the population without adequate safeguards. These shortcomings, until now, had shifted the burden of caregiving from the state onto families, not without problems, because of the private financial outlays involved and the reliance, in a majority of cases, on unskilled labour without the necessary social and medical qualifications (carers), ending up affecting the specific individuals, they ended up constituting a weakness, also with regard to the overall protection of the system, when a new and unknown challenge presented itself. It has, in fact, become increasingly obvious that an adequate network of community-based care services is not only a matter of civilisation, for tackling the hardships faced by individuals and people affected by disabilities and chronic illness, but the only defence for promptly facing and containing events such as the one we are fighting against today. The inadequacy of the resources allocated to our local communities has delayed the response by a disarmed front line, which, instead, should have been able to effectively oppose the spread of the disease, but which found itself challenged by the same difficulties that affected the population at large, paying a heavy price in terms of lives lost and human suffering. The recent budget law seems to be paying more attention to this issue, with the provision of funds for the purchase of equipment for community medical services, but this will still have to be implemented after* *the crisis, and, likewise, resources will be needed for investments aimed at restoring the efficiency of health facilities.*

42. *The financial constraints have so far also affected investments. As in the case of the public administration as a whole, the reduction in new investments in health care has resulted in a reduction in fixed assets of just under 8 percent since 2012. A trend that sets Italy apart from the other major European economies. With regard to 2017 (the last year for which data are available for international comparison), less than 0.4 per cent of Italy's GDP was earmarked for accumulation, compared to 1.1 in Germany, 0.6 in France and Spain. The amount set aside is higher in Portugal as well (0.7 percent of the GDP).*
This result, however, does not seem to have been reflected in the supply of medical equipment, which continues to record particularly high levels, but which can affect a more rapid aging of the equipment being currently used.
The infrastructure policy is not being slowed down by financial constraints alone. There is evidence of this by observing the progress made in implementing Law 67/1988 (Article 20), which remains the main instrument for the rehabilitation and upgrading of the existing stock of public building and technology, besides the construction of new care homes, as well as other specific interventions that have been added over the years. There are many Regions that have not yet defined projects for a significant proportion of the allocated resources, such as Abruzzo, which has activated only 36 percent of its funds, Molise 21 percent, but also Puglia, Calabria, Sicily and Sardinia, which all stand at below 60 percent, and finally Lazio, which has concluded agreements for 75 percent.
Looking beyond the crisis, therefore, it will also be crucial to influence the planning capacity of the local administrations, as well as the actual availability of resources already allocated for investments, so that the over 6 billion euros earmarked for programme agreements may be translated into actual projects.

43. *In 2019, health care expenditure reached 115.4 billion, up by 1.4 per cent compared to 2018, lower than forecasted in the 2019 DEF (+2.3 per cent), the incidence in terms of GDP being substantially unchanged compared to 2018. The 3.1 per cent increase in outlays for labour income, also for contract renewals of medical and non-medical health management staff (and related arrears), is partially offset by an increase in intermediate consumption spending of only 0.3 per cent, while spending on social benefits in kind (contracted pharmaceutical care, general medical care, hospital care, specialist rehabilitation) increased by 1.4 per cent. The change recorded during the year is, however, very small and confirms the stabilisation of this expenditure with respect to the GDP.*
However, and especially in order to assess future needs, we should not overlook the fact that this result benefits from a lower-than-expected growth in both spending for labour income, due to the postponement to 2020 of the renewal of the non-health care management staff for the 2016-18 contract period, and spending for pharmaceuticals, as a result of the collection in the year (following the agreements concluded) of the balance

of resources due to the regions, relative to the purchase ceiling overruns, between 2013 and 2017, used to reduce spending for the provision of pharmaceuticals. Added to this are the ongoing tensions regarding spending for the provision of pharmaceuticals and medical devices. This requires a careful monitoring of the quality of spending. The measures put in place to monitor the effectiveness and efficiency of spending mean that the decisions to be taken today are based on a fundamentally better financial situation than in the past.

Investments by the local authorities and public works for environmental infrastructure

44. *On several occasions the Court has expressed the urgent need to invest, both in order to narrow the gap with Italy's major European partners, and because an inadequate and obsolete stock of infrastructure ends up weakening the country's chances of economic and production development and negatively affects the quality of life of the general public and the social conditions of communities.*

In 2019, the Local Authorities sector contributed significantly to the achievement of the planned target of investment spending: the Regions, Provinces, Metropolitan Cities and Municipalities have provided expenditure for investment aid and contributions, net of those to public administrations and abroad, for 16 billion, up by 15.8 percent compared to 2017 and by 8.3 percent compared to 2018. The driving effect is attributable exclusively to gross fixed capital formation.

There was significant contribution from the regions in the three-year period (+10.6 per cent), especially as a result of the very large increase in 2018. The lower growth in the last year is the result of opposing trends in the ordinary and special statute regions: the former, reversing the trend compared to 2018, grew by more than 24 per cent, while the others, which had performed well in 2018, entered a critical phase and were down 14.9 per cent in 2019.

Regarding fixed capital formation, the increase was concentrated in tangible assets (+4.9 per cent), which represent an increasing expenditure item in almost all areas and with a strong concentration in a few sectors: real estate, civilian means of transport, security and public order, hydraulic and road infrastructure, other communication channels, works for the improvement of land and residential buildings and health care facilities (totalling 902 million).

The proactive role of municipalities in revitalising local investments should also be acknowledged, with 9.5 billion euros payments for fixed capital formation that mark an increase of 13.5 percent compared to 2018 and account for 89.4 percent of total capital expenditure. The most significant growth was recorded in the municipalities with a population of up to 10,000 inhabitants, but the large cities have also shown a decisive recovery in the last year; geographically, the municipalities in the North and especially those in the Centre have recorded the most significant increases, with rates of even in excess of 20 per cent.

As in the case of the Regions, expenditure is concentrated on several items relevant to local investment policies, and which absorb 71.3 percent of payments for fixed capital formation: road infrastructure (2.3 billion), real estate and buildings (including school buildings, for which spending in excess of 1 billion was recorded), roads (522 million), sports facilities (563 million) and land improvement works (358 million). Spending for civilian means of transport and for security and public order, especially by large cities, was significant, not so much in absolute terms but in terms of its increase over the 2017-2019 three-year period (+63 per cent). In the case of real estate, the largest share of expenditure was recorded by medium-large municipalities, while smaller local authorities absorbed the largest part of payments for road infrastructure and land improvement works.

45. *The 2019 cash flow data confirm the effectiveness of the multiple measures implemented in 2019, not only in terms of increased financial resources (more than 4 billion from the budget law and 900 million from different measures), but also in terms of legal interventions that have profoundly changed the regulatory system that applies to local authorities for implementing investment programs. Regulatory review concerned different areas - on the one hand, the public finance rules and the new balance introduced to calculate budgetary equilibrium, on the other, the review of the Public Procurement Code - but responded to a single need: forcefully streamlining both the administration and accounting processes to hopefully trigger a virtuous investment spending cycle.*
The financial support for investments in local communities was confirmed in the budget law for 2020, also by strengthening the instruments already envisaged by current legislation. Overall, in the 2020-2034 period, resources totalling over 33 billion have been allocated, of which just under 4 billion in the three-year budget law period (735 in 2020, 1,178 in 2021 and 1,770 in 2022), with an effect in terms of net borrowing of about 2.5 billion.
The incentives mainly concern Municipalities: 500 million for the continuation of the so called "Piano Spagnolo (Plan based on the Spanish model)", a plan for investments in energy efficiency and sustainable development projects, further strengthening of the programme for improving the safety of schools, roads and municipal buildings, with resources ranging from 4.9 billion to 8.8 billion, subsidies for urban regeneration projects (8.5 billion in total in the period 2021-2034), 400 million per year allocated to the new Fund for revitalising investments by municipalities and 2.5 billion, over the 2021-2034 period, allocated to the Fund for nursery schools and kindergartens.
For ordinary-statute Regions, no further resources are expected but the incentive to intensify investments is envisaged by the partial alteration of the fiscal rule to which the regions are still subject, in 2020, for the purpose of contributing to the public finances; this, in fact, explains the decision to bring forward to 2020 the possibility of using the gains from government activities and the multi-year tied expenditure and revenue fund in accordance solely with the provisions of Legislative Decree 118/2011, considering these accounting items among the revenue valid for the purposes of balancing the budget with the ensuing expansive effect of capital expenditure.

46. *In the particularly critical economic and social framework that is emerging as a result of the pandemic, it will be essential not to suspend the policies in support of local investments, which have been arduously introduced in recent years and which were beginning to bring their first fruits.*

Relying on the consolidation of this support, both through continuous funding lines even over periods of ten years or more and by redesigning the regulatory frameworks, distribution of responsibilities and competencies, the planning support tools, the local authorities have been able to revitalise long-term investment policy planning, as well as to plan a multiplicity of minor projects which, through intense coordination between the different levels of government and the definition of the relevant priorities, and of the economic and instrumental means, have been introduced into the system. An example is the National Plan for the mitigation of hydrogeological hazards (ProteggItalia) which provides for about 16,000 works with funding lines for 14 billion.

These interventions, within the reach of even the smallest local authorities, or those experiencing financial difficulties, constitute an increase in the stock of infrastructure of which the level of 2019 payments is a reflection, as well as a set of works already "in the pipeline", the completion of which encompasses a significant expenditure growth potential.

The analysis carried out on the environmental infrastructure currently under construction shows that the prevailing sub-sectors, both in terms of number of projects and funding, are those related to water resources (5,140 CUP for 8.6 billion) and soil protection works (9,367 CUP for 8.3 billion), which also account for more than 60 percent of the expenditure actually disbursed. It appears, however, that the intensity of the initiative aimed at increasing the equity value of the environmental infrastructure, which is fundamental for bridging the gap with the actual needs of the community, is not always matched by a similar effort to complete the projects themselves.

With regard to the financial dimensions of the projects, the analyses carried out on fixed capital formation in general, and on works in the environmental sector in particular, show how we are witnessing a progressive downsizing of the economic frameworks of infrastructure projects, replaced by myriad projects which, although many in number nevertheless fail to compensate, in terms of their financial value, the lack of works with the potential capacity to provide an impact even beyond the local dimension. The most financially demanding projects, in fact, are characterised by a strong capacity to generate benefits, in terms of income, economic development potential and consumption, and therefore to have a significant macroeconomic impact. However, large-scale economic frameworks entail increasing difficulties from a technical, procedural and administrative point of view, requiring a greater effort to ensure their physical and financial progress: while 20 percent of projects worth 100,000 euros or less feature critical issues, as a result of their failure to get started or excessive delays, the percentage increases twofold or more in the case of major projects.

47. *The reduction pathway for the high public debt outlined in the Economic and Financial Document for 2020 provides that the strategy of revitalising public investments in support of growth should be accompanied by ordinary measures which, in the light of the experience built during the management of the Covid-19 emergency, are aimed at achieving a far-reaching reform of the administrative procedures.*

Even before the pandemic crisis, in the face of other exceptionally serious situations that affected the country (including hydrogeological instability), it was decided to opt for the emergency administration model, which was considered more appropriate to implement effective actions to speed up and qualify spending, completing the planned investments at least in those areas in which the failure to implement projects would expose the communities concerned to risks that are progressively worsening.

However, the quantity and quality of situations to tackle which this type of administrative solution has been adopted has also highlighted a crisis in the traditional model of administration, which is increasingly struggling to efficiently manage not just the situations linked to truly exceptional events that require extraordinary reconstruction activities (such as the one resulting from the pandemic), but more generally the social and economic complexity that is a hallmark of public policies today.

Therefore, it is of primary importance, also on the basis of the experience acquired in the management of emergency situations, to deeply reform the set of administrative tools and organisation, aiming at a permanent simplification of procedures, not just in extraordinary circumstances, so that the emergency model does not become established as a parallel and alternative model to ordinary governance, chosen as a necessary path for overcoming its inefficiency and incapability.

Public and private investments for the rehabilitation and energy efficiency of buildings

48. *In recent years the budgets of public administrations have been subjected, as already mentioned, to certain pressures that have led to a substantial reduction in public investment spending. This has had a profound effect on both the planning capacity and programme management of the implementing bodies and on the construction companies involved, with long-term effects, inter alia, on the redefinition of the financing strategies of the projects and their reorientation towards non-conventional sectors. Against this backdrop, for several years now, albeit with a different trend, there has been a shift towards production models and lifestyles compatible with the environmental sustainability of infrastructures and service networks.*

The changes brought about by issues relating to climate adaptation and efficient energy use have consequently introduced several new areas of intervention in the planning process of the local authorities, accompanied by public expenditure support programmes for specific investments, as well as alternative measures aimed at encouraging actions by households and businesses. These are types of investments that, especially by attracting private capital, apparently introduce positive elements regarding the infrastructure of the economic system and could lead, in the future, to an increase of the GDP with long-term *effects on growth, so as to reward the effort incurred by both the public and private sectors.*

The possibility of combining renewed growth with environmental sustainability goals, improving aggregate demand, has been seized - albeit with different outcomes determined by the timing of decision-making processes - by almost all the Eurozone countries and revitalised by means of repeated financial support programs.

In the last decade, the introduction of environmental, social and governance (ESG) criteria in investments has also redirected a part of the private capital market towards "sustainable and responsible investment" (SRI), opening up new opportunities for both businesses and public administrations. The spread, across Europe, of forms of extra-financial evaluation by specific classes of private investors has seen the growth of investments (SRI) in the water management sector, energy efficiency, the production of renewables, the adaptation of infrastructure to new technological frontiers (smart infrastructure) and, generally speaking, in projects related to climate change. Particularly important in this area is the application of impact investing indicators (intention of ESG impact; guarantee of a return; impact measurement; long term horizon), as a strategy able to represent investment decisions compatible with sustainable development goals (SDG).

Such investments are characterised, moreover, by a long-term perspective and lend themselves to the application of public-private partnership models and could therefore be enhanced and facilitated from a regulatory and fiscal standpoint, so as to appeal to private investors. The issue is defining new policy designs capable of enhancing a model of social and sustainable partnership extended to also include responsible institutional operators (banking foundations, insurance companies, funds, etc.). Such a complex system also makes it necessary to improve the effectiveness of the incentive measures for investments made by households and businesses with actions aimed at simplifying the rules and processes, as well as the time frames, for the implementation of the projects.

It is within this framework that, for some years now, the European Commission has brought to the attention of national governments the issue of financing instruments for investments aimed at improving energy efficiency targets considered a priority, among the sectors related to environmental sustainability and efficient energy use, for all countries in the area. Italy, like others, has introduced these goals in its investment planning processes. To date, the variety of instruments adopted, the expenditure incurred by public administrations to finance or encourage interventions and the growing role played by private capital paint a highly mature and multi-faceted picture in some sectors, such as the private residential construction and business sectors. In recent years there has been a growth in investments in this area also by the public sector, driven, in particular, by local authorities which, although held back by procedural slowness and difficulties related to the lack of a long-term structured plan dedicated to the sector as a whole, shows significant signs of vitality.

Overall, the energy efficiency market is large and characterised by great potential for investment and the mobilisation of private resources by households, businesses, and institutional investors. It is also an important opportunity for public administrations,

through the strengthening of policies aimed at upgrading the public building stock and to enhance the efficiency of large service sectors, from hospitals to schools and offices.
To improve the energy quality of social infrastructure, however, it is more important than ever to define a structured action plan through policies focusing on sustainability, to achieve a systemic vision of the way the production sectors involved intersect, where the contribution of private companies can become an important pillar.
The issue of energy efficiency also concerns the adequate supply of heating, cooling, lighting and energy to power electrical devices. The accessibility of these essential services reflects on the standard of living and health of the public and affects the issue of "energy poverty", which can be defined as a lack of access to modern energy services by individuals or households. It is therefore a specific form of poverty that can have indirect effects on various strategic sectors, such as health, the environment and more generally the business productivity. A worrying picture that, in June 2019, prompted the European Committee of the Regions to unanimously adopt a series of proposals including the further development of the European definition of energy poverty, targeted investments in energy efficiency, a review of the single market to make energy more accessible to households by offering lower prices, the definition of time-bound targets to end energy poverty. Finally, it was emphasised that improving the energy efficiency of the building stock could be one of the main objectives of local and regional authorities, also reaffirming the need to provide for a strengthening of the legal and financial instruments available to these authorities.
Since February 2020, the extraordinary health emergency and the serious economic situation that ensued have led legislators to reconsider most of the policy objectives, in order to meet the tackle, the new conditions the country finds itself in with new resources. In particular, the Economic and Financial Document of April 2020 outlines a perspective for securing renewed economic growth which, although conditioned by the health emergency, seems intent on preserving the sustainability objectives pursued so far. The need to "combine" the "technological and behavioural innovations required by the pandemic with the European Green Deal" - considered the "key EU strategy for the coming years" - is in fact mentioned in various passages.
Moreover, targeted actions to provide economic stimulus, consistently with the environmental sustainability goals and given the particular conditions of the economic framework, could make it possible to speedily redirect - through the financial instruments already provided by the budget law with the Green new Deal fund, which is based on the granting of guarantees and activation of financial operations - a part of the private capital market towards investments capable of creating new opportunities for both businesses and public administrations. Stimulating sustainable projects to improve the environmental impact of production, transport and more generally urban areas, within an structured perspective that transforms energy requalification into the pillar of the system would make it possible, inter alia, to manage the current transition to new energy markets. Financially speaking, the availability to institutional investors of equity instruments for participating in new projects, as well as the granting of long-term credits by the European budget and the European Investment Bank, constitute an important potential for the development of the sector with a limited impact on public resources.

It is, therefore, a new opportunity for public finance to redesign a simpler and more accessible model based on strong cooperation between public administrations and private companies, also by overhauling the current regulatory framework - albeit within a consolidated control system. The valorisation, at the same time, of the financial resources and technical know-how of companies possessing the innovative and planning skills required to develop sustainable programs, could represent an opportunity, in this particular economic situation, that should not be overlooked.

The conclusions of the European Council of 26 March last, moreover, in stressing the urgency of fighting the pandemic with a "coordinated exit strategy, a comprehensive recovery plan and unprecedented investment" pointed out the need to "start to prepare the measures necessary to get back to the normal functioning of our societies and economies and to sustainable growth, integrating inter alia the green transition and the digital transformation, and drawing all possible lessons from the crisis".