SUMMARY AND CONCLUSIONS

THE ECONOMY AND PUBLIC FINANCES

The economic environment

1. Over the last two years, the Italian economy has shown excellent resilience to the repeated shocks that have marked the national and international scenarios. This provides a solid basis for restarting and encourages us to confidently face the complex challenges posed by the joint need to increase the rate of development on a lasting basis and reduce the burden of public debt within the new framework of economic governance of the European Union. The environment in which public policies are developing continues to be characterized by a complex international framework, marked by geopolitical tensions related to Russia's attack on Ukraine; the consequent and persistent inflationary pressures, only slightly attenuated by the return in energy prices and associated with the sharp rise in interest rates of the central banks; the resurgence of risks of global financial instability. In this context, despite a few signs of improvement, a deceleration in world trade and a decline in economic activities in most countries continue to be estimated, with asymmetric performances in large geographical areas: better for emerging countries, less significant for advanced countries (the United States, Japan, and the Euro area).

2. In Italy, during 2022, activities exceeded pre-pandemic crisis levels. Compared with 2019, output grew by 1% in real terms, similar to that of France and higher than in Germany and Spain. During the year, GDP growth (+3.7%) was still bolstered by domestic demand (4.6 percentage points), while the net foreign component and inventories made a negative contribution (-0.5 and -0.4 percentage points respectively). Household consumption offered the main support for output growth (+2.7 percentage points), although this was only possible thanks to a substantial reduction in the propensity to save, given the sharp decline in real disposable income. Investment continued to provide a good boost (+1.9 percentage points), albeit lower than the previous year. On the supply side, the annual increase in value added was widespread across sectors with high intensity in construction (+10.2%) and services (+4.8%); A marginal improvement was seen in manufacturing (+0.3%).

3. The economic indicators available for the first months of the current year confirm the moderation of production rates but show a greater dynamism in the Italian economy than the Euro area average. In the first quarter, GDP increased by 0.5% compared to the last quarter of 2022, as in Spain and against marginal growth in the Euro area (+0.1%, with +0.2% in France and no change in Germany). The recovery of production rates, which sets the "acquired" growth for the current year at 0.8%, appears to be fairly widespread in Italy among sectors and involves both industry and services. In addition, promising signals are coming from many higher-frequency indicators. The first available data on foreign trade show a return to a positive trade balance. Confidence surveys show widespread improvements among operators and economic sectors. In the first quarter, the recovery was more marked among consumers than companies and was of a higher intensity in market services and construction. The recovery in confidence continued in April.

4. The employment framework is favourably oriented. In the first quarter, the employment rate increased and remained at its highest level since the time series became available (60.9%). Compared to the previous quarter, employment increased by 90 thousand

units in the presence of a sharp reduction in the inactive (-125 thousand units) and a marginal increase in the unemployed (+12 thousand units). In March, the unemployment rate fell marginally further to 7.8%. The promising market tone appears to be confirmed by the indications of companies on the number of job vacancies which, in the fourth quarter of 2022, remained high, especially in the construction and services sectors.

5. The signs of improvement in production activities are not associated, at least with equal intensity, with favourable indications about the speed of return from the inflation shock. In April, consumer prices rose again (+0.5%), also reflecting the (transitory) recovery in prices of non-regulated energy goods. Acquired inflation for 2023 is +5.4% for the general index and +4.6% for the core component. Encouraging signs can be drawn, however, from the trend in producer prices, which saw a sharp correction in March (-1.5% compared to the previous month), with the consequent marked deceleration of the trend growth rate (+3.8% compared to +9.6% in February).

6. The recovery in GDP in the first quarter supports the macroeconomic estimates contained in the DEF [Economic and Financial Document], which revised growth upwards by three-tenths of a point compared to the DEF Update [NaDEF in Italian, t/n], valuing it for 2023 at 1% (a slightly higher value than those of the European Commission (+0.8%) and the IMF (+0.7%)). In the policy framework of the DEF, growth would strengthen in 2024 (1.5%) and then weaken in the following two years (1.3 and 1.1%) converging towards potential. It would be almost exclusively driven by domestic demand, while net exports would make a stronger contribution in the current year (0.3 percentage points) and marginally thereafter. One sobering element (see below) is the implicit projection of Italy's development differential with respect to the Euro area average: after the 2021-22 two-year period, which is significantly positive, it would return largely negative, in line with the historical experience that preceded the pandemic (-1%: around 1 percentage point against 2 for the Euro area).

7. The expected price development would reflect a progressive normalization and convergence process between the components. In the current year, the change in the GDP deflator would stand at 4.8%, a level even lower than that of the consumption deflator which, down from the previous year, would reach 5.7%. In the same year, the investment deflator would be 2.9%. In 2026, both the GDP and private consumption deflators are expected to fall to 2%, while the investment deflator would remain marginally lower (1.9%). Over the forecast period, the labour market would also improve in line with GDP developments. In 2026, the unemployment rate would fall to 7.2% about one point below the level set in 2022.

8. Compared to the reported policy framework, at least two elements will require close monitoring in the coming months. On the one hand – as indeed pointed out in the DEF itself – the evolution of deflators appears particularly uncertain, especially with regard to those relating to the aggregates of foreign trade. Their impact on the main Euro area economies has appeared highly differentiated over the past year, mainly with reference to exceptional movements in import prices; the stabilization path could be more bumpy than expected, with inevitable repercussions on the GDP deflator and therefore on the nominal value of the product, a variable that approximates the main tax bases and conditions the public finance indicators (calculated, precisely, as ratios with respect to national income at current prices). The development of the investment deflator will prove of particular importance, given that it was significantly below the levels of the main Euro area countries in 2022. The hypothesis contained in the DEF of a gradual return to medium-term levels could well be particularly optimistic. A second element which in the coming months

will require careful monitoring is then, and of course, the evolution of labour costs which, in the DEF, are estimated at levels significantly lower than those of the consumption deflator and also at the levels assumed by the DEF net of imported energy goods.

9. If the medium-term economic picture envisaged by the DEF appears to be inspired by prudence, there are still many factors which make it difficult to judge the path that the Italian economy will actually be able to follow in the coming years. Much will depend on the evolution of the external framework. The war between Russia and Ukraine, the European Union’s energy policies and, on a different level, the correct dosage of restrictive monetary medicine that central banks are still administering, are all crucial factors. Of course, the inflation outlook remains fundamental, conditioned at this stage by both cyclical and structural factors. Among the former, the conflict and the consequent energy issue are joined by the prospects of the dollar, a currency which is always extremely sensitive to geopolitical scenarios and whose balance of power will also hinder certain evolutions of the structural economic strategies of the United States in the current phase of global inter-trade relations. Among the latter, the following are in a leading position: the responses to climate change, the transition to a green economy, the possible relocation of production plants through so-called “reshoring processes” (inshoring/friendshoring), all factors whose inflationary impulses are not easy to read at the moment. In this context, however, the ability of policies to direct expectations by influencing rounds of contract renewals and avoiding second round effects will prove of importance. However the international context will only affect existing underlying trends. Much is going to depend on the evolution of internal factors and, first and foremost, on the extent to which in Italy economic policies as a whole and, among them, the budgetary policy, will be able to reconcile the needs of the cycle with the continuing need to structurally restore the production system also through an increase in the stock of tangible and intangible public capital (see the chapter MACROECONOMIC EFFECTS OF THE NRRP).

Public Finance

10. In 2022, public finances were marked by the gradual overcoming of the health emergency phase; this occurred at the same time as tensions in energy prices related to the ongoing war and the consequent inflationary tendencies became exacerbated, necessitating new forms of public intervention to support households and businesses alike. Despite a context which remained difficult, 2022 closed with a debt level of 8%, down 1 percentage point of GDP compared to 2021 (9%). In absolute terms, the deficit amounted to €151.9 billion, an improvement of €9.3 billion compared to the previous year: this is the result of a substantial consolidation of the primary deficit (-€28.8 billion), partially offset by the strong growth in interest expense (+€19.5 billion), mainly due to the higher cost of inflation-linked securities. At the end of the year, this category of expenditure exceeded the threshold of 83.2 billion, standing at 4.4% of GDP, a value higher than that recorded in the entire period 2015-2021 (in 2021, it was 3.6%).

11. The improvement in the primary balance was affected by the strong increase in revenue (+68 billion, +7.9%), mainly due to tax revenues (+39.2 billion, +7.4%), in particular VAT, and social security (+14.9 billion, +6.1%), linked to the positive performance of the economy and inflationary pressures. This resulted in an increase in the incidence of revenue to GDP of 0.5 percentage points (from 48.3% to 48.8%). As a result, the tax burden rose slightly to 43.5%.

12. The growth in revenue was only partially offset by the increase in primary expenditure (+39.2 billion, +4.1%), whose impact on output was, however, reduced by 1.4 percentage points (from 53.8 to 52.4%). This expansion is mainly due to current account charges (+€41.1 billion, +5%), driven upwards by the renewal of public employment contracts,

the revaluation of pension benefits, and measures to reduce energy costs for households and businesses. At the end of the year, however, the growth rate of current primary expenditure, lower than that of nominal GDP, led to a contraction in the incidence of the former compared to the latter, from 45.6% in 2021 to 44.8% in 2022.

13. On the capital expenditure front, 2022 saw a reduction in the aggregate of 1.9 billion (-1.3%) and, within it, in the investment component (-1.1% compared to the recovery of 20.9% in 2021). The final figure reflects the downward revision of the NRRP's contribution to investment expenditure in 2022, now quantified at 0.2% of GDP (just under 4 billion), compared to the estimates of the DEF 2022 Update, equal to 0.3% (about 5.7 billion).

14. In comparison with previous financial programming documents, in particular with the explanatory note to the Budget Law for 2023-2025 (hereinafter, NTI 2023-2025), there is a worsening of debt in relation to GDP. The differences in the final data can mainly be explained by the operation of reclassification of tax credits linked to the measures of the 110% Superbonus and the Façade Bonus, made due to the regulatory clarifications recently provided by Eurostat. On the basis of the new accounting approach, these tax credits are considered "payable" and, consequently, are reclassified among the expenses for contributions to investments based on the full value of the accrued benefit, instead of the previous recognition to reduce revenue according to the cash criterion, at the time of using the credit in compensation. The result is an advance to the three-year period 2020-2022 of the impact on the deficit of the two measures, equal respectively to 0.2 GDP percentage points in 2020, 1.8 in 2021 and, finally, 2.6 in 2022. In the absence of such a revision, therefore, the debt would stand at 5.4% of GDP, a value lower than the previously set policy objective of 5.6 %.

15. With the 2023 DEF, the new public finance forecast framework for the current year and for the following three years has been presented, predicting, in addition to the aforementioned accounting reclassification of some building bonuses, also the renewed economic situation and a further realignment of the timeline assumptions of NRRP expenditure.

16. In 2023, net debt is estimated at 4.4% of GDP, 3.6 percentage points less than in 2022 and 0.1 percentage points less than envisaged in the policy scenario of the Draft Budgetary Plan. The positive dynamics of the public finances are due to the anticipated strong growth in revenue (+54.8 billion), on the one hand, and the contraction in expenditure (-9.3 billion), on the other. Within the latter, the interest expense component is expected to decrease (-7.6 billion), thanks to a mitigation of the revaluation of inflation-linked securities. Primary expenditure is also expected to decrease (-€1.7 billion), as a result of the expansion of current account (+€30.9 billion) and gross fixed capital formation (+€15.1 billion), which rose to 3.3% of GDP, more than offset by the contraction in other capital expenditure items (-€47.7 billion). The improvement in the relationship between balances and GDP is also affected by nominal output growth (+5.7%) which, strongly linked to inflation, exceeds the rate of increase in tax and social security revenues. As a result, the tax burden is reduced by two tenths of a point to 43.3%.

17. In the upcoming three-year period 2024-2026, under current legislation, a continuation of the path of rebalancing public finances is expected; this would lead to a further 1.9 percentage points of deleveraging on a cumulative basis, enabling a deficit level of 2.5% in 2026. Similarly, the primary balance should gradually improve (for a total of 2.6 GDP points), returning to a surplus situation in 2024 (+0.5%). In comparison with the policy objectives of the DBP, there is an

expected improvement in net debt in 2024, by 0.2 GDP percentage points, and a confirmation of the 2025 target, at 3%.

18. This positive trend will be allowed by a growth in tax and social security receipts that will continue throughout the forecast period, more intensely than that of final expenses, but still lower than the expansion rate of nominal GDP. The tax burden was gradually reduced by 0.6 GDP percentage points, to reach 42.7% at the end of the period.

19. The dynamics of expenditure confirm the trend, already foreseen in the previous policy framework, towards a realignment to the levels of incidence prior to the health crisis, thanks to the progressive elimination of temporary measures to support the economic and social system. At the end of the forecast time horizon, it is estimated that primary current expenditure will return to the threshold of 41% in relation to output (the average figure for the three-year period 2017-2019 was 41.4%), down by more than 7 percentage points compared to the peak of 2020. Investment contribution expenditure, through which support measures have passed, is also expected to return to pre-pandemic levels (0.8% of GDP). On the other hand, the final arrival, by 2026, of the incidence of interest expenditure (4.5% of GDP, compared to the average of 3.6% in the three-year period 2017-2019), of that for investment expenses (3.4%, compared to 2.3% in 2019) and that for social benefits in cash (21.1%, compared to 20.1% in 2019), due to indexation mechanisms.

20. Compared to the more favourable trend outlined in the trend scenario, with the 2023 DEF and the simultaneous report to Parliament, the Government requested authorization to confirm the public finance targets set in the DEF Update of 4 November 2022, leading to an increase in debt of 0.1 percentage points for 2023 (from -4.4 to -4.5 %) and a further 0.2 points in 2024 (from -3.5 to -3.7%). At the end of the forecast period, the deficit target is confirmed at 2.5 GDP percentage points, in line with the trend.

21. The budgetary margins made available by the more gradual path to recovery are quantified, in the report presented to Parliament, at over 3 billion in 2023 and 4.5 billion in 2024; They were used, with the recent Legislative Decree no. 48/2023, for the reduction of the contribution burden of employees with medium-low incomes, in the period July-December 2023, with the aim of protecting their real income, and limiting the transmission of inflationary effects to wages. Instead, the availability for 2024 was allocated to the increase in the fund for the reduction of the tax burden.

22. Also in terms of structural finance, although the general escape clause remains in force in 2023, the forecast horizon shows a progressive reduction in the structural deficit, particularly intense in 2023 (-3.6 percentage points), dictated by the impact of the statistical reclassifications of the two building bonuses on the nominal debt of the previous year. Over the next three years, the structural balance will gradually improve (+0.9 points in 2024, +0.4 points in 2025 and +0.6 points in 2026), to stand at 3.2% at the end of the period. Therefore, as regards 2023 and 2024, the variations in the reduction of the balance will be much higher than those required (0.6 points) in normal times, while in the final two years, even if more limited, the adjustment would be in line with current European rules. More complex is the assessment of compliance with the spending rule which, albeit in a different format from the one currently in force, should become the cornerstone of the new tax surveillance process. According to estimates contained in the Document, the excessive deviation that would be found in 2022 would be followed by growth below potential GDP in 2023 and 2024, while in 2025 and 2026 the deviation would be contained. Domestic primary current expenditure, after the sharp increase in 2022, remains below potential GDP growth.

23. The policy framework does not include costs related to the reconstruction of a "no-policy-change" scenario. In this context, resources for the civil service are of particular importance. Awaiting funds for the renewal of contracts that expired in 2021, by the end of the year the one-off one billion (plus 800 million for local authorities and health) will run out which, for 2023 alone, has offered a linear increase of 1.5% to salaries in public administration. In view of the high expectations for the recovery of inflation and the persistence of core price dynamics beyond expectations, it seems difficult not to foresee their extension, perhaps even in a more intense key. Resources will be required to confirm the wedge reduction measures currently in place. If the energy emergency cannot be overcome, even with the increasingly selective characteristics, needs will re-arise for the weakest social and economic groups, at this point financed only for 2023. These measures will be in addition to the refinancing of capital interventions, the quantification of which is reserved annually for the budget law.

24. Extraordinary maintenance interventions on important segments of the welfare system are equally important, even without initiating reforms or expanding on the services rendered. This is the case of healthcare, where critical issues that are now evident will require structural interventions of a much greater magnitude than those introduced by Legislative Decree 34. In this context, reducing the delays due to the pandemic becomes more challenging. But also social security, on which hangs – beyond broader reform projects – a confirmation of the current regime which would still involve a substantial intervention. Larger projects could have a much greater impact, such as those already implemented (fiscal delegation) or present in the political debate (going beyond the Fornero Law).

25. Faced with such a framework, the 2023 DEF does not immediately offer a general indication of the choices that should accompany the process outlined. Beyond a reference to the savings deriving from the spending review estimated at 1.5 billion for the three-year period 2024-2026, no elements have been provided on how to proceed to remain within the framework of budgetary compatibility. The task is, to a certain extent, deferred to the DEF Update and the Budget Law, which are therefore expected to be particularly demanding.

Debt

26. In 2022, public debt as a share of GDP continued to fall (from 149.9% to 144.4%). After the reversal of the trend recorded in 2021 and translated into a fall of 5 GDP points compared to the pandemic peak (154.9%), the decline is continuing at a higher and more significant pace than envisaged both in the 2022 DEF and in the October DEF Update. According to Eurostat data, the ratio of debt to GDP in the Euro area as a whole fell by 3.9 percentage points to 91.6%. The ratio fell 1.3 points in France (to 111.6%), 3.3 points in Germany (to 66.3%) and 5.1 points in Spain (to 113.2%). In Italy, this improvement is attributable to the persistence of a good growth framework, above all nominal, but also reflects extraordinary accounting effects, all within a context that still shows a negative primary balance and a significant increase in the average cost of debt (from 2.5% in 2021 to 3.1%). Moreover, in 2022, the drive of the items "below the line" (stock-flow adjustment) was of an exceptional size, which favoured the decline in the debt/GDP ratio by 3.9 GDP points, above all due to the differentiation between cash valuations and accrual valuations. According to Eurostat data, the stock-flow adjustment in the Euro area, represented by the above-mentioned residual factors, amounted to -0.3 GDP points.

27. The DEF forecasts a continuation of the decline in the debt/GDP ratio for the entire four-year period 2023-26, with a pace which, however, will lose strength significantly after the decline of more than 10 points seen in the two-year period 2021-22. According to the policy framework, at the end of the reference period it should be just over 140% of GDP, reduced by a further 4 GDP points, therefore. To this variation would contribute – with upward impulses and by 21.3

points – the average cost of debt (16.5 points) and the stock-flow adjustment (4.8 points); with downward impulses and by 25.3 points, real GDP growth (-6.6 points), inflation (-16 points) and the primary balance (-2.7%).

28. In the coming years, the outlook for public finances, and debt in particular, will be conditioned by the new European rules. In fact, after years of debate on the Stability and Growth Pact (SGP) introduced in 1997 and on the various configurations it has taken over the decades (*Six Pack, Two Pack, Fiscal Compact,* etc.), on 9 November 2022, the Commission presented the guidelines for a concrete project to redesign the economic governance of the Union. The Plan, confirmed by Ecofin and the European Council last March, has taken on a definitive shape in recent weeks and on 26 April was translated into an organic legislative proposal aimed at replacing the current rules starting from 2024.

29. The 2023 DEF refers to the salient features of the original proposal and recalls that the Government is committed to supporting its underlying spirit at a European level (multi-year perspective of consolidation, debt sustainability, greater ownership, greater consideration of excessive macroeconomic imbalances, expenditure rule as a single surveillance indicator, etc.) as well as proposing limited changes in the direction of greater protection for certain expenditure of investment (and reforms) or related to the European Common Defence Policy. Within such a framework, the DEF refrains, for the first time in a long time, from assessing the distance of the expected dynamics of the debt/GDP ratio from that which would be required by the debt rule, which would come to be deleted by the new framework, along with many others; at the same time, it outlines some first simulation exercises on debt sustainability that tend to be consistent with the underlying logic of the new scheme.

30. In underlining the importance of these exercises and in the hope that in the next planning documents they will not only find adequate room, but be accompanied by a wide range of information, it is emphasized that the medium-term scenarios proposed[9] reveal at least three aspects which deserve to be underlined: the first being that the policy design proposed with the DEF until 2026 was not sufficient to settle the debt/GDP ratio on a plausible and continuous downward trajectory and that, therefore, corrective measures would be needed in the medium term in order to counteract the upward trend later; the second is that the size of the adjustments ought to be smaller, in the new framework of rules, than would be necessary in the current regulatory framework; the third is that investments and reforms can greatly reduce the need for discretionary manoeuvres and therefore for spending cuts (or revenue increases) aimed at increasing primary surpluses after 2026.

31. The Court of Audit has already assessed the European Commission's fact-finding survey on the European Commission's guidelines for new governance. In general terms, it was argued that the above-mentioned guidelines have adequately and realistically transposed the vast set of indications that emerged from the intense debate which took place until the beginning of 2020 and was then resumed, on the initiative of the Commission, in October 2021. It is an assessment that can now be confirmed with reference to the definitive characteristics that the proposal of the new framework has assumed within the regulatory package officially presented at the end of April, without prejudice to the need for a more in-depth examination that will be conducted in the coming months also with reference to the more technical aspects related to the DSA (Debt Sustainability Analysis).

32. Overall, there is confirmation of the salient features already present in the Communication of 9 November 2022, with some new points, summarizing the needs posed by the various countries. Among these, at least two are of significant economic importance: the introduction of the clause which envisages a minimum annual reduction of half a percentage point of the deficit/GDP ratio in the event that it is above 3%, and the constraint which requires that, in any case, by the end of the adjustment period provided for in the Medium-term Structural Fiscal Plan,

the debt-to-GDP ratio should be at a lower level than the initial level. In many ways, these innovations appear not entirely consistent with the criteria which inspired the new approach and, therefore, from the point of view of the organic and systematic nature of the new framework, they appear to worsen the picture, even if they do not affect the basic evaluation that can be given to it.

33. The redesign of the economic governance of the European Union should not be read as some kind of defeat of the Stability and Growth Pact, a scheme which has generated overall pro-cyclical fiscal policies more due to shortcomings of application and problems of general coordination than to intrinsic shortcomings. From this point of view, the Pact seems to have paid over the years for faults that were not its own (see the presence in the Protocols to the Maastricht Treaty of the "millstones" of 3% and 60%). This must be superseded today, not so much because of its lack of flexibility, but because of the necessary adaptation of the regulatory framework to a context revolutionized by the most recent events and the challenges posed by them: climate change, the energy crisis, geopolitical changes, capacity of the countercyclical function of the monetary policy. Some of these momentous events will require huge investments over time and, from this point of view, debt budget policies will also need to come to the rescue as happened during the Covid pandemic. But it is precisely this need which increases the responsibilities of all the countries of the Union and the role of surveillance, which must be directed to keeping debts at prudent levels, also by inspiring a change in their composition (more good debt, much less bad debt). Among the guidelines for the reform are to be shared, in particular, on the one hand, the decision to focus surveillance directly on the "fundamental" dynamics of the debt/GDP ratio and, on the other, the effort required from each country to integrate macroeconomic, budgetary, reform and investment objectives and, therefore, cyclical and structural ones, in a single medium-term plan. Italy should not be afraid to adhere to the guiding idea of the new governance according to which a country with an exceedingly high public debt carries greater risks of instability and presents more demanding adjustment challenges.

34. The public debt sustainability analysis, which, in the intentions of the proposal, would constitute the reference framework upon which the multi-annual plans of the individual countries should be based, was presented on 14 April 2023 in the *Debt Sustainability Monitor 2022* (DSM 22) and offered technical details of the years covered, after which it emerged that 9 countries – including Italy – present demanding re-entry challenges (high risk), 10 countries are at medium risk, and 8 at low risk. The DSA has characteristics of considerable technical difficulty and maximum transparency is therefore essential. The DSM 22 confirms all the procedural steps underlying the assessment of the overall degree of severity of the challenge to reduce the debt-to-GDP ratio associated with each country: 1) The baseline projection in a ten-year scenario (T+10) with unchanged policies and with the consideration of the costs of population ageing; 2) The elaboration of numerous alternative scenarios, both deterministic and stochastic; 3) The consideration, as criteria from which to extract the signals for the summary judgement, of three elements: the debt/GDP ratio at the end of the period; the trend and hence the peak level of the same indicator; the fiscal consolidation space of each country assessed on the basis of historical experience in the capacity to generate structural primary surpluses. Of course, on the basis of the definition of predetermined thresholds of these criteria and a precise "decision tree" we arrive at the general evaluation. The proposed mechanism confirms, therefore, that the starting positions (2022) of the various countries in terms of debt/GDP ratio are a conditioning element but that it is then the underlying trends and the sensitivity of the debt position to different possible scenarios that help to assess the risk category. It is only useful to note, in this regard and purely by way of example, that among the 9 high-risk countries there are some which even have a current debt-to-GDP ratio below 60% (e.g., the Slovak Republic). The projections conducted in DSM 22 also confirm a series of aspects that are particularly relevant for Italy: in addition to the range of the debt/GDP ratio in the various scenarios (between 142 and 170%), among them, the pressure of the ageing population costs which, despite the pension reforms

launched in recent decades, are the highest among the major countries (2 GDP points in 2033 against 1.5 points for Germany, 0.4 for France and even -0.3 points for Spain).

MACROECONOMIC EFFECTS OF THE NRRP

35. In the 2023 DEF, the Government further lowered the impact estimates of the NRRP. The additional growth attributed to the Plan over the entire period 2021-26 is now 3.5 points lower than the first quantifications (9.2 compared to 12.7 percentage points) and 1.5 points lower than the previous DEF. In particular, the impact measured for 2022 fell, in the succession of planning documents, from the original 1.2% first to 0.9 and then to just 0.2%. The recovery projected for the next four years is not so sufficient as to restore the initially outlined expansion path, despite the positive deviation from the baseline scenario being expected to reach 3.4% in 2026. This revision is hindered by the delay with which implementation of the Plan began, which has so far led to a lower commitment of resources than originally announced. However, NRRP impact assessments are also less favourable for reasons other than those related to its implementation. The macroeconomic framework of reference has in fact changed and the context conditions have now become less expansionary due to the operation of at least two factors: higher prices, which reduce the real value of expenditure and necessarily limit its boost to growth; higher interest rates, which encourage an increase in the propensity to save and consequently lower the value of the multipliers, *caeteris paribus*.

36. Where, on the other hand, the timeframes and methods of implementation certainly have an impact, it is believed that the NRRP will affect the efficiency impulse . Rather than demand effects, impact measurements focus on the impulses that would be transmitted to system productivity, further strengthened in the long run by the implementation of the many structural reforms envisaged by the Plan. These are obviously not easy results to achieve and are linked to the ability to activate a high-efficiency expenditure, such as to justify (as assumed in the official documents) the reference to values of multipliers higher than those measured on average by the empirical literature. Delays in implementing the Plan can certainly slow down the triggering of this channel, even if at the same time it is precisely the need to make the system more efficient which could signal that a slow start might not jeopardize a subsequent acceleration of expansive impulses.

37. On the basis of these considerations, in the chapter of this Report MACROECONOMIC EFFECTS OF THE NRRP, the NRRP is analysed, first by defining a taxonomy of the transmission channels of the Plan and considering the different types of expenditure activated and the time horizon within which the effects should unfold, depending on whether they derive from the demand or supply side. The effects will differ depending on whether the resources of the Plan are directed towards investments, intermediate consumption, incentives, transfers or measures to reduce the contribution burden. In addition, there are product increases directly associated with the expenditure made, which can be amplified by multiplicative effects through different channels. An important role would also be played by structural reforms.

38. The agenda indicated by the Plan appears to respond to the needs for intervention indicated by the many contributions that over time have analysed the growth delays of the Italian economy. However, measuring the effects of structural reforms remains a complex operation, highly dependent on the estimation models used and with inevitable degrees of arbitrariness. In the 2023 DEF, the impact of structural reforms is therefore not considered in the construction of the medium-term policy framework, but only for the purpose of assessing long-term debt sustainability. In this perspective, asking the question of the effects of the NRRP on potential GDP – where reforms would have an impact – is extremely opportune, since if the Plan were to be resolved in a temporary spending stimulus, contributing to an increase in GDP only in the years

when the funds were used, it would then return to the previous trend in the face of a higher level of public debt.

39. The review of the quantifications of the medium-term impact of the NRRP, proposed by the Government and other national and European public bodies, shows a convergence in attributing one third of the expected impact to the greater system efficiency which the Plan would bring. It should be noted that this impact over the entire horizon of the Plan would vary from 3.6% in the first estimates of the NRRP to 1.5% in the low productivity scenario of the European Commission. Changes in the macroeconomic framework since 2021 could also justify a revision of impact estimates. Indeed, particular attention should be paid to rising prices and the consequent reduction in the real value of expenditure, which has led to a worsening change in government estimates of the highest growth achievable through the NRRP. Impact assessments have also been lowered in a second estimation methodology adopted by the Government, where channels on the demand side take precedence over those measured on the supply side in terms of greater efficiency.

40. After a review of the various evaluations available and an examination of the methodological profiles connected to them, in the report these aspects are evaluated in more detail through a "consensus" simulation conducted for the Court by CER, Prometeia and Ref Ricerche. To this end, the "historical" period, i.e. the two-year period 2021-2022, is distinguished from the four-year forecast period 2023-2026. With reference to the past two years, the simulation leads to an estimate of the additional growth activated by the NRRP at about one point, with a level of investment 5% higher than that which would have been observed in the absence of the Plan. For 2023-2026, the expenditure profile reconstructed by the three Institutes leads to an additional boost in GDP of 1.6% in 2023, which would rise to 1.8% in 2025, to settle at 1.7% by the end of the period. Recalling that in the policy framework of the 2023 DEF the average annual growth is 1.3%, the result attributed to the Plan is, therefore, significant. With regard to the individual components of demand, the main impetus would come from investment, with an average deviation from the baseline scenario of 7.5%. Despite the thorny implementation, and despite the uncertainties of the reference scenario, the "consensus" estimate confirms that the Plan would remain decisive for the achievement of the growth objectives for the next four years. Always, needless to say, provided that the expenditure profile underlying the simulation is respected. Finally, the risk factors that might affect the achievement of the results indicated in the simulation of the Institutes are analysed. The distinction made is between the elements of an external nature to the Plan, those relating to the failure to trigger some transmission channels and those that would instead be exacerbated by implementing the Plan. Rising public works prices, a slower effect on system productivity and overheating of the sectors targeted by expenditure are three examples of the different risk factors that could well reduce the expansionary effect of the NRRP.

DISTRIBUTIONAL EFFECTS OF MEASURES AGAINST HIGH ENERGY COSTS

42. Since the second half of 2021, there has been a sharp increase in energy prices and, consequently, inflation rates not experienced since joining the Currency Union. Such strong tensions have prompted the government to take measures to mitigate the effects on household and business budgets. In the relevant chapter of the DEF we asked what the results of these policies in terms of distribution were, and whether the impact of a shock with potentially very regressive implications has actually been mitigated. A micro-simulation exercise carried out using the Prometeia model which focused solely on measures in favour of families (for a total cost estimated at around 35 billion and relating to the period July 2021-March 2023) highlighted how, at a territorial level, the North-West and the South are the areas which have benefited the most, differentiated also in relation to the interventions: the contributions of the reduction in charges on electricity and gas bills, the VAT rate on gas and

the reduction in excise duties in the case of the North-West; allowances and social bonuses in the case of the South. The overall increase in prices (of energy and non-energy products), assessed together with the support measures, led to an average percentage increase in expenditure limited to 8.7%; this would have been 12.3% had the interventions not been taken. The contribution of expenditure on energy products to the actual percentage change in total household expenditure was on average 1.1%. Without the measures it would have been 4.7%. Consequently, the measures introduced therefore contributed strongly to containing price increases, thanks to their characteristics of progressivity, with higher percentage benefits for the lower part of the distribution and lower for the upper part. In this sense, the contribution of allowances and social bonuses in the first deciles of expenditure was strong. In relation to household income, shock calming measures limited the average increase in spending to 6.8%. Due to the different composition of the household shopping basket and their different propensity of consumption, this percentage incidence varies throughout the distribution of expenditure, ranging from 10.9% of the first decile of expenditure to 5.4% of the last. Without the measures, the average increase in expenditure in relation to income would have been 8.5%. The results of the simulation therefore indicate that public policies were able to mitigate the regressive impact of the shock and that the contributions of one-off allowances and social bonuses were genuinely relevant in this regard.

IRPEF: TOWARDS WHICH REFORM?

43. In the coming years, the need for consolidation of accounts, as part of the necessary process of reducing the debt-to-GDP ratio, will have the maintenance of public revenues as an essential basic condition. The DEF therefore wanted to devote attention to the tax sector, offering elements of reflection that hopefully will prove useful to Parliament and to public debate, especially during the discussion phase of the tax enabling bill. Three topics underwent analysis and scrutiny: the future of IRPEF, the main tax of Italy’s fiscal system (Chapter “WHAT FUTURE FOR PERSONAL INCOME TAX”); the issue of VAT and its structure characterized by numerous concessions (Chapter “THE ROLE OF VALUE ADDED TAX”) and, last but not least, the age-old issue of tax expenditure, (Chapter “TAX EXPENDITURE BETWEEN NECESSITY AND REFORM”).

44. Since the 1970s, IRPEF has been at the centre of Italy’s fiscal system. The principle of the all-inclusive nature of the tax base was disregarded from the outset, and over the years the generic nature of the tax, and with this its effective progressivity, has been weakened as a result of the extensive use of exemptions, concessions, flat-rate and substitute schemes, such as to generate differences in the levels of levy not only between income of a different nature, but also between income of the same nature received in different sectors of activity. The Achilles heel of its all-encompassing nature was then historically aggravated by the wide evasion that is concentrated in specific economic sectors. An element, that of evasion, which unites different types of income across the board, and which leads to a dragging towards elusive forms or exit options from the progressivity of IRPEF. In fact, due to this unstoppable erosion of the tax base, IRPEF is by now presented as a special tax on income from employment and pensions, which is its main weakness. On the one hand, because it no longer provides a solid anchor for an orderly income tax system; on the other hand, because of the limited nature of the taxable amount, compromising the degree of implementation of the principle of horizontal fairness, it prevents an appropriate degree of vertical fairness from being defined.

45. In some ways, therefore, a systemic transition is taking place, consisting in the fact that the substitutive taxation of personal income tax is no longer an exception to progressivity, but as an ordinary levy structure. From which it follows that progressivity arises as an inertial element of application of IRPEF on tax bases that cannot escape from it. In the particular chapter it is noted that the current weaknesses of this tax would not seem to find, at least at first

sight, substantial corrections in the recently presented tax-reform enabling bill. The main element of the tax revision consists of the gradual reduction of IRPEF which must take place with a view to a transition of the system towards a single tax rate. The long-term objective of the revision, therefore, should be achievable with the application of a form of progressivity by deduction, with a single rate and basic deductions. In this regard, some doubts might be raised with reference to the degree of progressivity achievable with this tax structure compared to the current system; on the other hand, the limited extension of the IRPEF tax base makes it difficult to sustain a tout court defence of the current structure of formal progressivity. Doubts have also been raised by the provision to make the incremental flat tax planned for 2023 structural for income from self-employment and business, and to extend this possibility, with a similar regime, to income from employment. More generally, considering that the reorganization provisions will have an effect limited to the types of income included in IRPEF, it has been pointed out that the problem of horizontal equity determined by the limited comprehensiveness of IRPEF is not addressed by the reform project.

46. The chapter also examines various provisions of the draft enabling law, concerning specific types of income (agricultural income, income from buildings, financial income, business income), noting the objective of a general extension of the replacement regimes of personal income tax, in order to progressively restrict the tax base. The use of coupons now seems to appear no longer an exception, but a systemic character of income taxation, which therefore requires an independent and permanent justification. However, once the areas of application of progressivity have been restricted, it will be complex to rely on it to carry out an adequate redistributive action, and to define a consistent contribution structure to the financing of public expenditure. In this perspective, therefore, it is necessary to assess whether more organic and coherent forms of the income taxation system can be achieved in the face of a more moderate formal progressivity but extended to all income categories.

VALUE ADDED TAX

47. This chapter offers an overall picture of VAT in Italy, noting first of all that this tax provides an effective revenue equal to 6% of GDP, one of the lowest levels among the member states of the European Union despite the fact that the standard rate is among the highest. In general, the experience of European countries on the whole shows a marked propensity to differentiate rates. In the Euro area, five countries (including Italy) use a rate below 5% and a fairly variable use of reduced rates. Standard rates of less than 20% are seen only in Germany, Luxembourg, Malta and Cyprus. A two-rate VAT is applied by Estonia, Germany, the Netherlands and the Slovak Republic. A single rate exists outside the Euro area only in Denmark, and to some extent in Bulgaria, where the application of the reduced rate of 9% applies only to the hotel and catering sector and to the sale of books.

48. The heterogeneity of rates is matched by greater homogeneity in terms of the distribution of the tax base between the different rates. Indeed, it is quite common that reduced rates (and where super-reduced rates are included) apply to food, pharmaceuticals and health services, cultural services, publishing products, the tourism and hotel sector and services related to the agricultural sector. In the first place, this is due to distribution reasons, since – it is the common argument – the reduced rates are applied to goods which weigh more on the budget of the less well-off classes. Against this argument, however, it is necessary to consider that, in general, more affluent families spend higher amounts on all goods with a consequent higher implicit subsidy deriving from the application of the reduced rates.

49. In this regard, voices of dissent with respect to the distributive effectiveness of the reduced rates have been raised in several quarters. Economic theory itself suggests that a differentiation for redistributive purposes can be effective only in the absence of alternative tools with which to pursue those same objectives. In some cases, it has also been shown that the possible adverse distributive effects deriving from the application of a single rate could be compensated by an appropriate structure of monetary transfers differentiated according to family expenses. The substantial weakness of the differentiation of rates in adequately achieving distributional effects has also recently been signalled by the European Union, which suggests limiting the use of multiple rates and exemptions that are unable to achieve distributional objectives satisfactorily.

50. In addition, in Italy, the VAT "tax gap" – i.e. the loss of potential revenue attributable to discretionary VAT deviations from the hypothetical policy gap regime – is well above the European average, and equal to about 28 billion Euro. In addition, VAT-related tax expenditures generated a total cost of just under €2 billion in 2022. VAT revisions should not, therefore, proceed in the direction of further fragmentation of tax bases between the different rates, nor in the direction of widening the range of goods to which reduced, or zero rates are applied, as seems to be deducible from the recent enabling bill. In this respect, the provision to apply reduced rates for the purpose of achieving environmental objectives is also not to be welcomed, given that the incentive effect on consumers could be weak, while proving essentially irrelevant in determining changes in production processes in the direction of greater attention to the environment.

51. For the same reasons, moreover, the extension of exempt transactions should be limited which, although covered by Community legislation and widely used in the Member States, determine a significant alteration of the economic logic of VAT, since the exemption mechanism interrupts – at least in the intermediate stages – the neutrality of the levy, anticipating the moment of the production cycle at which to identify the final consumer of the good or service. Although exemptions have often proved opaque for the achievement of the assigned objectives (including distribution), they remain widespread; despite the fact that a revision has been required for some time, no significant reorganization actions have ever been implemented.

52. Last but not least, the limited weight on GDP that VAT assumes in Italy compared to other European countries could lead to some reflections on a possible recomposition of the levy between the taxes that most directly affect workers (IRPEF) and those that affect consumption. However, for the moment there seems to be no margin for intervention in this sense, given that, in the face of a possible reduction in personal income tax, the enabling bill does not refer to a recovery of revenue through VAT, even if a bill to rebalance revenue in this direction has been repeatedly supported by the European Commission.

FISCAL EXPENDITURE BETWEEN NEEDS AND REFORMS

53. In the last chapter of the revenue section, attention is paid to fiscal expenditure, whose revision, announced several times, is slow to make headway, squeezed as it is between the need to find in the budget the resources for the financing of other public policies (the 2023 DEF cites so-called "unchanged policies") and that of guaranteeing corrections consistent with the features of the reform envisaged in the enabling bill. From international comparison data, despite all the complexities they present, a general trend of increasing fiscal expenditure emerges, also as a consequence of the interventions carried out more recently to fight the pandemic and to cushion the economic effects of the Russia-Ukraine conflict. Italy is characterized by having an extremely high amount of tax expenditures censused (taxes alone fluctuate around 600 starting from 2021), but a weight on GDP among the lowest (less than 4%) even if compared with

France, the United States and the United Kingdom. An extremely fragmented picture emerges, therefore, where only half of the interventions censused have an actual quantification and only a hundred or so interventions have an effect exceeding 50 million Euro (the minimum threshold for such a census in the United States).

54. In Italy, aspects of timing and parliamentary procedures are also relevant. The intersection between the budget cycle and the recognition of tax expenditure produces in Italy a time lag such that some tax expenditures are only recorded with a great delay compared to the year of actual validity and others, with a short duration, may totally escape the censuses. Suffice it to say that, considering two important measures following the Annual Report on Fiscal Expenditure [RASF in Italian, t/n] published in 2022 (the Budget Law for 2023 and Legislative Decree 34/2023), the total resources committed for 2023 have risen from 82 to 97 billion. An analysis of the methods of introducing tax expenditure has instead highlighted an excessive use of the Emergency Decree and the instrument of Tax Credits. The use of Decree-Laws, obviously in many ways obligatory during the two recent pandemic and energy price crises, cuts the time for the necessary reflection on the characteristics of the instruments being introduced and also generates a strong instability in the legislation, which often requires subsequent corrections. Any analysis of the main items of intervention cannot fail to reflect on the considerable resources committed to supporting housing stock, both in terms of tax breaks for the purchase of a first home, and in relation to the recent incentive bonuses that have been paid for energy saving (27 billion total according to the RASF for the 2023 financial year). The case of the Superbonus, in particular, allows us reflection on the risks of using tax breaks, and tax credits in particular, as the main instruments of economic policy. The automatism inherent in the incentive, at least in the form used with the 110% Superbonus, has led to great difficulties in predicting adhesions to the incentive and therefore monitoring the related expenditure in time, which reached 80 billion in tax deductions/credits in March 2023 (for fewer than 500 thousand construction sites). The fact that this is less revenue, and not immediate disbursement of funds, can in fact induce a “financial illusion” and thereby underestimate the consequences for the room for manoeuvre of budgetary policy in the coming years, both for the deficit and for public debt.

55. The distributional effects of tax expenses related to building stock are generally regressive, slightly cushioned in the case of the Superbonus by the possibility of transferring the deductions or credits accrued (operational until February 2023) and by the consequent widening of the audience of potential beneficiaries to the incapacitated (subjects with limited economic resources). An analysis of the most recent data on tax returns (for the year 2021) and ENEA [Italian National Agency for New Technologies, Energy and Sustainable Economic Development] show however a large concentration of all tax expenses related to construction in the highest income classes and in the most dynamic regions, even if the Superbonus seems to have served for a rebalancing, at least at a regional level. From the analyses conducted in the chapter it emerges that a drive to rebalance the territorial effects of the benefits is also found with reference to the substitute taxation of rents (with an ordinary and preferential rate of 10%), given that this specific tax expenditure also affects tourist rentals, widely spread also in the southern regions. However, the greatest benefit remains concentrated at the top of the overall income distribution. With specific reference to the possibility of using the reduced rate of 10%, the data examined shows that in some areas of the country, the agreed rents have been set in a much more generous way and allow users to benefit from the reduced rate even for leases substantially aligned with market prices, while in other cities the agreements either have greater rigidity or market demand is still so lively as to keep market rents far from those that can be determined on the basis of the agreements themselves.

56. The extreme complexity of Italy’s tax system, the interactions between fiscal spending and the welfare model, and the need to urgently pursue a reduction in the use of fossil fuels, make it difficult to abolish tax-expenditures quickly, or even reform them, to obtain new revenue. Their review must be consistent with the objectives and instruments that

will be made explicit with the tax reform currently under discussion in Parliament (with particular regard to the degree of progressivity of the tax and the horizontal fairness of the income tax), but also with the reform of incentives to companies and other specific policies that use incentives or supports. Alongside the major choices, however, it will be necessary to review the specific mechanisms for disbursing tax incentives. Firstly, the Emergency Decree is to be avoided since it does not allow the necessary reflections and leads to a great deal of regulatory fragmentation, which needs continual amending, as became evident in the case of the Superbonus. The experience of recent building bonuses also shows that it can be extremely risky for the overall balance of the system to introduce automatic incentive mechanisms without imposing limits on financial commitment or a prior booking procedure. Finally, the monitoring system needs to be reformed to better align the census of fiscal expenditure with the financial year, avoiding the current time lags and thus making it easier to assess effectiveness and consistency with the economic policy stance.

SOCIAL SECURITY EXPENDITURE

57. The recent proposals to modify the economic governance of the European Union have confirmed that the framework of rules for the surveillance of public finances will evolve towards a control of expenditure and the compatibility of its evolution with the trend of potential output within the framework of the severity of the challenges that each country faces with respect to the objective of containing the public debt/GDP ratio. In this context, social benefits in cash assume a prominent role among the sectors of nationally financed primary expenditure. The DEF reserves the usual attention to this with the examination of expenses for social security, welfare services and health.

58. Expenditure on social benefits in cash is one of the most important and significant items in the public budget for the evolution of current primary expenditure, a parameter that will assume increasing importance in future European monitoring and surveillance schemes. Totalling €407 billion in 2022 (21.3% of GDP), according to the recently approved DEF, the nominal increase in these benefits will represent, between 2022 and 2026, almost 90% of the overall increase in current expenditure, while it will be even higher than 100% if current expenditure net of interest is taken into account (65 billion of higher social benefits against 55 billion of higher current expenditure net of interest, therefore with about a 10 billion reduction in other current expenses). All of which continues to make the sector particularly delicate and worthy of careful monitoring. Within it, a particularly significant weight is that of expenditure on social security and pensions in particular, to which this chapter has been dedicated.

59. In 2022, the final figure for pension expenditure was slightly better than the preliminary balance sheet (NTI 2023-25). The net final results of the interventions introduced with the 2022 budget law may also have contributed to this, which saw lower than expected financial effects for Quota 102 in a framework that also recorded a sustained flow of retirements through the extended Women's Option channel. The aggregate was affected by the return of inflation and therefore by a revaluation of the prices of existing treatments (1.9%), after a two-year period characterized by the substantial elimination of automatic equalization indices. The trend in expenditure also reflected the temporary effects (initially estimated at almost 2 billion) of the interventions of Legislative Decree no. 115/2022 which provided for the advance, for a significant number of pensioners, of a part of the inflation to be granted in 2023.

60. According to the 2023 DEF, pension expenditure, after reaching almost 297 billion in 2022, with a growth of 3.7 per year will accelerate in the current year and in 2024 (+4.4 and +5.7%, respectively); it should then grow at a more moderate pace in 2025-26 (+2.5 and +2.6, respectively). The share of GDP should rise from 15.6% in 2022 to 16.1% in 2026. The

short-term framework offers a fundamental lesson: namely, in the presence of such a significant item of expenditure, even inflationary shocks that with indexation delayed in time and in any case less than unity should only benefit public finance balances (in relation to GDP), end up having “real” costs; in fact, the imported origin of the shock causes GDP inflation (deflator) to remain lower than consumption inflation and thus ultimately produces tax inflation.

61. In the chapter, in addition to an examination of the short-term prospects, the point was re-elaborated, through an examination of the official projections of long-term estimates released from time to time. These highlighted that, in the transition through certain relevant phases of the last five years (the launch of Quota 100 in 2019, the pandemic recession in 2020 and the energy and inflationary crisis in 2021-22), in 2030 and 2040 there will be an increase of more than one point in the pension expenditure/GDP ratio. This will have a significant impact, as underlined in the part on public debt, in the process of prospective consolidation envisaged by the new rules.

62. For the pension sector, it is necessary to restore certainty and stability to the regulatory framework, after the temporary interventions that have marked it in the last five years. This is a point on which the 2023 DEF does not seem to provide adequate information; this comes at a time when the updating of analyses of the long-term prospects for age-related expenditure confirms the strong pressures that the growth in the dependency ratio of older people is going to exert on pension spending. An approach which considers the long-term sustainability of the pension system from both financial and social points of view should be shared. In this last respect, it is important to move towards strengthening the pension prospects of the younger generation by favouring more continuous careers and higher wage levels, which do presuppose higher productivity and higher economic growth, however. Supplementary pension support can play a role in ensuring a fair overall replacement rate for those who retire under the fully contributory calculation system.

63. In order to be able to look calmly at the dynamics of pension expenditure and preserve the structural solidity of a social security system that has seen many reforms in recent decades and which presents, for this reason, aspects of greater sustainability than those of other large countries, it would therefore seem necessary to correct with targeted measures some points of excessive rigidity of Law 214/2011, without questioning its underlying logic. Recent measures are heading in this direction, such as the extension of the social pension advance, through a widening of the audience. Of particular importance, then, are the changes in and extensions to the system of social safety nets created by the 2022 Budget Law, with an estimated expenditure, in terms of debt, of 2.6 billion in 2022, 2.3 billion in 2023 and 1.65 billion in 2024. In the case of social safety nets, it should be remembered that their structural strengthening will be important, in the coming years, also in light of the probable changes in European budgetary rules. In fact, they ought to include, as a single indicator for monitoring the balance of public finances, an aggregate of expenditure adjusted, among other things, from the cyclical component of unemployment benefits. Strengthening the structure and dimensions of the latter will also provide Italy with an implicit anti-cyclical policy instrument of a non-discretionary nature.

64. In the last part of the chapter, there is a return to the delicate issue of the adequacy of future pensions. The data of an INPS sample of insurance positions confirm the extremely heterogeneous picture that has already been considered in previous reports. In addition to “re-photographing” the general audience of insured parties, an insight into the pension positions of young people was offered, especially those who were active at the end of 2020 and were 40 years of age. Given that, within the subjects corresponding to the audience mentioned, in about 235 positions out of a total of 575 (40.8%) there is a gross salary of less than 20 thousand Euro (28% of the young people involved), 11 “typical figures” were considered, all of which were shared, as well as

the age, from being fully contributory. The "team" examined highlighted decidedly uneven situations with figures who present very reassuring positions (for example in the health sector or the armed forces) and others, for example in that of quasi-self-employed workers or direct farmers, particularly fragile; an interpretation also suggested by an examination of the existing contribution amounts (considered in relation to the contribution seniority), of which evidence has been provided for the first time since the data of the INPS sample have been used in the REPORT ON THE COORDINATION OF PUBLIC FINANCE of the Court of Audit. The picture offered shows, therefore, on the whole, that the pension prospects for far from small sections of the population will only improve in the coming decades in the presence of a more robust growth in incomes and an increase in the continuity of contributions: in a word, thanks to an improvement in the overall conditions of the economy and its labour market.

WELFARE SERVICES EXPENDITURE

65. In 2022, spending on welfare services returned to 2020 levels (around €67 billion), after an increase in 2021 (+1.5%). The contraction affected in particular social benefits in cash (-8.4%), determined by the reduction in disbursements for other checks and subsidies (34 billion in 2021 and about 29 in 2022), although interventions to support the increased energy expenditure of households did have an impact. Social benefits in kind (about 13 billion) are in contrast with a significant increase compared to 2021 (+36 %) essentially attributable to services "corresponding to goods and services produced by market producers", which rose from 5.8 billion in 2021 to about 9 billion in 2022, acquiring the extension of social bonuses on energy prices, gas and water. Most of this increase is included under the heading "social exclusion not classified elsewhere" (5 billion), the residual nature of which does not allow assessments to be made of the determinants of this growth; in this regard, it is hoped that the data will be more disaggregated or that the methodology will be more explanatory of the nature of the expenditure thus classified.
From the data on absolute poverty provided by ISTAT, a reduction emerged, in 2021, in the number of families in absolute poverty (in thousands, 1,960 against 2,009 in 2020). Households with 5 or more members have the highest poverty rate and the greatest increase; in contrast, households with a reference person seeking employment show the most significant increase in the poverty index, which rose from 19.7% to 22.6%.

66. One important element, and not merely quantitative, in the evolution of expenditure for social protection has been constituted, since March 2022, by the Single Universal Allowance [AUU in Italian] for dependent children which, although included in the social security account, can be traced back to the welfare area. This benefit reinforces and stabilizes the expenditure component associated with the support of parenthood and the incentive of increasing birth-rate and widens the audience of recipients, helping to mitigate the connotation acquired over time, excessively fragmented and categorical as it is.

67. An important role in territorial expenditure on welfare services is played by the municipalities. One of the most important aspects that emerges from a reading of the most recent ISTAT-MEF-RGS data examined in the chapter and available for the two-year period 2019-2020, is related to expenditure for "poverty, hardship, adults and homeless people" which has risen from 7.4 to 12.2% of total expenditure. In 2020, around 500,000 people were being taken care of by social services due to problems of poverty and social exclusion. The item of expenditure which saw the most consistent increase was that of "shopping vouchers or meal vouchers" including food vouchers for the Covid-19 emergency.

68. The expenditure on Citizenship Income [RdC in Italian] was 8.3 billion both in 2021 and in 2022. For 2023, the authorized expenditure has been set at 7.8 billion. Beneficiaries of this measure (including recipients of the Citizenship Pension) amounted to 1,168,722 households as of 31 December 2022, with a reduction of 15 % compared to December 2021. Reports show a greater number

of beneficiaries in the Southern Regions and the Islands, with an increase from 61% in 2021 to 65 % in 2022. In January 2023, households with an "accepted" application, or with RdC economic benefit in disbursement, amounted to 1,145,899. Of these, 166,667 households were being taken care of by the municipal social services, while 70,968 had signed the Social Inclusion Pact. The process of defining and designing personalized social inclusion interventions for each family was lengthy and complex, and seems far from being concluded, particularly in those regions with a high density of beneficiaries, which are also those with a particular shortage of social workers.

69. The most up-to-date data provided to the Court by the Ministry of Labour and Social Policies show the persistent difficulties in taking charge of RdC earners, both in the path for social inclusion and in that for work inclusion, while the path of strengthening social services, launched in 2021, is underway, with evident territorial disparities in terms of operators in service. From the data presented in an ANPAL monitoring report, it emerges that the individuals required to sign the Pact for Work [PPL in Italian] number around 725 thousand, strongly concentrated (76%) in the Southern Regions and in the Islands. Without prejudice to the need for a rapid completion of the Plan to bolster Employment Centres, the injection of resources associated with the NRRP GOL Programme and its result-oriented connotation in achieving European objectives, can contribute to overcoming the problem of job reintegration for a large share of beneficiaries, in need of demanding professional retraining or avenues to inclusion

70. With the repeal of Citizenship Income, starting from 2024, provided for by Law no. 197 of 29 December 2022 (2023 Budget Law), a transitional discipline has been introduced that identifies particularly stringent obligations for staying in the measure, starting from the provision of a maximum of seven months of RdC, for all families who present no characteristics of vulnerability (presence of members with disabilities, or minors or elderly of at least 60 years of age). The families thus selected would constitute, as estimated in the 2023 Budget Law Technical Report, a minority share of households receiving RdC (40 % of the total). Forfeiture of the benefit is determined by poor attendance of a semester given over to training/retraining courses (for subjects under the Social Inclusion Pact or the Work Pact), for failure to fulfil the educational obligation (for subjects between 18 and 29 years) and in the event of non-acceptance of the first suitable offer of work.

71. The transitional discipline defined for the RdC in the 2023 Budget Law indicates the guidelines within which the new interventions aimed, on the one hand, at the fight against poverty and social inclusion, and on the other, at addressing employment, as introduced by Legislative Decree no. 48 of 4 May 2023, respectively the Inclusion Allowance and Support for Training and Work. The differentiation of the measures, in terms of the audience of beneficiaries and the purpose of the interventions implemented, appears to be a choice that can be shared and already desired by this Court, also on the occasion of the hearing on Legislative Decree no. 4 of 2019 and, subsequently, in the Public Finance Coordination Reports of 2019 and 2020.

72. At first glance, all the interventions and conditionalities of the two new measures introduced reflect the aim of identifying and bringing forth the actual working capacity expressible by members of households in difficulty. In fact, training and support services are offered to beneficiaries of the Inclusion Allowance that can be activated at work, and to recipients of the Support for Training and Work, where the economic benefit, especially for the latter, appears ridiculously small. This implies that both the potential beneficiaries of the two measures and the public offer of social policies themselves are able to abandon a purely welfare perspective, in favour of an offer of active policies and incentives. This undoubtedly requires the deployment of greater skills and

effective coordination of the public and private operators involved. In this sense, all the services involved will play a crucial role, from the multidimensional analysis phase of the needs of the applicant households to the accompanying stages in the personalized path of social and work inclusion. No matter what happens. the effectiveness of the measures can be achieved if the objective of improving the beneficiaries' skills, through education and training, is combined with the efficiency of active policies in favouring a meeting of demand and supply in labour, overcoming the haphazard functioning of the Employment Centres at a territorial level. Finally, it is necessary to ensure that the pathways are effectively implemented by the beneficiaries, not only to verify compliance with the conditionalities linked to the provision of economic benefits, but above all to evaluate the results of the policies in terms of poverty reduction and improvement of the conditions of beneficiaries and their families.

73. Emergency situations (the pandemic, increase in energy costs, effects of the war in Ukraine) but also migratory flows linked to global factors that are difficult to control (wars, regimes, inequalities, climate change), are having long-term effects in terms of increased poverty, social hardship, the difficulty of inclusion that risks becoming structural if not addressed promptly with effective tools suitable for the magnitude and growth of the phenomena. This will require not only a redefinition of welfare policies, but also a strengthening of institutional capacities and the superseding of legislation that is sometimes incomplete and fragmented at both local and regional levels.

HEALTH EXPENDITURE

74. The national accounts have recently reported a health system that has seen, also in 2022, a reduction in expenditure in terms of product and that assumes, in the forecasts of the Government in the 2023 DEF, a profile in continuous decline also over the next three years. A "normalization" awaiting demographic phenomena to lead to new increases. This is a picture which finds in the regional accounts (different in nature, but themselves the source of public accounting) further elements, which allow a clarification of the path and evaluate its implications, even when looking beyond the accounting data alone.

75. The operating result, measured as the difference between the revenue expected by the State to cover Essential Assistance Levels [LEA in Italian] and the expenditure incurred on healthcare, is showing a marked deterioration. Losses are growing, increasing from a deficit of 1,025 million in 2021 to just under 1,470 million (in 2020 they were 800 million). Then the reading of the year's results is also affected by the consideration in the shelf revenues of the deficits borne by companies producing medical devices for the four-year period 2015-2018: the amount considered in the 2022 budget (referring to a period of five years) is much higher than that conceivable for a single year; any "sterilization" would lead to a further worsening of the overall result. The phenomenon is widespread in all areas of the country but affects to a greater extent the regions with an ordinary statute of the Centre-North. Lombardy presents a positive result, despite the sharp drop suffered in the year by the item relating to net health mobility, as a "delayed" effect of the block of welfare services in 2020. Although at lower rates than the last two years, health spending continues to grow more than revenue, requiring the Administrations, as has happened again this year, to "divert" additional resources to the financing of the sector to balance the books.

76. In 2022, health expenditure per capita net of mobility (in other words, expenditure related to the resident population in the region) amounted to 2,241 Euro, with a growth rate compared to 2021 of 2.2%. From 2019 to date, the regions not in the Plan registered an increase in per capita cost of 13.1% (10.2 the others). It is the regions of the North that present the most significant variations both in the year and in the period, with those of special status that

have increased expenditure by 3.6% and 14.4% respectively. Looking at health expenditure per capita, interregional variability is accentuated, highlighting not so much the differences in the needs of the populations, but the different capacities of reaction linked to the characteristics of the models of production of welfare services at a regional level.

77. Monitoring of the Essential Levels of Assistance for the 2021 financial year, while showing a general improvement after the setback of the previous year, with 14 regions reaching sufficiency in each level of welfare services (compared to 11 in 2020 but 15 in 2019) indicates the persistence of critical issues, especially in the southern regions. Extremely low values continue to be found, for example, for cancer screenings carried out in the regions in the Plan, and in 2022 there was only a partial recovery of services not carried out during the pandemic; the rate of patients treated in Integrated Home Care remains low, especially in the case of the Aid Intensity Coefficient as regards care, to be found in 8 regions below the minimum threshold of 2.6 %.

78. The indicators relating to the hospital area are improving in terms of appropriateness, safety and quality of care, however, the use of caesarean sections in facilities with a limited number of deliveries per year remains excessive throughout the country (but especially in the South); similarly, in most southern regions, the objective of timely interventions for certain diseases, such as femur rupture in elderly patients, in which the results of the operation depend crucially on a rapid response after hospitalization, has not been achieved.

79. Situations of inefficient use of hospital resources and, at the same time, an inadequacy of the territorial network, continue to reveal situations related to access to A&E which, having decreased during the pandemic, increased again in 2021, highlighting the extent to which many local hospitals are the main (and sometimes the only) point of reference for welfare services. Difficulties that are reflected both in the delay with which it was possible to shorten the waiting lists of hospitalizations and outpatient specialists which had accumulated during the pandemic, and in staff shortages, especially in hospitals.

80. Despite the prolonging of certain measures adopted during the Covid emergency and the possibility of stabilizing health workers, in 2022 staff shortages became increasingly evident, especially in some structures. In particular, critical issues in the functioning of emergency and rapid response services have worsened, both with reference to the use of so-called "coin-operated doctors", and, more generally, in relation to the availability of professional resources necessary to guarantee the functioning of a crucial component of the welfare services system.

81. In conclusion, the difficulties that still characterize the system, sorely tried by the health crisis, confirm the validity of the analyses on which issues it is necessary to intervene to improve care, to find a new balance between hospitals and territorial facilities, but also demand an adequate response to the needs of health personnel. A path which requires careful reflection on the importance of the sector within the framework of national programming.

LOCAL PUBLIC INVESTMENT EXPENDITURE

82. In the last of the four sections of the DEF, the attention shifts to the development of capital expenditure, to whose prospects the actual possibility of a lasting and sustainable fiscal consolidation is closely related due to the effects on growth. The examination first considers the trend of expenditure for gross fixed investments, especially that carried out on the one hand, by local authorities in general and by municipalities in particular, and on the other in the health field, and then returns to the implementation profiles of the NRRP already the subject, last March, of the half-yearly report drafted by the Court pursuant to Legislative Decree 77/2021.

83. As for local public investments, the analysis offered in the DEF, although mainly of a cyclical nature, collaterally raises three distinct questions: 1) To what extent are there signs of vitality in some items of expenditure more related to NRRP activities; (2) Has investment activity been reinvigorated, at least in relative terms, in the municipalities belonging to industrial districts; 3) To what extent are we witnessing or have witnessed in recent years a recovery, even relative, of investment expenditure, understood as an increase in magnitude in relation to current expenditure. The chapter uses data from the Information System on the Operations of Public Bodies [SIOPE in Italian], to provide, with due caution deriving from the nature of these data – which are financial rather than economic – a cross-section of the role that local authorities have in the process of resuming capital accumulation. The resulting picture, with regard to 2022 and the first months of 2023, presents lights and shadows and is not without lessons for programming and policy guidelines.

84. For 2022, the DEF of April last year had taken into account a strong increase in gross fixed capital formation of Public Administrations (+14.3% per annum); local administrations were supposed to have contributed very significantly (+20 %). In reality, over time, a much less dynamic trend has become evident (moreover well captured, time after time, by the same SIOPE data). According to the final results recently produced by ISTAT also for sub-sectors of the Public Administrations, local administrations increased LFS by 3.8% to achieve an overall decrease of 8.4% of local health authorities and increases in some cases modest and in others good (+9.5% the figure of the Regions for the part other than health); in this scenario, the municipalities helped to mitigate the overall fall by achieving an average growth, again from the SIOPE surveys, of 4.1%, slightly accelerating during the year but significantly slowing down compared to 2021 (+13%). The disaggregated analysis of the SIOPE data of the municipalities shows a certain dynamism in the investments of the smaller municipalities and a substantial difficulty among the larger municipalities and regional capitals. There is also a marked geographical differentiation with respect to the national average, with growth rates reaching 7.6% in the North-West and, vice versa, close to zero in the municipalities of the Centre and the Islands, indicating substantial stagnation.

85. A more detailed analysis shows that this variability between trend growth rates is even more pronounced at a regional level and that there is a sufficiently stable inverse relationship between size band and annual rate of change: the latter, higher for small and exceedingly small municipalities, already becomes negative above the threshold of 60 thousand inhabitants. Even higher growth rates (+24% on average) have been registered for micro-municipalities (below 800 inhabitants). The question arises as to whether the increase in capital accumulation is taking place at the expense of the quality of services provided in other fields. In the case of municipalities, about 95% of gross fixed capital formation expenditure concerns tangible assets, an aggregate whose trend therefore ends up impacting the dynamics of the overall expenditure. Among the top 10 items by quantitative impact on total gross fixed capital formation, road infrastructure, school buildings, etc. stand out for their importance. In 2022, contrasting trends were highlighted: particularly positive in the case of works for land improvement (+24%) or for hydraulic infrastructures, and instead of a recessionary sign for buildings for school use (-4.6 %). While waiting to be able to monitor projects within NRRP investments (in the pipeline via SIOPE+), there are some items of expenditure which, although of a limited amount compared to others, are of interest for the development of the NRRP. This is the case, for example, of the item of expenditure for professional assignments for the realization of investments: in 2022 this evidenced a particularly lively trend (+29%) also signalling (probably) the strong need for technical skills from which municipal administrations seem to suffer today. The expenditure components are particularly important, at least potentially, for strengthening the total factor productivity (approximated from a limited

number of items, among about 100 overall, which will require subsequent refinements), are registering slightly increasing trends.

86. As part of the analyses conducted in the chapter, in an economic context such as that of Italy, strongly marked as it is by the presence of industrial districts, we asked ourselves what role public investment policies might play in the municipalities that belong to the 141 districts currently surveyed by ISTAT. The use of data by individual institution has made it possible to pinpoint that in 2022, in all these municipalities, gross fixed capital formation expenditure grew by about twice the national average (8 against 4%). The aggregation of the districts by sector of activity also highlighted significant differences in dynamics with a rather marked decline, in particular, in the jewellery and goldsmith sector but livelier in the metallurgical sector and in those of leather ware and footwear. It is not possible, at present, to assess whether the quality of investments in these municipalities is characterized as a driving force for private investment, providing the territory with those infrastructures that are conducive to growth, and to what extent the very concept of industrial district translates into coordination and complementarity of investments between municipalities belonging to the same district.

87. Despite the difficulties that emerged during 2022, especially in relation to expectations that were still in the planning phase, the data for the first quarter of 2023 show a lively recovery in payments for gross fixed investments involving large sectors of local authorities. In the case of municipalities, compared to the first quarter of 2022, growth averaged 20%. The recovery is also significant in larger institutions (around +40 % for those over 250 thousand inhabitants) and rather widespread at a territorial level with almost +50 %, always on a trend basis, in the Municipalities of the Centre.
An analysis of the quality of local spending as approximated by the share of investments on current expenditure has shown that this ratio is growing generally throughout the territory and that there is a pattern of convergence between areas. The increase has in fact been interpreted in a positive sense: when investment expenditure grows more than proportionally with respect to the growth of current expenditure, more resources are used for interventions potentially aimed at increasing the quantity and quality of services offered to citizens or, but not necessarily as an alternative, that there may be processes of efficiency of current expenditure.

INVESTMENTS IN HEALTHCARE

88. The adequacy of the real estate and technological assets of healthcare services and, therefore, the investment choices related to this, represent crucial aspects both for the operational implications related to the ability to provide adequate services and for the economic impact of costs related to management. An efficient planning of interventions to improve welfare services is required by different needs: reduce maintenance costs; respond adequately to the impetus of environmental and energy policies; calibrate interventions on the need to strengthen territorial welfare services; overcome critical issues related to the age of the built heritage; save on the costs incurred for the rents of the premises used; secure structures from seismic risks.

89. The availability of NRRP resources - mainly oriented towards strengthening territorial welfare services, the one that has proved to be most fragile in the face of the pandemic crisis - must not let us forget the urgency of intervening to remove the limits that have so far prevented an effective use of the funds provided for “ordinary” investments in the field of health. The opportunity of the Plan must be seized, as well as for the actual achievements, also because it offers administrations the opportunity to recover a design capacity that has been, in many situations, lost in the years of financial recovery. Only in this way will it be possible to absorb the delays that have been seen so far in the management of the programme agreements, which result not only in the non-use of funds, but also in planning and implementation times that are too

lengthy. Good design, clear objectives and the need to adapt infrastructure and technological equipment must go hand in hand with a simplification of procedures, which allows the best use of specific resources, reducing the need to resort to current funding to keep the structures running. Also in relation to the needs that will have to be faced due to the ageing of the population, the fact that a quarter of the investments required annually are financed by current resources cannot continue without jeopardizing the stability of the system.

90. For investments in machinery, infrastructures of a limited size, NHS [SSN] bodies must be able to make use of simpler mechanisms to access financing with a consequent simplification of procedures. However, this must be accompanied by a review of the system of withdrawals of funds, which penalizes the absence of adequate programming and poor planning, and all too often causes an extension of the time spent on resources. Greater rigour must also apply to the monitoring activities being carried out, in order to overcome the shortcomings that currently exist on this front too, which themselves affect the achievement of the objectives.

91. An indispensable information framework to ensure that, in a phase of strong acceleration of investments, such as the one we are about to face (to the 2 billion per year should be added in the next 3 years an amount more than double for the implementation of the Plan) an inter-institutional round table, such as the one organized last June, can make an effective contribution, or an additional mission unit to assist institutions in the implementation of the programmes and ensure close coordination between the various instruments available.

THE PROGRESS OF THE NRRP

92. In the current economic context, the path of timely and full implementation of the range of reforms and investments of the NRRP is increasingly key, in order to generate the economic impetus necessary to keep the country moving along a path of stability and growth. Following progressive revisions of the financial programming, with a partial temporal translation of resources forward, at the end of 2022 the expenditure incurred amounted to approximately 24.5 billion according to ReGiS data. Also considering the progress of the first months of 2023, the overall progress has risen by a further 1.2 billion, to 25.7 billion, in the wake of the high demand recorded in the Ecobonus-Sismabonus measures (8.7 billion) and the Transition 4.0 Tax Credits (6.4 billion). Compared to the total ceiling of the Plan (€191.5 billion), expenditure incurred at the beginning of 2023 shows an overall progress rate of 13.4%, a summary of extremely heterogeneous situations across missions and members. The first three missions (digitalization, energy transition and infrastructure), which are also larger in size, show greater financial progress, all of them above 16%. Conversely, missions 4 and 5 (related to education and inclusion) have progress rates close to 5%, while mission 6 on health has not reached the 1% threshold. Net of measures structured as tax credits, operating substantially automatically based on the demand of private beneficiaries, without requiring special obligations on the part of the administrations responsible, the expenditure incurred at the beginning of 2023 stands at 10.5 billion, with a financial realization rate of 6.4%.

93. Although the degrees of progress mentioned, even in their breakdown by mission, are not necessarily emblematic of possible delays of some missions compared to others, reflecting rather the differing temporal distribution in the programming of resources within the lifespan of the Plan, they nonetheless highlight the major financial effort required in the coming years from all public actors involved in the implementation of the initiatives. This aspect will also be affected by the revision choices of the initiatives (still being defined in the dialogue with the European institutions), in the light of the changed context of

reference and any critical issues that emerged in the first implementation phase, as well as integration of the Plan with the REPowerEU Chapter; the latter will be able to guarantee additional resources, also in the form of a grant, which, however, will be accompanied by an expansion of projects and the setting of even more ambitious objectives, especially in the energy field, to be achieved by 2026.

94. The implementation of the Plan will still benefit from the measures adopted by the Government with Legislative Decree no. 13/2023 which, again in line with the indications of the Court of Audit, promptly intervened to reorganize and strengthen the central coordination structures, also in terms of the provision of stable personnel, as well as adopting simplification measures concerning both the financial management of the resources of the Plan and the administrative procedures necessary for the realization of the investments. As for facilitating the progress of the investments, the measures aimed at strengthening the administrative capacity of local authorities should also be read positively, given that they have been entrusted with a central role in the implementation phase, as highlighted by the Court of Audit in its last half-yearly report on the state of implementation of the Plan.