Ministero dell'Economia e delle Finanze

ITALY'S DRAFT BUDGETARY PLAN 2020

MINISTRY OF THE ECONOMY AND FINANCE

ITALY'S DRAFT BUDGETARY PLAN 2020

Submitted by Minister of Economy and Finance
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INDEX

INDEX OF BOXES

INDEX OF THE TABLE

INDEX OF THE FIGURE

I. MACROECONOMIC OUTLOOK AND FISCAL POLICY

Recent economic trends and short-term outlook

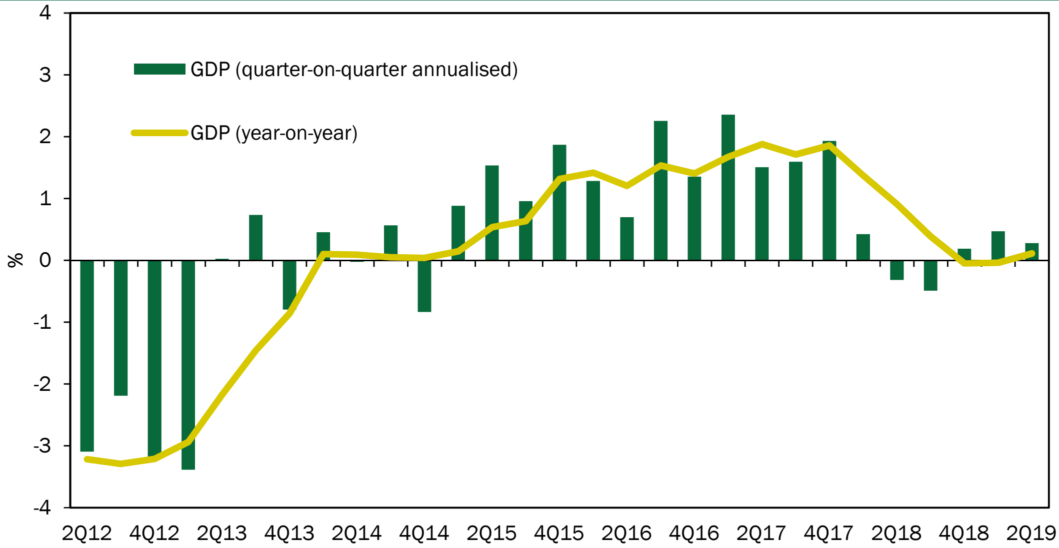
Italy's economic recovery stalled in 2018. While the annual real GDP growth rate was 0.8 percent, output actually declined slightly in the middle quarters of the year, as growth in domestic consumption ground to a halt, exports slowed markedly due to the downturn in global trade, and firms reduced inventories.

According to the latest official statistics, real GDP stabilised in the fourth quarter of 2018 and resumed growing at a slow pace in the first half of this year. Internal estimates suggest real GDP was close to flat in the third quarter and will grow by 0.1 percent quarter-on-quarter in the fourth. If so, real GDP this year would grow by 0.3 percent on a Q4/Q4 basis and 0.1 percent on an average basis, slightly less than the 0.2 percent projected in April's Stability Program.

This year's modest increase in real GDP would be the result of a positive contribution from net international trade, slow growth in domestic demand and a sizable drag from inventories.

On a positive note, exports of goods and services in the first half of the year grew by 3.3 percent over the corresponding period of 2018 and are expected to post an overall 2.8 percent increase in 2019, up from 1.8 percent last year. While exports of intermediate and capital goods have been negatively affected by falling foreign demand, consumer goods have recorded solid growth rates. With imports expected to rise by only 0.7 percent (from 3.0 percent in 2018), net trade would provide a 0.6 percentage point contribution to annual real GDP growth.

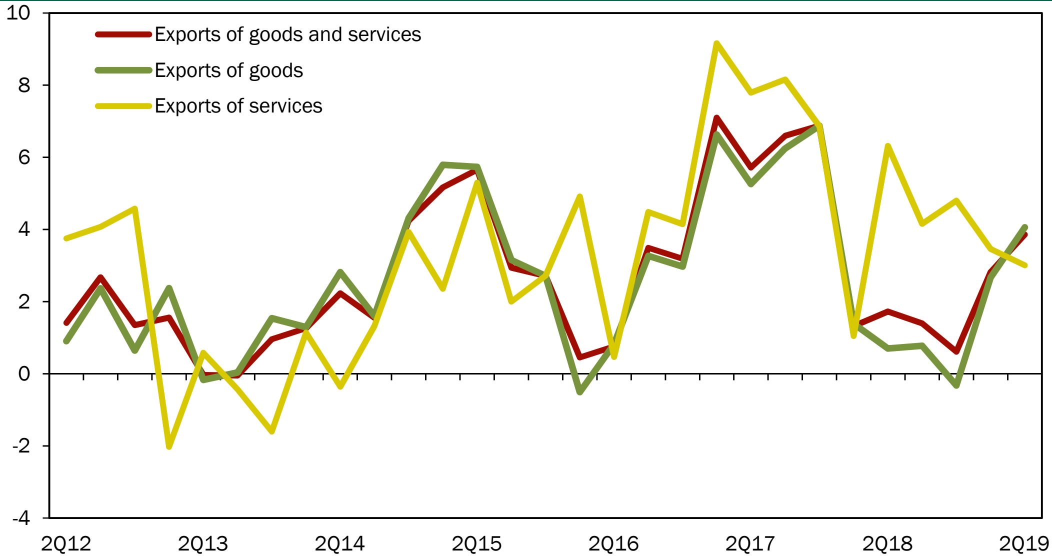
FIGURE 1.1-1 REAL GDP GROWTH (% GROWTH RATE)



Source: ISTAT.

Consistent with a widening trade surplus, the current account is projected to post a 2.7-percent-of-GDP surplus this year, from 2.5 percent in 2018.

FIGURE 1.1-2 EXPORT GROWTH (% YEAR ON YEAR, NATIONAL ACCOUNTS DATA)



Source: ISTAT.

As far as domestic demand is concerned, following a rebound in the fourth quarter of last year household consumption was broadly unchanged in the first half of 2019, as the saving propensity rose to 8.5 percent of disposable income, from an average of 8.2 percent in 2018. The annual growth forecast for 2019 calls for an overall increase in household consumption of 0.4 percent, down from 0.8 percent in 2018, which would amount to the weakest performance since 2014.

Gross fixed investment grew by 2.4 percent on a year-ago basis in the first semester and is expected to post an overall increase of 2.1 percent this year, down from 3.2 percent in 2018.

According to the new forecast, inventories will subtract 1.1 percentage points from this year's real GDP growth rate, after subtracting 0.1 points last year. The large drag from inventories currently estimated for 2019 suggests that in the event of a brightening in the global and domestic outlook real GDP could rebound relatively strongly.

TABLE I.1-1 : REAL GDP GROTH AND NET CONTRIBUTION OF DOMESTIC AND FOREGN COMPONENTS

	2014	2015	2016	2017	2018	2019 F
Annual growth	0.0	0.8	1.3	1.7	0.8	0.1
Contributions						
Domestic final demand	*-0.4*	*1.3*	*1.6*	*1.4*	*1.1*	*0.6*
Stockbuilding	*0.5*	*0.0*	*0.2*	*0.2*	*-0.1*	*-1.1*
Net international trade	*-0.1*	*-0.4*	*-0.5*	*0.1*	*-0.3*	*0.6*
Q4/Q4 growth (*)	0.0	1.3	1.4	1.9	0.0	0.3

(*) Based on quarterly national accounts data, which are calendar and seasonally adjusted.

Source: MEF computations and forecasts based on ISTAT data.

Inflation pressures remain muted. The year-on-year HICP inflation rate fell to 0.3 percent in September, from a peak of 1.9 percent in July 2018. This was largely down to a decline in energy prices, as core inflation has hovered around 0.5 percent for the past two years.

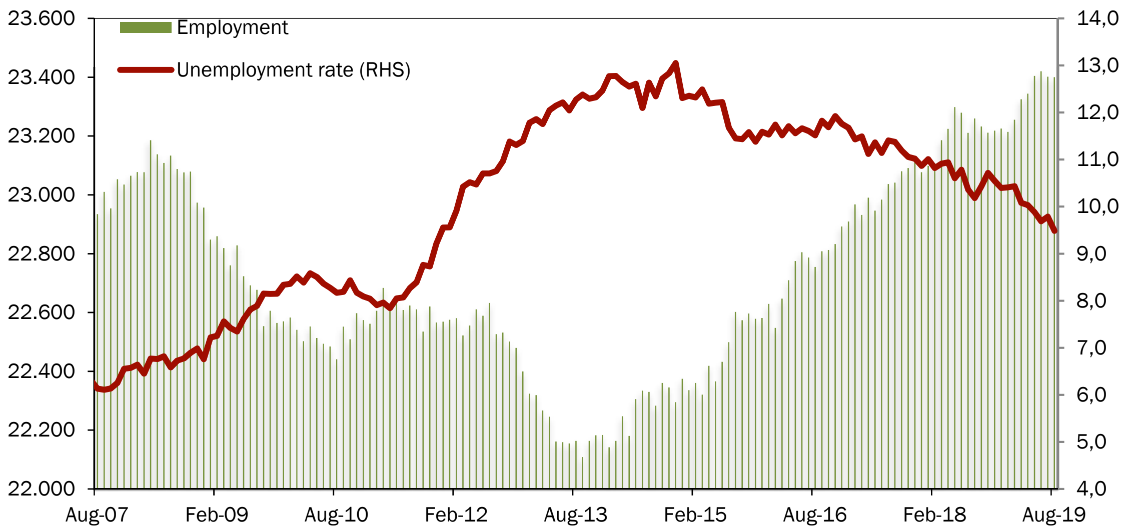
Inflation has also been quite low at the producer level, with the domestic PPI posting a -2.1 percent year-on-year decline and the core PPI unchanged over a year ago as of the latest reading (August 2019). Year-on-year growth in the GDP deflator averaged 0.5 percent in the first half of the year. The new official forecast envisages an average HICP inflation rate of 0.8 percent this year and growth in the private consumption and GDP deflators of 0.8 and 0.9 percent respectively.

Wage growth also remains quite subdued. Compensation per employee rose by 2.2 percent in 2018, owing largely to a public sector wage hike. However, it is expected to decelerate to 1.3 percent this year, as the public sector increase is unwound.

Wage moderation reflects not only low global inflationary pressures, but also continuing slack in the Italian labour market. Employment in 2019 is expected to grow by 0.6 percent in terms of hours worked and 0.5 percent in terms of headcount. The employment ratio has reached a new high of 59.2 percent of working age population. Even so, the unemployment rate averaged 10.0 percent in the first eight months of the year – more than four percentage points above the pre-crisis low recorded in 2007.

The drop in the unemployment rate has quickened in recent months, especially in August, when it fell to 9.5 percent. However, the improvement was partly due to a decline in the participation rate. The annual forecast calls for a 10.1 percent unemployment rate based on the premise that the new active labour market policies that were rolled out in April as a component of the Citizenship Income scheme will ultimately lead to an increase in the participation rate. If that were not to happen, the unemployment rate may keep declining in the final months of the year, taking the annual average below 10 percent.

FIGURE 1.1-3 EMPLOYMENT AND UNEMPLOYMENT RATE

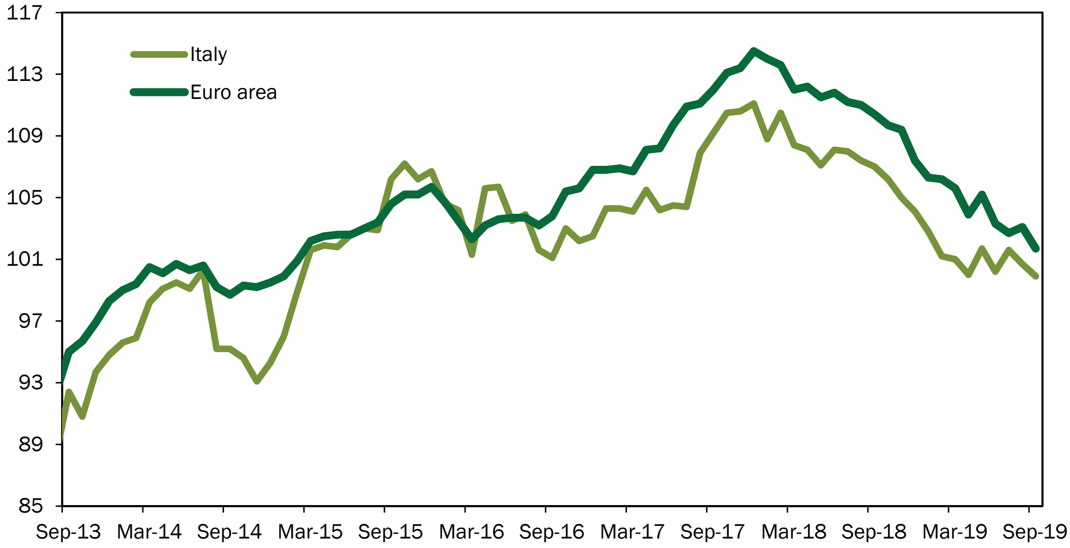


Source: ISTAT.

Global outlook and projected evolution of exogenous variables

European and global economic indicators continue to worsen. The worsening in business confidence that began to surface in early 2018 was initially confined to the manufacturing industry, the sector most affected by changes in US trade policy and by the economic slowdown in key emerging market economies. More recently, however, weakness has also emerged in the service sector in most advanced economies even though employment and private consumption levels remain generally high.

FIGURE 1.1-4 : EURO AREA AND ITALY ECONOMIC SENTIMENT INDICATOR



Source: European Commission.

Leading central banks, notably the Fed and the ECB, have responded to the slowdown in economic activity, first by changing their 'forward guidance' and then by easing their policy stance. This has led to a drop in bond yields and an overall accommodation in financial conditions.

The focus of the international policy debate has gradually shifted to fiscal policy, notably in Europe. Several institutions, including the ECB, have called for fiscal policy stimulus, especially on the part of euro area countries that have been running budget surpluses. In view of the growing focus on climate change and sustainability, this stimulus should concentrate in particular on public investment and infrastructure development. But while there is broad consensus on the idea that substantial fiscal stimulus measures could be implemented if economic 'tail risks' were to materialise, only a limited cyclical support can be expected from euro area fiscal policy in the near term.

At the time of writing, positive signals have emerged from the US-China trade negotiations and Brexit preparations. Still, uncertainty about the future course of US trade policy vis-à-vis not only China but also the European Union is likely to persist, which will weigh not only on global trade growth but also on firms' investment and production decisions.

The official macroeconomic forecast relies on third-party projections[1] of world real GDP growth and of import growth in Italy's trading partners. World real GDP growth is projected to slow from 3.9 percent in 2018 to 3.3 percent this year and 3.0 percent in 2020, and then gradually improve to 3.3 percent in 2021 and 3.5 percent in 2022. Average growth in Italy's export markets would decelerate from 4.1 percent in 2018 to 1.5 percent this year, before recovering to 1.9 percent next year, 3.0 percent in 2021 and 3.2 in 2022. These projections are significantly lower than the ones underlying this year's Stability Program (table I.2). Simulations carried out with the Treasury econometric model (ITEM) suggest that the downward revisions to world trade projections will subtract one tenth of a percent from Italy's real GDP growth rate in 2019, 0.5 percentage points in 2020 and 0.2 percentage points in 2021.

TABLE I.1-2 :EXOGENOUS VARIABLES

	2019		2020		2021-2022	
	SP 2019	DBP 2020	SP 2019	DBP 2020	SP 2019	DBP 2020
Short-term interest rate (annual average)	0.0	-0.3	0.8	-0.3	2.1	0.3
Long-term interest rate (annual average)	2.7	1.6	3.1	1.2	3.6	1.6
World Trade (% change)	2.5	0.6	3.7	1.7	3.8	3.3
Oil price (USD per barrel, futures, Brent)	64.8	63.3	64.6	57.3	62.9	56.3
US Dollar/euro exchange rate	1.13	1.12	1.13	1.11	1.13	1.11

Source: MEF computations, Bloomberg, Oxford Economics.

Considering other international exogenous variables, the euro exchange rate and oil prices remain at relatively favourable levels. However, the euro exchange rate is slightly less competitive on a trade-weighted basis than at the time of the Stability Program, whereas the oil price forecast derived from futures prices is lower, and hence a positive for growth, as far as 2020 and 2021 are concerned.

On balance, external variables have evolved unfavourably since the Stability Program and represent the greatest downside risk to the forecast. On the other hand, domestic variables have improved considerably, especially with respect to financial conditions and the sovereign bond spread. Indeed, interest rates have declined in anticipation of the ECB's easing moves and the sovereign spread has returned to its early-2018 levels, with yields touching new historical lows. Econometric estimates suggest that the drop in the sovereign spread since this year's Stability Program should add 0.1 percentage points to this year's growth rate, 0.4 to next year's and then 0.7 and 0.8 percentage points, respectively, to the two following years.

Overall, changes in the exogenous variables of the forecast since publication of the Stability Program warrant a 0.1 percentage point reduction in this year's forecast, no change for 2020 and an upward revision for the two following years. Given that there are significant risks to the outlook, the new 2021-2022 forecasts only partially incorporate the improvement in exogenous variables.

[1] Real world GDP growth and international trade growth projections are based on updated forecasts provided by Oxford Economics at the time of official forecast closure.

Macroeconomic forecast under unchanged legislation

The modest real GDP increase recorded in the first half of this year was in line with the Stability Program forecast. However, the projected growth rate in the second half of 2019 is significantly lower than envisaged back then. In turn, that entails a lower growth carryover into 2020. Hence, in view also of still-weak business confidence indicators and of the adverse evolution of the global outlook discussed above, the real GDP growth forecast for 2020 has been lowered from 0.8 percent in the Stability Program to 0.4 percent in the baseline scenario of this document.

Existing legislation (namely the 2019-2021 Budget) envisages an increase in indirect taxes (mostly VAT) worth 1.3 percent of GDP in January 2020 and a further 0.3 percent-of-GDP increase in January 2021. According to simulations carried out with ITEM, taking into account lagged impacts, the increase in indirect taxes would subtract around 0.4 percentage points from the real GDP growth rate in 2020, 0.6 in 2021 and 0.1 in 2022. Recalling also the estimated effects of exogenous variables, real GDP growth should thus follow a mildly rising trend, 0.4 percent in 2020, 0.8 percent in 2021 and 1.0 percent in 2022. Even though the VAT increase would be only partially passed through to prices, growth in the GDP deflator would also pick up compared to the 2019 outturn. As a result, nominal GDP growth would rise from 1.0 percent this year to 2.3 percent in 2020 and 2021 and 2.5 percent in 2022.

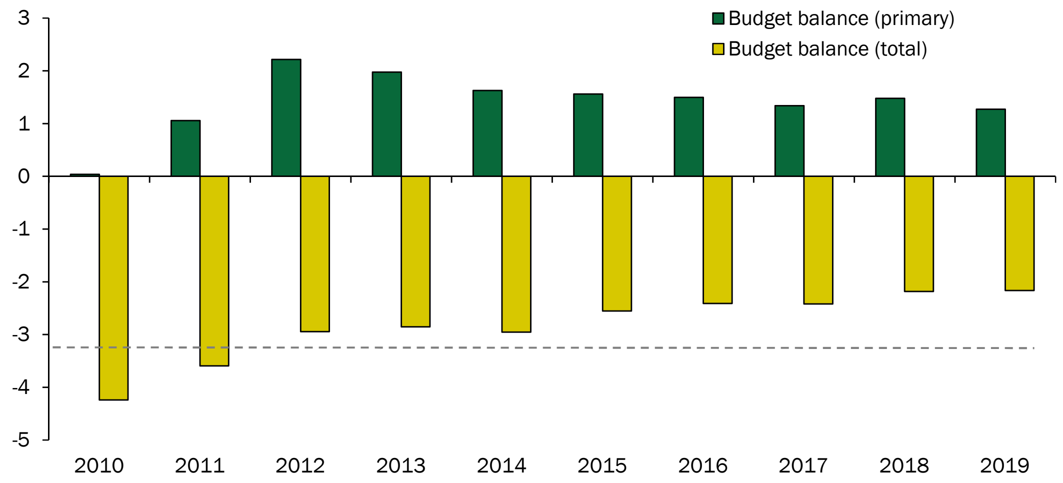
Update of the budgetary outlook under unchanged legislation

The public finance framework under unchanged legislation presented in this document updates the tax revenue estimate contained in the Update of the Economic and Financial Document (NADEF) 2019. Recently, the monitoring data related to the payments carried out on 30 September by ISA and other taxpayers that apply the facilitated flat rate scheme have become available, with an estimated amount of 10.7 billion euros paid at the end of September. On the basis of this data, the 2019 projections of the self-assessment revenues highlight a positive deviation of about 1.500 million euros for the current year with respect to the annual forecasts included in the NADEF. These higher revenues have a permanent and structural nature and thus affect the entire forecast period. The tax law decree approved by the Council of Ministers has changed the profile of the payments. The expected net borrowing for the year 2019 remains in line with the NADEF projections, while for 2020 it is estimated an overall increase in revenues of around 3 billion euros.

The unchanged legislation deficit for the current year is now estimated at 2.2 per cent of GDP, also as a result of GDP and General Government data revisions made by ISTAT on 23 September. This is lower than the 2.4 per cent of GDP level forecasted in the Stability Programme, but higher than the 2.0 per cent foreseen in the European Commission communication of July 1st 2019. The primary balance should reach 1.3 per cent of GDP (1.2 per cent according to the Stability Programme) and the interest expenditure is expected to be slightly less than 3.4 percent of GDP.

The deficit under unchanged legislation will then fall to 1.3 percent of GDP in 2020, to 1.1 percent in 2021 and to 0.8 percent of GDP in 2022, thanks to an improvement in the primary balance to 2.1 percent of GDP in 2022, and to a decline in interest payments, to 2.9 percent of GDP in 2022.

FIGURE 1.1-5 BUDGET BALANCE AS A PERCENT OF GDP (TOTAL AND PRIMARY) 2010-2019



Source: ISTAT. As from 2019 Update to Stability Program projections at current legislation.

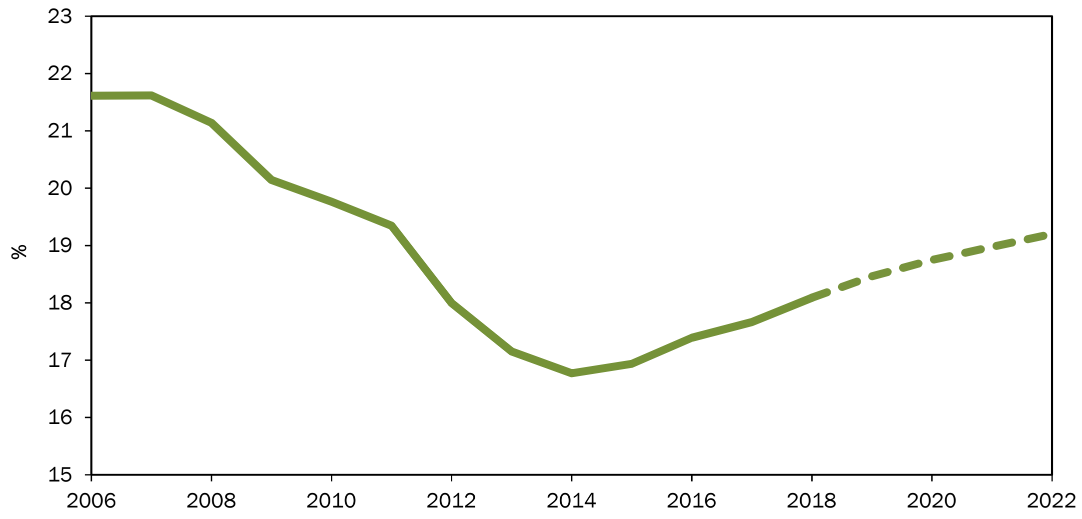
2020-2022 Policy scenario and macroeconomic forecast

The policy scenario for the 2020-2022 preserves the sustainability of public finances, while creating fiscal spaces to complete the implementation of labor inclusion and activation policies already in force and to boost economic growth along the path of environmental sustainability and social and skills development. The main measures envisaged by the new Budget Law include the repeal of the safeguard clause for 2020 and the partial reduction of those envisaged for 2021 and 2022, the initiatives to promote public and private investments, the decrease in the tax wedge on labour, the increase in resources for education, scientific and technological research and a plan to fight tax evasion. The so-called "unchanged policies" are also refinanced. In particular, as regards public investments, an additional 9 billion have been allocated in the 2020-22 period - and over 55 billion overall over a 15-year horizon - in favor of two new investment funds, managed by the State and by local authorities. With specific reference to environment, one of the priorities of the Government is the realization of a Green New Deal, which envisages, first of all, the realization of a plan of public investments in partnership with the private sector.

The measures provided for the Budget Law for the year 2020 are consistent with the net borrowing target of 2.2 percent.

As far as 2021 and 2022 are concerned, the updated budgetary plan presented in this document foresees a decline in the general government deficit to 1.8 percent of GDP in 2021 and 1.4 percent in 2022. The policy scenario entails a less restrictive fiscal stance than the baseline under existing legislation in 2020 and 2021, while it is slightly more restrictive in 2022, reflecting further fiscal consolidation. The net impact on real GDP is prudently quantified in 0.2 percentage points of additional growth in both 2021 and 2022 compared with the baseline scenario. The real GDP growth forecast is thus 0.6 percent for 2020 and 1.0 percent for 2021. The projected growth rate in 2022 is that same as in the baseline, 1.0 percent, thanks to lagged effects from the less restrictive fiscal stance in 2020 and 2021.

FIGURE 1.1-6 GROSS FIXED INVESTMENT AS A PERCENT OF GDP (POLICY SCENARIO) 2007-2022



Source: MEF calculations on ISTAT data. Estimates from 2019 onwards.

Considering demand-side GDP components, growth in household consumption is expected to moderately rise compared to 2019, supported by fiscal measures such as the cut in the tax wedge on labour. Gross fixed investment is projected to expand at rates just a touch higher than the one foreseen for this year, with construction the most dynamic component in 2020-2021 thanks also to the projected recovery in public investment. The export forecast follows world trade projections, with slower growth in 2020 and a subsequent improvement. Import growth is expected to recover as domestic demand improves, while the contribution of inventories to GDP growth is negative in 2020 and then turns slightly positive in 2021-2022.

On the labour market front, employment growth is expected to follow cyclical developments, with the employment ratio rising to 60.5 percent and the unemployment rate falling to 9.1 percent in the final year of the forecast. Like the baseline scenario, the policy forecast reflects the expectation that activation policies (e.g. Citizenship Income and measures to support female labour market participation) will lead to a significant increase in overall labour market participation. If, on the contrary, the participation rate remained at current levels, the unemployment rate would fall below 8 percent by 2022.

Considering that nominal growth is still unsatisfactory and the risks of the current outlook, the Government believes that a neutral fiscal policy stance - slightly expansionary taking into account the extraordinary events - is necessary to mitigate the potential impact of a macroeconomic worsening.

Finally, inflation is expected to remain moderate over the next three years, even though the consumption and GDP deflator forecasts are influenced by residual indirect tax hikes in 2021-2022.

As far as structural budget balance is concerned, 2019 is expected to close with a structural deficit of 1.2 percent of GDP, down from 1.5 percent in 2018 – thus marking a 0.3 percentage point improvement. The structural deficit is then projected to slightly widen to 1.4 percent of GDP in 2020, before falling to 1.2 percent in 2021 and 1.0 percent of GDP in 2022. Taking into account rounding effects, the structural worsening in 2020 would be 0.1 percentage points and would not represent a significant deviation in light of the Government's request for 0.2 percentage points of flexibility for investment in hydrogeological and seismic risk mitigation and repair and maintenance of transport infrastructure.

The budget manoeuvre identifies resources to cover the interventions for around 15 billion euros. In particular, the actions for revising and reshaping public expenditure at central level will allow to find resources for around 2.7 billion; the selective remodulation of tax incentive and subsidies harmful to the environment, as well as the increase in taxation on plastic packaging to promote environmental sustainability, determine greater resources for over 2 billion euros. A set of measures to fight tax evasion and tax fraud are in place in the tax law decree, which will ensure higher revenues of almost 3.2 billion, see following focus. Over 4.3 billion euros will be obtained from a package of additional fiscal measures, including 1) an intervention to limit the misuses of the so-called *flat tax* for VAT taxpayers, 2) the "stop" for the tax period 2019 of the deduction of write-downs and losses on receivables, 3) interventions on games. Finally, as highlighted in the paragraph related to the update of public finance estimates, there is a significant improvement in tax revenues with respect to the estimates of Nadef, which affects the entire forecast period. For the year 2020, projected revenues are estimated to be around 3 billion euros higher than previuously expected.

FOCUS

Measures in order to fight against fraud and tax evasion

With the Budget low the Government intends to take some measures in order to fight against tax evasion, in a comprehensive strategy which aims at looking for resources that will reduce the tax burden on honest tax payers.

The main measures

Extention of the reverse charge regime to contrast undeclared work.

This measure wants to fight against the undeclared work. By the constitution of false cooperatives and false companies, the parties involved in the fraud avoid hiring people delegating the procurement of resources to fake contracting companies that elude the contractual rules, evade VAT and do not proceed with the payment of withheld taxes on workers' income.

The fake cooperatives and the fake companies do not pay withheld taxes on workers' incomes and VAT and, consequently, benefit from lower costs, with huge difficulties in recovering the resources illegally stolen.

To combat these situations, which are widespread, significant and involve large sectors of the production world, two measures have been envisaged:

- the first measure extends the reverse charge regime to tenders with high proportion of workforce
- the second one facilitates the payment of withheld taxes on workers by putting the tax burden on the contracting company.

Financial effects: increased revenues of € 400 million per year.

More effective and preventive controls on tax credits used in compensation in the F24 form.

1. The measure intends to fight against the undue compensation.
2. A similar measure was adopted with Legislative Decree 78/2009 aimed at countering undue VAT credits used in compensation. It required the submission of the annual return before using tax credits in compensation and a compliance visa to be able to compensate

credits above a certain threshold. This measure had reduced VAT offsets by around 5.7 billion euros in 2010.

3. The envisaged measure extends the same requirements already in place for VAT to direct taxes.

Financial effects: higher revenues for € 1,084 million for the year 2020 and € 878 million for the following ones.

Taking over of other people's tax debts and prohibition of compensation

The measure intends to counteract the phenomenon of undue compensations, by forbidding the parties who have taken on the tax obligation of other parties to use tax credits in compensation to pay them.

Financial effects: € 288 million on an annual basis.

Closure of a VAT number and prohibition of use of tax credits in compensation

Financial effects: more revenues for 200 € million on annual basis

Fraudes on car VAT from EU

Financial effects: 208 € million on annual basis

Sanctions for non cooperative retailers in the so called "lotteria degli scontrini"

Financial effects: 4.5 € million on annual basis

Package to contrast frauds and illegality in the fuel sector

Package to contrast frauds in excise duties

Financial effects: 75 € million on annual basis

Measures to prevent VAT frauds in fuel retail and distribution

Financial effects: 200 € million on annual basis

Measures to prevent illegal use of fuel and similar products

Financial effects: 60 € million on annual basis

Extension of the so called INFOIL system to control the overall process of production, storage and distribution of energy products in order to prevent excise duties' frauds.

Financial effects: 120 € million on annual basis (60 € million for 2020)

Compulsory data transmission of the accompanying document for oil and fuel

Financial effects: 480 € million on annual basis (240 € million for 2020)

Compulsory data transmission for accounting documents for electric products and natural gas

Financial effects: 240 € million on annual basis (120 € million for 2020)

Macroeconomic forecast endorsement by independent fiscal board

The Parliamentary Budget Office (UPB) endorsed the 2019-2020 macroeconomic forecasts presented in the Update of the Economic and Financial Document (NADEF) that was approved by the Council of Ministers on 30 September. The forecast under unchanged legislation of NADEF was formally endorsed by UPB on 23 September 2019, following consultations between UPB and the Treasury. The policy forecast of NADEF was endorsed on 8 October. UPB deemed the official projections plausible but argued that there are significant downside risks to the forecast and that such risks are particularly relevant on a longer horizon, spanning the 2021-2022 scenario. The latter, however, is not subject to an official endorsement by the UPB at this stage.

The present document confirms the macroeconomic forecast of NADEF.

Planned inflation rate for 2020

The Treasury regularly publishes a planned inflation rate for the following year. The relevant variable is the index of consumer prices for working households (blue collar and clerical workers) excluding tobacco products (FOI ex tobacco).

The planned inflation rate is a reference parameter for the updating of both budget figures and fees set by law (e.g. public contracts, rents, family allowances, school lunches, and so forth). It is also the basis for updating the annual national television fee, water and waste rates, highway tolls (for concessionaires other than Autostrade S.p.A., whose tolls are adjusted on the basis of actual inflation) and it is taken into account in the computation of auto liability insurance premiums. Indeed, it represents the threshold increase above which motorists can decide not to renew the contract upon expiration.

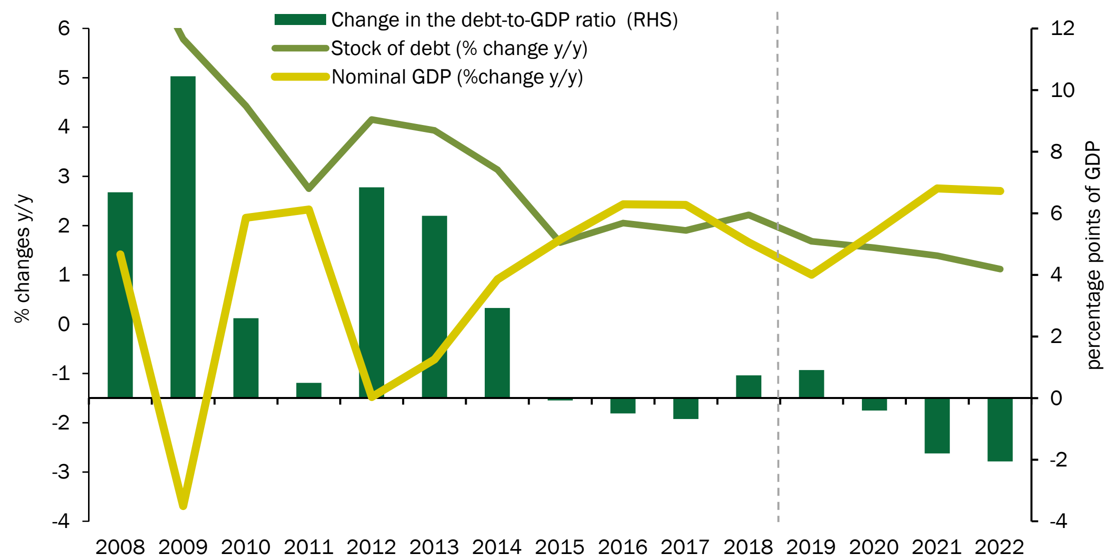
The planned inflation rate is normally published in the Update of the Economic and Financial Document (Stability Program update). This year it is being released in the present document. The average year-on-year inflation rate for the FOI ex tobacco in the first eight months of 2019 was 0.6 percent. The updated annual estimate is 0.6 percent, versus a planned rate of 1.2 percent.

The planned inflation rate (FOI ex tobacco) for 2020 is 0.8 percent.

Projected evolution of public debt

On 23 September, based on a benchmark revision of the national accounts, ISTAT raised the nominal GDP levels through to 2018. This would have led to a downward revision of the debt/GDP ratio at the end of 2018 from 132.2 to 131.5 per cent. However, on the same date the Bank of Italy released a new public debt series aligned with the new Eurostat deficit and public debt manual. The new data revise public debt upwards (to 134.8 percent of GDP at end-2018) due to the redefinition of the scope of the general government and to accounting changes for postal saving bonds (BPF) that were assigned to the Economy and Finance Ministry following the transformation of Cassa Depositi e Prestiti into a joint stock company back in 2003.

FIGURE I.1-7 PROJECTED EVOLUTION OF DEBT-TO-GDP RATIO



Source: ISTAT. Policy-senario estimates from 2019 onwards

The last BPF series will mature in 2033, but holders will have the possibility of delaying the redemption for ten years after expiry (even if in this additional period they will not earn interest). All the debt forecasts contained in this document include the accrued interest component in full consistency with the new statistical treatment set by Eurostat. The reclassification will not affect the general government deficit, as accrued interest on BPFs was always included in the PA's account.

The debt-to-GDP ratio is projected to rise to 135.7 percent at the end of this year, due primarily to the low nominal growth rate of the economy and to the lagged effects of the high level of the sovereign spread in 2018 and in the first half of this year. The previous government had also set a target of one percent for privatisation proceeds that was not realised. The planned sale of real estate assets is on track, but the bulk of the proceeds will be recorded in 2020.[2]

The new government has set a 0.2 percent-of-GDP target for privatisation and other revenues earmarked to the debt-amortisation fund for each of the next three years. In addition, the primary budget surplus, after declining to 1.1 percent of GDP next year, is projected to improve to 1.3 percent in 2021 and 1.6 percent of GDP in 2022. Given the macroeconomic scenario described above, the debt-to-GDP ratio in the policy scenario would decline to 135.2 percent in 2020, 133.4 percent in 2021 and 131.5 percent in 2021 and 131.4 percent in 2022.

Flexibility for exceptional events

In the last years, the enormous damage caused by the country's exposure to calamitous events has highlighted the weakness of insufficient, fragmented and emergency-based public investment in the territory. A relevant financial commitment with a multi-year strategic plan is needed for an effective action on soil protection and to face the hydrogeological instability. Only within the framework of a medium-long term plan can interventions overcome structurally the fragility of the territory and put an end to emergency-based action.

Since the 2019 extraordinary plan adopted a multi-year approach, the intention to ask budget flexibility, even for expenditure incurred after 2019, was already anticipated in the Update of the Macroeconomic and Budgetary Framework in December 2018.

Therefore, the Government asks the European Commission to recognize the exceptional expenditures concerning the safeguard of the territory for about 0.2 percent of GDP in 2020.

Compared to previous initiatives, risk prevention and environmental sustainability have been favoured by strategic coordination between the various parties involved, the specific support measures identified in 2019, and a change of pace in the actual implementation of interventions.

Public intervention must also take into account the role and contribution of the private sector in the overall strategy. Indeed, the private sector can effectively contribute, given the scope of the necessary resources, by providing additional

[2] The updated projection of proceeds from sales of property assets is 100 million euros in 2019, 1 billion in 2020 and 150 million in 2021.

capacity to manage environmental risk. The private sector will benefit from the results of interventions which mitigate damage done by natural disasters.

The Government intends to continue the public investment program and, at the same time, provide tax incentives for individuals in order to support the regeneration of the building stock and the improvement of energy efficiency.

FOCUS

Expenditures for exceptional events incurred in 2019

In the ex-ante evaluation, the European Commission recognized budget flexibility of 0.18 per cent of GDP for 2019, in consideration of the exceptional expenditure due to the 2018 floods and the urgency for an extraordinary maintenance plan for the road network, stressed by the collapse of the Morandi bridge in Genoa.

To cope with the enormous damage caused by the seismic and meteorological events (such as floods, storms, hurricanes and drought, landfalls and landslides) and to overcome the vulnerability of the territory, an extraordinary plan of interventions was launched to face hydrogeological instability and secure the road network, in particular viaducts, bridges and tunnels. Resources to implement this plan include funds budgeted in previous years – such as the development and cohesion fund and the multi-year funds of the Ministry of the Environment - and additional new resources from the 2019-2021 budget law. The extraordinary expenditure foreseen for 2019 was quantified at around 2.1 billion euros (0.12 per cent of GDP) for fighting hydrogeological instability, and 1.1 billion euros (0.06 per cent of GDP) for the road network.

In order to speed up implementation with respect to the past, several initiatives were put in place. They are aimed at simplifying and accelerating the decision-making and implementation procedures, and at building capacity within public administrations. The decree-law so called *Sblocca cantieri*[3] introduced changes to the regulatory framework related to contracts, rules for tendering and project planning. More specifically, thresholds for awarding public contracts (including those allowed for subcontracting) were modified; contracting authorities are now allowed to choose between the most economically advantageous offer or the maximum discount when awarding contracts; extraordinary commissioners are granted more power for the realization of priority interventions, such as dams, bridges, roads, tunnels. Furthermore, some temporary simplifications are permitted until 31 December 2020 concerning integrated contracts and procedures for awarding ordinary and extraordinary maintenance works. Finally, “Italia Infrastrutture Spa”, a private company owned by the Ministry of Economy and Finance, with 10 million euros in assets, and controlled by the Ministry of Infrastructure and Transport, was set up to better manage public works which are not on time.

Preliminary results on monitoring the extraordinary expenditure between January and September 2019 related to the safeguard of the territories and of the road network are reported below.

The hydrogeological instability

Monitoring is extremely complex when it comes to interventions related to hydrogeological risks, because they are carried out by various levels of Government and thousands of local bodies. Expenditure between January and September 2019 is estimated at around 1 billion euros (equal to about 0.06 per cent of GDP) and has involved over 6 thousand operations still in progress across the national territory.

This estimate is based on the payments related to infrastructure projects, classified as useful for the contrast, mitigation and prevention of instability[4], as recorded by the

[3] D.L. n. 32/2019 on "Urgent provisions for the re-launch of the public contracts sector, for the acceleration of infrastructural interventions, the urban regeneration and the reconstruction because of the seismic events", converted with modifications by l. n. 55 of June 14, 2019.

[4] Interventions classified as 'Soil defense' activities, realization of ‘Other structures / infrastructures for environmental protection, enhancement and use',' Irrigation basins, sleepers and smaller structures of

Monitoraggio Opere Pubbliche (MOP) / Banca Dati Amministrazioni Pubbliche (BDAP)[5] and on other expenditures disbursed directly by the State budget, by the Civil Protection budget as well as special treasury accounts. The latter refer to two kind of accounts: i) direct disbursements made by Regional Extraordinary Commissioners entrusted with the realisation of the strategic national plan to face hydrogeological risks[6]; and ii) expenditure carried out by the Civil Protection Department through *ad hoc* resources allocated by the budget law for 2019-2021[7], which can be managed according to fast-track emergency procedures.

These interventions are coordinated within the framework of the "National Plan for the mitigation of hydrogeological risk, the restoration and protection of the environmental resource" (so-called *ProteggiItalia*) which was adopted by a decree of the President of the Council of Ministers on February 20, 2019. The Plan includes measures to: i) finance ready to start projects, ii) strengthen the governance of the system (based on the task force between *Strategia Italia* and the Ministry of the Environment), iii) award (or penalize) the Regions according to their capacity to complete works; and iv) ensure liquidity, also by granting downpayments instead of relying on the previous reimbursement system.

Expenditure is expected to accelerate in the last quarter of the year, thanks to specific measures foreseen by the 2019 investment plan adopted by the Civil Protection Department[8]. In order to guarantee immediate implementation, 30 per cent of the amount due for the first year was already transferred. In the event of failure of awarding the contract by 30 September, the unused resources are reassigned to entities which can prove they have started at least 70 percent of the projects in their plan, and that can be completed by 31 December of each reference year.

Extraordinary interventions on the road network

As in the case of hydrogeological instability, maintenance of roads is scattered among a multiplicity of public entities, making monitoring particularly complex. A preliminary estimate of expenditure made between January and September 2019 for extraordinary maintenance of the road network, is about 600 million euros (equal to approximately 0.03 per cent of GDP). We underline the provisional nature of this quantification, which will be consolidated with end of year data.

This estimate is based on payments related to the extraordinary road maintenance category recorded by the (MOP) / (BDAP). In 2019 specific action was taken by the Government, which recognizes the strategic role and the priority of safeguarding the Italian road network, especially as concerns bridges, viaducts, and tunnels. In particular, emphasis was brought on starting and sustaining the implementation of the most urgent

accumulators', 'Means and facilities for prevention and restoration because of natural disasters', 'Works for increasing the resilience and environmental value of forest ecosystems', 'Non-productive investments for agro-climatic-environmental purposes ',' Means and systems for restoration and prevention because of adverse events, 'Agro-metereological monitoring networks', 'Technologies for environmental protection' 'Monitoring systems, risk prevention and early warning in the environmental field'.

[5] The 'Monitoraggio Opere Pubbliche' (MOP) of the 'Banca Dati delle Amministrazioni Pubbliche' (BDAP), through the integration between various sources, aims to become a single point of access to exhaustive and standardized information concerning all public works, all this according to the information set already envisaged for the monitoring of the community funds of the RGS.

[6] The Special Commissioners were established by D.L. June 24, 2014, n. 91 laying down 'Urgent provisions for the agricultural sector, environmental protection and energy efficiency of school and university buildings, the relaunch and development of businesses, the cost containment for electricity tariffs, as well as for the immediate definition of obligations deriving from European legislation converted with modifications into l. n. 116 of 11 August 2014.

[7] The measures for the general mitigation of the hydraulic risk provided in the law 145/2018, article 1, paragraph 1028, the one hydrogeological and those against the instability in the areas affected by the calamitous events of September and October 2018 of the D.L. 119/2018 art. 24-quarter.

[8] President of the Council of Ministers decree of 27 February 2019.

projects also by reassigning funds within the framework of already budgeted funds. Moreover, support was provided to public administrations through technical committees, also to identify possible obstacles in the implementation and to promote best practices to overcome them.

Finally, within the framework of ANAS 2016-2020 program contract, the Ministry of Infrastructure and Transport identified the most urgent projects and, consequently, rescheduled the investment plan and the reallocation of the available resources: in the 2018-2019 update of the same contract, approved by CIPE last July, this revision was approved and additional resources were provided for extraordinary maintenance and the safety of the road network.

II. STRUCTURAL REFORMS

The Government intends to pursue an economic policy focused on the revitalization of growth, an inclusive and sustainable development and balanced public finances, according to the reform lines and the priorities indicated in the Update to the Economic and Financial Document (EFD).

The core of the strategy is the implementation of a Green New Deal aimed at fighting climate change, developing circular economy and strengthening social and territorial cohesion.

Two new investment funds will be introduced to support sustainable urban regeneration and energy conversion projects and to provide incentives for renewable sources. These resources, intended to finance central and local public administrations for about 55 billion euros over a fifteen-year horizon, will be added to the already existing funds. The implementation of the Green New Deal is also linked to territorial planning policies and speeding up the reconstruction of earthquake-hit areas.

Furthermore, the Government will introduce interventions aimed at supporting private investments and the renewal of production systems in a sustainable and more environmentally friendly manner (e.g. Industria 4.0).

Full implementation of eco-innovation will be also pursued by exploiting sustainable finance instruments that are being defined at the European level, and by phasing out environmentally harmful facilities.

Further measures will also include incentives for digitization and artificial intelligence, innovation, research and development and the enhancement of human capital.

The Government will also undertake actions to make the Southern Italy and inner areas more attractive by offering new employment opportunities, in particular to young people and women, strengthening territorial and social cohesion.

Boosting female labour market participation is a further priority, to be promoted through measures to support families and welfare and actions to combat gender inequalities.

The other relevant areas on which the Government will focus will be: the reduction of the tax wedge on labour; the launch of a comprehensive reform to reduce the duration of civil and criminal trials; the adoption of further measures to strengthen the banking sector, the protection of savings; the extension of access to credit and capital market for small and medium-sized enterprises; the strengthening of exports and the promotion of 'Made in Italy'; the improvement of the efficiency of the public administration.

These measures will be financed through a review of government spending, a selective reshaping of tax expenditures and environmentally harmful subsidies, the fight against fraud and tax evasion, the introduction of fiscal measures aimed to build a fairer system and with the full exploitation of the flexibility granted by the Stability and Growth Pact.

As part of the strategy to fight tax evasion, the Cashless Revolution Plan will have an essential role. The main points of this Plan are within the framework of the cd. *lottery of the receipts*, the establishment of draws and special prizes for the expenses paid with electronic means and the exemption of the taxation of the prizes themselves, the introduction of penalties for the non-acceptance of the payments with debit and credit cards, the implementation of a platform for issuing electronic invoices and digital receipts through cashless payment.

Finally, Italy intends to take a leading role to promote the revitalization, renewal and the strengthening of the European Union in order to promote inclusion, social cohesion, environmental sustainability and the development of the European welfare-state model.

The European Council recommendations to the country

The Ecofin Council of 9 July 2019 endorsed the specific recommendations addressed to Italy calling for action in five areas:

i) reducing the debt ratio, taxation and public spending;

ii) improving the labour market, in particular by ensuring the integration of active labour market and social policies, and educational outcomes, in particular in the area of digital skills;

iii) promoting investments, improving the efficiency of public administration and safeguard competition;

iv) reducing the length of trials, including through the completion of insolvency reform and improving anti-corruption policies;

v) consolidating the banking system, including through the disposal of non-performing loans, and the development of a smoother system for innovative small firms to access non-bank credit.

III. TABLES

TABLE III.1-1 BASIC ASSUMPTIONS (0.I)

	2018	2019	2020
Short-term interest rate (annual average)	n.d.	-0,3	-0,3
Long-term interest rate (annual average)	2,5	1,6	1,2
USD/€ exchange rate (annual average)	1,2	1,1	1,1
Nominal effective exchange rate	2,8	-0,5	0,2
World excluding EU, GDP growth	4,2	3,6	3,3
EU GDP growth	2,0	1,4	1,3
Growth of relevant foreign markets	4,1	1,5	1,9
World import volumes, excluding EU	3,6	-1,6	1,9
Oil prices (Brent, USD/barrel)	71,3	63,3	57,3

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TABLE III.1-2 MACROECONOMIC PROSPECTS (1.A)

	ESA Code	2018	2018	2019	2020	2021	2022
		Level Million Euro	rate of change	rate of change	rate of change	rate of change	rate of change
1. Real GDP	B1*g	1.718.515	0,8	0,1	0,6	1,0	1,0
Of which							
1.1. Attributable to the estimated impact of aggregated budgetary measures on economic growth					0,2	0,2	0,0
2. Potential GDP		1.742.724	0,4	0,5	0,5	0,6	0,6
contributions:							
- labour			0,3	0,4	0,2	0,3	0,2
- capital			0,0	0,1	0,1	0,1	0,2
- total factor productivity			0,0	0,1	0,2	0,2	0,2
3. Nominal GDP	B1*g	1.765.421	1,7	1,0	2,0	2,7	2,6
Components of real GDP							
4. Private final consumption expenditure	P.3	1.041.378	0,8	0,4	0,7	0,8	0,6
5. Government final consumption expenditure	P.3	319.084	0,4	-0,2	-0,2	0,3	0,1
6. Gross fixed capital formation	P.51	310.883	3,2	2,1	2,2	2,3	2,2
7. Changes in inventories and net acquisition of valuables (% of GDP)	P.52 + P.53		-0,1	-1,1	-0,2	0,1	0,2
8. Exports of goods and services	P.6	540.662	1,8	2,8	2,2	2,9	3,1
9. Imports of goods and services	P.7	502.438	3,0	0,7	2,3	3,3	3,4
Contributions to real GDP growth							
10. Final domestic demand		-	1,1	0,6	0,8	0,9	0,8
11. Changes in inventories and net acquisition of valuables	P.52 + P.53	-	-0,1	-1,1	-0,2	0,1	0,2
12. External balance of goods and services	B.11	-	-0,3	0,6	0,1	-0,1	0,0

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TABLE III.1-3 PRICE DEVELOPMENTS (1.B)

	ESA Code	2018	2018	2019	2020	2021	2022
		Level	rate of change	rate of change	rate of change	rate of change	rate of change
1. GDP deflator		102,7	0,9	0,9	1,3	1,7	1,7
2. Private consumption deflator		102,3	0,9	0,8	1,0	1,9	1,8
3. HICP		102,5	1,2	0,8	1,0	1,9	1,8
4. Public consumption deflator		105,2	2,3	0,3	1,6	0,8	0,8
5. Investment deflator		100,8	0,6	0,5	1,0	1,7	1,6
6. Export price deflator (goods and services)		102,7	1,8	0,7	1,2	1,1	1,4
7. Import price deflator (goods and services)		101,7	2,6	0,5	1,3	1,3	1,4

Note: The index of consumer prices for working households (FOI ex tobacco) is projected to increase by 0.6% in 2019 and 0.8% in 2020. The 0.8% increase represents the official 'planned inflation rate' for 2020.

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TABLE III.1-4 LABOUR MARKET DEVELOPMENTS (1.C)

	ESA Code	2018	2018	2019	2020
		Level	rate of change	rate of change	rate of change
1. Employment, persons		25.359	0,9	0,5	0,3
2. Employment, hours worked		43.691.511	1,1	0,6	0,4
3. Unemployment rate (%)			10,6	10,1	10,0
4. Labour productivity, persons		67.768	-0,1	-0,4	0,3
5. Labour productivity, hours worked		39	-0,3	-0,5	0,2
6. Compensation of employees	D.1	708.925	3,5	2,0	1,8
7. Compensation per employee		41.409	2,2	1,3	1,3

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TABLE III.1-5 SECTORAL BALANCES (1.D)

	ESA Code	2018	2019	2020
	B.9	% GDP	% GDP	% GDP
1. Net lending/net borrowing vis-à-vis the rest of the world		2,6	2,8	2,7
of which:				
- Balance on goods and services		2,5	2,9	2,9
- Balance of primary incomes and transfers		0,0	-0,1	-0,2
- Capital account		0,0	0,0	0,0
2. Net lending/net borrowing of the private sector	B.9	4,7	5,0	4,9
3. Net lending/net borrowing of general government	EDP B.9	-2,2	-2,2	-2,2
4. Statistical discrepancy				

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TABLE III.1-6 GENERAL GOVERNMENT BUDGETARY TARGETS BROKEN DOWN BY SUBSECTOR (2.A)

	ESA Code	2019	2020	2021	2022
		% GDP	% GDP	% GDP	% GDP
Net lending (+) / net borrowing (-) (B.9) by sub-sector					
1. General government	S.13	-2,2	-2,2	-1,8	-1,4
1a. Central government	S.1311	-2,5	-2,5	-2,0	-1,6
1b. State government	S.1312				
1c. Local government	S.1313	0,1	0,1	0,1	0,1
1d. Social security funds	S.1314	0,1	0,1	0,1	0,1
2. Interest expenditure	EDP D.41	3,4	3,3	3,1	2,9
3. Primary balance		1,3	1,1	1,3	1,6
4. One-off and other temporary measures		0,1	0,1	0,1	0,1
5. Real GDP growth (%)		0,1	0,6	1,0	1,0
6. Potential GDP growth (%)		0,5	0,5	0,6	0,6
contributions :					
- labour		*0,4*	*0,2*	*0,3*	*0,2*
- capital		*0,1*	*0,1*	*0,1*	*0,2*
- total factor productivity		*0,1*	*0,2*	*0,2*	*0,2*
7. Output gap (% of potential GDP)		-1,8	-1,7	-1,3	-1,0
8. Cyclical budgetary component (% of potential GDP)		-1,0	-0,9	-0,7	-0,5
9. Cyclically-adjusted balance (% of potential GDP)		-1,2	-1,2	-1,0	-0,9
10. Cyclically-adjusted primary balance (% of potential GDP)		2,3	2,0	2,1	2,1
11. Structural balance (% of potential GDP)		-1,2	-1,4	-1,2	-1,0

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TABLE III.1-7 GENERAL GOVERNMENT DEBT DEVELOPMENTS (2.B)

	ESA Code	2019	2020	2021	2022
		% GDP	% GDP	% GDP	% GDP
1. Gross debt		135.7	135.2	133.4	131.4
2. Change in gross debt ratio		0.9	-0.5	-1.8	*-2.0*
Contributions to changes in gross debt					
3. Primary balance		-1.3	-1.1	-1.3	-1.6
4. Interest expenditure	EDP D.41	3.4	3.3	3.1	2.9
5. Stock-flow adjustment		0.1	-0.1	0.1	0.1
of which:					
- Differences between cash and accruals		0.1	0.3		
- Net accumulation of financial assets		0.3	0.0		
of which:					
- privatisation proceeds		*0.0*	*-0.2*		
- Valuation effects and other		*-0.3*	*-0.4*		
p.m.: Implicit interest rate on debt		2.6	2.4		
Other relevant variables					
6. Liquid financial assets					
7. Net financial debt					
8. Debt amortization (existing bonds) since the end of the previous year					
9. Percentage of debt denominated in foreign currency					
10. Average maturity					

TABLE III.1-8 GENERAL GOVERNMENT EXPENDITURE AND REVENUE PROJECTIONS AT UNCHANGED POLICIES BROKEN DOWN BY MAIN COMPONENTS (3)

	ESA Code	2019	2020
General government (S13)		% GDP	% GDP
1. Total revenue at unchanged policies	TR	46,5	47,2
Of which			
1.1. Taxes on production and imports	D.2	14,3	15,3
1.2. Current taxes on income, wealth, etc	D.5	14,0	13,8
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,5	13,5
1.5. Property income	D.4	1,0	0,9
1.6. Other		3,6	3,6
p.m.: Tax burden (D.2+D.5+D.61+D.91-D.995)		*42,0*	*42,7*
2. Total expenditure at unchanged policies	TE (3)	48,7	48,5
Of which			
2.1. Compensation of employees	D.1	9,7	9,6
2.2. Intermediate consumption	P.2	5,6	5,6
2.3. Social payments	D.62,D.632	23,0	23,1
of which Unemployment benefits		*0,8*	*0,8*
2.4. Interest expenditure	EDP D.41	3,4	3,2
2.5. Subsidies	D.3	1,5	1,4
2.6. Gross fixed capital formation	P.51	2,3	2,3
2.7. Capital transfers	D.9	1,1	1,0
2.8. Other		2,2	2,2

A comma is used as decimal separato

TABLE III.1-9 GENERAL GOVERNMENT EXPENDITURE AND REVENUE TARGETS, BROKEN DOWN BY MAIN COMPONENTS (4.A)

	ESA Code	2019	2020
General government (S13)		% GDP	% GDP
1. Total revenue target	TR	46,5	46,5
Of which			
1.1. Taxes on production and imports	D.2	14,3	14,3
1.2. Current taxes on income, wealth, etc	D.5	14,0	14,1
1.3. Capital taxes	D.91	0,1	0,1
1.4. Social contributions	D.61	13,5	13,5
1.5. Property income	D.4	1,0	0,9
1.6. Other		3,6	3,6
p.m.:Tax burden (D.2+D.5+D.61+D.91-D.995)		*41,9*	*42,0*
2. Total expenditure target	TE (3)	48,7	48,7
Of which			
2.1. Compensation of employees	D.1	9,7	9,6
2.2. Intermediate consumption	P.2	5,6	5,6
2.3. Social payments	D.62, D.632	23,0	23,3
Of which Unemployment benefits		*0,8*	*0,8*
2.4. Interest expenditure	EDP D.41	*3,4*	*3,3*
2.5. Subsidies	D.3	*1,5*	*1,4*
2.6. Gross fixed capital formation	P.51g	*2,3*	*2,4*
2.7. Capital transfers	D.9	1,1	1,0
2.8. Other		2,2	2,2

A comma is used as decimal separato

TABLE III.1-10 AMOUNTS TO BE EXCLUDED FROM THE EXPENDITURE BENCHMARK (4.B)

	ESA Code	2018	2018	2019	2020
		Level	% GDP	% GDP	% GDP
1. Expenditure on EU programmes fully matched by EU funds revenue		1.819	0,1	0,1	0,1
1.a Of a which investments fully matched by funds revenue		856	0,0	0,1	0,1
2. Cyclical unemployment benefit expenditure *		1.382	0,1	0,1	0,0
3. Effect of discretionary revenue measures		1.625	0,1	0,1	0,1
4. Revenue increases mandated by law		0	0	0	0

* computed on the basis of unemployment gap

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TABLE III.1-11 GENERAL GOVERNMENT EXPENDITURE ON EDUCATION, HEALTHCARE AND EMPLOYMENT (4.C)

Expenditure category	Available information
Education	Education expenditure1 as a share of GDP averages on 3.4% in the five year-period 2015-2019 (3.4% in 2017). As for the mid-long term trends, see the recent projections carried out based on the methodology and the long term scenario elaborated at the European level within the Economic Policy Commttee - Working Group on Ageing Populations and Sustainability2
Health	Health care expenditure as percentage of GDP averages on 6.6% in the five-year period 2015-2019 (6.5% in 2017). As for the mid-long term trends, see the recent projections carried out based on the national scenario and that elaborated at the European level within the Economic Policy Commttee - Working Group on Ageing Populations and Sustainability2
Employment[3]	In 2015 the expenditure for active policies in relation to GDP ratio is equal to 0.45%, growing from 0,32% registered in 2014, in light of the implementation of the provisions envisaged by the Delegated Law. 183/2014. In the two-year period 2016 - 2017, although the overall figure for expenditure on active labour policies is not yet available, from the analysis of Incentives to employment it is possible to register an increase in expenditure. In particular the expenditure related to the exemption from social contribution measures for permanent contracts, for the hiring carried out in 2015 (Law no. 190/2014, 2015 Stability Law): 6 billion 360 million euro in 2016 and 5 billion 416 million euro in 2017. In addition, we consider the increased contribution provided by the two-year bonus (law 208/2015 art.1 c.178) which goes from 354 million in 2016 to 968 million in 2017, due to the hiring carried out in 2016, as well as the continuation of the "Youth Guarantee" program. In addition to the recruitment incentives for young people admitted to the program, which grew in the two-year period of 2016 and 2017 (approximately 100 million euros), we note the Incentive for young people aged 16-24 for poorly developed areas , due to hiring carried out in 2017 (about 172 million euros – D.D. n. 367/2016). Considering the set of elements available, in 2017 the expenditure for active labour policies, within the framework of employment incentives, appears to be in line with that observed in 2016, in which there was a substantial increase compared to 2015.

1 Ageing Working Group definition: the aggregate includes educational levels ISCED 1-6 according to the OECD classification. It does not include Lifelong training and pre-primary level of education.

2 Source: Ministero dell'economia e delle finanze - Ragioneria Generale dello Stato (2019), "Le tendenze di medio-lungo periodo del sistema pensionistico e socio-sanitario, Luglio 2019" and Nota di Aggiornamento al DEF 2019.

http://www.rgs.mef.gov.it/_Documenti/VERSIONE-I/Attivit--i/Spesa-soci/Attivita_di_previsione_RGS/2019/Rapporto-n-20.pdf

3 The employment expenditure contains government spending related to active labour market policies including public employment services.

Source: Ministry of Labour and Social Policy

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Decommissioning of the safeguard clauses of the previous budget laws	Motivation: Reducing tax pressure Content of the measures: Total deactivation of VAT increase for 2020 and partial deactivation for subsequent years	D.2	immediately effective	R	-1,269	-0,558	-0,180
Tax wedge	Reason: Reducing tax and labour costs Measurement content: A Fund is set up to start a structural path to reduce the tax wedge on workers, the modalities of which are to be defined by further legislative measures.	D.5	subsequent legislation	R	-0,165	-0,268	-0,261
Tax breaks for Industry 4.0	Motivation: Stabilizing tax breaks for Industry 4.0 Content of the measures: a) Extension for the three-year period of the Hyper-depreciation measure, a 170% overvaluation of investments in new, capital, material and high-tech assets, to promote technological transformation processes within the framework of Industry 4.0 and in a way that is sustainable and environmentally friendly b) Extension for the three-year period of the Super-depreciation measure, a 130% overvaluation of investments in new capital goods. Businesses benefiting from Hyper-depreciation measure, may also benefit from a 140% overvaluation for investments in intangible capital goods (software and IT systems)	D.5	immediately effective	R	0,000	-0,030	-0,059

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Incentives for Industry 4.0	Motivation: Stabilising incentives for Industry 4.0 and boosting competitiveness of businesses in less advantaged situations Content of the measures: a) Refunding the SME Central Guarantee Fund for the next three years to support SME access to credit, including innovative start-ups and companies buying capital goods for production and hardware, software and digital technologies (according to the " New Sabatini") b) Extension of the tax credit for expenses relating to employees engaged in Training 4.0 activities. c) Refunding the tax breaks so-called "New Sabatini" d) Extension to 2020 of the tax credit for companies buying new capital goods for production facilities located in the South, through the Development and Cohesion Fund e) Extension to 2020 of the tax credit for companies buying new capital goods for production facilities in earthquake-hit areas of central Italy	D.9	immediately effective	E	-0,007	-0,050	-0,041
Family policies	Motivation: Promoting family support policies Content of the measures: a Fund to promote family support policies, including birth allowances and contributions for nurseries	D.62	subsequent legislation	E	-0,033	-0,056	-0,065
Support for people with disabilities	Motivation: Reform of support to disability and non-self-sufficiency Content of the measures: a) Establishment of the "Disability" Fund to implement the foreseen subsidary legislation b) New resources for the right to work of workers with disabilities c) New resources for the mobility needs of the disabled d) New resources for assistance of the disabled	D.62	subsequent legislation	E	-0,005	-0,014	-0,025

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Building rennovation and eco-bonus tax deductions	Motivation: Encouraging investment and safeguarding the territory Contents of the measures: 1) Extension to December 31, 2018 of the deduction for building restructuring at a 50% rate (divided into 10 annual instalments). 2) Extension to 31 December 2018 of the deduction for energy efficiency (divided into 10 annual instalments), at a 50% instead of 65% rate in case of the replacement of fixtures, solar shading, winter air conditioning by means of condensation and biomass boilers, applicable also to social housing agencies 3) Extension to 2019 of the deduction for the purchase of furniture and large appliances of high energy class in building being restructured 4) Introduction for 2020 of an 80% deduction for the renovation of the exterior facades of buildings ("Facades bonus")	D.5	immediately effective	R	0,002	-0,036	-0,064
Boosting national investments	Motivation: Encouraging investment, safeguarding the territory and environmental sustainability Measurement content: A multiannual national Fund for investment in public infrastructure and support for private investment, with a focus on investment to foster innovation, environmental sustainability, narrowing the gap between the south and the north and boosting tangible, intangible and social capital	P.51	decree President Council of Ministers	E	-0,010	-0,027	-0,052
Boosting local investments	Motivation: Encouraging investment at the territorial level Content of the measures: A multiannual Fund for investments of local authorities	D.9	decree President Council of Ministers	E	-0,028	-0,054	-0,104

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Other measures at local level	Motivation: Other measures at local level Content of the measures: a) Resources to support the merger of small municipalities b) a Fund for the Special Status Regions, to allow the conclusion of the agreements following Constitutional Court judgements	P.2 e D.3	immediately effective	E	-0,015	-0,022	-0,022
Cashback	Motivation: Promoting traceable forms of payment Content of the measures: In areas where the use of cash is still widespread, those who pay with traceable tools will be rewarded	D.759	immediately effective	E	0,000	-0,161	-0,156
Health	Motivation: Reducing the health superticket Measurement content: Reduction of the so-called "health superticket", that can reach up to 10 euros on specialist visits and diagnostic services depending on the Region, without any reduction in resources to this sector	D.62	immediately effective	R	-0,009	-0,026	-0,026
Unchanged policies	Motivation: Ensuring continuity of interventions whose funding decision is proposed annually. Content of the measures: Among others, the refinancing of peace missions, the extension of the state of emergency for the earthquake-hit areas in Central Italy and seismic risk prevention iniziatives of the Civil Protection Departmente, operation "Safe Roads", and resources to allow the increases in state personnel contracts for 2019-2021, as well as additional resources from 2022	various (mostly P.2)	immediately effective	E	-0,047	-0,107	-0,106

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Central spending revision and re-modulation	Motivation: Rationalisation and revision of central State expenditure Content of the measures: a) Savings produced thanks to the review of administrative or organisational procedures, the defunding of projects in relation to their effectiveness or priority, and the review of the mechanisms or parameters that determine spending needs b) Re-modulation of other expenses based on priorities and of the timing of transfers to various institutions based on their actual needs, while still keeping the total unchanged over time.	various	immediately effective	E	0,133	0,125	0,111

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Contrasting tax evasion and avoidance	Motivation: Fighting tax evasion and tax fraud Contents of the measures: The new measures to combat tax evasion and fraud act, in particular, on: a) the fuel supply chain (including provisions to limit the use of the declaration of intent for non-enforcement of VAT and to increase the reliability and honorability requirements of those operating along the supply chain, requirement for tax deposits above a certain threshold to adopt the computerised system (Infoil) for the management of energy products, electronic transmission of the documentation for transport of fuels and for transport and supply of electricity and natural gas to end consumers) b) tools for combating undue credit compensation made through the F24 model (including the requirement for the electronic presentation of the F24 model and measures to prevent the use of compensation to holders of VAT termination measures) and the prohibition of the use of compensation in the case of other people's tax debts c) extension to private individuals of electronic transmission of data in order to take advantage of the non-application of VAT in the event of an intra-community purchase of vehicles d) tools for tightening the investigation into games e) measures to recover tax revenue through a greater diffusion of traceable digital payments f) reverse charge scheme to combat the illegal labour and the introduction of a mechanism that obliges the client to pay withholdings made by the contractor and subcontractors	D.2	immediately effective	R	0,181	0,260	0,237
Taxes on games	Reason: Review of taxes on games Content of the mesures: The single tax levy applicable to entertainment equipment is increased and other minor interventions in the sector are made	D.2	immediately effective	R	0,031	0,027	0,034

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Review of tax expenditures	Reason: Review of tax expenditures Measurement content: (a) Introduction of an income threshold beyond which the 19% personal income tax deduction would be gradual; deductions for interest expense on mortgages are not included in the revision b) Introduction of a 2.4 euro per sheet stamp duty for certificates issued by criminal court bodies c) Increase in mortgage and land taxes on registered property transfers (First home, other real estate) from 50 to 150 euros each and, at the same time, in order to equate the tax levy on these taxes on real estate transfers, a reduction from 200 euros to 150 euros is foreseen for each tax on real estate transfers subject to VAT (First Home and other real estate). d) Reduction of current exemptions for paper meal vouchers to 4 euros and simultaneous increase in exemption to 8 euros for electronic meal vouchers	D.5	immediately effective	R	0,012	0,019	0,016
Promoting environmental sustainability	Motivation: Promoting greater environmental sustainability Content of the measures: Some harmful subsidies are reviewed and tax leverage is activated to promote greater environmental sustainability: a) Elimination of the benefit on diesel used to transport goods and passengers for Euro3 - Euro4 vehicles from 2021 b) Introducing a tax on polluting products used for energy production c) Increase i from 30% to 100% in the determination of the tax base for peersonal income tax purposes of the retratable income for the most polluting company cars d) Introducing a packaging tax, ammounting to 1 euros per kilo from 1 June 2020	D.2	immediately effective	R	0,099	0,136	0,120

TABLE III.1-12 DISCRETIONARY MEASURES TAKEN BY GENERAL GOVERNMENT (5.A)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue/ Expenditure	% GDP	% GDP	% GDP
Rebalance the tax regime	Motivation: Rebalance the tax regime Measurement content: (a) To limit abuse, the "flat tax" is repealed for individuals working in business or self-employment with incomes between 65,000 euros and 100,000 euros b) The parameters of the "minimum regime" are revised: personal expenses limit of 20,000 euros, capital goods limit 20,000 euros, analytical scheme income determination, electronic invoicing scheme, exclusion if income>30,000 euros).	D.5	immediately effective	R	0,014	0,104	0,073
Deferred tax assets deducability remodulation	Motivation: Deferred tax assets deducability remodulation Content of the measures: Block for the 2019 tax period of the following deductions: Deduction of write-downs and losses on credits; Ten years of deductibility, for IRES and IRAP purposes, the reduction in the value of credits and other financial assets resulting from the application of IFRS 9; Deferred tax assets deducability remodulation	D.5	immediately effective	R	0,090	0,000	0,000
Other revenue / restraning measures	Other revenue / restraning measures	various		R	0,173	0,090	0,113
Other expenditure / restraining measures	Other expenditure / restraining measures	various		E	0,017	0,048	0,026
Other revenue / expansion measures	Other revenue / expansion measures	various		R	-0,007	-0,018	-0,036
Other expenditure / expansion measures	Other expenditure / expansion measures	various		E	-0,058	-0,070	-0,083
	TOTAL				-0,898	-0,686	-0,550

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TABLE III.1-13 DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue / Expenditure	% GDP	% GDP	% GDP
Decommissioning of the safeguard clauses of the previous budget laws	Motivation: Reducing tax pressure Content of the measures: Total deactivation of VAT increase for 2020 and partial deactivation for subsequent years	D.2	immediately effective	R	-1,269	-0,558	-0,180
Tax wedge	Reason: Reducing tax and labour costs Measurement content: A Fund is set up to start a structural path to reduce the tax wedge on workers, the modalities of which are to be defined by further legislative measures.	D.5	subsequent legislation	R	-0,165	-0,268	-0,261
Tax breaks for Industry 4.0	Motivation: Stabilizing tax breaks for Industry 4.0 Content of the measures: a) Extension for the three-year period of the Hyper-depreciation measure, a 170% overvaluation of investments in new, capital, material and high-tech assets, to promote technological transformation processes within the framework of Industry 4.0 and in a way that is sustainable and environmentally friendly b) Extension for the three-year period of the Super-depreciation measure, a 130% overvaluation of investments in new capital goods. Businesses benefiting from Hyper-depreciation measure, may also benefit from a 140% overvaluation for investments in intangible capital goods (software and IT systems)	D.5	immediately effective	R	0,000	-0,030	-0,059
Incentives for Industry 4.0	Motivation: Stabilising incentives for Industry 4.0 and boosting competitiveness of businesses in less advantaged situations Content of the measures: a) Refunding the SME Central Guarantee Fund for the next three years to support SME access to credit, including innovative start-ups and companies buying capital goods for production and hardware, software and digital technologies (according to the " New Sabatini") b) Extension of the tax credit for expenses relating to employees engaged in Training 4.0 activities. c) Refunding the tax breaks so-called	D.9	immediately effective	E	-0,007	-0,050	-0,041

TABLE III.1-13 DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue / Expenditure	% GDP	% GDP	% GDP
	"New Sabatini" d) Extension to 2020 of the tax credit for companies buying new capital goods for production facilities located in the South, through the Development and Cohesion Fund e) Extension to 2020 of the tax credit for companies buying new capital goods for production facilities in earthquake-hit areas of central Italy						
Family policies	Motivation: Promoting family support policies Content of the measures: a Fund to promote family support policies, including birth allowances and contributions for nurseries	D.62	subsequent legislation	E	-0,033	-0,056	-0,065
Support for people with disabilities	Motivation: Reform of support to disability and non-self-sufficiency Content of the measures: a) Establishment of the "Disability" Fund to implement the foreseen subsidiary legislation b) New resources for the right to work of workers with disabilities c) New resources for the mobility needs of the disabled d) New resources for assistance of the disabled	D.62	subsequent legislation	E	-0,005	-0,014	-0,025
Building rennovation and eco-bonus tax deductions	Motivation: Encouraging investment and safeguarding the territory Contents of the measures: 1) Extension to December 31, 2018 of the deduction for building restructuring at a 50% rate (divided into 10 annual instalments). 2) Extension to 31 December 2018 of the deduction for energy efficiency (divided into 10 annual instalments), at a 50% instead of 65% rate in case of the replacement of fixtures, solar shading, winter air conditioning by means of condensation and biomass boilers, applicable also to social housing agencies 3) Extension to 2019 of the deduction for the purchase of furniture and large appliances of high energy class in building being restructured 4) Introduction for 2020 of an 80% deduction for the renovation of the exterior facades of buildings ("Facades bonus")	D.5	immediately effective	R	0,002	-0,036	-0,064

TABLE III.1-13 DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue / Expenditure	% GDP	% GDP	% GDP
Boosting national investments	Motivation: Encouraging investment, safeguarding the territory and environmental sustainability Measurement content: A multiannual national Fund for investment in public infrastructure and support for private investment, with a focus on investment to foster innovation, environmental sustainability, narrowing the gap between the south and the north and boosting tangible, intangible and social capital	P.51	decree Presiden t Council of Ministers	E	-0,010	-0,027	-0,052
Cashback	Motivation: Promoting traceable forms of payment Content of the measures: In areas where the use of cash is still widespread, those who pay with traceable tools will be rewarded	D.759	immedia tely effective	E	0,000	-0,161	-0,156
Unchanged policies	Motivation: Ensuring continuity of interventions whose funding decision is proposed annually. Content of the measures: Among others, the refinancing of peace missions, the extension of the state of emergency for the earthquake-hit areas in Central Italy and seismic risk prevention iniziatives of the Civil Protection Departmente, operation "Safe Roads", and resources to allow the increases in state personnel contracts for 2019-2021, as well as additional resources from 2022	various (mostly P.2)	immedia tely effective	E	-0,047	-0,107	-0,106
Central spending revision and re-modulation	Motivation: Rationalisation and revision of central State expenditure Content of the measures: a) Savings produced thanks to the review of administrative or organisational procedures, the defunding of projects in relation to their effectiveness or priority, and the review of the mechanisms or parameters that determine spending needs b) Re-modulation of other expenses based on priorities and of the timing of transfers to various institutions based on their actual needs, while still keeping the total unchanged over time.	various	immedia tely effective	E	0,133	0,125	0,111

TABLE III.1-13 DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue / Expenditure	% GDP	% GDP	% GDP
Contrasting tax evasion and avoidance	Motivation: Fighting tax evasion and tax fraud Contents of the measures: The new measures to combat tax evasion and fraud act, in particular, on: a) the fuel supply chain (including provisions to limit the use of the declaration of intent for non-enforcement of VAT and to increase the reliability and honorability requirements of those operating along the supply chain, requirement for tax deposits above a certain threshold to adopt the computerised system (Infoil) for the management of energy products, electronic transmission of the documentation for transport of fuels and for transport and supply of electricity and natural gas to end consumers) b) tools for combating undue credit compensation made through the F24 model (including the requirement for the electronic presentation of the F24 model and measures to prevent the use of compensation to holders of VAT termination measures) and the prohibition of the use of compensation in the case of other people's tax debts c) extension to private individuals of electronic transmission of data in order to take advantage of the non-application of VAT in the event of an intra-community purchase of vehicles d) tools for tightening the investigation into games e) measures to recover tax revenue through a greater diffusion of traceable digital payments f) reverse charge scheme to combat the illegal labour and the introduction of a mechanism that obliges the client to pay withholdings made by the contractor and subcontractors	D.2	immediately effective	R	0,181	0,260	0,237
Taxes on games	Reason: Review of taxes on games Content of the mesures: The single tax levy applicable to entertainment equipment is increased and other minor interventions in the sector are made	D.2	immediately effective	R	0,031	0,027	0,034

TABLE III.1-13 DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue / Expenditure	% GDP	% GDP	% GDP
Review of tax expenditures	Reason: Review of tax expenditures Measurement content: (a) Introduction of an income threshold beyond which the 19% personal income tax deduction would be gradual; deductions for interest expense on mortgages are not included in the revision b) Introduction of a 2.4 euro per sheet stamp duty for certificates issued by criminal court bodies c) Increase in mortgage and land taxes on registered property transfers (First home, other real estate) from 50 to 150 euros each and, at the same time, in order to equate the tax levy on these taxes on real estate transfers, a reduction from 200 euros to 150 euros is foreseen for each tax on real estate transfers subject to VAT (First Home and other real estate). d) Reduction of current exemptions for paper meal vouchers to 4 euros and simultaneous increase in exemption to 8 euros for electronic meal vouchers	D.5	immedia tely effective	R	0,012	0,019	0,016
Promoting environmental sustainability	Motivation: Promoting greater environmental sustainability Content of the measures: Some harmful subsidies are reviewed and tax leverage is activated to promote greater environmental sustainability: a) Elimination of the benefit on diesel used to transport goods and passengers for Euro3 - Euro4 vehicles from 2021 b) Introducing a tax on polluting products used for energy production c) Increase i from 30% to 100% in the determination of the tax base for peersonal income tax purposes of the retratable income for the most polluting company cars d) Introducing a packaging tax, ammounting to 1 euros per kilo from 1 June 2020	D.2	immedia tely effective	R	0,099	0,136	0,120
Rebalance the tax regime	Motivation: Rebalance the tax regime Measurement content: (a) To limit abuse, the "flat tax" is repealed for individuals working in business or self-employment with incomes between 65,000 euros and 100,000 euros b) The parameters of the "minimum	D.5	immedia tely effective	R	0,014	0,104	0,073

TABLE III.1-13 DISCRETIONARY MEASURES TAKEN BY CENTRAL GOVERNMENT (5.B)

List of measures	Detailed description	Accounting principle	Adoption Status	Budgetary impact			
					2020	2021	2022
				Revenue / Expenditure	% GDP	% GDP	% GDP
	regime" are revised: personal expenses limit of 20,000 euros, capital goods limit 20,000 euros, analytical scheme income determination, electronic invoicing scheme, exclusion if income>30,000 euros) .						
Deferred tax assets deducability remodulation	Motivation: Deferred tax assets deducability remodulation Content of the measures: Block for the 2019 tax period of the following deductions: Deduction of write-downs and losses on credits; Ten years of deductibility, for IRES and IRAP purposes, the reduction in the value of credits and other financial assets resulting from the application of IFRS 9; Deferred tax assets deducability remodulation	D.5	immedia tely effective	R	0,090	0,000	0,000
Other revenue / restraning measures	Other revenue / restraning measures	various		R	0,173	0,090	0,113
Other expenditure / restraining measures	Other expenditure / restraining measures	various		E	0,017	0,048	0,026
Other revenue / expansion measures	Other revenue / expansion measures	various		R	-0,007	-0,018	-0,036
Other expenditure / expansion measures	Other expenditure / expansion measures	various		E	-0,058	-0,070	-0,083
				TOTAL	-0,847	-0,584	-0,398

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TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

Recommendation	Reform actions	Policy area
CSR 1 — Ensure a nominal reduction of net primary government expenditure of 0,1% in 2020, corresponding to an annual structural adjustment of 0,6% of GDP. Use windfall gains to accelerate the reduction of the general government debt ratio. [...]	Please see the previous tables containing the public finances targets.	PUBLIC FINANCE BALANCES Public finance
	Implementation of an extraordinary programme of real estate disposals for an estimated value of approximately €1.2 billion over the 2019-2021 period, of which €610 million coming from the revenues of the sale of buildings transferred by public entities to the real estate funds managed by Invimit SGR will also contribute	PUBLIC DEBT Selling of public buildings
	Revenues from privatisation and other sources will be equal to 0.2 points of GDP per annum over the 2020-2022 period.	PUBLIC DEBT rivatisation
	Savings of more than 0.1 percentage points of GDP in 2020 are expected from measures to improve the efficiency of public spending as well as from the revision or deletion of legal provisions in force, according to their effectiveness or priorities.	CONTAINMENT OF PUBLIC SPENDING Public finance
	Introduced regulatory provisions concerning the management of the State budget to ensure the availability of financial resources compatible with the timing of investments. Introduced the reform of the Consolidated Text on Accounting and Treasury.	SIMPLIFICATIONS IN THE ACCOUNTING SYSTEM Public finance
CSR 1 — [...] Shift taxation away from labour, including by reducing tax expenditure and reforming the outdated cadastral values. Fight tax evasion, especially in the form of omitted invoicing, including by strengthening the compulsory use of e-payments including through lower legal thresholds for cash payments. [...]	Tax simplification measures to reduce waiting times and administrative burdens for taxpayers and make the tax audit by the tax Authority more effective. A draft law on the issue attached to the Budget Law.	TAX SIMPLIFICATIONS Tax policy
	To reduce the labour cost, INAIL premiums and insurance contributions for insurance against accidents at work and occupational diseases have been revised.	INAIL CONTRIBUTION Tax policy
	The Budget Law foresees the reduction of the tax wedge on labour for an amount equal to 0.16 percentage points of GDP in 2020 and 0.26 p.p. in 2021.	TAX WEDGE Tax policy
	Reducing tax expenditures and subsidies harmful to the environment is a priority for the Government. The revision of subsidies, including part of the environmentally related ones, will overall increase revenues by around 0.1% of GDP. The review of tax expenditures will be targeted to make the tax system fairer.	TAX EXPENDITURES Tax policy
	Tax incentives for the return of certain skilled workers ('*impatriati*', of researchers and teachers) and extension of benefits for those who move their residence to Italy from 2020. The tax support scheme for teachers and researchers was lenghtened from 4 to 6 years. In particular, the scheme provides for: reduction of the taxable amount from 50% to 70% for an additional 5 tax periods under specific conditions. Support scheme for entities starting a company in Italy has been provided.	RETURN OF WORKERS AND ENTREPRENEURS FROM ABROAD Tax policy
	Progressive increase in the deductability of IMU (the municipal tax on immovable property) payable on capital goods from business and professional income. IMU will become fully deductible from 2023 onwards. At the same time, a possible rationalisation of the IMU and TASI taxes is being investigated.	IMU AND TASI Tax policy
	IRES tax rates reduction (from 22.5% in 2019 to 20% in 2023) on reinvested earnings on enterprises. The possibility of replacing it with the reintroduction of the ACE scheme (Aid for economic growth) is being investigated.	IRES REDUCTION Tax policy
	As from 2020 a 3 percent tax rate will be applied on the revenues of large companies providing digital services in the territory of the State (*Web Tax*).	*WEB TAX* Tax policy
	Since 2021 digital platforms have to transmit sales data carried out through them, in implementation of the EU VAT Directive on electronic commerce.	VAT FOR SALE ON DIGITAL PLATFORMS Tax policy

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

	The Government intends to strengthen the fight against tax evasion (a total tax gap of €110 billion a year): the estimated recovery of revenue is around 8 billion over the period 2020-2021	FIGHT AGAINST TAX EVASION Tax policy
	As of 1 July 2019, retail traders and similar businesses have to issue an electronic receipt. From 1 January 2020, a 'receipts lottery' is being envisaged. Measures to improve the use of electronic means of payment are envisaged, including through reduced transaction costs and incentive mechanisms in areas where the tax gap is high.	FIGHT AGAINST TAX EVASION Tax policy
	Enhanced synthetic reliability indices (ISA) which are the main tool for promoting the tax compliance of small and medium-sized enterprises and professionals.	TAX COMPLIANCE Tax policy
	A draft law attached to the Budget Law 2020-2022 aims at the reorganisation of lottery games.	TAX REFORM Tax policy
CSR 1 — [...] Implement fully past pension reforms to reduce the share of pensions in public spending and create space for other social and growth-enhancing spending.	The measures 'Opzione Donna' and 'APE Sociale' will be renewed	WELFARE SYSTEM Employment and *welfare*
	The Social Fund for Employment and Training will be refinanced, in order to provide unemployment benefits and other benefits for workers, including measures for disabled workers	EMPLOYMENT Labour market and welfare
	The fight against undeclared work, in particular the illegal employment system, will be reinforced. A National Labour Observatory will be set up.	EMPLOYMENT Labour market and welfare
	Implementation of a National Family Plan (*Family Act),* for the improvement of policies in support of families, such as: measures to promote the access to nursery facilites and to increase financial support to families for the payment of tuitions;	NATIONAL PLAN FOR THE FAMILY Family support
	Measures for housing policies (*Piano casa*). (See table 6b).	*PIANO CASA* Family support
	Extension and reinforcement of compulsory parental leave for fathers working as dependent employees	FAMILY SERVICES Supporting female employment
CSR 2 — [...] Improve educational outcomes, also through adequate and targeted investment, and foster upskilling, including by strengthening digital skills.	Issued a call for teachers, digital school experts. (see Table 6b)	DIGITAL SCHOOL Education and skills
	Strengthening of the National Plan of the Digital School. (see Table 6b)	DIGITAL SCHOOL Education and skills
	Updating the individualised educational plan (EIP). (see Table 6b)	DISABLED PEOPLE Education and skills
CSR 3 — Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities. [...]	Revision of the rules contained in the Public Procurement Code with a view to the adoption of a new Single Code. Implementation of the rules contained in the '*Sblocca Cantieri*' decree.	PUBLIC PROCUREMENT Investment
	Extraordinary plan for the promotion of 'Made in Italy' and the Attraction of Investment. 'Made in Italy' protection will also cover the promotion of tourism and the cultural industry as well as the agricultural and agri-food sector, also through the Strategic Plan for Tourism 2017-2022.	MADE IN ITALY
	Introduction of a 'brand of historical national interest' and of the Fund for the protection of such trademarks.	Investment
	Amendments to the Single Code on Construction activity, to rationalise the regulatory framework, and to promote processes of reducing the consumption of land and urban regeneration.	SINGLE CODE ON CONSTRUCTION Investment

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

	Plan '*Rinascita urbana*' to fight against the degradation of buildings, the lack of services and to improve urban security.	URBAN REHABILITATION Investment
	The draft of the decree for the implementation of the National Plan for the Redevelopment of Small Municipalities is being approved.	REHABILITATION OF SMALL MUNICIPALTIES Investment
	Green New Deal for green transition. Two new investment funds, allocated to State and regional authorities, will be introduced for a total of €50 billion over 15 years (see Table 6b). The Government's interventions will aim to encourage the renewal of existing production plants and equipments facilities, the efficiency and conversion of production processes, as well as the transition towards the Fourth Industrial Revolution (digitalisation and artificial intelligence).	*GREEN NEW DEAL* Investment
	Maintenance and upgrading of road, maritime and rail infrastructure: Plan for securing the territory. Update of the RFI 2017-2021 Programme Contract with enhanced intermodality with ports and airports.	ROAD INFRASTRUCTURE Investment
	Investment in the 'Impresa 4.0' Plan, the National Strategies on Blockchain and Artificial Intelligence and the National Broadband Strategy 5G (see Table 6b). Provision of a *SME voucher* for consultancy services aimed at technological and digital transformation processes as part of the National Plan 'Enterprise 4.0'.	IMPRESA 4.0' PLAN AND 'TRAINING 4.0' BONUS
	Extension to 2020 of the super-depreciation of investments in capital goods of up to 2,5 million. Increased IRPEF and IRES deductions for investments made in start-ups and innovative SMEs.	
	A Bonus 'Training 4.0' within a maximim of €300,000 per year (for large enterprises the maximum is €200,000 per year) has been established.	Investment
	A decree law on Cybersecurity has been approved. (see Table 6b)	CYBERSECURITY Technological infrastructure
	Extension of the tax credit for R&D to 2023, by introducing a new reference average to calculate the eligible increase.	TAX CREDIT FOR R&D Investment
CSR 3 — Focus investment-related economic policy on research and innovation, and the quality of infrastructure, taking into account regional disparities. [...]	Removal of the ruling requirement for the use of the 'Patent Box' scheme.	PATENT BOX Investment
	The process to make the National Innovation Fund operational (FNI) has been nearly completed. The fund will act as a fund of funds through direct investment in start-ups and innovative SMEs.	NATIONAL INNOVATION FUND Technological infrastructure
	A draft law on innovation and attracting investment has been provided.	ATTRACTION OF INVESTMENTS Investment
	The organisational and functional aspects of the 'Central Unit for the design of public goods and buildings have been defined.	CENTRAL UNIT FOR THE DESIGN Investment
	Strengthening of Special Economic Zones (ZES) through the Large Investment ZES Plan, by encouraging the establishment of enterprises with specific investment programmes. The plan has a budget of €50 million for 2019, €150 for 2020 and €100 million for 2021.	ZES Regional disparities
	Monitoring of the implementation of the 34 percent earmarking rule of capital expenditure by central public administrations for investments in Southern regions.	INVESTMENT IN THE SOUTH Regional dispartires
	Introduced a tax credit in Southern Italy to support business combinations according to which firms' deferred tax assets (DTA) deriving from such combinations may be converted into tax credits (by paying an annual contribution equal to 1.5 per cent of the difference between DTA and taxes paid).	TAX CREDIT FOR THE SOUTH Regional dispartires

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

	The National Strategy for Internal Areas will be re-launched, in order to increase the extension of involved territories and the impact in terms of improved education, health and mobility services.	INLAND AREAS Regional disparities
	Introduced simplified procedures for the enterprises for the closure of measures subsidised in the context of the 'Territorial Pacts for Southern Italy' and of the 'Area Contracts'. Allocation and reprogramming of resources for the Development and Cohesion Funds for the period 2021-2027.	TERRITORIAL PACTS Regional disparities
	From 2020, a fund has been set up for municipalities with a view to improving energy efficiency, sustainable territorial development and securing infrastructure and public buildings (see Table 6 b).	LOCAL AND REGIONAL AUTHORITIES Quality of infrastructures,
	Draft Law '*CantierAmbiente*' for the enhancement and acceleration of mitigation interventions against hydrogeological instability and for the preservation of the territory.	HYDROGEOLOGICAL INSTABILITY Infrastructure
	Reduced taxation of income for persons transferring their residence to Southern Italy in municipalities with a population of up to 20000 inhabitants. From 1 January 2019, 'foreign' income may be subject to a substitute tax of 7 per cent for the first 5 tax periods.	TAX CREDIT FOR THE SOUTH Regional disparities
CSR 3 — [...] Improve the effectiveness of public administration, including by investing in the skills of public employees, by accelerating digitalisation, and by increasing the efficiency and quality of local public services. [...]	Measures to improve the efficiency of the PA in order to prevent abseinteism and to ensure targeted recruitment by facilitating generational renewal and improving the digitalisation of the public administration (Concreteness Law).	MODERNISATION OF THE PA PA efficiency
	Draft law delegating to the Government the adoption of one or more legislative decrees for the improvement of the PA efficiency. The delegation relates to the reform of the labour in the public administration, access to public employment, merit and reward and the reorganisation of management discipline.	REFORM OF THE PA
	Draft law for greater simplification and codification of legislation.	Efficiency of the PA
	Health Pact 2019-2021: modernisation of the institution of the recovery plans; improving health governance including through the monitoring and updating of the LEA (essential level of care, i.e.the minimum levels of health services to be assured); policies to adapt staff to the services offered. Revisiting the cost-sharing system to overcome distortions introduced by the superticket.	HEALTH SECTOR PA efficiency
	The constitutional reform for reducing the number of parliamentarians from 945 to 600 was approved.	CONSTITUTIONAL REFORMS PA efficiency
	Provided a draft law to promote the differentiated autonomy of the regions.	DIFFERENTIATED AUTONOMY PA efficiency
	Draft law to revise the Single Text on Local Authorities (TUEL).	LOCAL AUTHORITIES PA Efficiency
CSR 3 — [...] Address restrictions to competition, particularly in the retail sector and in business services, also through a new annual competition law.	Implementing the reform of the port system's authorities by providing operational coordination tools between the system authorities.	PORT SYSTEM Competition

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

	Adopted a decree law amending the substantive and procedural rules relating to special powers (Golden Power) in companies in the fields of defence and national security, and for activities of strategic relevance in the fields of energy, transport and communications.	GOLDEN POWER Competition
CSR 4 — Reduce the length of civil trials at all instances by enforcing and streamlining procedural rules, including those under consideration by the legislator and with a special focus on insolvency regimes. [...]	Civil proceeding reform: simplification of the single civil procedure through the identification of a simplified single procedure; changes in the institutions of mandatory mediation and assisted negotiation; revision of the Civil Code.	CIVIL JUSTICE EFFICIENCY Justice
	Reform of judiciary organisational procedures: changes concerning access to the judiciary, the system of disciplinary offences and the incompatibility of magistrates; reform of the electoral system of the CSM (i.e. the Italian judiciary self-government body) and rules affecting its functioning.	JUDICIARY AND SUPERIOR COUNCIL OF MAGISTRACY (CSM) Justice
	Strengthening the digitalisation of civil and criminal proceedings. Reform of the judiciary organisation: flexible allocation of magistrates at the district level. Initiative at an advanced stage to attribute a central role at operating costs of judicial offices and of the judiciary buildings.	TIME FOR JUSTICE Justice
	Redefinition of the peripheral structures of the judicial administration. Two draft laws have been approved:free legal aid as in the consolidated text of legal costs; honorary judges.	EFFECTIVENESS OF THE ORGANISATION OF JUSTICE Justice
CSR 4 — [...] Improve the effectiveness of the fight against corruption by reforming procedural rules to reduce the length of criminal trials.	Reform of the Criminal Proceeding: re-activating or adjusting procedural mechanisms to reduce the number of proceedings, and measures to streamline and speed up criminal proceedings through the introduction of an electronic instrument for the filing of documents, communications and notifications.	REFORM OF CRIMINAL PROCEEDINGS Justice
	Revised institutions such as the ancillary penalty, ban from holding public offices or doing business with the public administration for certain offences. Following the completion of the Budget Law 2020-2022, a draft law is foreseen to rationalise measures regarding transparency and anti-corruption.	ANTI-CORRUPTION ACT Justice
	Stute of limitation rules: the new rules will be in place from 2020.	STATUTE OF LIMITATION Justice
CSR 5 — Foster bank balance sheet restructuring, in particular for small and medium-sized banks, by improving efficiency and asset quality, continuing the reduction of non-performing loans, and diversifying funding. Improve non-bank financing for smaller and innovative firms.	Confirmed the State guarantee on the securitisation of non-performing loans (GACS). Provided rules to facilitate transfer operations of likely defaults (UTPs) and expand the modalities of intervention of securitisation companies. Operation of the Asset Management Company (SGA), in which likely non-performing loans will be discharged.	NON-PERFORMING LOANS Banking system
	Is being defined the process of reform of the cooperative credit sector with the establishment of the two groups headed by ICCREA and *Cassa Centrale Banca*.	COOPERATIVE BANKS Banking system
	The first corrective decree of the insolvency reform is being drawn up in order to overcome the critical challenges of the current situation.	INSOLVENCY Banking system
	In operation is the Fund Compensation Savings (FIR) for savers affected by bank bankruptcies.	FIR Banking system
	Simplifications for the use of the Guarantee Fund to cover financing provided to medium-sized enterprises and Small Mid Cup for investment in tangible goods.	CENTRAL GUARANTEE FUND
	A special section of the Guarantee Fund for SMEs is set up for granting, for consideration, guarantees covering financing provided to enterprises with up to 500 employees.	Access to credit

TABLE III.1-14 SUMMARY OF THE REFORM ACTIONS FOR THE EUROPEAN COUNCIL RECOMMENDATIONS (CSR) 2019 (6.A)

	Credit support and coordination will be boosted with financial instruments in support of export, equity and guarantee, including through *Cassa Depositi e Prestiti.*	CREDIT SUPPORT Access to credit
	Draft law for the establishment of a Public Investment Bank.	INVESTMENT BANK Access to credit
	Introduced the Società d'investmento Semplice (SIS), in order to directly manage the assets acquired and invest in unlisted SMEs. Measures to facilitate growth and business combination are also taken.	SIS Access to credit

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EU2020 TARGETS (6.B)

EU2020 Target	Reform actions	Policy area
1-Employment rate [67-69%]	Reform of Public Employment Centres (PECs): almost all the regional governments have hired 'navigators' advising the PECs and for each region an operational plan was drawn up.	EMPLOYMENT Employment protection and active labour market policies
	Reduction of INAIL (worker protection) insurance premiums against work injuries	EMPLOYMENT Labour cost
	Reduction of the tax wedge. (see Table 6a)	
	Extension of the tax credit for 4.0 training as part of the 'Impresa 4.0' Plan. (see Table 6a)	EMPLOYMENT Labour market Policies
	A law decree entered into force in September to ensure the economic and regulatory protection of certain particularly vulnerable groups of workers. In particular, the decree is targetted at protecting workers registered in the *'Gestione Separata'* account by INPS, those working through digital *platforms* (the so called 'riders'), the workers hired for community and public works (i.e. LSU and LPU workers) and disabled workers.	EMPLOYMENT Employment protection and Labour market policies
2 – R&D target [1.53% of GDP]	Increased by €150 million the Sustainable Growth Fund to support R&D projects in the application areas of the National Smart Specialisation Strategy.	SUSTAINABLE GROWTH FUND R&D
	Vouchers Manager scheme to support digital transformation processes. (see Table 6a)	DIGITAL TRANSFORMATION R&D
	Renewed the 'New Sabatini' financing facility, which allows subsidised loans for SMEs for 4.0 technologies.	'*IMPRESA 4.0*' PLAN R&D
	The implementation of the 'Green New Deal' will allow for a revaluation of production models, in order to increase the use of technologies with a low environmental impact (see Target No 3 and Table 6a).	'GREEN NEW DEAL' R&D
	Strengthening of the venture capital and the '*Impresa 4.0*' Plan and promotion of technological innovation to support research and innovation activities.	VENTURE CAPITAL R&D
	Special Economic Zones (ZES) to support innovation are being tested.	SPECIAL ECONOMIC ZONES R&D
	Promotion of national Blockchain and Artificial Intelligence strategies: i) created a Fund for the development of these technologies (15 million a year over the 2019-2021 period); ii) adopted an initial regulatory framework for Blockchain technology and Smart contracts; iii) the national Artificial Intelligence strategy has been subject to public consultation.	INNOVATION Blockchain and artificial intelligence
	National Broadband Strategy and deployment of 5G technology: the launch of the second phase of the plan has been adopted in 2019 to intervene in the 'grey areas' of the country and to support the demand for ultra-fast services through connectivity vouchers.	BROADBAND Technology 5G
	The process to make the National Innovation Fund operational (FNI) has been nearly completed. (see Table 6a)	NATIONAL INNOVATION FUND R&D
	Adopted a law decree on national cybersecurity: establishment of a mechanism to ensure safer procurement for entities within the perimeter set by the law which want to award the procurement of ICT goods and services.	CYBERSECURITY R&D

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EU2020 TARGETS (6.B)

EU2020 Target	Reform actions	Policy area
	Review of the tax credit for R&D. (see Table 6a)	INNOVATION R&D
	Following the completion of the Budget Law for 2020, the Government will submit a draft law establishing the National Agency for Research and Technology Transfer.	Innovation R&D
3 – Greenhouse gas emissions [-13%]*	Draft law on the 'Green New Deal' strategy attached to the 2020 Budget Law, which will redirect public investment plans to protect the environment, also by improving parameters and levels of environmental pollution, enhancing the use of renewable sources, the protection of biodiversity and the seas and combating climate change and improving air quality.	'GREEN NEW DEAL' STRATEGY
	Approved a law decree providing for: a) the institution of a 'mobility voucher' in areas under EU infringement amounting to €500/€1,500 for the purchase of low-emission motocycles/cars, of public transport subscriptions or of bycicles by 2021; b) the institution of a fund to build or renovate bus lanes for public transport; c) contributions to municipalities in areas under EU infrigement for programmes of school transport for kindergartens through hybrid or electric buses; d) financing of an experimental reforestation programme; e) set-up of a fund to support the establishment of 'green corners' (i. e. for the sale of bulk/draught food and beverages /detergents).	
	Two new investment funds, allocated to State and local Governments, will be introduced for a total of €50 billion over 15 years to launch projects for urban regeneration, energy conversion and encouraging the use of renewable sources.	Environmental policies
	Set a monitoring system for the circular economy at the national level, by ensuring its complementarity with that proposed by the European Commission.	CIRCULAR ECONOMY
	Introduced a tax credit of 36 per cent of the costs incurred by companies for the purchase of recycled products.	
	'*SalvaMare*' (to protect the sea) draft law to support waste recovery in the sea (particularly of plastic) and the circular economy.	Sustainable management of resources
	'Integrated National Energy and Climate Plan', structured according to 5 dimensions: decarbonisation, energy efficiency, energy security, the internal energy market, research, innovation and competitiveness.	'INTEGRATED NATIONAL ENERGY AND CLIMATE PLAN' Environmental policies
	Environment-friendly tax reform according to the EC-OECD project for the Action Plan for Environmental Tax Reform. Review of environmentally harmful tax credits and subsidies.	ENVIRONMENTAL TAXATION Reducing emissions
	National Forestry Strategy, in line with the European perspective of sustainable development applied to the forestry sector.	FORESTS Reduction of emissions.
	Preparation of regulatory measures for the implementation of measures to encourage the adoption of more sustainable lifestyles in metropolitan cities situated in the areas affected by infringement procedures.	'STRATEGIC PLAN FOR SUSTAINABLE MOBILITY' Reducing emissions

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EU2020 TARGETS (6.B)

EU2020 Target	Reform actions	Policy area
4 - Energy from renewables [17%]	'Integrated National Energy and Climate Plan': the FER1 Ministerial Decree, which supports the production of energy from renewable sources, has been issued. The measure provides incentives for the deployment of photovoltaic, wind, hydroelectric plants, as well as of those fueled through gas from sewage treatment activities. Green New Deal' strategy and constraints on public investment plans for the protection of the environment, also by including the use of renewable sources. (see target 3)	RENEWABLE ENERGY Environmental policies
	Presented the draft law on simplification and codification in the fields of energy and renewables.	RENEWABLE ENERGY Simplifications
	Approved the 'National Plan for Electric System Research', which promotes projects related to new network architecture, with the aim of making the electricity system more flexible and ensuring safe management.	NATIONAL ELECTRICITY SYSTEM SEARCH PLAN Environmental policies
5 - Energy efficiency [15,5 Mtoe/year]**	Extension to 2020 of tax credits for energy efficiency measures (50 and 65 per cent within the expenditure limits already foreseen for 2018), building renovation (50 per cent of expenditure incurred up to a maximum of €96,000 per property unit).	BUILDING UPGRADING Energy efficiency
	Extended tax relief for seismic upgrading operations carried out by dismantling and reconstruction of entire buildings (so-called 'earthquake bonus') also to the buildings located in areas classified as 2 and 3 seismic risk.	
	Application of the registration duty as well as mortgage and cadastral registration duties to a fixed extent on the transfer of buildings to construction or building renovation companies carrying out energy upgrading measures.	
	Earmarked 500 million in 2019 for all municipalities for projects improving energy efficiency of public buildings, sustainable territorial development projects and the securing of infrastructure and public buildings. For the year 2019, new resources are added coming from the Development and Cohesion Fund. In addition, from the year 2020, a fund to be allocated to the municipalities is established also for energy efficiency measures. For similar purposes, for the year 2019, new resources are allocated from the Development and Cohesion Fund.	UPGRADING OF PUBLIC BUILDINGS Energy efficiency
	The State Property Agency has taken several initiatives to reduce and rationalise energy consumption expenditure, both by planning energy efficiency measures and by promoting virtuous behaviours in the use of public goods.	
6 - School drop-out rates [16%]	Changes to the procedures to be followed for drawing up and updating the Individual Educational Plan (PEI) and the procedures for providing teachers with home schooling. A decree for school inclusion for students with disabilities was adopted. A law decree on initial training and certification of teaching staff and on hiring of 24,000 new teachers has been adopted.	EDUCATIONAL INCLUSION Education
	Following the completion of the Budget Law for 2020, certain measures of the draft law for family support and promotion ('Family Act') will be targeted at reducing early school leaving.	EDUCATIONAL INCLUSION Education

TABLE III.1-15 SUMMARY OF THE REFORM ACTIONS FOR THE EU2020 TARGETS (6.B)

EU2020 Target	Reform actions	Policy area
	Measures for the recruitment of 120 teachers specialised in digital education and the promotion of educational and digital innovation throughout the Country, for the promotion and dissemination of new teaching methodologies and the creation of innovative learning environments in schools. Human capital enhancement policies (i.e. training, R&D, brain return by highly specialised professionals and researchers).	'NATIONAL DIGITAL SCHOOL PLAN' Education
	In July 2019, the hiring of up to 53.627 teachers was decided.	RECRUITMENT OF TEACHERS Education
	By the end of 2019, an ordinary public examiniation will be launched to hire 16.959 teachers in nurseries and primary schools.	
7 - Tertiary Education [26-27%]	Student access to university education and advanced music and dance education will be supported. A National Agency for High Education and Research Institutions will be established, in order to increase the quality and effectiveness of public research policies.	UNIVERSITY EDUCATION Education
	Revision of the access system to numerus clausus courses at universities.	ACCESS TO TERTIARY EDUCATION
	New forms of funding and incentives to public-private partnerships.	University education and GREEN
	To complete the Budget Law for 2020, the Government will submit a draft law reorganising the assessment model of the national education system and universities.	UNIVERSITY EDUCATION Education
8 - Poverty / social exclusion [Reduction of 2,200,000 people in or at risk of poverty, deprivation and social exclusion].	National Family Plan ('Family Act'). (see Table 6a)	FAMILY SUPPORT Poverty and inclusion
	Plan for housing policies (*Piano Casa*) with measures for supporting the rent to facilitate access to housing for distressed households and the recovery of social housing.	*PIANO CASA* Poverty and inclusion
	Following the completion of the Budget Law for 2020, the Government will submit a draft law for the reform of the rules to protect people with disabilities by establishing a dedicated Fund: i) the reorganisation of the regulatory framework for the protection of persons with disabilities; ii) social and labour market inclusion services; iii) the right to adult life and fight against segregation.	DISABILITY Poverty and inclusion

* In 2020 the Italian target of 13 per cent for reduction in emissions compared to 2005 concerns the non-ETS sectors.

**The energy efficiency target is detected in savings on end-use as required by the EU Directive.

TABLE III.1-16 DIVERGENCE FROM LATEST STABILITY PROGRAMME (7)

	ESA Code	2018	2019	2020
		% GDP	% GDP	% GDP
Target General Government net lending/borrowing	B.9			
Stability Programme		-2,1	-2,4	-2,1
Draft Budgetary Plan		-2,2	-2,2	-2,2
Difference		0,1	-0,2	0,1
General Government net lending projection at unchanged policies	B.9			
Stability Programme		-2,1	-2,4	-2,0
Draft Budgetary Plan		-2,2	-2,2	-1,3
Difference		0,1	-0,2	-0,7

A comma is used as decimal separator

IV. METHODOLOGICAL NOTES

Two notes are provided with reference to the methods and models used for the estimates contained in the DBP:

1) A note containing a brief description of the models used in the DBP[9] for the macroeconomic framework and the impact of structural reforms;
2) A methodological note on the forecasting criteria provided as an exhibit to the 2019 Economic and Financial Document, with detailed information supplied about the methodology, the forecasting process, and the models used for the macroeconomic and public finance forecasts[10].

IV.1 BRIEF DESCRIPTION OF THE MODELS USED

The Italian treasury econometric model (ITEM)

The Italian Treasury Econometric Model (ITEM) has been developed and used in the Department of Treasury of the Italian Ministry of the Economy and Finance. ITEM describes the behaviour of key aggregates for the Italian economy at a macroeconomic level. The model includes 371 variables (247 of which are endogenous), and is based on 36 behavioural equations and 211 identities. It is an economic quantitative analysis tool used for both forecasting (it computes medium-term projections conditioned on the international economic framework) and assessing the macroeconomic impact of economic-policy measures or changes in international economic variables. One of ITEM's key features is the joint and explicit representation of the economic environment on both the demand and the supply side. However, the demand conditions influence the responses for the near term, whereas the conditions on the supply side determine the level of equilibrium of the economy in the medium term.

In 2016 an important revision of the ITEM econometric model has been carried out, both following the introduction of the new European System of Account (ESA 2010), and to take into account the need of an update sample including most recent data. Indeed the prolonged and severe recession of the Italian economy after the financial crisis has requested to check whether it has led to structural changes in the relations between the variables underlying the different equations of the model. The ITEM model was then re-estimated using the time series of national accounts built according to ESA 2010, considering an estimation sample between 1996: Q1 (starting date of time series defined with ESA 2010) and 2013: Q4. It has been necessary to introduce, in the specification of the different equations, innovations and improvements to capture more appropriately the relationships between the different aggregates taking into account both of the new system of accounts and the estimation sample updated with recent data.

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9 For additional information, see: http://www.dt.mef.gov.it/it/analisi_programmazione_economico_finanziaria/modellistica/

10 In particular, see Chapters I-III.

Italian General Equilibrium Model (IGEM)

IGEM is a medium-scale Dynamic General Equilibrium (DGE) model specifically designed for the Italian economy. The model, which is based on explicit microeconomic foundations, has been used to evaluate alternative economic-policy measures, to study the response to temporary shocks of a varying nature and also for effecting long-term analyses (structural reforms). IGEM has all of the main characteristics of a New Keynesian (NK) model, such as the presence of real and nominal rigidities, but it is extended and adapted to the Italian labour market which incorporates a heterogeneous mix of contracts and professional positions. This heterogeneity is an essential factor in pinpointing some of the key mechanisms for transmission of fiscal policies and the effects thereof on GDP and employment. As a result of the flexibility with which IGEM was designed, the additional differentiation allows for simulating a vast array of economic-policy measures, including from a demand perspective, and for replicating the main stylised facts in line with current literature.

QUEST III - Italy

QUEST III with R&D is one of the latest versions of the class of Dynamic Stochastic General Equilibrium (DSGE) models developed by the European Commission. The QUEST model is a simulation tool to analyse the effects of structural reforms and the response of the economy to a variety of shocks or policy measures. In particular, the version of model used at the Department of Treasury is an extension of the DSGE model developed at the DG ECFIN for quantitative policy analysis and modified for endogenous growth. The Department of Treasury's simulation exercises use the version of the model calibrated for Italy, already employed by the European Commission in multi-country analyses of structural reforms. The endogenous growth version of QUEST III is particularly well-suited to analysing the impact of structural, growth-enhancing economic reforms in relation to the Lisbon Strategy. By including several nominal and real rigidities and imperfectly competitive markets, the model can be used, for example, to study the effect of policies to stimulate competition and reforms aimed at upgrading the quality of human capital.

MACGEM-IT - A New CGE model for Italy

MACGEM-IT is a static Computable General Equilibrium Model (CGE) for the Italian economy created by the Direction I at the Treasury Department in cooperation with the Department of Economics and Law of the University of Macerata. Built to reflect the characteristics of Italian economy, MACGEM-IT is able to quantify the disaggregated, direct and indirect impacts of fiscal policies.

The model is based on the economic flows identified by the national accounting system and it follows the assumptions on functions and exogenous parameters that are generally accepted. MACGEM-IT model formalizes the relationships among agents in the economy by modelling the functions of behaviours (production, consumption and accumulation) which are able to represent the interdependencies among activities, primary factors and institutional sectors.

Although its framework traces the general equilibrium model, MACGEM-IT includes proper rigidities and imperfections regarding the behaviour of some agents and markets, such as the Government and the labour market.

The impacts of policy measures are observed within the income circular flow and are assessed through the main macroeconomic aggregates' performance, expressed both in real and nominal terms, and are broken down by commodity, activity and Institutional Sector.

In its current version, MACGEM-IT is a static and disaggregated model with multi-input and multi-output production functions. Each agent maximises its own objective function represented by: the maximum profit given the production capacity for activities; the maximum utility given the resources exogenously determined for Institutional Sectors (Households, Firms, Government and Rest of the World).

As mentioned, the production of goods and services by activity (multi-output production function) is modelled using a nested production function in order to capture the substitutions and complements across primary factors and/or intermediate goods in the production process (multi-input production function).

Flows that refers to Government are fully detailed in MACGEM-IT. It takes into consideration the current institutional and regulatory framework, outlining the complex transmission mechanisms of the policy measures with respect to the creation of Government revenues and expenditures.

More specifically, taxes are modelled in detail according to the current fiscal regulation in order to reflect the actual tax bases and tax rates. They also include taxes on products, taxes on activities and taxes on incomes.

IV.2 ESTIMATION OF POTENTIAL GDP, THE OUTPUT GAP AND STRUCTURAL BALANCES

The method used for estimating Italy's potential GDP and output gap is the one agreed at EU level, and is based on a Cobb-Douglas[11] production function whose specifications are discussed and decided by the Output Gap Working Group (OGWG), which is part of the European Council's Economic Policy Committee.

The estimates in this document have been produced on the basis of the macroeconomic policy scenario underlying the present DBP for the years 2019-2022.

The parameters reported in the following table were used for the computation of the Non-Accelerating Wage Rate of Unemployment (NAWRU). They differ slightly from those employed by the European Commission in the 2019 Spring Forecasts.

The initialization priors of the trend-cycle decomposition model for Total Factor Productivity (TFP) have also been revised in order to take into account the different underlying macroeconomic scenario.

More specifically, the mean of the innovation process driving the variance of the cycle equation has been set at 0.00156, its standard deviation at 0.00142; the mean and the standard deviation of the cycle amplitude have been set at 0.632 and 0.215, respectively. For what concerns the trend, the mean and standard deviation of the innovation have been calibrated at 3.539e-007, the mean of the drift has been set at 0.0175 and its standard deviation at 0.004591, the mean of the slope at 0.69 and its

[11] For additional details, see: Havik K. et al. (2014), "The Production Function Methodology for Calculating Potential Growth Rates & Output Gaps", European Economy, Economic Papers n. 535, http://ec.europa.eu/economy_finance/publications/economic_paper/2014/pdf/ecp535_en.pdf.

standard deviation at 0.0781. For what concerns the second equation, the mean and variance of the variance of the error component have been revised to 0.00555, the mean of the coefficient to 1.3 and its standard deviation to 0.575[12].

TABLE IV.2-1 INITIAL PARAMETERS FOR THE NAWRU ESTIMATE

Unchanged Policies and Policy Scenario	Value
LB Trend innovation variance	0
LB Trend slope variance	0,01
LB Cycleinnovation variance	0
LB Innovation variance 2nd eq.	0
UB Trend innovation variance	0,05
UB Trend slope variance	0,045
UB Cycle innovation variance	0,155
UB Innovation variance 2nd eq.	0,00081614
NAWRU Anchor	9,3509

IV.3 METHODOLOGICAL NOTE ON THE CRITERIA FOR FORMULATING MACROECONOMIC AND BUDGETARY PROJECTIONS

See the document “Nota metodologica sui criteri di formulazione delle previsioni tendenziali” (in Italian only)

[12] For details on the methodology and the parameters employed, see the document “Nota metodologica sui criteri di formulazione delle previsioni tendenziali” (in Italian only).

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