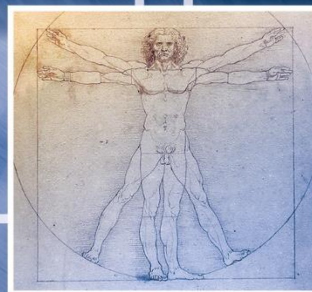
Ministero
dell'Economia
e delle Finanze

Italy
2025-2029

MEDIUM-TERM FISCAL-STRUCTURAL PLAN



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Italy
2025-2029

Submitted by the Prime Minister
Giorgia Meloni

and Minister of the Economy and Finance
Giancarlo Giorgetti

Adopted by the Council of Ministers on 27 September 2024

FOREWORD

This document, which the Government is preparing to forward to Parliament before the transmission to the European Commission, is the first Medium-term Fiscal-Structural Plan drawn up under the economic governance of the European Union (EU) which has recently entered into force.

In line with the new European rules, since the duration of the national legislature is five years, the Plan has a five-year horizon (2025-2029). The Government has chosen to spread public finance adjustment over seven years (instead of four), against a commitment to pursue the reform and investment path set out in the National Recovery and Resilience Plan (RRP).

The new rules mark a paradigm shift in European and national economic policy. Budgetary planning is more geared towards the medium term, addressing the pro-cyclicality of the rules of the existing Stability and Growth Pact (SGP). The separation between public finance rules and long-term projections of expenditure linked to demographic trends is also overcome. Moreover, the planning of public expenditure and budget is complemented by a plan of reforms and public investments to ensure greater coherence of the overall economic policy framework and a sustainable public finance based not only on fiscal discipline, but also on sustainable growth and structural reforms.

During the long negotiations that led to the definition of the new European economic governance, the Government supported the need to ensure greater budgetary space for investment and national security. We also considered that the original proposal of the European Commission was more than sufficient to ensure the sustainability of public finance without having to overlap with additional safeguards stemming from the old SGP.

The *compromise solution reached at twenty-seven has resulted in a very complex set of rules not only at communicative level but also at technical one. Moreover, the issue of fiscal stance at EU and euro area levels has not been resolved. Given the need for Member States with high public debt to follow policies to reduce their deficits, the fiscal policy stance of all European countries might be restrictive in the face of technological and environmental challenges to which other economic powers continue to respond with a wide use of public resources.*

However, the new European rules improve compared to the old SGP in terms of gradual fiscal adjustment, counter-cyclicality, planning horizon and integration between the various components of economic policy.

The new European fiscal discipline focuses on debt sustainability following the EU-based Debt Sustainability Analysis (DSA). Member States with excessive deficits or high public debt must follow an adjustment path that, at the end of the Plan, or even beyond if necessary, puts them on a sustainable path of reducing public

debt. The key variable of the DSA is the structural primary balance, i.e. the general government budget balance excluding interest payments and net of cyclical effects and one-off or temporary measures, as a ratio to GDP.

In turn, the structural primary balance target is pursued through a net expenditure rule under the assumption that, if public expenditure that the government is able to plan increases less than nominal GDP during the adjustment period, the primary balance ratio will tend to improve net of fluctuations due to exogenous or temporary factors to which it is inappropriate to respond with fiscal measures that risk being pro-cyclical.

Net expenditure is defined as primary expenditure (i.e. excluding interest) less cyclical components linked to unemployment developments, expenditure on programmes of the Union fully financed by European funds, national expenditure on co-financing of European programmes, one-off or temporary budgetary measures and discretionary changes on the revenue side. A certain net expenditure aggregate growth target can be achieved by both measures to contain primary expenditure and discretionary revenue measures.

At the insistence of many Member States, safeguard clauses taken from the old SGP, albeit less restrictive, were added to this basic rule, especially as regards the so-called preventive arm of the Pact. Under the corrective arm, countries with excessive deficits remain constrained to improve their structural balance by at least 0.5 percentage points of GDP per year. It should be pointed out that this 'inherited' provision from the old SGP applies to our country, which is subject to an excessive deficit procedure (EDP). However, in the first three years of application of the new rules, the European Commission might take into account any increase in interest expenditure to alleviate this constraint.

In the preventive arm, the minimum improvement in the structural balance is below what would have been required under the old SGP, and the minimum average annual reduction in the debt-to-GDP ratio for countries with debt above 90 percent of GDP is one percentage point, rather than one twentieth of the difference with the 60 percent benchmark, which, given Italy's current debt level, would require a decrease of almost 4 percentage points per year. Moreover, this minimum reduction will only be calculated from the year of exit from the EDP.

In the DSA, the methodology followed by the European Commission in forecasting budgetary balances uses a very high multiplier of the fiscal manoeuvre; in the projections, this implies a depressive effect of fiscal consolidation on GDP and thus a very slow improvement in the headline budget balance as part of an adjustment process that can last for many years. In preparing the Plan presented here, it was decided to remedy this problem by drawing up a comprehensive macroeconomic and public finance forecast for the five years of the Plan, which makes it possible to estimate the impact of fiscal adjustment more realistically.

On *21 June, the European Commission sent Italy its assessment of the net expenditure trajectory consistent with the new economic governance, together with the related budgetary balance projections. According to the European Commission's projections, assuming a seven-year fiscal adjustment, the net expenditure aggregate is projected to grow on average by 1.5 percent in nominal*

terms, in line with an ex ante improvement in the structural primary balance of 0.6 percentage points of GDP. This improvement is expected to be slightly higher in 2028-2030 period, when the safeguard on the improvement in the structural balance would 'bite' according to the European Commission's projections. The target for the final year of adjustment, 2031, is a structural primary surplus of 3.3 percent of GDP. According to the European Commission, in 2029, the final year of the Plan, this surplus is expected to reach 2.1 percent of GDP.

Furthermore, following up on the European Commission's recommendation and based on 2023 data, the EU Council opened an EDP against Italy on 26 July. Therefore, the Plan also has the task of defining the trajectory for the deficit to return below 3 percent of GDP.

With this document, the government revises downwards this year's estimate of the GDP deficit from 4.3 percent in the April Stability Programme to 3.8 percent and confirms the objective of reducing net borrowing to less than 3 percent of GDP in 2026.

This objective is incorporated into the Plan's net expenditure trajectory, which envisages an average growth rate over the period 2025-2031 equal to that calculated by the European Commission, but different in terms of point values over the different years. For the first five years, as mentioned above, the Plan replaces the DSA methodology with a true macroeconomic and public finance forecast in order to arrive at a more realistic overall picture. For subsequent years, the forecasts are reconciled with the DSA. The objective of achieving a structural primary balance meeting the DSA within seven years remains valid, but already in 2029, the final year of the Plan, the structural primary balance is expected to rise to 2.2 percent of GDP.

It should be stressed that the starting point of the Plan is also more favourable than the Spring Forecast used by the European Commission in the DSA. While the government deficit projected by the European Commission for 2024 was 4.4 percent of GDP, the updated estimate is, as stated above, 3.8 percent of GDP. With interest payments amounting to 3.9 percent of GDP, the primary balance is now estimated slightly in surplus *(0.1 percent of GDP). The achievement of a primary* surplus *already in 2024 marks the achievement of a government target of a moral nature before public accounting.*

The improvement in the estimate of the government balance in 2024 is due to both more favourable revenue developments and lower expenditure dynamics. On the revenue side, strong employment growth, combined with higher average wages, supported income tax revenues. As regards expenditure, the measures taken by the Government to stop the Superbonus race are producing the desired results.

The Plan also confirms the GDP growth forecast for this year (1.0 percent), in the light of the increase already recorded in quarterly data in the first half of 2024 and the higher number of working days (which will lead to the annual figure significantly exceeding the average of quarterly ones). However, the recent upward revision of ISTAT national accounts data for the years 2021-2023 also pushes upwards the projected GDP levels for the years 2024-2029.

The macroeconomic forecast for the years 2025-2027 contains no major changes compared to the Stability Programme. The forecasts for 2028-2029 are added in line with the usual approach of converting expected economic growth towards potential growth. For the two-year period 2030-2031, which goes beyond the Plan but is relevant for the overall fiscal adjustment, the DSA methodology is used.

The macroeconomic forecasts under existing legislation for 2024-2029 on which the Plan is based have been validated by the Parliamentary Budget Office. It is worth stressing once again that official forecasts, in addition to taking into account the uncertainty of the international environment, are of a prudential nature.

The net expenditure trajectory of the Plan is characterised by a lower growth rate than that of the European Commission in 2025 (1.3 percent compared with 1.6 percent) and slightly higher in the following four years (1.7 percent on average, compared with 1.5 percent for the European Commission). In the government's projections, however, the structural primary balance is already much better in 2024 (-0.5 percent of GDP compared with -1.1 percent of GDP in the European Commission) and, as stated above, reaches 2.2 percent in 2029, compared with 2.1 percent estimated by the European Commission.

The corresponding nominal balances (government net borrowing) in the policy scenario improve from -3.8 percent of GDP this year to -3.3 percent in 2025, to -2.8 percent in 2026, to -2.6 percent in 2027 and then to -1.8 percent in 2029. The projected nominal deficits for the years 2024-2026 are lower than in the April Stability Programme existing legislation scenario.

The fiscal space between developments in the primary headline balance and that under existing legislation is intended to finance measures under the so-called no policy change scenario and the new measures that the government intends to adopt. Other actions will be adequately financed by resources stemming from collaborative compliance and other measures to combat tax evasion, as well as measures to contain expenditure.

The Government confirms and makes structural the effects of the tax wedge on compensations of up to EUR 35.000 and the merging of IRPEF rates over three brackets already in force this year. The effects of the tax wedge will take on a new physiognomy in order to achieve the same objective without further strain on multiannual expenditure. The no policy change scenario also includes the resources needed for the renewal of public contracts, the financing of measures to promote the birth rate and the refinancing of peacekeeping missions.

The Government also confirms the objective of supporting health expenditure. For the years after 2026, the necessary resources will also be allocated to keep public investment as a ratio of GDP at the level recorded during the period of the RRP.

Taking into account the revision of nominal GDP carried out by ISTAT, as well as new debt data from Bank of Italy, the debt-to-GDP ratio at the end of 2023 falls

to 134.8 percent, from the previously estimated 137.3 percent. It should be noted that the figure for 2023 is only slightly higher than the pre-pandemic figure (133.8 percent at the end of 2019).

Proceeds from divestments, ETS revenues available for the Ministry of Economy and Finance and other contingencies will contribute to the reduction of public debt, not only this year but also over the next three years. However, the decline in the government debt-to-GDP ratio in the coming years, especially in the period 2024-2026, will be dampened by the impact on the cash borrowing requirement of the State sector of the tax credits linked to the Superbonus introduced from 2020 onwards. The Plan's forecast therefore foresees a moderate increase in the debt-to-GDP ratio until 2026, which will be followed by a decline in the following years in line with the new rules, which require an average annual reduction of at least one percentage point of GDP after the exit from the EDP.

The biggest challenge for the country is the high stock of public debt and the related interest expenditure. They have reduced margins to design public growth-enhancing policies in recent decades. The fiscal room, albeit limited, for public investment granted by the Plan since 2027 and a prudent and credible fiscal policy are two crucial elements to address the burden of debt and interest expenditure and to alleviate it structurally. The fiscal policy path proposed in the Plan is realistic, credible and prudent. It sets out a path that will allow for a steady squeeze of interest rates on debt and the spread on new issuance.

Addressing the country's other challenges will require considerable resources in the years to come. Part of these will be of public origin, as specified by the public finance paragraph of the Plan, where the financial perimeter of economic policy action is outlined, in line with the new European rules. Part of this will be achieved through the structural action of the Plan aimed at removing obstacles to the mobilisation of private capital. This is an essential hub for securing the volume of investment required by the environmental, energy and technological transitions.

The Plan includes a series of reforms and investments that address the country's main structural problems and the priorities of the European Union. The reform programme described in detail in the third chapter of this document consists of two main parts. The first concerns the full implementation of the commitments made in the RRP and the identification of important additional initiatives that Italy takes in continuity with the RRP underlying the extension of the fiscal adjustment period to seven years. The second part concerns the economic policy reforms and measures that will be adopted in response to the Country-specific recommendations of the EU Council and other initiatives forming part of the Government agenda.

The main reform areas of the RRP are justice, public administration, digitalisation, competition, and the business climate. As regards justice, the continuation of reforms and measures already implemented or planned until 2026 will focus on further reducing the length of civil trials, as well as on further reducing the backlog, through new investments in technology and increased human resources allocated to this sector.

The public administration reform will focus on enhancing human resources, digitalisation and improving the quality of services. As regards the business climate, the content of the Competition Law 2025 will first be defined and, downstream of it, further annual laws will be proposed which will focus on the remaining areas for improvement, also in the light of the Reports of the Competition and Market Authority and European Commission's Country Reports.

A major reform to accompany the RRP is that of the taxation system. Implementation of the enabling law for reform will be stepped up and the results already achieved in the fight against evasion will be strengthened, including through new measures to improve compliance in transactions involving the final consumer. On the expenditure side, further measures will be taken to improve the planning and control of public spending and to empower spending centres at State, regional and local level in line with the move towards 'differentiated autonomy'.

To sum up, Italy's economic, employment and public finance situation is improving despite the fall in production levels in industry, the worrying enlargement of international conflicts and increasingly complex technological and environmental challenges.

The Plan builds on an idea of a dynamic and open social market economy. The public actor is called upon to define a framework of rules and lines of intervention capable of promoting and strengthening entrepreneurial energies and market forces, as key drivers of economic growth, to the benefit of the labour and overall development of our society.

In this spirit, the Plan acts on a number of main fronts: it puts work at the centre, oversees the research and technological innovation system, continues to modernise markets and financial instruments for investment, acts on administrative processes and the functioning of public administration, and accompanies developments in the labour market and welfare.

The Plan leaves no one behind. It focuses on the sustainability of the pension system and the quality of the healthcare system. However, as welfare sustainability in the long term depends on demography, alongside the strengthening and orderly development of complementary welfare and health pillars, the Plan strengthens family policies to support birth and parenthood, with better family services and dedicated incentives.

The Government continues to pursue the full implementation of the RRP and to work towards further improving the competitiveness of our economy. Building on the significant deficit reduction achieved this year, an unprecedented fiscal, investment and reform plan is submitted to Parliament and the social partners, aiming at a gradual but firm reduction of the deficit- and public debt-to-GDP ratios, while promoting sustainable growth, combating demographic decline and confirming the tax cuts introduced over the last two years and the commitment to the implementation of the enabling law on tax reform.

Giancarlo Giorgetti
Minister of Economy and Finance

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I.1 THE GLOBAL CONTEXT AND THE NEW EUROPEAN GOVERNANCE

The shocks experienced over the past years, from the COVID-19 pandemic, to the different tensions in the markets for energy products and other commodities or of a commercial nature (linked, for example, to the competition between the United States and China), genuine armed conflicts, such as the one in Ukraine and the Israeli-Palestinian conflict, reveal that the global environment is undergoing profound and rapid change.

Among the underlying factors that are rapidly evolving and are intended to have significant consequences – identified, among others, by the European Commission[1] and the International Monetary Fund[2] – include: (i) climate change and the increasing frequency of extreme events, resulting in the need to accelerate the green transition; (ii) the development and deployment of technological innovations (such as the significant progress made recently by artificial intelligence) which will inevitably lead to profound changes in the labour market; (iii) the gradual expansion of the paradigm of global trade system in place over the past 20 years, with reconfigurations of value chains and the looming risk of episodes of geoeconomic fragmentation; (iv) the interaction between demographic change and geopolitical weight, with a shift in the relationship of power between Western countries and the new global powers, which will be reflected in a trend towards a multipolar system. In view of these developments, it can be expected that instability will continue, with the risk of further crisis episodes which would put any policy decision under strain again.

[1] In its 2021 Strategic Foresight Report, the European Commission had already identified four main underlying dynamics – linked to climate change, technological developments, the pressure that the use of new technologies to guide public opinion, by pushing for disinformation, on democracies, and the geopolitical consequences of demographic trends – whereby the environment in which we are going to operate will undergo major changes for the coming decades (see European Commission, Strategic Foresight Report 2021).

[2] In the face of these recent developments, several observers, including the International Monetary Fund, have identified a latent global trend with a potentially structural and long-term nature, referred to as 'geopolitical fragmentation', with potential negative impacts on the economy in several respects. Possible negative consequences of this already ongoing phenomenon, which effectively harms economic integration, include disruptions in well-functioning supply chains, a slowdown in technological diffusion, a deterioration in capital allocation and a permanent increase in price levels due to loss of production efficiency (see International Monetary Fund, 'Geoeconomic fragmentation and the future of Multilateralism', IMF Staff Discussion Notes).

Italy, like Europe as a whole, is fully exposed to several of these underlying trends, especially in relation to demographic decline[3], climate change[4] and the reconfiguration of global value chains[5].

It is not yet clear what the end point of the transition will be, and what role the European continent will play in the global context at the end of the process. The final outcome will also depend on the ability of EU countries to lay the foundations for a successful transition: while their role can be threatened by the changes taking place, the right economic policy choices and a comprehensive strategy can make the most of the opportunities offered by this time of transition.

The challenges to be addressed, which have many facets and are often interlinked, have demonstrated that they have a transversal value that transcends national borders; this makes it necessary to develop shared solutions at European level, and in some cases also at global level, and to ensure coordination of responses. Indeed, EU action since 2020 has been adequate in terms of the extent, scale, timeliness and effectiveness of the agreed measures[6], thus preventing the deepening of the crisis and the occurrence of permanent adverse effects, as well as fiscal or financial fragmentation. In addition, in recent years, the Union has recognised the need for joint actions to strengthen economic and social resilience, support growth[7] and jobs[8], complete the twin green[9] and digital transitions[10], ensure

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[3] The particularly intense ageing of the population in Italy will be a drag on Italy's growth, which will be particularly burdensome if the shortage of the workforce is accompanied by an overall inadequacy in the adoption of new technologies. Our country is also particularly exposed to the possibility of new pandemics, in which older populations are on average more fragile.

[4] The impact of climate change may pose a particular risk in relation to the specific orographic design and, more generally, the physical geography of Italy, characterised by the widespread presence of areas of high hydrogeological risk.

[5] This is valid in view of the vocation to exports of the Italian manufacturing sector.

[6] This is reflected in initiatives such as SURE or Next Generation EU in response to the pandemic, REPowerEU as a reaction to the energy crisis and initiatives such as open strategic autonomy in the face of the complex geopolitical context.

[7] One of the priorities to support growth is to stimulate and support the expansion of European companies, especially in the technology sector. Boosting business growth makes it possible to invest more in research, development and technological innovation, stimulating job creation and reducing the innovation gap with international partners. Larger companies also have greater capacity to compete on international markets, attract investment and influence global standards, which are particularly crucial in the digital and innovation era. To achieve these objectives, it is crucial that the EU and the Member States adopt targeted policies that facilitate access to private capital, promote public-private partnerships and create a regulatory environment conducive to sustainable business growth.

[8] The current European labour market landscape is strongly influenced by a shortage of labour, especially specialised labour, and there are structural factors that are expected to have an increasing impact on its availability. Among these, demographic ageing appears to be one of the main ones. The trend towards an ageing population, together with the low birth rate, puts additional pressure on the labour market, as demand for services and care for older people increases, while the availability of skilled workers and the generally available workforce may decrease. Effectively addressing this challenge will require targeted policies that encourage labour market participation, especially youth and women, as well as measures to promote birth rates. In addition, investing in continuing education and training can help increase the skills and flexibility of the workforce, allowing people to adapt to changes in the labour market more quickly and effectively.

[9] It is essential to accelerate the transition to renewable and sustainable energy sources in order to reduce the environmental impact and improve Europe's energy security. Diversification of energy sources, reducing dependence on fossil fuels and promoting energy efficiency, will not only contribute to climate change mitigation, but also to ensure a stable and competitive energy supply in the long term. The integration of hydrogen as a clean and versatile energy carrier is crucial in this context, as it offers solutions for intermittent renewable energy and can play a crucial role in decarbonising the industrial and transport sectors.

[10] The digital transition is one of the key pillars for the EU's future, playing a crucial role in promoting economic growth, social inclusiveness and the efficiency of the public and private sector. The digitalisation of

economic[11] and military security[12] and foster innovation and research to maintain or gain a competitive edge in the global technological landscape.

The European Union is therefore faced with a decisive period in which economic cooperation and integration is more crucial than ever for the achievement of the common priorities that have been defined. Against this background, Mario Draghi's recent report on 'The future of European competitiveness' highlighted the innovation and productivity gaps between the European Union and the United States and China, recalling the urgency of coordinated action by the Member States on three priority areas: innovation (focusing on advanced technologies and strengthening human capital), decarbonisation (energy and climate transition) and security (including through preferential trade agreements, investments in selected critical sectors and industrial partnerships).

The ongoing evolution is increasing awareness both of the financial needs to address the ongoing transformations and of the sectors and strategic projects to which resources can be pooled. The European institutions face the challenge of equipping the European Union with adequate governance and financial instruments. At the moment, we have started to review the set of rules on fiscal and financial policies and reform measures in the EU countries. Against the background of a slowdown in European economic growth after the post-pandemic rebound and increasing pressure on public budgets in view of the high levels of public debt, the new Stability and Growth Pact (SGP) will have to ensure economic stability and adequate support for growth, also in view of the significant geopolitical and social challenges ahead. Only a forward-looking and flexible vision can promote an economic environment conducive to growth and prosperity for all citizens.

The reform of economic governance does not include changes to the Treaties, but rather interventions on secondary European legislation. On 30 April 2024, the legal texts underpinning the reform entered into force: Regulation (EU) No 1263 of 2024, replacing Regulation (EC) No 1466/1997 (the preventive arm of the SGP), Regulation (EU) No 1264 of 2024 amending Regulation (EC) No 1467/1997 (the 'corrective arm') and Directive (EU) 1265 of 2024 amending Directive (EU) No 85/2011 on requirements for budgetary frameworks of the Member States.

The reform, which substantially revises the preventive arm, aims to ensure the sustainability of public finance, through a gradual but realistic reduction of public debt, both by strengthening economic growth, by promoting reforms and investments, and by implementing a process of gradual fiscal correction.

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public services can not only improve the business environment and promote greater social cohesion, but also facilitate access to services and increase their quality. This requires addressing the digital divide, building a more inclusive and connected society, where digital resources are a tool for enhancing well-being for both the centre and the periphery.

[11] In the current international geo-economic environment, characterised by the fragility of global value chains, persistent geopolitical tensions and the growing multi-polarity of international relations, the pursuit of so-called open strategic autonomy at EU level has become of great importance. It is therefore essential to consolidate policies aimed at strengthening the overall economic resilience and social security of European citizens, as set out in the European Pillar of Social Rights.

[12] One of the objectives of the European Union is to move towards greater integration of the military capabilities of the Member States to ensure the collective security of the continent. The consolidation of a common European defence not only strengthens the capacity to respond to emerging threats, but also contributes to reducing dependence on external actors and improving coherence in international peace and security operations. Deepening defensive cooperation not only increases Europe's security, but also underlines the EU's central role in promoting global stability.

As part of the reform of the preventive arm, the Medium-term Fiscal-Structural Plan (henceforth, MTP or Plan), which replaces the Stability Programme and the National Reform Programme, defines economic and budgetary planning for a four- to five-year horizon[13] (depending on the ordinary duration of national legislatures) and strengthens national ownership of the planning by defining specific fiscal consolidation paths for each Member State. These paths are expressed through an expenditure rule that sets for a four-year period (extendable to seven) the maximum nominal growth rate of the aggregate of net primary expenditure (henceforth, net expenditure).

The net expenditure path, based on a Debt Sustainability Analysis (DSA)[14], should be such as to ensure that, at the end of the adjustment period, the debt ratio is put on a plausibly downward trajectory (or remains below 60 percent) and that net borrowing is brought and maintained below 3 percent of GDP.

In its Plan, each country sets out its net expenditure path, which – for those Member States that exceed the thresholds set by the European Treaties (3 percent for the deficit ratio and 60 percent for the debt ratio) – must be consistent with the reference trajectory drawn up by the European Commission. The different trajectories were transmitted to the Member States and to the Economic and Financial Committee on 21 June 2024.

The fiscal adjustment period, consistent with expenditure targets, lasts four years[15], which can be extended to seven years against the Member State's commitment to carry out investments and reforms that support potential growth and resilience of the economy, improve debt sustainability and respond to European policy priorities.

Under the transitional provisions, during the period in which the Recovery and Resilience Facility (RRF) is in force, the following will be considered: (i) the commitments included in the National Recovery and Resilience Plan (RRP) for the extension of the adjustment period; (ii) expenditure projects related to RRF loans and national co-financing expenditure of EU programmes in the years 2025 and 2026, in case a Member State requests to modulate the adjustment path more gradually.

The Plans will be assessed by the European Commission, while the Council, on a recommendation from the European Commission, will adopt a recommendation setting out the net expenditure path of the Member State concerned and, where relevant, endorsing the reform and investment commitments underpinning any request for an extension of the adjustment period.

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[13] No later than 12 months before the end of the current Plan, a Member State may request to submit a revised Plan if there are objective circumstances preventing its implementation. In that case, the revised Plan shall cover the period until the end of the period of the original Plan. In addition, in the event of the appointment of a new government, a Member State may submit a revised Plan for a new period of four or five years, again on the basis of the normal duration of the parliamentary term.

[14] The DSA will be conducted using a methodology discussed with the Member States (in the first round of Plans, the methodology set out in the Debt Sustainability Monitor 2023 (https://economy-finance.ec.europa.eu/publications/debt-sustainability-monitor-2023_en) will be used.

[15] The adjustment period of four years should not be confused with that of the duration of the Plan, which, as explained, coincides with the duration of the national legislature. Thus, for example, a five-year Plan may include a four-year adjustment path that brings the structural primary balance to the level set by the DSA at the end of the fourth year and does not foresee an additional adjustment in the fifth year.

Fiscal surveillance will be based on a single indicator: the growth rate of net expenditure. The aggregate net expenditure is defined from total general government expenditure net of interest expenditure, the cyclical component of unemployment expenditure, expenditure on Union programmes fully financed by European funds, national expenditure on co-financing of European programmes, discretionary revenue measures, and one-off and temporary budgetary measures.

In order to assess the implementation of the Plan, by 30 April of each year following its submission, the Member State will have to prepare an annual progress report containing the information necessary to assess *ex post* both the implementation of the fiscal policy part and the reform and investment part. This report will be the basis for annual budgetary surveillance.

Compared to the corrective arm, while the excessive deficit procedure (EDP) based on the deficit criterion remains broadly unchanged, the EDP based on excess debt is now linked to deviations from the net expenditure path set out in the Plan. Deviations between the growth rate of the expenditure aggregate actually observed in the year just ended and the planned net expenditure growth target in the Plan will be recorded in a control account. In the event of excess deviations exceeding 0.3 percent of GDP in a year or cumulatively exceeding 0.6 percent, the European Commission will prepare a report under Article 126.3 TFEU (initial step for the possible opening of an EDP). In this context, the European Commission will continue to assess all relevant mitigating or aggravating factors compared to the opening of an EDP. An increase in defence investment has been included among the mitigating factors, while the existence of significant risks to the sustainability of public debt is considered a key aggravating factor.

For Member States in EDP for breach of the deficit criterion, when setting the corrective net expenditure path, the Council shall ensure that the latter is consistent with a minimum annual fiscal adjustment (primary for the years 2025-2027 included in the first Plan) of 0.5 percent of GDP; in the case of EDP for breach of the debt criterion, the Council ensures that the corrective path is at least as demanding as the Plan drawn up by the Member State and approved by the Council, usually correcting the cumulative deviations recorded in the control account. The closure of an EDP activated on the basis of the deficit criterion requires that the deficit has been brought back to below 3 percent of GDP on a permanent basis, while for the debt procedure the Member State has to demonstrate compliance with the corrective net expenditure path set by the Council.

Finally, it should be noted that, in addition to the general safeguard clause for symmetric shocks, already provided for in the previous SGP, the reform provides for the introduction of a national escape clause for large asymmetric shocks, which can be activated where exceptional circumstances outside the control of the Member State have a major impact on its public finance, provided that such deviation does not endanger fiscal sustainability in the medium term. The activation of the clauses requires the approval of the Council and allows a temporary deviation from the net expenditure path of the Plan.

I.2 THE STRATEGIC VISION OF THE PLAN AND ITS OVERALL OBJECTIVES

This first MTP outlines the strategic lines by which the Government intends to address the global and national challenges that arise in the current context and in the near future. On the one hand, the country will have to address the structural problems of the national economic and social system, including those set out in the Country Report 2024 and in the Country Specific Recommendations (henceforth, also CSR), on the other hand, it must contribute to achieving the objectives linked to the EU's common priorities.

In line with the requirements of the new European economic governance and, in particular, Regulation (EC) No 1263/24, the Italian Government has, by means of this document, drawn up a Plan with a comprehensive strategy in which the structural component and budgetary planning are closely interlinked in order to jointly aim to increase the country's potential growth and the sustainability of public finance. In particular, in the first two years of the Plan, 2025 and 2026, the Government's focus will be on completing the RRP, while in the following period some of the structural measures will continue to improve growth and economic resilience prospects and support the consolidation of public finance.

The careful prioritisation of spending, focusing on the quality and efficiency of the interventions, is functional to the allocation of the limited resources available to ambitious targets.

As will be explained in the following paragraphs, the lines of action identified and included in the MTP aim to consolidate and strengthen the objectives achieved in the reform process initiated by the RRP, in some cases by proposing measures that are innovative in relation to it. Particular attention will be paid to reforms and investments aimed at improving the quality of institutions and the business environment, as conditions for attracting investment and improving the economic and social well-being of businesses and individuals.

These measures, the implementation of which will be necessary for the extension of the Plan, and which will be set out in more detail in the following chapters, will also be key to speeding up the other sectoral policies which will be pursued by national and European strategic priorities.

In more detail, the latter identify objectives for areas that will benefit from enhanced public action: social and economic resilience and the implementation of the European Pillar of Social Rights, including its targets on birth, employment, skills and poverty reduction; the twin green and digital transitions and the resulting technological innovations; the development of production chains, made compatible with combating climate change; energy security; the fight against degradation and illegality, and defence[16].

Together with these objectives, to be pursued with a view to close coordination with the other Member States, the measures in the Plan will systematically address the main national structural nodes identified in the CSRs, in order to overcome current problems and increase the country's growth potential.

[16] Regulation 1263/24, art. 13.

In this regard, in 2024, the CSR highlighted the need to: (i) make the tax system more aligned with the objectives of growth, fiscal sustainability, fairness and the green transition; (ii) strengthen the capacity of public administrations, in particular in the management of EU funds and public investment resources and projects, as well as in the implementation of the RRP and cohesion policy programmes; (iii) tackle negative demographic trends, including by retaining skilled workers and addressing labour market challenges, in particular for women, young people and workers in poverty; (iv) establish an industrial policy aimed at overcoming territorial inequalities and remaining restrictions on competition.

The overall package was drawn up on the basis of an analysis of the country's structural needs, in line with the RRP and in line with the other medium-term programmes already defined or under development, including the Integrated National Energy and Climate Plan (INECP), the Digital Decade Policy Programme 2030 and the Mattei Plan for Africa, which aims to establish equal cooperation with some African partner countries on six strategic areas: (i) energy; (ii) infrastructure; (iii) health; (iv) water resources; (v) agriculture; (vi) training and education.

For an overview of the processes underlying the drafting of the new policy document, see below the focus 'Process of involvement of Parliament and the various stakeholders in the design of the Plan'.

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Process of involvement of Parliament and the various stakeholders in the design of the Plan

Given the complex procedure for revising national legislation and the tight timeframe for the submission of the MTP, the first programming cycle, in the absence of consistent national legislation[17], is necessarily brought to light in a transitional context.

In the first cycle of economic and financial programming established by the new European governance, article 11, par. 36 (Presentation of national Medium-term Fiscal-structural Plans) and paragraph 2 (Transitional provisions) of Regulation (EU) No 1263/2024 intended to give Member States more flexibility in adopting certain choices, provided that the minimum information required by the Regulation on the 'preventive arm' is guaranteed. This refers, for example, to the involvement of the various stakeholders in the definition of the Plan, or to the request to independent fiscal institutions (in Italy, the Parliamentary Budget Office, PBO) for an opinion on the macroeconomic forecasts and macroeconomic assumptions underlying the net expenditure path.

Pending the revision of the national legislation, and in the absence of a mandatory provision by Regulation (EU) No 1263/2024[18], the Italian Government considered it necessary for Parliament to be involved from the first implementation of the reform. In particular, taking into account the programmatic nature of the Plan and using, by analogy, the procedures currently in place for examining the current programming documents[19], it was decided, in

[17] In this regard, the failure to complete the process of adapting national legislation to the new governance and the absence of standardised procedures have led to objective problems in the planning activity, resolved through internal discussions within the Ministry, discussions with Parliament and the European Commission and continuous dialogue with the other main national actors involved.

[18] See article 11, par. 4.

[19] In detail, the procedure followed by parliamentary scrutiny of existing policy documents is as follows: the documents are assigned to the Budget Committees of the Chamber of Deputies and the Senate at the contact point, as well as to the other Standing Committees and to the Parliamentary Committee on Regional Matters in its consultative capacity. The Budget Committees acquire information through hearings, following the practice of holding them in alternate years in the Chamber of Deputies and the Senate. After consideration and acquisition of the opinions of the other Committees, the Budget Commissions approved a report to be submitted to the Assembly, with the possibility of submitting minority reports. Final deliberation takes place through the adoption of resolutions by the Assemblies of the two branches of Parliament.

agreement with the Houses, to forward the Plan in advance to Parliament, allowing for an appropriate examination, with a view to its subsequent transmission to the European institutions. In particular, the Joint Budget Committees of the Chambers will acquire the useful elements through a round of hearings. The Government has explained the content of the Plan to the social partners and local and regional authorities.

Given the intention to send the Plan in advance to the Houses and deemed it appropriate that the forecasts underlying the Plan take into account the ISTAT outturn data for 2023 released on 23 September, the formal letter of 4 September announced the intention to send the Plan to the European Commission after the deadline of 20 September laid down in the Regulation for the first Plans, and in any case no later than the deadline of 15 October for the transmission of the Draft Budgetary Plan (DPB) for 2025.

As regards the request for an extension of the adjustment period, the legislation provides for the inclusion in the Plan of commitments to be continued after the end of the period of the RRP. These commitments cover both the continuation of efforts to implement some reforms under the RRP in the remaining years covered by the MTP, as well as the definition of any additional reforms. The Regulation also provides, for the purposes of extending by adjustment period, for nationally financed investment to be maintained at the average level recorded in the years of application of the RRP[20]. Particular attention has been paid to defining the structural part of the Plan, through a structured dialogue with the competent authorities, in order to identify the measures needed to achieve the country's priorities.

With regard to the role of the Parliamentary Budget Office, as already mentioned, EU legislation allows Member States, for the first years of application of the new rules, to decide whether to request an opinion from those institutions on the macroeconomic forecasts and assumptions supporting the net expenditure path contained in the fiscal-structural Plans, with the obligation to request such an opinion from 2032 onwards, if the competent institutions have developed sufficient capacity[21]. Although it is not mandatory for the first Plan under the new governance, the Government has decided, on account of the established institutional cooperation relationship over the years and the extensive functions already conferred on the Parliamentary Budget Office (PBO) by legislation in force[22], to involve that office in validating the forecasts underlying the macroeconomic scenario, bringing the period subject to validation into line with the five years of the Plan.

Finally, one of the choices made with regard to the process of drawing up the Plan is the establishment of a consultation with the European Commission. In accordance with Regulation (EC) No 2024/1263, the Government requested the launch of a technical exchange prior to the submission of the reference trajectory and, subsequently, a technical dialogue to discuss the main contents of the Plan, including the net expenditure path, the economic and fiscal scenario and the reform and investment programme.

I.3 THE RELEVANCE OF THE INTERVENTIONS UNDER THE RRP AND NEW MEASURES FORESEEN IN THE PLAN

In defining the strategic lines for action in the coming years, the Government cannot disregard an in-depth assessment of the objectives, results and commitments that will ensure full implementation of the RRP in the coming years.

[20] As provided for in article 36, par.1, subpar. d of Regulation (EU) 2024/1263.

[21] Articles 11, par.2 and 15, par.3 of Regulation (EU) 2024/1263.

[22] As defined in article 18, par.6 of aw No 243/2012, the functions that the PBO may perform already include the new activities required by the new governance of the independent fiscal institutions, including the judgement on the recruitment of the DSA.

As is well known, the RRP has marked a change in the method and time horizon of Italy's economic planning. First, with the RRP, Italy has faced major challenges, planning reform and investment measures to resolve structural problems and lay the foundations for future development. Indeed, the RRP's interventions are intended to boost economic and social growth by completing what is envisaged in its strategic missions (Digitalisation, Innovation, Competitiveness, Culture and Tourism, Green Revolution and Ecological Transition, Infrastructure for Sustainable Mobility, Education and Research, Cohesion and Inclusion, Health, REPowerEU).

In this context, the bulk of the budget (194.4 billion) was earmarked to support the achievement of objectives linked to the twin ecological and digital transitions, the economic and social convergence between North and South and the strengthening of the resources and capacities of the public administration.

Secondly, it was the method adopted that led to a change. The RRP is a complex planning instrument, defined on the basis of macro and microeconomic assessments. Its structure is based on the achievement of 618 objectives, which include reforms and investment designed in a complementary manner, on which the expected positive GDP performance in the short and medium term will depend.

The macroeconomic impact of the additional investments and the main reforms envisaged in this Plan has been assessed using the QUEST-III model developed by the European Commission[23], maintaining a transparent simulation strategy and particularly conservative assumptions. According to these analyses, full implementation of structural reforms combined with investment would bring GDP to a higher level of 6.0 percent over the medium term[24].

In any event, achieving these results is not a simple exercise. Completing the RRP commitments required Italy to make a major effort to build a system of multilevel governance that could ensure top-level coordination and, at the same time, the involvement and responsibility of the various administrations and institutions operating at local level. As a result of these innovations, Italy is, to date, the Country that has achieved the highest number of milestones and targets and the first to submit the payment request for the sixth instalment. There are therefore prerequisites for the successful continuation of the effort after 2026.

Finally, the time horizon of the RRP is the third element of change compared to the past. The five-year period allowed the RRP to have the broad perspective of a forward-looking reform action. Currently, around 85 percent of the actions financed have been activated and Italy will accelerate further in the next two years to achieve all the objectives and targets set.

[23] This choice has been dictated not only by the features of the model that fit this type of simulations, but also by the fact that it has a common and shared tool that produces results that are easily replicable and comparable with the European Commission.

[24] In particular, according to these estimates, additional RRP investment would contribute to an overall GDP increase of 0.7 percent at 2024 percent and 2.0 percent over the medium term (2031), compared with a hypothetical scenario without RRPs. Moreover, if these are also combined with the impacts of reforms, the effects of which are more gradual, this would lead to an overall increase in the level of GDP of 1.9 percent for the current year; the most representative RRP reform measures were aggregated into five reform areas: education and research, active labour market policies, public administration (PA), justice, competition and procurement. Further details on impact assessments, including for missions and sectors of economic activity, can be found in Paragraph III.4 and Appendix V.

Similarly, the ambition, method and time horizon of the RRP will also be key elements of this Plan. Italy is committed to achieving ambitious and concrete results to complete the implementation of the RRP, but also to extending its scope in future years.

To this end, Italy will concentrate its efforts to achieve full implementation of the RRP in 2025 and 2026, while, in the following years, the reform action will be dedicated to consolidating and increasing the results achieved.

Within this overall timeframe, the overall package includes measures with different priorities and objectives.

As already outlined in the previous paragraph, the reform action will focus as a priority on advancing measures to improve the quality of institutions and the business environment. They will cover, in particular, the areas of justice, tax administration, management of public spending, business support and the promotion of competition, and public administration, including early childhood care services.

For years, barriers in these areas have hindered investment and economic and social growth. Starting from these areas, Italy intends to get back on track: this will include accelerating progress by strengthening the RRP's initiatives, which have already significantly improved the justice system, tax collection, public administration, services and market conditions.

Given their expected positive impacts on growth and resilience potential of the economy, as well as on the fiscal sustainability, these measures will be taken into account for the extension of the adjustment period of the Plan.

As these reforms are cross-cutting and necessary for the pursuit of sectoral objectives, Italy intends to prioritise their implementation. For each area, it is intended to confirm the nature and approach of the RRP, setting concrete targets to be achieved from 2027 onwards, not only consolidating the measures taken, but also introducing new instruments to reduce territorial disparities.

In particular, as regards justice, the measures aim to consolidate and enhance the results achieved in terms of: (i) reducing the length of court proceedings and reducing the backlog of justice; (ii) digitalisation process; (iii) organisational rationalisation and upgrading of the buildings of the Justice Administration (particularly in prison, for greater sustainability and efficiency).

With the same approach, the measures related to the improvement of the tax administration will aim at consolidating the results of the RRP on: (i) improving communication and the relationship between tax administration and taxpayer; (ii) the promotion of voluntary compliance at low cost; (iii) the strengthening of control systems; (iv) strengthening the tax information system and interoperability of tax databases.

In the coming years, Italy will continue implementing the tax reform: this includes reducing the tax burden on households with low and medium incomes, supporting employment by reducing labour costs and supporting the incomes and consumption of low- and middle-income households.

In addition, Italy will carry out a re-organisation of tax expenditures in compliance with the tax reform enabling law (law No 111 of 2023). This will contribute to improving the efficiency of the tax system, reducing its complexity and potential distortions and aligning it with the objectives of supporting family responsibilities, economic growth and ecological transition in a multiannual

perspective. Finally, the recovery reform will be finalized and debt collection expedited.

As regards the improvement of the business environment, Italy intends to adopt a framework law on small and medium-sized enterprises, facilitating their aggregation, generational transition and access to credit. This will also be supported by the reform of the rules governing the functioning and supervision of capital markets to boost their growth and competitiveness and, at the same time, to facilitate the companies financing, also for initiatives related to green and digital transitions. In addition, Italy will continue to adopt annual law until 2029, informed by regulatory authority assessments, to promote market competition.

Furthermore, the Government will continue improving the technical capacity and skills of the public administration and reforming career paths, bringing them more closely into line with the performance evaluation. To this end, a strategic plan considering demographics, technology trends and regional needs will ensure authorities have the resources and expertise for high-quality public services, driving economic and social development.

Finally, Italy intends to reinforce the planning and managing public expenditure.

The set of reforms and investments in the five areas described above are expected to have a positive impact on Italy’s economic growth and resilience potential, as well as on fiscal sustainability. Nevertheless, these measures are only a subset of the reforms and investments package that Italy intends to undertake in the coming years.

The Plan, as a whole, will aim to continue, extend and improve what has been undertaken under the RRP[25]. In this context and in line with the objective of ensuring prudent fiscal policy, the Plan is focused on those measures that could have positive mutually reinforcing and cross-cutting impacts.

With this in mind, investments will be made to improve demographic prospects, education and research, as well as the alignment of workers’ skills with those required by the labour market.

In the same vein, the Plan ensures the completion of the strategic investments launched with the RRP, aimed at increasing early childhood care services, strengthening active labour market policies and economic and social cohesion, as well as accelerating the green and digital transitions.

In this respect, specific instruments will be aimed at facilitating the mobilisation of public and private resources to finance the achievement of the Sustainable Development Goals and Climate Change mitigation and adaptation objectives. These include the issuance of green Italian government bonds, the public guarantee schemes and other instruments to promote sustainable finance, as well as measures to ensure that companies have adequate insurance systems in place in the event of specific catastrophic risks.

It should be noted that the measures set out in the Plan are part of a broader government effort to achieve the objectives set for 2030 across various policy areas. Public investment and financial support measures for private investment will make

[25] For further details, please refer to paragraph III.3.4.

it possible to implement the policy plans, such as the INECP and the recently approved National Strategic Roadmap for Digital Decade.

Finally, the Plan provides for a strengthening of defence, in line with the commitments adopted at European and international level.

I.4 THE EXPENDITURE TRAJECTORY AND STRUCTURAL ADJUSTMENT COMMITMENT OF THE PLAN

While paragraph I.1 framed the criteria underlying the review of European governance, this paragraph focuses on the key features of the Italian Medium-term Fiscal-Structural Plan from a fiscal planning perspective.

The preliminary phase, which served to draw up the Plan, started in June. A key step was the publication of the European Commission's so-called Spring Package, published on 19 June, followed by the communication of the reference trajectories on 21 June. In this context, the European Commission has in turn: (i) propose country-specific recommendations on the basis of the strategic guidelines to strengthen competitiveness; (ii) assessed the macroeconomic imbalances for twelve Member States, concluding that Italy, which until last year was experiencing excessive imbalances, is now experiencing only imbalances; (iii) proposed the opening of the excessive deficit procedure for some Member States, including Italy (see focus 'Excessive Deficit Procedure (EDP)'); (iv) sent the reference trajectories to the Member States and to the Economic and Financial Committee, as already mentioned. In addition, at the level of the technical committees (mainly the Economic and Financial Committee in its Alternates), it shared with the national delegations some operational information for the drafting of the first Plans[26].

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Excessive deficit procedure (EDP)

On 19 June 2024, the European Commission published its report under Article 126.3 TFEU, in which it assesses the compliance of Member States at risk of infringement proceedings with the budgetary discipline provided for by EU rules. This is the first report after the deactivation of the general escape clause (GEC) and with the new fiscal rules in force. The report identifies twelve countries with a deficit of more than 3 percent in 2023 or 2024. Among these, the European Commission has proposed the opening of an EDP procedure for seven countries: Belgium, France, Hungary, Italy, Malta, Poland and Slovakia. For Italy, the deficit is expected to be above the reference threshold over the entire forecast horizon. The European Commission has carried out an assessment of all relevant factors, including those indicated by Italy itself, including the medium-term fiscal position, the expected compliance with the 2023 fiscal recommendation for 2024, the presence of macroeconomic imbalances and the national fiscal framework. Despite some mitigating factors, such as the structure of public debt and the net international investment position, public debt remains high in the European Commission's assessment and represents a significant challenge for fiscal sustainability, thus concluding to propose to the Council the triggering of the procedure.

On 8 July, the European Commission therefore gave its formal opinion on the existence of an excessive deficit (under article 126.5 TFEU) for all the countries mentioned above and

[26] Overall, these guidelines will contribute to the drafting of the Code of Conduct, which will be drawn up by the technical services of the European Commission and approved by the EFC.

proposed the adoption of a Council decision on the activation of the EDP procedure on 26 July (formerly article 126.6 TFEU).

As a general rule, this decision would be immediately followed by a Council recommendation under Article 126.7 TFEU requiring the Member State to close the excessive deficit within a given period and indicating the corrective net expenditure path to be implemented. By way of exception, since the Plans have not yet been submitted at the time of adoption of the EDP decision, the European Commission decided to postpone the definition of the deficit corrective path, in order to ensure consistency with the Plan adopted by the Council.

Before sending the reference trajectories, the Member States had the possibility – provided for in the new Regulation on the preventive arm – to request a technical exchange with the European Commission to discuss the latest available statistical information and the macroeconomic and fiscal outlook. Italy decided to make use of this possibility and requested and carried out this technical exchange.

After the trajectory was sent, a further phase of technical dialogue with the European Commission took place with the aim of ensuring that the Plan complies with the requirements of the new economic governance. In particular, the Plan must ensure the following conditions:

- at the end of the adjustment period and in the absence of further fiscal corrective measures: (i) the debt ratio must be on a plausibly downward path or remain at prudent levels below 60 percent over the medium term and (ii) the deficit must remain below the threshold of 3 percent of GDP over the medium term;
- compliance with a common debt safeguard, which provides for a minimum annual average reduction of the debt ratio (calculated from the year before the start of the trajectory (2024), or from the year in which the exit from the EDP procedure is expected, until the end of the adjustment period) of 1 percentage point of GDP for countries with debt above 90 percent of GDP and 0,5 percentage points for countries with debt between 60 percent and 90 percent;
- compliance with a deficit resilience safeguard, which foresees that the fiscal adjustment will continue, if needed, to a structural deficit level of 1.5 percent of GDP, with an annual improvement in the structural primary balance of 0,4 percentage points of GDP (reduced to 0,25 points if extended to seven years).

In addition, Member States subject to the excessive deficit procedure will have to ensure a minimum annual structural adjustment of 0,5 percentage points of GDP (so-called minimum benchmark).

This requirement may interact with the fiscal adjustment estimated by the DSA, defined in terms of the structural primary balance. If the correction estimated by the DSA were greater, the latter would prevail; if it were lower, the minimum benchmark would be triggered, and the correction would be brought to the minimum level provided for in the EDP procedure.

The difference between the change in the structural balance and the change in the structural primary balance is due to any change over time in the ratio of interest expenditure relative to GDP; if this ratio increases, it increases the required primary balance adjustment to achieve the same correction of the structural balance.

This would be the case given the current growth projections in interest expenditure; however, one of the transitional provisions of the new economic

governance is that, for the years 2025-2027, the European Commission may take into account any increase in interest expenditure when determining the minimum adjustment provided for in the corrective arm. Therefore, as already explained, in this time horizon the minimum adjustment required by the EDP procedure will have to be secured on the structural primary balance.

In the light of the above, the Plans are scheduled to be submitted by 30 April, but exceptionally set at 20 September 2024 for this first year of entry into force of the new rules, unless they may be extended in agreement with the European Commission[27].

The submission of the Plan to the European Commission is preceded by Parliament's approval, subject to the involvement of the various stakeholders asked to contribute to the analysis of the document, in line with the process followed in previous planning documents (see focus 'Process of involvement of Parliament and the various stakeholders in the design of the Plan'). In the light of the above, in the Medium-term Fiscal-Structural Plan, the forecast horizon is aligned with the ordinary duration of the national legislature; in the Italian case, it is extended until 2029 as the length of the legislature is equal to five years.

The Italian Government intends to request an extension of the fiscal adjustment period from four to seven years[28], which means that the fiscal adjustment path will continue beyond 2029 until 2031.

Referring to Chapter II for all technical details, the approach followed and the key elements of the Plan are as follows:

In line with the government's fiscal policy since its inception, the Plan confirms the objective of bringing the ratio of net borrowing to GDP below the 3 percent threshold in 2026, as already provided for in the Update of the 2023 Stability Programme and the Draft Budgetary Plan for 2024, submitted in September and October last year respectively[29].

This objective is consistent with an annual correction of the structural primary balance of 0,55 percentage points of GDP in 2025 and 2026. For the following years (2027-2031), a 'linear' correction of the structural primary balance is planned, i.e. the same annual correction. This correction is 0,52 percentage points of GDP per year, making it possible to comply with both the DSA criteria and the other common benchmarks and safeguards laid down in the new SGP rules; the minimum structural correction required by the excessive deficit procedure to which Italy is subject since this year is also taken into account. The average seven-year correction of the structural primary balance Plan amounts to 0,53 percentage points of GDP.

[27] In this regard, Italy – like most Member States – has notified the European Commission of its intention to postpone the transmission of the Plan by a few weeks because of the desirability of taking into account the planned benchmark revision of the national accounts data by ISTAT in its communication of 23 September and making it possible to carry out parliamentary scrutiny, which is expected to be concluded in the first week of October. The transmission should not take place beyond mid-October, when the 2025 Draft Budgetary Plan is expected to be transmitted.

[28] This is in the light of the programme of public reforms and investments contained in Italy's National Recovery and Resilience Plan (RRP) and the additional investment measures and reforms planned. See Article 36, par.1, subpar. d of Regulation (EU) No 1263/2024. This provision was, moreover, included during the negotiation of the new Regulation on the preventive arm of the SGP, on a proposal from Italy.

[29] In view of the imminent entry into force of the new European governance rules, the 2024 Stability Programme, presented in April, only updated macroeconomic and public finance forecasts based on existing legislation, referring to this Plan the definition of the policy scenario targets for the coming years.

The planned adjustment path is characterised by a frontloading of the fiscal correction over the first two years compared to the correction profile as identified for the seven-year fiscal adjustment period 2025-2031 in line with the common methodology based on the DSA defined by the European Commission[30], while ensuring that the average value of the annual growth rate of net expenditure is aligned with that of the European Commission's reference trajectory. The planned adjustment profile is based on the fundamental aspect of ownership by Member States while maintaining full compatibility with the founding element of the new governance aimed at ensuring debt sustainability.

This adjustment profile of the structural primary balance corresponds to an average growth rate of net expenditure of around 1.5 percent over the seven years of fiscal adjustment[31]. As stated above, the average growth rate of net expenditure provided for in the Italian Plan is fully consistent with the reference trajectory received from the European Commission, which presents the same average rate.

In addition to its different annual profile, the Plan differs in terms of greater accuracy and detail in the definition and forecasting of the macroeconomic scenario and public finance variables compared to the projections from the DSA methodology adopted by the European Commission. The latter is characterised by extreme simplification in order to have a single tool used to define the trajectories of all the Member States. The DSA, not least because of the use of a very high fiscal multiplier[32], generates a very low real growth profile over the years of the Plan, depressing tax revenues. As a result, the structural fiscal adjustment, ensured by the moderation in the growth rate of expenditure, leads to a significant lag in terms of deficit improvement in the projections underlying the European Commission's reference trajectory.

In the more realistic public finance scenario presented in the Plan, the deficit improves faster, while the growth forecast remains particularly conservative. These aspects will be addressed in more detail in Chapter II.

In line with the Guidelines provided by the European Commission[33], the medium-term fiscal forecasts in the policy scenario presented in this Plan include variables relevant for the sustainability of public finance: nominal and structural budgetary balances, public investment, with particular emphasis on the nationally financed component, interest expenditure and the debt-to-GDP ratio.

It should be recalled that the growth profile of net expenditure, consistent with the policy scenario, identifies the expenditure growth targets that the government commits not to exceed in the next five years, thus representing upper bound growth ceilings.

The growth rates of expenditure declared in the Plan cannot be changed with the next planning documents, as was the case in the past with the Stability Programme and the Update of the Stability Programme, but will remain fixed throughout the duration of the Plan, unless there are exceptional events that

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[30] See focus 'Reference trajectory recalculation (DSA IT) based on updated exogenous variables' in Chapter 2.

[31] In line with the new framework, the adjustment profile of the structural primary balance is subsequently 'translated' into a corresponding growth profile of net expenditure expressed in current prices.

[32] A feedback effect on real growth resulting from the fiscal adjustment (or expansion).

[33] See Guidance published in the Official Journal of the EU and available at the following link: https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ%3AC_202403975.

prevent its implementation. The government taking office at the beginning of the next parliamentary term may, in any event, decide to submit a new Plan, realigning its duration to the next five years and possibly redefining public finance objectives. As already explained, during the years of implementation of the Plan, any deviation of the net expenditure growth rates observed *ex post*, on the basis of outturn data, from the maximum ceilings laid down in the Plan will be recorded annually in the control account by the European Commission. The use of any credit (or the reduction of debt) will make it possible to adjust the net expenditure growth forecasts for the years following those in which the deviation is observed, while respecting the thresholds allowed by the new rules of the corrective arm of the SGP.

Following the approval of the Plan by the EU Council, the outlined net expenditure path will constitute the single operational reference for fiscal surveillance during the implementation phase of the Plan.

II. MACROECONOMIC AND PUBLIC FINANCE PATH

II.1. THE DEFINITION OF THE TRAJECTORY OF THE PLAN

Premise

On 21 June, the European Commission sent to EU Member State with debt-to-GDP or deficit exceeding the thresholds established by the European treaties, a country-specific reference trajectory for net expenditure as part of the new economic governance framework. This reference trajectory is the basis for the technical dialogue undertaken with the European Commission.

Considering the Government's intention to request an extension of the fiscal adjustment period to seven years, the first paragraph (II.1.1) analyses the trajectory for Italy over this horizon received from the European Commission. It also provides an update on the simulations based on the Debt Sustainability Analysis (DSA) underlying this trajectory, taking into account the most up-to-date information on the macro-financial variables. The next paragraph, II.1.2, shows the annual growth rates of net expenditure and the corresponding cumulative rates that the Italian Government commits not to exceed over the next five years included in the forecast horizon of this Medium-term Fiscal-Structural Plan. A summary overview of potential growth forecasts, the GDP deflator and the main fiscal variables consistent with the growth path of net expenditure is also presented.

Paragraph II.1.3 contains a sensitivity analysis of the debt-to-GDP ratio over the medium and long term, based on the common methodology underlying the new governance framework, covering the ten years following the end of the fiscal adjustment period (up to 2041). This analysis shows that the planned fiscal adjustment path will bring the debt-to-GDP ratio on a plausible downward path in the absence of further structural corrections, both in adverse deterministic scenarios and in stochastic analysis.

II.1.1 The reference trajectory for net expenditure received by the European Commission and the DSA

In the new European framework, as already clarified in Chapter 1, the medium-term fiscal path focuses on identifying a net expenditure growth profile that ensures compliance with public debt sustainability requirements and other benchmarks and safeguards introduced in the Stability and Growth Pact (SGP). This profile identifies the annual, and consequently cumulated, upper bound growth ceilings that Member States commit not to exceed.

The net nationally financed expenditure aggregate, subject to fiscal surveillance in the coming years, is defined as the final general government expenditure net of interest expenditure, expenditure on EU programmes fully

funded by transfers from the EU[34], national expenditure on co-financing of EU-funded programmes, the cyclical component of unemployment benefits, discretionary revenue measures and one-off and other temporary budgetary measures[35].

The reference trajectory for net expenditure sent by the European Commission has been estimated using the DSA described in the Debt Sustainability Monitor 2023[36]; the simulations are based on the European Commission's Spring Forecast 2024, published on 15 May[37] and, as regards the costs of ageing, the 2024 Ageing Report, published on 18 April[38].

The net expenditure trajectory is identified using the following formula:

$$(NE_t/NE_{t-1}-1) = (Y\,(POT)_t/Y\,(POT)_{t-1}-1) + (Def_t/Def_{t-1}-1) - corr\,SPB/[PE_{2024}/Y\,(NOM)_{2024}] \quad (1)$$

Whereby:

NE = net expenditure

Y(POT) = potential output

Def = GDP deflator

corr SPB = correction/positive annual change in the structural primary balance

PE = primary expenditure

Y(NOM) = GDP at current prices

The formula thus stipulates that the maximum annual growth rate of net expenditure in nominal terms is given by the nominal potential GDP growth, approximated by the sum of the potential output and the GDP deflator growth rates, reduced by an amount equal to the annual structural primary balance correction required by the DSA, adjusted for the primary expenditure-to-GDP ratio in 2024. The formula also suggests that, in the absence of fiscal consolidation needs, the net expenditure growth rate could be aligned with potential growth in the economy.

The reference trajectory, shown in Table II.1.1 together with other relevant variables provided by the European Commission, indicates for Italy an average annual net expenditure growth rates of 1.5 percent over the period 2025-2031, ensuring an average annual structural primary balance correction of 0.62

[34] Expenditure financed by EU structural funds and Recovery and Resilience Facility (RRF) grants. On the other hand, expenditure financed by RRF loans is included in the expenditure aggregate subject to surveillance.

[35] In the reference expenditure indicator, all investment financed by national resources is taken into account, while the expenditure benchmark of the SGP in force before the reform excluded public investment in year T that deviated from the average observed over a period of four years, including the base year (so-called smoothing).

[36] For the first round of Plans, the methodology set out in the Debt Sustainability Monitor 2023 published on 22 March 2024 and available at the following link is used as a transitional measure: https://economy-finance.ec.europa.eu/publications/debtsustainability-monitor-2023_en. For subsequent Plans, the methodology to be agreed with the Member States in the DSA working group within the Economic Financial Committee will be used.

[37] European Economic Forecast, Spring 2024, Institutional Paper 296, May 2024, available at: Spring 2024 Economic Forecast: A gradual expansion amid high geopolitical risks - European Commission (europa.eu).

[38] Ageing Report 2024, Economic and Budgetary Projections for the EU Member States (2022-2070), available at the following link: https://economy-finance.ec.europa.eu/publications/2024-ageing-report-economic-and-budgetary-projections-eu-member-states-2022-2070_en.

percentage points of GDP (0.6 p.p. considering only the linear correction obtained from the DSA)[39]. The structural adjustment follows an increasing pattern: in the first three years, the required correction amounts to 0.6 percentage points of GDP, while from 2028 until 2030 the correction is slightly higher (0.67 in 2028, then decreasing to 0.64 percentage points of GDP in 2030).

The non-linear evolution of the adjustment reflects the fact that the European Commission's reference trajectory takes into account not only the DSA[40] (which, as mentioned, would result in a constant correction of 0.6 percentage points of GDP over seven years), but also all the benchmarks and safeguards established in the new SGP, which may lead to non-linear adjustment paths.

As regards Italy, the required adjustment is influenced by the so-called minimum benchmark, which requires Member States in the Excessive Deficit Procedure (EDP)– such as Italy since 2024 – to follow a fiscal correction path ensuring a minimum annual improvement of at least 0.5 percentage points of GDP in the overall structural balance. The new rules provide an exception for the years 2025-2027, during which the minimum benchmark is applied with reference to the structural primary balance, to consider the expected increase in interest expenditure to GDP ratio compared to previous years.

Consequently, the structural primary adjustment path underlying the reference trajectory for Italy drawn up by the European Commission, corresponds to that foreseen by the DSA until 2027[41]. However, from 2028 to 2030, when the temporary favorable provision is no longer operational, the application of the minimum benchmark to the overall structural balance will lead to an increase in the annual correction compared with the linear correction identified by the DSA.

Indeed, according to the DSA simulations prepared by the European Commission, Italy would remain in the EDP procedure until 2030 as the net borrowing to GDP ratio would not fall below 3 percent of GDP until 2031[42]. Within the tool developed by the European Commission, the prolonged fiscal consolidation would not result in a rapid reduction of the net borrowing to GDP ratio because the fiscal adjustment is assumed to have a significant feedback effect on the GDP growth rate, which would reduce tax revenues and thus maintain a high deficit level for several years. The DSA methodology uses a high multiplier (equal to 0.75) which is common for all Member States[43].

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[39] Appendix 1 contains further information on the European Commission's reference trajectory and the underlying macroeconomic and fiscal variables.

[40] According to the DSA, public debt as a share of GDP must be brought back on a downward path, maintaining it at prudent levels over the medium term (i.e. ten years after the end of the fiscal adjustment period), while ensuring that government net borrowing is below 3 percent of GDP.

[41] In the years 2025-2027, the adjustment of the overall structural balance underlying the European Commission's reference trajectory is below the minimum correction of 0.5 percentage points of GDP required by the EDP procedure. However, the tightening of the correction is not applied because, as mentioned above, the more favourable transitional provision on interest expenditure applies.

[42] The technical assumption followed is that the minimum correction is applied in the year if the ratio of net borrowing to GDP exceeds 3.048 percent of GDP in the previous year.

[43] For more details, see Appendix 1.

TABLE II.1.1: REFERENCE TRAJECTORY FOR NET EXPENDITURE TRANSMITTED BY THE EUROPEAN COMMISSION ON 21 JUNE AND MAIN FISCAL VARIABLES (% of GDP if not specifically specified)

	2024	2025	2026	2027	2028	2029	2030	2031	Average 2025-2031
Annual growth rate of net expenditure (var. % y/y)		**1.6**	**1.6**	**1.5**	**1.4**	**1.3**	**1.3**	**1.4**	**1.5**
Structural primary balance	- 1.1	- 0.5	0.1	0.7	1.4	2.1	2.7	3.3	
Annual change in the structural primary balance (pp of GDP)		0.60	0.60	0.60	0.67	0.66	0.64	0.60	0.62
Primary balance	**- 0.5**	**- 0.1**	**0.1**	**0.5**	**1.0**	**1.5**	**2.1**	**2.7**	
Annual change in the primary balance (pp of GDP)		0.3	0.2	0.4	0.5	0.5	0.6	0.6	
Net borrowing	- 4.4	- 4.3	- 4.4	- 4.2	- 3.9	- 3.5	- 3.0	- 2.6	
Debt/GDP	**138.6**	**142.0**	**143.2**	**144.1**	**144.4**	**144.4**	**143.8**	**142.7**	
Annual change in debt/GDP (p.p.)		**3.4**	**1.2**	**0.8**	**0.4**	**- 0.1**	**- 0.6**	**- 1.1**	

Source: European Commission and MEF elaborations.
Note: Any inaccuracies are due to rounding.

II.1.2 Net expenditure growth targets for the next five years

Technical dialogue with the European Commission

After receiving the reference trajectory from the European Commission, the Italian Government engaged in a technical dialogue, which began in July and ended in September. In the initial phase, the focus was on updating the DSA simulation underlying the reference trajectory based on the Government's official macro-financial forecasts.

The first update, carried out in July, led to very limited changes - both in terms of the required structural fiscal adjustment and the net expenditure trajectory - compared to the European Commission's estimates. By contrast, the second update, carried out in September, showed a downward revision of the average structural primary balance adjustment required by the DSA (from 0.61 p.p. of GDP estimated in July to 0.53 p.p. of GDP estimated in September) due to a substantial improvement in the starting budgetary position (see focus below).

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Recalculation of the reference trajectory (DSA IT) based on updated exogenous variables

Following the publication of preliminary 2023 data by ISTAT on 23 September, a second update was made to the DSA simulation exercise underlying the reference trajectory sent by the European Commission to the Italian Government on 21 June and described in the previous paragraph[44]. This update uses the most recent forecasts of the macrofinancial variables underlying the European Commission's DSA simulation, particularly regarding tax revenues and medium-term convergence values of interest rates and inflation[45]. According

[44] In July, when the technical dialogue started, a first update of the DSA simulations underlying the reference trajectory was discussed with the European Commission, based on the macrofinancial forecasts available to the Ministry of Economy and Finance at that time (medium term inflation forecasts and interest rates up to May). That version did not deviate significantly from what the European Commission estimated.

[45] The August average of the corresponding ten-year forward rates is used for the convergence values of short-term and long-term interest rates over the medium term. For initialisation assumptions, the average over

to the update, the forecast for 2024 for net borrowing and debt ratios has been revised as a key improvement compared with the Spring Forecast 2024, at levels of 3.8 percent and 135.8 percent, respectively. Short-term and long-term interest rates are expected to converge to 2.7 percent and 4.9 percent respectively in 2033, while inflation is expected to converge to 2.4 percent in 2033 (compared with 2.55 percent expected in March).

It should be recalled that this simulation exercise does not go beyond merely updating the variables underlying the calculation of the reference trajectory. The methodologies used do not differ from those on which the European Commission's reference trajectory is based[46]. In summary: (i) the estimation of potential output is based on the official macroeconomic forecasts that are considered, as requested, up to 2025 and on the EUCAM methodology agreed at EU level within the Potential Output Working Group (formerly the Output Gap Working Group); (ii) the output gap closes linearly in three years; (iii) the fiscal feedback effect on real growth is 0.75; (iv) age-related expenditure is based on the 2024 Ageing Report; (v) property income (PI) is estimated by the European Commission. Table R1 shows the results of the update of the variables underlying the European Commission's reference trajectory.

TABLE R1: REFERENCE TRAJECTORY CALCULATED ACCORDING TO THE METHODOLOGY OF THE EUROPEAN COMMISSION AND BASED ON UPDATED DATA
(% of GDP if not specifically specified)

	2024	2025	2026	2027	2028	2029	2030	2031	Average 2025-2031
Growth rate of net primary expenditure (var. % y/y)		**2.3**	**2.2**	**2.1**	**1.7**	**1.6**	**1.7**	**1.6**	**1.9**
Structural primary balance	- 0.5	0.0	0.5	1.0	1.7	2.3	2.8	3.3	
Annual change in the structural primary balance (p.p.)		0.50	0.50	0.50	0.64	0.63	0.48	0.48	0.53
Primary balance	0.1	0.4	0.6	0.9	1.3	1.8	2.3	2.7	
Annual change in primary balance (p.p.)		0.3	0.1	0.3	0.4	0.5	0.5	0.5	
Net borrowing	- 3.8	- 3.6	- 3.7	- 3.5	- 3.2	- 2.9	- 2.5	- 2.2	
Debt/GDP	135.8	137.7	137.7	137.5	137.1	136.4	135.3	133.9	
Annual change in debt/GDP (p.p.)		1.9	0.1	- 0.2	- 0.4	- 0.7	- 1.1	- 1.3	

Source: MEF elaborations.
Note: Any inaccuracies are due to rounding.

The results would imply a downward revision of the average annual structural primary balance adjustment required compared to that estimated by the European Commission. While this update considers a starting structural primary balance of around 0,6 percentage points of GDP lower than the European Commission forecast, it also incorporates more cautious medium-term inflation forecasts than those underlying the calculation of the reference trajectory sent by the European Commission in June (2.4 percent in this case,

the last 10 days of August shall be used. For the inflation convergence value, the average of inflation resulting from the ten-year swap contracts, calculated in August, is taken into account.

[46] The European Commission provided precise indications that restricted the scope of the methodological changes that could be introduced. Reference is made, in particular, to the note discussed at the Economic and Finance Committee in DSA format on 11 July, 'Information note on the possibility for deviating from the Commission's DSA assumptions in the Medium-term Fiscal Structural Plans', the contents of which are set out in Appendix 1.

> compared with 2.55 percent used by the European Commission[47]). As a result, the net expenditure trajectory would be about 0.4 percentage points higher on average over the seven years adjustment period, increasing from an average growth of 1.5 percent estimated by the European Commission to 1.9 percent. The main difference compared to the European Commission's reference trajectory relates to 2025, as for that year, in addition to a smaller adjustment of the structural primary balance, slightly higher GDP deflator forecasts are used than in the European Commission's spring forecast (1.8 percent). According to this net expenditure trajectory, Italy would exit the EDP procedure in 2029 (two years earlier than in the European Commission's DSA). The reasons behind the slow exit from the procedure remain the same as those set out in the previous paragraph.

In July, having very provisional forecasts and potentially far from those that would actually be included in the Plan, the discussion with the European Commission focused on methodological aspects relating in particular on how the fiscal consolidation underlying the reference trajectory would be integrated into the Plan. Firstly, the European Commission was informed of the Italian Government's intention to plan a structural primary balance adjustment that would be consistent, on an annual average basis, with that identified in the DSA simulation updated with the government's official forecasts. At the same time, it was highlighted that this fiscal effort should be integrated into the Plan, taking into account the overall macroeconomic scenario, the underlying economic and fiscal trends, in order to provide a realistic assessment of the impact of the required adjustment on GDP growth. In particular, it has been pointed out to the European Commission that the DSA methodology can lead to an overestimation of the impact of the fiscal adjustment on economic growth and, consequently, on nominal deficit.

More generally, the discussions expressed the belief that the overall picture of the Plan should be characterised by a high degree of realism and plausibility. Deficit projections should be estimated as accurately as possible, avoiding both excessive optimism and unrealistic scenarios characterized by more pronounced financing needs that would eventually lead to overestimated forecast of the amount of government debt securities to be issued, providing incorrect signals to markets.

Taking these considerations into account, during the technical dialogue with the European Commission resumed in early September, it has been pointed out that the Italian Government intends to achieve a faster reduction in the net borrowing to GDP ratio. According to the updated policy scenario forecast, Italy confirms its commitment to exit the EDP procedure in 2027, achieving a deficit to GDP ratio of 2.8 percent in 2026 (see Table II.1.3). This target is more ambitious than the one set out in the 2024 Draft Budgetary Plan, submitted in October 2023, and falls short of the forecast based on the existing legislation scenario of the April 2024 Stability Programme.

[47] The medium-term convergence values of short-term and long-term interest rates are broadly unchanged compared to those underlying the European Commission simulations, while, for the same methodology, interest rates for 2025 are revised slightly downwards: 2.5 percent, compared with 2.8 percent for the short-term rate, and 3.8 percent, compared with 4.1 percent, for the long-term rate.

Planned net expenditure growth rates and main public finance variables under the policy scenario

The definition of the annual growth rates (and consequently the cumulated ones) of net expenditure that the Italian Government commit not to exceed over the next five years (2025-2029) takes into account, first, the decision to ensure that the net borrowing returns below the 3 percent of GDP threshold by 2026.

Given the projected level of net borrowing for 2024 – updated to 3.8 percent of GDP from 4.3 percent of the April Stability Programme – and considering the growth forecasts of the policy scenario underlying the Plan, achieving this target is consistent with an annual structural primary balance adjustment of 0.55 percentage points of GDP in 2025 and 2026.

Subsequently, in the years 2027-2029, a structural primary balance correction of 0.52 percentage points of GDP is sufficient and needs to be prolonged over the last two years of the fiscal adjustment period (2030 and 2031).

After the initial two-years period, when the structural primary balance adjustment is tied to the nominal deficit target, a linear adjustment has been calculated to achieve a structural primary balance consistent with the new rules at the end of the seventh year (in 2031). Indeed, for the years 2027-2031, the intensity of the adjustment allows the debt sustainability requirements of the DSA approach[48] (and other benchmarks and safeguards) to be met.

Starting in 2024 with a structural primary balance close to balance (-0.5 percent of GDP), the planned corrections will result in a structural primary surplus of 2.2 percent of GDP at the end of the Plan (in 2029) and 3.2 percent of GDP at the end of the seven-year adjustment period (in 2031). The projected level of the structural primary balance for 2031 is very close to that underlying the European Commission's reference trajectory (3.3 percent of GDP).

The planned average structural primary balance correction is 0.53 percentage points of GDP over the adjustment period 2025-2031, which is lower than the average correction underlying the European Commission's reference trajectory (0.62 p.p. considering the application of the minimum EDP correction), but fully in line with the DSA update described in the focus on 'Recalculation of the reference trajectory (DSA IT) based on updated exogenous variables'. The lower average fiscal effort mainly reflects a better initial fiscal position[49], while the adjustment path shows a different annual profile, characterised – as already mentioned – by a higher annual adjustment in the early years compared to the European Commission's trajectory, which instead foresees a higher annual correction over the period 2028-2030; by contrast, from 2027 onwards, and especially in the following years, the

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[48] The criteria required by the DSA are met in both the adjustment scenario and the deterministic adverse macrofinancial scenarios and stochastic simulations. For more details on compliance with the risk-based criteria underlying the DSA, those required by stochastic simulations and the other common benchmarks and safeguards laid down in the new SGP rules, see Paragraph II.1.3.

[49] In the European Commission forecast, Italy is projected to have a structural primary deficit of 1.1 percent of GDP in 2024 (Table II.1.1), while the structural primary deficit in this Plan would be 0.5 percent of GDP (Table II.1.3). As the final target for the structural primary balance is almost equal (a surplus of 3.2 percent of GDP in 2031 in the Plan, compared with a surplus of 3.3 percent of GDP for the European Commission), the improved starting point translates into a lower average adjustment of around one tenth of a percentage point.

correction is lower as Italy would exit the EDP procedure and therefore the minimum benchmark required by that procedure would no longer be apply.

While the Plan drawn up by the Government shows a smaller overall structural balance adjustment than the values underlying the reference trajectory presented by the European Commission, it presents values that are fully compatible with the European Commission in terms of net expenditure growth.

Table II.1.2 shows the net expenditure growth rates under the policy scenario, consistent with the extension of the fiscal adjustment period to seven years requested by our country, which the Government commits not to exceed in the next five years. The net expenditure growth targets are calculated using the policy macroeconomic and fiscal forecasts, updated until 2029[50].

TABLE II.1.2: NET NATIONALLY FINANCED PRIMARY EXPENDITURE UNDER THE POLICY SCENARIO (growth rates, %)

	2024	2025	2026	2027	2028	2029
(a) Annual growth rate	- 1.9	1.3	1.6	1.9	1.7	1.5
(b) Cumulative growth rate	- 1.9	- 0.7	0.9	2.8	4.6	6.2

Source: MEF elaborations.

In line with the common methodology, the structural primary balance correction profile is first ‘translated’ in terms of net expenditure growth through the formula (1) mentioned in the previous paragraph[51].

The theoretical growth rates obtained from the formula (1) shall be equal to: 2.2 percent in 2025, 1.9 percent in 2026, 1.6 percent in 2027, 1.7 percent in 2028, 1.5 percent in 2029, 1.1 percent in 2030 and 1.2 percent in 2031[52]. This expenditure path would lead to an average net expenditure growth rate of 1.6 percent over the adjustment period 2025-2031, a level higher than the reference trajectory of the European Commission, which is 1.5 percent. The largest difference would be observed, in particular, for 2025 and is mainly explained by the higher GDP deflator growth forecast in this Plan compared to the European Commission’s April forecast[53].

It is worth noting that the formula (1) derived from the DSA implicitly assumes that the elasticity of the structural revenue growth rate relative to nominal potential output growth is unitary. In the Plan’s forecasts, this assumption is not always met. In particular, in 2025 (and to a lesser extent in 2026) structural revenue is expected to grow at a rate below nominal potential. This is the main reason why, with the same target of improving the structural primary balance, the net primary

[50] Table II.1.2 does not set out the growth rates of net expenditure for the years 2030 and 2031, since they are external to the forecast horizon of the Plan. These rates are calculated on the basis of the DSA simulations from the end of the Plan.

[51] The only difference is that the correction of the annual structural primary balance is weighted by using the primary expenditure to GDP ratio in the previous year (rolling) and not the base year (2024), which is considered fixed in the formula. In the common approach based on the DSA, forecasts for the years after 2024 are not available.

[52] For these two years, with no forecasts, it is used the level of primary expenditure to GDP ratio in 2029.

[53] The theoretical growth rate of expenditure in 2025 based on the policy scenario forecasts of this Plan also considers slightly higher potential output growth than in the European Commission and, as explained, a slightly lower annual correction of the structural primary balance (0.55 p.p. instead of 0.60 p.p.).

expenditure growth rate calculated from the reference expenditure aggregate, as represented by row (a) of Table II.1.2, differs from the values calculated through formula (1). The calculation is made on the basis of the public finance forecasts under the policy scenario of the Plan, considering the various expenditure items and discretionary revenue measures (DRM) to be excluded from the aggregate (bottom-up approach)[54].

This approach is maintained for the first three projection years, where the net expenditure growth targets are set at 1.3 percent for 2025 (below the European Commission's reference trajectory of 1.6), 1.6 percent in 2026 and 1.9 percent in 2027.

With regard to this period, it was preferred to identify realistic and reliable net expenditure growth targets, also based on the projection of reconciling variables that contribute to defining the relevant net expenditure aggregate. It is precisely on this latter aggregate that European Commission will conduct its monitoring. At the same time, all the values of these variables will be published in the 2025 Draft Budgetary Plan, which will be submitted immediately after this Plan and sent to the European Commission by mid-October[55].

From 2028 onwards, net expenditure growth rates calculated according to formula (1) are used. In 2028 and 2029, these growth targets are thus set at 1.7 percent and 1.5 percent, respectively. Similarly, for the years 2030 and 2031, they are 1.1 percent and 1.2 percent, respectively. Over the whole adjustment period 2025-2031, the average annual growth rate of net expenditure is 1.5 percent, which is in line with the reference trajectory transmitted by the European Commission on 21 June[56].

The cumulative growth rates of net expenditure are calculated by applying the annual growth rate to the cumulated growth of the previous year. For 2025, the cumulative growth of -0.7 percent is obtained by applying the annual growth of 1.3 percent in 2025 to the amount resulting from the 1.9 percent contraction estimated in the Plan for 2024 compared with 2023 (which is mainly due to the sharp fall in expenditure linked to the Superbonus).

Table II.1.3 shows the main variables underlying the net expenditure growth under the policy scenario. All the values presented in the table, instead of being calculated using the DSA, are consistent with the Plan's policy scenario forecasts; this applies to GDP and potential output growth (from which the estimates of output gaps used for the calculation of structural balances), deficits and public debt. With regard to the latter's projection, internal estimates of the borrowing requirement, including the calculation of interest expenditure, and available information in

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[54] The growth rate of the reference net expenditure aggregate is lower than the 'theoretical' in 2025 and 2026 and higher in 2027.

[55] In the tables to be submitted each year with the DBP, the forecasts of these variables must be published only in respect of year t + 1; therefore, within the next DBP, the constraint would relate only to the year 2025. Publishing the forecasts for three years is therefore a choice of transparency also aimed at better targeting fiscal policy. However, in the DBP to be submitted in 2025, it will be possible to revise the forecast in question from 2026 onwards in line with the net expenditure growth targets to which Italy will be bound.

[56] Using the reference net expenditure aggregate computed over the first five years of the projection would lead to an average growth rate over the entire seven-year adjustment period of just under 1.4 percent, which is below that of the European Commission's reference trajectory.

relation to the flow/stock linkages variables (including privatisation proceeds and other financial items) are used.

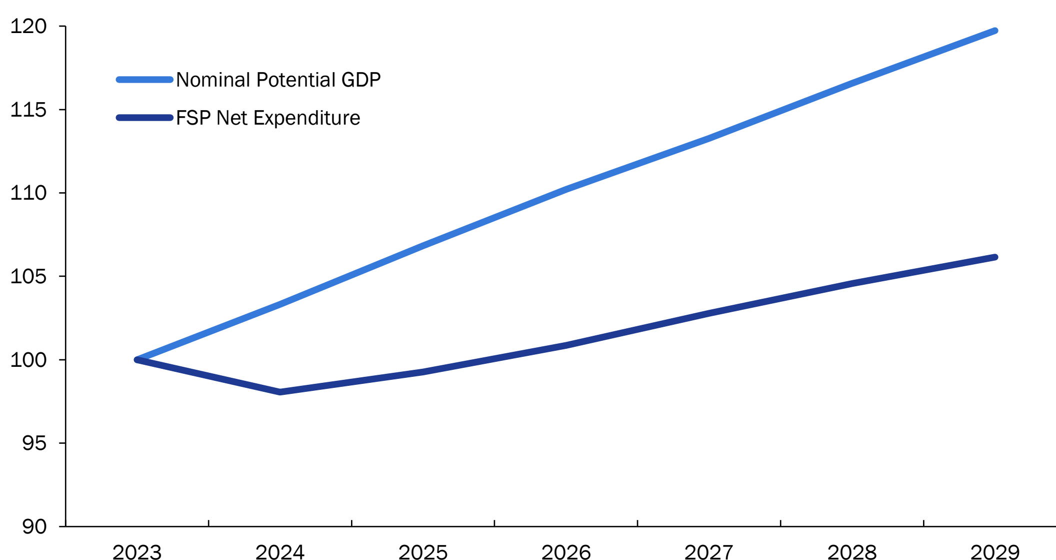
TABLE II.1.3: MAIN PUBLIC FINANCE VARIABLES UNDER THE POLICY SCENARIO (% of GDP where not specifically specified)

	2023	2024	2025	2026	2027	2028	2029
Potential GDP (var. % y/y)	1.1	1.4	1.3	1.1	1.0	0.9	0.7
GDP deflator (var. % y/y)	5.8	1.9	2.1	2.0	1.8	2.0	2.0
Net borrowing	- 7.2	- 3.8	- 3.3	- 2.8	- 2.6	- 2.3	- 1.8
Structural balance	- 8.2	- 4.4	- 3.8	- 3.3	- 3.0	- 2.6	- 2.1
Structural primary balance	- 4.5	- 0.5	0.0	0.6	1.1	1.6	2.2
Debt/GDP (1)	134.8	135.8	136.9	137.8	137.5	136.4	134.9
Change in debt/GDP (GDP p.p.) (2)	- 3.6	1.0	1.2	0.9	- 0.4	- 1.1	- 1.5
Annual change in structural balance (p.p. of GDP)	1.5	3.78	0.60	0.50	0.36	0.41	0.49
Annual change in structural primary balance (p.p. of GDP)	0.98	4.03	0.55	0.55	0.52	0.52	0.52
Output gap (% of potential output)	1.4	1.0	0.9	0.8	0.7	0.6	0.5

(1) Debt levels gross of Italy's shares of loans to EMU Member States, either bilateral or through the EFSF, and of the contribution to ESM capital. For 2023, the values of public debt – from Bank of Italy– incorporate the changes made at the time of the benchmark revision of annual national accounts and the recent Eurostat decision on the accounting of interest on EFSF loans to Greece (see the Bank of Italy's Economic Bulletin, which will be published on 11 October and the Statistical Bulletin on Public Finance, Borrowing Requirement and Debt of 15 October).
(2) Any inaccuracies are due to rounding.
Source: MEF elaborations.

Based on the 2023 outturn data issued by ISTAT on 23 September and applying to the level of the net expenditure reference aggregate, the planned growth rate for 2024 and the cumulative growth targets that the Government commits to not exceed over the next five years, the target level of net expenditure is obtained. Cumulated net expenditure growth is projected to remain well below nominal potential output growth, ensuring the adjustment envisaged in the Plan.

FIGURE II.1.1: NET EXPENDITURE AND NOMINAL POTENTIAL GDP UNDER THE POLICY SCENARIO (index number 2023 = 100)



Source: MEF elaborations.

II.1.3 Consistency with the excessive deficit procedure and common safeguards and medium-term debt-to-GDP ratio projections

Consistency with the EDP procedure and common safeguards

The fiscal adjustment path described above, which the Italian Government intends to submit to the European Commission, is fully compliant with the requirements of the new Stability and Growth Pact rules.

Excessive deficit procedure – First, in the years 2025 and 2026, where Italy is expected to be subject to the EDP, the minimum structural correction of 0.5 percentage points of GDP is respected. As explained, thanks to the more favourable transitional provision allowing for the expected increase in interest expenditure to be taken into account, this requirement is expressed in terms of changes in the structural primary balance[57]. In 2025 and 2026, the Plan foresees an improvement in the structural primary balance of 0.55 points of GDP.

Since 2027, when Italy is expected to exit the EDP procedure, a linear adjustment of the structural primary balance of 0.52 points of GDP is planned, and this adjustment is sufficient to comply with the requirements and safeguards of the Pact.

No backloading clause – The planned correction profile anticipates part of the requested fiscal correction in the early years, implementing a frontloading; therefore, the Plan complies with the no-backloading safeguard, according to which the adjustment should be made at least uniformly over the entire fiscal consolidation period in order to avoid deferring most of the effort to the later years.

Debt sustainability safeguard – The common debt safeguard requires that countries such as Italy whose debt exceeds 90 percent of GDP comply with a minimum annual average reduction of 1 percentage point over the adjustment period. The average decrease should be calculated from the year prior to the beginning of the reference trajectory, or for countries under the EDP procedure, from the year they are expected to exit the procedure, until the end of the adjustment period. In order to verify compliance with this safeguard, only the years from 2027 until 2031 should therefore be taken into account, when Italy is expected to exit the EDP procedure and up to the end of the seven-year adjustment period. In the years 2027-2031, the planned average reduction in the debt-to-GDP ratio is 1.1 percentage points, which ensures *ex-ante* compliance with this safeguard.

Deficit resilience safeguard – Finally, the Plan ensures compliance with the common safeguard aimed at ensuring a resilience margin with respect to the 3 percent reference value for the ratio of net borrowing to GDP. The clause requires that the overall structural budget balance remains above a minimum threshold of -1.5 percent of GDP, valid for all Member States. This target should be achieved by ensuring a minimum annual improvement of the structural primary balance of

[57] In 2028, the transitional provision will no longer apply and, therefore, for countries still in EDP procedure, the minimum structural adjustment of 0.5 percent of GDP will again be calculated on the overall structural balance.

0.4 percent of GDP, which is reduced to 0.25 percent of GDP if the adjustment period is extended. Based on the planned seven-year fiscal adjustment path, the structural budget balance would be above this threshold in 2031, when it is expected to reach a level of -1.3 percent of GDP. In the years 2025-2030, when the structural balance would be below this threshold, the structural primary balance is expected to improve annually above the minimum correction of 0.25 percentage points, which is therefore non-binding.

Medium-term debt ratio projections

The structural primary surplus achieved at the end of the seven-year adjustment period, amounting to of 3.2 percent of GDP, ensures that in the ten years following the end of the seven-year adjustment period, and in the absence of further fiscal correction measures, the debt to GDP ratio is put on a plausibly downward trajectory and that net borrowing continues to be kept below 3 percent of GDP[58].

Figure II.1.2 shows the debt to GDP ratio projections in the adjustment scenario and in the deterministic adverse scenarios, which reflect the macroeconomic and financial uncertainty of the forecast, in line with the methodology set out in the European Commission's Debt Sustainability Monitor 2023 (DSM). For more details, see the focus on 'Deterministic adverse scenarios and stochastic simulations'.

For the years 2025-2029, the Figure shows the policy scenario forecasts underlying the Plan, while for the years 2030-2031, the projections reflect the additional fiscal adjustment. Starting from the year following the end of the adjustment period (2032), in line with the DSA, the projections are based on the assumption of no further fiscal adjustment (no-fiscal policy change scenario), where the 2031 structural primary balance is only modified to take into account changes in age-related expenditures (ARE) and property income (PI). Regarding ARE, as suggested by the European Commission[59], the projections contained in the Ageing Report 2024, already used by the European Commission in its DSA exercise, are taken into account; the same projections used by the European Commission, following the methodology described in the DSM, are also used for the IPs. For all other variables, the stylised assumptions of the DSA shall be used, as defined in the DSM and illustrated in Appendix 1.

In the three adverse scenarios, from 2032 onwards, the assumption of no fiscal policy change compared to 2031 is always used, but the trends of macroeconomic and public finance variables are worsened, in accordance with the common methodology.

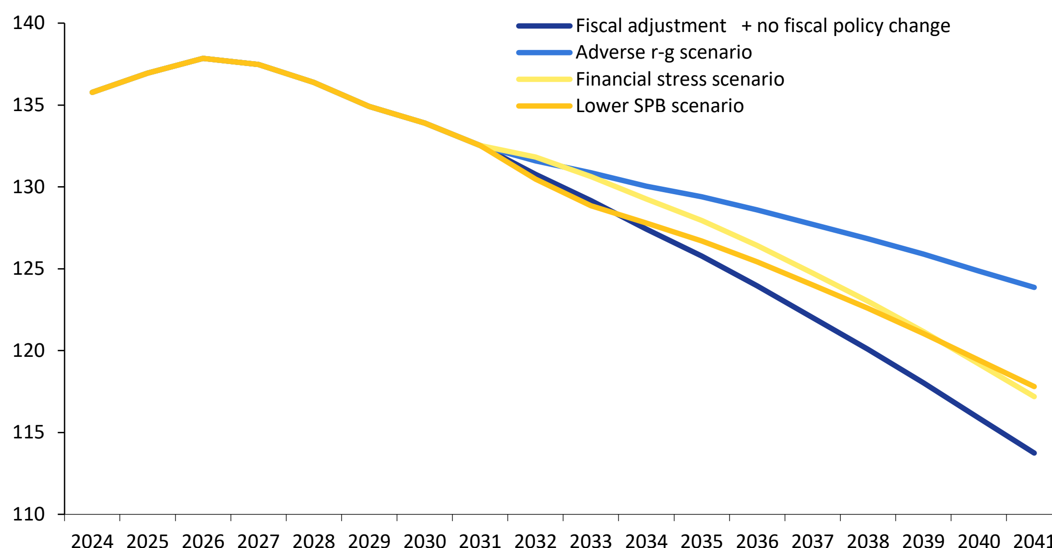
As shown in Figure II.1.2 and Table II.1.5, the most challenging scenario for Italy is the one assuming a permanent negative shock on the difference between

[58] See Appendix 1 for more details on the criteria required by the DSA.

[59] Reference is made to the information note discussed at the Economic and Finance Committee in DSA format on 11 July, 'Information note on the possibility for deviating from the Commission's DSA assumptions in the Medium-term fiscal structural Plans', the contents of which are set out in Appendix 1.

the implicit interest rate and the nominal growth rate (which represents an approximation of the so-called snow-ball effect).

FIGURE II.1.2: SENSITIVITY ANALYSIS OF THE DEBT-TO-GDP RATIO (adjustment scenario and deterministic adverse scenarios, percentage values)



Source: MEF elaborations.

Not all medium-term scenarios need to be of an adverse type. Although the European Commission has explicitly requested not to consider the effects of reforms and investments not yet implemented on the policy growth forecasts within the Plan, it is quite evident that a scenario of higher potential output growth and increased debt sustainability could be envisaged. This is done in the focus below.

FOCUS

The impact of the reforms linked to the extension of the fiscal adjustment period on the sustainability of public debt

This focus presents an analysis of the impact of the RRP reforms to be implemented and with the additional reforms planned as part of the extension of the fiscal adjustment period of the Plan, on the dynamics of the debt-to-GDP ratio, based on the Debt Sustainability Analysis (DSA) underlying the Plan (2025-2041).

The impacts on economic growth are estimated using the DSGE Quest III model, employed by Directorate I of the Treasury Department, as detailed in Paragraph III.4 and Appendix V of this document. The effects of the reforms are incorporated into the level of potential GDP underlying the Plan from 2025 onwards, while the impact of investments to be implemented after 2025 (the year by which the macroeconomic outlook for estimating potential output is considered) is prudently excluded from this assessment.

In the simulations conducted with the QUEST model, the higher growth resulting from reforms endogenously leads to an increase in general government revenues due to higher labour income, consumption, and corporate profits. These higher revenues have a positive impact on the budget balance, and consequently on the stock of public debt.

To account for the response of revenues to better potential growth prospects, the analysis presented here, based on the DSA methodology, considers the improvement in the primary balance obtained through the semi-elasticity of revenues to the changed cyclical position.

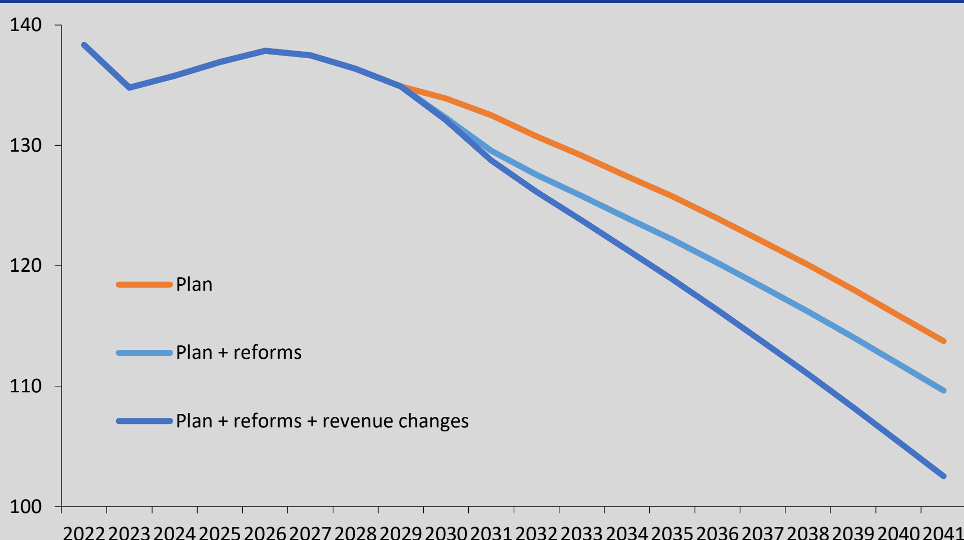
Until 2029, the nominal GDP and the level of public debt are maintained in line with the policy scenario underlying the Plan. Primary expenditure is not modified, as the public finance forecasts underlying the policy scenario already account for the direct budgetary effects of the planned reforms, which are incorporated in the budgetary measures for the next three years. In these early years, the analysis only considers the effect of the reforms on potential output and the resulting change in structural revenues.

The impact of the considered reforms on real growth becomes visible starting in 2030, as the output gap gradually closes, and real growth aligns with potential growth. After the fiscal adjustment period ends in 2031, following the stylised DSA methodology, the structural primary balance is kept constant and updated only for changes in age-related expenditures and general government property incomes. Once the output gap closes, the effect of higher growth on structural revenues feeds into the nominal balance and debt stock dynamics.

Throughout the simulation period, interest expenditure is recalculated, accounting for the different implicit interest rate. The overall estimated effect on the debt-to-GDP ratio is therefore attributable both to improved potential growth dynamics (denominator effect) and to higher government revenues, which are structural in nature during the initial years and nominal once the economic cycle has closed (numerator effect).

The figure illustrates the evolution of the debt-to-GDP ratio in the policy scenario underlying the Plan and in the alternative scenarios: 'Plan + reforms', which isolates the effects of higher potential and real growth, and 'Plan + reforms + revenue changes', which also captures the impact on revenues. In the first alternative scenario, the effects of the reforms planned as part of the extension of the adjustment period, but not yet implemented, improve growth prospects. As a result, a more pronounced decline in the debt-to-GDP ratio compared to the policy scenario can be observed from 2030 onwards. The debt-to-GDP ratio would decrease further, reaching 109.6 percent by 2041. Taking into account the improvement in the primary balance due to higher revenue growth, the ratio would drop even further to 102.5 percent.

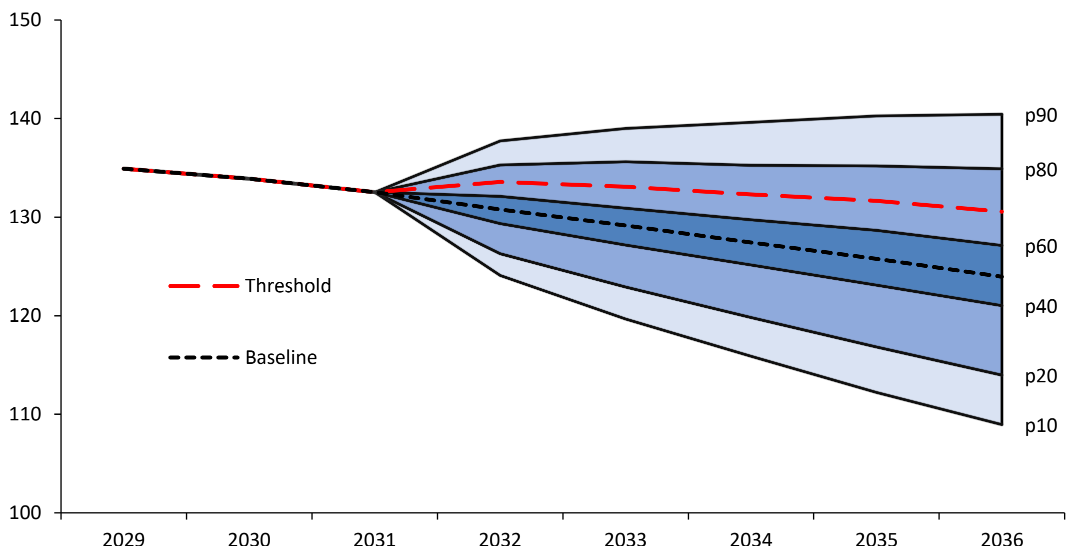
FIGURE R1: DEBT-TO-GDP RATIO PROJECTION INCLUDING THE IMPACT OF RRP REFORMS TO BE IMPLEMENTED AND THOSE PLANNED AS PART OF THE EXTENSION OF THE FISCAL ADJUSTMENT PERIOD (% of GDP)



Source: MEF elaborations.

The results of stochastic simulations also confirm the plausibility of the expected debt ratio reduction in the years following the end of the adjustment period. Indeed, Figure II.1.3 and Table II.1.4 show that the debt ratio in 2036 (the fifth year after the end of the adjustment period) is likely to be below its 2031 level with a probability of 74,5 percent, which is well above the minimum threshold of 70 percent (see focus on 'Deterministic adverse scenarios and stochastic simulations').

FIGURE II.1.3 STOCHASTIC ANALYSIS OF DEBT-TO-GDP RATIO (% of GDP)



Source: MEF elaborations.

TABLE II.1.4 DEBT, NOMINAL BALANCE AND MAIN UNDERLYING ASSUMPTIONS

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Gross debt (1) (% GDP)	135.8	136.9	137.8	137.5	136.4	134.9	133.9	132.5	130.8	129.2	127.4	125.8	124.0	122.0	120.1	118.0	115.9	113.7
General government balance (% of GDP)	- 3.8	- 3.3	- 2.8	- 2.6	- 2.3	- 1.8	- 1.7	- 1.5	- 1.7	- 1.9	- 2.0	- 2.0	- 2.1	- 2.1	- 2.1	- 2.0	- 2.0	- 1.9
Structural primary balance (% of potential GDP)	- 0.5	0.0	0.6	1.1	1.6	2.2	2.7	3.2	3.0	2.9	2.8	2.8	2.7	2.7	2.7	2.7	2.7	2.7
Cyclical component (% of potential GDP)	0.5	0.5	0.4	0.4	0.3	0.3	0.0	- 0.2	-0.2	- 0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
One-off measures (% GDP)	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest expenditure (% GDP)	3.9	3.9	3.9	4.1	4.2	4.2	4.3	4.5	4.6	4.7	4.8	4.8	4.8	4.8	4.8	4.7	4.7	4.6
Long-term interest rate (%)	3.8	3.6	3.7	3.8	3.9	3.9	4.2	4.4	4.7	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.6	4.6
Short-term interest rate (%)	3.4	2.4	1.9	2.0	2.3	2.0	2.2	2.4	2.5	2.7	2.7	2.6	2.6	2.6	2.5	2.5	2.5	2.4
Implicit interest rate on debt (%)	3.0	2.9	2.9	3.0	3.1	3.2	3.3	3.4	3.6	3.7	3.8	3.9	4.0	4.0	4.1	4.1	4.1	4.1
Stock-flow adjustment (% GDP)	1.0	2.2	2.2	0.6	0.4	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Potential GDP (var. %)	1.4	1.3	1.1	1.0	0.9	0.7	0.5	0.3	0.2	0.2	0.4	0.6	0.9	1.0	1.1	1.2	1.4	1.4
Real GDP (var. %)	1.0	1.2	1.1	0.8	0.8	0.6	– 0.1	0.0	0.4	0.3	0.6	0.6	0.9	1.0	1.1	1.2	1.4	1.4
GDP deflator (var. %)	1.9	2.1	2.0	1.8	2.0	2.0	2.1	2.2	2.3	2.4	2.4	2.4	2.3	2.3	2.3	2.3	2.3	2.2
Nominal GDP (var. %)	2.9	3.3	3.1	2.6	2.8	2.6	2.1	2.2	2.7	2.7	2.9	3.0	3.2	3.4	3.4	3.5	3.6	3.6

(1) Debt levels gross of Italy's shares of loans to EMU Member States, either bilateral or through the EFSF, and of the contribution to ESM capital.
Note: Any inaccuracies are due to rounding.
Source: MEF elaborations.

TABLE II.1.5 STRESS TEST: DETERMINISTIC SCENARIOS AND STOCHASTIC SIMULATIONS

	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038	2039	2040	2041
Financial stress scenario																		
Gross debt (% of GDP)	135.8	136.9	137.8	137.5	136.4	134.9	133.9	132.5	131.8	130.6	129.3	127.9	126.4	124.7	123.0	121.2	119.2	117.2
Long-term interest rate (%)	3.8	3.6	3.7	3.8	3.9	3.9	4.2	4.4	8.2	4.9	4.9	4.9	4.8	4.8	4.7	4.7	4.6	4.6
Short-term interest rate (%)	3.4	2.4	1.9	2.0	2.3	2.0	2.2	2.4	6.1	2.7	2.7	2.6	2.6	2.6	2.5	2.5	2.5	2.4
Lower structural primary balance scenario																		
Gross debt (% of GDP)	135.8	136.9	137.8	137.5	136.4	134.9	133.9	132.5	130.5	128.8	127.8	126.7	125.4	124.0	122.6	121.0	119.4	117.8
Structural primary balance (% of potential GDP)	- 0.5	0.0	0.6	1.1	1.6	2.2	2.7	3.2	3.0	2.7	2.3	2.3	2.2	2.2	2.2	2.2	2.2	2.2
Adverse 'r-g' scenario																		
Gross debt (% of GDP)	135.8	136.9	137.8	137.5	136.4	134.9	133.9	132.5	131.6	130.9	130.0	129.4	128.6	127.7	126.8	125.9	124.9	123.9
Long-term interest rate (%)	3.8	3.6	3.7	3.8	3.9	3.9	4.2	4.4	5.2	5.4	5.4	5.4	5.3	5.3	5.2	5.2	5.1	5.1
Short-term interest rate (%)	3.4	2.4	1.9	2.0	2.3	2.0	2.2	2.4	3.0	3.2	3.2	3.1	3.1	3.1	3.0	3.0	3.0	2.9
Real GDP (var. %)	1.0	1.2	1.1	0.8	0.8	0.6	- 0.1	0.0	- 0.1	- 0.2	0.1	0.1	0.4	0.5	0.6	0.7	0.9	0.9
Potential GDP (var. %)	1.4	1.3	1.1	1.0	0.9	0.7	0.5	0.3	0.2	0.2	0.4	0.6	0.9	1.0	1.1	1.2	1.4	1.4
Stochastic simulations																		
Probability of debt in 2036 being below its level in 2031 (%)	74.5																	

(1) Debt levels gross of Italy's shares of loans to EMU Member States, either bilateral or through the EFSF, and of the contribution to ESM capital.
Note: Discrepancies, if any, are due to rounding.
Source: MEF elaborations.

FOCUS

Deterministic adverse scenarios and stochastic simulations

Deterministic stress test

The purpose of the deterministic stress tests is to verify the robustness of baseline results under adverse assumptions that capture the macroeconomic and financial uncertainty in the forecasts and to ensure that the debt to GDP ratio is decreasing also in such adverse scenarios. Shocks shall be applied from the first year after the end of the adjustment period; therefore, they do not alter the baseline scenario during the period between T and T + 4 (or T + 7, in the case of a seven years extension of the adjustment period). The adverse scenarios assume the following shocks, with the first being of a temporary nature, the others of a permanent nature:

Financial stress scenario: market interest rates are temporarily increased in the year following the end of the adjustment period (T + 5 or T + 8) by 100 basis points, adding, for countries with a debt to GDP ratio above 90 percent, an additional risk premium of 6 percent of the distance between debt to GDP in year T and the threshold value of 90 percent;

Adverse 'r-g' scenario: market interest rates (r) are permanently increased by 50 basis points from the year following the end of the adjustment period (from T + 5 or T + 8), while the real growth rate (g) is permanently reduced by 0.5 percentage points, thus producing a permanent increase of around 1 percentage point in the snow-ball effect;

Lower SPB scenario: starting from the year following the last adjustment year (T + 5 or T + 8), the structural primary balance is assumed to deteriorate permanently by 0.5 percentage points over two years. This balance is then assumed to be constant until T + 14 (or T + 17). Moreover, this fiscal easing is assumed to have expansionary effects on GDP through a fiscal multiplier of 0.75 during the two years of lower fiscal adjustment and the output gap is expected to close in the following three years.

Stochastic simulations

Stochastic simulations for debt to GDP ratio projections reflect the historical volatility of the key variables influencing the evolution of the debt to GDP ratio: nominal growth, interest rates (short and long-term), primary balance and exchange rate (for non-euro area countries). The analyses are conducted using the Monte Carlo method and the time series used to construct the variance-covariance matrix of variables start from the first quarter of 2000. In the data processing phase, outliers are rigorously treated to ensure the robustness of the estimates. A 'winsorisation' method is applied to identify outliers for each variable and country, eliminating values above the 95th percentile and below the 5th percentile of the historical distribution. These extreme values are replaced by the values at the margins of the distribution, i.e. the 5th and 95th percentiles, to ensure that they do not distort the simulations. The simulations involve the use of 10,000 random draws, generated on the basis of a common normal distribution, averaging zero and variance-covariance calculated on historical data.

This approach allows to project possible trajectories of the debt ratio to stochastic shocks on the related economic, financial and fiscal variables and to estimate the likelihood of such a ratio following a sustainable path. The adjustment path presented in the Plan is considered satisfactory if, in at least 70 percent of the simulated scenarios, the debt-to-GDP ratio in the fifth year following the end of the fiscal adjustment period is equal to or lower than the ratio recorded five years earlier.

II.2 MACROECONOMIC AND PUBLIC FINANCE OUTLOOK

II.2.1 The forecasting process in the new rules system

Projections from the Debt Sustainability Analysis (DSA) have been replaced by macroeconomic and public finance forecasts that are based on traditional methodologies, with a horizon ranging from the current year to the next five (2024-2029). This approach is motivated by the fact that these forecasts, making use of more information, are more accurate and realistic, allowing for greater control and ownership of economic planning by the Government.

The following paragraphs provide more details on the macroeconomic and public finance outlook underlying the net expenditure growth targets set out in Paragraph II.1.

In this context, the forecasts of the 2024 Stability Programme have been revised, first and foremost, taking into account: (i) the evidence provided by the update of the national accounts data[60]; (ii) updated values of exogenous variables, mostly international, and an assessment of their impact on the macroeconomic scenario; (iii) the latest available information, as regards public finance projections, for the current financial year and the update of the forecast for the remainder of the horizon considered in the Plan.

In the macroeconomic and public finance outlook, a distinction is still made between existing legislation, the first to be defined, and the policy scenario.

The assessment of the impact of the fiscal manoeuvre on the dynamics of key macroeconomic variables, including GDP and its components, is similar to the approach taken in previous planning documents, as the baseline macroeconomic scenario remains the one under existing legislation; however, there are significant differences that have been reflected in the forecasting process. First of all, in partial discontinuity with the past and in line with the approach already used by the European Commission in drawing up public finance forecasts and further supported in the design of the new European economic governance rules, the measures included in the no policy change scenario have been the subject of a genuine intermediate exercise for public finance forecasts. Further discretionary fiscal measures aimed at achieving new policy objectives were also considered. The public finance projections thus obtained were then reduced to levels consistent with the path of net expenditure growth targets identified in Table II.1.2, through corrective measures on both the expenditure and discretionary revenue sides. These projections are therefore of a policy nature.

As a result of the steps outlined above, all the new information available has led to an extremely conservative forecast of GDP growth over the five-year period covered by the Plan, reflecting a gradual decline in the growth rate of the economy, in line with the profile of potential output that is essentially ‘required’ by the

[60] ISTAT, National Economic Accounts, 23 September 2024.

common estimation methodology used, also taking into account the constraint of consensus forecasts[61].

Turning to the fiscal projections, revenue forecasts are endogenous and are estimated to be consistent with the macroeconomic policy scenario[62]. As regards primary expenditure, the growth rate is determined in such a way as to achieve the necessary primary structural adjustment to bring the net borrowing ratio below 3 percent in 2026 and comply with the DSA criteria and the other constraints imposed by the new European rules[63].

More granular information on the structure of government debt and the entire yield curve is taken into account in the forecasts of interest expenditure – which in the DSA are carried out with a very stylised and simplified approach – as well as taking into account the expected stock-flow adjustments for the entire period of the Plan, to take into account the differences between cash and ESA 2010 accrual data of the estimated primary balances for the coming years. The yield curves expected for the period 2024-2029, used for these estimates, were prepared from the forward rates of the German benchmark curve to which spread levels between Italian and German government bonds were applied consistent with the average market levels during the reference weeks of the estimates in this document.

II.2.2 The national macroeconomic framework

Despite the continued uncertain global geopolitical environment and tight monetary policy, GDP dynamics in the first two quarters of 2024 were in line with the estimates underlying the official forecasts of the Stability Programme published last April. While support for growth in the first quarter came from both domestic demand excluding inventories — from both consumption and investment – and foreign demand, the expansion of economic activity in the second quarter was

[61] In the last years of fiscal adjustment (2030 and 2031), outside the forecast period considered in the Plan, in order to reconcile the GDP profile with the methodology underlying the DSA, the policy scenario envisages very low real GDP growth rates. This is clearly an accounting artificial linked to the stylised rule used in the DSA that allows the level of real GDP to converge with potential GDP in the three years following the end of the adjustment period (linear closing of the output gap). At this stage, real GDP growth is driven by the output gap, which is assumed to be low in 2034.

[62] In one of the documents circulated at the level of the Technical Committees (the Economic Financial Committee in its delegated composition), the European Commission clarified the approach to be followed with regard to the quantification of the budgetary impact of fiscal policy measures. These measures are defined as government interventions that change policy orientations of the past and have a direct incremental impact on the budget. They therefore include discretionary revenue and expenditure measures. For the purposes of both recording in the budget and calculating the net expenditure aggregate, the European Commission has clarified that the direct effect of these measures (so-called first round effect), given by the combination of static and microeconomic effects, has to be taken into account. The first one considers the immediate impact of the measure on the affected balance sheet category, without considering any behavioural responses by economic agents, while the microeconomic effect estimates the economic operators' response to the measure, including possible micro behavioural effects in sectors closely related to the one directly affected by the intervention. By contrast, the indirect effect (so-called second round effect) is embedded in public finance forecasts through the macroeconomic impact on the economy and its tax base. Accounting for the impact of fiscal policy measures and calculating the net expenditure aggregate considered in this Plan is consistent with this approach.

[63] Over the period 2030-2031, the net expenditure profile continues to be consistent with the trajectory of the Plan to which the Government has committed itself; by contrast, the revenue profile no longer reflects developments in the tax bases consistent with the macroeconomic projections underlying the Plan, but is estimated through the simplified assumptions of DSA (unit elasticity of structural revenue relative to potential output).

mainly driven by an increase in inventories and, second, by investment. Consumption remained stable, while the contribution of net foreign demand was negative, owing to a stronger cyclical contraction in exports than imports.

The short-term outlook, which can be seen from an examination of the available indicators, is positive, while the narrowing of the divergence between sectoral developments in the first half of this year is ongoing. While growth in the services sector appears to have slowed, there are indications of a gradual stabilisation in manufacturing. The latest qualitative surveys show a slower pace in the decline in the sentiment of manufacturing firms, while the PMI for services continued to provide positive signals, remaining stable above the expansion threshold, albeit at lower levels than in the first part of 2024. On the other hand, consumer confidence remained higher than in the previous year, providing indications of a greater propensity to purchase durable goods and a perception of an improving economic sentiment.

As regards construction, despite the normalisation of the tax relief regime for residential buildings, production has not slowed down sharply. In this respect, the latest sector confidence surveys suggest that the slower dynamics in the residential sector may be counterbalanced by the good performance of the civil engineering sector, also as a result of the stimulus provided by the RRP projects.

Despite lower global demand for Italy in 2024 than expected last April, the overall outlook for exports is still favourable, as global trade is expected to pick up in the coming years. The trade balance, which has been positive since February 2023, stood at 6.7 billion in July. The current account recorded a surplus of 32.7 billion in the twelve months to July, compared with a deficit of 16.1 billion in the previous twelve months.

Scenario with existing legislation

In line with the new European economic governance, according to which the duration of the new Medium-term Fiscal-Structural Plan is aligned with that of the legislature (five years for Italy), the forecast horizon is two years longer than the one published in the Stability Programme, thus also covering the period 2028-2029.

For the projection horizon already included in the April estimates (2024-2027), the most recent national accounts data have been integrated and growth estimates revised, in accordance with the principles of caution and prudence. Indeed, the impact stemming from the update of the exogenous variables (Table II.2.1), which could have led to more favourable revisions of the macroeconomic scenario (see the focus on 'The effects on growth of the new international scenario and a risk analysis'), were not fully taken into account. The forecast of growth under existing legislation compared to the Stability Programme is 0.3 percentage points lower in 2025, unchanged in 2026 and 0.2 percentage points lower in 2027. The forecast of the growth rate of economic activity over the next two years is formulated taking into account the projection for potential output growth, the value of which is broadly in line with the results of the methodology adopted by the European Commission (Table II.2.2).

TABLE II.2.1: BASIC ASSUMPTIONS

	2023	2024	2025	2026	2027	2028	2029
Short-term interest rate (%, annual average)[1]	3.43	3.40	2.35	1.92	1.96	2.29	2.01
Long-term interest rate (%, annual average)[1]	4.35	3.75	3.60	3.68	3.79	3.87	3.94
USD/EUR exchange rate (annual average)	1.081	1.090	1.102	1.102	1.102	1.102	1.102
World real GDP, excluding EU (growth rate)	2.6	2.5	2.5	2.5	2.5	2.4	2.3
EU real GDP (growth rate)	0.6	0.9	1.6	1.8	1.7	1.6	1.5
World import volumes, excluding the EU (growth rate)	0.8	2.3	3.6	3.0	2.9	2.8	2.6
Oil prices (Brent, USD/barrel)	82.4	81.8	75.8	73.0	71.2	70.2	69.4

(1) Short-term interest rate refers to the average of the rates applied to 3-month government bonds issued during the year. Long-term interest rate refers to the average of the rates applied to 10-year government bonds issued during the year.

TABLE II.2.2: MACROECONOMIC SCENARIO UNDER EXISTING LEGISLATION

	2023		2024	2025	2026	2027	2028	2029
	Level	Var. %			Var. %			
GDP								
Real GDP		0.7	1.0	0.9	1.1	0.7	0.8	0.7
GDP deflator		5.8	1.9	2.1	1.9	1.8	2.0	2.0
Nominal GDP	2,128	6.6	2.9	3.0	3.0	2.5	2.8	2.7
Components of real GDP								
Private consumption expenditure		1.0	0.2	1.0	1.0	0.9	0.9	0.8
Government consumption expenditure		1.9	0.0	1.7	1.2	- 0.4	0.5	0.3
Gross fixed capital formation		8.5	2.8	1.4	1.8	0.6	0.9	0.9
Changes in inventories and net acquisition of value (% GDP)		- 2.5	- 0.8	- 0.2	0.0	0.0	0.0	0.0
Exports of goods and services		0.8	0.7	3.1	3.0	2.8	2.6	2.6
Imports of goods and services		- 0.4	- 2.9	3.6	3.6	2.8	2.6	2.6
Contributions to real GDP growth								
Final domestic demand		2.8	0.8	1.2	1.2	0.6	0.8	0.7
Changes in inventories and net acquisition of value		-2.5	- 0.8	- 0.2	0.0	0.0	0.0	0.0
External balance of goods and services		0.4	1.1	0.0	- 0.1	0.1	0.1	0.1
Deflators and HICP								
Private consumption deflator		5.1	1.1	1.8	1.8	1.8	1.9	2.0
HICP		5.9	1.2	2.0	1.8	1.8	1.9	2.0
Government consumption deflator		0.1	2.5	1.2	0.7	0.0	1.3	1.4
Investment deflator		1.2	0.0	1.8	1.6	2.1	2.1	2.1
Export price deflator		1.5	0.3	2.0	1.5	2.0	2.0	2.0
Import price deflator		- 5.9	- 1.9	0.3	1.5	1.8	1.9	1.9
Labour market								
Domestic employment (1000 persons, national accounts)	26,096	1.9	1.2	0.9	0.8	0.8	0.7	0.7
Average annual hours worked per person employed	1,700	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Real GDP per person employed		- 1.1	- 0.3	0.1	0.3	- 0.1	0.1	0.0
Real GDP per hour worked		- 1.7	- 0.4	0.0	0.3	- 0.1	0.1	0.0
Compensation of employees	824	5.2	5.0	3.1	3.0	2.4	2.5	2.5
Compensation per employee (1)	47,162	2.4	3.5	2.2	2.2	1.7	1.8	1.8
Unemployment rate (%)		7.7	7.0	6.7	6.6	6.5	6.4	6.4

(1) Income per employee is calculated by dividing the earned income of employees by the employed work units. The calculation is different from the table included in the Communication on 'Guidelines for Member States on reporting requirements for Medium-term Fiscal-Structural Plans and annual progress reports' prepared by the European Commission. In this context, the ratio between the income of employees and the number of employees is indicated.
Note: Any inaccuracies are due to rounding.

With reference to the current year, GDP growth in the first half of the year – in line with what was projected in the April Stability Programme – allows the annual GDP growth forecast to be maintained at 1.0 percent. On the other hand, the availability of the new national accounts data has led to a change in growth compared with the latest official forecasts. Despite the deterioration in exports

and imports compared to the April estimates, the improved relative performance of the former will lead to a positive contribution from net foreign demand in the current year. Conversely, after the sharp decline already experienced in 2023, a negative contribution from inventories would also be expected for 2024. This would be partly offset by domestic demand excluding inventories, in particular investment, with consumption falling sharply from the previous year.

The outlook for 2025 shows a somewhat less dynamic economy, mainly due to a slowdown in investment growth. GDP growth will be driven by higher household consumption, which is projected to grow at a slightly higher rate than GDP, also thanks to the higher purchasing power of wages. Overall, economic activity is expected to expand by 0.9 percent in 2025, followed by an increase of 1.1 percent in 2026, 0.7 percent in 2027, 0.8 percent in 2028 and 0.7 percent in 2029.

Over the four-year period 2026-2029, investment will continue to provide a strong boost to growth and, with the exception of 2027, to increase at a faster pace than GDP, also in the wake of the final push of the RRP projects, including the incentives linked to the Transition 5.0 package. The pick-up in weighted global demand for Italy is expected to peak in 2026, before decelerating as the end of the forecast period approaches. Nevertheless, the contribution of net foreign demand will return to slightly positive growth from 2027 onwards. The current account balance as a percentage of GDP is projected to gradually increase over the projection horizon to 2.3 percent in 2027 and remain at that level in 2028-2029.

On the supply-side, value-added growth in industry is expected to peak in 2026, before continuing at a slower pace in the last three years of the forecast horizon. Developments in the construction sector are expected to stabilise after strong growth in 2024, before increasing overall in line with the rest of the industrial sector. Services, after a slowdown in 2024 due to the stickiness in, relative prices, would see the strongest growth in 2025, and moderate thereafter.

Throughout the forecast horizon, the labour market will be characterised by an increasing trend in the number of employees (from 23.9 million in 2024 to 24.9 million in 2029) and an unemployment rate falling from 7.0 percent in 2024 to 6.4 percent in 2028 and 2029. There is also a moderate trend of productivity growth over the period 2025-2027, with the highest increase expected in 2026.

The rate of change in the consumption deflator, from its minimum in 2024 (1.1 percent), is expected to rebound to 1.8 percent in 2025, before gradually converging towards 2 percent in 2029. GDP deflator growth is projected at 1.9 percent in 2024, reaching 2.1 percent in 2025 before declining slightly in 2026-2027, and finally converging towards 2 percent over the last two forecast years.

The macroeconomic forecasts in the existing legislation scenario have been validated by the Parliamentary Budget Office[64] (for more details, see the focus ‘Process of involvement of Parliament and the various stakeholders in the design of the Plan’ and Appendix 2).

[64] The changes to the European economic governance will require, following their transposition into national legislation, a revision of the Memorandum of Understanding between the MEF and the Parliamentary Budget Office (PBO). However, the absence of an updated protocol did not hinder the validation process of the Plan’s forecasts, thanks to the good inter-institutional cooperation between MEF and PBO.

FOCUS

The effects on growth of the new international scenario and a risk analysis

Table R1 provides an overview of the impact on economic growth of the new international macroeconomic and financial scenario, updated from that of the latest Stability Programme (in the Economic and Financial Document 2024). The extent to which changes in exogenous variables, relative to the values assumed in the Stability Programme last April, contribute to a change in the GDP growth rates envisaged in that planning is estimated. Based on the indications from the ITEM econometric model, the new international environment would have a slightly negative effect on the growth reported in the Stability Programme for 2024 and 2025 (-0.1 percentage points in each year) and would then have a positive impact in 2026 (+0.1 percentage points) and 2027 (+0.2 percentage points) as a result of the more favourable interest rate developments and the recovery in world trade.

In more detail, compared with the forecast underlying the Stability Programme 2024, estimates of developments in foreign demand (weighted on the geographical composition of Italian exports) have been revised downwards for 2024 and 2025 (-0.5 percentage points for both years), while they are expected to recover slightly in 2026-2027 (+0.1 and +0.2 percentage points, respectively). With regard to raw materials[65], the oil price has been revised slightly upwards for the current year, while its forecast for subsequent years is broadly the same as that indicated in the Stability Programme. In line with the recent policy documents, gas prices are also considered as exogenous variables, the profile of which is revised upwards over the first four years of the forecast horizon compared with the Stability Programme 2024[66].

On the currency side[67], the relative update of the nominal effective exchange rate compared with March implied a marginally higher appreciation of the euro vis-à-vis other currencies in 2024 (1.5 percent, compared with 1.1 percent in the 2024 Stability Programme). Finally, the profile of interest rates on government bonds is more favourable than that outlined in the previous policy document. The yield on the 10-year BTP tends to remain at lower levels, and the trend in the cost of bank credit shows, since 2024 and throughout the forecast horizon, a decline of around three tenths with respect to the Stability Programme 2024 levels (see Tab. R1).

TABLE R1: GDP EFFECTS OF THE UPDATE OF THE INTERNATIONAL SCENARIO COMPARED TO THE STABILITY PROGRAMME 2024 (impact on growth rates)

	2024	2025	2026	2027
1. World trade	0.0	- 0.2	0.0	0.1
2. Price of oil and gas	0.0	0.0	0.0	0.0
3. Exchange rate	- 0.1	- 0.1	0.0	0.0
4. Interest rates	0.0	0.1	0.1	0.1
Total	**- 0.1**	**- 0.1**	**0.1**	**0.2**

Note: Any inaccuracies are due to rounding.
Source: MEF elaborations.

After outlining how the new international reference framework, updated with respect to the Stability Programme 2024, contributes to change in the growth profile of the Italian economy over the 2024-2027 period, a sensitivity analysis of the macroeconomic forecasts in the Plan

[65] For oil and gas, reference is made to the average of futures over the last ten working days ending on 22 August 2024.

[66] The gas price would be higher than the Stability Programme 2024 by around EUR 8 in 2024, EUR 13 in 2025 and EUR 8 and EUR 2.5 in 2026 and 2027 respectively.

[67] The usual technical assumption for the projection of the value of currencies is that the exchange rate is unchanged over time and averaged over the last 10 working days ending on 22 August.

to scenarios for international exogenous variables less favourable than the reference framework is now carried out. Although the Plan already incorporates the effects of geo-political tensions in the global economy, the degree of uncertainty associated with ongoing developments suggests that some elements of risk should be considered in this regard, assessing their effects on the Italian economy. In order to quantify the impact of these risk factors on the macroeconomic scenario, four simulation exercises were carried out using the ITEM econometric model. In each of them, less favourable assumptions were adopted about the evolution of one of the following variables, considered individually: world trade, energy prices, exchange rates and financial market conditions.

The first element of risk relates to a less robust development in global demand trade-weighted for Italy. Global trade is assumed to have slowed down compared to the baseline for the years 2025 and 2026. Weighted foreign demand for Italy is projected to grow by 3.4 percent in 2025 (instead of 3.9 percent in the baseline scenario) and by 3.0 percent in 2026 (instead of 4.0 percent). Thereafter, global trade dynamics are projected to gain momentum, with annual growth rates of 3.4 percent in 2027 (in line with the baseline scenario) and 3.6 percent and 3.9 percent respectively in 2028 and 2029 (instead of 3.1 percent and 2.9 percent). With this evolution, global demand volumes would return to the same levels as the reference framework in the third quarter of 2029.

A second element of risk relates to energy commodity prices (oil and natural gas) and foresees a less favourable evolution of these prices than in the baseline scenario. In 2025 and 2026, oil and gas prices were assumed to be higher than in the baseline scenario by USD 10 and EUR 10 respectively[68].

To capture risk factors that may affect currency developments, exchange rates are set at the levels corresponding to the most recent forward exchange rates[69]. In 2024 there would be a stronger appreciation of the euro against the dollar than in the baseline scenario (by 0.97 percent instead of 0.79 percent). In the following years, the euro would appreciate against the dollar by 2.4 percent in 2025 and by around 1.2 percent in each year between 2026 and 2029, compared with an appreciation of the euro by 1.1 percent in 2025 in the existing legislation scenario and unchanged thereafter, in line with the technical assumption. As regards the nominal effective exchange rate, compared with a slightly lower appreciation in 2024 compared with the baseline (1.4 percent instead of 1.5 percent), the euro would appreciate more in 2025 than in the reference scenario (by 1.3 percent compared with 0.3 percent). In the years from 2026 onwards, the average appreciation of the euro vis-à-vis other currencies would be 2.1 percent in 2026, 1.3 percent in 2027, 1.0 percent in 2028 and 0.9 percent in 2029, compared to the invariance of the nominal effective exchange rate in the reference scenario during the same years.

Finally, the fourth scenario refers to risk factors regarding financial market conditions. The assumption is that the level of the ten-year BTP yield is 100 basis points higher than in the baseline, in each of the years between 2025 and 2029. The less favourable scenario for government debt financing would be accompanied by higher levels of the same magnitude (100 basis points) of the BTP-Bund spread, with conditions for lending to households and corporates being tightened compared with the baseline scenario.

The assessment of the impact on the growth profile of the Italian economy of the risk elements outlined above is set out in Table R2. In the scenario with less strong global demand, output growth would be 0.3 percentage points lower in 2025, 0.1 percentage points

[68] The oil price would then rise to USD 85.6 in 2025 (instead of USD 75,6) and USD 82.9 in 2026 (instead of USD 72,9), while the price of gas would be EUR 51.3 in 2025 and EUR 45.3 in 2026 (instead of EUR 41,3 and EUR 35,3 respectively).

[69] The average quotations for the 10 days ending on 22 August 2024 were taken into account.

in 2026 and 0.1 percentage points in 2027 compared with the Plan scenario. The subsequent recovery in world trade, whose levels return to the reference scenario in the third quarter of 2029, leads to a higher rate of GDP growth in 2028 and 2029, compared with the baseline scenario of 0.1 and 0.3 percentage points respectively. The less favourable energy price growth scenario would result in a lower rate of GDP growth, compared with the Plan scenario, by 0.1 percentage points in 2025 and 0.2 percentage points in 2026. The subsequent alignment of energy prices with the baseline levels would contribute to a 2027 GDP growth rate equal to that of the reference framework and higher than the baseline by 0.3 and 0.1 percentage points respectively in 2028 and 2029. In the less favourable scenario of exchange rate trends, the higher appreciation of the euro compared with the plan scenario would result in a lower growth rate of Italian GDP than in the baseline scenario by 0.1 percentage points in 2025, 0.4 percentage points in 2026, 0.5 points in 2027, 0.4 points in 2028 and 0.3 points in 2029. Finally, in the scenario of worse financial conditions, the output growth rate would be lower than in the baseline scenario by 0.1 percentage points in 2025, 0.4 percentage points in 2026, 0.5 points in 2027 and 0.6 and 0.4 percentage points in 2028 and 2029 respectively (see Table R2).

TABLE R2: GDP EFFECTS OF RISK SCENARIOS (impact on growth rates compared to the Plan framework)

	2024	2025	2026	2027	2028	2029
1. World trade	0.0	- 0.1	- 0.3	- 0.1	0.1	0.3
2. Price of oil and gas	0.0	- 0.1	- 0.2	0.0	0.3	0.1
3. Exchange rate	0.0	- 0.1	- 0.4	- 0.5	- 0.4	- 0.3
4. Interest rates	0.0	- 0.1	- 0.4	- 0.5	- 0.6	- 0.4

Note: Any inaccuracies are due to rounding.
Source: MEF elaborations.

Policy Scenario

Compliance with the net expenditure growth path agreed with the European Commission defines, over the forecast horizon of the Plan, the budgetary space available to pursue the Government's economic and fiscal policy objectives, through the introduction of measures on both the expenditure and revenue sides. Within this perimeter, the Government intends to continue to support domestic demand and low and middle-income households', making the effects of the tax wedge currently in force until the end of 2024 structural[70].

Specifically, in the policy scenario (Table II.2.3), Government interventions will have the largest expansionary effect in 2025, when real GDP growth is expected to rise to 1.2 percent. In particular, the measures introduced in the next budget will confirm the effects of the tax wedge on labour for employees up to certain wage levels, as well as measures to support larger households. A favourable boost to consumption is therefore expected and, indirectly through increased demand, a beneficial impact on business investment compared with the scenario under existing legislation. The positive effects of these measures will continue in 2026, offsetting

[70] The annual correction of the structural primary balance underlying the public finance scenario under existing legislation is higher than that consistent with the net expenditure growth targets planned in this Plan.

the lower growth rate of government expenditure. The projected growth rate of the economy thus remains at 1.1 percent in 2026.

In 2027, economic activity is projected to expand at 0.8 percent, above the growth rate projected in the scenario under existing legislation. This is not only due to the protracted effects of the measures mentioned above, but also because of the higher primary expenditure, in particular on investment, of the general Government, which is made possible by the budgetary space compared with the existing legislation scenario warranted by the net expenditure growth targets.

Thereafter, annual growth rates remain unchanged in 2028 compared with the baseline scenario, at 0.8 percent. By contrast, it would slow slightly to 0,6 percent in 2029; economic activity in 2029 will be affected by the different tone of the manoeuvre at the end of the period. In the final forecast year, the level of GDP will be higher than in the baseline scenario.

With regard to prices, the annual rate of change in the GDP deflator will hover around 2 percent over the forecast period, and it will be slightly above only in 2025, reaching 2.1 percent. The lowest growth rate of 1,8 percent is expected in 2027. Compared to the baseline scenario, deflator growth is higher in 2026 in the policy scenario[71].

Against a background of a faster reduction of the working population, the profile of the unemployment rate from 2025 onwards would be lower than the baseline scenario over the forecast horizon.

It should be noted that the estimated effects of the manoeuvre from the Treasury Department's ITEM econometric model would define a more dynamic path for policy scenario growth than envisaged here. Indeed, only part of the estimated expansionary effects have been incorporated in the policy scenario. The projections of the policy scenario have been drawn up in accordance with the principles of caution and prudence, avoiding excessive deviations from consensus forecasts and a significant deviation from the potential output profile estimated by the common European methodology (in turn, very low).

Although characterised by a high degree of prudence, the GDP growth profile in the Plan appears to be more realistic than the scenario produced by the DSA, which is used to calculate the expenditure trajectory; the latter is very stylised and overly pessimistic.

[71] For 2024, planned inflation has been revised downwards from the 2024 Stability Programme forecast, from 1.1 percent to 1.0 percent; for 2025, the estimate is 1.8 percent.

TABLE II.2.3: MACROECONOMIC POLICY SCENARIO

		2023	2024	2025	2026	2027	2028	2029
	Level	Var. %			Var. %			
GDP								
Real GDP		0.7	1.0	1.2	1.1	0.8	0.8	0.6
GDP deflator		5.8	1.9	2.1	2.0	1.8	2.0	2.0
Nominal GDP	2,128	6.6	2.9	3.3	3.1	2.6	2.8	2.6
Components of real GDP								
Private consumption expenditure		1.0	0.2	1.4	1.1	1.0	1.0	0.7
Government consumption expenditure		1.9	0.0	1.8	0.9	0.0	- 0.1	0.2
Gross fixed capital formation,		8.5	2.8	1.5	1.8	0.7	0.8	0.6
Changes in inventories and net acquisition of value (% GDP)		- 2.5	- 0.8	- 0.2	0.0	0.0	0.0	0.0
Exports of goods and services		0.8	0.7	3.1	3.0	2.8	2.6	2.6
Imports of goods and services		- 0.4	- 2.9	3.9	3.9	2.8	2.6	2.6
Contributions to real GDP growth								
Final domestic demand		2.8	0.8	1.5	1.2	0.7	0.7	0.6
Changes in inventories and net acquisition of value		- 2.5	- 0.8	- 0.2	0.0	0.0	0.0	0.0
Net exports		0.4	1.1	- 0.1	- 0.1	0.1	0.1	0.1
Deflators and HICP								
Private consumption deflator		5.1	1.1	1.8	1.8	1.8	1.9	2.0
HICP		5.9	1.2	2.0	1.8	1.8	1.9	2.0
Government consumption deflator		0.1	2.5	1.2	0.7	0.1	1.2	1.4
Investment deflator		1.2	0.0	1.8	1.6	2.1	2.1	2.1
Export price deflator		1.5	0.3	2.0	1.5	2.0	2.0	2.0
Import price deflator		- 5.9	-1.9	0.3	1.5	1.8	1.9	1.9
Labour market								
Domestic employment (1000 persons, national accounts)	26,030	1.9	1.2	1.0	0.9	0.9	0.7	0.7
Average annual hours worked per person employed	1,700	0.5	0.1	0.0	0.0	0.0	0.0	0.0
Real GDP per person employed		- 1.1	- 0.3	0.2	0.2	0.0	0.1	- 0.1
Real GDP per hour worked		- 1.7	- 0.4	0.2	0.2	0.0	0.1	- 0.1
Compensation of employees	824,0	5.2	5.0	3.3	3.3	2.6	2.5	2.5
Compensation per employee (1)	47,162	2.4	3.5	2.2	2.2	1.7	1.8	1.8
Unemployment rate (%)		7.7	7.0	6.6	6.5	6.3	6.2	6.3
Potential GDP and components								
Potential GDP	1,891	1.1	1.4	1.3	1.1	1.0	0.9	0.7
Contribution to potential growth:								
Labour		0.5	0.7	0.5	0.4	0.3	0.2	0.1
Capital		0.5	0.6	0.6	0.5	0.4	0.4	0.3
Total factor productivity		0.1	0.1	0.1	0.2	0.2	0.3	0.3
Output gap		1.4	1.0	0.9	0.8	0.7	0.6	0.5

(1) Compensation per employee is calculated by dividing compensation of employees by the employed work units. The calculation differs from the table included in the Communication on 'Guidelines for Member States on reporting requirements for Medium-term Fiscal-Structural Plans and annual progress reports' prepared by the European Commission. In this context, the ratio between the income of employees and the number of employees is indicated.
Note: Any inaccuracies are due to rounding.

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Comparison of the European Commission's growth forecasts with those of the Plan

In the Spring Forecast 2024, the European Commission forecasted a slightly lower GDP growth rate in 2024 and 2025 than in the policy scenario underlying the Plan (0.9 percent and 1.1 percent, respectively). It should be noted that the European Commission's estimated growth in 2025 predicted a no-policy-change scenario. Recalling that the baseline growth forecasts underlying the FSB were validated by the Parliamentary Budget Office, in August the latter projected a GDP growth rate of 1.0 percent for both 2024 and 2025. For 2025, the average baseline estimates of the main forecasters (IMF and OECD) are slightly lower than the official ones (see Table. R1).

TABLE R1: GROWTH FORECAST FOR ITALY

Real GDP (percent/y)	Forecast date	2024	2025
MTP 2024	Sep-24	1.0	1.2
OECD*	Sep-24	0.8	1.1
PBO	Aug-24	1.0	1.0
IMF	Jul-24	0.7	0.9
European Commission	May-24	0.9	1.1

(*) For OECD working-day adjusted data.

II.2.3 The Italian economy: structural aspects and growth in the medium term

In light of the macroeconomic outlook scenarios outlined over the 2024-2029 horizon, some of the structural factors underlying the medium-term growth profile and the degree of resilience of the Italian economy should be further investigate. These factors are largely the subject of a careful and continuous analysis by the European Commission, which, in its annual assessment of Member States' macroeconomic imbalances, carried out again in June, recognised the considerable progress made by Italy and stated that its imbalances should not be considered as excessive[72], but should be addressed in order to unleash the country's development potential.

This paragraph provides a brief overview of the contribution of production factors to potential growth in the short, medium and long term, assuming no change in economic policies. The analysis also uses information from the recent Ageing Report 2024 (see the focus on 'The contribution to potential growth of input in the short, medium and long term' in the Ageing Report 2024). The following part analyse labour supply developments, and how it is determined by labour market developments (e.g. participation), migration flows and, in the medium term, demographic dynamics. In particular, there is a need, in addition to fighting the gradual decline in the number of workers, to qualify labour supply, particularly taking into account the progressive ageing of the population, in the context of the ongoing digital and ecological transitions. At the same time, emphasis is placed on the role of investment in the creation of productive capital so as to enable the productive system to take full advantage of the opportunities arising from economic

[72] 2024 European Semester: Spring Package Communication (pp. 28-29). https://commission.europa.eu/document/download/a73a05d4-8afd-4d92-a748-3248ee00e170_en?filename=COM_2024_600_1_EN.pdf.

and technological change. Finally, the growth potential is influenced by the productivity of the economic system, the performance of which reflects numerous factors, including the degree of technological and organisational innovation of firms, the conditions for business initiative (the business climate), human capital and the ability to create job opportunities depending on the of matching supply and demand, which is often hampered by skill mismatches. Measures in these areas therefore make it possible to boost productivity, also taking into account the specific features of the economic texture of the country, such as the average size of companies or the high degree of differentiation in production.

The aim is therefore to provide an overview, mainly from a macroeconomic perspective, of the main structural aspects that are expected to affect the growth potential of the country in the future, and the possible policy areas concerned. These topics will be further elaborated in Chapter III on reform actions and investment, which will provide guidance on the specific measures envisaged to trigger growth levers over the medium term.

FOCUS

The contribution to potential growth of input factors in the short, medium and long term in the Ageing Report 2024

The macroeconomic projections for Italy outlined in the Ageing Report 2024 provide an overview of the long-term dynamics of potential GDP[73], highlighting the contributions of the production factors: capital, labour, and total factor productivity (TFP), under the assumption of a no-policy-change scenario over time. The contribution of the labour factor can be broken down into hours worked per employed person and number of persons employed, obtained as the sum of the purely demographic component (change in the working-age population) and the employment component (determined by the trends in participation and unemployment rates). The dynamics of these dimensions are shown in Figure R1.

Over the forecast horizon covered by the Plan (2025-2029), Italy's potential GDP growth rate, as projected in the Ageing Report 2024, would slightly decrease, from 1.0 percent to 0.7 percent. In this context, the contribution of labour tends to decline, becoming almost zero by 2029, mainly due to pessimistic assumptions about the structural unemployment rate (the so-called NAWRU anchor). The contribution of capital remains fairly constant, at around 0.2 percent to 0.3 percent, while TFP is the main growth driver, staying at around 0.4 to 0.5 percent.

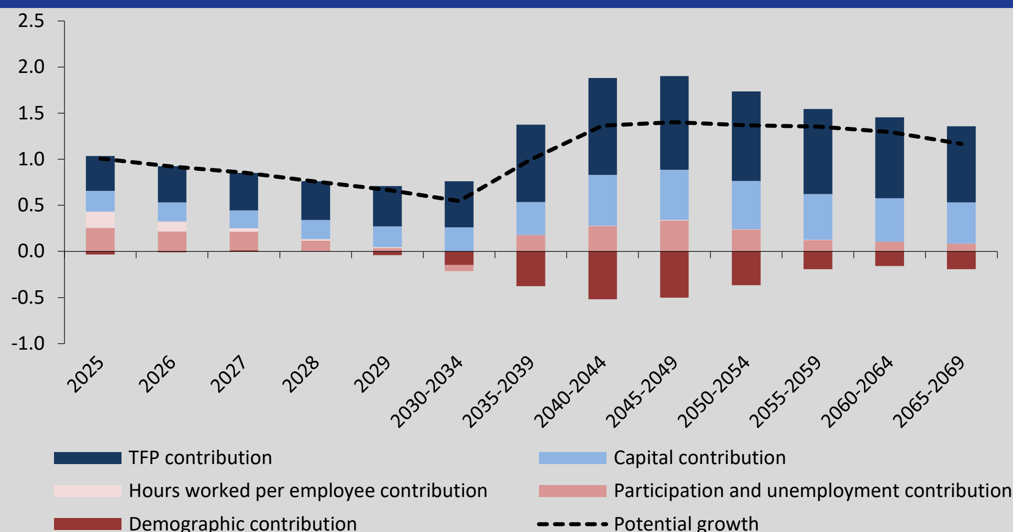
Although the assumptions regarding unemployment trends underlying the Ageing Report significantly improve in the long term, the contribution of the labour factor turns negative from 2030-2034 and remains so until 2070, reflecting the demographic challenges posed by an ageing population and a shrinking workforce. Capital contributes between 0.3 and 0.5 percent throughout the period, and TFP remains the key factor, with its contribution peaking at 1.1 percent in the early 2040s (following the assumptions of the Ageing Report 2024, which foresee greater efficiency gains for Member States with a GDP per capita below the European average, including Italy), before gradually declining to 0.8 percent by 2070.

This type of analysis highlights the relevance of the measures that Italy plans to adopt to improve workers' skills, enhance production process efficiency, and promote the

[73] Consideration should be given to the fact that, for the short and medium term, the projections underlying the Ageing Report 2024 are based on the 2023 Spring Forecast, while the growth estimates underlying the DSA exercise presented by the European Commission in June are based on the 2024 Spring Forecast.

development of advanced technologies. These strategies are crucial to supporting productivity in the face of increasing demographic challenges.

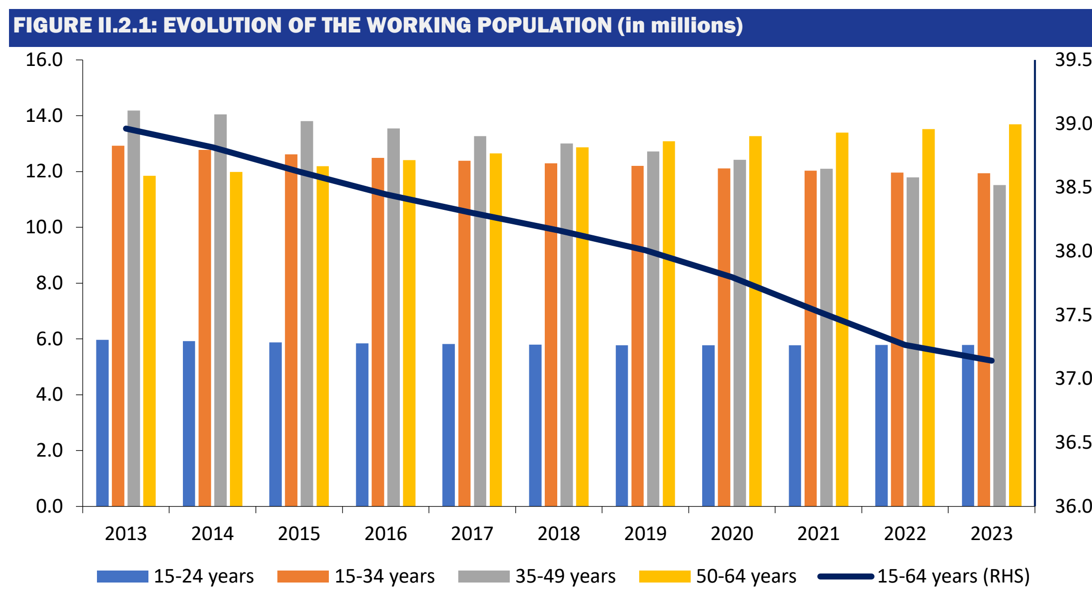
FIGURE R1: CONTRIBUTION TO POTENTIAL GROWTH OF INPUT FACTORS – AGEING REPORT 2024



Source: Ageing Report 2024, MEF elaborations.

Demographic trends and the labour market. A key driver of medium-term growth are demographic trends and their impact on the labour market, which is already evident in terms of the reduction and ageing of the working-age population. Istat data continue to capture the gradual narrowing of the active population in Italy (see Figure II.2.1), despite legislative developments in, for example, the pension system. Between 2013 and 2023, the working population aged 15 to 64 fell by 1.8 million, from 38.9 million to 37.1 million. The reduction was observed in the age groups 15-34 (-7.6 percent) and, to a larger extent, 35-49 (-18.8 percent), the decline of which was only partly offset by the increase in the total number of adults aged 50-64 (+15.5 percent). While remaining still below the European average in 2023 (75.0 percent), the increase in the activity rate in the reference population over the period 2013-23 (from 62.9 percent to 66.7 percent) partly allowed the decline to be contained, in particular due to the higher labour market participation of people over 50, especially women, who narrowed the gap with men across all age groups.

FIGURE II.2.1: EVOLUTION OF THE WORKING POPULATION (in millions)



Source: ISTAT

Italy is therefore facing the challenge of an overall labour supply that is gradually being reduced, *ceteris paribus*, accompanied by a breakdown by age group reflecting an imbalance towards older groups, with the average age of the workforce aged 15-64 among the highest in Europe. This trend is clearly associated with the general ageing of the population[74], which is reflected in the increase in the overall average age, which is also fostered by progress in life expectancy at birth, a common element in most advanced countries. In Italy, it was possible to see an acceleration in the increase in the average age of 46.4 in 2023, from 43.4 at the beginning of the last decade. One of the factors underlying population ageing is the decline in births, which reached a record low in 2023, and is linked to a fertility rate (TFT), which was among the lowest among the largest OECD countries[75]: the average number of children per woman was 1.2 in 2023, a sharp decrease compared to ten years earlier (1.4). In addition, it is worth noting the continuous increase in the average age of mothers at childbirth (32.5 years in 2023 compared with 31.4 years in 2013). In order to reverse this demographic trend, the Government has taken several measures to create a more family-friendly social and working environment. The Plan intends to extend and strengthen some of the initiatives introduced by the RRP and recent budget laws in order to make the innovations that have proven to be more effective in this regard structural.

The demographic picture is also influenced by developments in migration flows[76], with a growing trend in recent years, which has partly offset population

[74] According to ISTAT data, the ageing of the working population was faster than that of the total population in the same age group over the period under review, and the speed of the process would be higher for women.

[75] OECD, Society at a Glance 2024.

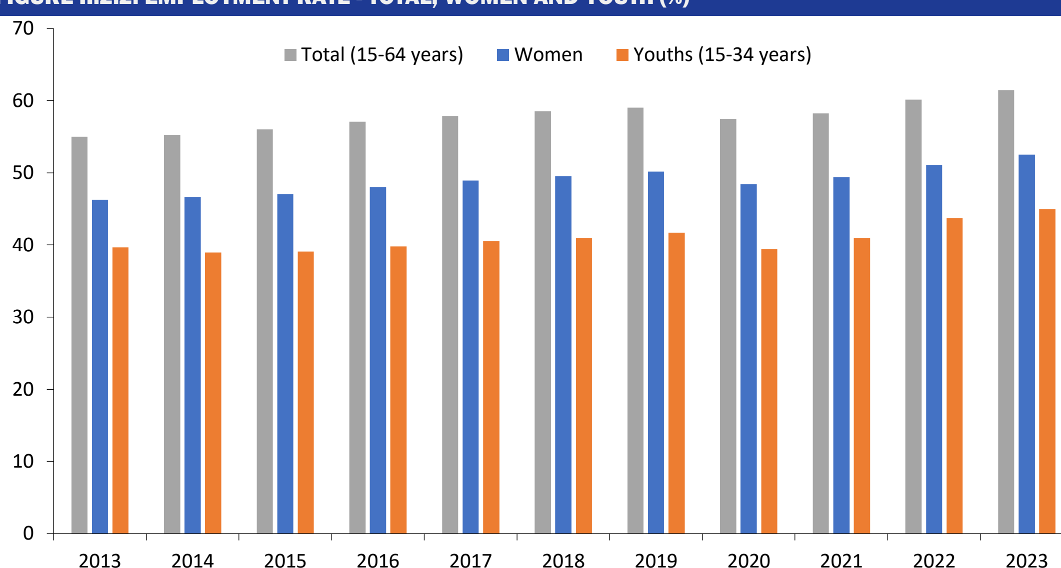
[76] In this regard, see the Prime Minister's Decree of 23 September 2023, through which the Government decided to plan the entry flows of foreign individuals to be admitted into the territory of the State, in order to meet the needs of the labour market, so as to promote qualified immigration and their effective integration into the economic and social texture of the country, in line with the absorption capacity of local communities.

decline and ageing. Net migration[77] increased from +261 thousand in 2022 to +274 thousand in 2023, with the migration rate from abroad growing from 4.4 people per thousand inhabitants[78] in 2022 to 4.6 in 2023, the highest since 2011. However, Istat's projections in the medium-term scenario foresee a decline.

As mentioned above, from a quantitative point of view, positive employment dynamics in recent years have partly counterbalanced the ongoing unfavourable demographic trends.

Employment in the population aged 15-64 rose from an average of 21.9 million in 2014-2018 to 22.3 million in the five-year period 2019-2023, with the employment rate rising from 55.3 percent in 2014 to 61.5 percent in 2023, the highest annual figure since the start of the time series in 2004 (Figure II.2.2).

FIGURE II.2.2: EMPLOYMENT RATE - TOTAL, WOMEN AND YOUTH (%)



Source: ISTAT

Positive evidence also emerges from an analysis of the age group 15-34, for which the number of people in employment remained broadly stable on average (+0.4 percent) between the two periods, despite unfavourable demographic developments and an increase in education, with the employment rate rising from 39.0 percent in 2014 to 45.0 percent in 2023. Over the same period, female employment in Italy experienced a net positive growth, with the average number of women employed in 2019-2023 being 1.8 percent higher than in the previous five-year period, with the employment rate rising to 52.5 percent in 2023, up from 46.7 percent in 2014.

[77] Difference between the number of registered persons for transfer of residence from abroad and the number of cancellations for transferring residence abroad.

[78] Ratio of net foreign migration for the year to the average of the resident population, by 1.000.

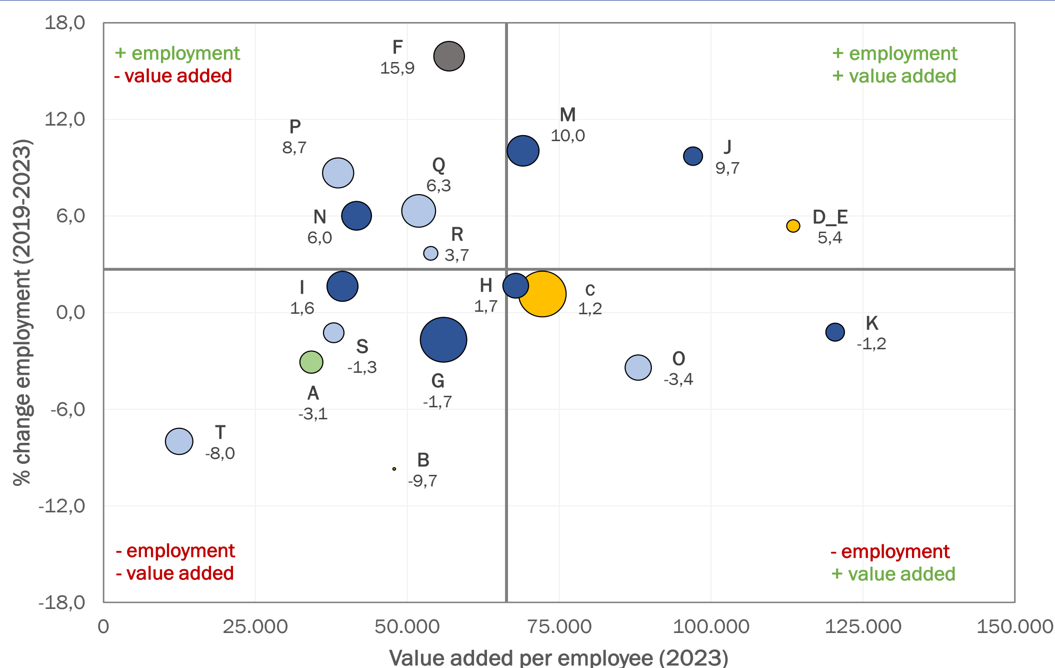
On the other hand, despite this progress, gaps with the EU average remain wide, both in overall employment, and in youth and female employment. Moreover, despite the fact that the southern regions recorded the largest increase in the number of people employed in the 15-64 group in the period 2014-2023 compared with the central and northern regions (+8.4 percent compared with +5.1percent and +6.0 percent), this progress was not sufficient to address the significant territorial imbalances. In fact, the employment rate in the southern regions in 2023 was 17 and 21 percentage points lower than in the central and northern regions. These gaps are also confirmed in the Annex to the 2024 Economic and Financial Document on Equitable and Sustainable Well-being Indicators[79], which shows a profound distance, both on aggregate and by gender, between the various territorial breakdowns, albeit decreasing compared to the pre-pandemic period.

The progress highlighted above could, in part, be explained by the various incentives for hiring disadvantaged young people, women and men that Italy has adopted in recent years. In order to strengthen this commitment, the Government intends to step up measures aimed at increasing labour market participation and the recruitment of under-represented groups.

The sectoral analysis of employment over the five-year period 2019-2023, characterised by an overall growth of 2.7 percent, reveals significant heterogeneity between the various production sectors (Figure II.2.3). Construction (F), benefiting from measures to support the sector, distinguished itself as the most dynamic sector, while market services showed a higher performance than personal services. Employment dynamics are mixed in high value-added sectors. On the one hand, the number of people employed in Information and Communication Services (Section J) and Utilities (D_E), sectors strongly exposed to the twin green and digital transitions, increased more than the national average. On the other hand, employment in financial and insurance activities (K), public administration and defence (O) has been reduced.

[79]https://www.dt.mef.gov.it/export/sites/sitodt/modules/documenti_it/analisi_progammazione/documenti_programmatici/def_2024/DEF_2024_ALLEGATO_BES_finale.pdf.

FIGURE II.2.3: EMPLOYMENT DYNAMICS BY SECTORS OF ECONOMIC ACTIVITY¹ (years 2019-2023; % changes and value added per employee at chain-linked prices)



Agricolture	Industry	Construction	Market services	Other services

Nace Rev. 2 codes: A - Agriculture, forestry and fishing; B - Mining and quarrying; C - Manufacturing; D_E – Utilities; F - Construction; G - Wholesale and retail trade; repair of motor vehicles and motorcycles; H - Transportation and storage; I - Accommodation and food service activities; J - Information and communication; K - Financial and insurance activities; L - Real estate activities; M - Professional, scientific and technical activities; N - Administrative and support service activities; O - Public administration and defense; compulsory social security; P - Education; Q - Human health and social work activities; R - Arts, entertainment and recreation; S - Other service activities; T - Activities of households as employers.
(1) horizontal and vertical lines are placed at the average level of the economy.
Source: ISTAT, MEF elaboration.

Manufacturing, while showing a general trend in line with the average economic dynamic, appears to be characterised by a progressive reallocation of employment to high-tech or medium-high-tech sectors[80] (Figure II.2.4). In particular, high-tech employment growth is higher than the national average in electricity (C26), with a higher value added per employee than the sectoral average. Employment in Pharmaceutical industry (C21), on the other hand, after years of high growth (+ 10.8 % between 2014 and 2019), appears to have stabilised at a level above 64. The transport vehicles sector (C29-30), which is affected by the challenges posed by the transition to sustainable mobility, shows positive employment dynamics, but lower than the manufacturing average[81].

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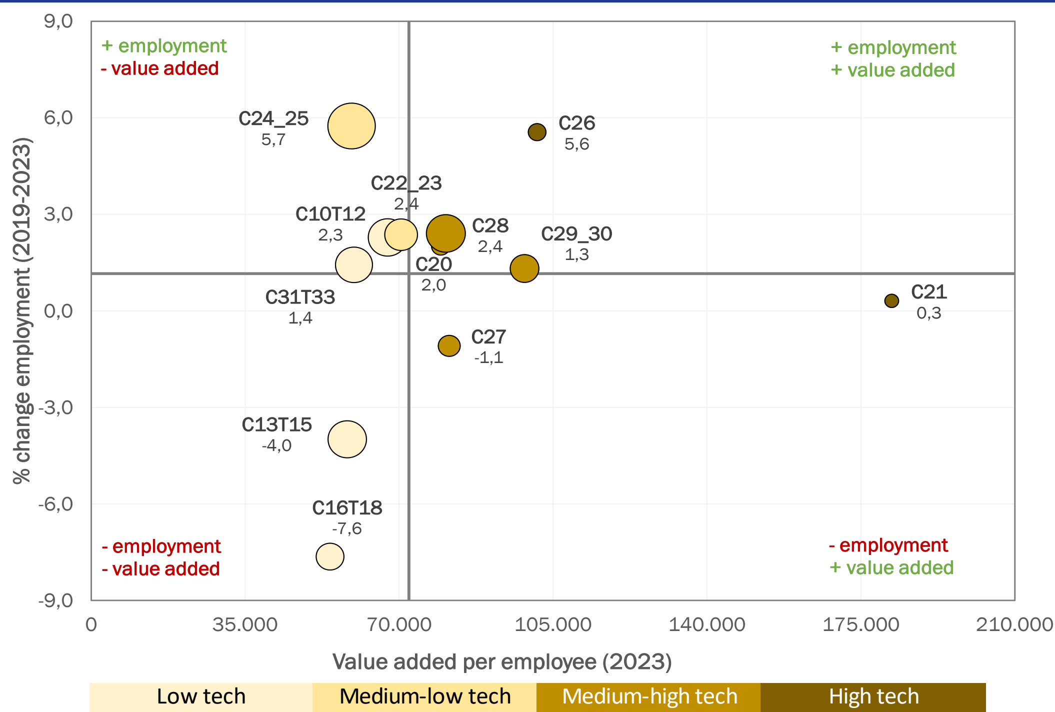
[80] Most manufacturing industries with low technology intensity and low value added recorded negative employment dynamics: Textiles, clothing, leather and footwear (C13T15), wood, paper, publishing (C16T18) and furniture and other manufacturing industries, repairs and installations (C31T33).

[81] In the second quarter of 2024, the motor vehicle sector (C30) recorded a downward trend of 1.9 percent of labour input (Eurostat source), which is in line with other EU countries.

FIGURE II.2.4: EMPLOYMENT DYNAMICS BY MANUFACTURING SECTOR¹
(years 2019-2023; % changes and value added per employee at chain-linked prices)



Nace Rev. 2 codes: C10T12 – Food, beverages and tobacco; C13T15 – Textiles, clothing, leather and footwear; C16T18 – Wood, paper, publishing; C19 – Coke and petroleum products; C20 – Chemistry; C21 – Pharmaceutical; C22_23 – Game, plastics and other non-metallic mineral products; C24_25 – Metallurgy and fabricated metal products; C26 – Computer, electronic and optical; C27 – Electrical equipment; C28 – Machinery and equipment n.e.c.; C29_30 – Means of transport; C31T33 – Furniture and other manufacturing, repairs and installations.
(1) horizontal and vertical lines are placed at the average level of the manufacturing sector.
Source: Istat, MEF elaboration.

Mismatch between labour demand and supply. Mismatch between labour demand and supply negatively affects productivity[82], limiting the efficient use of human capital, and requires targeted action to be mitigated. This phenomenon is common to many economies and is due to a variety of reasons linked to the specific characteristics of individual countries, such as demographic dynamics, the relationship between the education and training system and the labour market, the level of wages, active labour market policies, the country's productive specialisation and the way staff are selected. In particular, the difficulty of finding staff can take two forms: (I) lack of candidates; (II) failure of candidates' skills to meet business demands (mismatch of skills). Between 2019 and 2023, the percentage of planned recruitments for which firms reported difficulties in finding

[82] See, *inter alia*, McGowan, A. M. and D. Andrews (2015), 'Labour Market Mismatch and Labour Productivity: Evidence from PIAAC Data', OECD Economics Department Working Papers, No. 1209, OECD Publishing, Paris. Patterson, C, A Sahin, G Topa and G Violante (2016), Working Hard in the Wrong Place: A Mismatch-Based Explanation to UK Productivity Puzzle', European Economic Review, 84: 42-56; Fanti, L., Guarascio, D., Tubiana, M. (2021). 'Skill mismatch and the dynamics of Italian companies' productivity'. Applied Economics, 53 (59), pp. 6790-6803.

the required job profiles[83] increased steadily from 25.6 percent to 45.3 percent. The incidence of the phenomenon varies across production sectors[84] and size classes, with smaller firms experiencing greater difficulties than larger and more structured ones[85]. Finally, over the past five years, there has been a slight increase in the share of firms reporting a lack of adequacy in the labour market (from 10.9 percent to 12.4 percent), accompanied by a considerable increase in firms experiencing difficulties in finding work due to staff shortages (from 12.1 percent to 28.7 percent). This may be partly related to the low presence of STEM (Science, Technology, Engineering and Mathematics) profiles and the negative demographic dynamics affecting the country.

Also in this area, the Plan considers measures to progressively resolve these problems. In particular, the reform process and the investments launched with the RRP in the education and university system will need to be continued in order to ensure a realignment between labour supply skills and those required by companies.

In particular, the extension of initiatives to strengthen STEM subjects, the implementation and continuation of the reform of the technology-vocational training chain, as well as initiatives aimed at strengthening greater cooperation between universities, research centres and businesses, will be instrumental in creating integrated systems able of providing vocational and technical training of excellence and responding effectively to businesses and local development needs.

In conclusion, the scenario described with reference to the labour factor as a key element from the perspective of potential growth brings with it many challenges. Some exacerbate the need to tackle – initially – and subsequently reverse the trend of contraction in the workforce. The policies that the Government intends to confirm to encourage birth rates and support the integration into the labour market and social protection of an increasing number of young people and women are directed to this end, with the aim of consolidating current growth dynamics in participation rates and reducing gaps with European benchmarks. In particular, actions to support equal opportunities in the labour market and improve work-life balance will contribute to achieving these goals. In addition, in line with the Single SEZ Strategic Plan, the Government will continue to support the reduction of territorial inequalities through measures aimed at exploiting the potential of less developed areas in the country. These actions should be complemented by the initiatives launched by the RRP that will be considered in the coming years to facilitate access to the labour market for the most vulnerable groups, for example by strengthening the vocational training system, thus simplifying the transition between education and the labour market. It is also important to further refine migration policies so as to direct the influx of skilled staff towards the demand from the socio-economic structure, contributing to the growth and well-being of the

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[83] *Unioncamere* – ANPAL, Excelsior Information System (https://excelsior.unioncamere.net/).

[84] For example, in 2023 Manifattura companies reported difficulties in 52.1 percent of the cases, while those in Construction and Tourism were 58.0 percent and 47.8 percent respectively.

[85] The share of firms reporting difficulties in finding it difficult to find is 48.9 percent in micro-firms (up to 9 employees) and 47.7 percent in small enterprises (10-49 employees). Looking at the medium to large, the incidence falls by almost ten points (39.4 percent).

country and facilitating its integration. Finally, also in the light of the increase in average working age and the possible impact on productivity[86], it is crucial to adapt Italy's human capital endowment to the new needs linked to the ongoing digital and ecological transitions, including continuous training programs.

In order to highlight the importance of multidimensional measurement of well-being, the Plan has been supplemented with an in-depth analysis of two BES indicators[87] (see the focus on 'BES indicators in the perspective of the Medium-term Fiscal-Structural Plan').

FOCUS

BES indicators in the perspective of the Medium-term Fiscal-Structural Plan

Equitable and Sustainable Well-being indicators (BES) have been systematically included in the Italian economic and financial planning cycle following an amendment to the National Accounts Law (law No 196 of 2009), which introduced two official documents submitted annually by the Minister of Economy and Finance to Parliament[88]. Although the focus on multidimensional measure of wellbeing has become increasingly widespread at international level[89], Italy is the only European country to have integrated monitoring and forecasting of a set of indicators[90] which, going beyond economic and monetary aspects, provide a multidimensional representation of individual and social well-being. Using a methodology and tools of analysis and modelling developed over the years and in which the Ministry of Economy and Finance is continuing to invest, these activities offer a broader perspective on the well-being of the population and allow the impact of public policies on its different dimensions to be assessed.

Since national accounting and public finance legislation will have to be brought into line with the new rules of European economic governance, the analyses and projections carried out

[86] C. André, P. Gal and M. Schief (2024) 'Enhancing Productivity and Growth in an Ageing Society: Key Mechanisms and Policy Options', OECD Economics Department Working Papers.

[87] See also the outcome document approved on 25 September by the Budget Committees of the Chamber and the Senate on the above-mentioned fact-finding investigation of the new EU governance, according to which "the BES report should continue to provide an analysis of the Equitable and Sustainable Well-being Indicators, taking into account the measures also contained in the most recent approved budget law. It will be necessary to assess how to report on the work done so far on these indicators and on information that may also be useful in the drafting of the Plan."

[88] https://www.mef.gov.it/focus/Il-benessere-equo-e-sostenibile. See also the 'Final Report of the Committee on Equitable and Sustainable Well-being Indicators, set up under Article 14 of Law No 163/2016 for the selection and definition, on the basis of national and international experience, of Equitable and Sustainable Well-being Indicators' (20 June 2017).

[89] For example, the use of complementary labour market indicators, which enrich the information provided by traditional ones, is increasingly widespread. The Global Gender Gap Report of 2023 (Global Gender Gap Report 2023) of the World Economic Forum (WEF) refers to the new job gap indicator introduced by the ILO New data Shine light on gender gaps in the labour market, which takes into account all jobless people interested in finding a job. It consists of a ratio which, in the numerator, includes all those who do not have a job but would like to have one (unemployed and potential labour force), whereas the denominator shows the sum of employees and aggregates present in the numerator.

[90] The twelve BES-MEF indicators included in the economic and financial programming cycle were selected by a dedicated committee and belong to eight different welfare domains identified within the ISTAT BES: (1) corrected gross disposable income *per capita*; (2) inequality in net income (S80/20); (3) absolute poverty index; (4) healthy life expectancy at birth; (5) excess weight; (6) early leaving from education and training; (7) non-participation rate, with gender breakdown; (8) ratio between the employment rate of women aged 25-49 with pre-school children and women without children; (9) predatory crime index; (10) civil justice efficiency index; (11) emissions of CO_2 and other climate-changing gases; (12) building abuse index. It should be noted that the latter was provisionally adopted by the Committee which selected the BES indicators because an indicator with adequate statistical quality for land take was not available. From Annex BES to the Economic and Financial Document 2024, the land take indicator developed by Ispra has been introduced to replace the illegal building index.

under the BES framework will be properly reflected in the economic and financial planning documents. In addition, this review may be an opportunity to submit possible proposals for revision to the list of twelve indicators that are currently included in the BES documents prepared by the MEF.

By combining time-series analysis with micro-econometric approaches to forecasting and assessing the impact of policies, BES indicators allow both to identify cyclical developments and to focus on some structural aspects of the socio-economic system. By virtue of these characteristics, they are a useful tool at the economic policy-making stage in a structural perspective considered over several years, specific to the MTP.

In this first edition of the MTP, a selection of two BES indicators is proposed: adjusted gross disposable income and the non-participation rate in the labour market. The first belongs to the domain 'Economic Welfare' and provides a bridge between macroeconomic analysis and the outlook adopted within the BES-MEF framework. Although it is an aggregate income metric, it does not merely measure output but looks at the well-being of households by also taking into account the value of services in kind provided by public institutions. The second indicator, on the other hand, belongs to the domain 'Work and life balance' and provides a 'broader' measure of the unemployment rate. Both indicators are particularly useful for economic planning from a structural perspective, as they highlight certain structural features of the Italian socio-economic fabric.

The Adjusted Gross Disposable Income Per Capita

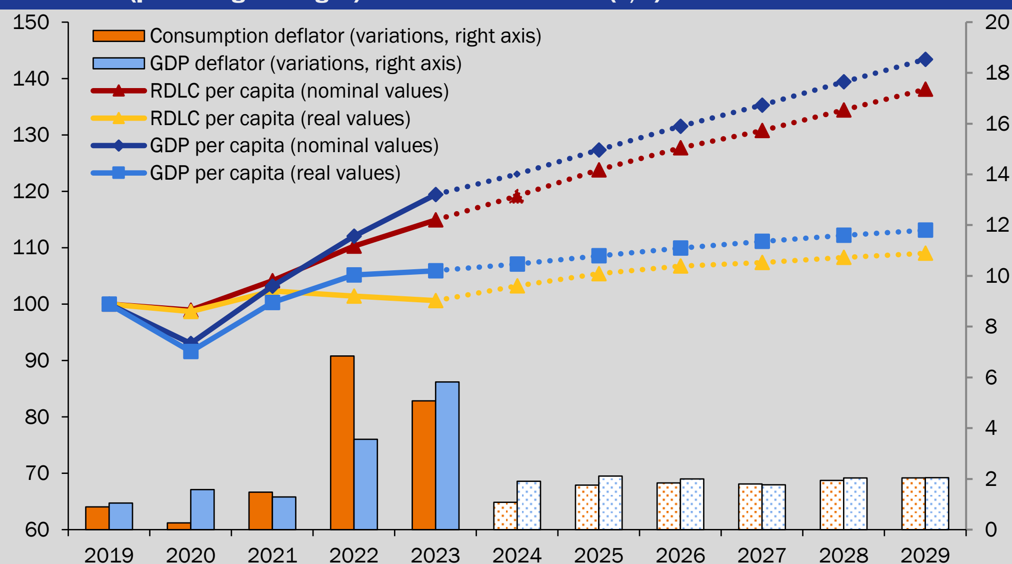
Adjusted gross disposable income *per capita* (RDLC) is defined as the ratio of adjusted gross disposable income at current prices of households and private non-profit social institutions serving households (i.e. including the value of services in kind provided by general government and public non-profit institutions) to the total number of residents. The numerator of this ratio is therefore the sum of the gross disposable income of the consumer and producer households and the monetary valuation of the services in kind offered to them. It provides a measure of economic well-being that takes into account both the monetary resources available to households and benefits in kind, mainly for education and health, thus better describing the average economic well-being of individuals than GDP per capita. On the basis of the most recent data available[91], nominal RDLC *per capita*, following the contraction observed in 2020, has returned to a stronger growth path than before the pandemic. The evolution of this indicator has been influenced by strong developments in nominal compensation of employees, also reflecting good labour market developments in recent years and measures to support household incomes adopted in 2022, following the surge in energy and food prices, which were maintained, albeit to a lesser extent, in 2023.

Over the period 2024-2029, further growth of nominal RDLC *per capita* is estimated under the policy scenario (Figure R1). Further, a comparison is made between the dynamics of nominal and real per capita[92] RDLC and nominal and real GDP *per* capita, a comparison which, in the light of the acceleration in the inflation rate recorded in 2022-2023, is even more relevant for assessing this aspect of economic well-being.

[91] The analyses set out in this focus are based on the latest available data for RDLC and its relevant components provided by ISTAT on the occasion of the Annex BES to the Economic and Financial Document (see Annex BES to the DEF 2024 on the Ministry of Economy and Finance website). Therefore, the recent revision of the national economic accounts, which could also affect the variables of interest, is not taken into account here.

[92] It should be borne in mind that, in the set of BES indicators integrated into the economic and financial programming cycle, the *per capita* RDLC, expressed in nominal values in euro and not in real terms, has been included. However, for the sake of completeness, a comparison is also provided between changes in the *per capita* RDLC and GDP *per capita*, both expressed in both nominal and real terms, taking into account changes in the household consumption deflator and GDP deflator over the last three years and over the forecast period.

FIGURE R1: INDEX NUMBERS OF THE REDITO DISPONIBILE LORDO CORETTO PRO CAPITE (nominal and real – base year 2019) AND PER CAPITA GDP (nominal and real – base year 2019) AND DEFLATORS (percentage changes) WITH THEIR FORECAST (1, 2)



(1) The nominal RDLC per capita is transformed into real terms using the consumption deflator; nominal GDP per capita is transformed into real terms using the GDP deflator.

(2) The historical analyses presented are based on the latest available data from RDLC and its components, provided by ISTAT for the Annex BES to the Economic and Financial Document.

Source: 2019-2023, ISTAT, National Accounts; 2024-2029, MEF-DT forecast.

Taking 2019 as the base year (100), nominal GDP *per capita* would, in 2029, reach a level of around 24 percentage points higher than that in 2023, just above the level of nominal *per capita* RDLC. The two aggregates are projected to increase, also in real terms over the period 2024-2029, though the cumulative change in *per capita* RDLC is more pronounced than in GDP *per capita*. It is noted that the moderation in growth dynamics over the medium term is also due to the prudential approach taken in the macroeconomic policy scenario[93]. Over the three-year period 2024-2026, the gap between the index numbers for RDLC and GDP *per capita*, expressed in real terms, is determined to have narrowed due to a slower development of the consumption deflator with respect to that of the GDP deflator. In addition, it should be noted that for both deflators a substantial deceleration with respect to the 2023 level is estimated over the forecast period. After 2027 the gap is expected to widen slightly but remain below the level observed in 2023.

The Rate of Non- Participation in the Labour Market

The non-participation rate (TMP) is obtained as the ratio between the sum of unemployed and inactive available (people who have not sought work in the last four weeks but are available to work), and the sum of the labour force (combined employed and unemployed) and inactive available, referring to the population aged 15-74:

$$TMP = \frac{D + I_d}{D + O + I_d}$$

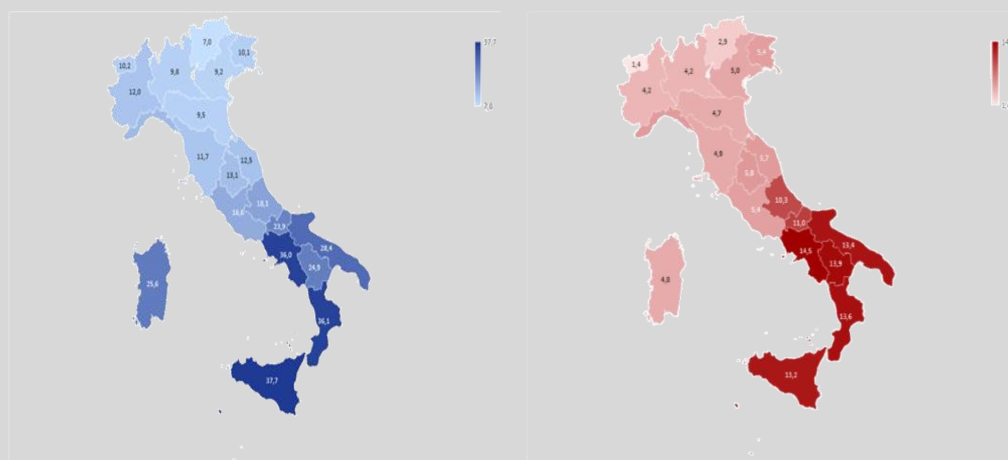
[93] Despite the prudential approach, the cumulative change in the nominal and real per capita RDLC is estimated to improve by 1.4 percentage points and 1.7 percentage points respectively compared to the trend scenario over the period 2024 -2029.

where *D* represents the number of unemployed persons, *O* the number of persons employed and I_d the number of inactive persons available. The TMP, by including those who are inactive but willing to work, is a broader measure of the unemployment rate. It was selected because of the role work plays as both a source of income and as a factor for social inclusion, as well as its impact on individual well-being. This indicator aims to highlight what is known as 'latent unemployment', a phenomenon that affects individuals who would be immediately available to work but who are not actively looking for work, i.e. the so-called 'inactive available'. Although these individuals are not part of the labour force, they have some degree of labour market attachment and it has been shown that it is important for Italy to take this into account in order to provide a more accurate description of current labour market trends and a better understanding of individual and social well-being as well as the underlying dynamics of economic growth[94]. As labour market participation is still marked by strong gender differences, the indicator is calculated both in aggregate form and by disaggregating females and males. Measuring 'wait and see' individual behaviours on the labour market (typical of the inactive available), in addition to those actively searching, improves the set of information needed to define policy interventions and helps to explain the different labour market performance of men and women. Moreover, this indicator appears to be even more relevant in the light of labour shortages that may occur on the Italian labour market in the coming years because of the ongoing changes in the demographic structure of the population.

Figure R2 gives a 'structural picture' of the TMP in the Italian regions, illustrating the wide territorial and gender gaps that characterise the Italian labour market. The aggregate TMP is higher in the southern regions (in particular Campania, Calabria and Sicily), with the exception of Abruzzo, which is in a comparable situation to that in the Central regions. Similarly, the gender gap is more pronounced in the *Mezzogiorno*, although it is spread more evenly across regions. However, although Sardinia has comparable values to those of the southern regions in terms of total TMP, it has a gender gap like that of the northern regions.

FIGURE R2A: NON-PARTICIPATION RATE PER REGION (total, average annual percentage values 2018-2023)

FIGURE R2B: NON-PARTICIPATION RATE PER REGION (gender gap, average annual percentage values 2018-2023)

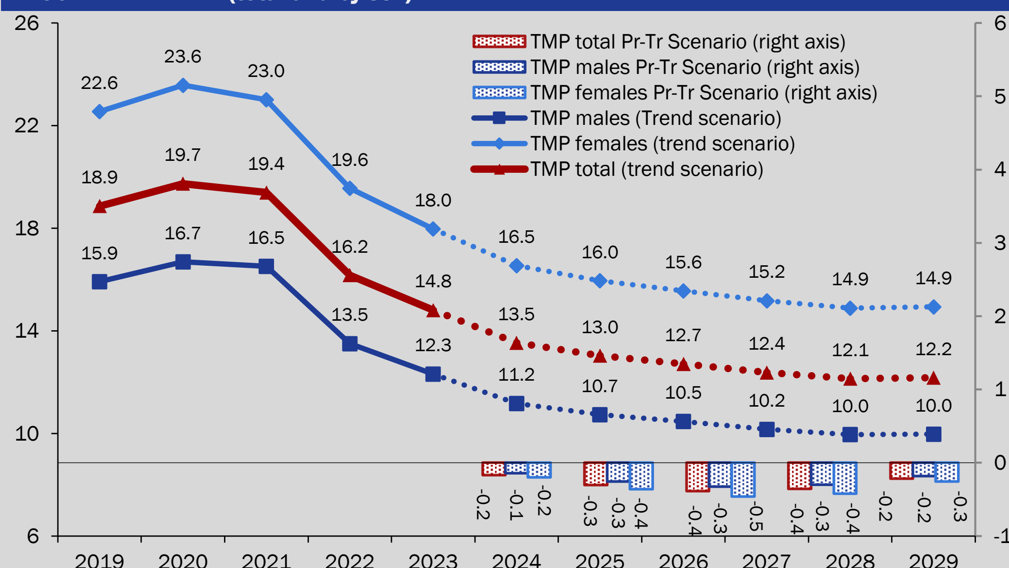


Source: MEF-DT elaborations on ISTAT data, Labour force survey.

[94] See Palombi, M., Romano, E., Zoppoli, P. (2022), 'An analysis of the non-participation rate in Italy, France, Germany and Spain: the role of inactivity and gender gaps', Fact Sheets No 2 – February 2022, Ministry of Economy and Finance, Treasury Department.

This photograph describes a structural context in which the gap between the southern and central and northern regions is marked and systematic. Using longitudinal data at country level, it is possible to analyse the evolution over time of indicators of non-participation in the labour market. In addition, a projection of the existing legislation scenario is provided, along with the impact of economic policies as the difference between this scenario and the policy scenario over the horizon of the MTP, all other things being equal (Figure R3). The TMP (total and by gender) has showed a decreasing trend except for 2020. In fact, as early as 2021, there was a return to the downward path that continues until the end of the period considered. Over the past three years, the total TMP in the existing legislation scenario improved markedly and steadily; this trend continues over the forecast horizon: in 2029, the total level is estimated to have decreased further by more than one third compared to the beginning of the period considered (2019). The policy scenario considers the impact of planned policies, which are expected to result in a cumulative improvement of the indicator by 2.8 percentage points. This is due to a general improvement in employment and a reduction in both the unemployed (see par. 2.2) and the number of inactive people available. The latter are expected to have decreased by about one fifth in 2029 compared to 2023. Distinguishing by sex, the decreasing trajectory that emerges is very similar to that of the total TMP and is more pronounced under the policy scenario than the existing legislation scenario. Moreover, the impact is relatively larger for the female population in both scenarios, leading to a narrowing of the gender gap. This is associated with a greater participation of women in the labour market, driven by both a general improvement in the market and favourable sectoral dynamics for women in the form of an expansion of the services sector. In terms of participation, this results not only in higher female employment (as opposed to male employment), but also in a lower incidence of available inactive people.

FIGURE R3: FORECASTS FROM THE RATE OF NON-PARTICIPATION IN EMPLOYMENT – TREND AND PROGRAMME DELTA (total and by sex)

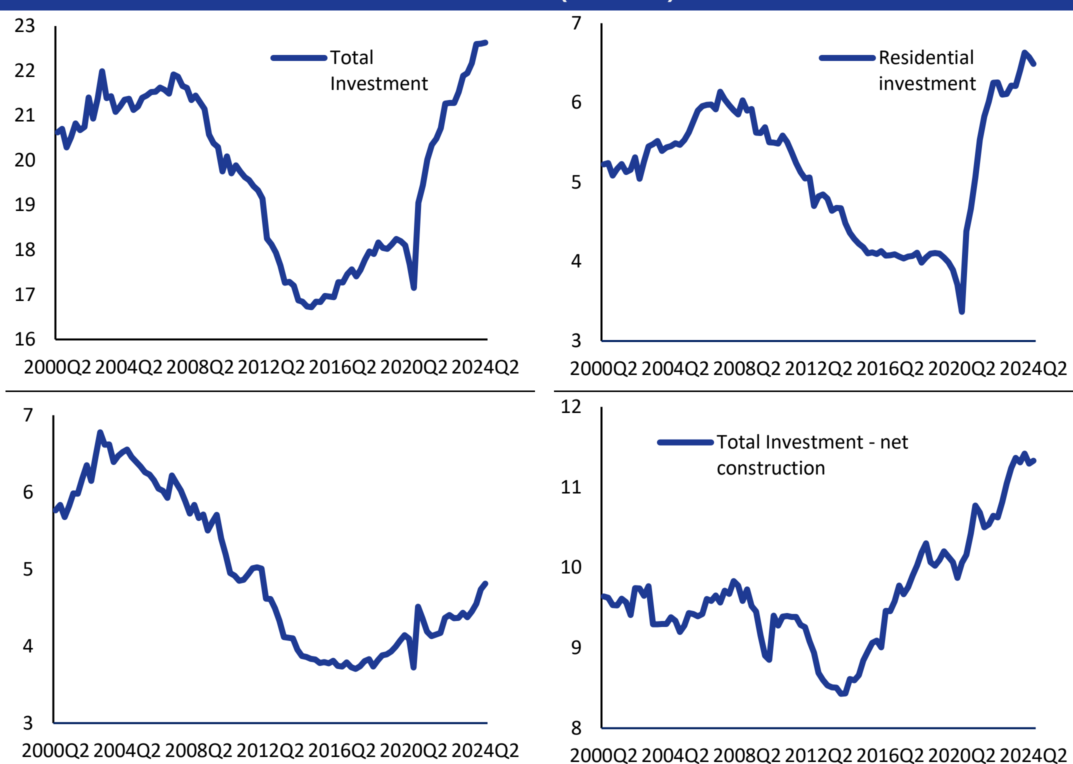


Source: MEF-DT processing on ISTAT and Eurostat data.

Capital investments. A second factor affecting growth over the medium term relates to developments in capital investment. In terms of quantity and quality, they are called upon to change the production system and to respond optimally to the stimulus and changes stemming from economic, technological and public policies so as to enable the full potential of national human capital.

After a prolonged stagnation, capital accumulation accelerated since 2021, with an average growth rate of 1.0 percent over the three-year period 2021-2023, which is the same as in the euro area and above that of, for example, Germany (0.5 percent) and Spain (0.9 percent). The European Commission's forecasts for 2024-2025 point to the consolidation of this pattern, with an average growth rate of 1.3 percent, which is higher than that of the euro area (1.0 percent)[95]. The recent acceleration in capital accumulation has been affected by a significant increase in investment in a number of strategic sectors, partly driven by Government incentive policies and European programmes. Investment as a percentage of GDP grew from an average of 17.6 percent of GDP in the period 2012-2019 to an average of 21.8 percent in the three-year period 2021-2023, reaching 22.6 percent in the first quarter of 2024, which is more in line with the 2000-2011 average (21.0 percent). In particular, a positive signal came from investment excluding construction, which grew at a steady pace from 8.6 percent of GDP in 2013 to 10.6 percent in 2023, standing since 2017 at levels above the 2000-2011 average (9.5 percent) (see Chart II.2.5).

FIGURE II.2.5: INVESTMENT PERFORMANCE IN ITALY (% OF GDP)



Source: ISTAT.

[95] European Commission, Net Capital Stock at constant prices, AMECO data accessed on 27 September 2024 and based on '2024 Spring Forecast'.

The infrastructure sector has benefited in particular from various investment programmes aimed at improving the transport network and logistics structures, including the upgrading of the high-speed rail network and regional lines, together with the expansion and modernisation of ports and airports, in order to promote the rational development of a modern, sustainable transport infrastructure[96], covering the whole country, also improving its international connectivity. In industry, and most notably in the manufacturing sector, technological innovation has continued, thanks also to rules aimed at incentivising it (the 'National Industry 4.0 Plan' of 2017, of which some measures have been refinanced, extended and reformed in subsequent legislatures). Renovation of production facilities has reduced operating costs and increased international competitiveness. Significant business investments have been addressed towards in the uptake of advanced technologies, such as automation, robotics and the Internet of Things (IoT), and in research and development to advance productivity and efficiency, with a particular focus on high-tech sectors such as aerospace and biotechnology. The technology and innovation sector has received particular attention, with investments aimed at supporting start-ups and innovative SMEs. The RRP has provided an additional boost to innovation with investments linked to 'Transition 4.0', digitalisation and technological innovation of enterprises, and 'Transition 5.0', established by the new REPowerEU chapter aimed at boosting the energy transition of the Italian production system. In addition, among the many investments and reforms of the RRP, the reform of industrial patents, the review of business incentives and development contracts, which will further increase the innovation path of Italian companies, should be noted.

Finally, it is worth noting that, in the context of a sector that has benefited from tax incentives overall, there have been no overheating dynamics in the housing market or speculative trends in recent years. This was reflected in an overall moderate average annual house price increase since 2019 (2.4 percent). Looking ahead, despite the revision of the incentive scheme, new investment projects and targeted policies to support the sector will contribute to the positive performance of the residential and construction sectors in general. In this regard, the investment projects contained in the RRP for the residential and non-residential sector will play a crucial role in offsetting the effects of the normalisation of building bonuses; in particular, the 'Financial Instrument for the Efficiency of Public Buildings, including Housing (ERP)' introduced by the seventh mission of the RRP.

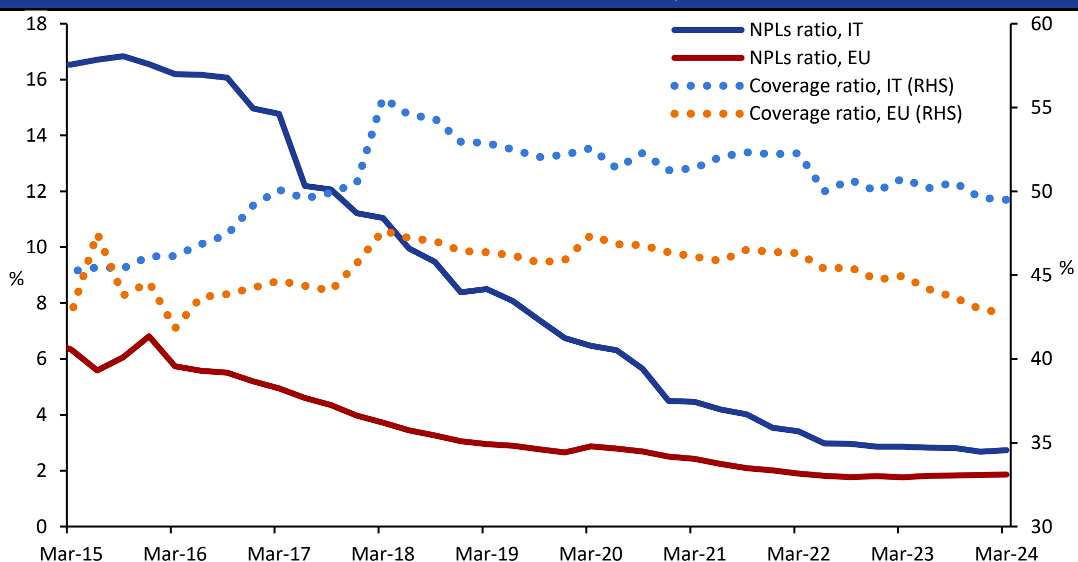
In addition, in order to prevent possible adverse effects that could be caused by possible speculative phenomena, the Government intends to implement housing and support policies for vulnerable people, putting in place social housing measures and interventions for the construction of workers' housing.

Financial system. The capital accumulation of recent years – characterised by strategic investments in infrastructure, advanced technologies, renewable energy

[96] In 2023, funds were disbursed for the construction of 48 refuelling stations for hydrogen vehicles, of which 40 were provided for in the RRP, particularly along motorways, close to ports and close to logistics terminals. Under the Connecting Europe Facility – CEF Transport Programme, 3.189 electric charging stations are planned to be installed by the end of 2024 and a further 1.186 by 2027. These investments will be additional to those of the RRP.

and digitalisation – has also been possible thanks to the smooth functioning of the financial system. In particular, the banking sector continued to ensure overall financial stability: this is demonstrated by: (i) the marked and progressive reduction of the non-performing loans ratio (see paragraphII.3.3), (ii) the high capitalisation, which for the most significant institutions is above the European average[97] and (iii) the sector's regained profitability, which in turn enhances the sustainability of the metrics mentioned above. Moreover, while still above the European average, banks' exposure to Government bonds continued to decline. The amount of debt securities issued by the Italian Government in the availability of Italian banks fell by almost 100 billion between September 2020 and April 2024, a decrease of 22.0 percent[98]. In addition to these positive dynamics, the stock of government guarantees relative to GDP is gradually reduced (see paragraph II.3.3).

FIGURE II.2.6: NON-PERFORMING LOANS AND COVERAGE RATIO, IT VS EU



Source: ECB.

The financial sector, which is also a source of systemic innovation, through its stability and resilience, will contribute to improving the country's competitiveness by financing the numerous investment programmes in the near future.

In conclusion, on the basis of the MEF projections, investment growth is expected to average 1.1 percent per year over the period 2025-2029. Indeed, the RRP, with a natural deadline of 2026, is expected to be followed by a further period of investment expansion, with average growth of 0.7 percent from 2027 to 2029. In particular, this second phase assumes a stronger modernisation and expansion in

[97] ECB, SUP dataset, 'CET1 ratio'.

[98] In addition, loans to the Italian Government declined from 270 billion in July 2021 (last peak) to 235 billion in April 2024 (-13.0 percent). See ECB, BSI dataset, Holdings of debt securities issued by domestic general government reported by MFIs excl. ESCB in Italy (stocks)' and 'Loans vis-a-vis domestic general government reported by MFIs excl. ESCB in Italy (stocks)'.

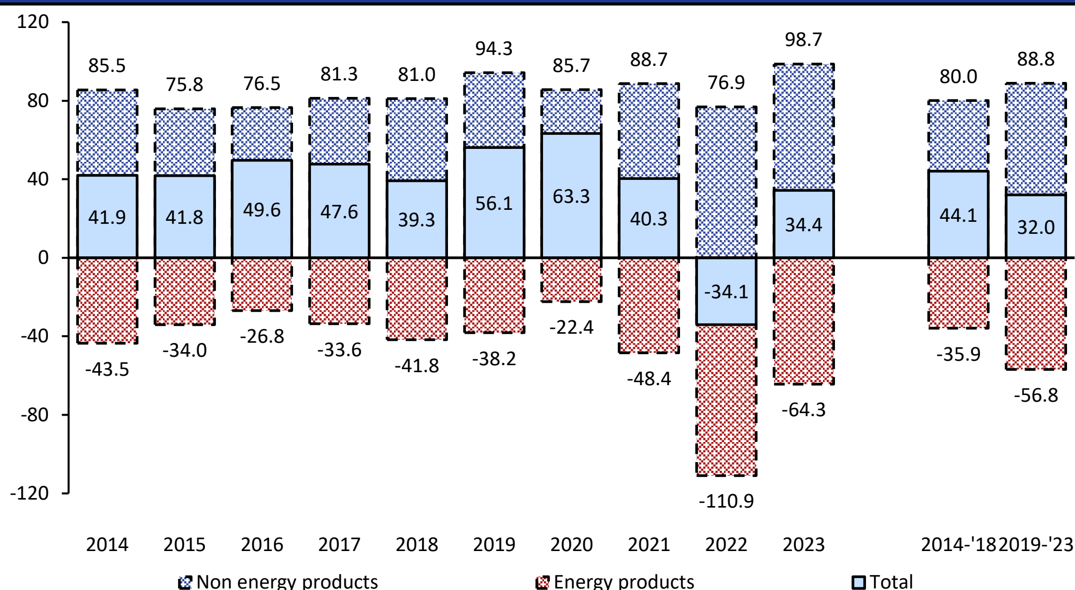
the transport sector (with investment growing by an average of 1.3 percent) and the continuous process of innovation and renewal in machinery and equipment (up by 0.7 percent on average).

In this context, reforming the functioning and supervision of capital markets could help facilitate the financing of companies, especially SMEs, and support their investment in view of the digital and sustainable transitions.

Productivity. Over the ten years between 2014 and 2023, labour productivity (value added per hour worked) of the Italian economy, excluding the general government sector, increased on average by 0.3 percent. Up to 2019, the annual growth rate was rather steady, averaging 0.4 percent, while in the following four years (2020-2023), compared with a similar average annual increase in labour productivity (0.3 percent), the pattern was less stable, with a strong increase in 2020 and a sharp decline in 2023 (-1.5 percent), partly due to the energy crisis. In the 2014-2023 average, the contribution of capital intensity to labour productivity dynamics was negative (-0,2 percentage points), while that of TFP was positive, at 0,5 percentage points. The increase in labour productivity over the period 2014-2023 was mainly driven by the contribution of manufacturing and trade. There continues to be a significant negative differential in labour productivity developments in Italy compared to main European partners. The weak aggregate productivity performance reflects a number of factors, including the size and sectoral structure of Italian firms. Italy is characterised by a high concentration of employment in small enterprises, where productivity is typically lower; this is a dampening factor for aggregate productivity. These aspects are discussed in detail in the following paragraph, where various elements of the structure of the Italian production system are discussed.

The productive system. The Italian productive system is characterised by some structural features, which have more clearly reemerged in recent years, reflecting the specific features of the country’s economic structure. First, the historical reliance on foreign sources of supply for raw materials is accompanied by a remarkable capacity to adapt business strategies to changing environment conditions. In 2022, the significant deterioration in energy trade led to a deficit in the trade balance for the first time since 2011. However, by extending the time horizon to 2019-2023, the average annual trade surplus exceeded 32 billion; excluding energy, it exceeded 89 billion, a sign of the ability of production sectors to compete on international markets. The good performance recorded in 2023 consolidated Italy’s position in the international context, putting it at the sixth place in terms of export value, behind China, the United States, Germany, the Netherlands and Japan.

FIGURE II.2.7 ITALY'S TRADE BALANCE – YEARS 2014-2023
(annual absolute values and five-year averages in billions of euros)



(1) Corresponding to the following NACE REV. 2 codes: B05 (Mining of coal and lignite), B06 (Extraction of crude petroleum and natural gas), C19 (Coke and refined petroleum products), D (Electricity, gas, steam and air conditioning).
Source: Istat, MEF elaboration.

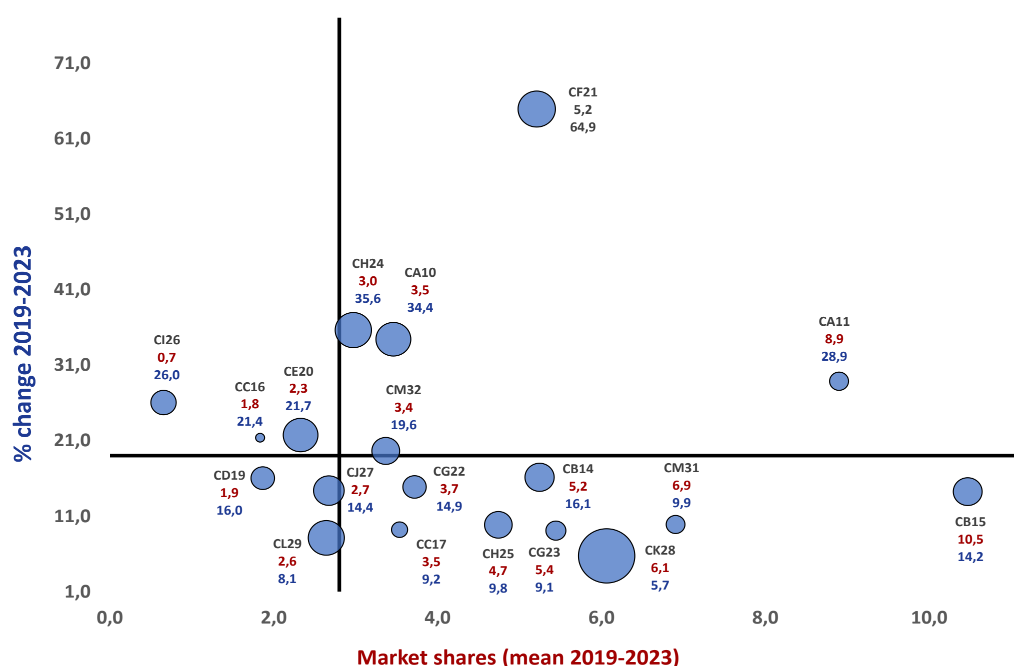
On average, over the period 2019-2023, the market share of Italian exports was stable at 2.8 percent compared with the previous five-year period, while all other G7 countries experienced a reduction of their incidence on the global market. The return to a surplus in the current account balance, coupled with a capital account surplus, contributed to an international investment position of 154.6 billion, equivalent to 7.3 percent of GDP at the end of 2023.

The positive export performance was partly due to the strategic positioning of Italian firms, reflecting the considerable ability to integrate efficiently into international production processes. This increased participation in global production networks is the result not only of an increasing number – in absolute terms – of companies involved in global value chains, but also of the consolidation of companies already exposed to these chains[99].

For the coming years, the Government intends to support the consolidation of these trends by strengthening the internationalisation of businesses, in particular SMEs, in line with the initiatives launched by the RRP.

[99] https://www.istat.it/it/files/2024/05/Rapporto-Annuale-2024.pdf.

FIGURE II.2.8: TRADE DYNAMICS AND MARKET SHARES OF ITALIAN MANUFACTURING SECTORS¹ YEARS 2019-2023 (percentage changes in exports and market shares on average 2019-2023)



Nace Rev. 2 codes: CA10 – Food; CA11 – Beverage; CB13 – Textiles; CB14 – Clothing; CB15 – Pigs and footwear; CC16 – Wood and wood products; CC17 – Paper and paper products; CC18 – Printing and reproduction of recorded media; CD19 – Coke and petroleum products; CE20 – Chemistry; CF21 – Pharmaceutical CG22 – Game and plastics; CG23 – Manufacture of non-metallic minerals; CH24 – Metallurgy; CH25 – Metal products; CI26 – Computer, Electronic and Optical; CJ27 – Electrical and household appliances; CK28 – Mechanical; LC29 – Motor vehicles; CL30 – Other means of transport; CM31 – Furniture; CM32 – Other manufacturing industries.
(1) The horizontal and vertical lines shall be placed at the average level.
Source: Istat and UN-COMTRADE, MEF elaboration.

Another important element in our business system is the high degree of product differentiation in the industrial model[100]. The presence of Italian companies in many sectors has acted as a significant counterweight to the recent crises, avoiding an excessive level of concentration at the level of products and operators.

The resilience of Italian exports over the period considered is primarily due to made in Italy products[101] and certain sectors of the basic industry (chemical and metallurgy). In addition, the data show that the country is increasingly specialised in basic pharmaceutical products and pharmaceutical preparations, which are characterised by high added value and high expenditure on research and development; in these sectors, Italy's share of global trade increased by 1 percentage point between 2018 and 2023, standing at 5.7 percent. Recent progress

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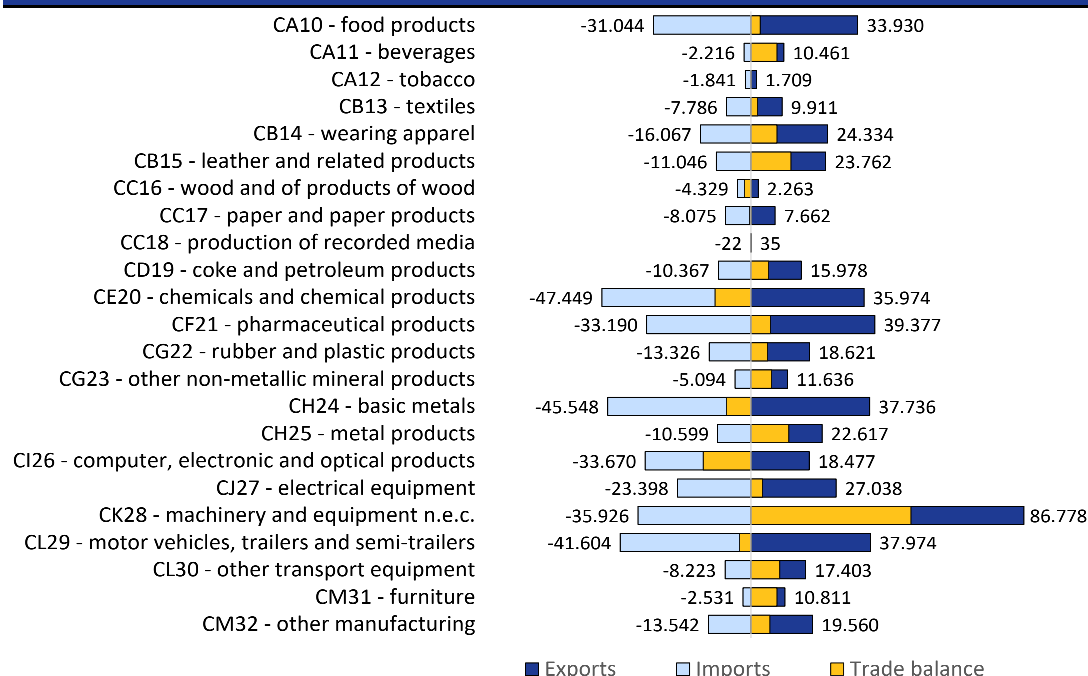
[100] According to UNCTAD, Italy is among the countries with the lowest concentration of exported products, and is able to express many niche leadership with its companies, confirming itself as a major global player in world trade.

[101] The NACE two-digit compartments used to analyse the four specialisations of Made in Italy are: food (C10, C11); fashion system (C13, C14, C15); automation (C28, C29 C30); furniture (C31). In the period 2019-2023, the average value of exports was 154 billion for automation; 64.4 for the fashion system; 49.7 billion for food; 11.4 billion for furniture.

in competitiveness, coupled with both the trend of shortening supply chains as a result of the pandemic crisis and the strong wage moderation, have also contributed to the evolution of the degree of specialisation. On the latter point, also in comparison with European partners, unit labour costs (ULC) increased by less than 8.3 percent in the period 2019-23, compared with the European average of 14.5 percent.

FIGURE II.2.9: EXPORTS, IMPORTS AND TRADE BALANCE BY MANUFACTURING SECTORS IN ITALY YEARS 2019-2023 (absolute values in million euro)



Source: Istat, MEF Elaboration.

Another particular aspect is related to the size of Italian companies, given the clear predominance of micro, small and medium-sized enterprises, which account for more than 99 percent of the total. On the other hand, this specific element, which is rooted in causes such as the diffusion of a family governance model and a bank-centered financial structure, has experienced a slow but gradual reallocation of resources to larger companies, with the share of workers employed in private sector companies with at least 250 employees increasing by 0.6 percentage points between 2019 and 2022[102]. However, the current firm size configuration continues to affect the subdued performance of the Italian economy's aggregate productivity. While productivity levels are higher than in the main European economies for medium-sized enterprises (50-249 employees), and in line with France and Germany for small (10-49) and large enterprises (250 and more), significantly lower productivity is observed in micro-enterprises (up to 9 employees).

[102] Bank of Italy, Annual Report, 2024.

Finally, the small size of companies is a factor that hampers the capacity to innovate at system level, bearing in mind that smaller companies on average have more difficulties in allocating financial and organisational resources to research activities. This results into a two-tier system, which was accentuated between 2018 and 2022, with a prevalence of less dynamic firms, characterised by a medium to low propensity to innovate, invest in technology and training of staff and business organisation, that have a limited economic weight in terms of value added (less than 25 percent) and employees (less than one third of the total). On the contrary, more dynamic companies investing in more advanced technologies (e.g. Big Data, robotics), although fewer, are more economically relevant, generating more than half of value added and employing 40 percent of total employment.

In this context, in order to consolidate its strengths and effectively address the critical problems of the productive system, the Government has adopted numerous measures to strengthen the productive efficiency of factors, including through the resources and reforms of the RRP. Among them, it is worth recalling legislative, regulatory, bureaucratic and fiscal simplification; the promotion of a faster civil justice system; the rationalisation of business incentive schemes; the valorisation of the patent protection system; competition and upskilling measures for the workforce.

This strategy has been adopted in the broader context of the RRP’s strategic priorities, namely digitalisation (in particular of the justice and health system) and the ecological transition, which will have to be based on intertwined and functional paths. This includes not only measures to expand digital infrastructure (e.g. broadband and 5G), but also investments in renewable energy, sustainable mobility and energy efficiency, with the continuation of the renovation of existing buildings, including public buildings, without undermining the sustainable dynamics of the market.

In the coming years, the Government intends to continue in this direction, giving priority in its action to further improving the quality of institutions and the business environment. In particular, it is expected that the adoption of a framework law on SMEs will address the various problems identified, facilitating the generational transition, the aggregation and size growth of enterprises, as well as increasing their orientation towards innovation and investment in research and development.

In conclusion, the picture shows an overall resilient economy that can reignite the drivers of growth following the sequence of significant crisis it has recently faced. Over time, despite some vulnerabilities still to be addressed, the country seems to have progressively adapted to changing environment conditions and, thanks to the measures already adopted and planned, is ready to address the major changes ahead, from the demographic transition to the digital and ecological transitions.

II.2.4 Public finance outlook and strategy for compliance with the Plan

In the light of the most recent national accounts data published by ISTAT[103], the ratio between the general government net borrowing and GDP in 2023 was unchanged from that reported in the Stability Programme of last April (7.2 percent), reflecting upward revisions of a comparable magnitude to both the numerator and the denominator. The revision of the deficit was affected by the increase in expenditure for the tax credits related to the Superbonus; the nominal GDP was driven by the upward revision of real growth in 2021 and 2022.

However, the deficit remained significantly lower than in 2022 (8.1 percent of GDP), reflecting both the improvement in the primary balance from -4.0 percent of GDP in 2022 to -3.5 percent in 2023, and the fall in interest expenditure, from 4.1 percent of GDP in 2022 to 3.7 percent in 2023.

Total expenditure in 2023 was 4.4 percent higher than in the previous year. This trend was mainly due to a robust dynamic in capital expenditure (+19.2 percent), both for the public investment component, which was supported by developments in spending for project financed by the RRP, and for the capital transfers component, which was affected by building bonuses.

For the current year, on the basis of the most updated monitoring data available, the deficit is forecast at 3.8 percent of GDP, with a downward revision of 0.5 percentage points compared to the value contained in the Stability Programme (4.3 percent) and a sharp decrease from the previous year. The primary balance would already be in surplus (0.1 percent of GDP). The improvement compared with the Stability Programme estimates stems, to a large extent, from a stronger than expected revenue profile and, to a lesser extent, a stronger reduction in expenditure (with an internal shift between lower current and higher capital ones). In particular, the forecast of direct tax revenue is 3.6 percent higher than projected in the Stability Programme.

The cash borrowing requirement of the state sector is also significantly better than expected and is now projected to reach 5.7 percent of GDP in 2024 (1,45 percentage points below the Stability Programme forecast).

As a result, also thanks to the upward change in nominal GDP incorporating revisions from previous years, the debt-to-GDP ratio is expected to reach 135.8 percent at the end of 2024, well below the 137.8 percent projected in the Stability Programme. It should be noted that these forecasts are sufficiently conservative, in the light of the statistical information available to date.

Under the existing legislation scenario, more favourable revenue forecasts with respect to expenditure projections imply a significant improvement in the net borrowing profile for the 2025-2027 period, compared to that projected in the Stability Programme; in the following years, the deficit is projected to gradually decrease up to 0.8 percent of GDP in 2029.

The downward trend in the deficit is driven by the gradual consolidation of the primary balance, which is projected to reach a sizeable surplus already in 2025

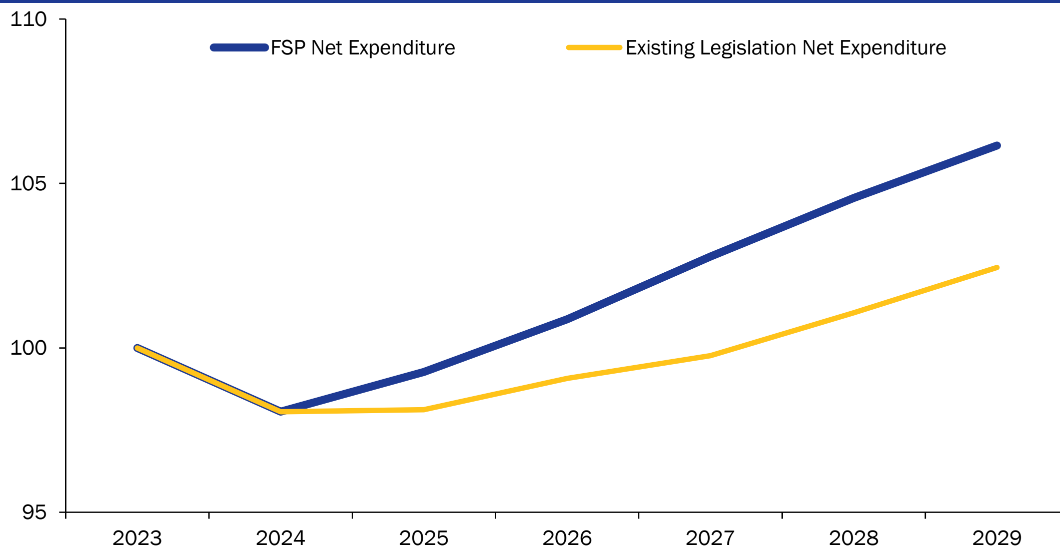
[103] ISTAT, 'National Economic Accounts', 23 September 2024.

(1.0 percent of GDP) and then continuing to improve up to 3.3 percent of GDP in 2029. This is led by the gradual decline of the primary expenditure as a ratio of GDP, which is expected to fall from 50.1 percent in 2023 to 43.2 percent in 2029, reflecting the containment of primary current expenditure and, above all, lower capital transfers. Following the expansion of building renovation bonuses costs, the item will return below 1 percent of GDP from 2027 onwards (from its peak of 5.4 percent of GDP in 2023), in line with the pre-Covid average, due to a better definition of private investment incentive measures. On the contrary, public investment will confirm the dynamics of recent years, albeit with a decline between 2026 and 2027 due to the fading of RRP-related expenditure. These trends confirm the orientation of public finance towards improving the efficiency and quality of spending, in line with the structure underpinning the new European governance.

The gradual consolidation of the primary balance over the forecast horizon will overcome the increase in interest expenditure, which is expected to rise above 4 percent of GDP from 2027 onwards as a result of the increase in debt bond yields driven by the restrictive monetary policy adopted by the ECB, as described in more detail at the end of this paragraph. The public finance scenario under existing legislation is set out in more detail in Appendix III.

In the existing legislation scenario described above, the net expenditure aggregate, both in terms of the cumulative trajectory and in terms of year-on-year growth, shows a much smaller profile than the Plan's policy objective throughout the whole forecast horizon (2025-2029).

FIGURE II.2.10 NET EXPENDITURE: UNDER POLICY SCENARIO AND EXISTING LEGISLATION (index number 2023 = 100)



Source: MEF elaborations.

The difference between the two aggregates is on average around 1.1 percent of GDP per year over the period under review. This follows from the fact that the fiscal adjustment envisaged in the current legislative scenario is larger than the one planned and necessary to preserve the sustainability of public finance, especially in

the 2025-2027 period. However, in 2029, the scenario consistent with the net expenditure target trajectory projects a larger adjustment on the previous year than would appear in the existing legislation scenario, thus requiring a slightly restrictive fiscal policy (see Paragraph II.2.2).

The budget margins that emerge from the defined objectives will be used to finance further actions to achieve the economic policy objectives in the coming years.

First of all, it is necessary to consider the refinancing of those interventions included in the no-policy change scenario which are considered as priorities. These include, in particular, the extension of the effects of the tax wedge on labour and the implementation of the enabling law on taxation. The excessive size of the tax wedge is one of the country's essential nodes most strongly highlighted by international institutions and its structural reduction is a key objective in the Government's agenda. Other measures considered include the resources needed for the renewal of public contracts and the refinancing of peacekeeping missions.

In addition, the Government deems as necessary increasing the funds allocated to public healthcare sector. Healthcare expenditure is expected to grow at a rate higher than that set for the net expenditure.

Finally, additional resources will be needed to keep the profile of nationally financed public investment unchanged from the average in recent years, one of the factors required by the new economic governance rules for the extension of the fiscal adjustment period. Specifically, the strategy followed by the structural component of the Plan will help maintain the profile of public investment (in particular nationally financed ones) well above 3 percent of GDP even after the end of the RRP.

However, taking into account the needs arising from the these further planned interventions, the net expenditure path would be above the target trajectory. Therefore, additional measures in terms of lower expenditure or higher revenue will be needed in the budgetary manoeuvre.

The financial impact of these restrictive measures is included in the public finance scenario underlying the Plan, which is fully compatible with the commitments made in terms of the net expenditure trajectory. In the Plan, the deficit-to-GDP ratio is planned to gradually decline from 3.8 percent this year to 3.3 percent in 2025, to 2.8 percent in 2026 (i.e. below the policy targets set in the Update of the Stability Programme 2023 for the three-year period), and then to reach 1.8 percent in 2029. The achievement of a deficit-to-GDP ratio of 2.8 percent in 2026 is a realistic hypothesis that, given the current macroeconomic outlook and the marked improvement in public finance under the existing legislation scenario, does not require a tightening of the fiscal stance with respect to the Stability Programme of last April. The underlying trends of the existing legislation scenario, which suggest prudent and more efficient management of public spending, would be supported and further strengthened.

TABLE II.2.4 PUBLIC FINANCE INDICATORS UNDER THE POLICY SCENARIO

	2023		2024	2025	2026	2027	2028	2029
	Level (1)	% of GDP	% of GDP					
Revenue								
1.Taxes on production and imports	290,724	13.7	14.1					
2.Current taxes on income, wealth, etc.	320,796	15.1	15.4					
3.Social contributions	269,464	12.7	12.7					
4.Other current revenues	88,054	4.1	4.1					
5.Capital taxes	1,609	0.1	0.1					
6.Other capital revenues	21,461	1.0	0.3					
7.Total revenue (= 1 + 2 + 3 + 4 + 5 + 6)	992,108	46.6	46.7					
8.Of which: transfers from the EU (accrued revenue, not cash)	23,424	1.1	0.4					
9.Total revenue other than transfers from the EU (= 7-8)	968,684	45.5	46.3					
10.p.m. revenue measures (increments, excluding EU funded measures)	8,264	0.4	- 0.7					
11.p.m. one-off revenues included in projections (levels, excluding EU funded measures)	8,059	0.4	0.2					
Expenditure								
12.Compensation of employees	187,131	8.8	8.9					
13.Intermediate consumption	121,490	5.7	5.6					
14.Interest expenditure	77,987	3.7	3.9	3.9	3.9	4.1	4.2	4.2
15.Social transfers other than in kind	424,486	19.9	20.4					
16.Social transfer in kind supplied via market producers	53,340	2.5	2.4					
17.Subsidies	39,036	1.8	1.9					
18.Other current expenditure	48,909	2.3	2.1					
19.Gross fixed capital formation	67,599	3.2	3.4					
20.Of which: nationally financed public investment	61,143	2.9	3.3	3.1	2.9	3.3	3.3	3.2
21.Capital transfers	124,092	5.8	1.8					
22.Other capital expenditure	773	0.0	0.0					
23.Total expenditure (= 12 + 13 + 14 + 15 + 16 + 17 + 18 + 19 + 21 + 22)	1,144,843	53.8	50.4					
24.Of which: Expenditure funded by transfers from the EU (= 8)	23,424	1.1	0.4					
25.Nationally financed expenditure (= 23-24)	1,121,419	52.7	50.1					
26.p.m. national co-financing of programmes funded by the Union	2,886	0.1	0.2					
27.p.m. cyclical component of unemployment benefit expenditure	- 1,873	- 0.1	- 0.2					

TABLE II.2.4 CONTINUED: PUBLIC FINANCE INDICATORS UNDER THE POLICY SCENARIO

	2023		2024	2025	2026	2027	2028	2029
	Level (1)	% of GDP	% of GDP					
Expenditure								
28.p.m. one-off expenditure included in projections (levels, excluding EU funded measures)	2,124	0.1	0.0					
29.Net nationally financed primary expenditure (before revenue measures) (= 25-26-27-28-14)	1,040,295	48.9	46.1					
Net nationally financed primary expenditure			Growth rate %					
30.Net nationally financed primary expenditure growth			- 1.9	1.3	1.6	1.9	1.7	1.5
Balances	Level (1)	% of GDP	% of GDP					
31.Net borrowing (= 7-23)	- 152,735	- 7.2	- 3.8	-3.3	- 2.8	- 2.6	- 2.3	-1.8
32.Primary balance (= 31 + 14)	- 74,748	- 3.5	0.1	0.6	1.1	1.5	1.9	2.4
Cyclically adjustment balances and corrected for one offs								
33.Structural balance		- 8.2	- 4.4	- 3.8	- 3.3	- 3.0	- 2.6	-2.1
34.Structural primary balance		- 4.5	- 0.5	0.0	0.6	1.1	1.6	2.2
Public debt	Level (1)	% of GDP	% of GDP					
35.Gross debt (2)	2,868,411	134.8	135.8	136.9	137.8	137.5	136.4	134.9
36.Change in gross debt ratio	105,502	-3.6	1.0	1.2	0.9	- 0.4	- 1.1	- 1.5
37.Contributions to changes in gross debt:								
38.Primary balance (= -32)		3.5	- 0.1	- 0.6	- 1.1	-1.5	-1.9	- 2.4
39.Snow-ball effect, of which component for:		- 4.8	0.1	- 0.5	- 0.2	0.5	0.4	0.7
40.Interest expenditure (3)		3.7	3.9	3.9	3.9	4.1	4.2	4.2
41.Growth		- 1.0	- 1.3	- 1.6	-1.5	- 1.2	- 1.0	-0.8
42.Inflation		- 7.6	- 2.5	- 2.8	- 2.7	- 2.4	- 2.7	- 2.7
43.Stock-flow adjustment (= 36-38-39)		- 2.2	1.0	2.2	2.2	0.6	0.4	0.2
44.p.m. implicit interest rate on debt (= 40/Debt (t-1)) (%)		2.8	3.0	2.9	2.9	3.0	3.1	3.2

(1) Values in millions.

(2) Gross of Italy's share of loans to EMU Member States, either bilateral or through EFSF, and contribution to ESM capital.

(3) In accrual terms.

Source: ISTAT and Bank of Italy. For 2023, the values of public debt – from Bank of Italy– incorporate the changes made at the time of the benchmark revision of annual national accounts and the recent Eurostat decision on the accounting of interest on EFSF loans to Greece (see the Bank of Italy's Economic Bulletin, which will be published on 11 October and the Statistical Bulletin on Public Finance, Borrowing Requirement and Debt of 15 October). As of 2024, forecasts of the policy scenario.

Note: Any inaccuracies are due to rounding.

The debt-to-GDP ratio dynamics is expected in line with the Stability Programme 2024 forecast, but at significantly lower levels than projected last April. The ratio is expected to increase moderately from 135.8 percent in 2024 to 137.8 percent in 2026 (2,0 percentage points below the Stability Programme 2024). Net of building renovation incentives costs, the debt-to-GDP ratio would be 132.8 percent in 2024 (with a difference of 3.0 percentage points) and 131.5 percent in 2026 (with a difference of 6.3 percentage points). From 2027, as the impact of the tax credits related to building bonuses used to offset taxes will decrease, the ratio will start to decline following a trend that will consolidate in the following years. Clearly, the net expenditure path that will ensure debt sustainability in the medium term will also support a decline already within the horizon of the Plan. In fact, in 2028 and 2029, the annual reduction is projected above 1 percentage point, contributing to the ex-ante compliance with the debt safeguard clause (see paragraph II.1). At the end of the forecast horizon, the debt-to-GDP ratio is projected to reach 134.9 percent.

The decline in the debt-to-GDP ratio from 2027 onwards will be driven by the improvement in the primary cash balance, thanks to the progressive depletion of the effects of building renovation bonuses and the process of fiscal consolidation consistent with the net expenditure policy target. This improvement in the balance will make it possible to offset the expected increasing in the public debt financing cost.

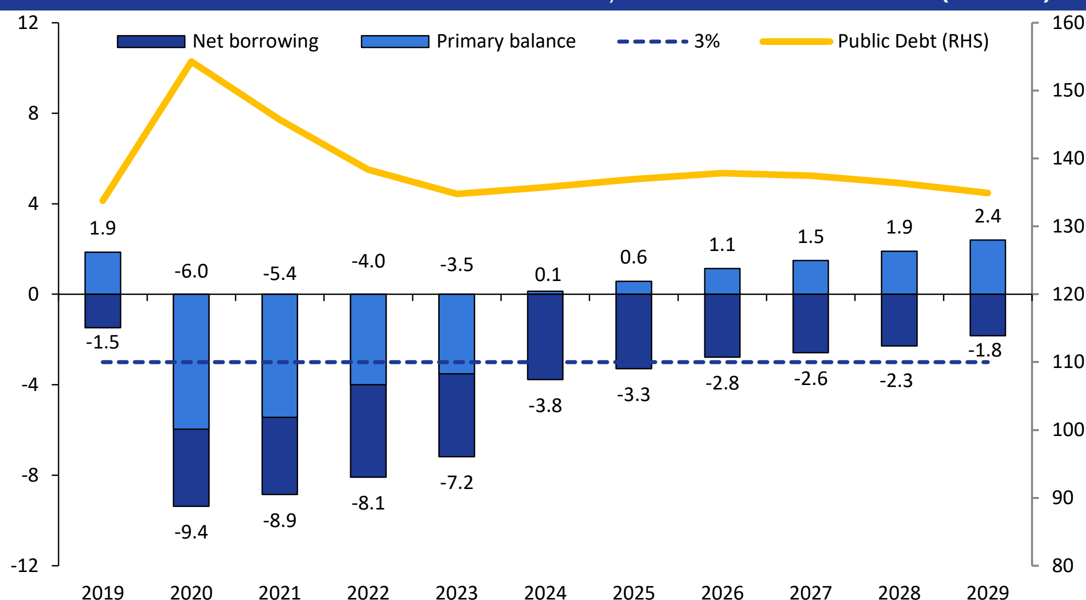
In more detail, the upward movement in interest rates, which started at the end of 2021 and continued very significantly in 2022 and partially in 2023, will be the main factor behind the progressive increase in interest expenditure from 2024 onwards, following the temporary reduction in 2023 (mainly due to the much lower burden than in 2022 of inflation-linked securities). The debt composition, which is known to have a high duration, is such as to dilute over time the impact of a phase characterised by higher market interest rates, such as that of the 2021-2023 period. However, since this year the ECB has embarked on a process of moderating the monetary policy restriction, with two decisions to reduce key policy rates in June and September[104]. This reversal will also have an impact on debt servicing cost in the coming years, which will overlap with that described above. The joint action of these two opposite effects, in addition to the base effect stemming from the rise in the absolute value of the debt stock, explains this forecast of rising interest expenditure, although with a downward trend in the last years of the forecast horizon, when the rise in interest rates over the past years will have exhausted its effects and the new course launched by the ECB will become more prevalent.

A contribution to contain the dynamics of the debt-to-GDP ratio will also be provided by the continuation of the efficiency measures for the Treasury's liquidity management activity, which are allowing them to be brought to a gradually lower

[104] On 6 June the Governing Council of the ECB decided to reduce the three policy rates by 25 basis points, the first after nine months of unchanged rates. This was followed by the decision of 18 July to keep the rates unchanged. At its last meeting on 12 September, the deposit facility rate was reduced by 25 basis points and the rates on the main refinancing operations and the rate on the marginal lending facility were reduced by 60 basis points (as announced on 13 March, the spread between the interest rate on the main refinancing operations and the rate on the deposit facility was increased to 15 basis points).

level, as well as by revenues from the continuation of the Plan for the valorisation and disposal of public assets and property launched at the end of 2023.

FIGURE II.2.11 GENERAL GOVERNMENT NET BORROWING, PRIMARY BALANCE AND DEBT (% of GDP)



Source: ISTAT and Bank of Italy. As of 2024, forecast of the policy scenario.

Therefore, the fiscal policy in the coming years will be oriented towards reconciling the necessity to allocate the resources needed for the implementation of the Plan useful to support the economic system, with the commitment to keep net expenditure on the growth path set out in this Plan, which, as explained above, will bring the net borrowing below the 3 percent of GDP threshold by 2026 and will ensure debt sustainability in the medium and long term.

TABLE II.2.5: ESTIMATED IMPACT OF DISCRETIONARY REVENUE MEASURES AND ONE-OFF MEASURES

	One-off Expenditure/Revenue		ESA Code	2023	2024
				% of GDP	
Revenue components					
Measures to reduce the tax wedge	No	r	D.5/D.61	- 0.2	-0.2
Energy measures	No	r	mixed, mainly D.2	0.7	0.0
Measures relating to tax collection	No	r	mixed, mainly D.61	0.0	- 0.1
Measures relating to tax collection	Yes	r	mixed, mainly D.5	0.1	- 0.1
Measures for families	No	r	mixed, mainly D.5	0.1	- 0.1
Tax reform	No	r	mixed, mainly D.5	- 0.1	- 0.2
Other	No	r	mixed, mainly D.5 and D.61	- 0.2	0.1
Other	Yes	r	mixed, mainly D.5	0.0	- 0.1
TOTAL				**0.4**	**-0.7**
One-off expenditure components					
Expenditures measures	Yes	s	P.51	0.1	0.0
TOTAL				**0.1**	**0.0**

The impact is in terms of variation compared to the previous year.
Note: Any inaccuracies are due to rounding

FOCUS

Comparison of the European Commission's public finance forecasts with those of the Plan

In accordance with Directive (EU) No 85/2011, this focus provides a comparison between the public finance forecasts of the policy scenario in this document and the latest ones published by the European Commission (Spring Forecast of 15 May 2024).

The time lag in the elaboration of estimates and the effects of the recent ISTAT revision of the national economic accounts (23 September) affect the comparison. For the current year, the MTP's estimate of the general government net borrowing as a ratio of GDP, at 3.8 percent, is around 0.6 percentage points lower than the European Commission's May forecast (4.4 percent). The forecast of total expenditure for 2024 is 1.1 p.p. lower in the MTP (50.4 percent of GDP compared to 51.5 percent of the Spring Forecast) and that of total revenue is 0.4 p.p. lower (46.7 percent of GDP compared with 47.1 percent of the European Commission). The estimate of interest expenditure is broadly in line (3.9 percent of the MTP compared to 4.0 percent of the European Commission) and the forecast for the primary balance differs by around 0.6 p.p. (+ 0.1 percent of GDP in the MTP, compared to -0.5 percent of the European Commission).

TABLE R1: COMPARISON BETWEEN PUBLIC FINANCE FORECASTS (% of GDP) (1)

	2024					2025			
	Prev. date	Total revenue	Total ex-pendi-ture	Primary balance	Net borrowing	Total revenue	Total ex-pendi-ture	Primary balance	Net borrowing
EC Spring Forecast	may-24	47.1	51.5	- 0.5	- 4.4	47.0	51.7	-0.5	- 4.7
MTP	sep-24	46.7	50.4	0.1	- 3.8	— —	— —	0.6	- 3.3

(1) Any inaccuracies are due to rounding.

In 2025, MTP's net borrowing of 3.3 percent of GDP was around 1.4 p.p. lower than the European Commission estimate (4.7 percent). Interest expenditure is 0.2 p.p. lower than the European Commission forecast (3.9 percent of GDP, compared to 4.1 percent). As a result, the primary balance forecast differs by 1.1 p.p. (0.6 percent of GDP in the MTP, compared to -0.5 percent in the Spring Forecast).

II.3 NEW CHALLENGES IN PUBLIC FINANCE MANAGEMENT

II.3.1 Planning and monitoring of expenditure

One of the most important novelties of the new European economic governance is to foster a stronger medium-term orientation of fiscal policy. For example, the extension of the programming period, the setting of fixed policy objectives for the entire horizon of the Plan (four or five years, depending on the normal duration of the legislative term of the Member States), as well as the prohibition on using any higher revenue for the financing of new interventions.

In this context, where it is necessary to maintain the growth rate of net expenditure within the path defined by the Plan, it becomes even more important to strengthen the capacity for planning, monitoring and evaluating public expenditure, including through integrated and systematic spending review processes.

Within the overall amount of general government expenditure consistent with the compliance with the new European rules, the allocation decision on available resources at the time of budget planning becomes more relevant. These decisions

guide the next steps in the process and form the perimeter within which to define the implementing measures. They stem from the Government's strategic priorities and define its action.

This requires solid empirical evidence and information on the effects of public spending so that – within the limit of the overall constraint – the value produced and the results obtained can be maximised. The assessment of the latter can be at the basis of future budgetary decisions. The ability to predict trend dynamics and to intervene in the drivers of its evolution are necessary elements of this new scenario.

In order to comply with the objectives set out in the Plan, while seeking to increase the quality of expenditure, it is necessary to provide incentives for public authorities to have the capacity to assess historical expenditure, including for the purpose of proposing specific changes, and to allocate resources for measures that have been assessed positively.

The need to comply with the objectives set therefore includes the strengthening of monitoring tools as a priority. The availability of accurate and timely information makes it possible to improve the processes for implementing public intervention and to intervene in a timely manner in the event of expenditure deviating from the planned path.

The timeliness of the information needed for financial monitoring requires that the variables to be used are defined according to an accounting dimension that ensures certainty of observation and timeliness in relation to the phenomenon being observed, in particular the framework for discretionary measures of entry into the new European economic governance and Eurostat's decisions on the accounting classification of specific cases.

It will also be necessary to strengthen the control and monitoring function of public expenditure in order to effectively achieve the objectives of the Plan, through the inspections and fact-finding investigations carried out, in particular, by the Ministry of Economic Affairs and Finance – State General Accounting Department, ensuring the possibility of control in the case of the management of public resources. At the same time, the role played by audit and trade union bodies in public administrations, entities and companies receiving ordinary or extraordinary contributions from public finance will be strengthened for these monitoring purposes.

In order to foster the development of these capabilities and the adoption of such processes, it is necessary to further develop the capacity of administrations to produce evidence to improve the quality of the services provided, the impact of the programmes financed and the allocation of available resources, through the provision of dedicated structures with the appropriate skills, as well as the launch of specific professional and training pathways.

The above considerations should be translated into a concrete programme of actions. More details in this regard can be found in Chapter III.

In this context, the adaptation of national legislation to the new European governance must not be limited to merely adapting to the contents of the adopted legislative package, but as a means of incorporating the changed approach to budgetary planning underpinning European economic governance into the legal system. This adjustment process is outlined in the outcome document of the fact-finding survey carried out jointly by the Budget Committees of the Chamber of Deputies and the Senate of the Republic, approved on 25 September, which provides

for a rethinking of public finance documents, planning instruments, the structure of the budget cycle and the organisation of public expenditure.

The economic, financial and budgetary planning arrangements and procedures currently in force concern a complex regulatory system, which includes provisions of constitutional status, contained in both the Constitutional Charter and Constitutional Law No 1 of 2012, the 'reinforced' provisions contained in law No 243 of 2012, and the ordinary provisions contained in Law No 196 of 2009. In addition to these are the rules contained in the two Houses' Regulations, which govern the procedures for examining and approving documents and measures forming the budgetary cycle.

II.3.2 The relationship with local government

With effect from 2019 (from 2021 for regions with ordinary status), local government required to comply with the following budgetary balances[105]:

- non-negative balance between final revenue and final expenditure at sector level[106];
- non-negative balance between total revenue and total expenditure, including administrative surpluses, debt takings out and repayments and the constrained multi-year fund at the level of the individual institution[107].

As regards, in particular, the indebtedness of local government, the final paragraph of Article 119 of the Constitution provides that entities 'may use debt only to finance investment expenditure, with the simultaneous establishment of amortisation plans and provided that the budget balance is respected for the complex of authorities of each region[108]'.

The reform of the fiscal rules is taking place at a particular moment in time for the local and regional authorities involved in implementing the RRP and in implementing the investments financed by the State resources made available by the budget laws since 2018. The stability of the rules, together with the resources allocated, has enabled effective investment planning with clear positive effects on the growth of investment expenditure. As evidenced by national accounts data, local government investment over the past five years (2019-2023) has always changed positively, with a peak in 2023, with real growth of 12.1 percent on average year-on-year, with a contribution of 6.8 percent to real investment growth by the public sector as a whole.

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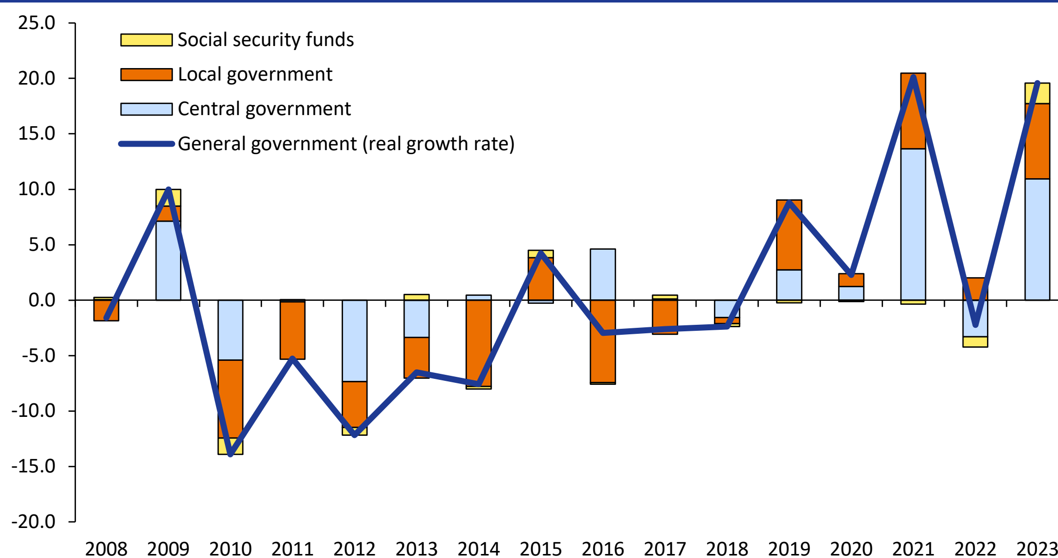
[105] The legislation in force ensures full implementation of articles 81 and 97 of the Constitution and compliance with the interpretation of the Constitutional Court – Judgments Nos 247/2017 and 101/2018 on the use of administrative surpluses.

[106] Law No 243/2012, article 9. Local government made up of the Regions, Municipalities, Provinces, Metropolitan Cities and the Autonomous Provinces of Trento and Bolzano. For *ex ante* and *ex post* compliance, see most recently Circular No 5 of 9 February 2024.

[107] Legislative Decree No 118/2011 and Law No 145/2018, Article 1 (821). Respecting budgetary balances at the level of the individual institution makes it possible to use the administrative surpluses resulting from the last approved statement – representative of the result of the institution's overall management, both the previous and the year of responsibility – and the resources earmarked in the tied multiannual fund, intended to finance expenditure commitments already made but payable in subsequent years.

[108] With regard to indebtedness of local government, see also Article 3 (16) et seq. of Law No 350/2003.

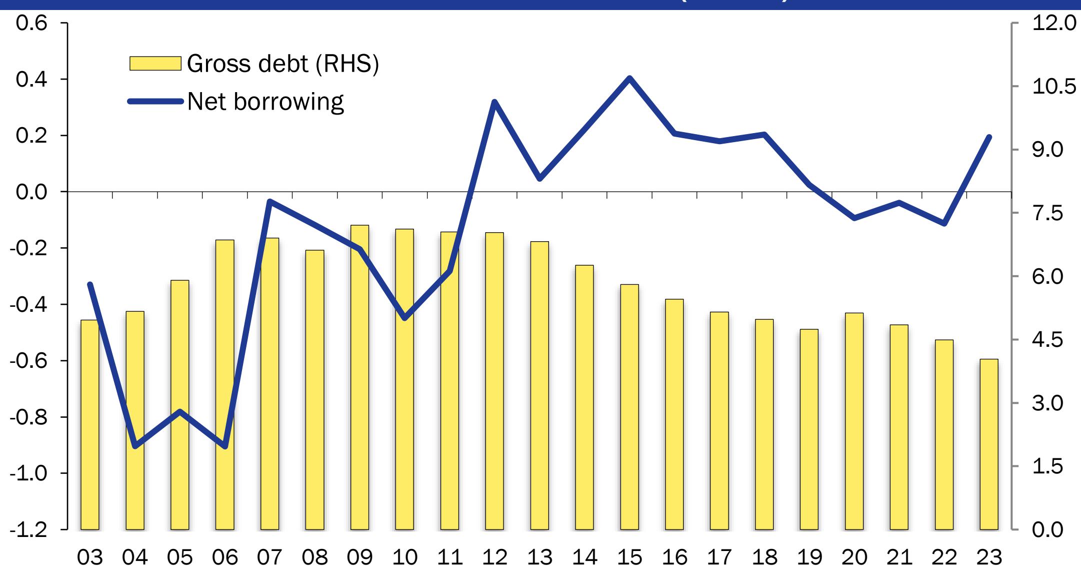
FIGURE II.3.1: LOCAL GOVERNMENT'S CONTRIBUTION TO THE GROWTH OF GROSS FIXED CAPITAL FORMATION OF PUBLIC ADMINISTRATIONS (data at 2015 prices; percentage values)



Source: MEF elaborations on ISTAT data.
Note: The data do not take into account the general revision of the annual estimates of the National Accounts for the period 1995-2023 of 23 September, as information on subsectors is not yet available.

At the same time, the institutional sector of local government continues to exhibit, as a whole, a broadly stable budgetary situation and a subdued debt ratio.

FIGURE II.3.2: LOCAL GOVERNMENT NET BORROWING AND DEBT (% of GDP)



Source: MEF processing on ISTAT and Bank of Italy data.
Note: Local government debt is gross and consolidated, i.e. the sum of the financial liabilities of local government, excluding those that are assets of general government entities. This aggregate is in line with the definition adopted for the purpose of the European Economic and Monetary Union Excessive Deficit Procedure. The data do not take into account the general revision of the annual estimates of the National Accounts for the period 1995-2023 of 23 September, as subsectors are not yet available.

In the period 2023-2028, in view of the need to limit public expenditure, in compliance with the principles of coordinating public finance and pending the

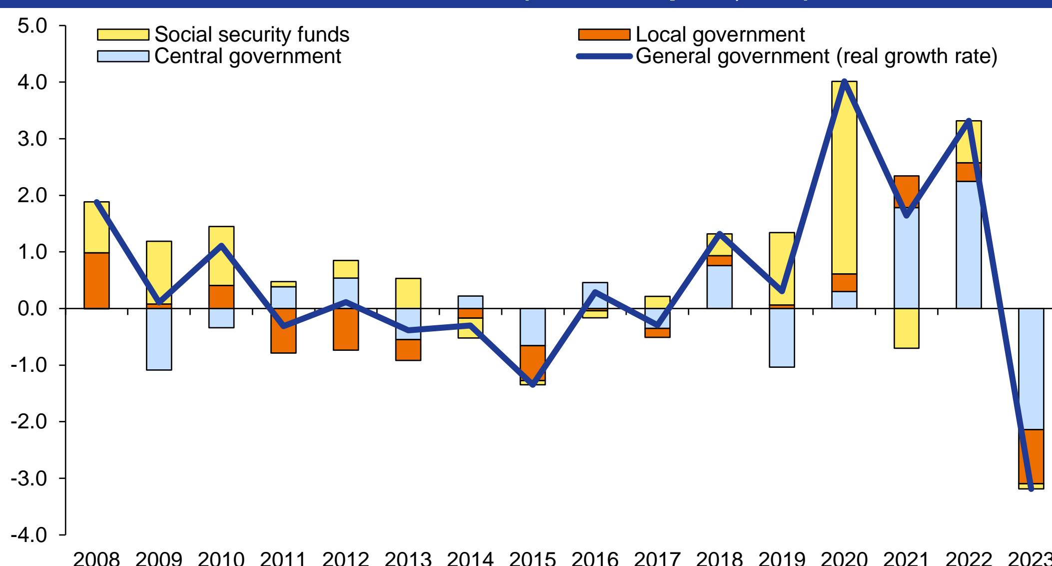
establishment of the new rules of European economic governance, local government is already called upon to provide a contribution of around 3.84 billion in existing legislation[109]:

TABLE II.3.1: CONTRIBUTIONS TO PUBLIC FINANCE BY LOCAL GOVERNMENT PENDING THE DEFINITION OF THE NEW RULES OF EUROPEAN ECONOMIC GOVERNANCE (EUR million)

	2023	2024	2025	2026	2027	2028
Municipalities		300	300	200	200	200
Provinces and Metropolitan Cities		100	100	50	50	50
Regions and Autonomous Provinces	196	501	546	350	350	350
Total	196	901	946	600	600	600

In this context, it is useful to highlight the contribution of local governments to current expenditure dynamics. National accounts data for the institutional sectors of general government show that current expenditure by local government in 2023, the latest year available, decreased by 3.8 percent in real terms on an annual basis.

FIGURE II.3.3: THE CONTRIBUTION OF LOCAL GOVERNMENT TO THE GROWTH OF CURRENT EXPENDITURE BY THE PUBLIC ADMINISTRATIONS (data at 2015 prices; Val.%)



Source: elaborations on ISTAT data.
Note: The data do not take into account the general revision of the annual estimates of the National Accounts for the period 1995-2023 of 23 September, as information on subsectors is not yet available.

[109] In accordance with article 1 (850) et seq. of budget law No 2020 of 178, the Regions and Autonomous Provinces shall ensure a contribution to public finance of 196 million for each of the years 2023 to 2025, plus the additional contribution provided for in paragraph 213 of budget law No 2023 of 527, amounting to 305 million for 2024 and 350 million for each of the years 2025 to 2028. In accordance with article 1, par. 850 et seq. of budget law No 178 of 2020, the municipalities, provinces and metropolitan cities shall ensure a public financial contribution of 100 million for the municipalities and 50 million for the provinces and metropolitan cities for each of the years 2024 and 2025, to which the additional contribution provided for in article 1, par.213 of budget law No 2023 of 533 must be added, amounting to 250 million, of which 200 million are to be paid annually by the municipalities and 50 million per year from the Provinces and Metropolitan Cities for each of the years 2024-2028.

This contributed to the downward trend in real current expenditure by the public sector as a whole by around 1.0 percent.

This is part of the reform of European economic governance, where the principle of fiscal balance and debt sustainability of the general government, enshrined in articles 81 and 97 at the constitutional level, must be framed in such a way as to ensure compliance with the constraint on net expenditure growth. First, taking into account the degree of financial, administrative, regulatory and statutory autonomy of local government, enshrined at constitutional level, and the need to ensure, in any event, budgetary balances, compliance with the following conditions, which, as noted, are already provided for in the current legal system, remains essential:

- non-negative balance between final revenue and final expenditure at sector level;
- non-negative balance between total revenue and total expenditure, including administrative surpluses, debt takings out and repayments and the constrained multiannual fund, net of reserved and earmarked revenues, at the level of the individual institution.

The obligation on each local authority to comply with the balance must therefore also take into account the revenue reserved and earmarked during the financial year. At the same time, the limits laid down in existing legislation for the use of government surpluses by deficit institutions should be maintained.

However, the balances set out above alone do not make it possible to ensure that local government contributes to the target growth rate of net expenditure. To this end, provision could be made for a contribution to the State budget by individual local and regional authorities with direct withholdings from tax transfers or, alternatively, an obligation for deficit institutions to increase the amount of the deficit to be repaid in the year and for surplus institutions to set aside in the budget a current fund to be allocated in the following years to finance investments and early repayment of debt. Cooperation from individual local and regional authorities could also provide for the exclusion of smaller bodies or bodies with a limited size of expenditure.

The application to local and regional authorities of the new fiscal rules at sectoral level implies, in any event, the need to identify discretionary revenues, the increase of which allows for a corresponding increase in primary expenditure given the authorised expenditure limit and, on the contrary, the decrease of which leads to a corresponding lower primary expenditure given the authorised expenditure limit.

Lastly, the contribution of local and regional authorities to the new public finance constraints must be coordinated with the process of implementing fiscal federalism and differentiated autonomy based on the basic levels of services pertaining to civil and social rights guaranteed by Article 117 of the Constitution throughout the national territory, the application of equalisation criteria in the distribution of resources, based on the difference between fiscal capacity and standard needs, and the closing up of the infrastructure gap between the various geographical areas of the national territory.

II.3.3 Contingent liabilities

Existing stock of public guarantees

On 30 June 2024, the stock of government guarantees stood at around 292 billion (13.3 percent of GDP), which is slightly lower than it was on 31 December 2023 (around 300 billion or 14.1 percent of GDP). This result is in line with the downward trend of last year and far from the peak reached during the pandemic in 2021 (15.7 percent of GDP), as consequence, first, of special schemes and new measures introduced since 2020 in response to the pandemic crisis and authorised under the Temporary Framework launched at European level on State aid and, subsequently, due to the initiatives implemented to address the consequences of the energy crisis, as part of the Temporary Crisis Framework (TCF) approved in March 2022.

In particular, during the period of these emergency frameworks, the stock of public guarantees increased as a result of: (i) the reinforcement of the Guarantee Fund for Small and Medium-sized Enterprises (hereafter SME Fund), managed by *Mediocredito Centrale* (MCC), by providing for specific favourable conditions, such as raising coverage thresholds, free access and simplifying procedures for issuing guarantees; (ii) the introduction of new guarantee schemes, the management of which was entrusted to SACE, to deal with the pandemic emergency (*Garanzia Italia*) and the energy crisis (*SupportItalia*) in favour of mid-cap companies and large companies.

Looking at the data as of 30 June 2024, in relation to the so-called emergency portfolios, whose volumes amounted, in terms of guaranteed stocks, to around 140 billion, equivalent to 6.4 percent of GDP, with a decrease of around 27.3 billion compared to 31 December 2023, it can be seen: (i) a steady reduction of the guaranteed portfolio during the Covid-19 pandemic, as a consequence of the amortisation phase beginning for all underlying loans; (ii) the initial decrease in exposure related to guarantees granted to protect companies from the effects of the energy crisis, for which the repayment phase started for part of the portfolio.

In particular, with regard to *Garanzia Italia*, the exposure decreased from around 40 billion, which was the cumulative guaranteed stock from the beginning of the measure until 30 June 2022, the date of the closure of the temporary special Covid scheme authorised at European level, to around 14 billion on 30 June 2024.

With reference to the Guarantee Fund for Small and Medium-sized Enterprises, taking into account only the emergency portfolio related to the pandemic, the total stock guaranteed by the instrument as of 30 June 2024, amounted to around 75 billion, compared to around 200 billion during the period when the temporary framework was in force. Finally, regarding *SupportItalia*, the stock as of 30 June 2024 stood at 13.6 billion compared to 17.3 billion as of 31 December 2023, when the measure adopted to tackle the energy crisis ended its operation, in line with the EU's temporary regulatory framework.

On the other hand, with regard to the guarantee measures not linked to emergency situations but provided for by the regulatory framework on a permanent basis, the exposure of the State amounts to 152 billion, 6.9 percent of GDP, with an increase of around 26 billion compared to 31 December 2023. This increase is due

to the increase i) in the portfolio of guarantees issued under the co-insurance scheme State – SACE S.p.A. to support commercial credit, ii) as well as those related to guarantees granted by SACE S.p.A. on market conditions to support projects under the so-called Green New Deal, iii) the guarantees issued by Consap S.p.A. to support the most vulnerable households for the purchase of the first home, and finally iv) those associated with the new transitional guarantee scheme for 2024 under the Guarantee SME Fund.

With reference to aforementioned ordinary schemes, the State exposure, in recent years, has been characterised by an increasing trend due to the long duration of the underlying financing operations, which, in some cases, such as export credit or real estate loans, may even exceed fifteen years, hence making the amortisation phase more gradual than the initial phase of mounting positions.

Again with regard to the guarantee schemes not linked to the emergency, there is a continued steady reduction in the State's exposure to the Guarantee on Securitisation of Non-Performing Loans (so-called GACS), which ended its operation on 14 June 2022.

The details of the exposure guaranteed by the State as of 30 June 2024, broken down by area of intervention, are set out below.

TABLE II.3.2: PUBLIC GUARANTEES AT 30 JUNE 2024 (% of GDP)

	Measures	Date of adoption (1)	Guaranteed stock outstanding at 30/06/2024	Maximum amount of contingent liabilities for the year 2024 (2)
In implementation of European instrument	SURE (3)	19/05/2020	0.13	0.1
	European Guarantee Fund (3)	19/05/2020	0.2	0.2
	Macro-financial assistance to Ukraine (3)	23/09/2022	0.02	0.02
	Subtotal		**0.3**	
In response to Covid-19	SME Guarantee Fund (4)	17/03/2020	3.4	9.1
	Garanzia Italia (5)	08/04/2020	0.7	2.7
	SACE guarantee commercial credits insurance (3)	19/05/2020	0.1	0.1
	Guarantee Fund for first homes	26/05/2021	0.3	0.0
	Subtotal		**4.4**	
	Sub-total (including SURE and Pan-European Guarantee Fund)		**4.8**	
In response the energy crisis	SME Guarantee Fund (4)	17/03/2020	0.8	9.1
	SupportItalia (5)	17/05/2022	0.6	2.7
	SACE trade credit insurance (3)	21/03/2022	0.2	0.2
	Subtotal		**1.6**	
Others	SME Guarantee Fund (4) (6)	17/03/2020	1.3	9.1
	Bond issues by CDP S.p.A. (3)	10/03/2020	0.1	0.2
	Local government guarantees (3)		0.1	0.0
	State co-insurance fund for non-market risks in favour of SACE	08/04/2020	3.7	8.0
	GACS	14/02/2016	0.4	0.0
	Guarantee Fund for first homes	26/05/2021	0.9	0.0
	Green New Deal guarantees (7)	15/09/2020	0.3	0.1
	Archimede (8)	01/01/2024	0.03	0.5
	Other instruments (3)		0.04	
	Subtotal		**6.9**	
	TOTAL		**13.3**	

(1) The date of adoption refers to the legislative provision or ministerial decree that introduced or revised the guarantee scheme; (2) statutory maximum guaranteed exposure limit (where applicable); (3) stocks outstanding at 31/12/2023; (4) the maximum exposure of 200 billion is the cumulative maximum value of all operations of the SME Fund. Guaranteed stock outstanding net of guaranteed exposures on European resources; (5) the maximum exposure of 60 billion is meant as the cumulative maximum value, that includes the exposures related to all the schemes operated by SACE such as: *Garanzia Italia, SupportItalia*, Reinsurance of trade credit Covid, Reinsurance of energy credit, *Archimede* and natural disaster risks under the Fund referred to in article 1. par 4 of decree-law No. 23 of 2020, converted into law No. 40 of 5 June 2020; (6) the exposure refers only to guarantees not covered by emergency schemes; (7) the maximum exposure amount refers exclusively to the flow of new guarantees to be granted in 2024, not to the stock of guaranteed debt accumulated also in previous years; (8) The maximum exposure refers to the limit of 10 billion established by the budget law for 2024 for the *Archimede* scheme, which is within the total amount of 60 billion of the maximum exposure to be assumed by the State, taking into account the time-bound commitments already entered into by SACE S.p.A. from the availability of the fund referred to in article 1, par. 14 of decree-law No. 23 of 8 April 2020, converted, with amendments, into law No. 40 of 5 June 2020.
Note: Any inaccuracies are due to rounding.

As regards the potential impacts on public finance balances stemming from the massive intervention undertaken by the State through the system of public guarantees, granted in particular during the emergency period, it is noted that the trend of claims is currently moderate and in line with the forecasts.

As these are relatively young portfolios and all loans have now entered the amortisation phase, it is reasonable to expect that, in the absence of an unpredictable and severe deterioration of the macroeconomic outlook, the trend of claims will continue to align with expectations in the coming years and within the limits of the allocations already provided for by the legislation in force.

Following the end of the emergency phase, starting from 2024, a gradual return to ordinary schemes has begun. This phase is characterised by medium- and long-term planning approach, aimed at maximising the efficient use of the resources allocated to the various public funds to cover potential expected claims.

In this regard, several regulatory interventions have been implemented to enhance state control, both from a forward-looking perspective and through ongoing and ex-post monitoring. These have aimed at structuring strong and centralised governance for certain particularly important public guarantee schemes, such as the State–Sace S.p.A. co-insurance for public export support, the SME Guarantee Fund and the Green New Deal guarantees.

In particular, for the first two measures, the governance structure was defined by setting, in the budget law, the cumulative maximum limits on commitments to be undertaken annually by the State. Additionally, the Interministerial Committee for Economic Planning and Sustainable Development (CIPESS), annually approves a plan of activities and a risk limit system (RAF). The first of these limits is designed to define, in advance, the type and estimated amount of the funding to be guaranteed (broken down by geographical area, macro-sector and size of the beneficiary enterprises) and the related estimates of expected losses. The second limit concerns the risk appetite of the portfolio, in line with best practices in the banking and insurance sector. This structure was also replicated for the new measure known as *Archimede*, recently introduced by the 2024 budget law.

On the other hand, as regards the guarantee for implementing the objectives of the Green New Deal, similar governance features have been established, albeit with by greater flexibility due to the market-based nature of the scheme, among which, the annual definition, in the budget law, of the maximum amount of commitments that the State may undertake, year by year, in line with the objectives set out in specific guidelines adopted by the CIPESS, by 28 February of each year.

On the basis of the gradual phasing out process and reinforced State control, the public guarantees, and in particular the new schemes put in place, including the *Archimede* measure, will have to continue to operate and fulfil their role of support. This is particularly true in areas characterised by partial market failures where these guarantees serve as a leverage tool to encourage greater involvement of the banking system.

New diagrams and future perspectives

On the investment side, the State continues to provide strong support, in particular through the new guarantee facility known as *Archimede*, managed by SACE S.p.A. and provided for in the 2024 budget law (art. 1, par. 259-271). This instrument aims to support infrastructure and productive investments in Italy over the coming years, including in areas characterised by partial market failure and sub-optimal levels of investment. These challenges are linked to the high riskiness also associated with medium and long-term exposures, the use of innovative technologies, or the limited supply of financial products. In this context, SACE S.p.A. was authorised to issue guarantees to medium and large enterprises until 31 December 2029, that can cover up to 70 percent of investments in the infrastructure sectors, including social infrastructure, local public services and industry, and the processes related to the transition to a clean and circular economy, sustainable mobility, climate change adaptation and mitigation, environmental or climate sustainability and resilience, as well as industrial, technological and digital innovation of companies.

The scheme provides for a maximum exposure of 60 billion for the years 2024-2029, of which SACE S.p.A. assumed 10 billion for 2024, in line with an annual activity plan, which defines the expected amount of operations to be guaranteed, broken down by geographical and thematic macro-sectors, and with a risk limit system (Risk Appetite Framework, RAF).

For 2024, the activity plan and the RAF were approved on 29 May by a resolution of the Interministerial Committee for Economic Planning and Sustainable Development. It was provided that the guarantees will cover loans up to 8 billion and securities up to 2 billion. As for the RAF, maximum exposure limits have been set at 2.5 billion for individual counterparties, 3 billion for a group of connected counterparties and 4 billion for each economic activity.

The measure is therefore fully operational and SACE has started to issue guarantees aimed at creating a leverage effect on competitiveness and supporting business investment in innovation, infrastructure and sustainable transition throughout the country. This is intended to boost the productivity of the national economic system.

Another important issue on which the State intervened in support of the market is the coverage of damage directly caused by natural disasters occurring within national territory. The 2024 budget law (art. 1, par. 101 et seq.) provides for a mandatory insurance system for enterprises to cover catastrophic risks, i.e. to cover damage to land and buildings, plant and machinery, as well as industrial and commercial equipment directly caused by earthquakes, floods, landslides, floods and floods.

In particular, the measure, which is a great innovation, aims to develop an Italian insurance market, through a public-private partnership scheme, and to strengthen the insurance culture in Italy.

To this end, SACE S.p.A. has been authorised to grant coverage for private market insurers and reinsurers of up to 50 percent of the claims, with a maximum of 5 billion for 2024. For each of the years 2025 and 2026, the ceiling will be the greater of either 5 billion or the available resources as of 31 December of the

immediately preceding year, not used for the payment of claims in the reference year and available in the special section of the Fund referred to in art. 1, par. 14 of decree-law No. 23/2020, converted by law No. 40 of 5 June 2020.

The scheme is not yet operational as the MEF – MIMIT Interministerial Decree implementing it is currently being finalised. The primary law refers to this decree, particularly concerning certain aspects of the insurance policies' content, criteria for identifying calamities and catastrophic events eligible for compensation, determination and periodic adjustment of premiums, and the limits on the risk capacity for insurance companies covering it, either individually or as a consortium.

Finally, Italy continues to be committed in intensive support for the export and internationalisation of the Italian economy. The dual aim is to strengthen economic and trade relations with partner countries and to increase the market shares of exporting companies. This is achieved through the co-insurance system (State and SACE) for export credit support and through the subsidised financing, provided from the significant resources allocated to Fund 394/81 and entrusted to the management of Simest S.p.A.

These instruments will also play a central role in the implementation of the Mattei Plan[110], in line with the strategic and policy indications shared by Steering Committee.

Non-performing loans

In 2023, Italian banks continued their non-performing loans (NPL) disposal activity, with sales amounting to around 9 billion (20 in 2022). This process, part of the ongoing de-risking strategy initiated in the aftermath of the major financial crisis, further reduced the stock of NPLs on banks' balance sheets (from a peak of 341 billion in 2015 to around 60 billion at the end of 2023). Looking ahead, transfers will also be able to take further impetus from the legislative decree transposing EU Directive 2021/2167 on credit services and purchasers, which was finally approved by the Council of Ministers on 22 July. This is expected to free up additional bank resources to be allocated to the real economy (as well as greater protection for borrowers).

At the end of 2023, the quality of bank assets was stable and satisfactory, in line with the European average. The loan-default rate stood at 1.1 percent; the NPL ratio[111] at system level net of value adjustments (Net NPL ratio) remained stable at 1.4 percent (for significant banks[112] it was 1.1 percent, in line with the European

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[110] See focus 'Mattei Plan for Africa and the new development strategy towards the African continent', Cap. III.

[111] The NPL ratio is defined as the ratio of non-performing loans to the total loan portfolio provided by the bank.

[112] A bank is classified as significant, and is therefore directly supervised by the ECB, if it meets at least one of these criteria: (i) the total value of its assets exceeds 30 billion or, unless the total value of its assets is less than 5 trillion, exceeds 20 percent of national GDP; (ii) it is one of the three most significant banks located in a Member State, in view of its economic importance for the country itself or for the economy of the European Union as a whole; (iii) the total value of assets exceeds 5 billion and the ratio of cross-border assets in more than one other participating Member State to total assets exceeds 20 percent or the ratio of cross-border liabilities in more than one other participating Member State to total liabilities exceeds 20 percent; (iv) applied for or received funding under the European Stability Mechanism (ESM) or the European Financial Stability Facility.

average). The coverage ratio stood at 49.7 percent, while loans classified as stage 2 under International Financial Reporting Standards (IFRS) 9[113] from June to December remained broadly unchanged. The gross NPL ratio, on the other hand, decreased slightly to 2.7 percent (compared with 2.8 percent in the previous six months), remaining well below the alert threshold defined by the European Banking Authority (5 percent). According to Bank of Italy's projections, the share of financially fragile households would remain stable at 2.2 percent in 2024; the share of vulnerable firms would increase by 0.4 percentage points to 24.9 percent[114].

For the current year, although there are no negative signs so far, some observers[115] foresee a potential rise in the loan-default rate, which is expected to gradually decline over the next two years. These forecasts also reflect a scenario of gradual recovery in economic activity – albeit marked by a high degree of uncertainty – and the gradual easing of monetary policy. Demand for goods and services is expected to increase, supported by a recovery in real income, to which the slowdown in price hikes also contributes. The interest rates reduction process, launched by the ECB in June 2024, would help improve the conditions for firms and households to access credit.

With regard to the 'derisking' process of Italian banks, it is worth mentioning the instrument of public guarantee for non-performing securitisations (known as GACS), as a support measure put in place by the legislator in 2016.

The operation of the GACS scheme ended on 14 June 2022 with a total of 46 guarantees, involving non-performing loans with a total value (Gross Book Value) of around 117.8 billion. These loans were sold at a net value of 28.2 billion, with a nominal value of the senior tranches, backed by the public guarantee of 21.5 billion.

Therefore, no new guarantees were issued in 2023 and for one of the securitization transactions, both the interest and principal of the related issued senior notes were fully repaid, leading to the expiration of the State guarantee on that operation.

As of 30 June 2024, the outstanding exposure guaranteed by the State amounted to approximately 8.84 billion, and no claim requests have been submitted by senior noteholders on the State guarantee for principal and interest payments. As regards the trend in recoveries of claims underlying State-guaranteed securitisation transactions, the assessment compares their actual is recovery capacities in relation to the original forecasts from the initial business plan, or on the ratio between actual net collections and expected net collections (so-called Cumulative Collection Ratio – CCR).

The situation is regularly monitored in order to analyse, define, mitigate and manage the potential risks associated with this type of guarantees. As regards possible claims, according to the latest estimates, in the event of actual

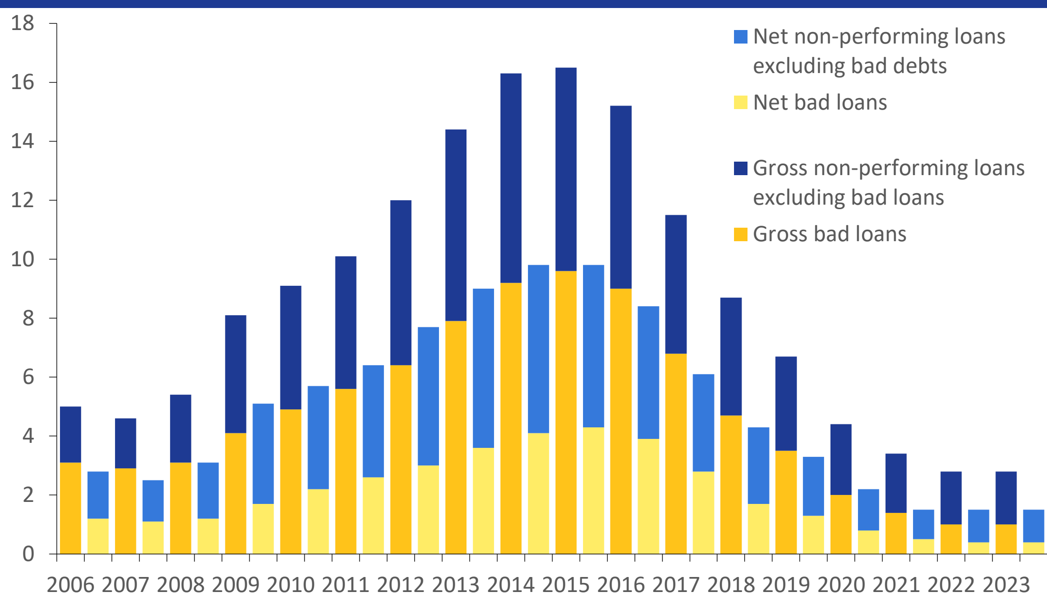
[113] The impairment model in IFRS 9 is based on the classification of three stage exposures according to their degree of deterioration: no deterioration, significant increase in credit risk (stage 2) and non-performing exposures.

[114] Households with a debt-servicing ratio of more than 30 percent and an equivalised income below the median are considered vulnerable. Enterprises with a negative gross operating surplus (MOL) or a ratio of borrowing costs to MOL above 50 percent are defined as vulnerable.

[115] Outlook ABI-Cerved 2024-26 on corporate non-performing loans, June 2024.

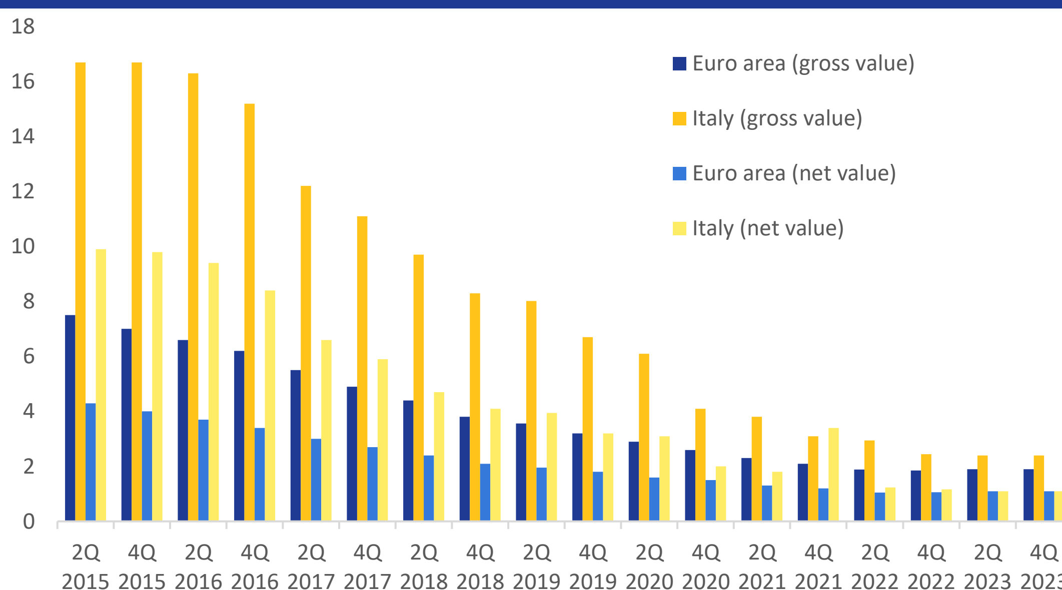
materialisation, these are adequately covered by the resources available from the Fund set up to cover them. The Fund initially received 120 million for 2016, increased by 100 million for 2019 under art. 23 of decree-law No 22/2019. As a market-based instrument, the Fund is also financed by the annual fees due as remuneration for the guarantees granted.

FIGURE II.3.4: NON-PERFORMING LOANS: SHARE IN TOTAL LOANS – TOTAL BANKING SYSTEM



Source: MEF elaboration on Bank of Italy data.

FIGURE II.3.5: NON-PERFORMING LOANS: SHARE OF TOTAL LOANS – SIGNIFICANT GROUPS



Source: MEF elaboration on Bank of Italy data.

Contingent liabilities arising from operations of public companies

As regards to State's shareholdings in companies that are not included in the general government sector, on a forward-looking basis, in the short term and based on their economic and financial performances, there are no significant management issues identified that would suggest potential negative effects on public finance balances.

As regards the monitoring of the financial and assets situation, it is important to recall that, under the Civil Code for public limited companies, which also applies to State-owned companies, financial statements must be assessed on a prudent basis and with a view to business continuity (art. 2423-bis). Therefore, the balance sheet contains funds for risks and charges which are also intended to cover all probable losses or liabilities, while potential contingent liabilities are required to be disclosed in the notes to the financial statements.

Additionally, while the general risk and crisis prevention tools established by the common law apply, the Consolidated law on companies with public participation (legislative decree No. 175/2016 – TUSP) provides for further significant control tools for monitoring the risk of financial crisis in not listed, publicly controlled companies, not listed, including those not classified in the general government (art. 6 TUSP).

In any case, the inclusion of liabilities (actual and potential) in the financial statements of companies not included in the general government does not have any direct or indirect effect on public finance balances, due to their legal separation and full patrimonial autonomy from the public shareholder's budget. However, it remains possible for the public investor to choose to intervene in order to protect the general interest if it is somehow influenced by the activities of those companies. Public intervention must in any event fall within the limits set by art. 14, par.5 of legislative decree No. 175/2016 – TUSP, which prohibits public administrations from subscribing to capital increases, making extraordinary transfers, granting credit facilities and issuing guarantees to unlisted state-owned companies that have recorded losses for three consecutive financial years or that have used available reserves to cover losses, including *interim* ones (so called 'prohibition of financial assistance').

II.3.4 The valorisation of public assets

In the Update of the Stability Programme 2023, the commitment to reduce the debt-to-GDP ratio was reaffirmed, also using resources obtained from asset disposals, which already contributed positively to this ratio in 2024. This objective will be achieved not only through the divestment of public equity holdings but also through the distribution of extraordinary dividends.

Participations

In the last year, significant transations involving the sale of equity stakes have been concluded, particularly concerning companies directly owned by the Ministry of Economic and Finance, including ENI S.p.A. and *Banca Monte dei Paschi di Siena* S.P.A.. These operations generated a total revenue of around 3 billion.

Under the law, as far as direct participation is concerned, the revenues from such divestments are earmarked for the reduction of public debt. For the second-level transactions, the proceeds will be used to strengthen the capital assets of the heads of group (part of these proceeds may also be allocated to the payment of an extraordinary dividend to the public shareholder).

In any event, the disposal of shareholdings in companies is carried out in a way that the State does not lose the control over the companies involved (except in certain specific cases, such as MPS). The objectives of these divestments are intended: (i) to mobilise resources to benefit public finance; (ii) to increase the value of the shareholdings boosting liquidity and stability of the securities (for companies listed on the stock exchange) or by expanding the share capital (for non-listed companies).

As regards the participation in *Banca Monte dei Paschi di Siena*, control will be lost in order to comply with the commitment made to the European Commission when the State joined the Bank's capital in 2017 through a precautionary recapitalisation operation authorised by the European Commission itself.

With regard to other corporate participations, the plan for the disposal of minority stakes will continue, in line with Update of the Stability Programme 2023. Finally, sector reorganisation and restructuring will be carried out in order to further develop the activities of the companies involved, in line with market developments.

Companies directly owned by the Ministry of Economy and Finance contribute significantly to the national economy. Overall, they contribute around 12 percent of Italian GDP, to which is added the indirect contribution, through the growth of related sectors, due to their essential role as catalysts for development, including the green economy sector.

All companies owned by the Ministry prepare an individual non-financial statement[116], in which they disclose the main activities within Corporate Social Responsibility. This declaration is intended to ensure an understanding of the business activity, its performance, its results and the environmental and social impact it has produced, as well as issues related to personnel, respect for human rights, anti-corruption and bribery matters.

Many of these companies play a crucial role in developing renewable energy and decarbonisation projects, helping to reduce the country's carbon footprint and

[116] These statements, when describing the business model for the management and organisation of the business of the undertaking, shall focus on:

(i) use of energy resources, distinguishing between those produced from renewable and non-renewable sources, and the use of water resources;
(ii) greenhouse gas emissions and pollutant emissions into the atmosphere;
(iii) impact, where possible on the basis of realistic assumptions or scenarios including in the medium term, on the environment as well as on health and safety, associated with identified risk factors or other relevant environmental and health risk factors;
(iv) social and personnel management aspects, including actions taken to ensure gender equality, measures to implement relevant international and supranational organisations' conventions, and how dialogue with social partners is carried out;
(v) respect for human rights, measures taken to prevent human rights violations, as well as actions taken to prevent discriminatory attitudes and actions;
(vi) fight against both active and passive corruption, indicating the instruments adopted to this end.

promote environmental sustainability. This is the case with ENI, which invested 166 million in R&D in 2023, of which 135 million focused on decarbonisation. In addition, through its shareholders in the banking and financial sectors such as *Banca Monte dei Paschi di Siena*, *Cassa Depositi e Prestiti* (CDP) and *Invitalia*, the State plays a key role in the development of the green economy by granting preferential financing for projects related to the green economy, supporting initiatives aimed at energy transition and reducing greenhouse gas emissions. In 2023 alone, CDP supported energy transition projects worth 1.9 billion, and circular economy projects worth 0.32 billion, while, over the same period, *Invitalia* provided funding for 0.37 billion to support processes of sustainable transformation and innovation. This funding is essential to stimulate private investment in all economic sectors of the country and to accelerate the uptake of innovative technologies, further strengthening the economy and contributing to growth and sustainability.

The Government also plans to carry out, where necessary, shareholding acquisition operations in order to ensure direct supervision of strategic assets, in addition to the special powers which the State has by law over the control of those strategic assets. In this direction, for example, the recent operation which enabled the Ministry of Economic and Finance to acquire a shareholding of 16 percent of NetCo's capital (the company resulting from the injection of TIM's network infrastructure into FiberCop).

Monitoring of public holdings

The process of rationalising company holdings held by public administrations, initiated by the Consolidated law on companies with public participation (legislative decree No 175/20016 – TUSP), is monitored by a dedicated MEF structure.

For monitoring activities, aimed, among other things, at knowing the phenomenon and looking into specific aspects, the structure uses the information collected through the '*Partecipazioni*' application of the Department of Economy of the Ministry of Economy and Finance. This information system, originally developed for the annual recording of holdings and then enriched with the combination of similar surveys carried out at central level (art. 17, par.4 of decree-law No. 90/2014), provides a systematic and organic representation of public holdings, on the basis of the information communicated by the individual administrations. As an element of transparency, since 2011, the basic data declared by the administrations have been published in a workable and open format on the website of the Department of Economy[117]. In addition, for the analysis of the collected information, a processing system has been created, making it possible, *inter alia*, to verify compliance with the TUSP rationalisation provisions. In fact, dedicated reports, using automatic information processing algorithms, allow for detecting the compliance of each individual participation with the main provisions of the TUSP or, on the contrary, reveal any inconsistencies.

[117] See https://www.de.mef.gov.it/it/attivita_istituzionali/partecipazioni_pubbliche/open_data_partecipazioni/index.html.

The main findings resulting from the analysis of the information collected during the annual surveys are included into the 'Report on the participation of general government', published on the website of the Department of Economy.

The analyses contained in the report relating to the last survey completed – published in February 2024 and referring to the participation held as of 31 December 2021 and the associated rationalisation plans adopted by 31 December 2022 – show that the response rate of the administrations was approximately 80 percent (10,623 compliant entities out of a total of 13,246 entities included in the subjective perimeter), in line with the 2020 data collection. As regards monitoring of the implementation of the TUSP, it was found that, of the 24,613 company participations analysed for compliance with the parameters set by the Consolidated Text, 9,700 (around 40 percent of the total) do not comply with one or more of the parameters set by the TUSP for maintenance. Moreover, for 7,241 of the latter (75 percent of cases), the administrations indicated that they did not intend to undertake any rationalisation measures. The authorities declared that more than 700 direct participations had been discontinued or rationalised, compared with those held on 31 December 2020.

A reading of the data in the Annual Report confirms, as in the past, a low rate of compliance by administrations with the requirements to reduce the number of participations that do not conform to the parameters set by the TUSP. However, the monitoring activity carried out by the unit has shown that this phenomenon is partly due to difficulties in applying the Consolidated Text.

Therefore, in view of the impact that public participations have in various sectors of the country's economy and, moreover, almost eight years after the entry into force of the TUSP, a review of the regulations established in 2016 is underway in order to ensure an effective disposal of participations that are not functional to the institutional objectives of public entities, without jeopardising the operation of companies providing services in the public interest or exacerbating the red tape burden on public shareholders.

Valorisation and management of public assets

The key element for launching a strategic plan for the valorisation of public real estate assets is to have the most up-to-date and detailed knowledge of the properties owned by public administrations and their use. As part of the 'general government assets' project, an annual census of public real estate assets is carried out for the Department of Economy. This serves as a tool for knowledge and analysis to support the process of evaluating measures to valorise and adopt economic policy measures relating to public real estate assets.

The general government real estate database has been fed by around 10,000 public, central and local, administrations, and currently contains structured and detailed information on over two and a half million assets, including buildings and

land, owned by the public. The mass appraisal model[118] developed by the MEF provides an estimated asset value of around 300 billion, about 75 percent owned by local governments and around 80 percent used directly for institutional purposes. The application created for the census of properties will continue to be developed to improve the quality of data and to meet any additional information needs. Moreover, the system will continue to be put in place, making it possible to enrich the information communicated by the administrations with data – such as socio-economic, contextual and territorial information – sourced from other databases and to process it using mathematical and business intelligence models. This new system makes it possible to identify, among the properties, those which most meet specific criteria to be eligible for particular valorisation interventions (including rationalisation of space, leasing, development concessions, divestiture) or to achieve certain socio-economic objectives (e.g. conversion of unused buildings for social housing, nurseries, students).

With such a broad information base on public real estate assets that has gradually been consolidated over the years, it will therefore be possible to support the action of the various entities of such property, among which a very important part is the local government, which, as noted, owns around three-quarters of the public properties. This will enable the preparation of a series of proposals for valorisation and investment, to be constantly updated in the light of developments in the real estate market and the interest of investors in the Italian market with regard to a public property.

In this context and starting from the portfolio of unused buildings as well as that of properties leased to private entities not for social purposes, which could be of particular interest given its immediate profitability, a strategy for the valorisation of public assets will be developed. This strategy will aim to select a series of properties with certain characteristics, drawing from the information in the public properties database of the Department of Economics. For example, properties belonging to the tourist and hospitality category, which are potentially the subject of valorisation initiatives, to be proposed to the owners. Subsequently, the various actors involved in the initiatives to valorise the properties thus identified (public administrations owning real estate, assets management companies and public and private real estate companies), within the framework of the autonomy guaranteed to them by the legislation in force, will be able to identify, under the coordination of the Ministry of Economic and Finance, different methods of valuing the buildings selected for this purpose.

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[118] The model was drawn up by the MEF in collaboration with Sogei's forecasting and statistical analysis area, following a technical and scientific comparison with the main institutions operating in the sector (the Demanio Agency, the Revenue Agency, ISTAT and SIDIEF – Bank of Italy).

The statistico-mathematical approach used for mass appraisal makes it possible to estimate, on the basis of the information contained in the database, by means of specific algorithms and consistent with national and international accounting standards used for tangible assets, the asset value of the portfolio of the public buildings surveyed or subsets thereof.

The methodology, applied for the first time to the data collected during the 2015 survey, is described in the Thematic Report 'Model for estimating the value of public real estate'. For some revisions to the methodology, see also Report on real estate held by general government in 2018.

This is also the case under art. 28-quinquies of decree-law No 75/2023, converted into law No 112/2023, which established a Steering Committee at the Ministry of Economic and Finance to identify guidelines on the valorisation and disposal of public real estate. This committee will include the central administrations involved, as well as representatives of entities, organizations or associations with specific interests.

The strategy for the valorisation of public assets will be supported by the operation of all designated entities, starting with Invimit SGR and CDP Real Asset, in order to encourage the involvement of the relevant private sector and to create a leverage effect from the operations.

As regards concessions for public assets, the information system (SICONBEP) aimed at their monitoring is currently being implemented. SICONBEP will be the tool for the comprehensive management of data and information on all concessions for State-owned property and public assets, in preparation for future proposals for the valorisation of these assets.

In each concession sector, where possible, efforts have been made to highlight relevant aspects for the valorisation (for example, square metres of the asset that can be granted in relation to the number of active concessions; the profitability of the concession fee for the State and the profitability of the asset concerning the concessionaire based on revenue and/or the economic return on the investment).

Several technical meetings have been set up in central administrations to verify the existence of specific databases or systems for monitoring the various concession sectors, thus ensuring interoperability with SICONBEP with a view to efficient and cost-effective management of information on the concessions of the various assets. The technical specifications and procedures for transmitting the data will be defined, in accordance with the law, through specific guidelines, following consultation with the Joint Conference.

By 2025, it is planned to complete the analysis of the data collected, at central level, of four of the ten sectors identified (maritime domain, civil aviation domain, road domain and mining heritage) and to have a discussion with the local governments for the unavailable parts of the public properties for which they are responsible. This will serve as a precursor to drawing up guidelines or even memorandums of understanding for the administrations holding data but outside the SICONBEP perimeter.

Based on the specific analyses for each sector of the State and for the unavailable properties (*Patrimonio Indisponibile*), policies for the enhancement of public heritage will be identified with a view to ensuring its efficient and productive management, such as:

- Proposals to ensure the adequacy, proportionality and consistency of the fee with the economic use of the asset;
- Possibility of incentivising the instrument of valorisation concessions for disused or abandoned assets;
- Possibility of structuring financial transactions in the sector.

In order to complete the 2025-2027 budget manoeuvre, the Government confirms as linked to the budgetary decision the draft law already indicated in the

previous planning Document and also indicates which draft laws linked to the manoeuvre for 2025:

- Draft law revising the judicial districts, including the Court for Persons, Minors and Families.
- Provisions for the review of services for citizens and businesses abroad.
- Measures to strengthen the sectors of agricultural, fisheries and forestry.
- Provisions on reform of the horse-racing sector.
- Provisions on the reform of the hunting system.
- Provisions for the revision of the system of penalties for agricultural offences and agri-food crimes.
- Measures to support the publishing sectors.
- Revision of the Consolidated text of local governments.
- Provisions on simplification and efficiency of the national education system.
- Provisions on the valorisation of the school real estate assets.
- Reform of extraordinary administrations and supervision of cooperatives and trusts – Enabling law to the Government.
- Draft law on measures to encourage the attraction of investments and the seasonal adjustment of tourist flows – 'Destinazione Italia'.
- Draft law to relaunch strategic investments in transport infrastructure and networks, with a structural budgetary perspective.
- Measures in the field of pension law.
- Employment provisions (A.C. 1532-bis).
- Measures to support policies to combat poverty.
- Strengthening the higher education and research system.
- Delegation to the Government on housing policies for university students.
- Measures to reorganise and strengthen territorial care in the National Health Service (SSN) and hospital assistance.
- Delegation with regard to the reorganisation of healthcare professions and entities supervised by the Ministry of Health.
- Measures to support large families.
- Provisions on youth and universal civil service and delegations to the Government for the reorganisation of the matter [not yet submitted].
- Delegation for the revision of the management of audiovisual rights, related to events and content, and for the development of sports infrastructure.
- Provisions for the simplification and digitalisation of procedures concerning economic activities and services for citizens and businesses [A.S. 1184].
- Provisions on managerial career development and performance assessment of management and non-managerial staff of public administrations.
- Measures relating to the economy of the sea.
- Disability code.
- Provisions to combat the publication of misleading commercial practices reviews.

- Draft law delegating powers to introduce a legislative framework for the carbon capture and storage (CCS) chain, including by regulating the powers of the Regulatory Authority for Energy Networks and the Environment in this area.
- Draft law on an *ad hoc* legislative framework for the development of hydrogen, the regulatory set-up of the sector and its network infrastructure.
- Draft law delegating powers to introduce a legislative framework to accommodate the proposal to resume nuclear energy production in Italy from 2030, as included in the INECP 2024, enabling the necessary infrastructure, strengthening human resources, promoting public-private partnerships within the entire nuclear system, encouraging international agreements and creating a stable and sustainable financial framework capable of promoting private investment in a particularly intensive capital sector such as nuclear.
- Draft law laying down regulatory provisions on the market in natural and renewable gas, aimed, *inter alia*, at regulating the storage of natural gas with a view to increasing the degree of security of supply.
- Draft law regulating the system of government for the fulfilment of methane emission reduction obligations in the energy sector, in accordance with Regulation (EU) 2024/1787 of the European Parliament and of the Council of 13 June 2024.

III. REFORM AND INVESTMENT ACTIONS

III.1 THE OVERALL NATIONAL STRATEGY TO TACKLE GLOBAL CHALLENGES, INCLUDING THE PURSUIT OF EUROPEAN PRIORITIES

In recent years, Italy has stepped up its efforts to make institutions and the economic and social system capable of addressing global transformations.

It is crucial to prevent the negative consequences and costs stemming from global changes and to create the conditions to exploit emerging opportunities[119]. These challenges are so large that they mostly require responses that go beyond national borders; on the other hand, it is undeniable that part of the effort to address them will have to fall on individual Member States, which will have to increase their resilience and responsiveness to shocks and successfully implement the necessary structural changes. The identified investments and reforms need to be planned and implemented without delay and this Medium-Term Fiscal Structural Plan is certainly an opportunity to contribute to these objectives.

These considerations underlie the overall design of the Plan. It provides for a complex strategy, with separate time stages and differentiated reform priorities, in accordance with Regulation (EU) 2024/1263.

On the substance, in the first years (2025 and 2026) the focus will be on implementing the initiatives included in the RRP; by contrast, from 2027 onwards, Italy will continue along the path taken, consolidating its results and enhancing the scope and benefits of the initiatives that have proved to be more strategic, effective and efficient in recent years compared to the country's economic and social strengthening.

As part of this time scanning, Italy will launch a reform plan aimed, on the one hand, at increasing the country's growth potential, economic resilience and fiscal sustainability, on the other hand, at responding to the country-specific recommendations of the EU Council (CSR) and at contributing to the pursuit of common European objectives for the ecological and digital transition, social and economic resilience, energy security and the development of defence capabilities.

This Chapter addresses all these aspects. In particular, paragraph III.2 will describe the measures that Italy intends to take to increase the growth potential and economic resilience and improve Italy's fiscal sustainability. It will be thanks to the commitment to take such measures that Italy will be able to extend the fiscal adjustment period, in line with the provisions of Regulation (EU) 2024/1263.

[119] For further details, see paragraph I.1.

They will focus on strengthening recent reforms and investments that have profoundly innovated the administration of justice and the taxation system, the business environment, public administration and the planning and management of public expenditure.

In particular, in the area of justice, the action will aim to consolidate and enhance the results achieved with the RRP, as regards reducing the length of court proceedings, reducing the backlog of justice and completing the green and digital transition process.

This will be achieved through the adoption of: i) planning tools, including an action plan for the efficiency of civil and criminal proceedings); ii) measures for staff stabilisation and digital innovation in the administration of justice, necessary for the complete digitalisation of the process; iii) regulatory and legislative interventions to stimulate higher administrative productivity and close territorial gaps. These actions will be accompanied by a process of reorganisation of the territorial distribution of judicial and support offices which, inter alia through the implementation of administrative decentralisation and measures to upgrade and improve the energy efficiency of buildings, will reduce waste and inefficiencies and speed up the green and digital transition of the administration of justice.

As regards taxation, measures considered are aimed both at advancing the implementation of the tax reform (law No 111 of 2023) and at consolidating the results achieved by the RRP. In relation to the tax reform provisions provides to: i) promote the arrangement with creditors and collaborative fulfilment; ii) confirm structural measures for the remodulation of IRPEF rates and the effects of the tax wedge; iii) taking into account the objectives of supporting family expenses, economic growth and the ecological transition, with a view to adjusting tax expenditure over several years; iv) complete the process of efficiency of the collection system.

At the same time, the Government intends to confirm and strengthen its commitment to combating tax evasion by strengthening the processes and institutions introduced by the RRP. In this context, the services provided by the tax agencies will be extended in order to ensure: i) a further improvement in the relations between tax administration and taxpayer; ii) easier and cheap spontaneous compliance and subsequent recovery of revenue as a result of preventive actions and control activities carried out; iii) a strengthening of control systems. These actions will be accompanied by specific measures to: i) introduce higher penalties for proven tax evasion by public professionals, retailers and concessionaires; ii) improve the tax and database interoperability information system to ensure the taxation of short-term rented properties, the linking of information from electronic payments and the payroll.

The Plan also aims to improve the underlying conditions within which businesses and investors operate, by promoting increased competition and efficiency of public administration, as well as the reduction of administrative burdens and barriers that undermine access to credit.

For this reason, in order to promote greater dynamism, growth in size and investment, the Government intends to: i) adopt a framework law on SMEs, the specific actions of which will be subject to an annual public consultation; ii) continue efforts to adopt an annual competition law; iii) accelerate the

implementation of the capital market reform. These reforms will be accompanied by investments to support the internationalisation of businesses and the technological and digital transformation of SMEs and business networks, including through the reorganisation and enhancement of centres of technology transfer and the strengthening of the digitalisation actions financed by the RRP.

The Plan also contains measures to increase the human capital of the public administration, with the aim of increasing the productivity, quality and quantity of public services.

This will be achieved through reform and investment measures to ensure: i) greater appreciation of merit in the public administration, through a targeted recruitment process targeting young people and ensuring career paths aligned with pay and performance assessment; ii) continuous training of civil servants, through actions to close the gaps of public authorities in technical capacity, as well as providing sectoral and transversal skills for the digital, ecological and administrative transition and for the use of EU funds.

Not least, the Plan aims to ensure better planning of expenditure through: i) strengthening the forecasting tools for the underlying dynamics and the effects of public spending; ii) the use of integrated and systematic control processes; iii) monitoring the management of public expenditure, including by extending the scope of inspections and fact-finding investigations carried out by the Ministry of Economy and Finance and the role played by audit and trade union entities in public administrations, entities and companies receiving ordinary or extraordinary contributions from public finance.

The set of reforms described in these priority areas, with horizontal implications, does not, however, exhaust all the measures that Italy intends to take in the coming years.

The overall package also includes reforms and investments which, although not covered by this first subset, will be implemented with the same ambition and commitment, to strengthen the country's economic and social fabric, in line with the Government's political priorities.

In general, the action of the RRP will be continued, ensuring the completion of the strategic investments planned in the various missions. For the purposes of the Plan, in particular, in addition to the planned RRP investments in the areas referred to above[120], investment in strengthening early childhood care services, reforming and expanding active labour market policies, innovation in the education and research system and strengthening cooperation between universities, research bodies and businesses, strengthening the health system and economic and social cohesion, and speeding up the ecological and digital transition process have been provided.

[120] Justice, taxation, business environment, public administration and public expenditure planning.

These measures, directed at specific economic and social areas, will also help to respond to the specific recommendations of the EU Council adopted since 2019 and contribute to the achievement of the EU's common priorities[121].

They will be described in paragraph III.3 where, for each action area, the results achieved by the RRP and to be achieved by 2026 will be taken into account. It will then describe the additional reforms and investments that Italy commits to carry out from 2027 in areas where challenges and needs may remain, even after the implementation of the RRP.

Finally, paragraph III.4 will provide an assessment of the macroeconomic results expected from the RRP and the Plan, which will be further developed along the different reform areas.

Appendix VI includes the reference tables showing: i) reforms and investments relevant to the extension of the adjustment period of the Plan; ii) other strategic reforms and investments; iii) investment needs for the achievement of European priorities.

III.2. REFORMS AND INVESTMENT TO PROMOTE ECONOMIC GROWTH AND SUSTAINABILITY OF PUBLIC FINANCE UNDERPINNING THE EXTENSION OF THE ADJUSTMENT PERIOD OF THE PLAN

Improving the quality of institutions and the business environment is the priority objective of the Plan's reform action. It will help to make our country more attractive for businesses and investments.

In this direction, reforms and investments aimed at making the judicial and tax administration more efficient, more attractive for investment, more capable and accessible to the public administration, and more accurate planning and management of expenditure will play a positive role.

The measures will be implemented by using the resources provided for in existing legislation and further increased by the appropriations authorised by the next budget law, in compliance with the public finance rules laid down by the new European governance. Some of the policies set out in this chapter may be implemented as part of the areas resulting from the update on the implementation of the Plan and, more generally, from developments in public finance.

These actions, consistent with the commitments included in the RRP and in the EU's common priorities, are expected to improve overall growth and economic resilience potential, support fiscal sustainability and respond effectively to the

[121] They concern the fair, green and digital transition, including the climate targets set out in Regulation (EU) 2021/1119, social and economic resilience, including the European Pillar of Social Rights, energy security and defence capability development. To make it easier to read, reforms and investments will be broken down according to the common EU priority to which they should contribute. In addition, for each measure, the specific recommendations of the Council of the EU to which they are responding will be taken into account. For each common priority, a brief discussion will be provided: i) the main innovations introduced by the RRP or the latest regulatory provisions; ii) the actions that Italy intends to implement by 2026 in the context of the RRP; iii) the measures that Italy undertakes to take forward between 2027 and 2029, in order to reduce further problems and needs that may persist even after the complete implementation of the RRP.

specific recommendations that the EU Council has addressed to Italy (CSR) in recent years.

They will therefore allow the fiscal adjustment period of the Plan to be extended to seven years. Italy will report on the progress of their implementation in its annual progress report.

In the following paragraphs, further details per action area are provided.

III.2.1. Measures in the area of justice

In recent years, Italy has embarked on a major reform of the administration of justice, which has brought new resources and processes, also thanks to the RRP[122]. Given their ambition, the actions already taken[123], as well as those that will be completed and reinforced in the coming years, are a key element of the Italian reform strategy and will therefore be considered for the extension of the fiscal adjustment.

Nevertheless, in addition to the measures already planned, the Government intends to adopt new commitments in this Plan to: i) facilitate the achievement of the 2026 targets; ii) consolidate and strengthen the results of the RRP between 2027 and 2029, addressing additional challenges and needs[124].

This will ensure a more efficient administration of justice, which improves the competitiveness of the economic fabric, the attractiveness and allocation of investment, and strengthens the fight against possible criminal infiltration and corruption.

The efficiency of civil and criminal proceedings: towards and beyond 2026

(CSR2 of 2024 and 2023, 2.1 of 2022, 4.1 of 2020, 4.1 and 4.2 of 2019)

As is well known, the reforms in the civil and criminal proceedings initiated by the RRP aim to ensure the reduction of: i) by 2024, of the pending civil backlog on 31 December 2019; ii) by 30 June 2026, the time of civil and criminal judicial proceedings and pending civil cases on 31 December 2022.

In these years, investment in human and digital capital, the promotion of greater efficiency and productivity, as well as the use of simplified procedures and alternative dispute resolution tools have made it possible to achieve significant results and build the ground for achieving the 2026 targets.

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[122] Only with the RRP, five reforms have been launched (related to: i) civil and criminal proceedings; ii) the insolvency framework; iii) the Tax Boards of first and second instance; iv) the process of digitalisation of the system and three types of investment (in human capital, digitalisation and judicial construction).

[123] All planned reforms entered into force by March 2024, except the one on digitalisation of first instance criminal proceedings and interoperability between IT platforms of the Telematics Criminal Process, which will be completed by the end of 2025. With regard to the objectives, those related to the digitalisation of court files and the recruitment or extension of contracts of RRP staff were achieved. For further details, see regular reports to Parliament on the state of implementation of the National Recovery and Resilience Plan.

[124] The Plan will merely mention the new commitments, but the resources already in place to achieve the objectives of the RRP remain unchanged.

In particular, as regards the reduction of the backlog in civil proceedings, at the end of December 2023 there was a reduction of 85 percent and 97.1 percent respectively in the cases pending before the ordinary courts and courts of appeal on 31 December 2019, confirming the positive trend towards achieving the RRP objectives.

Otherwise, to the target of reducing pending cases[125], Italy is in the middle of the process: in December 2023, the reduction in the backlog of the ordinary courts and courts of appeal was 50.1 percent and 43.4 percent respectively, compared with the 90 percent target for 2026.

Finally, with regard to the time taken to deal with proceedings, in December 2023, compared to 2019, we found: i) a reduction in the length of civil proceedings by 17.4 percent compared with a target of 40 percent planned for June 2026[126]; ii) a reduction in the length of criminal proceedings by 25 percent, which met the target of 25 percent for June 2026.

Despite the results achieved at national level, territorial differences remain regarding the average length of civil proceedings (see Figure III.2.1).

In view of the commitments made and these problems, the Government intends, with a view to extending the Plan, to introduce regulatory and legislative measures and to implement new measures to strengthen human and digital capital in order to facilitate the achievement of the objectives of the RRP and to pursue more ambitious ones in the following years. These commitments are taken into account for the extension of the consolidation period of the Plan.

In particular, the Government intends to draw up and implement an Action Plan and related legislation for the efficiency and simplification of civil and criminal proceedings.

They will highlight, in particular, actions aimed at capitalising the experience in the Trial Office, through the stabilisation of the Office’s staff, which has played a key role in reducing backlogs and the length of proceedings, as part of the needs plans. In addition, the Government is committed to supporting the productivity of judicial offices and bridging territorial disparities.

Finally, in order to make the processes more efficient, the Government also intends to invest to ensure the digitalisation of all processes and the simplification and unification of the deposit of documents in the electronic process in all the courts.

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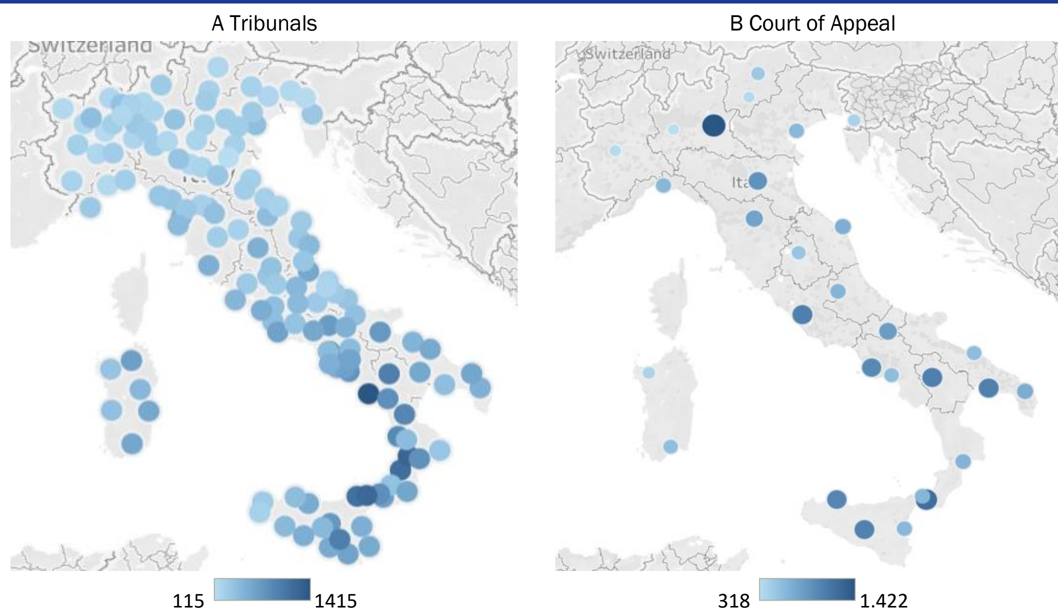
[125] Following the revision of the RRP, the following is expected by June 2026: i) a reduction of 90 percent of cases pending before the courts as at 31/12/2022 only in respect of files registered from 01/01/2017 to 31/12/2022; ii) a reduction of 90 percent of the cases pending as at 31/12/2022 at the Courts of Appeal (M1C1-48) in respect of files registered from 01/01/2018 to 31/12/2022 only.

[126] With regard to the trend and forecasts in relation to the actual average duration in days of ordinary civil declaratory proceedings defined in the courts, please refer to what was discussed in the 2024 indicators of Report on Equitable and Sustainable Well-being Indicators.

FIGURE III.2.1: AVERAGE EFFECTIVE LENGTH IN DAYS OF PROCEEDINGS IN ORDINARY CIVIL, LABOUR AND SOCIAL SECURITY CASES, VOLUNTARY JURISDICTION AND SPECIAL AND SUMMARY PROCEEDINGS, IN DECEMBER 2023.



Source: Ministry of Justice

This action is part of the process of digitalisation of civil and criminal proceedings and includes an increase in the investment initially planned in the RRP[127]. Laws No. 134 and 206 of 2021 provide for the large-scale digitalisation of all criminal and civil proceedings, with a positive impact on the length of cases.

In particular, the Government intends to update the Ministry's innovation strategy, which will serve to ensure the digitalisation of all criminal proceedings by the end of 2027, including the systems of the offices of the Justice of the Peace and the Supervisory Court.

In addition, in order to facilitate the simplification and unification of the filing of documents in the electronic process in all courts, the deposits of civil, criminal, administrative, tax and accounting procedural documents will be digitised by 2028, with the creation of a single IT platform. Finally, full interoperability between the Ministry of Justice's systems and databases and the databases of ministries and agencies will be ensured by 2029.

These actions will make a greater contribution on the Italian side to the realisation of the European process of digitalisation of cross-border judicial

[127] This concerns, in particular, investment M1C1I1.6.2 – Digitalisation of the Ministry of Justice, which provides for: i) the mandatory nature of the electronic file; ii) completion of the electronic civil proceedings; iii) digitalisation of first instance criminal proceedings, excluding preliminary hearings; iv) the introduction of a database of civil decisions, available free of charge. However, work continues to achieve a new goal for the full digitalisation of first instance criminal proceedings through the crime news portal, the criminal acts portal and the application of criminal proceedings. The platforms will be interoperable with each other. In addition, as part of the process of digitalisation of central administrations, the digitalisation of judicial archives (covering the period from 2006 to 2026), covering 7.75 million judicial documents and the creation of a data lake as a single entry point to the full set of raw data produced by the justice system, was planned in 2026.

cooperation and access to justice. It provides that both communication by electronic means to natural or legal persons through the European electronic access point and the exchange of information between authorities in civil, commercial and criminal matters are ensured.

These investments are expected to have significant positive effects, not only on improving the efficiency of the justice system, but also on the process of digitalisation of services and public administration and on the perception of the quality of institutions by businesses and citizens, which is necessary to make the country system more attractive to workers and investments.

Rationalisation and energy upgrading of the offices of the administration of justice

(CSR2 of 2024, 2, 3.1 and 3.5 of 2023, 3.1 and 3.5 of 2022, 3.4 and 4.1 of 2020)

In order to further accelerate the green and digital transition process of the administration of justice, the process of retraining and streamlining the seats of the judicial administration will also contribute.

With regard to reorganisation, this process will be guided by an analysis of the current judicial geography and the state of implementation of administrative decentralisation, compiled in a dedicated report to be published by the first quarter of 2027. It will be the driving force for drawing up a proposal to rationalise the locations and the organisational set-up of support activities. Following the approval of the framework for the reorganisation of sites with a view to efficiency, rationalisation measures will be carried out by 2028.

As regards the green transition, on the other hand, it is planned to continue the effort initiated by the RRP, increasing investment in judicial construction, which will be extended, in particular, to the penitentiary sector with a view to improving prison conditions, reducing the crowding rate and economic efficiency.

In particular, the Government intends to ensure investments for the three-year period 2027-2029 to support the upgrading and energy efficiency of the buildings of the administration of justice, in particular Bunker Courtrooms for the judicial administration, prisons for adults and minors, housing and schools for the prison police[128].

Energy efficiency measures, taking into account the large size of prisons, would also contribute to achieving the objective introduced by the Energy Efficiency Directive, which requires at least 3 percent of the public air-conditioned area to be renovated each year.

The actions envisaged should, however, be included in a programme of reform of the penitentiary system aimed at strengthening the institutional capacity of the Prison Administration and enhancing security, in a unified vision of the system, which will be dealt with in more detail in paragraph III.3.1.6.

[128] Following on from Investment 1.2 of Mission 2 Component 3 ‘Construction of buildings, upgrading and strengthening of the judicial authorities’ real estate’, which provides for at least 289.000 m^2 to be upgraded by March 2026.

III.2.2. Measures to implement tax reform, promote voluntary compliance at reduced costs and combat evasion

(CSR 1.3 of 2024, 1.5 of 2023, 1.4 of 2022, 1.3 of 2019)

In recent years, Italy has stepped up its reform efforts to ensure a certain, transparent and simplified tax system that facilitates tax compliance and is less distortive for economic activities and conducive to economic and social growth in Italy.

In this regard, the work on the implementation of the tax reform[129], which is still being completed, as well as the investments and reforms of the RRP, which have made it possible to achieve significant results, including in terms of reducing tax evasion, will be a prerequisite for the full achievement of the objectives of the RRP to 2026 and the reform itself.

In particular, thanks to the reforms and investments in the RRP, specific actions have been put in place[130] to: i) improving communication and the relations between tax administration and taxpayer; ii) facilitate voluntary compliance at low cost; iii) strengthen control systems.

In the coming years, Italy will continue along the path undertaken, with a view to achieving the targets set for the end of 2025 and mid-2026.

In particular, among the objectives of the RRP in the area of tax compliance, the propensity to evade tax evasion was reduced compared to 2019 of 5 percent in 2023 and 15 percent in 2024. As evidence of the success of the results already achieved in this direction, we would point out that, in the 2021 tax year, the propensity to evade was already 17.8 percent lower than in 2019[131].

For the coming years, Italy intends to set new targets in the direction taken, so that the results achieved can be strengthened and their scope extended over the period 2027-2029.

Given the above, the overall strategy that includes the reforms and investments of the RRP and the new commitments described in the following paragraphs must be taken into account for the extension of the adjustment period of the Plan.

In particular, Italy intends to consolidate the results achieved in the medium term by promoting the strengthening of existing measures, including the introduction of more effective control strategies and timely sanctions, as well as the adoption of a more collaborative approach between the financial administration and taxpayers, which increases voluntary compliance, reduces costs, promotes

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[129] Law No. 111 of 9 August 2023.

[130] The efforts made have already yielded significant results on time, as regards: i) identification of measures to reduce tax evasion resulting from non-invoicing; ii) the operationalisation of new digital tools and procedures to promote tax compliance, improve audit and controls; iii) the increase in revenue resulting from the sending of correct and timely reporting to taxpayers; iv) the availability of pre-completed forms for the payment of VAT to VAT holders.

[131] For further information, see the update to the Report on Unobserved Economy and Tax Evasion and Contributory Evasion https://www.mef.gov.it/export/sites/MEF/documenti-pubblicazioni/rapporti-relazioni/documenti/Aggiornamento_relazione_2023_finale_h1710.pdf.

simplification of compliance and contributes to the structural reduction of tax evasion. These policy objectives are also consistent with the guiding principles of tax reform, which build on current achievements.

In a complementary way, the implementation of reforms will benefit from technological developments and the digitalisation of processes. They will ensure that businesses and economic operators have access to transparent, reliable and timely procedures with clear positive impacts in terms of competitiveness on the global market and reduction of administrative burdens, while taxpayers and consumers will benefit from transparent tools and higher levels of quality[132].

In this context, Italy intends to focus action on three priority areas: i) promote tax compliance in order to increase revenue from prevention and enforcement activities; ii) continue the process of implementing the enabling law for tax reform; iii) complete the reform of the efficiency of the collection system.

These objectives will require the adoption of specific actions described in the following paragraphs.

Strengthening measures to promote tax compliance and their impact on tax revenues.

In line with the approach taken with the RRP, Italy intends to further strengthen the tools to promote voluntary compliance at reduced costs. It is planned to introduce and define an aggregate indicator for the overall recovery of tax revenue paid voluntarily by taxpayers as a result of prevention and more effective control activities carried out by the tax administration. Between 2025 and 2031, a significant average value is estimated. To achieve these results, the Government intend to act on two fronts. On the one hand, the Plan provides for the expansion of the services provided by the tax agencies in order to simplify relations with taxpayers and promote tax compliance at a reduced cost; on the other hand, the aim is to strengthen the tax information system and interoperability of databases. For more details, see the focus ‘Agreements with tax agencies’ at the end of the paragraph.

In particular, in order to promote simple tax compliance at a reasonable cost, the aim is to improve the action of the tax administration by setting annual performance targets for tax agencies. The latter will aim to ensure: i) greater availability and use of public services for contributors and users and simplified ways of using them[133]; ii) the development of tools to analyse the risk of evasion and

[132] In the case of the work of the Customs and Monopolies Agency, for example, the simplification and digitalisation of activities will promote better traceability of goods, thus increasing product quality and safety. This positive impact can be observed with reference to the activities of the Revenue Agency and the Revenue Collection Agency in the areas of responsibility.

[133] This will concern, in particular, the pre-filled tax return service, the dissemination of which is already consolidated in Italy. In the coming years, the aim is to ensure its progressive generalisation, guaranteeing the

fraud[134]. A more effective link between control activities and revenue recovery activities will also be promoted[135].

The strategic and cross-cutting approach to the various lines of action taken will be to complete the process of digital transition of the tax assessment and collection system, as well as the procedures which, in various respects, govern the relations between the administration and the taxpayer to which the Government is committed.

In particular, measures to digitalise and dematerialise the inspection procedure will be strengthened by promoting forms of remote dialogue. This will not only make the process more efficient by reducing the administrative costs of managing activities with lower added value (such as printing, notifying and keeping records), but also further improve the comparison between taxpayers, intermediaries and the administration, with positive repercussions in terms of the sustainability of tax obligations and the reduction of litigation.

In addition, in order to continue efforts to combat tax evasion, the tax information system and the interoperability of databases will be strengthened.

This objective will include a number of actions aimed at: i) introduce a National Identification Code (NIC) for buildings subject to short-term rentals for tourist purposes; ii) ensure a link between the information arising from electronic payments and the recording of charges; iii) implement the link between the deductibility of transport, hotel and restaurant expenses and traceable payments, including the use of so-called 'spoken credit transfers'; iv) strengthen tools for monitoring and promoting voluntary compliance, building on the use of artificial intelligence tools.

In particular, in order to strengthen the fight against tax evasion in the market for short rentals for tourism purposes, and in line with the information requirements for digital platforms laid down in the DAC 7 Directive (Council Directive 2021/514),

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service also to VAT payers and to all taxpayers. In this direction, there is also a commitment to promote an increase in the number of pre-filled 730 templates downloaded, not only by unassisted taxpayers, but also by their intermediaries. This will significantly reduce the time and cost of retrieving information relevant to the completion of the declaration and the related payments. The use of pre-filled declarations will also make it possible to significantly reduce the errors in compilation on the part of the taxpayers concerned, with positive consequences in terms of the recovery of revenue resulting from lower tax evasion linked to errors in the compilation and calculation of declarations.

[134] The Government undertakes to carry out a more detailed mapping of the risks of tax evasion and tax fraud. Based on data disaggregated at provincial level, it must make it possible to identify the risk of tax non-compliance attributable to the various economic sectors and to distinguish between 'risk of evasion' and 'risk of fraud'. This mapping will subsequently be extended to cover also the risks related to VAT fraud at intra-Community level.

[135] In order to combat tax breaches more effectively and improve collection, the Government intends to introduce specific lines of action and objectives. They concern: i) compliance letters; ii) substantive findings; iii) entities subject to joint analysis by the Revenue Agency and the Guardia di Finanza for the purposes of their respective control activities, with the aim, in particular, of combating fraud and under-invoicing, including in relation to expenditure linked to population ageing; iv) increase by the Customs and Monopolies Agency checks in the field of excise energy and alcohol, VAT controls (Intra and Plafond) and Post Clearance Audit(PCA) controls, which aim to ensure that economic operators comply with EU and national legislation and obligations in all areas related to the customs authority.

the Government has introduced the obligation to establish a National Identification Code (NIC) for owners of buildings leased for short periods for tourist purposes. The information from the NIC will therefore enable the administration to have available in a timely and systematic manner useful data to develop more effective enforcement and control strategies aimed at reducing tax evasion in the area of short-term tourist rental. Looking ahead, and in order to strengthen the system of property controls and define more effective and less intrusive enforcement strategies, it will be necessary to integrate the information from the NIC with the other data available to the administration. This will be key to enhancing the tax information system and the interoperability of databases.

In addition, taking as a starting point the positive results achieved in terms of tax reduction following the introduction of the obligation for electronic transactions, the administration undertakes to make a full link between the information arising from electronic payments and the register of charges. This measure will make it possible for transactions at final consumption (B2C) to improve the traceability, timeliness and comprehensiveness of the information sent by operators to the administration and, structurally, to combat tax evasion resulting from non-invoicing and declaration. The availability of data resulting from the matching of electronic payment information with the fee register will contribute to the strengthening of the database available to the tax information system and, consequently, to the development of more effective, targeted and less intrusive control strategies.

All the commitments described in this paragraph are taken into account for the extension of the consolidation period of the Plan.

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Agreements with tax agencies

The agreements with the tax agencies referred to in Article 59 of Legislative decree No. 300 of 30 July 1999 implement administratively the tax and tax management policies identified annually by the Minister for the Economy and Finance in the Guidelines for the achievement of tax policy objectives.

Inspired by the principal-agent model, the Minister-Agency agreements are a three-year agreement, with annual adjustment for each financial year, setting out, inter alia, the services due and the objectives to be achieved, the resources available and the indicators and parameters on the basis of which management progress is measured. The agreements also provide for the procedures for monitoring results and an incentive to achieve management objectives, graduated in such a way as to take account of the improvement in overall results and the recovery of revenue in the fight against evasion actually achieved.

The current Conventions for the three-year period 2024-2026[136] consist of an article laying down the rules on duration, subject matter and institutional commitments of the Ministry and the agencies, and a number of annexes setting out i) the system of relations between the Ministry and the agencies, ii) the activity plan, iii) the incentive system, and iv) the arrangements for monitoring management and monitoring results.

In line with the guidelines, the activity plan – which is at the heart of the agreement – defines the main strategic areas of intervention (SIA), identifies the objectives to be achieved, as well as the indicators (strategic, institutional and public value) and the expected results to measure management progress.

The Revenue Agency’s Plan is divided into four SIAs:

- *Services – voluntary compliance of taxpayers*. This area aims to promote voluntary compliance by taxpayers by providing them with the necessary services and support to voluntarily comply with tax obligations at a reasonable cost;
- *Prevention – promotion of voluntary fulfilment*. This area includes actions aimed at strengthening tax compliance and supporting taxpayers, both at the time of declaration and in paying taxes, ensuring a unified approach towards those entities that participate in the instruments of cooperation with the tax authorities and encouraging an increase in voluntary compliance through specific schemes or institutions for the various types of taxpayer, such as cooperative compliance for large companies and the establishment of a two-year arrangement with creditors for smaller companies and self-employed persons;
- *Law enforcement – control and resolution of tax disputes*. Covers law enforcement activities aimed at reducing the tax gap, strengthening the effectiveness of controls by better selecting the entries to be checked, to be carried out using interoperability between the various databases and strategically analysing the data available;
- *Resources – valorisation of available resources*. As part of this area, in addition to stepping up investment in the ICT sector in a framework of cyber security and the protection of personal data in accordance with the legal provisions, the aim is to increase the Agency’s capacity to recruit staff with appropriate profiles while ensuring their continued exploitation and professional development.

The Revenue Collection Agency’s plan is developed within the following SIAs:

- *Services*. This includes actions to improve the relations with the taxpayer by increasing the range and quality of digital services offered, making it easier for different types of users to access and use them;

[136] They can be consulted at the following link: https://www.finanze.gov.it/it/il-dipartimento/la-governance-sulle-agenzie-fiscali/convenzioni/.

- *Collection*. Within this area, the strategy put in place aims to ensure that the expected volumes of revenue are achieved, while at the same time ensuring that the debts entrusted to be recovered are safeguarded;
- *Resources*. The measures provided for in this area aim, first, to contain the Agency's management costs, by means of initiatives to review the way in which services are provided and the digitalisation of the operational processes of collection with a view to increasing automation, and by improving the agency's performance in tax disputes.

The Customs and Monopolies Agency Plan divided into four SIAs:

- *Services, competitiveness and growth support*. In this context, the Agency shall provide assistance and advisory services to economic operators, including through the dissemination and use of customs institutes and procedures aimed at increasing their competitive capacity;
- *Taxation – preventing and combating evasion*. The activities provided for in the area aim to prevent and combat tax failures, strengthening the tools for combating customs smuggling and directing action to the main risk areas, with a particular focus on excise duty offences, intra-Community VAT fraud and the e-commerce sector, also with a view to increasing the revenue recovered;
- *Legality*. The measures included in this area aim to increase the level of protection of citizens, businesses and the territory by implementing a consolidated strategy for action in the non-tax field;
- *Resources*. In the latter area, the Agency's primary objective is to make the most of the resources available, by finalising the procedures for recruiting new staff and promoting the professional development of existing staff.

In addition to being set out in the agreements signed between the Minister for Economic Affairs and Finance and the Director of the Agency, the tax policy guidelines set out in the guidance document are further detailed in the Integrated Activity and Organisation Plan (see PIAO)[137]. The latter, in addition to the Performance Plan – which essentially corresponds to the Activity Plan provided for in the agreement signed with the Minister – also contains the Staff Borrowing Requirements Plan and the concrete actions plan, the Plan for Streamlining the use of structural assignments, the Prevention Plan for Corruption and Transparency, the Agile Work Organisational Plan and, finally, the Positive Actions Plan.

The implementation of the enabling law for tax reform (law No. 111 of 2023)

In line with what is also envisaged for the enabling reforms of the RRP, Italy intends to accelerate the implementation of the tax reform. In this regard, action in the coming years will be aimed at strengthening collaborative compliance, structuring the objectives of adjusting IRPEF rates and the effects of the tax wedge, and reorganising tax expenditures from a multiannual perspective. The latter two commitments are taken into account for the purposes of extending the consolidation period of the Plan.

In particular, the Government intends to promote the use of instruments of prior agreement with taxpayers in order to increase certainty and transparency in relations between the administration and taxpayers and to reduce compliance

[137] The link to the Revenue Agency's PIAO 2024-2026 is as follows: https://www.agenziaentrate.gov.it/portale/documents/20143/6000307/PIAO+2024-026.pdf/8e0c477e-e74b-9bb3-8034-cc63bd40435d e dell'Agenzia delle dogane e dei monopoli https://www.adm.gov.it/portale/piao-2024-2026.

costs. For larger entities (with a turnover of more than 750 million in 2024, more than 500 million in 2026 and more than 100 million in 2028), the Government has provided for the strengthening of the collaborative compliance scheme and the resources dedicated to it.

This element, which is a key element in the implementation of the enabling law for tax reform, serves to strengthen the constant and preventive dialogue with larger taxpayers who have a tax risk control system in place, to establish a shared assessment of the situations that may give rise to such risks prior to the submission of tax returns and/or the fulfilment of tax obligations.

The main novelty is the certification of the Tax Control Framework by independent professionals already possessing a specific professionalism, which ensures that the company has a reliable tax risk control system, integrated into the corporate governance system and internal control. The new Collaborative Compliance Scheme will facilitate the management of situations of uncertainty by means of an early comparison and the prevention of potential tax disputes with benefits both for taxpayers – in terms of reduced compliance costs – and for the administration, which will have a more definite framework for defining any selective assessment procedures.

In addition, a number of advantages are envisaged for taxpayers participating in the Collaborative Compliance Scheme, including: i) strengthening preventive adversarial procedures; ii) the reduction of administrative penalties for the tax risks for which information has been provided; iii) shortening the limitation periods for the assessment; iv) the exclusion, under certain conditions, of criminal penalties for unfaithful declaration.

In the same logic, advance agreements are envisaged for companies with international activity, as a compliance tool to ensure transparency and certainty in relations between the authorities and businesses in the context of complex cross-border operations. This will allow greater support for businesses, also with a view to making investments in Italy more attractive to foreign companies and encouraging the relocation to Italy of Italian companies that have previously invested in other jurisdictions.

Particular attention will be paid to promoting the various preventive dialogue tools that the system makes available to taxpayers, in order to minimise the risks of interpretation that may have a negative impact on business decisions.

These include, for example, the Tax rulings on proposed investment (*Interpello sui Nuovi Investmenti*), which is dedicated to investors, including foreign investors and subject to specific measurements. In this context, the Government intends to improve the procedures that allow the financial administration to provide liquidity into the system (including the productive system). These include, first of all, the reimbursement procedure, which will ensure that the investigation is more analytical and robust, and that average payment times are reduced.

These innovations will benefit firms by reducing their financial constraints following the increased liquidity resulting from redemptions, with positive effects in terms of the reduction of elusive and evasive assets due to the recovery of liquidity. In this context, Italy undertakes to ensure that the refunds requested by taxpayers are processed in a timely manner, increasing the percentage of refunds finalised.

In order to stabilise the tax burden reduction targets, to limit distortions and complexity of the tax system, also with a view to supporting the purchasing power of lower-middle-income households and labour supply, the measures to reduce IRPEF rates already initiated in the first phase of the implementation of the enabling law on tax reform will be made structural. These measures will be coordinated to make them consistent with the IRPEF reform and the effects of the tax wedge, with the definition of structural measures to reduce the contribution burden on labour costs.

In addition, apart from the provisions of the RRP, in the area of taxation, a reform area of particular importance for completing the implementation of the enabling law for taxation consists of the reorganisation of tax expenditures in order to achieve the following objectives[138]:

a) rationalise and simplify specific areas of taxation, such as registration tax, inheritance and gift tax, stamp duty and other indirect taxes other than VAT[139], also with a view to reducing distortions and complexities in the Italian tax system;

b) use tax expenditures in certain areas of taxation, such as the alignment of excise duty rates for diesel and petrol and/or policies to reorganise existing energy benefits, as a strategic lever for simultaneously achieving the objectives of increasing the efficiency of the Italian tax system and supporting the full achievement of the energy and environmental transition strategy at European and national level.

The reorganisation of tax expenditures will allow the design of a tax relief system based on the principles of planning, selectivity and *ex ante* monitoring, while respecting fiscal balances in the public finance. Looking ahead, the tax relief system will focus on prior authorisation and *ex ante* monitoring by the administration on the basis of objective criteria, through the creation of dedicated platforms and the establishment of expenditure caps, which are important to verify in advance the financial sustainability of the relief measures.

Reorganisation of the national collection system and definition of stocks of unrecovered and irrecoverable old debts

In implementation of the enabling law on tax reform, a comprehensive reform of the national collection system is envisaged, with the following objectives: i) identify, in detail, the proportion of the stock of tax debts actually recoverable/receivable by the administration compared to the stock of irrecoverable/irrecoverable tax debts; ii) improving tax collection strategies, maximising the use of capital and human resources, making them more selective and effective; iii) make the amount of resources actually due by the administration transparent and certain.

[138] The following implementing legislative decrees (already definitively approved) are expected to be published in the coming months: (I) National provisions complementary to the Union Customs Code and revision of the system of penalties for excise duties and other indirect taxes on production and consumption; (II) Provisions for the rationalisation of stamp duty, inheritance and gift tax, stamp duty and other indirect taxes other than VAT.

[139] The implementing legislative decree is currently being published in the Official Gazette.

In this direction[140], a Technical Commission has been set up to analyse the stock of uncollected credits and to define operational proposals for their reduction. It must report to the Minister for Economic and Finance no later than: i) on 31 December 2025, for the cargoes assigned from 2000 to 2010; ii) on 31 December 2027, for the cargoes assigned from 2011 to 2017; iii) on 31 December 2031, for the cargoes assigned from 2018 to 2024.

Looking ahead, the Technical Commission's action will make it possible, in an objective, timely and transparent manner, to quantify the stock of existing tax claims and to identify the proportion of those receivable in relation to the total.

In addition, with regard to collection activities, Italy intends to continue its efforts to improve the relationship with the taxpayer, promoting the increasing use of available digital services and increasing quality/accessibility for citizens, businesses and intermediaries. In this context, it is considered useful to promote and consolidate the use by taxpayers of digital or remote channels, rather than the traditional physical counter channel, with particular regard to those relating to the payment and payment service, promoting greater use of digital payment systems, including *PagoPa*.

Finally, in order to ensure that collection activities are even more effective and that the process of generating additional resources is improved, in line with the provisions of the enabling law to reform the tax system, the Government intends not only to safeguard debts by introducing appropriate measures to avoid forfeiture and prescription, but also to speed up enforced recovery, in particular of local authorities, using procedures that provide incentives to regulate debt positions, such as those provided for the payment of administrative penalties within a certain number of days. In this context, an indicator is proposed to measure the recovery activity on all the claims entrusted by the creditor institutions[141].

III.2.3. Improving the business environment

(CSR 4.1 and 4.2 of 2024, 3.1 of 2020 and 5.2 of 2019)

In recent years, Italy has made considerable progress in creating a regulatory framework that can respond to market developments, enable competitive dynamics and drive innovation and economic and social growth in Italy.

Several investments and reforms of the RRP have also contributed to this, which have profoundly boosted the way of doing business in Italy, making it more attractive to invest. In the coming years, the Government intends to move forward in this direction, including with a view to extending the Plan, giving priority to measures that will improve the basic conditions in which companies operate,

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[140] Article 110 of Legislative decree No. 7 of 29 July 2024.

[141] Under normal operating conditions, it is calculated as the percentage ratio between the value of the sums contained in the payment orders, notified in the previous financial year, for which the first recovery action was initiated and their total value of the sums due (excluding those received, subject to reductions or suspensions or instalments, for which no recovery action is clearly foreseen).

contributing to greater dynamism and growth in size and to achieving priorities and results.

Framework law on SMEs

In order to create an environment conducive to size growth and to improve access to credit for small and medium-sized enterprises (SMEs), it is planned to adopt, by 2026, a multifaceted framework law to promote business aggregation, size growth and the generational transition within them. In the same year, the necessary regulatory instruments are expected to be adopted to ensure the effective implementation and enforcement of the measures resulting from the Framework Law. In the following years, however, the consultation phase of the trade associations on an annual basis will be central and the launch of a working group to prepare for monitoring and identifying any problems that may be overcome by subsequent legislative measures.

These commitments are taken into account for the extension of the consolidation period of the Plan.

In detail, the law will act on the mechanisms to support the growth of SMEs, including by verifying and monitoring the effectiveness and efficiency of the current instruments.

In addition, the Framework Law aims to reduce the prevalence of small family businesses that expose the production system to significant risks linked to the generational transition of farm ownership in many sectors, including agriculture. The aim of the SME Law, to which Italy commits, is also to introduce administrative incentives and simplifications to support the transfer of skills between generations of workers.

Strengthening capital markets to support the financing of businesses, especially SMEs

The Government is undertaking a thorough reform of the system of rules governing the functioning and supervision of capital markets, in order to foster their growth and competitiveness in the European and international context and thereby facilitate the financing of businesses, especially SMEs, and the digital and sustainable transitions.

The initiatives taken are based on the assumption that an efficient capital market is an essential pillar of the country's industrial policy, by means of which to boost business size growth and productivity, promote innovation, including, but not limited to, digital, and support the transition towards environmental, social and governance (ESG) objectives.

The modernisation of corporate finance, as a key lever for the country's competitiveness, is a key element in making the investments in digitalisation and sustainability needed to achieve the strategic objectives set out in the National Recovery and Resilience Plan. The stimulus given to growth by the latter must necessarily be accompanied and supported by dynamic and attractive capital markets that operate in a complementary manner and in synergy with the public

sector and the banking channel, with a perspective that goes beyond the timeframe covered by the RRP.

Addressing the undersising of equity markets is also instrumental in increasing the resilience of the system, pursuing better risk sharing and diversifying sources of finance for companies. Only then will the financial system as a whole be in a position to address possible changes in the economic cycle and react to possible external destabilisation factors, such as pandemics and geopolitical events.

It was within this framework that the aim was to promote a comprehensive set of reforms that would foster a structural 'step change' in the relationship between businesses, investors and the capital market. Action has therefore been taken at a regulatory level on the one hand by removing regulatory and operational constraints on business access to the market, on the other hand by introducing measures to stimulate, on both the demand and the supply side, the channelling of investment to the real economy through the markets and the productive use of savings.

The reform is based on a study carried out by the Ministry of Economy and Finance, with the support of the European Commission and the OECD, and the resulting public consultation carried out with the publication of the Green Paper on Capital Market Competitiveness[142]. Taking into account the results of this public consultation, in 2023 the Government filed a draft law, approved by Parliament by means of law No. 21/2024 (Capitals law)[143], which contained the most relevant reform proposals that emerged from discussions with all market players.

The Capitals law is a first step towards a broader review of the regulatory and supervisory architecture, for which the law gave the Government a delegation for the comprehensive reform of the provisions on capital markets laid down in the Consolidated Text of the Provisions on Financial Intermediation (TUF)[144] and the Civil Code[145].

In May 2024, a committee composed of academics, lawyers and representatives of the supervisory authorities was appointed, supported by a technical secretariat

[142] The Green Paper focused on four areas of action: a) facilitating access to markets for businesses, including by removing burdens not arising from European legislation (gold plating) and disproportionate burdens, resulting in a competitive disadvantage; b) the removal of unjustified investment constraints by institutional investors and asset managers (also resulting from gold plating); c) the development of 'digital finance', in order to reduce costs and promote efficiency; d) the rules governing the regulatory authorities, including the definition of the role and responsibilities of each.

[143] Measures introduced by the Capitals law to support the competitiveness of markets and the financial system as a whole include: a) a new and broader definition of issues-SMEs that can use some simplifications compared to the normal regime for companies whose securities are traded on regulated markets; b) a scheme for dematerialisation and circulation of quotas of S.r.l. – SMEs; c) reforming and simplifying the regulation of issuers of widespread financial instruments; d) rules for simplifying listing procedures; e) simplifications in relation to placement and prospectus regulation; f) rules removing unjustified constraints on the issue and circulation of bonds by public and private limited companies; g) greater statutory autonomy in defining the way in which the general meetings of listed companies are held, without prejudice to the necessary dialectic assembly; h) innovations in the area of multiple-vote and increased voting, in order to facilitate an appropriate balance between certainty of corporate control (including to stimulate new quotes) and protection of equity investment; I) simplifications for Sicaf and Sicav eterogestite (no overlap between manager and *organismo di investimento collettivo del risparmio* (OICR); l) measures on the regulation of regulatory authorities concerning liability and sanctioning powers; m) the promotion of financial education, which has the status of discipline – within civic education – in school curricula.

[144] Legislative decree No. 58 of 24 February 1998.

[145] The amendments should affect the provisions on limited liability companies contained in the Civil Code which are also applicable to issuers.

made up of staff from the Ministry of Economy and Finance, which will support the exercise of the legislative delegation conferred by Parliament on the Government.

The Government must issue one or more legislative decrees within twelve months of the entry into force of the Capitals Law, i.e. by March 2025. Moreover, within 18 months of the adoption of the aforementioned legislative decrees, the Government may issue one or more legislative decrees supplementing/correcting them.

In this context, it is also necessary to include the measures provided for in the measure on ‘Provisions for the promotion and development of start-up and innovative small and medium-sized enterprises through tax relief and investment incentives’, which, in particular, provides incentives for those who invest in the capital of one of these entities.

The protection and promotion of competition

With the RRP, Italy committed to adopt a law on competition on an annual basis, also taking into account the indications of the Italian Competition Authority and in line with the Country-Specific Recommendations, in order to ensure continuous progress in removing obstacles to competition and to improve market access conditions and consumer protection in the sectors with the greatest critical issues.

Within the assessments for the payment of the fifth instalment of the RRP[146], the recent positive evaluation of the European Commission demonstrates Italy’s significant commitment and high ambition to promote and protect competition[147].

In order to continue in this track, the Government intends to continue its commitment to the adoption of an annual competition law.

In particular, the 2026 annual competition law is expected to focus on reducing hourly limitation for retail trade and restrictions on sales promotions.

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[146] See Preliminary Assessment Fifth instalment at the following address: 463f3ba1-0b59-441e-ae95-ee6111c5d123_en (europa.eu).

[147] Already with the 2021 Annual law (law No. 118 of 5 August 2022), the powers of the *Autorità Garante della Concorrenza e del Mercato* were strengthened and significant changes were made to the rules governing concession schemes, the management of local public services, the system of competition in the energy and health sector, digital infrastructure and electronic communications services. Subsequently, the Competition law 2022 (law No. 214 of 30 December 2023), approved in 2023, further expanded the scope of the reform action by introducing some amendments, principally, in the transport, waste and communications sectors, as well as in the pharmaceutical and food sectors. Retail measures have also been introduced: in addition to the rules on the use of public areas, the law introduced simplifications to ensure the possibility of making promotional and extraordinary sales for physical shops. This has made it possible to reduce the disadvantage compared to online traders, which was also reported at European level in the recent evaluations of Italy’s economic, social, employment, structural and fiscal policies. Important novelties also related to the electricity market: these include the adoption of the electricity grid development plan and the procedure for its future adoption at least every two years, the provisions for the promotion of second generation smart electricity meters and for the definition of cold ironing. The enforcement powers of the Competition and Market Authority have been reinforced, including in order to enforce the European rules on contestable and fair markets in the digital sector and to extend the deadline for the Authority to carry out assessments and inform companies involved in concentrations restricting competition Finally, the Council of Ministers recently approved the draft Annual Market and Competition law 2023, which provides for measures in relation to: i) motorway concessions; ii) the recording of commercial prices and uses; iii) the insurance sector; iv) transport and trade; v) start up.

Conversely, in the period 2027-2029, the annual laws will provide for interventions in non-regulated professions, rail transport, especially the regional one, postal services, hydropower and mineral water.

These commitments are considered for the extension of the consolidation period of the Plan.

However, to date, considerable progress has also been made with the adoption of the law amending the Industrial Property Code[148] and subsequent implementing decrees, strengthening the protection system and introducing simplifications of administrative nature and for the digitalisation of procedures, in order to make the monitoring network more efficient.

With regard to the regulation of professional services, the regulation on fair compensation has been introduced, wrongly assimilated several times to a system of minimum tariffs, which has recently been repealed. Such rules do not constitute an obstacle to market access, but a guarantee of maintaining high quality standards for professional services and adequate remuneration for self-employed professionals even in contractual relationships where the commissioner is in a dominant position[149].

The Government has recently revised the legislation on State-owned maritime concessions in order to overcome the problems identified by the European Commission.

Recently, the data from the latest 2023 update of the OECD indicators on the Product Market Regulation [150](PMR), a set of internationally comparable metrics selected to measure the impact of the set[151] of policies, laws and regulations in force in the various countries, adopted to promote or inhibit competition in the product and services markets, have been published[152].

This update shows that Italy has gradually improved in removing regulatory obstacles to the functioning of certain sectors under analysis. The general summary index (economy-wide) ranks Italy among those with lower regulatory barriers than the OECD average, in enhancement with respect to 2018.

In addition, Italy performs better than the OECD average both in terms of distortions due to state involvement in the economy (Germany and Spain stand behind Italy, while France and Poland above) and lower entry barriers for domestic

[148] Law No. 102 of 24 July 2023.

[149] Unlike the system of minimum tariffs, which has previously been repealed, the rules on fair compensation require remuneration proportionate to the quality and quantity of the work carried out solely for the purposes expressly laid down in the ministerial decrees, with reference only to intellectual work and in the presence of specific clients, which largely reproduce their scope. The objective of the measure is to protect the worker, the quality of performance and the dignity of work in areas where these aspects are most exposed to the risks of contractual weakness.

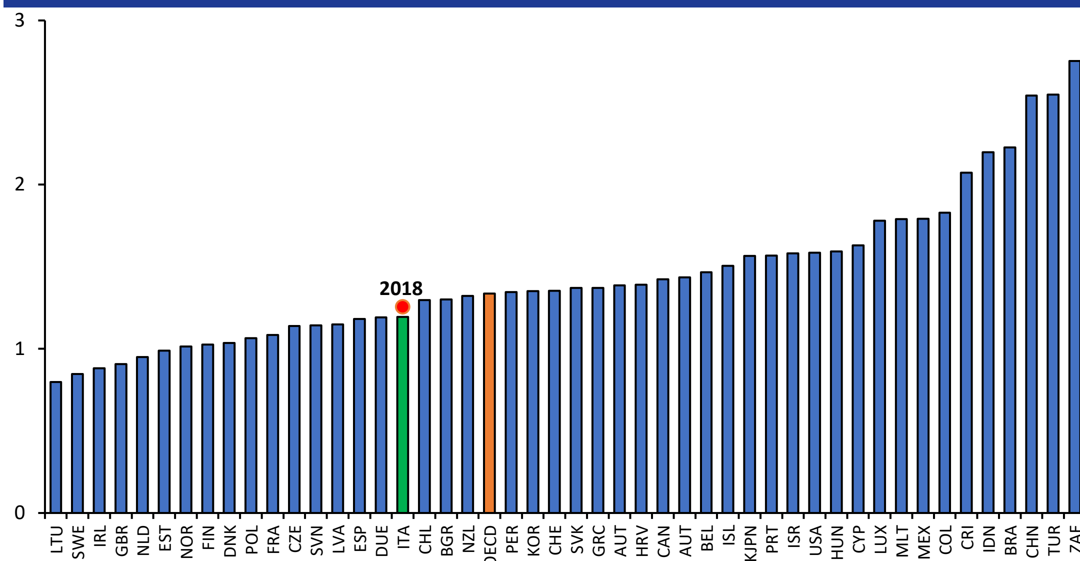
[150] https://www.oecd.org/en/topics/sub-issues/product-market-regulation.html.

[151] The impact of regulation is declined in various ways, including: barriers to market entry, State involvement in business operations, administrative burden, barriers to international trade, distortions created by public ownership.

[152] Network industries (electricity and natural gas; electronic communications – fixed and mobile –; transport – rail, maritime, air, road; water service), services (retail; professional services – notaries, lawyers, accountants, architects, civil engineers, real estate agents – digital markets) and a number of horizontal regulatory domains (including public procurement, licensing and permit legislation; scope and quality of State-Owned Enterprises).

and foreign competitors (Italy and Germany, at the same level, perform better than France and worse than Spain and Poland).

FIGURE III.2.2: PRODUCT MARKET REGULATION INDICATOR (ECONOMY-WIDE)



Source: OECD.

The OECD exercise also makes it possible to identify areas of weak regulation: this concerns, in particular, services where there is some heterogeneity in results since, while progress has been noted in some areas, barriers to competition still persist in others. In detail, the regulatory framework in the energy, transport and electronic communications sectors is rather pro-competitive, while further measures could be taken, both to reduce regulatory barriers to entry and to increase the degree of competitiveness, in retail distribution and sale of medicines. Similarly, professional activities are regulated more strictly in Italy than the OECD average.

Finally, in the 2023 index, Italy is well positioned with regard to the regulation of digital markets, which have recently been included among the sectors analysed through the PRM indicators.

In conclusion, the results described above demonstrate the success of the efforts in recent years and could guide the work for the coming years.

Valorisation of tools to support the industrial licensing of emerging technologies and technology transfer

The Government intends to extend and strengthen support programmes for emerging technologies, in line with the RRP measures already in place and in coherence with the document 'Made in Italy 2030'. These programmes include, for example, the Fund to promote the development of technologies and applications for artificial intelligence, the Blockchain and the Internet of Things, established by the 2019 budget law.

The legislation in force provides that access to the tool is limited to an exhaustive and static list of technologies[153]. However, given the rapidly evolving technological landscape, in order to exploit the full potential of the instrument in supporting innovation and foster the uptake of state-of-the-art solutions, it is intended to introduce more flexibility in the scope, for example, by extending it to the advanced materials and hardware sectors.

Strengthening tools to support business internationalisation

From 2027 onwards, actions will be planned to focus investments on specific sectors and geographical areas.

This will make it possible to continue the process already launched for the internationalisation of SMEs and businesses located in the south, the support of the Italian supply chain in the context of infrastructural projects abroad of strategic interest, and the development of economic relations between Italy and the African continent, in implementation and in full consistency with the Mattei Plan, for which reference is made to the 'Mattei Plan for Africa and the new development strategy towards the African continent'. These instruments will also leverage the strengthening of the promotion of Made in Italy abroad and of funds for the promotion of science and culture.

III.2.4 The reform of the public administration: merit and new skills

(CSR 2 of 2024, 2 of 2023, 2.1 of 2022, 4.2 of 2020 and 3.2 of 2019)

In recent years, Italy has embarked on a path to improve the effectiveness of public administration, addressing the challenges related to the effective administrative capacity, the ageing of the workforce and the level of digitalisation.

The measures adopted under the RRP[154], as well as those that the Government intends to implement in the coming years, will be key to reducing public spending, putting citizens and businesses at the centre of the processes and helping to make the system-country more attractive to investors. For this reason, they constitute an important part of the package of reforms and investments justifying the prolongation of the fiscal consolidation period of the Plan.

In particular, between 2025 and 2026, the action will aim to complement the initiatives of the RRP, in relation to the three strands: valorisation of merit, simplification and upskilling.

Among other things, in accordance with the RRP, the Government will accelerate its efforts to ensure by 2026: (i) the creation of an integrated human resources management database for all PAs with more than 50 employees,

[153] Blockchain, Artificial Intelligence, IoT, Next Generation Networks.

[154] For details, see regular reports to Parliament on the state of implementation of the National Recovery and Resilience Plan.

interoperable with the recruitment portal (inPA)[155] and the 'Syllabus' platform and integrated with the PIAO database; (ii) the simplification of 600 critical procedures; (iii) the upskilling and the reskilling by staff of public administrations[156]; (iv) the identification of key performance indicators, to be used, once collected on a digital performance platform, as a tool also for budget and planning purposes; (v) changing of the status and the selection system of Independent Assessment Bodies.

From 2027 onwards, Italy intends to consolidate and strengthen its achievements in the following areas: (i) strategic human resources management; (ii) strengthening technical capacity and expertise. These actions will be described in more detail in the following paragraphs.

Strategic human resources management: valorisation of merit and performance-aligned career paths

The Government, also with a view to extending the Plan, commits to continue the regulatory changes launched to promote vertical mobility and strengthen management capacity, while ensuring the link between performance assessment, pay and career prospects.

In this perspective, it is expected that the new staff classification system and the mechanisms for salary and professional progressions will contribute to making non-management roles more attractive and to offering career prospects alternative to management.

In this context, it will be crucial to complete by the end of 2027 the reform of the access to management career and the performance evaluation, including the review of Independent Evaluation Bodies and the performance evaluation system.

The Government intends to continue its efforts to ensure a targeted and attractive recruitment system, including the inclusion in career paths in which performance assessment, progression and pay are interlinked.

The overall system is therefore intended to promote a result-oriented *modus operandi*, which can achieve, through greater flexibility, adaptability in work management and a sense of responsibility, a truly better performance for the benefit of citizens and businesses.

These commitments are considered for the extension of the consolidation period of the Plan.

For the strategic management of public administrations, the Government intends to promote generational turnover, agile working arrangements and mobility between public administrations. In this regard, from 2027 onwards, it is planned to consolidate measures to facilitate access to public authorities for young people, including those who have not yet graduated, through contractual forms such as apprenticeships and training and work, which the administrations, and in particular

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[155] Implementing legislation is expected to enter into force for innovation in the recruitment system and increasing the attractiveness of public administration, as well as for the innovation of the InPA Portal, including through investment in AI.

[156] Different objectives are envisaged depending on the type of public administration.

local authorities, are pursuing with the universities present in their respective territories. In addition, the intention is to encourage the activation of paid and curricular internships and research doctorates to be carried out in medium-sized and large administrations by the end of 2027. In addition, to ensure a more efficient and targeted recruitment process to match the needs of public administrations, the Government intends to improve the attractiveness of public employment, including through artificial intelligence tools for the InPA Recruitment Portal.

Transfer of duties between extraordinary commissioners and administrations

With regard to increasing the technical and administrative capacities of the administrations, a gradual transition will be launched between 2027 and 2029 to the administrations normally responsible for the functions and responsibilities already assigned to extraordinary Commissioners, identifying mechanisms for the valorisation and use of the skills and experience gained in the various areas of employment, within the framework of recruitment faculties.

Skills enhancement and generational turnover

In improving skills and administrative capacities, the RRP has already allocated investments for around 490 million in order to finance education and training courses, as well as capacity building in the planning, organisation and strategic training of the workforce.

In order to provide civil servants with personalised training on the basis of a structured and homogeneous survey of training needs, provision has also been made for extending and diversifying the offer of the E-learning Syllabus platform[157].

The initiatives launched in recent years have already brought a clear improvement: in Italy, in 2023, the rate of participation of civil servants in training was mostly in line with the European average (17.0 percent for Italy compared with 17.9 percent of the total in the EU average) and almost twice as high as in 2019 (9.7 percent).

Future efforts will focus on developing the skills of civil servants so as to align them with those needed to guide the country's green and digital transition.

For this purpose, as of 2027, the Government intends to strengthen the strategy aimed at:

- strengthen the training of civil servants, with particular reference to cross-cutting skills for the digital, ecological and administrative transition and soft skills and for the use of EU funds;

[157] Digitalisation of the PA is one of the most advanced components of the RRP in terms of implementation and timing. Out of more than 22.300 potential beneficiaries, around 17.000 administrations received the requested funds, amounting to around 2.4 billion. The municipalities are on the front line, and some 1.9 billion have been allocated to them. Around 99 percent of cities received funding from at least one measure of the 2026 Digital PA programme. Other non-central administrations, such as ASLs (86 percent) and schools (91 percent), also had good take-up rates.

- enhance self-learning training, tailored to the level of proficiency (initial assessment) and serving the definition of individual training plans by enhancing and expanding the functionalities of the Syllabus platform;
- reduce the gaps in technical capacity of the various administrations by means of specific innovative capacity building and training measures, mainly based on peer-to-peer comparison and mentoring schemes involving public administrations, aimed at developing technical, specialised and professional skills and promoting the exchange of best practices;
- implement a training accreditation system for public authorities and mechanisms for funding outcome-based continuous and specialised training for civil servants.

III.2.5. Improving public spending planning and governance

(CSR 1.2 of 2024, 1.2 of 2023, 2022 of 1.1, 1.2 of 2021, 1.1 of 2020 and 1.1 of 2019)

The new European economic governance framework implies that fiscal policy is more medium-term oriented. From this perspective, improving the ability to plan, allocate, control, and evaluate expenditure, as well as the ability to predict trends in expenditure and to intervene in the factors driving the evolution of expenditure, is even more relevant. In this direction, specific initiatives have already been taken by the Government: in the course of 2024, an evaluation of public policies carried out by the central state administrations (expenditure analysis and evaluation plans) was launched and since 2023 the expenditure review activities were resumed while defining expenditure targets allocated to each Ministry for the next three years on the basis of the rules laid down in the accounting law.

In order to comply with the objectives set out in the Plan, while having the goal of increasing the quality of expenditure, the Government intends to provide incentives for public authorities to acquire the capacity to assess historical expenditure, including with a view to proposing specific changes, and to allocate resources for measures that have obtained a positive assessment.

In order to foster the development of these abilities and the adoption of these processes, it will also be necessary to further develop, including through dedicated structures, the capacity of administrations to produce evidence to improve the quality of the services provided and the impact of the programmes financed.

The need to comply with the objectives laid down, therefore, includes the strengthening of monitoring tools as a priority. The availability of accurate and timely information allows to improve the processes for implementing public intervention and to intervene in a timely manner in the event of expenditure deviation from the planned path.

The timeliness of the information needed for financial monitoring requires that the variables to be used are defined according to an accounting dimension that ensures certainty of observation and timeliness in relation to the phenomenon being observed, with specific reference to the framework for discretionary revenue measures within the new European economic governance and to the Eurostat decisions on the accounting classification of specific cases.

The Government also commits to strengthen control and monitoring function of public expenditure, including through inspections and fact-finding investigations carried out, in particular, by the Ministry of Economy and Finance – General Accounting Department. At the same time, the role played by audit and trade union bodies in public administrations, entities and companies receiving ordinary or extraordinary contributions from public finance will be strengthened for these monitoring purposes.

These commitments are considered for the extension of the consolidation period of the Plan.

III.3. THE OVERALL NATIONAL STRATEGY TO ADDRESS GLOBAL CHALLENGES, INCLUDING THE PURSUIT OF EUROPEAN PRIORITIES

The adoption of the measures described in the previous paragraph, which, by analogy with the terminology used in the RRP, can be considered cross-cutting and enabling, does not exhaust all the reforms and investments that Italy intends to adopt in the coming years in order to accelerate the country's economic and social development and convergence.

The overall package provides for further action in specific areas, in order to respond firstly to the country's priorities and also to address the specific EU Council Recommendations adopted since 2019, contributing to the achievement of the EU's common objectives[158].

The reforms and investments provided for in this paragraph are in line with the actions adopted in the RRP, the cohesion policy programmes and the economic and social planning acts adopted in the most recent years, in order to address country's criticalities.

For some of them, Italy intends to complete what has already been initiated; for others, it commits to introduce their upgrading or extension beyond the expected horizon, with adjustment measures in the way they are implemented or in the definition of the recipients of the measures.

In order to give an all-encompassing view, the individual measures are described in the following sub-paragraphs by socio-economic area to which they are addressed.

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[158] They relate to common EU priorities, covering the fair, green and digital transition, including the climate targets set out in Regulation (EU) 2021/1119, social and economic resilience, including the European Pillar of Social Rights, energy security and defence capability development. To make it easier to read, reforms and investments will be broken down according to the common EU priority to which they should contribute. In addition, for each measure, the specific recommendations of the Council of the EU to which they are responding will be taken into account. For each common priority, a brief discussion of: (I) the main innovations introduced by the RRP or the latest regulatory provisions; (II) the actions that the Government intends to implement by 2026 in the context of the RRP; (III) the measures which the Government undertakes to take forward between 2027 and 2029, in order to reduce further problems and needs that may persist even after the complete implementation of the RRP.

III.3.1. Family, birth rate and reduction of social and territorial gaps

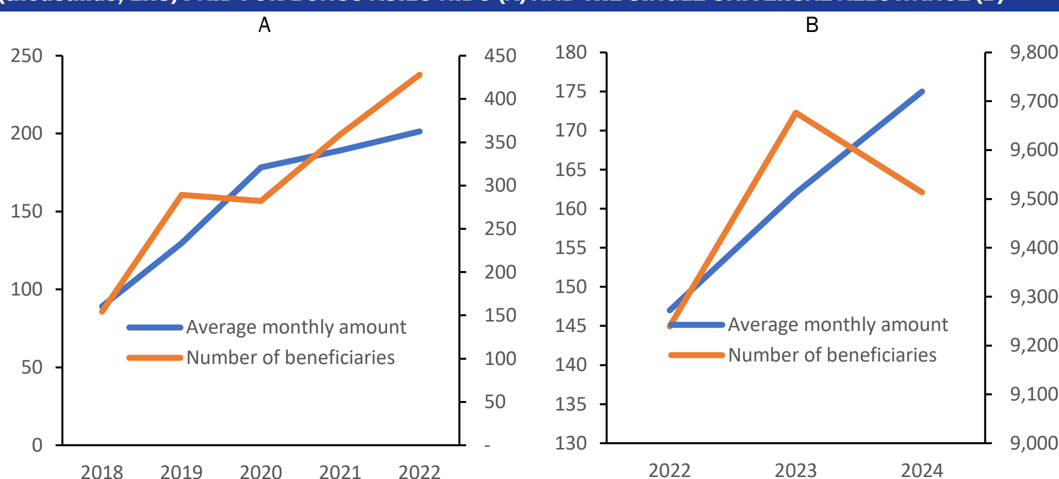
The rapid demographic, economic, social and technological changes make clear the need for planning that, in the medium term, can ensure appropriate instruments to meet the challenges ahead, contributing to the implementation of the European Pillar of Social Rights and to the achievement of the 2030 targets relating to the employment, the training of the adult population and the reduction of poverty[159].

III.3.1.1. Reversing the demographic trend

The Government intends to step up its efforts to counter the negative demographic trend[160], to expand the care system and support for families and to create an economic, social and employment environment that encourages natality.

Among the measures in force, particular importance is the Single and Universal Allowance (AUU), which is paid monthly for each dependent child with variable amounts and no age limit for children with disabilities[161].

FIGURE III.3.1: NUMBER OF BENEFICIARIES (thousands, RHS) AND AVERAGE MONTHLY AMOUNT (thousands, LHS) PAID FOR BONUS ASILO NIDO (A) AND THE SINGLE UNIVERSAL ALLOWANCE (B)



* For 2024, the figure refers only to the months of January and February.
Source: INPS.

In recent years, around 9.6 million children benefited from the measure, and in 2023 some 18.2 billion were disbursed, which is increasing for 2024. Thanks to

[159] To this end, like the other countries, Italy has already announced specific national targets to be achieved by 2030 relating to: (I) an employment rate of 73 percent of the population aged 20 to 64; (II) a rate of 60 percent of the adult population involved in training every year (iii) the reduction of at least 3.2 million individuals at risk of poverty or exclusion. These national targets were announced by Italy at the Employment, Social Policy, Health and Consumer Affairs Council on 16 June 2022.

[160] For further details, see Chapter II.2.

[161] It is paid from the seventh month of pregnancy until reaching the age of 21 (subject to certain conditions) and without any age limit for disabled children. The measure is universal because it is for the child and can therefore be claimed by the parent regardless of his or her employment status.

the recent increase[162], according to INPS, the average monthly amount increased between 2022 and the first months of 2024, from EUR 147 to 175 per beneficiary child (Figure III.3.1). The take-up rate of the measure, marked by slow but steady growth, reached the threshold of 89 percent of eligible beneficiaries and the average amount per child varies from around EUR 54 to 214.

The completion of the RRP investments for early childhood services

(CSR 3 of 2024, 2.3 of 2020 and 2.3 of 2019)

The Government intends to continue its efforts to contrast denatality through early childhood services. This commitment is considered for the purposes of extending the consolidation period of the Plan.

Between 2025 and 2026, actions to ensure the implementation of the crèches plan provided for in the RRP will be reinforced. With an investment of 3.24 billion, it provides for the availability of 150.480 new places (for children aged between 0 and 2 and between 3 and 6 years old). This measure will increase the national average coverage rate for early childhood services (aged 0-2), which stood at 26 percent in December 2021, also improving the situation in southern Italy (Figure III.3.2)[163].

To address these needs, the Government has already made available new resources, totalling around 735 million, in order to overcome territorial and infrastructural gaps in childcare services. The resources are allocated as a matter of priority to those municipalities which would not ensure the achievement of 33 percent target of the nursery service, thus financing the deployment of more than 31.600 new nursery places for the 0-2 year age in 845 municipalities. This will enable Italy to meet the target of 33 percent of service coverage throughout the country, as laid down in national legislation, but also to contribute to achieving the European target of 45 percent by 2030, although issues remain in some specific areas.

These resources come in addition to those already provided for in the 2021 budget law in the Municipal Solidarity Fund, which[164] have recently been transferred to the Special Fund for the Equal Level of Services. Among other things, these resources are intended to finance the provision of a full-time service for nests, in proportion to the population aged 3 to 36 months, which is 33 percent on a local basis.

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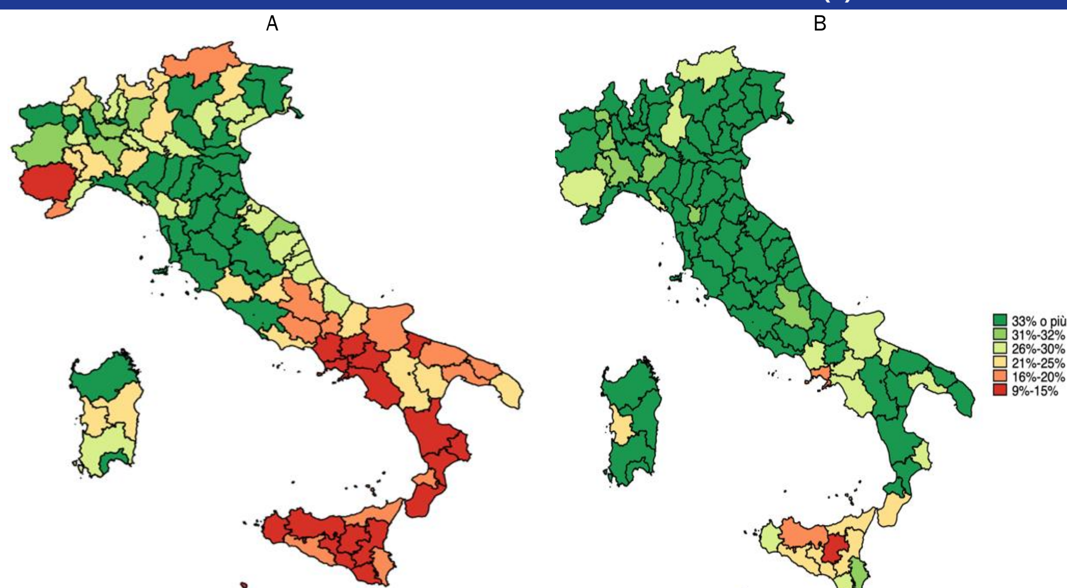
[162] The single and universal allowance for dependent children was introduced by Legislative Decree No 230 of 21 December 2021. Subsequently, the 2023 budget law provided for an increase of 50 percent in its amount for households with: (i) children under one year of age; (ii) with four or more children; (iii) with three or more children per child aged between one and three years, for ISEE levels up to EUR 40,000. In addition to these structural increases, a new increase of EUR 30 is added, equivalent to that already provided for households with both parents receiving income, which are available to widowed households with effect from 1 June 2023. The latter was introduced by decree-law No 48/2023, converted into Law No 85/2023.

The national average coverage163 rate indicates the number of places available in crèches and early childhood services per 100 residents between 0 and 3 years old.

[164] Budget law for 2024, cc. 496-501.

These measures are also accompanied by the RRP investments planned to extend school hours to the afternoon: in addition to contributing to improving educational performance and combating early school leaving, the latter are a tool to support families and encourage greater female participation and employment.

FIGURE III.3.2: EARLY CHILDHOOD SERVICES COVERAGE RATE AS AT DECEMBER 2021 (A) AND 2026, POST-INTERVENTIONS UNDER THE RRP AND DECREE NO 79 OF 30 APRIL 2024 (B)



Source: Processing on ReGiS data, PNRR Lab – SDA Bocconi School of Management.

Measures to support a better reconciliation of family and work life and balancing of care assignments

(CSR 3 of 2024, 2.3 of 2020 and 2.3 of 2019)

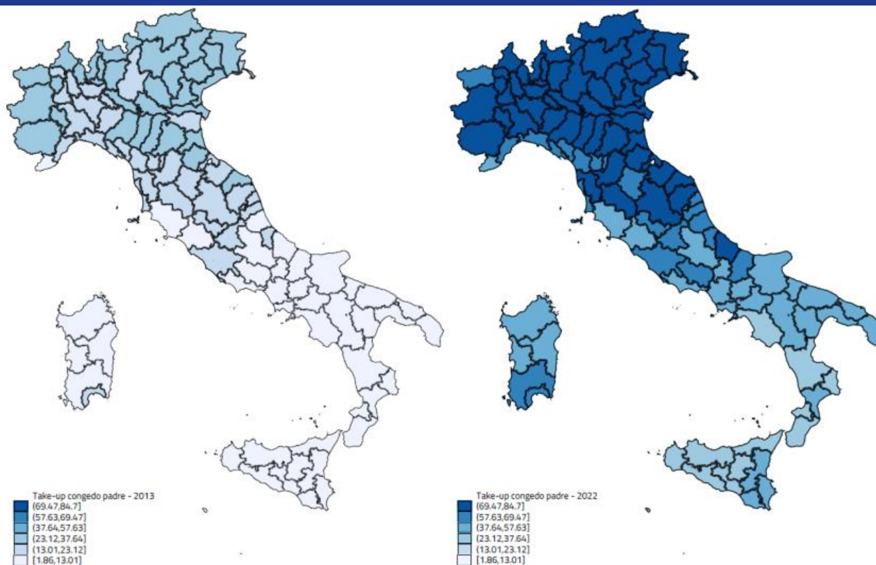
Among the measures being confirmed in the coming years, the Government intends to intervene on parental leave[165]; such action could contribute to a rebalancing of care needs within the family and make it easier for female mothers to stay in the labour market. It could also strengthen the ongoing process of change, of which positive signs are visible, for example: (i) the increase in take-up[166] of

[165] The 2024 budget law extended the amount of the allowance to be received and the duration of parental leave, including an extension thereof, where the father exercises the right to refrain from work for a continuous or split period of at least three months. In particular, it is provided that, during the first 12 years of the child's life, each worker has the right to refrain from work for a total period not exceeding 10 months, which may be increased to eleven if the father exercises the right to refrain from work for a continuous or split period of not less than three months. The 2024 Budget law extended the amount of compensation for parental leave available to mothers and fathers within the sixth year of the child's life, i.e. within six years of the child's entry into the household in the event of adoption or custody. Specifically, for 2024, the allowance was increased to 80 percent of the taxable remuneration for the first two months and, from 2025 onwards, to 80 percent for the first month and 60 percent for the second month. For the remaining months, the compensation remains at 30 percent of the taxable remuneration.

[166] Ratio between fathers applying for paternity leave for children born in a given year and fathers entitled to the measure in the reference year.

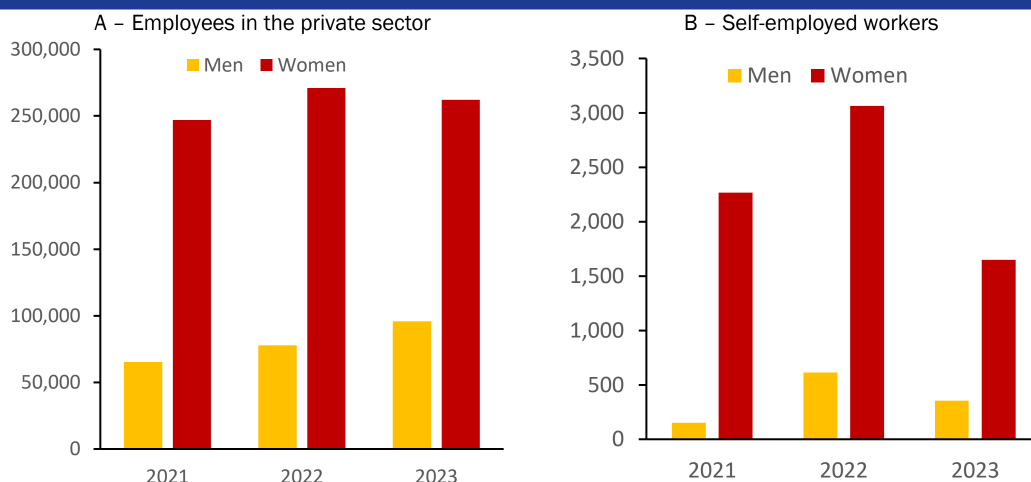
compulsory paternity leave (Figure III.3.3); (ii) the increase in the number of parental leave taken by fathers in the private sector (Figure III.3.4).

FIGURE III.3.3: DISTRIBUTION OF PATERNITY LEAVE TAKE-UP IN ITALIAN PROVINCES (%)



Source: INPS

FIGURE III.3.4: NUMBER OF WORKING PARENTS WHO TOOK PARENTAL LEAVE IN THE FIRST 12 YEARS OF THE CHILD'S LIFE



* The data include recipients of COVID leave provided for in decree-law No 18/2020, decree-law No 34/2020, decree-law No 104/2020, as amended, decree-law No 149/2020, decree-law No 30/2021 and decree-law No 146/202.
Source: INPS.

It must be considered, however, that the reconciliation of family and work life and the balancing of care responsibilities within the family continue to depend on economic and social conditions outside the family unit, which the Government may

influence. According to INPS[167], parental leave, for example, is mainly required by permanent employees of large companies. In this scenario, it also notes that the incidence of requests for mothers employed in companies with fewer than 15 employees is greater than that of men.

In view of these aspects, the Government intends to take action to ensure a better reconciliation of family and work life in all working situations in which parents are engaged.

Improving the economic and employment perspectives of households, with regard to women's employment

(CSR 3 of 2024, 2.1 and 2.3 of 2020 and 2.3 of 2019)

The Plan contains a set of measures, including for the period 2024-2026, a reduction of 100 percent in the contributions payable by female permanent employees, excluding domestic employment relationships, with 3 or more children, up to the annual limit of 3,000 euro and until the child reaches the age of eighteen. Only for the 2024, the exemption was extended on an experimental basis to female mothers of two children until the child reached the age of ten.

Some measures are being considered by the Government to ensure greater support for childbirth and to support families with children, improving their socio-economic perspectives, including by supporting female participation in the labour market.

As also pointed out in the previous paragraphs, there has been a marked improvement in the employment rate of women compared to previous years[168]. In 2023, it reached 56.5 percent (Figure III.3.5), but remained below the european average (70.2 percent). Regional differences persist, with the employment rate in 2023 standing at 74.6 percent in the northern regions, 70.9 percent in the Centre and 52.2 percent in the South.

There is also an improvement in the gender gap[169] (Figure III.3.6), which narrowed slightly in 2018-2023 period while reaching 19,5 percentage points, but remaining well above that recorded at EU level (10,2).

In order to further improve performance in these areas and contribute to the achievement of the 2030 European target for the gender gap in employment, the Government intends to further strengthen the strategy launched in recent years by taking action on three fronts: (i) strengthening women's empowerment tools for a greater participation of women in training and professional careers; (ii) the provision, within the framework of the Plan, of incentives to promote greater employment for women; (iii) the support for women mothers and family duties.

From a systemic point of view, the Government intends to increase the labour market participation and employment of women and young people: such

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[167] INPS report 'Analysis of gender gaps in the labour market and in the social security system through INPS data'.

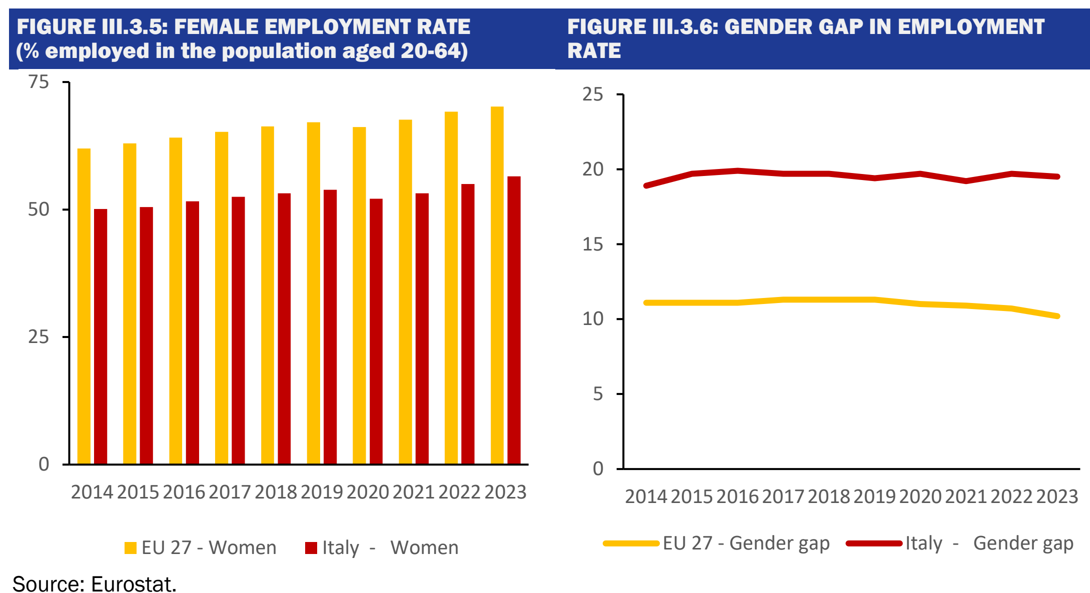
[168] Calculated as the percentage of women employed in the population aged 20-64.

[169]Difference between the employment rate of men aged 20-64 and the employment rate of women of the same age.

interventions, as well as helping to close the persisting gender and age gaps in the labour market, are key to ensure better opportunities for economic and social development for families and to make parental choice more attractive.

FIGURE III.3.5: FEMALE EMPLOYMENT RATE (% employed in the population aged 20-64)

FIGURE III.3.6: GENDER GAP IN EMPLOYMENT RATE



Source: Eurostat.

III.3.1.2. Better education and training to ensure more opportunities and skills in access to the labour market

In the coming years, the Government intends to invest in the education and training system so that it can guarantee, from the early stages of education, the acquisition of the skills required by the labour market.

This requires, first, an improvement in educational outcomes and acquired skills, including digital skills, in line with the country-specific recommendations addressed to Italy in recent years.

In general, it should be noted that over the last five years Italy has improved its performance from several points of view. In the context of an average deterioration in education among the OECD countries[170], Italy was one of the few European Countries that recorded improvements in the skills of students in reading and science subjects[171], as well as in reducing the phenomenon of early school leaving[172], although it has seen a deterioration in mathematics skills[173].

[170] OECD, Programme for International Student Assessment.

[171] In 2022, the proportion of 15-year-olds in Italian schools who did not reach the minimum level of competence in reading was 21.4 percent, compared with 23.3 percent in 2018. Similarly, in science, this percentage has decreased from 25.9 percent to 23.9 percent.

[172] In 2023, the share of young people aged 18-24 who left the education and training system without obtaining a diploma or qualification is estimated to have decreased to 10.5 percent in comparison with the previous year (11.5 percent) and to 2018 percent (14.3 percent).

[173] In 2022, the basic level of mathematical competence did not reach 29.6 percent, while in 2018 it stood at 23.8 percent.

However, in the coming years, the Government intends to make further efforts to reach the EU average and close territorial and gender gaps, as well as, in a systemic vision, to ensure that the education and training system better responds to the transition challenges.

For these objectives, the Plan intends to put in place several lines of action that will refine and amplify what has already been initiated with the reforms and investments of the RRP.

Strengthening the teaching staff and tutoring and guidance services

(CSR 3 of 2024, 2.4 of 2020 and 2.4 of 2019)

Under the RRP, the number and skills of teaching staff in schools of all types and levels have been increased. To this end, the RRP introduced a new model for the recruitment of teaching staff, which combats the phenomenon of precarious school employment and establishes continuous training courses and an incentive system based on an assessment of merit.

Thanks to these efforts, it is expected that, by 2026, 70.000 new teachers, recruited with permanent contract according to the new model, will be included in primary and secondary schools and in support of students with disabilities.

However, the recruitment process will need to be further refined in the coming years. Medium-term planning, combined with *ad hoc* settlement measures, will avoid excessive use of fixed-term teachers to cover vacant positions. This will ensure continuity of teaching, through suitably qualified and permanent teachers.

As a further step, the Government intends to continue the RRP initiatives aimed at enhancing skills, including digital skills[174], as well as providing guidance and tutoring services to students[175], through the training of teachers in charge and the development and improvement of digital tools to support them.

The Government also commits to promote territorial mobility and the stabilisation of fixed-term teachers and to support specific initiatives aimed at: (i) redefine the requirements for access to the competition classes for some teaching staff; (ii) reform the School of High Training and the compulsory training for school directors, teachers and technical/administrative staff.

Strengthening the 'Agenda South', 'Agenda North' and 'STEM' programmes

(CSR 3 of 2024, 2.4 of 2020 and 2.4 of 2019)

In order to promote the improvement of skills in schools, the Government intends to consolidate several lines of action in the coming years, including those

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[174] In this respect, investments are central to enhancing the digital skills of school staff and creating innovative learning environments with advanced digital equipment. By the end of 2025, thanks to RRP investments, around 650.000 school staff are expected to have participated in training courses, while 100.000 classes are expected to be transformed into innovative learning environments.

[175] With regard to the reinforcement of tutoring services, it notes that, in the 2023/2024 school year, 40.815 tutors and 2.375 instructors were qualified.

provided for in the 'Agenda South' and 'Agenda North' plans[176]. In addition, the Government confirms its commitment to reducing skills mismatches and gender employment gap, as well as accelerating the digital transition.

In order to achieve these objectives, the Government undertakes to continue the process of methodological innovation in the medium term, both by strengthening the tools provided with the RRP, including the STEM Skills Platform, and by strengthening the professional skills of teaching staff, in order to promote the reinforcement of students' own cognitive processes and the acquisition of their respective languages and to provide the set of tools needed to read, interpret and address future challenges.

The implementation of the ITS Academy and Campus Reform and the establishment of the Made in Italy Liceo

(CSR 3 of 2024, 2.4 of 2020 and 2.4 of 2019)

In order to create greater interconnection between the provision of school training and the needs of companies, the Government intends to speed up the full operativity of the reform of the technological and vocational training sector, approved by the recent law No 121 of 8 August 2024, provided within the RRP[177].

In the coming years, it is intended to define appropriate objectives and resources to ensure the gradual dissemination of the Campus and their constant connection with the local authorities, with a view to creating integrated systems for vocational and technical training of excellence, in line with business development needs.

This reinforcement is in synergy with the introduction of the Made in Italy secondary school, which aims to develop the knowledge and skills needed to export the excellence of Italian entrepreneurship to the world.

Internationalisation of university
(CSR 4.1 of 2024, 1.3 of 2023, 1.3 of 2021, 3.5 of 2020 and 3.1 of 2019)

The Government will intervene in the field of scholarships for the attendance of doctoral courses in dedicated and specific programmes, promoting and

[176] The Agenda South Plan involves over two thousand primary schools in the South, with 265.5 million for: (I) combating the dispersion and reduction of learning gaps; (II) enhancing basic and transversal skills; (III) remuneration of additional hours to school staff involved in the implementation of educational projects; (IV) carrying out workshops to open schools beyond school hours. The Plan pays particular attention to 245 schools identified by Invalsi on the basis of national surveys, for which additional measures are planned and more than 15 million are earmarked for pilot projects in the most fragile areas. The Agenda North Plan, worth 220 million, aims to combat early school leaving and enhance skills in schools in the north and central Italy, with a focus on those in difficult contexts.

[177] It is based on network and partnership agreements between technical and professional schools, ITS academies, universities, AFAM institutions and other public and private entities. The reform is structured around four-year upper secondary education pathways integrated with higher technology education pathways, including vocational training based on guidance and educational flexibility. In addition, certificates of transversal and technical skills and the internationalisation of pathways are foreseen.

strengthening the internationalisation and attractiveness of universities, with respect to the recruitment procedures for teachers and students.

For the coming years, a dedicated recruitment plan for tenure track researchers will be put in place from 2026 to keep up the positive trend of recent years.

III.3.1.3. Better active labour policies, labour participation, employment and fair, safe and family-friendly working conditions

The RRP initiatives and recent regulatory innovations have helped to make labour markets more accessible, through the introduction of a coordinated system of active labour policies, significant investments in strengthening employment Centres and incentives to recruit disadvantaged groups.

These initiatives, which the Government will complete by 2026, as well as the new actions described in the following paragraphs, constitute a response to the country-specific recommendations.

Strengthening active labour policies: the GOL Programme

(CSR 3 of 2024, 2.3 of 2020 and 2.2 of 2019)

With the RRP, Italy launched the reform of the system of active labour policies and the strengthening of the vocational training system, with specific reference to digital skills and those attached to the ecological transition[178].

The initiatives include, in particular, the Employability Guarantee Programme (GOL). In view of the results achieved so far and the changed labour market framework with respect to the context in which it was planned, the Government intends to continue its activity from 2026 onwards. This initiative also includes training courses to enhance skills for access to the labour market. In synergy, the Government intends to continue the New Skills – Transitions Plan and the 'Growth Green' pilot project of the RepowerEU package, which aims to facilitate the acquisition of the skills needed for the green transition. Measures are under consideration to enable companies themselves to play a direct role in the training of workers.

In order to reduce disparities between employees and the self-employed, the Government also intends to introduce active policies for the self-employed.

[178] In particular, in 2025-2026, in line with what it had already done in the previous period 2021-2024, the Government will achieve all the milestones and targets set for strengthening employment centres in terms of improving the quality of vocational qualification services and implementing the Guarantee for Employees' Employees (GOL) programme for workers in transition and the unemployed.

Strengthening of the Dual System and the Universal Civil Service

(CSR 3 of 2024, 2.3 of 2020 and 2.2 of 2019)

In order to gradually bridge the mismatch between the skills of new generations and those of the labour market, the Government undertakes to strengthen initiatives linked to the 'Dual System' and apprenticeships and the Universal Civil Service (UCS), extending their functioning beyond the deadline laid down. For the dual system, there has been substantial success in terms of achieving the targets, particularly in southern Italy[179]; similarly, the UCS has seen a great deal of involvement among young people aged 18-28, helping to strengthen the socio-economic fabric of the country and combat depopulation in remote areas[180] and to bring new generations closer to public administrations.

Hiring incentives

(CSR 3 of 2024, 2.3 of 2020, 2.2 and 2.3 of 2019)

As reported in the previous chapter, the labour market improved considerably further in 2023, in terms of employment growth and increase in contractual stability.

Although the employment rate for those aged 20-64 still remains below the European average[181] (75.3 percent), it reached 66.3 percent[182], above its pre-pandemic level (63.5 percent in 2019). This is particularly positive, although the achievement of the 2030 targets is still challenging[183].

Although Italy is characterised by a higher share of temporary contracts than the European average (15.7 percent of workers aged 20-64 in 2023 compared with an average of 12.3 percent in the EU), employment growth in 2023 was mainly related to permanent employment, which contributed to making the labour market and household incomes more stable, stimulating potential economic growth and countering declining birth rate.

[179] See Bulletin No 1 of the Ministry of Labour and Social Policy 'Implementation of pathways in dual mode of vocational education and training and higher technical education and training', May 2024.

[180] Strengthening the SCU could also benefit from the results of the IST project, funded by the European Commission (DG Reform) in cooperation with the Ocse 'Unlocking youth employment opportunities: supporting design and implementation of the universal civil service RRP project, removing barriers to maximise impact, which aims to simplify and streamline the universal civil service institution.

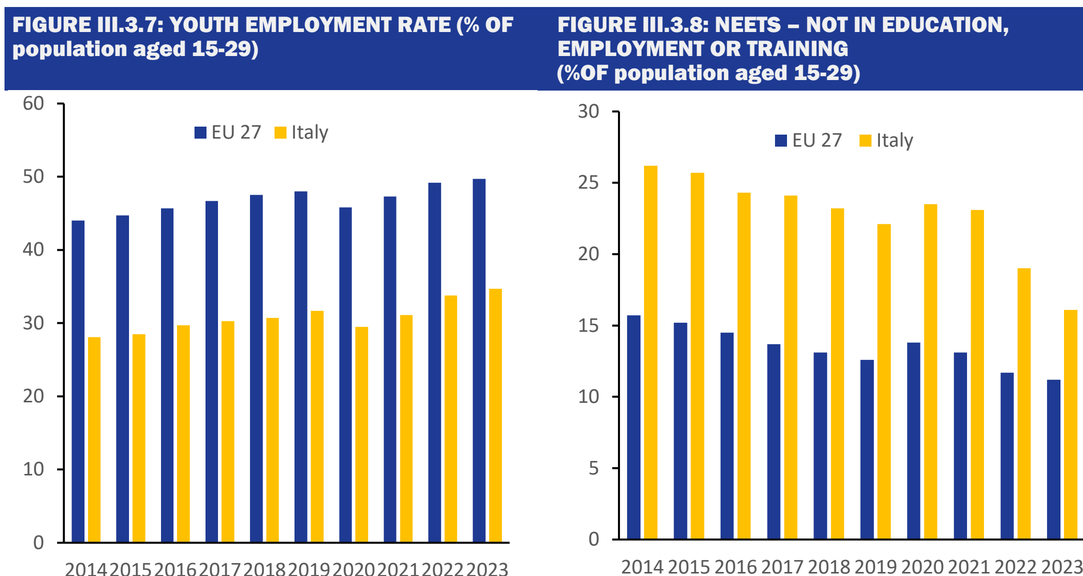
[181] Here we consider an employment rate different from the one mentioned in the previous chapters, in order to better align with the metric used at European level and to provide better evidence of the achievement of the European targets by 2030.

[182] There is an increase of 1,5 percentage points compared to 2022.

[183] Italy has committed to an employment rate of 73 percent. Italy's performance will also be key to its contribution to achieving the 2030 European target of 78 percent.

FIGURE III.3.7: YOUTH EMPLOYMENT RATE (% OF population aged 15-29)

FIGURE III.3.8: NEETS – NOT IN EDUCATION, EMPLOYMENT OR TRAINING (%OF population aged 15-29)



Source: Eurostat.

In line with current trends and to further boost employment growth, the Government intends to launch a composite strategy aimed at facilitating the employment of women, young people and the most vulnerable ones.

Participation in work and longer working age

(CSR 1.1 of 2024, 1.4 of 2023, 2022 of 1.1, 1.2 of 2021, 2.1 and 2.2 of 2020 and 1.4 of 2019)

The extension of working life is a necessity, shared by almost all advanced countries, for the sustainability of social security systems. Incentives to remain in the labour market are being studied by the Government.

In order to ensure active participation in the labour market, in line with demographic trends, the Government undertakes to introduce changes to the criteria for access to retirement.

Furthermore, it is planned to review and overcome the compulsory entry into retirement of civil servants by defining solutions that will allow longer working life, allowing the public authorities to retain highly skilled resources and achieve an effective handover.

III.3.1.4. Reducing territorial and social gaps

In recent years, Italy has stepped up its action to reduce the wide gaps in income, employment, education and services that continue to differentiate opportunities for growth and economic and social well-being in the north and south of the country. In the coming years, attention will be focused along the lines described in the following paragraphs, in order to ensure greater economic and social convergence.

Measures to foster economic convergence

(CSR 4.1 of 2024, 1.3 of 2023, 2022 of 1.2, 1.3 of 2021, 3.4 of 2020 and 3.1 of 2019)

According to some estimates[184], in 2023, GDP growth in southern regions was higher (1.3 percent) than in other territorial breakdowns[185]. Growth in southern Italy was mainly supported by construction (+ 4.5 percent) and services by 1.8 percent.

This positive juncture confirms the favourable trend observed in recent years: the cumulated growth of southern GDP (3.7 percent between 2019 and 2023) exceeded the national average (3.5 percent over the same period).

Over the same period, overall employment growth was also higher in southern Italy (+3.5 percent) than in other territorial breakdowns.

The acceleration of the implementation of cohesion policy[186] and the strengthening of the Special Economic Zones[187] (SEZs) are expected to contribute to the consolidation of these trends.

The recent establishment of the Southern Special Economic Zones and the adoption of the relevant Strategic Plan[188] go in this direction. In particular, through an integrated approach that also takes account of territorial diversity, the Strategic Plan for the Single SEZs of *Mezzogiorno* aims at economic development and growth in Abruzzo, Basilicata, Calabria, Campania, Molise, Puglia, Sicily and Sardinia. It identifies areas to be strengthened and promoted, as well as investment and priority actions of the Special Economic Area[189].

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[184] SVIMEZ, REF, 'The year of differentiated growth. The Italian regions in 2023', July 2024.

[185] GDP growth in 2023 is expected to have been 1.0 percent in the north-west, 0.9 percent in the north-east and 0.4 percent in the Centre.

[186] Implemented in 2024 (law No. 95 of 2024 converting with amendments decree law No. 60 of 2024), the law provides for the revision of cohesion policy in order to facilitate its implementation and efficiency, as well as complementarity with the RRP and the Strategic Plan of the Single Special Economic Area. It introduces acceleration and efficiency measures that apply, as a matter of priority, in certain policy areas: water, infrastructure for hydrogeological risk and environmental protection, waste, transport and sustainable mobility, energy and support to businesses, including for the digital and green transitions. Finally, it introduces a monitoring system that will track, from a result perspective, the actual achievement of the initial, intermediate and final targets.

[187] In this context, provision was made for the simplification of procedures and the strengthening of the powers of the Commissioner in the Special Economic Zones (Decree law No. 77 of 2021), as well as the introduction of the Single Digital Gateway for Special Economic Zones for the simplification of procedures.

[188] Decree law No 124 of 19 September 2023, converted into law No. 162 of 13 November 2023. The Strategic Plan for the Southern SEZs was approved on 26 July 2024.

[189] The initiative aims to support not only the emergence of new production activities, but also the growth and development of existing ones. The sectors to be strengthened are: agroindustry, tourism, electronics and ICT, automotive, Made in Italy, Chemistry and Pharmaceutical, Naval and shipbuilding, Aerospace and railways. At the same time, the technologies to be promoted are digital, cleantech and biotech. The strategic investment threshold has been raised to 200 million.

With regard to the tax credit for the south (established in 2016)[190], with the approval of the Strategic Plan, provision[191] has been made for the credit to be booked in order to be aware of the amounts and availabilities[192].

In addition, various incentives have been introduced to support growth and employment in the southern regions[193]. The Government remains committed to the adoption of measures to encourage the recruitment of young people, women and disadvantaged people.

In addition, in order to further strengthen the benefits of these measures and to give them a structural role, the Government is committed to implementing priority actions in the strategic areas shared with the European Commission, with particular reference to hydrogeological risk and water resources and disaster reconstruction. Finally, it will be considered to introduce targeted measures for vulnerable regions in relation to the risks and opportunities identified in the Ninth Report on Economic, Social and Territorial Cohesion.

The set of measures for economic and social convergence, both those in place and those planned for the coming years, are expected to contribute to making the environment more conducive to investment and to accelerating growth and employment in these territories. A significant part of territorial cohesion policy will also cover socio-educational measures designed to combat educational poverty in the south in support of the Third Sector[194]. The RRP investments will have a significant impact on employment at national level, which will, however, have uneven characteristics at territorial level on the basis of the costs eligible for financing the RRP[195] and their geographical location. In view of the demand for labour generated by them of 710,000 employees, including around 550,000 employees, this demand is expected to be particularly high in Lombardy (117,942,

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[190] The total budget foreseen is 1.8 billion, resulting from 1.4 billion spent in 2023, plus 45 million of the eight SEZs.

[191] The Strategic Plan is the result of a process of participation launched by the SEZs Mission Unit, which has carried out the necessary discussions with the administrations involved (through the establishment of more than one working group on foreign investment, human capital, research, infrastructure and production areas) and economic and social partnership. In parallel, the Strategic Plan was drawn up using a high-level technical group composed of representatives of the CNEL, the Bank of Italy, the European Investment Bank, the OECD, *Cassa Depositi e Prestiti*, ISTAT, Censis, Confindustria, Svimez and Assonime. The drafting of the Strategic Plan has also been authorised by the European Commission, in view of the size of the SEZs itself, which makes it of international importance. Although the Strategic Plan is derived from a legal provision, its design makes it possible to maintain an elasticity and adaptability to any new needs that may have occurred. Monitoring of the Strategic Plan is carried out by both the Single SEZ Mission Unit and the Steering Committee.

[192] Bookings were around 9.4 billion, of which 200 million have already been made and the others should be made by 15 November. This new method also makes it possible to analyse which actions might not be implemented.

[193] Over the years, these incentives have had various configurations, supporting both the recruitment of new workers in establishments located in the area and the start-up of new business and self-business activities. See, inter alia, the so-called SUD contribution under law No 178/2020 and the so-called Bonus Single SEZ and the measures to promote self-employment under decree law No 60/2024.

[194] With a total budget of 220 million, they aim to boost the public provision of socio-educational services to combat early school leaving and drop-out.

[195] For greater certainty, the costs eligible for funding here do not take into account the distinction between additional expenditure for new projects and substitute expenditure for existing projects, which is essential for estimating GDP and employment growth compared to the baseline scenario. It should be noted that the estimate made in the April 2021 RRP and subsequently revised in the plans takes account of the distinction previously mentioned. As a result, the results presented here may differ from those written in the April 2021 RRP and subsequent plans. The estimates were prepared by the RRP Lab – SDA Bocconi.

or 16.6 percent of the total of the highest labour demand) and in Lazio (82,141, or 11.6 percent). Similarly, 36.2 percent of labour demand will be triggered in the southern regions, in line with the cross-cutting priority of allocating at least 40 percent of the RRP funds to the *Mezzogiorno*, Campania (68,194) and Sicily (56,031), which cover 17.5 percent of the labour demand generated by the RRP.

Countering illegality
(CSR 4.1 of 2024, 2.2 of 2020 and 2.1 of 2019)

In order to combat irregular work, the Government intends to complete and strengthen the provisions of the RRP in relation to the national plan to combat undeclared work. This plan is linked to the counter Table to *capolarato* (labor subcontracting), which was extended until 2025. In the coming years, efforts will be stepped up in view of the scale and relevance of the objectives. To this end, it also notes the recent appointment of an extraordinary commissioner to combat undeclared work in agriculture.

In the coming years, the Government will also increase its efforts to strengthen security and legality, as well as the fight against mafias. These actions must be considered as reforms with a positive impact on economic growth. In the microeconomic field, combating degradation and illegality promotes the opening up of commercial and hospitality activities, thus encouraging the local economy and tourism. As regards the regions of the *Mezzogiorno* and, in general, depressed areas, combating crime is an attractive factor for major investments, including international investments, which are often discouraged by the presence of real illegality or even more simply by the reputational damage it entails.

In addition to the reforms referred to above, the illegality can be effectively countered by strengthening the institutional cooperation mechanisms between national and european judicial and supervisory authorities, also drawing on the collaborative experience activated by Italy with the European Public Prosecutor's Office (EPPO) in the context of monitoring the implementation of the measures financed by the RRP.

Infrastructure measures

(CSR 4.1 of 2024, 3.6 of 2023, 1.2 of 2022, 3.4 and 3.8 of 2020 and 3.1 of 2019)

In order to ensure greater economic and social convergence, the Government intends to improve links between the areas of the country and close the gaps in infrastructure by following the Council's Recommendations. In addition, the Council intervened calling on Italy to act both on incentives for switching to cleaner means of transport (including by eliminating environmentally harmful subsidies) and on supply factors, such as the increase in charging stations. The Italian effort in this

area is part of the TEN-T programme on transport infrastructure, the European programme on decarbonising transport[196].

The territorial gap in terms of infrastructure allocations was also apparent from an analysis carried out by the Ministry in 2021 in the water sector, which found values above 50 percent of network losses in some regions and the absence of a sewerage network in small and medium-sized municipalities (especially in the *Mezzogiorno*). As far as transport is concerned, the highest differentials were found in the rail network, which is more developed in the regions of the Centre-North, with long non-electrified paragraphs and not effectively connected to port infrastructure in the south[197], and in air traffic (especially international traffic), which is concentrated at central and northern airports.

To address these challenges, within the RRP, around 40 billion has been allocated to the upgrading of the transport and logistics system and infrastructure, which will have to finance, among other things, the implementation of the revision of the Public Procurement Code, which aims to reduce the fragmentation of contracting authorities[198] and a wide range of transport sector reforms that were achieved in 2022[199]. In addition, another reform group is also included, including: (i) simplifications of strategic planning, authorisation procedures for cold ironing facilities and for the assessment of projects in the field of local public transport systems (LPT); (ii) the implementation of the Single Controls Desk and the digitalisation of customs documents; (iii) the competitive award of concessions in port areas; (iv) the establishment of a national strategic platform for the network of ports and interports[200].

The reforms are complemented by investments in upgrading the rail network, with particular reference to regional lines, infrastructure investments in SEZs (around 564 million, 694 million including private resources)[201] and measures for intermodality and integrated logistics[202]. Other investments concern the testing of

[196] To achieve the 2030 targets for the share of energy from renewable sources in gross final consumption and the reduction of emissions in the transport sector.

[197] In particular, the lack of efficient rail transport in some regions also leads to an increase in the share of road passenger and freight transport. In the 2024 Country Report, the European Commission notes that rail transport is underused both for passengers (12 percent, compared with the European average of 16 percent) and for freight (4 percent compared with an average of 6 percent). The latter is mainly on the road (84 percent compared with an EU average of 75 percent), causing congestion and pollution.

[198] The basic elements of the qualification system have been established, giving ANAC specific powers to monitor the performance of contracting authorities.

[199] They provide for: (i) the acceleration of the contract approval process between MIT and RFI; (ii) speeding up the approval process for railway projects; (iii) the implementation of the guidelines for the transfer of ownership of bridges and road viaducts.

[200] To date, the Port System Authorities (PSA) are obliged to ensure the interoperability of Port Community System systems with the National Digital Logistics Platform (PLDN). The rules for the granting of concessions for areas and docks in State-owned port areas and the authorisation system for cold ironing have been adapted. For LPT, provision has been made for exemption from the opinion of the *Consiglio Superiore per i Lavori Pubblici* (Higher Council for Public Works) and for the application of the silence mechanism.

[201] Infrastructure investments for the Special Economic Areas include measures to connect the last mile of roads and railways, digitalisation of logistics, primary urbanisation or energy efficiency, as well as measures to strengthen the resilience of ports.

[202] They provide for the definition and implementation of the National Logistics Platform (PLN) as a pivotal repository of the digital transport and logistics system and as an issuing body for functional interoperability

hydrogen for road transport, the development of sustainable mobility, including through enhancing cycling, and the renewal of green bus and train fleets.

For the period between 2027 and 2029, the Government intends to pursue a number of initiatives, taking into account the commitments, the problems set out above and the state of implementation of the policies already launched. In particular, they could cover high-speed networks (especially diagonal networks and along the Adriatic backbone), technological and digital upgrading of TEN-T networks, interventions on regional railways, ports and their connections, and infrastructure investments in SEZs.

These measures are complemented by contributions for the replacement of maritime fleets, road and rail rolling stock, investments in integrated logistics and cold ironing. Outside the scope of the RRP, in addition to the construction of the bridge over the Strait of Messina, which has already been financed, measures could be undertaken to boost urban mobility and develop the road network in terms of construction, maintenance and digitalisation (depending also on the increase in defence capacity). A Draft law will be presented for the construction of infrastructure of major national interest and other strategic measures in the field of public works and logistics.

Action will also be taken on water infrastructure in the context of the National Water Security Infrastructure Investment Plan (PNISSI).

III.3.1.5. Measures and investments to promote strategic supply chains, innovation and technology transfer

(CSR 4.1 of 2024, 1.3 of 2023, 1.2 of 2022, 1.3 of 2021, 3.3 and 3.5 of 2020 and 3.1 of 2019)

The Government intends to support businesses through a multitude of measures, some of which are already mentioned in Chapter. In addition to horizontal measures, which are cross-cutting across all economic sectors, vertical measures have also been introduced, focusing on the needs of certain production sectors that are strategic for the development of the whole country. These include, for example, critical raw materials that have been identified in the Union as essential elements for the functioning of many strategic industries with a high risk of supply disruption.

In this regard, we intend to continue not only with the application of the legislation – marked by the recent adoption of the related decree – but also in strengthening the economic and market conditions aimed at ensuring a secure supply. Successful vertical measures have also covered STEP technologies, including microelectronics, for which the support process launched in recent years is intended to continue.

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requirements with the operators of the nodes in the logistics chain. These investments also affect the aviation sector through the digitalisation of air traffic management and port systems through the construction of cold ironing facilities for the supply of electricity in port docks.

Finally, the Government intends to promote the development of high-tech sectors, such as next-generation nuclear, recognising their growth potential and their role in promoting the competitiveness of the national industrial system.

Cooperation between universities, research centres and businesses: consolidation and valorisation of the most effective RRP initiatives

(CSR 4.1 of 2024, 1.3 of 2023, 2022 of 1.2, 1.3 of 2021, 3.5 of 2020 and 3.1 of 2019)

The Government undertakes to promote the system initiatives relating to National Centres, Extended Partnerships and Innovation Ecosystems in order to strengthen cooperation between universities, research centres and businesses, whose project activities have already been launched and financed with resources of RRP.

In line with the overall strategy and investments of the Medium-Term Structural Budgetary Plan, it is intended to continue with the implementation of the initiatives and, from 2027 onwards, to enhance and consolidate the results and benefits of the projects which, in recent years, have proved to be more strategic, effective and efficient in relation to the country's economic and social strengthening.

However, Key Performance Indicators (KPIs) will be introduced to make the economic and financial sustainability of the activities and the long-term value creation measurable over time, in terms of developing innovation in the field of higher education and research, in order to achieve an integrated system that fosters the connection between research infrastructures and the italian productive world.

The purpose of the indicators will be to verify: i) reliability, i.e. the ability of the institutions to coordinate and carry out a complex project in the timeframe and manner set; ii) the impact and sustainability, i.e. the ability to attract resources from outside, to ensure the sustainability of the projects, including after the implementation period of the RRP; iii) the impact on the scientific community, socio-economic communities and policy making on the topic; iv) the impact on policies, by guiding actions and policy lines, for example by drawing up white papers, in order to enhance strengths and overcome any problems, in synergy with local authorities and institutions; v) building capacity, i.e. the capacity to support applied research, the creation of new skills and value, through the growth of innovation and intellectual property.

In this context, the above-mentioned continuation of programmes to support the technological and digital transformation of SMEs and business networks will be crucial. Finally, outside the scope of the RRP, in support of SME's growth, a reform of the collective guarantee consortia (*Confidi*) and their valorisation, to be implemented by the end of 2026, will also contribute. This measure is expected to support processes of size growth by improving SMEs' access to credit.

Promoting the competitiveness of the Italian system

(CSR 4.1 of 2024, 1.3 of 2023, 2022 of 1.2, 1.3 of 2021, 3.5 of 2020 and 3.1 of 2019)

The Government will pay particular attention to the following initiatives:

- the valorisation of research facilities and the creation of 'national R&D champions' on some Key Enabling Technologies, including by identifying indicators to check their efficiency and economic sustainability;
- the implementation of an integrated system of research and innovation infrastructures, including by leveraging instruments for guaranteeing and mobilising private capital.

The competitiveness of the Italian system will also play a role in promoting the tourism sector and the regions, which will be pursued by adopting measures to support the attractiveness of mountainous inland areas, to promote the hospitality industry for major events and to support businesses in the sector and the creation of national champions. Finally, in order to facilitate the digitalisation of the sector, the project on the Digital Tourism Hub will be continued.

III.3.1.6. The strengthening of the National Health Service and the Social Protection and Inclusion Network, supplementary social security and the management of criminal enforcement

Strengthening the health system

(CSR 3 of 2024, 2 of 2023, 2.1 of 2022, 1.4 of 2021 and 1.2 of 2020)

In view of the improvements made possible by the RRP, it is considered useful to pursue the strengthening of some of the measures for the national health system that have proved most effective, including the efficiency of general medical networks, community networks, facilities and telemedicine for local health care (Community Houses, Community Operating Centres and Hospital Centres), as well as the digitalisation of the Emergency Departments and Acceptance of level I and level II, as well as the modernisation of large healthcare equipment.

It is essential to extend investment in research and in the training and development of technical, digital and managerial skills of health system staff.

In addition, in order to make italian health more efficient, the Government undertakes to implement:

- strengthening the expenditure monitoring tools used by the compliance check table by implementing new summary indicators of efficiency and adequacy of service levels;
- the development and reorganisation of tools for supplementary health, care and self-sufficiency, such as improved supervision of health funds and measures for long-term care, defined throughout the lifetime of members;
- planning the recruitment of healthcare staff, encouraging specialist training where there are currently shortcomings;
- strengthening territorial care and health building (including through financial instruments and public-private partnership).

As part of the allocation of resources for the National Health Service, it is necessary to consider measures to strengthen less developed areas, with the support of regional best practices (transfer of knowledge and technology, skills development, learning from the strengths of other parts of the NHS that best perform to facilitate the reduction of low standards), in order to overcome territorial gaps, while also fully implementing the reforms provided for in the RRP.

In line with the legislation in force, mechanisms will be identified to update the Essential Levels of Care in order to guarantee citizens an increasingly broad range of services corresponding to real health demands. At the same time, innovation and sustainability will be supported through careful disinvestment processes from obsolete or even harmful practices (so-called de-listing).

In order to improve citizens' well-being and reduce expenditure, a series of innovative projects will be launched to promote healthy lifestyles, both through national information programmes on food and nutrition security risks and the reorganisation of dietary and clinical nutrition services, with the development of pathways for nutritional prevention, risk screening and nutritional status assessment.

A second area of great importance is to discourage the abuse of antibiotics to combat antibiotic resistance. Finally, it is important to set up control tools to reduce the environmental impact of the use of plant protection products while ensuring consumer protection.

Measures to combat poverty

(CSR 3 of 2024, 1.1 of 2023, 2022 of 1.4, 2.1, 2.2 and 2.3 of 2020 and 2.2 and 2.3 of 2019)

Measures to support the reduction of the tax burden for low-middle income earners also aim to mitigate the impact of inflation on purchasing power, the strengthening of active labour policies, as well as the introduction of new incentives.

The measures described in the previous paragraph (III.3.1.3), which could help reduce the prevalence of atypical forms of work and the rate of people at risk of poverty, should therefore be read in this way.

As early as 2023, Italy's in-work poverty rate decreased by 1,9 percentage points (compared to pre-pandemic 2019). This reduction is larger than the average in the EU, where a reduction of 0,7 points was achieved over the same period. Against this background, there is still a higher risk of poverty among the self-employed for whom the access to social protection remains particularly limited.

For this reason, the Government will assess measures regarding extraordinary income and operational continuity allowances.

In addition, in order to reduce housing poverty[203], the Government undertakes to implement housing and support policies for vulnerable people through measures such as social housing and measures for the construction of housing for workers and students away from home as part of the *Casa Italia* Plan, which could leverage financial guarantee instruments. Further action will be taken on urbanisation works in small and medium-sized municipalities, on the development of state property for housing purposes and on the provision of incentives to find housing in the event of new recruits.

Measures to reduce energy poverty, included in the INECP, shall also contribute to reducing the number of people at risk of poverty.

Supplementary pension measures

(CSR 2.1 of 2020)

The Government intends to amend the mechanisms which supervise supplementary insurance in order to promote its dissemination, including health insurance.

The aim is to introduce solutions to strengthen the supplementary pension pillar by promoting greater voluntary take-up of pension funds and, at the same time, the earmarking of pension payments.

An action plan to simplify and improve the management of criminal enforcement and child and community justice

(CSR 2 of 2024, 4.1 of 2020, 4.1 and 4.2 of 2019)

In the context of the process of improving the efficiency of the administration of justice, there is also an action plan that the Government intends to define in order to simplify and improve the management of criminal enforcement.

By 2027, the contents of the Action Plan for the reform of the criminal enforcement system to improve the efficiency of the system will be defined. Specifically, the focus will be on reducing cases of recidivism and improving the delivery of services to the citizen by studying *ad hoc* programmes for the criminal enforcement system.

On the one hand, action will be taken to strengthen the administrative capacity of prisons in the areas of prison security, treatment, employment and social reintegration of persons in penal enforcement, and, on the other hand, it will be necessary to define the essential levels of services for the social and labour reintegration of persons in penal enforcement. With these objectives, the Government undertakes to adopt legislation and reform programmes for social reintegration and the reduction of critical events in prisons.

[203] Under the RRP, an investment in social residential housing has been planned under the Innovative Quality of Ababa Programme (PINQuA). The budget is 2.8 billion.

In the context of the criminal enforcement of juvenile and community justice, the process of digitalisation of services addressed to citizens and to *Avvocatura* will also be followed up by establishing full interoperability between the information and application systems for filing applications. Similarly, for the digitalisation of the verification and surveillance processes of entities providing services to persons subject to criminal measures, ad hoc applications will also be put in place to assess the work of the service providers.

III.3.1.7. Efficiency of the action of local and regional authorities to improve equity in the delivery of benefits

(*CSR 1.2 of 2024, 1.2 of 2023, 1.1 of 2022, 1.2 of 2021 and 1.3 of 2020)*

The course of implementation of fiscal federalism and differentiated autonomy will continue over the coming years, through the preliminary definition of core performance levels and related standard needs, in order to pursue fairness and efficiency in the delivery of benefits and services to citizens and businesses.

This process is accompanied by the draft enabling law of the TUEL, with particular reference to the reform of the procedures for the prevention of financial crises and the rehabilitation of local authorities and a better definition of the functions of local and regional authorities.

Within the framework of the draft enabling law, small local authorities will be encouraged to set up associations.

In close connection with programming, it may be particularly important to review and strengthen public investment governance, which, together with constant and effective monitoring, can also help, on the basis of experience in recent years, to ensure certainty in the use of resources for investments planned within the timescales laid down in the timetables.

The measures mentioned above will ensure greater efficiency for local and regional authorities and a more timely delivery of the public investments planned beyond 2026.

III.3.2. Green transition, energy security and environmental protection: reforms and investments in the RRP

In the context of the challenging energy and climate transition of the Fit for 55 package[204], Italy is called upon to contribute to climate change mitigation with specific targets to be achieved by 2030 for the reduction of greenhouse gas emissions, the production of energy from renewable sources and energy efficiency (Table III.3.1).

[204] The Fit for 55 package (FF55) is the European plan to reduce EU emissions by at least 55 percent by 2030, resulting in specific targets for Member States associated with the different dimensions of the ecological and energy transition.

TABLE III.3.1 OBJECTIVES OF THE ECOLOGICAL AND ENERGY TRANSITION

	Figure found	Policy scenario[1]	Goals FF55- RepowerEU
	2022	2030	2030
GHG emissions and removals			
GHG reduction vs 2005 for all installations bound by ETS legislation (%)	- 45	- 66	- 62 [2]
GHG reduction vs 2005 for all ESR sectors (%)	- 20	- 40.6	- 43.7 [3,4]
GHG emissions and removals from LULUCF (MtCO2eq)	- 21.2	- 28.4	- 35.8[3]
Renewable energy			
Share of RES energy in gross final energy consumption (RED 3 calculation criteria) (%)	19	39.4	38.7
Share of RES energy in gross final consumption of energy in transport (RED 3 calculation criteria) (%)	8	34	29[5]
Share of RES energy in gross final consumption for heating and cooling (RED 3 calculation criteria) (%)	21	36	29.6[3] – 39.1
Share of RES energy in gross final consumption for heating and cooling (RED 3 calculation criteria) (%)	37	63	not planned
Share of RES hydrogen in total hydrogen used in industry (%)	0	54	42 [3]
Energy efficiency			
Primary energy consumption (Mtoe)	140	123	111
Final energy consumption (Mtoe)	112	102	93
Cumulative annual final consumption savings through energy efficiency obligation schemes (Mtoe)	3.8	73.4	73.4 [3]

1. scenario constructed considering the measures planned in June 2024.
2. binding only on overall emissions at European Union level.
3. binding.
4. binding not only on 2030 but throughout the journey from 2021 to 2030.
5. binding on economic operators.

Source: INECP

In addition to these commitments, for the purpose of implementing the REPowerEU Regulation, Italy intends to pursue energy security objectives, in particular those related to breaking the dependence on Russian fossil fuels, diversifying the energy supply and accelerating the clean energy transition.

The National Integrated Energy and Climate Plan (INECP) identifies measures under existing legislation and policy scenario linking the achievements to the objectives set for 2030.

Concurrently, Italy has defined a strategy in the National Climate Change Adaptation Plan, with the aim of making the area more resilient and preserving the competitiveness of the sectors more exposed to climate damage.

In this regard, Italy has committed to allocate 30 million per year, starting in 2025 and until 2029, to ensure the implementation of the Plan and the functioning of the National Observatory on Adaptation to Climate Change[205]. Central to this architecture will be the entry into the system of the Integrated Monitoring System,

[205] It will be responsible for identifying priorities among the actions set out in the Plan, defining the planning of the use of resources and monitoring actions, including by evaluating proposals from public stakeholders.

scheduled for 2026, which will manage data on land observation, environmental protection and contrast to environmental damage[206].

In the coming years, Italy will also need to put in place and implement sufficient measures to restore at least 20 percent of the Union's land areas and 20 percent of maritime areas by 2030[207]. In this direction, it will be necessary to define the specific objectives and their implementation framework.

These plans are or will be in continuity and complementarity with the RRP, which has allocated around 39 percent of the RRP resources to investments and reforms for the ecological and energy transition (i.e. a higher share than required by the Recovery and Resilience Facility); the missions related to the green transition and ecological revolution and REPowerEU amount to around 55 billion and 11 billion respectively[208].

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[206] Investments will be needed to ensure the governance of the structure, the delivery of the service and the maintenance of the infrastructure.

[207] Regulation (EU) 2024/1991 of the European Parliament and of the Council of 24 June 2024 on nature restoration and amending Regulation (EU) 2022/869.

[208] They will accelerate the transition in a number of areas. Among them: i) the country's energy security; ii) the production of energy from renewable sources, including the strengthening of research and testing of renewable energy carriers, as well as efforts to increase support for research activities in the areas covered by the Regional Development Programme and Mission Innovation, including with regard to nuclear energy; iii) energy savings; iv) decarbonisation of the economy, including the objective of reducing environmentally harmful subsidies. In relation to the decarbonisation process, they note the commitments: i) for the primary sector, with investments supporting the environmental sustainability and climate resilience of the primary sector, the strengthening of supply chains and districts and the improvement of productivity, training and skills transfer between small and medium enterprises, using the tools described in paragraph III.2. The focus will be on the efficiency of infrastructure, especially water infrastructure; ii) for the industrial sector, with regard to reducing energy consumption, improving infrastructure and strengthening research and development, strategic production chains and skills training, in synergy with the opportunities and transformations linked to the green and ecological transitions; (iii) for the transport sector, with regard to the electrification of transport, the replacement of the vehicle fleet, the uptake of biofuels, modal shift and the development of infrastructure to make the transport of people and goods more sustainable. On the other hand, as regards the fight against and resilience to the water crisis, Italy has decided: (i) over 5 billion of investment, including around 2 billion in primary water infrastructure and 2 billion in upgrading drinking water distribution networks and reducing water losses, including through advanced and digitalised control systems; (ii) a reform for regulatory simplification and strengthening governance for the implementation of investments in water supply infrastructure; iii) concrete measures, including, in particular, the implementation of a system for monitoring and forecasting risks on the ground and measures to ensure the resilience, development of the area and energy efficiency of the municipalities. Projects financed through agreements with the regions will play a key role in decarbonising economic sectors. Over the last two years, the value of these initiatives has been 180 million. The focus will be on transport, agriculture and domestic heating with woody biomass in particular. In addition, with regard to transport, it should be noted that, from 2025 onwards, the EU-ETS 2 system for road transport and buildings will gradually become operational, with a 42 percent emission reduction target for 2030 compared with 2005 levels. Finally, measures to improve air quality and protect the environment have been implemented for urban regeneration, the protection and enhancement of urban and extra-urban green areas, the renaturation of the Po area and the restoration and protection of seabed and marine habitats. It should be noted that the budget law for 2023 already established the National Fund to combat land take to finance the renaturalisation of degraded or degraded soils in urban and peri-urban areas, with a total budget of 160 million on a multiannual basis. The 2024 budget law also introduced an insurance obligation for catastrophic risks with the aim of making companies more resilient to climate damage and minimising its impact on public finance.

III.3.2.1. Further measures to achieve the objectives of ecological and energy transition, mitigation and adaptation to climate change

In this Plan, there is not intention to recall the measures already included in the above-mentioned policy documents; for an exhaustive discussion refer to the document in full.

Rather, the Plan focuses on some of the measures described in the following paragraphs to address Italy's systemic criticalities and to establish a direct and synergic relationship with the objectives of growth, competitiveness of businesses and reduction of territorial disparities.

The Mattei Plan

(CSR 4.1 of 2024, 1.3 of 2023, 2022 of 1.2, 1.3 of 2021, 3.4 of 2020 and 3.1 of 2019)

In view of the global challenges ahead, Italy intends to play a crucial role in fostering the integration, efficiency and competitiveness of EU energy markets, as well as in contributing to greater diversification and security of energy supply in Europe.

In order to achieve these objectives, we intend to complete the process already launched in recent years, which involves stepping up investment, infrastructure and relations and partnership agreements with supplier countries, in order to make Italy a European energy hub, a supply corridor for renewables in the Mediterranean area.

The contribution of the Mattei Plan for Africa, which aims to create an infrastructural bridge between the two shores of the Mediterranean, with the constant involvement of the countries involved and taking into account the needs of local populations, will be essential for the implementation of this project.

In addition to measures to support the energy transition, specific interventions are foreseen for the development and deployment of energy-applied technologies, including through the establishment of innovation centres to promote the development of local start-up, human capital and employment.

FOCUS

Mattei Plan for Africa and the new development strategy towards the African continent

On 29 January 2024, the President of the Council of Ministers, Giorgia Meloni, launched the event at the level of Heads of State and Government, as part of the Italy-Africa Summit. Mattei Plan for Africa, a new strategy for development and cooperation with the countries of the African continent based on a new paradigm inspired by a non-predatory approach, mutual interests and benefits, which recognises the centrality of the needs of African populations by promoting local development and employment.

The Mattei Plan focuses on six strategic areas: (I) energy; (II) infrastructure; (III) health; (IV) water resources; (v) agriculture; (VI) training and education.

For the purposes of the Plan, the most important part is that relating to the energy sector. As stated at the Summit itself, the Plan is part of Italy's broader strategy of becoming an energy supply hub for Europe and an infrastructure connection bridge between the two shores of the Mediterranean, with the constant involvement of the countries involved and the needs of local populations. A successful example from this point of view is the ELMED submarine electricity interconnection project between Italy and Tunisia, financed by the World Bank, the European Commission, the EBRD and the EIB, with the construction of a high-voltage direct current connection through the Strait of Sicily and the associated connections to the respective national networks.

Of particular relevance in this regard, is the launch in July 2024 of the technical support project 'A Roadmap to Connect Africa to Europe for Clean Energy Production', funded by the European Commission's DG Reform and implemented by the World Bank as an international provider.

The Mattei Plan dovetails coherently with the European Union's Global Gateway initiative, the first European infrastructure plan of a global nature to increase the continent's connectivity with the rest of the world, in a sustainable, clean and secure way in energy, transport and digital infrastructure sectors.

It also presents significant opportunities for the internationalisation of Italian businesses, which are strongly oriented to the African continent. This includes direct funding for businesses and the private sector for measures consistent with the objectives of the Mattei Plan through resources from Simest (up to 200 million) and *Cassa Depositi e Prestiti* (up to 500 million).

The plan will have an initial allocation of around 5.5 billion in loans on concessional terms, gift resources and guarantees, of which 3 billion will be allocated through the Italian Climate Fund (managed by *Cassa Depositi e Prestiti*) and 2.5 billion from the Italian cooperation budget.

As a first step, this initiative focuses on a number of pilot projects involving nine countries: Egypt, Tunisia, Morocco and Algeria as regards North Africa; Kenya, Ethiopia, Mozambique, Congo and Côte d'Ivoire, for the sub-Saharan region. In its subsequent phases, the Plan may be extended to other countries in the continent, in an incremental manner.

Since the Summit last January, the African Development Bank (AfDB) – of which the Ministry of Economy and Finance (MEF), as Italy's representative, is an important shareholder – has been identified as a strategic partner in the implementation of the Plan and more generally in development policies towards Africa. This institution is the only institution with AAA credit standing on the continent and has a markedly continental dimension, both in terms of the beneficiaries of its operations, which are exclusively African countries, and in terms of the composition of its shareholders, made up 60 percent of regional members.

At the G7 Summit in Borgo Egnazia (13-15 June 2024), held under the Italian Presidency, a joint communiqué made public a number of financial instruments defined with the Bank, which serve to achieve the objectives of the Mattei Plan and the Rome Process, launched at the Development and Migration Conference (Rome, 23 July 2023). These are:

- The establishment of a Multilateral Special Fund (Mattei Plan/Rome Process Financing Facility, MP/RPFF). It provides for the financing of high-impact initiatives in strategic sectors to the benefit of sovereigns in Africa. Its multilateral nature implies opening up this facility to investments and contributions from international partners. Italy has defined an initial contribution for the Facility of approximately USD 130 million in highly concessional loans and technical assistance, to which is currently added a pledge from the United Arab Emirates (UAE). The African Development Bank, for its part, undertook on each project to match the contribution from the Fund, ensuring a leverage effect of at least 1: 1.
- A bilateral agreement between Italy and the AfDB which includes a co-financing arrangement and a trust fund, which Italy will finance with approximately USD 150 million in highly concessional loans and gifts in the priority areas of the Mattei Plan.
- The establishment of a private-sector investment platform: the Growth and Resilience Platform for Africa (Graf). Through *Cassa Depositi e Prestiti* (CDP), Italy's ambition is to mobilise around USD 820 million over five years. Both CDP and the African Bank would respectively secure an investment of up to USD 200 million over the same time horizon.

Upgrading energy infrastructure

(CSR 2 of 2024, 1.3 of 2023, 2022 of 1.2, 1.3 of 2021, 3.4 of 2020 and 3.1 of 2019)

Italy also intends to upgrade renewable energy production as well as transmission and storage infrastructures. In this context, the launch in July 2024 of the technical support project 'A Roadmap to Connect Africa to Europe for Clean Energy Production', funded by DG Reform of the European Commission, which chose[209] the World Bank as a provider, is particularly relevant. The aim of the project is to identify the reforms and to produce an estimate of the investment needs in Italy and of the connections to North Africa for energy infrastructure in order to make Italy a European energy hub of renewable energy produced in Africa. As part of the project, which is due to expire in the second half of 2025, the investment needs to be financed within the horizon of the Plan will be defined.

Energy efficiency of buildings

(CSR 2 of 2024, 3.5 of 2023, 1.2 of 2022, 1.3 of 2021 and 3.4 of 2020)

In the context of the European strategy to 2030, Italy has committed itself to achieving the energy consumption reduction targets of the public and private residential buildings[210].

The measures described below will contribute to the achievement of these objectives and the mobilisation of private investments for the energy efficiency of buildings.

Investment to reduce energy consumption by public authorities

The Energy Efficiency Directive provides for a reduction in energy consumption by public authorities of 1.9 percent per year compared with 2021 levels[211]. This should mainly be achieved by improving the energy efficiency of public buildings[212].

[209] This is the Technical Support Instrument (TSI), a programme funded by the European Commission (free of charge to the beneficiary) which aims to stimulate structural reforms within the Member States by providing expertise in the form of technical assistance: advice on policy design, support in formulating strategies, development of reform road maps. See https.//commission.europa.eu/funding-tenders/find-funding/eu-funding-programmes/technical-support-instrument/technical-support-instrument-tsi_en.

210The targets for building efficiency are within the broader energy efficiency framework, which includes a 2030 target for primary energy consumption of 111 Mtoe and final energy consumption of 93 Mtoe, net of the flexibility provided for in the EEAG.

[211]The target is indicative until October 2027 and becomes binding as of that date. See the Energy Efficiency Directive (Directive (EU) 2023/1791 of the European Parliament and of the Council of 13 September 2023).

[212] The Directive lays down a number of mandatory instruments to be launched. This includes the obligation for Member States to upgrade 3 percent per year of the total floor area of heated and/or cooled buildings owned by public bodies. The actions to be implemented must enable the transformation of such buildings into zero-emission or near-zero emission buildings (cd. Nearly Zero Energy Building, NZEB). Alternatively, Member States must achieve energy savings at least equivalent to what would be achieved under the first option, by identifying 3 percent of the buildings to be covered each year, but for which the transformation into NZEB can be postponed until 2040.

According to estimates[213], the area of the public administration subject to this provision should be around 200 million m^2, in view of the regulatory constraints on some buildings and the percentage of PA area actually using energy to condition the indoor climate. As a result, the area to be upgraded each year will be between 5,4 and 6.0 million m^2, with an indicative consumption of 95 ktoe. Efficiency measures on this area would save around 72 ktoe per year.

In order to ensure such energy savings, the Government commits, over a seven-year period, to provide, with due regard for fiscal sustainability constraints, a framework of measures aimed at achieving the objectives set at European level.

Measures to reduce primary energy consumption in the residential building sector

As known, the Directive on the Energy Performance of Buildings (see Case Green)[214] sets a binding target for the reduction of the average primary energy consumption of the entire residential building stock, i.e. savings of at least 16 percent compared to 2020 by 2030, of which 55 percent shall be achieved in 43 percent of the worst-performing buildings.

This target is particularly challenging for Italy, whose building stock is made up of 70 percent of buildings with the worst energy performance and 60 percent of buildings built before the adoption of the law on energy savings in buildings (law No 373/1976). Over the years, energy consumption has improved: on the basis of the average energy performance certificates, they decreased by 6.2 percent between 2020 and 2024.

In this direction, the Government intends to adopt a series of new measures, which, without affecting public finance, can remove information and administrative barriers and support decarbonisation by triggering virtuous mechanisms for private investment. Their aim is: (i) create a market for white certificates for the civil residential sector to incentivise the most efficient interventions and reduce the role of tax deductions[215]; (ii) make the archive 'Information System on Energy Performance Certificates' public, accessible and integrated with the cadastral register; (iii) facilitate energy saving measures through amendments to the rules on co-ownership regulations.

Investments for a more efficient and resilient water system

(CSR 3.7 of 2020)

In view of the intensification of adverse climatic events, it is considered that priority should be given to adopting measures and investments to valorise water and

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[213] RSE estimate.

[214]See the EPBD Directive (Directive 2024/1275/EU of the European Parliament and of the Council of 24 April 2024).

[215] To ensure the fairness and social sustainability of this measure, a reflection is ongoing on the possibility of introducing reward mechanisms for interventions by energy poor households. It is recalled that specific resources, including those to be provided by the Social Climate Fund in the coming years, will finance the adoption of measures to mitigate social impacts, as well as to reduce energy poverty and mobility poverty, associated with the profound transformations of the ecological and energy transition.

reduce waste. In this regard, an *ad hoc* fund of 25 million per year has been set up for the development of urban waste water reuse in situations of water crisis, starting in 2025 and ending in 2029. With these resources, integrated water service operators will be able to take action to improve the availability of water in a water crisis and to incentivise the reuse of waste water.

III.3.2.2. Strategies and instruments for mobilising public and private capital for the energy and ecological transition

Achieving sustainability and green transition objectives requires significant programming and investment efforts from Italy, like the rest of the EU.

According to initial estimates, achieving the ambitious targets set in INECP 2024 will require more than 174 billion of cumulative additional investment between 2024 and 2030, an increase of 27 percent compared with the current legislative scenario.

These investments will mostly be provided by the private sector, given the inability of the public sector to meet such a high demand and the ability of the market to facilitate the more efficient allocation of capital. Some national guarantee schemes, including Archimedes, also play a central role in supporting private investment. In this direction, additional funding solutions and blending schemes could also be useful in relation to the characteristics of the different investment programs to be launched.

The role of the Green Sovereign Bond for Italy

(CSR 1.2 of 2024, 1.3 and 3.5 of 2023, 1.2 of 2022, 1.3 of 2021 and 3.4 of 2020)

To make it easier for the public to raise capital, from 2021 onwards, Italy introduced 'green' instruments within its range of sovereign debt securities. BTP Green), with the objective of financing State budget interventions and expenditures supporting investments in the field of environmental sustainability[216]. In particular, the proceeds of green government bond issues, which take place in each year, are allocated to cover a set of sustainable expenditures in the State budget for the year of issue and for the three consecutive years preceding the issue[217].

[216] The 2020 budget law launched the programme for issuing green government bonds, proportionate to the measures with a positive environmental impact in the State budget, and identified the organisational instruments necessary for this purpose, including an Interministerial Committee, which was set up by a special Prime Ministerial Decree of 9 October 2020. This Committee, which started its work at the end of November 2020, is responsible for coordination between the public authorities involved in the process of gathering information on the identification of these measures and their actual implementation. The 2020 budget law itself also provided for an external certification system relating to the reporting of expenditure financed by the proceeds collected from green government bond issues, as well as the related environmental impacts.

[217] The selection of expenditure from the State budget is currently carried out in accordance with the criteria set out in the 'Green Bond Framework (GBF)', published in February 2021, drawn up on the basis of internationally recognised standards (Green Bond Principles of the International Capital Market Association (ICMA)) and consistent with the environmental objectives set out in the European taxonomy of environmentally sustainable activities (Regulation (EU) No 852/2020). The GBF was subject to a dedicated external certification (Second Party Opinion) by an independent evaluation body selected by the MEF. In the early stages of the process, the identification of

The green government bond issuance programme is a key instrument for achieving the objectives of Italy's ecological transition, as a European priority also identified by Regulation (EU) 2024/1263, and a valuable structural funding opportunity for green investments in conjunction with the RRP initiatives.

In particular, the resources obtained through green bond issues represent an important and significant channel for financing the increasing demand for investment – both public and private – in a context where the effort for the ecological transition put in place by countries will continue to be more and more quantitatively significant, with relevant consequences in terms of the need for financial funding to be raised on the market. In addition, regulatory developments, especially in Europe, are intended to encourage the channelling of investments by savers and intermediaries towards projects and expenditure geared towards achieving this transition.

Since 2021, the resources collected have supported projects for the development of renewable sources for electricity generation, energy efficiency in buildings and the sustainable upgrading and modernisation of the transport sector, in line with the specific EU recommendations to Italy in recent years.

The categories of expenditure included in the framework for issuing green government bonds and selected in the State budget include investments in the transport sector and in support of sustainable mobility, the implementation of energy efficiency projects, actions to protect the environment and biological diversity, pollution prevention and control and the circular economy, research into environmental sustainability, and the production of electricity and heat from renewable sources.

Starting in March 2021, green issuances have now reached a market circulation of 45.65 billion[218], subscribed to a significant extent by ESG (Environmental, Social, and Governance) investors, which, as is known, incorporate environmental, social and governance criteria into their investment decisions.

From a debt management perspective, the possibility of having an additional funding instrument allows for several benefits, including greater diversification of the investor base, which tends to be 'buy and hold', which is crucial for a large debtor such as Italy. This is confirmed by an analysis of the order books of BTP Green placements via syndicate, which took place from 2021 to 2024, which revealed that

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expenditure with a positive environmental impact within the State budget is intended to measure the pool of activities that represent the reference against which green bond issuance volumes can be measured. An organisational and institutional set-up is put in place to this end, making it possible to track in a timely manner the actual use of the proceeds collected from green government bond issues.

Following the identification of the critical mass of eligible expenditure with a positive environmental impact, all the necessary tools shall be put in place to track the actual allocation of the resources collected from green government bond issues to environmentally sustainable projects and initiatives, in line with international income reporting standards.

The entire process is formalised in an annual report – called the Allocation and Impact Report – which sets out the allocation of the proceeds collected from green government bond issues into projects and measures identified as green and the environmental impacts resulting from the implementation of these measures. The report is also subject to an external review system conducted by an independent external auditor.

[218] They were distributed as follows: 13.5 billion issued in 2021, 8 billion issued in 2022, 13.9 billion issued in 2023 and 10.25 billion issued in 2024 (as at 18 July 2024).

around 20 percent of the subscribers to these issues signed BTP bonds for the first time on green issues.

In addition, green government bonds are contributing and will contribute to more efficient access to the capital market through spillover effects on other debt instruments induced by the perception of a more robust and stable investor base.

In the coming years, the Government intends to step up its efforts to maintain and consolidate a significant presence in this market segment, which is constantly developing. In relation to market conditions, new green issuances will be conducted both through the reopening of existing securities and by introducing new bonds on the market, pursuing adequate secondary market liquidity support and diversification of supply in terms of maturity of green bonds.

This commitment is also confirmed by the focus on improving the quality of the process of identifying and selecting expenditures with a positive environmental impact within the State budget, which is also supported by the establishment of dedicated technical meetings, both internal (between the Public Debt Directorate, the General National Accounts Department and the Finance Department) and external (between MEF and Bank of Italy). At the same time, the Government intends to carry out further activities aimed at improving the quality of the information provided within the Interministerial Committee, with the aim of increasingly involving the administrations directly responsible for expenditure in the complex reporting process[219].

In addition, a revision of the current 2021 framework for green government bond issuance is planned, with which to achieve the greatest possible alignment with the objectives set by the EU Taxonomy.

The efforts made so far in terms of identification, selection, reporting and analysis of eligible expenditure on green government bond issues, as well as the ongoing activities in this area, aim to overcome some of the problems that have arisen[220] and, therefore, to increase Italy's ability to cope with the growing demand for green investment in the coming years, by finding specific resources on the market and to promote alignment with European taxonomy, as a key competitive factor for penetration of international ESG portfolios.

Promoting sustainable finance

(CSR 1.2 of 2024, 1.3 and 3.5 of 2023, 1.2 of 2022, 1.3 of 2021 and 3.4 of 2020)

In order to facilitate private participation in financing the significant investments needed for the ecological transition, Italy has launched several

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[219] In order to make the analysis of expenditure more complete, in view of the development of the relevant legislation at the European level, the MEF has obtained access to the Technical Support Instrument (TSI) made available by the European Commission's DG Reform on the correct application of the DNSH principle to a range of heterogeneous interventions and expenditure underlying green government bond issues.

[220] Reference is made in particular to the importance of the commitment and organisational resources needed to select and report widely heterogeneous eligible expenditure in view of the need to place significant amounts of green entitlements, and to the complexity of the socio-economic and environmental impact analyses of the measures financed. In addition, it is not straightforward to assess the eligibility of the expenditure allocated in relation to EU taxonomy (see, for example, the principle of 'no significant harm' (DNSH)).

initiatives, including the establishment of a Sustainable Finance Table at national level, to stimulate private investment towards sustainability and green transition objectives, building on the crucial role that sustainable and transition finance could play, as has been shown on multiple occasions at international and European level.

This initiative is in line with the objectives of the European Green Deal, the G20 initiatives and the investments and reforms of the RRP; it also draws on the findings of the Technical Support Instrument (TSI) project carried out in 2020[221].

The aim of the Table is to encourage the mobilisation of private resources, through the capital market, to support the ecological transition in Italy. Through coordination and exchange of views between supervisors, sharing good practices, conducting analyses and insights, the Task Force aims to offer concrete solutions to remove barriers to private investment in sustainability and facilitate greater competitiveness of companies and increased green and transition investments.

The activities of the Table are organised in different working groups to promote:

- the identification and availability of data on climate and natural risks, by mapping local and national databases, both private and public, on ESG risks to which households and businesses are exposed, also with a view to facilitating their interoperability through institutional, regulatory and/or technological initiatives.

With reference to this work line, the existing databases were mapped in 2023 and the ‘Clim-fit’ project was launched, with the aim of contributing to the dissemination of methods and procedures for quantifying the impact of physical risks on bank exposures. The first phase of the initiative concerned a pilot project for physical risk assessment on real estate loans in the Rimini area. With regard to information on the energy performance of buildings, the Working Group explored different ways of making the information available, with difficulties mainly related to the respect of privacy. For the coming years, the pilot project is expected to be completed, which will serve to establish good practices for the collection of information by intermediaries and a generalised methodology to guide financial institutions in their risk assessment. Gradually, the activity will extend to other climate risks, in order to develop appropriate methodologies for assessing[222] these risks. On the basis of information relating to buildings, the working group will continue to explore possible ways of making available part of the information relating to the Energy Performance Certificate, in open data format, on the National Energy Performance Portal for Buildings. In addition, possible methods will be explored to integrate the information from the National Portal with that of the cadastral register.

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[221] In May 2020, the Treasury Department launched the project ‘Sustainable finance and investments for the transition to a green economy’, in cooperation with the European Commission’s DG Reform and an expert team, aimed at defining: i) a regulatory framework for sovereign green emissions; ii) the investment needs to reach the decarbonisation targets by 2050 in Italy; iii) an improved policy environment to support the mobilisation of private capital flows to achieve the climate neutrality objectives by 2050.

[222] International bodies such as the Financial Stability Board are also interested in this matter. The objectives will also be dealt with in the light of the findings of the studies carried out in these locations.

- Sustainability reporting by non-listed small and medium-sized enterprises, through the development of standardised formats for collecting the most relevant ESG information, prepared through discussions with market participants.

With reference to this work line, a list of sustainability information needed to facilitate access to green and transition finance for unlisted SMEs and micro-enterprises has been consulted. The list is accompanied by a methodological guide to support businesses. For the coming years, it is planned to define specific information sets for the relationship between SMEs and other business partners (e.g. chain leaders or other financial partners such as institutional investors or insurance companies), in order to foster the development and transition of SMEs and micro-enterprises, with specific reference to the Italian context[223].

- The measures taken by the Government to strengthen the increased insurance coverage of companies against environmental and climate risks.

With reference to this line of action, during 2023 the Government intervened with various legislative initiatives aimed at reducing the gap in insurance protection against physical risks of natural disasters ('NAT CAT') for businesses and households, encouraging the taking out of insurance policies and speeding up the management of claims and their settlement. The latest budget law introduced an insurance obligation for companies for catastrophic risks (earthquakes, floods and landslides), in order to close the protection gap associated with natural disasters exacerbated by climate change and minimise their impact on businesses and public finance. The Government has also promoted coordination within the G7 on this issue, with a commitment that led to the adoption by Finance Ministers and Central Bank Governors of a High-Level Framework on Public-Private Insurance Programmes against Natural Hazards, which includes principles aimed at promoting the role of public-private partnerships in reducing the insurance protection gap. In the coming years, activities will focus on: (i) the identification of tools to reduce the data gap related to NAT CAT physical risks, whether or not they are related to climate events; (ii) drawing up the implementing provisions for regulatory initiatives already launched or still under study with regard to the issue of the insurance protection gap.

The strands described above contribute to the stimulation of private finance towards green investment, while at the same time contributing to increasing financial stability and market transparency. The impacts of the measures and projects described above differ according to whether they contribute to making available information that is already on the market but is not accessible to all, or requires the development of tools, technological infrastructure and good practices.

[223] On this point, we would point out that these initiatives are complementary to the activities carried out by the European Financial Reporting Advisory Group on European standards for sustainability reporting, with a specific focus on the needs and characteristics of the Italian economic fabric.

III.3.3. The Country's strategy for the digital transition

Starting from a modest level of digitalization, Italy has accelerated investments and reforms in recent years to address the backlog, also thanks to the large amount of resources that the RRP devotes to the digital transition.

As a result of these major efforts, Italy is already showing greater progress than the European average: for example, in 2022 it was mentioned among the countries that 'substantially improved the scores of the Digital Economy and Society Index (DESI[224]) over the last five years'[225]. More recently, the 2024[226] Innovation Scoreboard classified Italy as a 'moderate innovator' with growth above the EU (+ 0.8 percent, between 2023 and 2024, compared with 0.5 percent on average in the EU).

To date, the European Commission, in assessing the objectives achieved by the RRP, indicates that Italy has exceeded the targets set out in the mission dedicated to the digital transition.

For the coming years, Italy's Digital Agenda will be guided by the Digital Decade Policy Programme 2030[227] under which Italy has set out a roadmap[228] in which, in line with the RRP, it identifies 14 targets and 12 trajectories up to 2030; it also includes 60 measures combined with resources of around 32 billion (around 1.6 percent of GDP). Therefore, reference is made to the national Roadmap and the Digital Decade Country Report[229] for a comprehensive discussion of the country's Digital Decade targets and the related European Commission's analysis.

III.3.3.1. National targets for the Digital Decade

(CSR 4.1 of 2024, 1.3 of 2023, 1.2 of 2022, 1.3 of 2021, 3.4 and 3.8 of 2020)

The Decision on the Digital Decade Policy Programme 2030 (Digital Decade Decision) made operational, through a monitoring and cooperation mechanism, the objectives set out in the Communication on Digital Compact[230] identified in four areas: i) digital skills; ii) digital infrastructure; iii) digital transformation of businesses; iv) digitalisation of public services. For each of these areas, the Digital Decade Decision established[231] European targets, each associated with one or more key performance indicators (KPIs).

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[224] DESI is the indicator with which the European Commission monitored the EU's digital performance from 2014 to 2022. Since 2023, it has been integrated into the report on the state of the Digital Decade.

[225] See https://digital-strategy.ec.europa.eu/en/policies/desi.

[226] See the European innovation scoreboard - E -European Commission (europa.eu) at the link https://research-and-innovation.ec.europa.eu/statistics/performance-indicators/european-innovation-scoreboard_en#european-innovation-scoreboard-2024.

[227] Decision (EU) 2022/2481 of the European Parliament and of the Council of 14 December 2022 establishing the Digital Decade Policy Programme 2030.

[228] In this regard, it should be recalled that the Member States must take into account the country-specific recommendations when implementing it.

[229] https://digital-strategy.ec.europa.eu/en/library/digital-decade-2024-country-reports.

[230] COM (2021) 118, '2030 Digital Compass: the European way for the Digital Decade'.

[231] Article 4 of Decision (EU) 2022/2481.

In the roadmap, Italy has defined its national targets as a contribution to the overall European targets (Table III.3.2). The main actions planned in the field of digital skills, infrastructure and businesses are described below, while for the area of public services, please refer to paragraph III.2 on public administration reforms and the roadmap.

TABLE III.3.2: KEY INDICATORS FOR DIGITAL DECADE

KPIs for the Digital Decade	Italy			EU		Digital Decade target by 2030	
	DESI 2023	DESI 2024	Annual progress	DESI 2024 (year 2023)	Annual progress	IT	EU
Digital skills							
Basic digital skills	45.6 %	45.8 %	0.2 %	55.6 %	1.5 %	74.6 %	80 %
ICT specialists	3.9 %	4.1 %	5.1 %	4.8 %	4.3 %	7.3 %	~ 10 %
Digital infrastructure							
Fixed very high capacity network (VHCN)	53.7 %	59.6 %	11.0 %	78.8 %	7.4 %	100 %	100 %
Fibre cover in premises (FTTP)	53.7 %	59.6 %	11.0 %	64.0 %	13.5 %	100 %	— —
Total 5G coverage	99.7 %	99.5 %	— 0.2 %	89.3 %	9.8 %	100 %	100 %
Semiconductors		NA					
Edge notes		77		1 186		946	10 000
Digital transformation of businesses							
SMEs with at least a basic level of digital intensity	60.3 %	60.7 %	0.3 %	57.7 %	2.6 %	90 %	90 %
Cloud	51.9 %	55.1 %	3.0 %	38.9 %	7.0 %	74 %	75 %
Artificial intelligence	6.2 %	5.0 %	— —	8.0 %	2.6 %	60 %	75 %
Analysis of the data	NA	26.6 %	ND	33.2 %	NA	60 %	75 %
AI or Cloud or data analytics	NA	63.1 %	ND	54.6 %	NA		75 %
Unicorns		7		263		16	500
At least basic digital skills	45.6 %	45.8 %	0.2 %	55.6 %	1.5 %	74.6 %	80 %
ICT specialists	3.9 %	4.1 %	5.1 %	4.8 %	4.3 %	7.3 %	~ 10 %
Digitalisation of public services							
Notification of the electronic identification system		Yes					
Digital public services for citizens	67,9	68,3	0.5 %	79.4	3.1 %	100	100
Digital public services for businesses	74,7	76,3	2.1 %	85,4	2.0 %	100	100
Access to e- health records	71.3	82,7	15.9 %	79.1	10.6 %	100	100

Digital skills

(CSR 3.1 of 2024, 3.7 of 2023, 2.4 of 2020 and 2.4 of 2019)

According to data updated to 2023, Italy is one of the countries with the lowest percentage of people with at least basic digital skills[232]. To bridge this gap, more than 24 percent of the financial resources outlined in the roadmap, amounting to 7.8 billion until 2026, have been allocated to the sixteen measures dedicated to basic digital skills.

[232] In detail, 45.8 percent of adults have adequate digital skills, more than a third (36.1 percent) have insufficient skills and 5.1 percent, although using the internet, have no digital skills (ISTAT, Citizens' Digital Skills - Year 2023).

These measures continue the effort initiated over the last five years under the National Strategy for Digital Skills and are complementary to the commitment made in the RRP with the digital civil service and the network of digital facilitation services, with a budget of 60 million and 135 million respectively.

Other measures of the roadmap, partly supported by the RRP, are aimed at schools, upskilling and reskilling of workers.

Regarding the European target for ICT specialists, Italy has committed to reaching a share of 7.3 percent of employed people, considering that, although increasing, in 2023 the share of ICT specialists represents only 4.1 percent[233] of the employed population. To this end, the roadmap identifies a set of actions to promote access to scientific and technological professions and disciplines[234]. The RRP also contributes to the objective by supporting the actions of the Digital Skills Strategy Operational Plan which aims to increase the number of ICT specialists and the employment of these resources, with particular focus on investments dedicated to improving the conditions for supporting research and innovation[235].

Secure and sustainable digital infrastructures

(CSR 4.1 of 2024, 1.3 of 2023, 1.2 of 2022, 1.3 of 2021, 3.4 and 3.8 of 2020)

With regard to ultra-high speed Very High Capacity Network (VHCN)/Fiber to the Premises (FTTP), Italy recorded a positive dynamic in 2023 with an increase of 11 percent, but with a coverage level of 59.6 percent, below the EU average[236]. The share of fast fixed broadband adoption is also increasing, although it remains limited. In 2023, the share of fixed broadband subscriptions, providing connectivity speeds of 1 Gbps or above, stood at 19.3 percent, which is higher than the EU average (18.5 percent).

To achieve the 2030 targets, the quality and quantity of fixed and mobile coverage are ensured by the National Ultra Broadband Plan and the Italy 1 Giga Plan, financed by the RRP, which aims to provide at least 1 Gbps connectivity through fiber optic from home/building (FTTH/B) or fixed wireless access (FWA) in grey areas. The new Broadband Strategy 2023-2026 will also provide further input (see below).

With regard to 5G coverage, in 2023 Italy reached 99.5 percent in populated areas, 88.3 percent of Italian households have access to the 3,4-3.8 GHz band (the share for the EU is 50.6 percent), while 5G SIM cards account for around 20.4 percent of the total (24.6 percent in the EU). The main measure supporting this objective is 'Italy 5G', funded by the RRP and to be completed by 2026, while further measures are included in the 2023-2026 Broadband Strategy for the

[233] Women in Italy represent only 15.7 percent of ICT specialists, compared with an EU average of 19.4 percent.

[234] In 2022, JTI graduates accounted for 1.5 percent of the total.

[235] In addition to what is foreseen in the RRP, the national roadmap presents measures to strengthen the availability of advanced skills in SMEs, for example through vouchers offering SMEs the possibility to hire innovation leaders. In the industry landscape, Competence Centres also play an important role, which support companies in steering and training activities, especially in relation to Industry 4.0 technologies.

[236] 78.8 percent for VHCN and 64 percent for FTTP.

development and uptake of next generation 5G networks and the rollout of innovative services based on these networks. Finally, the 'Emerging Technologies Houses'[237] (ETC), with a budget of 144 million until 2025, will allow the development of innovative 5G use cases.

In addition to progress on network infrastructure, Italy is actively engaged in the development of semiconductors, edge nodes and quantum computing[238]. Semiconductors and cloud computing benefit from the investments provided for in the RRP to finance participation in two IPCEIs[239] (Important Projects of Common European Interest). Many institutions are active in research and development in the semiconductor sector, with the recent addition of the Italian Centre for Design of Semiconductor Integrated Circuit Foundation (Chips.IT). Italy is one of the largest producers of semiconductors in Europe and, to further boost supply, the National Fund for the Development of the Microprocessor Sector has been established.

Starting from a number of edge nodes in 2023 (77) well below those of France and Germany, the roadmap aims to develop 946 edge nodes by 2030.

Italy is a leader in High Performance Computing (HPC) and quantum computing thanks to an investment of 120 million dedicated to upgrading the LEONARDO supercomputer, the fourth most powerful supercomputer in the world, and its evolutions. The roadmap plans to build 5 quantum computers by 2030, also with the support of centres of excellence in this area.

Finally, the Government intends to promote and support secure and resilient telecommunications networks, by setting up an IPCEI to be submitted to the European Commission, to support the integration of terrestrial and satellite networks. Through the same instrument, innovative 5G stand-alone networks are planned, to support TLC players in adopting next generation networks and systems.

Digital transformation of businesses

(CSR 4.1 of 2024, 1.3 of 2023, 2022 of 1.2, 1.3 of 2021, 3.3 and 3.8 of 2020 and 3.1 of 2019)

Most Italian SMEs perform well in terms of digital intensity (60.7 percent have at least a basic level of digital intensity) and above the EU average (57.7 percent).

The national trajectory sets a target for 2030 in line with the EU target of 90 percent. The existing measures are based primarily on the Transition 4.0 Plan[240] as well as on the upgrading of technology transfer centres (competence centres and Digital Innovation Hubs) and the Digital Transition Fund.

Italy outperforms the EU in terms of the percentage of firms using cloud services, with 55.1 percent compared to 38.9 percent in the EU. Projects launched

[237] These are research and experimentation facilities that support the creation of start-ups and technology transfer to small and medium-sized enterprises in connection with the use of Blockchain, the Internet of Things (IoT) and Artificial Intelligence.

[238] European Commission, 'Report on the State of Digital Decade 2024'.

[239] Microelectronics II and Cloud Infrastructure and Services (CIS) respectively.

[240] The related tax expenditures are financed by the RRP (13.4 billion) and the Complementary Fund (5.08 billion).

in 2023 under the Emerging Technologies Houses to promote R&D projects based on Blockchain, Artificial Intelligence (AI) and Internet of Things or Transition 4.0 are in place to further encourage the uptake of cloud technology among companies.

In the use of big data and AI-based technologies, 5 percent of Italian companies adopted AI solutions in 2023, below the equally low EU average (8 percent). In addition to the many ongoing initiatives to help fill this gap, a new AI strategy is being developed, that includes the creation of a private public venture capital fund, support for R &D and innovative projects, and funding for start-ups and high-tech companies.

However, when considering the three technologies (AI, cloud and big data) together, Italy stands at 63.1 percent, well above the EU average of 54.6 percent. Finally, the commitment to encourage an innovative industrial ecosystem should be mentioned: there are seven unicorns in Italy[241], two of which operate in the key segment of online payments. The ambitious goal set in the roadmap is to reach sixteen unicorns by 2030, a target that may be supported by the revision of business incentive systems and start-up regulations.

Digital infrastructure and territorial cohesion

(CSR 4.1 of 2024, 1.3 of 2023, 2022 of 1.2, 1.3 of 2021, 3.3 and 3.8 of 2020 and 3.1 of 2019)

In order to reduce the digital divide in market failure areas, the construction and integration of infrastructures for access to high-speed internet is underway. To this end, specialised public operators are mapping these areas, planning investments to avoid duplication, designing broadband and ultra-broadband infrastructure and networks using existing infrastructure to optimise investment, managing tenders for infrastructures construction and evaluating investment projects under the Broad-band National Plan and the Ultra Broad band Strategic Project.

An additional project to reduce the digital divide is the Minor Islands Plan, which aims to bring ultra-fast internet connections to the smaller islands of Lazio, Puglia, Sicily, Tuscany and Sardinia, for a total of 21 islands.

III.3.4. Strengthening the common defence capability

(CSR 2 of 2024, 1.3 of 2023, 1.2 of 2022, 1.3 of 2021, 3.8 and 4.2 of 2020, 3.1 and 3.2 of 2019)

In the specific EU Council Recommendations addressed to Italy in 2024 and previous years, there are no indications (in the Recitals) or Recommendations relating to defense. However, the recently reformed Stability and Growth Pact (SGP) recognises the importance of the defence sector, given the current geopolitical context. In addition, the RRP includes some investments in the digitalisation of defence as requested by the European Commission. As is well known, the reforms and investments included in the Medium-term Fiscal-Structural

[241] In the venture capital sector, the term unicorns refer to any start-up that reaches a value of USD 1 billion.

Plan must also contribute to the common priorities of the Union[242], including the development and strengthening of the European defence capability.

Moreover, the increase in public investment in defence is one of the relevant mitigating factors to be taken into account by the European Commission in case of deviations from the expenditure path of the Plan, as well as in case of deviations from the corrective path set by the Council in the context of the Excessive Deficit Procedure.

To contribute to the strengthening of European defence, the measures taken by Italy must increase defence spending relative to GDP until the 2 percent target, taken by Nato Member States at the NATO Summit in Wales in 2014, is reached. Burden sharing requires each Allied Action to achieve, by 2024, the following objectives ('the three C'): 2 percent of defence expenditure relative to GDP ('cash'); 20 percent of the investment share of the Defence budget; continue to ensure meaningful participation in NATO missions, operations and other activities ('contributions').

The NATO Summit in July 2023 confirmed the commitment to increase defence spending to 2.0 percent of[243] GDP by 2028.

Currently, some measures of the RRP are already dedicated to supporting some defence investments:

- Cybersecurity: the resources allocated come under the Digital Transformation Department of the Presidency of the Council of Ministers, totalling 623 million[244]. In particular, as regards the Ministry of Defence, the network of cybersecurity screening and certification laboratories was launched[245].
- Digitalisation of the Ministry of Defence: the funds come under the Digital Transformation Department of the Presidency of the Council of Ministers, totalling 42.5 million[246].

The financial needs of the sector will concern the Cooperation Agreement with Ukraine and the efficiency of the disposal of materials in the context of international cooperation and collaboration, as well as the refinancing of 'Secure Streets' and 'Secure Stations' operations. For investments, the financial effort will be concentrated on the refinancing of certain funds, such as the High and Very Readiness Facility Fund, the National Defence Needs Fund.

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[242] Article 13 (c) of Regulation (EU) No 1263/2024.

[243] A criterion which is not comparable with similar assessments carried out at national, European and international level shall be used to calculate the percentage. Each year, Italy, as a country of the Atlantic Alliance, must provide its own financial data in standardised formats, in accordance with criteria which are indicated in order for them to be comparable with data from other countries.

[244] The planned milestones and targets were met in 2022. This is the establishment of the new National Cybersecurity Agency; the activation of a central audit unit for security measures; support for the upgrading of security facilities; the initial deployment of national cybersecurity services.

[245] To this end, Prime Ministerial Decree No 92/2022 'Regulation on the accreditation of testing laboratories and links between the National Assessment and Certification Centre, the accredited testing laboratories and the assessment centres of the Ministry of the Interior and the Ministry of Defense' was adopted. For the activation of these analysis laboratories, the procedure ended with the notification of the decision approving the final ranking list in October 2022 and the eligibility for funding of a project.

[246] Milestones achieved in 2023 concern the digitisation of staff procedures; institutional web portals and intranet portals for specific internal communication needs; more than 450.000 digital identity certificates using the infrastructure, complemented by a disaster recovery site, have been issued by the Ministry of Defense.

III.4. IMPACT OF THE REFORM AND INVESTMENT PLAN ON GROWTH

The assessment of the macroeconomic impact of current and capital resources and of the main structural reforms envisaged in the Plan is largely linked to the implementation of the measures included in the RRP, together with the investments and reforms planned to consolidate the results achieved, ensure continuity and support the stimulus activated by the RRP with the aim of strengthening the Country's growth. For this reason, the simulations presented here focus mainly on the potential long-term effects on economic growth. As will be detailed below, the effects of reforms on the economy are affected by several factors, making their evolution and timing highly uncertain. Therefore, these effects should be interpreted as contributions to sustaining growth and debt sustainability over the medium to long term, rather than as determinants of annual GDP growth.

In line with the new economic governance framework of the European Union, the simulations present an assessment of the reform and expenditure measures not only at the aggregate level, but also distinguishing the estimated impacts of the measures already implemented from those still to be implemented[247].

The Regulation also requires particularly conservative assumptions. The simulation strategy was therefore designed in accordance with the principles of transparency and prudence, quantifying the effects of the measures as objectively as possible, i.e. limiting their arbitrariness and uncertainty by means of available data. As regards reforms, the analysis takes into account only some of the measures envisaged in the Plan, i.e. the most representative ones and only when they are reasonably measurable in the light of the models used, the available literature and the very nature of the reforms, which are not always measurable.

It is useful to clarify that the proposed exercise is complex and that the results depend on assumptions based on necessarily discretionary choices[248]. It should also be noticed that, starting from the approval of the various measures, the impact on the economy of each of the measures under consideration might requires a certain amount of time[249] and that also the mere announcement of new reforms and investment plans, as well as the credibility of their future implementation, may have real effects on the economy[250].

Consistent with the new economic governance, the impact assessments of investments and reforms already implemented can be considered as part of the projections of potential growth and public debt sustainability in the national

[247] Articles 13 and 14 of Regulation (EU) 2024/1264.

[248] Reforms consist of a series of legislative and administrative measures of various levels, accompanied by expenditure measures. Consider, for example, the reform of the justice system, where legislative measures amending procedures, spread over several years, are accompanied by expenditure on recruiting staff to reduce backlog proceedings. The complex interlinkage between the various measures that make up structural reforms means that they cannot be isolated, nor can their effects be clearly broken down. Moreover, the effects of individual measures are often only significant when taken into account in the overall design of the reform.

[249] For example, the implementing decree for the recruitment of new staff will produce the first economic effects only with the actual recruitment of these workers. These effects may then expand further with the actual integration of new staff into the working environment.

[250] These influence the current choices of economic operators who, depending on expectations, may anticipate or postpone spending and investment choices.

macroeconomic context[251]. Otherwise, the impact assessments of investments and reforms to be implemented cannot be taken into account in the projections for potential growth and are produced, in addition to illustrating the expected effects of the investments and reforms envisaged in the Plan, also in order to justify – formally – the extension of the adjustment period, as proposed in Paragraph II.1.

In the following paragraphs, the main aspects of the methodology used for the quantification, necessarily stylized, of the effects related to reform measures and investments already implemented, as well as those yet to be implemented, are presented[252]. This is followed by the macroeconomic impacts of the Plan that include (i) the reforms and investments of the RRP, distinguishing those already implemented and those still to be implemented, and (ii) the additional investments and reforms valid for the extension of the adjustment period included in the Plan.

The RRP reforms

For the purpose of assessing the impact of the reforms contained in the RRP[253], the most representative measures were chosen and categorized into five areas: education and research, active labour market policies, public administration (PA), justice, competition and procurement[254]. Figure III.4.1 shows, for each reform area, the percentage of completed milestones and targets (M&T) by the end of 2024, and the percentage to be completed from 2025, the first year of the new Plan.

The achievement rates of M&T by the end of 2024 range from 43 percent for the area of active labour market policy reform to 79 percent of justice. The fact that some reform areas have lower implementation rates does not imply that there are delays, but rather that their timeline provides for a proportionally higher number of milestones and targets in the final years of the Plan.

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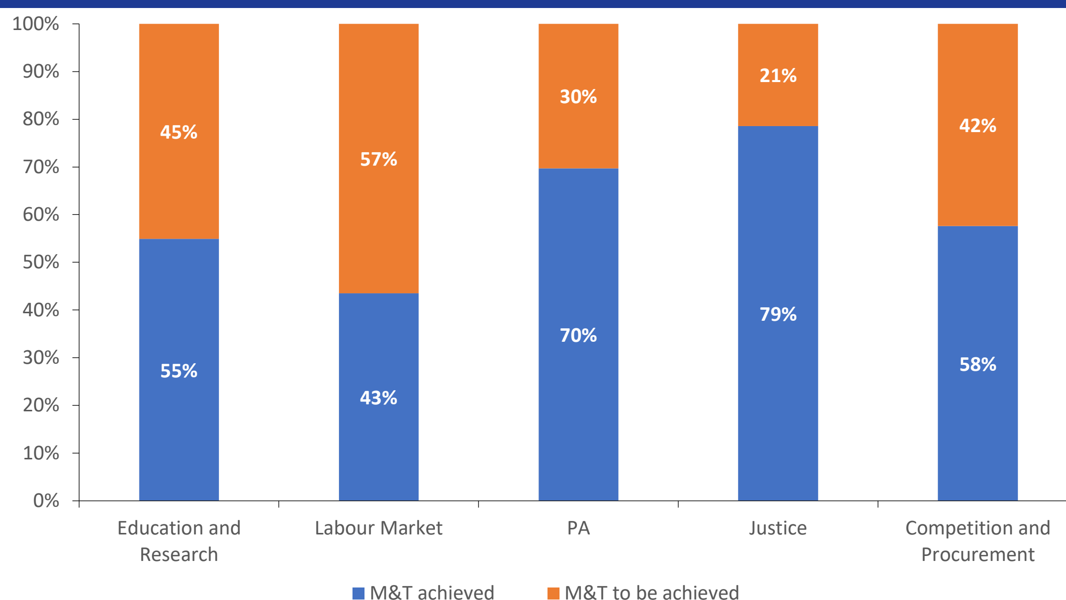
[251] Article 13 (f) of Regulation (EU) 2024/1264.

[252] For technical details on the methodology used, please refer to Appendix V, which also provides a detailed analysis of the impact estimates by missions and sectors of economic activity.

[253] The measures of the RRP, approved in 2021, as amended in recent revisions, are grouped into 66 reforms and 150 investments. The implementation of the RRP measures must comply with a precise timetable, consisting of milestones and targets (M&T), to be achieved within a set timeframe. They correspond, respectively, to the milestones and targets defined in article 2, par.4 of Regulation (EU) No 241/2021, which established the Recovery and Resilience Facility. The article defines milestones and targets as "measures of progress towards the achievement of a reform or investment, meaning 'milestones' as qualitative results and 'targets' as quantitative results".

[254] The reform measures are grouped together by analogy and on the basis of the Annex to the EU Council Implementing Decision. In view of the high degree of complementarity, the quantification of the percentage of milestones implemented and to be implemented refers not only to the requirements directly linked to the reform measures, but also to the investments linked to them. The way in which reform measures are grouped is also consistent with the degree of aggregation of the exercise that aims to assess the impact of the measures on macroeconomic aggregates.

FIGURE III.4.1: PERCENTAGE OF MILESTONES AND TARGET ACHIEVED AND TO BE ACHIEVED BY REFORM AREA



Source: MEF elaborations on data from V Monitoring Report and the 'Italia Domani' database.

In the stylized exercise proposed in this paragraph, the impact assessments of reform measures are first simulated in proportion to the percentage of M&T achieved and then in their entirety. The result of the first simulation determines the effect of the reforms implemented. The difference between the second and the first simulation identifies the effect of the measures still to be implemented (Table III.4.1).

Investments

The impacts of the reforms have been combined with the effects of the higher current account and capital expenditure envisaged in the RRP (for simplicity, investments), together with the additional resources allocated to continue the RRP and support the reform areas identified in the Plan. As regards investments associated with the RRP, in line with the approach taken in previous policy documents, to isolate only the additional impact on the economy, the assessment was carried out considering only the resources financing additional projects. Similarly to the assessments of structural reforms, the effects of investments made in 2024 are separated from those still to be realised[255]. The latter refer to the

[255] In this case, investments planned up to 2024 are considered as realized, and those in subsequent years as to be realized. The macroeconomic model used for the reform and investment simulations is the QUEST-III R&D model developed by the European Commission, see Roeger, W., Varga, J., and in't Veld, J., (2022), 'The QUEST III R & D Model', in U. Akcigit, C. Benedetti Fasil, O. Licandro, C. Benedetti Fasil, & M. Sanchez-Martinez (Eds.). Macroeconomic Modelling of R & D and Innovation Policies. International Economic Association Series. Palgrave Macmillan, Cham.

resources of the RRP allocated from 2025 onwards and those allocated to support the reform areas of the Plan for the three-year period 2027-2029[256].

Maintaining a prudential approach, for public investment associated with the reform areas considered (subset of total public investment), only the demand effect generated by higher spending is taken into account, thus excluding the structural effect of higher productivity generated by public capital[257]. This adjustment is necessary to be able to consider the impacts of reforms as additional to those of investments. Annex V details the assumptions used and a sensitivity analysis on possible alternative scenarios depending on the efficiency of investments and the effectiveness of reforms.

The new reforms needed to extend the adjustment period of the Plan

The expenditure described above supports several new reforms envisaged in the Plan (described in detail in Paragraph III.2), some of which formally valid for the extension of the adjustment period of the Plan. The measures for extending the Plan will cover five areas of reform: justice, business environment, public administration, tax administration, and public spending planning and governance.

In line with the assumptions used to estimate the impact of reforms under the RRP, the assessment of the structural impact of the first three reforms was carried out using the QUEST-III R&D model developed by the European Commission[258].

The fourth area of reform, relating to the tax administration, has as one of its objectives the recovery of tax revenues, which would improve fiscal balances by freeing up resources to support the economy in line with the expenditure trajectory. These effects, combined with the full implementation of the enabling law on tax reform, will form part of the draft budget law for 2025 and, maintaining a prudential approach, in this document only the overall effects stemming from the shift from the macroeconomic scenario under existing legislation to the policy scenario are taken into account. However, although difficult to quantify, it can be argued that tax administration measures would also have a positive impact on long-term potential growth. The reduction of tax evasion would, on the one hand, diminish the competitive advantage of tax avoidance and, on the other hand, free up resources to finance public measures, such as investments in tangible and intangible capital, which would improve the productivity and competitiveness of businesses in the long term[259].

Finally, the fifth reform area aims to improve the capacity for planning, monitoring and assessment of the effects of public spending. The nature of these measures does not allow for a robust impact assessment; however, it can be argued

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[256] A preliminary and conservative assessment considers resources over the three-year period 2027-2029 amounting to more than 110 billion allocated to areas consistent with RRP investments, pending final settlement in the Budget law.

[257] In the QUEST-III R&D model, public investment has a permanent impact on GDP through public capital accumulation in the production function.

[258] For details on the assumptions underlying the exercise proposed here, please refer to Annex V.

[259] For further details, see, for example, Bobbio, E. (2016), 'Tax evasion, firm dynamics and growth', Bank of Italy Occasional Paper, (357).

that they will contribute to enhancing fiscal sustainability and fostering economic growth. These measures ensure that public resources are used effectively, reducing waste and optimizing socio-economic benefits. Increased programming capacity allows for more strategic planning of spending, ensuring that funds are allocated to priority areas that can have a positive impact on growth. The monitoring of public spending, on the other hand, prevents inefficiencies by ensuring that projects are carried out on time and at the expected cost. Finally, the assessment of public spending can help measure and improve the effectiveness of the investments made, identifying areas for improvement and correcting any deviations from the targets[260].

TABLE III.4.1: REAL GDP IMPACTS OF REFORMS AND INVESTMENTS (percentage deviations from baseline)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Reforms in the RRP	**0.0**	**0.2**	**0.6**	**1.1**	**1.7**	**2.3**	**2.8**	**3.1**	**3.4**	**3.7**	**3.9**
a.1 implemented	0.0	0.2	0.6	1.1	1.0	1.3	1.5	1.7	1.9	2.1	2.2
a.2 to be implemented	0.0	0.0	0.0	0.0	0.7	1.0	1.2	1.4	1.5	1.6	1.7
Investments	**0.2**	**0.4**	**0.8**	**0.7**	**1.7**	**3.1**	**2.4**	**2.6**	**2.7**	**2.0**	**2.2**
b.1 implemented (RRP)	0.2	0.4	0.8	0.7	0.6	0.7	0.7	0.7	0.7	0.7	0.7
b.2 to be implemented (RRP, Plan)	0.0	0.0	0.0	0.0	1.1	2.4	1.7	1.8	2.0	1.3	1.5
c New reforms valid for the extension of the Plan	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.1**	**0.2**	**0.4**	**0.5**
Justice	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Business environment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1
Public administration	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.2
Total implemented (a.1 + b.1)	**0.2**	**0.7**	**1.4**	**1.9**	**1.6**	**2.0**	**2.3**	**2.5**	**2.6**	**2.8**	**2.9**
Total to be implemented, valid for the extension of the Plan (a.2 + b.2 + c)	**0.0**	**0.0**	**0.0**	**0.0**	**1.8**	**3.3**	**2.9**	**3.3**	**3.7**	**3.3**	**3.8**

Note: Any inaccuracies are the result of rounding. Source: MEF-DT elaborations, QUEST-III R&D model.

The reforms implemented under the RRP would increase the level of GDP by 2.2 percent by 2031. The completion of the planned reforms would result in a further increase of 1.7 percentage points in the same year. These results are more conservative than those obtained in studies carried out by the European Commission, which, however, considers a broader set of reforms over a longer time horizon for their implementation[261].

As regards investment, the total expenditure already implemented under the RRP would lead to an increase in the level of GDP by 0.7 percent, combined with a further positive impact of 1.5 percentage points with the implementation of the additional investment planned after 2024. These results are determined by the

[260] On the possible effects of the efficiency of public spending on fiscal sustainability and/or potential growth, see, for example, recent work by Afonso, A. and J., Alves (2023), 'Does government spending efficiency improve fiscal sustainability?', European Journal of Political Economy.

[261]See, for example, Pfeiffer, P., Varga, J., and in't Veld, J. (2024), 'Unleashing Potential: Model-based Reform Benchmarking for EU Member States', European Economy – Discussion Papers 192, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission; Varga, J. and in't Veld, J. (2014), 'The potential growth impact of structural reforms in the EU. A benchmarking exercise', European Economy – Economic Papers 2008-2015 No. 541, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

combined effects of the short-term impact of higher expenditure flows and the structural effects of public capital accumulation.

Finally, the new reforms for the extension of the Plan would start to have the first impact on the economy in 2028 and would increase the level of GDP in 2031 by 0.5 percent. Overall, the measures for extending the Plan, namely the investments and reforms to be implemented by the RRP and the new reforms, could lead to an increase in GDP of 3.8 percent by 2031.

It should be noted that, in a conservative manner, the national macroeconomic outlook outlined in Paragraph II.2.2 only partially takes into account the effects of the measures of the RRP implemented so far, whereas, as described above, the effect of the measures to be implemented is valid to support the request of an extension of the adjustment period of the Plan.

ANNEX I: THE EUROPEAN COMMISSION'S REFERENCE TRAJECTORY, DSA ASSUMPTIONS AND ALLOWED DEVIATIONS

On 21 June, the European Commission sent to the EU Member States with a debt-to-GDP ratio or a net borrowing-to-GDP ratio above the thresholds set in the TFUE, a country-specific reference trajectory for net expenditure, as required by the Regulation on the preventive arm of the Stability and Growth Pact No 1263/2024.

The reference trajectory was estimated using a common approach for all countries based on the Debt Sustainability Analysis (DSA) described in the Debt Sustainability Monitor 2023[262].

The methodology used by the European Commission aims to determine the fiscal adjustment path that sets the debt ratio on a 'plausible' downward path.

This path is then set out in terms of the reference trajectory for net expenditure and, in compliance with the Regulation, at the end of the adjustment period ensures that:

- debt falls plausibly (or remains below 60 percent of GDP) (art. 6, par. a, art. 10);
- the deficit is reduced and/or maintained below 3 percent of GDP (article 6, par. b);
- common benchmarks and safeguards are respected (articles 6, par. c, 6, par. d, 7, 8).

The reduction in the debt-to-GDP ratio shall be verified by simulating the behaviour of the debt ratio in the ten years following the conclusion of the fiscal adjustment, assuming that there are no further fiscal interventions after the adjustment period, and that the structural primary balance varies solely as a result of the change in revenue associated with 'ownership income' of the general government (Property Income, PI)[263] and the change in expenses related to aging (no-fiscal policy change scenario). The adjustment is considered 'plausible', if the debt-to-GDP ratio decreases also under adverse macroeconomic and financial conditions[264] and with sufficient probability[265]. The expenditure trajectory calculated by the European Commission ensures that the probability that debt-to-

[262] Recital 21 Reg.1263/2024. https://economy-finance.ec.europa.eu/publications/debtsustainability-monitor-2023_en). For subsequent Plans, the methodology to be discussed with the Member States in the DSA working group set up within the Economic Financial Committee will be used.

[263] Obtained in accordance with the methodology set out in the European Commission's Ageing Report of 2021.

[264] The adverse scenarios underlying the DSA are: (a) financial stress scenario; (b) unfavourable scenario of the implicit interest rate differential with the nominal GDP growth rate; (C) Scenario of deterioration of the structural primary balance.

[265] The probability of the debt ratio decreasing with sufficient probability is calculated through stochastic simulations, which reflect the historical volatility of the relevant variables affecting government finances.

GDP ratio will be lower in the five years following the end of the adjustment period, compared to the final year of adjustment, is at least 70 percent.

The DSA adjustment scenario is based on 2024 (year T) and on the following assumptions. With regard to fiscal policy, the adjustment of the structural primary balance starts in 2025 and is linear throughout the period considered (four years or, if extended, up to seven years). The linear path resulting from the DSA is amended, if necessary, to ensure compliance with the benchmark required by the excessive deficit procedure (so-called minimum benchmark) and with the common safeguards provided for in the new rules of the Stability and Growth Pact. This may require a tightening of the correction of the structural primary balance in some years and therefore the required final correction path may not be linear, as is the case, for example, for the path underlying the reference trajectory calculated by the European Commission for our country.

At the end of the adjustment period, for the next ten years, a no-fiscal policy change assumption is applied, where, as explained above, primary expenditure is only modified by changes in age-related expenditure while structural revenue as a percentage of GDP remains stable[266].

The potential output growth assumptions are based on 'T + 10 projections' obtained through the application of the EUCAM methodology agreed at EU level within the potential output working group (former output gap working group).

During the fiscal consolidation period, real GDP growth considers both the feedback effect of the fiscal adjustment through standard multiplier for all countries of 0.75, and the assumption of a linear closure of the output gap in the three years following the end of the adjustment period (at T+ 10, i.e. in 2034, in the case of a seven-year adjustment). These assumptions lead to a stylised pattern of real economic growth, which is lower than potential output in fiscal adjustment years and higher in the three years following the end of the adjustment. Closing the output gap leads to convergence of the level of real GDP with potential output and consequently the real growth rate of the economy in the following years equals potential growth.

With regard to interest rates, after 2025, the entire interest rate curve is not modelled, for obvious reasons of simplification, but only short-term (three months) and long-term (ten years) rates are taken into account. Interest rates and inflation[267] are assumed to converge linearly over a ten-year horizon towards country-specific values, reflecting financial market expectations[268]. Beyond this horizon, linear convergence is assumed over twenty years towards common values, in line with the Ageing Report 2024 for interest rates (2 percent and 4 percent for short-term and long-term rates respectively), and towards the monetary policy objective of 2 percent for inflation.

[266] The DSA methodology assumes that the elasticity of structural revenue relative to potential output is unitary.

[267] Measured by the growth rate of the GDP deflator.

[268] For short-term and long-term interest rates, the respective ten-year forward rates shall be taken into account; for the rate of price growth, the level derived from the ten-year inflation swap contracts is taken into account.

Stock-flow adjustments (SFA) are in line with the European Commission's Spring Forecast until 2025 and set to zero thereafter[269]. The impact of one-off budgetary measures has also been zero since 2026.

The table below shows the European Commission's reference net expenditure trajectory and the underlying macroeconomic and fiscal variables, which are reported in Table II.1.1, assuming a seven-year adjustment.

TABLE A.I: REFERENCE TRAJECTORY SENT BY THE EUROPEAN COMMISSION TO THE ITALIAN GOVERNMENT

	2024	2025	2026	2027	2028	2029	2030	2031	Average 2025-2031
Annual growth rate of net expenditure (y-o-y. %)		**1.6**	**1.6**	**1.5**	**1.4**	**1.3**	**1.3**	**1.4**	**1.5**
Structural primary balance (% of GDP)	- 1.1	- 0.5	0.1	0.7	1.4	2.0	2.7	3.3	
Annual change in the structural primary balance (p.p.)		0.6	0.6	0.6	0.67	0.66	0.64	0.6	0.62
Primary balance (% of GDP)	- 0.5	- 0.1	0.1	0.5	1.0	1.5	2.1	2.7	
Annual change in primary balance (p.p.)		0.3	0.2	0.4	0.5	0.5	0.6	0.6	
Net borrowing (% GDP)	- 4.4	- 4.3	- 4.4	- 4.2	- 3.9	- 3.5	- 3.0	- 2.6	
Debt/GDP (%)	138.6	142.0	143.2	144.1	144.4	144.4	143.8	142.7	
Annual change in debt/GDP (p.p.)		3.4	1.2	0.8	0.4	- 0.1	- 0.6	- 1.1	

The Regulation on the preventive arm (1263/2024) provides that Member States may deviate from some of the assumptions of the DSA and that these deviations can be accepted under certain conditions[270]. In July, the European Commission sent a note to the Member States explaining how it intends to interpret the provisions of the Regulation and explaining the assumptions from which deviations are permitted under the DSA methodology.

With reference to macro assumptions, according to the European Commission, deviations from the potential growth profile can be accepted in two cases: (i) provided that cumulated growth over the whole projection period remains broadly unchanged, an average of the annual potential GDP growth projections could be used, rather than point estimates; (ii) in the case of an update with more recent data, provided that the projections are still based on the common methodology at EU level. In addition, in line with the existing flexibility within the common EUCAM methodology, in cases of particularly large output gaps, the closure of the output gap may be postponed by a further two years (more than three years after the end of the adjustment period already provided for in the common methodology).

The European Commission has also shown openness to possible deviations from the value of the fiscal multiplier (0.75) used in the DSA, provided that: (i) the composition of the adjustment and the main measures to achieve it are specified in

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[269] For some countries, the projection assumptions for the stock low adjustments were revised on the occasion of the publication of the Debt Sustainability Monitor 2023. In particular, for Luxembourg, Finland and Greece, SFAs differ from scratch after 2025 and reflect the formation of public pension funds and interest deferrals on official loans.

[270] See recital 25 ("Where Member States make use, for their national Medium-term Fiscal-Structural Plans, of assumptions that differ from those in the medium-term government debt projection framework, the Member State concerned should explain and duly justify the differences in a transparent manner and on the basis of sound economic arguments in the technical dialogue and in its national Medium-term Fiscal-Structural Plans") and Article 13, par. b of Regulation 1263/2024 ("[...]; where the national Medium-term Fiscal-Structural Plan contains a higher net expenditure path than the reference trajectory transmitted by the Commission in accordance with article 5, the Member State concerned shall present in its Plan sound economic arguments based on data explaining the difference;').

sufficient detail in the Plan; (ii) deviations are justified on the basis of empirical literature.

On the convergence value over the medium term of inflation, the European Commission could accept some deviations if justified by a more recent cut-off date or faster convergence towards central bank targets. Even for the convergence value of medium-term interest rates, the European Commission could accept deviations if justified by a more recent cut-off date, but the update needs to be in line with inflation convergence assumptions.

However, no deviation from the long-term interest rate convergence values would be accepted as, according to the European Commission, these values should remain in line with the assumptions underlying the Ageing Report 2024 (2 percent for short-term interest rates and 4 percent for long-term interest rates at T + 30).

Member States may present different projections of implicit interest rates if justified by different (and justified) market interest rate assumptions and/or a more granular debt breakdown than that of the European Commission's DSA (e.g. in terms of maturities). In case of lower implicit interest rate assumptions than the European Commission, Member States are required to be ready to disclose their projection model and sources used.

As regards budgetary projections, the permitted deviations relate to SFA values (as a percentage of GDP) and property income values that can be modified to reflect specific situations in individual Member States.

Finally, Member States can use more up-to-date information on 2024 than the one used in the baseline trajectories.

ANNEX II: ASSESSMENT OF THE PARLIAMENTARY BUDGET OFFICE

As required by the previous European budgetary governance, since 2014 the process of endorsement of the forecast cycle of economic and financial planning documents by an independent national institution took place on the basis of the interactions governed by the Memorandum of Understanding between the Parliamentary Budget Office (PBO) and the Ministry of Economic Affairs and Finance (MEF) (most recently, that of 13 May 2022). As mentioned in Chapter II.2.1, the new fiscal rules did not allow the full application of the requirements of the protocol for information sharing. Nevertheless, the macroeconomic forecasts have been validated by the PBO, on the basis of a good interinstitutional cooperation, pending the revision of national legislation.

Specifically, the MEF provided the PBO with the information needed to assess the forecasts contained in the following Plan, in accordance with the timetable set out in a summary timetable agreed between the two institutions. As part of the information exchange process, the MEF first transmitted the assumptions on the exogenous variables used for the estimation of the macroeconomic scenario on 26 August 2024. In this way, the forecasters of the panel involved in the validation process (which includes the PBO) were enabled to make estimates on the basis of the same assumptions, ensuring consistency of the comparison. This exchange was followed by a first transmission of the forecasts of e baseline the macroeconomic variables by the MEF, followed by a further update resulting from the release of the quarterly economic accounts by Istat on 2 September 2024. The PBO then sent a letter including its observations on 5 September 2024, which were taken into account by the MEF in the final submission of the baseline macroeconomic scenario on 6 September 2024.

On 9 September 2024, the endorsement letter[271] of the forecasts contained in the baseline macroeconomic scenario was issued and sent by the President of the PBO to the Minister of Economy and Finance. The letter acknowledged that the macroeconomic forecasts were within an acceptable range, although in a number of cases they were at the upper end. In addition, it was pointed out that the endorsement was based on the assumption of a full and timely implementation of the RRP projects, and that there was no deterioration in the international context.

On 23 September 2024, the MEF sent to the PBO an update of the macroeconomic baseline scenario in light of the estimates published by Istat for the general revision of the National Economic Accounts. On 25 September 2024, the PBO sent a letter confirming the endorsement of the macroeconomic baseline scenario.

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[271] This letter can be found on the institutional website of the PBO – https.//www.upbilancio.it/rapporti/.

ANNEX III: GENERAL GOVERNMENT BUDGETARY PROSPECTS UNDER EXISTING LEGISLATION

TABLE A.III.1: GENERAL GOVERNMENT BUDGETARY PROSPECTS UNDER EXISTING LEGISLATION (eur millions)

	2023	2024	2025	2026	2027
COMPONENTS OF EXPENDITURE					
Compensation of employees	187,131	195,817	197,882	199,406	198,164
Intermediate consumption	174,830	173,833	181,290	184,545	181,956
Social payment	424,486	447,000	455,600	467,510	479,380
of which: Pensions	319,184	337,480	345,410	356,040	366,520
Other social payment	105,302	109,520	110,190	111,470	112,860
Other current expenditure	87,945	86,419	94,541	92,915	91,977
Total current expenditure net of interest	874,392	903,069	929,313	944,376	951,477
Interest expenditure	77,987	85,649	87,251	90,767	96,537
Total current expenditure	952,379	988,717	1,016,564	1,035,143	1,048,014
of which: Health expenditure	131,119	137,934	141,929	144,969	147,506
Total capital expenditure	192,464	115,559	120,668	120,849	106,182
Gross fixed capital formation	67,599	74,979	79,729	83,966	80,728
Capital transfer	115,586	34,549	34,855	31,139	20,097
Other transfers	9,279	6,031	6,084	5,744	5,357
Total expenditure net of interest	1,066,856	1,018,627	1,049,981	1,065,225	1,057,659
Total expenditure	1,144,843	1,104,276	1,137,232	1,155,993	1,154,196
COMPONENTS OF REVENUE					
Total taxes	613,129	648,018	663,382	681,167	700,631
Direct Taxes	320,796	337,215	346,165	356,236	367,397
Indirect Taxes	290,724	309,388	315,816	323,520	331,817
Capital Taxes	1,609	1,415	1,401	1,411	1,417
Social contributions	269,464	277,429	301,329	310,223	318,220
Actual contributions	265,216	273,179	297,002	305,814	313,732
Imputed contributions	4,248	4,250	4,327	4,409	4,488

TABLE A.III.1 CONTINUED: GENERAL GOVERNMENT BUDGETARY PROSPECTS UNDER EXISTING LEGISLATION (eur millions)

	2023	2024	2025	2026	2027
COMPONENTS OF REVENUE					
Other current revenues	88,054	90,225	96,099	99,788	93,132
Total current revenues	969,038	1,014,257	1,059,409	1,089,767	1,110,566
Non-tax capital revenue	21,461	6,016	11,101	15,053	5,573
Total revenue	992,108	1,021,688	1,071,911	1,106,231	1,117,556
p.m. Tax burden	41.5	42.3	42.8	42.7	42.8
Primary balance	- 74,748	3,061	21,930	41,006	59,896
% of GDP	- 3.5	0.1	1.0	1.8	2.5
Current balance	16,659	25,540	42,845	54,624	62,552
% of GDP	0.8	1.2	1.9	2.4	2.6
Net borrowing	-152,735	- 82,588	- 65,321	- 49,762	- 36,640
% of GDP	- 7.2	- 3.8	- 2.9	- 2.1	- 1.5
Nominal GDP under existing legislation (x 1.000)	2,128,001	2,189,651	2,255,728	2,323,318	2,381,380

Note: Any inaccuracies are due to rounding.

TABLE A.III.2: GENERAL GOVERNMENT BUDGETARY PROSPECTS UNDER EXISTING LEGISLATION (% of GDP)

	2023	2024	2025	2026	2027
COMPONENTS OF EXPENDITURE					
Compensation of employees	8.8	8.9	8.8	8.6	8.3
Intermediate consumption	8.2	7.9	8.0	7.9	7.6
Social payment	19.9	20.4	20.2	20.1	20.1
of which: Pensions	15.0	15.4	15.3	15.3	15.4
Other social payment	4.9	5.0	4.9	4.8	4.7
Other current expenditure	4.1	3.9	4.2	4.0	3.9
Total current expenditure net of interest	41.1	41.2	41.2	40.6	40.0
Interest expenditure	3.7	3.9	3.9	3.9	4.1
Total current expenditure	44.8	45.2	45.1	44.6	44.0
of which: Health expenditure	6.2	6.3	6.3	6.2	6.2
Total capital expenditure	9.0	5.3	5.3	5.2	4.5
Gross fixed capital formation	3.2	3.4	3.5	3.6	3.4
Capital transfer	5.4	1.6	1.5	1.3	0.8
Other transfers	0.4	0.3	0.3	0.2	0.2
Total expenditure net of interest	50.1	46.5	46.5	45.8	44.4
Total expenditure	53.8	50.4	50.4	49.8	48.5

TABLE A.III.2 CONTINUED: GENERAL GOVERNMENT BUDGETARY PROSPECTS UNDER EXISTING LEGISLATION (% of GDP)					
	2023	2024	2025	2026	2027
COMPONENTS OF REVENUE					
Total taxes	28.8	29.6	29.4	29.3	29.4
Direct Taxes	15.1	15.4	15.3	15.3	15.4
Indirect Taxes	13.7	14.1	14.0	13.9	13.9
Capital Taxes	0.1	0.1	0.1	0.1	0.1
Social contributions	12.7	12.7	13.4	13.4	13.4
Actual contributions	12.5	12.5	13.2	13.2	13.2
Imputed contribution	0.2	0.2	0.2	0.2	0.2
Other current revenue	4.1	4.1	4.3	4.3	3.9
Total current revenue	45.5	46.3	47.0	46.9	46.6
Non-tax capital revenue	1.0	0.3	0.5	0.6	0.2
Total revenue	46.6	46.7	47.5	47.6	46.9
p.m. Tax burden	41.5	42.3	42.8	42.7	42.8
BALANCES					
Primary balance	- 3.5	0.1	1.0	1.8	2.5
Current balance	0.8	1.2	1.9	2.4	2.6
Net borrowing	- 7.2	- 3.8	- 2.9	- 2.1	- 1.5

Note: Ratios to GDP are calculated on the existing legislation scenario forecasts. Any inaccuracies are due to rounding.

TABLE A.III.3: GENERAL GOVERNMENT BUDGETARY PROSPECTS UNDER EXISTING LEGISLATION (PERCENTAGE changes)

	2024	2025	2026	2027
COMPONENTS OF EXPENDITURE				
Compensation of employees	4.6	1.1	0.8	- 0.6
Intermediate consumption	- 0.6	4.3	1.8	- 1.4
Social payment	5.3	1.9	2.6	2.5
of which: Pensions	5.7	2.3	3.1	2.9
Other social payment	4.0	0.6	1.2	1.2
Other current expenditure	- 1.7	9.4	- 1.7	- 1.0
Total current expenditure net of interest	3.3	2.9	1.6	0.8
Interest expenditure	9.8	1.9	4.0	6.4
Total current expenditure	3.8	2.8	1.8	1.2
of which: Health expenditure	5.2	2.9	2.1	1.7
Total capital expenditure	- 40.0	4.4	0.2	- 12.1
Gross fixed capital formation	10.9	6.3	5.3	- 3.9
Capital transfer	- 70.1	0.9	- 10.7	– 35.5
Other transfers	-35.0	0.9	- 5.6	- 6.7
Total expenditure net of interest	-4.5	3.1	1.5	- 0.7
Total expenditure	- 3.5	3.0	1.6	- 0.2
COMPONENT OF REVENUE				
Total taxes	5.7	2.4	2.7	2.9
Direct Taxes	5.1	2.7	2.9	3.1
Indirect Taxes	6.4	2.1	2.4	2.6
Capital Taxes	- 12.1	- 1.0	0.7	0.4
Social contributions	3.0	8.6	3.0	2.6
Actual contributions	3.0	8.7	3.0	2.6
Imputed credits	0.0	1.8	1.9	1.8
Other current revenue	2.5	6.5	3.8	- 6.7
Total current revenue	4.7	4.5	2.9	1.9
Non-tax capital revenue	- 72.0	84.5	35.6	- 63.0
Total revenue	3.0	4.9	3.2	1.0

ANNEX IV: THE ASSESSMENT OF PERMANENT HIGHER REVENUES FROM IMPROVING TAX COMPLIANCE

Article 1, par. 3 of the budget law 2021-2023[272] introduced a new mechanism for feeding the 'Fund for the reduction of the tax burden' (henceforth 'the Fund'), again established by article 1, par. 130 of the budget law 2023-2025[273]. The Fund shall be endowed with resources estimated as higher permanent revenues resulting from the improvement of voluntary tax compliance, subject to the fulfilment of public finance policy objectives.

Article 1, par. 4 of the budget law 2021-2023 provides that, for the purposes of determining the resources referred to in paragraph 3, the higher revenue resulting from the improvement of voluntary compliance shall be taken into account in each year, as indicated, with reference to the third year preceding the preparation of the budget law, in the 'Report on the unobserved economy and on tax and social security contributions evasion', drawn up pursuant to article 10-bis.1, par. 3 of law No. 196/2009. This year's assessment must therefore refer to the change in tax compliance for the 2021 tax year, as shown in the final estimate in the 2024 Report.

On the basis of the methodology used by the Commission to draw up the report, of the international best practices and of the main evidence from theoretical and empirical literature on the subject, the change in tax compliance consists of the change (with a negative sign) in the tax gap in 2021 compared to 2020. It is worth recalling that the indicator of variation in the tax gap is not constructed as an absolute difference between the tax gap in 2021 compared to that recorded in 2020, but as a product between the change in the gap propensity (taken as a proxy for the propensity to evade) between 2021 and 2020 and the theoretical tax revenue in 2020. As also shown in a recent contribution from the Report[274], this indicator allows to distinguish the effect of changes in tax compliance from the effects of cyclical and regulatory changes on the tax base and on the theoretical tax revenue. In other words, it is possible to take into account the so-called counterfactual scenario, which makes it possible to assess what tax evasion would have been in 2021 if the propensity to evade had been the same as recorded in 2020.

Furthermore, the quantification refers exclusively to the gap related to VAT and to direct taxes (IRPEF and IRES) on self-employment and business incomes, taking into account aspects linked to the calculation and monitoring of tax compliance, on the basis of the requirements and conditions laid down in the legislation, which will be explained below. Table A.IV.1 shows the calculation of the change in tax compliance in 2021 compared to 2020, based on the updated

[272] Law No 178 of 30 December 2020.

[273] Law No 197 of 29 December 2022.

[274] See focus 1.C.3, 'Report on unobserved economy and on tax and social security contributions evasion 2019', pages. 11-12.

results published in the 2024 Report; the change in compliance is reported by assessing both the tax gap in absolute terms and the change in the gap propensity.

TABLE A.IV.1: THE VARIATION IN TAX COMPLIANCE 2021-2020 (million)

		Year	VAT	IRPEF	IRES	Total
Gap propensity	a)	2020	18.58 %	69.33 %	23.74 %	
	b)	2021	13.63 %	66.83 %	18.83 %	
Theoretical tax revenue	C)	2020	118,483	40,490	34,158	
	D)	2021	130,687	44,255	42,486	
Tax gap	e)	2020	22,015	28,070	8,109	
	f)	2021	17,817	29,574	7,999	
Variation in tax compliance	(g) = – (f) – (e)	Tax gap approach	4,198	- 1,504	111	2,805
	h) = – (b) – (a)) * d)	Gap propensity approach	6,466	1,106	2,088	9,659

The results show an improvement in tax compliance in 2021 compared to 2020 of 9.7 billion.

The current rule lays down two necessary conditions for determining the resources to be allocated to the Fund. The first condition is set out in paragraph 4 and refers to the definition of 'permanent' higher revenue; the second condition, referred to in paragraph 5, is intended to ensure coherence with the public finance policy objectives.

In particular, the condition referred to in paragraph 4 provides that the higher revenue, as determined in Table A.IV.1, shall be considered permanent if, for the three years following the assessed year, the algebraic sum of the estimate of the variation in revenue resulting in each year from the improvement in voluntary compliance is not negative. This condition means, in fact, that the improvement in tax compliance recorded in 2021 was not subsequently offset by a deterioration in tax compliance in the following three-year period 2022-2024.

The following sentence of the same paragraph provides that if the aforementioned algebraic sum is negative, the amount of the permanent higher revenue is the difference, if positive, between the higher revenue referred to in the first sentence and the negative value of the algebraic sum of the estimated change in revenue resulting from the improvement of the voluntary compliance over the following three years. Conversely, if the difference referred to in the previous period is negative or zero, the amount of permanent higher revenue shall be zero. In summary, the first case refers to a partial deterioration in tax compliance; the second case, to a deterioration able to fully reverse the positive change in tax compliance recorded in 2021.

From a methodological point of view, in order to calculate the change in tax compliance for the three years after 2021, the preliminary estimates drawn up by the Finance Department are taken into account[275].

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[275] The estimate assessed by the Department of Finance is based on the so-called residual method. This methodology makes it possible to subtract from the tax developments the effects of changes in the economic cycle and legislation. The unexplained residual is interpreted as a change in tax compliance. This methodology is necessarily less optimal than the top-down approach, used in the Report, that is based on a comparison between

This estimate is made only by reference to VAT and direct taxes on self-employment and business incomes. In addition, the amount of potential resources resulting from the positive change in tax compliance, as shown in Table A.IV.1, must be properly corrected to take account of the resources resulting from the improvement of tax compliance that have already been used to finance expenditure or revenue reduction measures.

Table A.IV.2 sets out the calculation of the potential resources to be allocated to the Fund, considering the condition laid down in paragraph 4. From a positive change in compliance of 9.7 billion overall, about 264 million have already been used to finance fiscal policies, as estimated ex-ante as an improvement in tax compliance due to measures to combat VAT fraud in the fuel and false ceiling sectors. Therefore, the net change in tax compliance, that might potentially be allocated to the Fund, is around 9.4 billion.

As regards subsequent years, tax compliance continued to improve in 2022, especially with regard to direct taxes, while it appears to come to a halt in 2023. Overall, however, the algebraic sum of tax compliance changes over the 2022-2024 period is strictly positive; therefore, the resources resulting from the improvement of voluntary compliance estimated in 2021 have not been offset in subsequent years. For this reason, the condition laid down in paragraph 4 is met with a positive sign and makes it possible to consider as permanent higher revenue the whole positive change in tax compliance recorded in 2021 net of the resources already used fiscal policies, amounting to around 9.4 billion.

Finally, paragraph 5 requires defining the share of the permanent higher revenue compared to the forecasts under the existing legislation scenario of the Stability Programme, resulting from the improvement of voluntary compliance and determined in accordance with paragraph 4, to be allocated to the Fund, consistently with the public finance policy objectives.

There are therefore two steps to be taken into account: (i) verification of the amount of higher revenue compared to the forecasts made for the Stability Programme; (ii) an indication of the share of the permanent higher revenue to be allocated to the Fund.

Table A.IV.3 shows the amount of expected higher revenue compared to the forecast of the Stability Programme, equal to about 2.2 billion. Consequently, only part of the permanent higher revenue of around 2.2 billion resulting from the improvement in voluntary compliance in 2021 can actually be allocated to the Fund as part of the budget session.

national accounts and data from the tax declarations. However, where it is not possible, for lack of data, to apply the top-down approach, the residual method can be considered robust in order to meet the condition laid down in art. 1, par. 4 of the budget law 2021-2023.

TABLE A.IV.2: PERMANENT HIGHER REVENUES – PURSUANT TO ARTICLE 1 PAR. 4 LAW NO. 178/2020 (million)

Year	Method	Quantification	VAT	IRPEF/IRES	Total
2021	Top-down approach	change in compliance	6,466	3,194	9,659
		of which already employed	264	0	264
		(a) residual compliance	**6,201**	**3,194**	**9,395**
2022	Residual method	change in compliance	-2,603	7,018	4,415
		regulatory measures	- 2,823	- 1,436	- 4,259
		(b) change in net compliance	220	8,454	8,674
2023	Residual method	change in compliance	- 3,401	- 6,031	- 9,432
		regulatory measures	1,071	- 2,317	- 1,246
		(C) change in net compliance	- 4,472	-- 3,714	- 8,186
2024	Residual method	change in compliance	3,139		3,139
		regulatory measures	2,695		2,695
		(D) change in net compliance	444		444
Condition under art. 1 par. 4 of law No. 178/2020		(e) = b) + c) + d)	**- 3,807**	**4,739**	**932**
					(e) > 0
Potential Fund		(f) = max.0. (a);			**9,395**

Note: the quantification does not take into account the revision of the national accounts carried out by ISTAT in September 2023.

TABLE A.IV.3: FUND FOR THE REDUCTION OF THE TAX BURDEN – ART.1 PAR. 5 LAW NO. 178/2020 (million)

Year		Forecast		
2024		Stbility Programme 2024	MTP 2024	Difference
VAT		163,530	164,097	567
IRPEF balance		7,958	6,703	- 1,255
IRES balance		12,888	15,767	2,879
Total	a)	184,376	186,567	2,191
Potential Fund	b)			9,395
Condition under art. 1 par. 5 of law No. 178/2020				(a) > (b)
Potential Fund	(c) = (b)			**2,191**
Actual fund				0

ANNEX V: DETAILED ANALYSIS OF THE IMPACT OF THE REFORM AND INVESTMENT PLAN

This Annex presents the details of the macroeconomic impact assessment of the expenditure measures and key structural reforms of the Plan, incorporating the information contained in paragraph III.4 of the Document. These measures include: (i) the reforms and investments already implemented and to be implemented under the RRP and (ii) the investments and new reforms of the Plan (to be implemented), which largely consolidate and strengthen those reform areas that have proved to be the most strategic for the economic development of the Country. The Annex also sets out the sectoral impacts of the measures included in the RRP.

It is useful to recall that the analyses take into account the new economic governance framework of the EU, which requires particularly conservative assumptions in simulations to provide a conservative scenario of the macroeconomic impacts of investments and structural reforms[276]. As regards the reforms, the analysis takes into account only some of the measures provided for in the RRP and the new Plan, i.e. the most representative, and only when they are reasonably measurable in light of the models used, the available literature and the very nature of the reforms, whose effects are not always quantifiable.

A.V.1 AGGREGATED MACROECONOMIC IMPACT OF THE INVESTMENTS OF THE RRP AND THE PLAN

In line with the approach taken in previous official documents, the impact assessment of expenditure measures was carried out using the QUEST-III R&D model[277], considering only the resources linked to the RRP that finance projects considered as additional, amounting to 194.2 billion[278] and the resources allocated since 2027 to support the reforms of the Plan, which exceed 110 billion[279].

[276] Articles 13 and 14 of Regulation (EU) 2024/1263.

[277] The analysis has been elaborated using the QUEST-III R&D – 2018 version (for the RRP resources) and 2024 one (for the resources allocated to support the reforms of the Plan). The model was developed by the European Commission for Italy, see Roeger, W., Varga, J., in't Veld, J. (2022), 'The QUEST III R & D Model' in Akcigit, U., Benedetti Fasil, C., Impullitti, G., Licandro, O., Sanchez-Martinez, M. (eds) Macroeconomic Modelling of R & D and Innovation Policies, International Economic Association Series, Palgrave Macmillan, Cham. The modelling assumptions made in this document do not imply the approval or support of the European Commission.

[278] In detail, RRF loans and grants for new projects (137.7 billion), REACT-EU funds (13.0 billion), frontloaded resources from the Development and Cohesion Fund (14.8 billion) and those allocated through the Complementary Fund (28.7 billion) are considered.

[279] This figure corresponds to a first conservative assessment pending final determination in the Budget law.

Expenditure measures are simulated through five channels representing their most significant macro-aggregates: government investment, business incentives, reductions in social security contributions, current expenditure and transfers[280].

In line with previous documents, in a first scenario, the investments financed are assumed to be those with a high efficiency and spill-over effect in terms of potential output growth. This assumption is implemented in the model using a value for GDP elasticity to the public capital stock of 0.17, which is associated in the literature with public infrastructure investment. As mentioned above, the new regulation emphasises the need to use conservative assumptions for macroeconomic impact assessments. As a result, a new so-called prudential scenario is introduced, where public investment is associated with an average elasticity of 0.12[281]. Moreover, for public investments directly supporting the reforms considered in the Plan, only the demand effect is taken into account, thus excluding the structural effect of higher productivity[282]. This assumption avoids overlaps between the structural supply effects triggered by public investment and those generated by the related reforms.

On a conservative basis, the direct and indirect leverage effect that some of the instruments contained in the Plan could have on the Italian economy through the mobilisation of other public and private investments has not been explicitly taken into account in both scenarios[283]. As for funds disbursed through loans, lower borrowing costs than for Italian Government bonds[284] are considered. To take into account of the RRP implemented in the other Member States, it is assumed that the full amount of grants to other EU Countries will be allocated to investments.

The results of the simulations are described in Table A.V.1, which shows the impact of the Plan's investments in the high-efficiency public investment scenario and the medium-efficiency prudential investment scenario. In 2026, the final year of the RRP, GDP would be 3.7 percent higher than the baseline scenario in the high-efficiency scenario, while in the prudential one the increase would be 3.1 percent. In both scenarios, by 2031, the horizon of the Plan, the effects of higher spending would still be significant, mainly due to the structural effects of public and private capital accumulation[285].

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[280] For more details, see Di Bartolomeo, G. and D'Imperio, P. (2022). 'A macroeconomic assessment of the Italian National Recovery and Resilience Plan', Working Paper No 2, 2022, Ministry of Economy and Finance, Treasury Department.

[281] The values used for 'high' and 'average' elasticities are aligned with the results of the work of Bom, P. R., and Ligthart, J. E. (2014), 'What have we learned from three decades of research on the productivity of public capital?', Journal of economic surveys, 28 (5), 889-916 and the Italy's 2020 Country Report, European Commission.

[282] The assumption is modelled by simulating this subset of investments as current expenditure.

[283] This is the case, for example, for projects that will be implemented through public-private partnerships, innovative investment grants, grants and loans for self-entrepreneurship or through co-financing of public resources other than those directly linked to the RRP.

[284] The EU long-term debt performance is taken as a reference. However, this assumption is indicative considering that a share of debt issued may have shorter maturities.

[285] An analysis of the long-term effects would require the introduction of a number of additional assumptions, including the depreciation of accumulated capital, its depreciation in terms of efficiency, the costs of maintaining and managing the investments made and the leverage effect on private investment.

TABLE A.V.1: GDP IMPACT THE PLAN INVESTIMENTS (percentage deviations from baseline)											
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
High efficiency scenario	0.2	0.4	0.9	1.0	2.1	3.7	3.4	3.7	4.0	3.3	3.5
Prudential scenario (average efficiency)	0.2	0.4	0.8	0.7	1.7	3.1	2.4	2.6	2.7	2.0	2.2

Source: MEF-DT Processing QUEST-III R&D.

Macroeconomic impact of RRP expenditure measures by sector

The CGE MACGEM-IT model was used as regards impacts at sectoral and mission level, in line with what happened in the RRP and subsequent programming documents[286]. The estimates collect sectoral spill-over effects of the aggregate of additive expenditure interventions, consistent with the triggers of the QUEST-III model. Overall, the level of real GDP would be higher than in the baseline scenario, i.e. without the additive interventions in the RRP, by 1.7 percent at the end of 2024 and by 3.7 percent in 2026, in line with what is estimated at aggregate level in the high-efficiency scenario in the previous paragraph. In detail (see Table A.V.2), the main economic sectors contributing to the highest estimated GDP growth over the horizon are construction (due to infrastructure works), manufacturing and, between services, professional services, real estate and trade services. The first four are the activities most affected by RRP expenditure; trade, on the other hand, is largely driven by increased demand for private consumption. The largest impact in terms of contributions to growth by sector of economic activity would occur in 2026.

By contrast, considering the estimated impact by Mission (see Table A.V.3), the largest contribution to GDP growth comes from Mission 2, with a contribution to the increase in GDP level of 0.9 percentage points in 2026. The contribution to GDP growth of Mission 1 (0.7 percentage points) stems mainly from the contribution of the digitalisation of public administration and tourism. From Missions 4 and 5, a contribution to 2026 GDP growth is expected to be 0.6 percentage points each. Mission 3 contributes 2026 percentage points to GDP growth in 0.4, as is Mission 6.

[286] For details on the MACGEM-IT model see Ciaschini, M., Felici, F., Pretaroli, R., Severini, F., Socci, C. (2020), 'MACGEM – ITA a SAM based GCE model for the Italian economy', Working paper No 1, 2020, Ministry of Economy and Finance, Treasury Department; SOCCI C., Felici, F., Pretaroli, R., Severini, F., Loiero, R. (2021), 'The multisector applied computable general equilibrium model for Italian economy (MACGEM – IT)', Italian Economic Journal, vol. 7, pp. 109-127. Compared to previous simulations, the differences result from the update of the timeline and of the model databases, which are now updated in 2019.

TABLE A.V.2: IMPACT OF THE NRRP BY ECONOMIC ACTIVITY OVER THE 2021-2026 PERIOD (percentage deviations from the baseline)

	Weight on Value Total added	Contributions to Value Added Growth in 2024	Contributions to Value Added Growth in 2026
		(Percentage points)	
Agriculture, forestry and fishing	2.1	0.02	0.04
Mining and quarrying	0.2	0.00	0.01
Manufacturing	16.5	0.17	0.37
Electricity, gas, steam and air conditioning supply	1.6	0.02	0.05
Water supply; sewerage, waste management and remediation activities	1.0	0.01	0.03
Constructions	4.3	0.36	0.59
Wholesale and retail trade; repair of motor vehicles and motorcycles	11.7	0.13	0.25
Transportation and storage	5.6	0.07	0.13
Accommodation and food services	3.8	0.06	0.11
Information and communication	3.8	0.08	0.24
Financial and insurance activities	5.3	0.08	0.17
Real estate activities	13.6	0.22	0.39
Professional, scientific and technical activities	6.4	0.14	0.38
Administrative and support service activities	3.2	0.08	0.33
Public administration and defense; compulsory social security	6.7	0.05	0.18
Education	4.1	0.03	0.28
Human health and social work activities	6.0	0.08	0.07
Arts, entertainment and recreation activities	1.4	0.02	0.04
Other service activities	1.5	0.02	0.04
Activities of households as employers; undifferentiated goods and services-producing activities of households for own use	1.2	0.01	0.03
Total economy	100.0	1.67	3.73

Note: Any inaccuracies are due to rounding. Source: MEF- DT elaborations, MACGEM-IT model.

TABLE A.V.3: GDP IMPACT OF THE NRRP BY MISSION AND COMPONENT (percentage deviations from the baseline)

	2024	2026
Total	1.67	3.73
M1: digitalisation, innovation, competitiveness, culture and tourism	0.20	0.67
M1-C1: digitisation, innovation and security in the PA	0.09	0.32
M1-C2: digitisation, innovation and competitiveness in the production system	0.05	0.15
M1-C3: tourism and 4.0 culture	0.06	0.20
M2: green revolution and ecological transition	0.44	0.90
M2-C1: sustainable agriculture and circular economy	0.08	0.16
M2-C2: renewable energy, hydrogen, grid and sustainable mobility	0.19	0.39
M2-C3: energy efficiency and renovation of buildings	0.11	0.14
M2-C4: protection of land and water resources	0.06	0.20
M3: infrastructures for sustainable mobility	0.22	0.37
M3-C1: investments in the rail network	0.21	0.33
M3-C2: inter-modality and integrated logistics	0.00	0.04
M4: education and research	0.36	0.61
M4-C1: strengthening the provision of education services	0.22	0.54
M4-C2: from research to business	0.14	0.07
M5: inclusion and cohesion	0.19	0.65
M5-C1: labour market policies	0.12	0.30
M5-C2: social infrastructure, households and third sector communities	0.07	0.30
M5-C3: special interventions for territorial cohesion	0.01	0.05
M6: health	0.12	0.38
M6-C1: proximity networks, facilities and telemedicine for care	0.05	0.22
M6-C2: innovation, research and digitisation of the National Health Service (S.S.N.).	0.07	0.15
M7: REPowerEU	0.13	0.13

Note: Any inaccuracies are due to rounding. Source: MEF- DT elatorations, MACGEM-IT model.

A.V.2 MACROECONOMIC IMPACT OF THE RRP AND THE NEW PLAN REFORMS

This subsection provides details and documents the assumptions of the updated assessment of the macroeconomic impact of some of the key reforms foreseen in the RRP and the new Plan. The simulation strategy was developed with reference to a comprehensive set of scientific analyses and studies on the impact of reforms[287]. In order to obtain more robust results, only the most representative measures were considered for the impact assessment[288]. As already done for the impact assessment of aggregated expenditure measures, the QUEST-III R&D model was used for the impact evaluation of reforms. The model allows for a thorough analysis of the effect of growth-enhancing structural reforms and investments. Where necessary, simulations are implemented by using also complementary micro-econometric studies.

A.V.2.1 Macroeconomic impact of RRP reforms

The areas of reform analysed within the scope of the RRP are the following: education and research, active labour market policies, public administration, justice, competition and procurement. Previous assessments of the same reform areas are contained in the RRP itself and in subsequent public finance documents[289].

The simulation strategy for the reforms of the RRP can be summarised as follows. For each reform area, the relevant Milestones and Targets (M&Ts) are selected and grouped into lines of action[290]. For example, the 27 M&Ts linked to justice reform are grouped into two lines of action: shortening the length of proceedings, both civil and criminal[291]. For each line of action it is then: (i) identified a synthetic indicator measuring its progress, (ii) quantified the expected change in that indicator, and (iii) identified a methodology for imputing this variation into the model. As outlined in Paragraph III.4, the impacts of the reforms implemented are assessed in proportion to the percentage of M&Ts achieved at the end of 2024, while the impacts of what has to be completed are calculated as the

[287] See, among the most recent ones, Pfeiffer, P., Varga, J., and in't Veld, J. (2023), 'Unleashing Potential: Model-based Reform Benchmarking for EU Member States' (No. 192), European Economy – Discussion Papers 192, Directorate General Economic and Financial Affairs (DG ECFIN), European Commission.

[288] That is, those for which imputation to changes in model parameters is less arbitrary and in line with methodologies already adopted in other contexts. This possibility depends both on the characteristics of the simulation models used and on the availability of studies and analysis in the literature.

[289] Previous assessments were published in the RRP and the National Reform Programme 2022, 2023 and 2024, included in the Economic and Financial Document. A formalisation of these simulations can be found in a recent study published by the Treasury Department of the Ministry of Economy and Finance: D'Andrea, S., D'Andrea, S., Di Bartolomeo, G., D'Imperio, P., Infantino, G., and Meacci, M. (2024), 'The macroeconomic impact of structural reforms: The case of Italy', Journal of Policy Modeling. Compared to previous analyses, the M&T and simulation strategies for the 'Quality of education system' and 'Human capital' action lines have been updated, now aligned with recent contributions in the literature. In addition, the action line 'Research' has been added.

[290] Updated M&Ts, to be achieved along a quarterly timetable from 2021 to 2026, are set out in the Annex to the EU Council Decision (CID) of 7 May 2024.

[291] The selection of M&Ts, as well as their grouping into lines of action, are useful for impact assessments and do not necessarily reflect official categorisations.

difference between the overall effects of the reform and what has been achieved so far.

Each of these steps requires a certain degree of discretion, which increases as the information available decreases and as the complexity of the simulation strategy increases. Moreover, as required by the new governance, reform simulations are based on conservative assumptions. The details of the simulations relating to the prudential scenario set out in Paragraph III.4 of the Document are documented below. This is followed by the main result and a brief sensitivity analysis based on more or less conservative scenarios.

For each reform area, the Table A.V.4 summarises the lines of action, the indicators used to measure their effects, their variation, the model variable linked to the indicators, the simulation timing and any econometric studies used. A zero-cost intervention is assumed for all reform measures. This assumption is consistent with the approach whereby expenditure measures are assessed in the investment simulation.

RRP: Reform of education and research

The reform of education and research envisaged in the RRP is a process involving the whole system, from nurseries to university and research[292]. The long-term economic effects were assessed by considering four lines of action: (i) a decrease in early school leaving from 13.3 percent in 2019 to 10.2 percent by 2026[293]; (ii) improvements in the composition of human capital. By aggregating the measures, it is estimated that, at the same total number of students, R&D graduates and other graduates would increase by 14,500 and 51,500, respectively; (iii) measures to improve the quality of school and university provision; (iv) measures to strengthen basic research, to support the processes for innovation and technology transfer and to upgrade research infrastructures.

The mapping of these measures in the model can be described as follows. For the first and second lines of action, we consider the composition of the population by degree, corresponding to different levels of labour efficiency within the model[294]. For early school leaving, it is assumed that the individuals affected by the measures decide to continue their studies and obtain a diploma in the subsequent years. For the second line of action, transitions between different levels of labour efficiency are considered, with an overall increase in graduates and researchers. As regards the third line of action, the modelling of the shock is based on a recent OECD study which estimates the relationship (elasticity) between total factor productivity and PISA scores (which can be considered as a synthetic indicator of

[292] The reform area refers to components M4C1 'Enhancing the provision of education services: from crèches to university' and M4C2 'From research to enterprise' of Mission M4 'Education and Research'.

[293] On the basis of internal estimates, this would result in an average increase of 31,200 graduates. It is assumed that, because of the measures introduced, the number of students who decide to discontinue their studies each year is reduced by an average of 31,200. This figure considers the target of aligning the early school leaving rate with the European average (10.2 percent), net of the downward trend observed over the past two decades.

[294] Low for graduates up-to-lower secondary level, average for graduates, medium-to-high for graduates and high for research graduates.

the quality of education)[295]. In line with a recent study by the European Commission, it is considered that the RRP measures can close 25 percent of Italy's gap compared with the top 3 EU countries (with scores in 2018 of 477 and 518.3 respectively). Using the elasticities estimated by the OECD, i.e. 0.8, the simulation shows 1.7 percent increase in TFP over fifty years, the time needed for the various student cohorts affected by the reforms to enter and progressively replace the current workforce. For the fourth and final line of action, it is assumed that the additional resources allocated to research measures contained in the RRP will be allocated to the increase of R&D subsidies, a sector which is part of the model.

RRP: Reform of active labour market policies

The reform of active labour market and training policies contained in the RRP[296] provides that a large part of the funds will be used throughout the RRP for the National Employability Guarantee of Workers (GOL) and for the adoption of the National Plan for New Skills, with the aim of increasing labour market participation.

The first line of action concerns the GOL programme, which aims to qualify, upskill and reskill at least 2.7 million inactive and unemployed people by the end of 2026. Given the audience of the programme and based on the composition of the Italian population by gender, age and professional status, it can be assumed that the programme will involve 1.5 million inactive people and 1.2 million unemployed. For the simulation, on a conservative basis, a share of one third of inactive people is assumed to gradually become part of the labour force between the second half of 2022 and 2026. As for the second line of action, one of the objectives is to increase female participation. In the absence of an explicit target in terms of increased participation, it is assumed that measures to support entrepreneurship will be able to bridge 5 percent of the gap between the observed female activity rate in Italy and the average of the three best European countries. Closing the gap would correspond to around 110,000 more women in the labour force[297] in 10 years. As regards nurseries and kindergartens, the RRP foresees the creation of 150,480 new places. In line with a recent OECD study[298], it is assumed that increasing nursery places could boost female participation. Considering the fertility rate in Italy and the share of inactive but willing to work women, it is estimated that over 14,000 women could enter the labour force thanks to these measures[299]. One of the objectives of the third line of action is to improve job matching through training

[295] See Égert, B., C. de la Maisonneuve, and Turner, D. (2022), 'A new macroeconomic measure of human capital exploring PISA and PIAAC: Linking education policies to productivity', OECD Economics Department Working Papers No. 1709.

[296] The reform of active labour policies refers to Component M5C1 'Active labour policies and support to labour market'.

[297] This corresponds to a reduction of 5 percent in the gap between the female activity rate of the population 25-64 and the three best performers in the European Union (Sweden, Lithuania and Estonia; data 2020).

[298] See Thévenon, O. (2013), 'Drivers of Female Labour Force Participation in the OECD', OECD Social, Employment and Migration Working Papers, No. 145, OECD Publishing, Paris.

[299] The mapping is based on data as of 2020, the year before the adoption of the RRP. Considering the number of new places, 150,480, and the average fertility rate, 1.24, the measure could affect a range of around 121,350 women. The final figure is that the percentage of inactive women expressing their willingness to seek employment in the 25-64 age group is 12.1 percent.

programmes for the inactive and the unemployed. The model in use contains a parameter that indirectly regulates the likelihood of job matching. For this line of action, an improvement of 5 percent of this parameter is assumed, which can be considered as conservative.

RRP: Public administration reform

The structural actions relating to the reform of the public administration (PA) provided for in the RRP[300] involve wide-ranging innovations with multiple objectives, which can be summarised in three lines of action: (i) increasing public administration efficiency; (ii) reduction of bureaucratic costs; (iii) improvement of the human capital of public administrations.

The PA reform is modelled through the variation of three exogenous variables, namely: general productivity, bureaucratic costs for businesses and labour productivity.

The positive effect of the reform on productivity (first line of action) is introduced into the model following the methodology of an IMF study[301] based on micro-data on Italian public administrations at provincial level[302]. According to this study, closing the gap between the current level of efficiency of administrations and the highest efficiency which can be achieved (efficient frontier) would lead to a permanent average increase in production of 3 percent. Conservatively, one sixth of this gap is assumed to be closed over a period of ten years. The shock is introduced as a gradual improvement in productivity from 2022 onwards[303].

The measures of the public administration reform contained in the RRP do not include explicit objectives in terms of reducing firms' bureaucratic costs. However, considering the important interventions in this regard, a 5 percent reduction in these costs, gradually achieved over five years starting in 2022, can be considered conservative [304].

As regards the impact on the quality of human capital, it is assumed that 525,000 public employees could improve their productivity through on-the-job training courses, which would produce their effects between 2024 and 2026. According to a recent study based on European micro-data, work-based training would lead to a wage increase of between 9 and 17 percent on average. For the simulation, the lowest value is taken as a reference, assuming, in a conservative

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[300] The PA reform is part of Mission M1C1 'Digitisation, Innovation and Security in PA' and is one of the two horizontal reforms of the Plan.

[301] See Giordano R., Lanau, S., Tommasino, P., Topalova, P. (2020), 'Does public sector inefficiency constraint firm productivity? Evidence from Italian evidence', International Tax and Public Finance, 27 (4), 1019-1049. Previously published as IMF working paper (WP/15/168).

[302] Numerous empirical studies highlight the close link between the efficiency of public administration and the productivity of the economic system. See, inter alia, Fadic, M., Garda, P., Pisu, M. (2019), 'The effect of public sector efficiency on firm-level productivity growth: The Italian case', OECD, WP No 1573.

[303] For the simulation, the TFP is assumed to improve by 0.75 percent. This is the minimum change needed to achieve a GDP improvement of 0.5 percentage points over ten years. A completely similar proceeding was used in Andrle, M., Kangur, A., Raissi, M. (2018), 'Italy: quantifying the benefits of a comprehensive reform package', IMF Working Paper No. 18/60.

[304] The costs referred to are exogenous variables of the model.

manner, that wage increases equalize productivity gains[305]. The shock for the simulation of this line of action is gradually introduced in the model by acting proportionally on the productivity of medium-skilled workers, who are the most representative group in the model for public employees.

RRP: The justice reform

The measures provided for in the RRP in this area are aimed at reducing the length of civil and criminal proceedings and improving the efficiency and predictability of the justice system[306]. The three main lines of intervention of the reform aim: (i) to complete the design of the Office of the Process; (ii) to strengthen administrative capacity through investment in human capital; (iii) to upgrade digital infrastructure. Part of the reform was already implemented in 2021, with a number of framework legislative interventions.

The justice reform defines some priority quantitative targets in terms of reducing the length of civil and criminal trials by 40 and 25 percent[307], respectively, by 2026 compared to 2019 (benchmark). In line with evidence from several empirical studies[308], the underlying assumption for mapping the reform in the model is that more efficient justice systems can make markets more contestable, reduce uncertainty about future capital returns, improve financing conditions for households and firms, and stimulate more domestic and foreign investment.

Based on a recent study by the Bank of Italy[309], based on Italian micro-data at company and judicial district level, a reduction in the length of proceedings by 1 percent would lead to an improvement in total factor productivity (TFP) of 0.03 percent. In light of the aforementioned timeline outlined in the RRP, the targets for reducing the length of civil and criminal proceedings are assumed to be achieved gradually in five years from 2022 onwards. On a conservative basis and taking into account possible non-linear effects due to the reduction in the duration of proceedings already recorded prior to the RRP, the increase in productivity is

[305] See Jona-Lasinio, C., and Venturini, F (2024), 'on-the-job training, wages and digitalisation: evidence from European firms', International Journal of Manpower 45.3 (2024): 500-520. In the absence of recent analysis of the effect of training on civil servants, the selected study refers to private employees. For the mapping, the lowest effect is considered, and productivity gains are assumed to be fully passed on to wages. Recent studies show that this assumption is conservative, considering that productivity gains are normally only partly passed on to wages. On this point, see, for example, Konings, Jozef, and Stijn Vanormelingen. 'The impact of training on productivity and wages: firm-level evidence', Review of Economics and Statistics 97.2 (2015): 485-497.

[306] The justice reform is embedded in the RRP in Mission M1C1-3 'Organisational innovation of the justice system', and is one of the two horizontal reforms of the RRP, alongside the reform of the PA described above.

[307] Court of Cassation, Court of Appeal and Ordinary Court.

[308]See, on this point, Jappelli, T., Pagano, M., Bianco, M. (2005), 'Courts and banks: effects of judicial enforcement on credit markets', Journal of Money, Credit and Banking; Accetturo, A., Linarello, A., Petrella, A. (2017), Legal enforcement and global value chains: Micro-Evidence from Italian manufacturing firms'. Economic and Financial Affairs, Bank of Italy.

[309] See Ciapanna, E., Mocetti, S., Notarpietro, A. (2020), 'The effects of structural reforms: Evidence from Italy', Temi di Discussione, Bank of Italy.

assumed to be halved compared to that identified in the study previously mentioned[310].

RRP: Actions in the field of competition and procurement

The measures considered in this area aim to increase the level of competition and competitiveness of the production system and to simplify the rules on public contracts[311]. Higher levels of competition are related to lower profit margins, better allocation of resources and increased investment. This is confirmed by a study by the European Commission[312] studying the relation between the degree of competition measured by the Product Market Regulation Index (PMR) developed by the OECD[313] and average mark-up margins on prices. Competition measures can therefore be modelled in the QUEST model by using the elasticity values estimated by the European Commission between PMR indices and price mark-ups.

However, only some measures of the RRP are likely to have an impact on the PMR of the OECD[314]. Indeed, the changes to the regulations provided for in the Italian RRP would improve Italy's score only in the rail transport sector by 13 percent, with the relative indicator for 2018 rising from 3.29 to 2.86. The improvement translates into a reduction in the total transport sector indicator from 1.33 to 1.22 (-8 percent). According to the OECD, the price-mark-up elasticity to the PMR index of the transmission network is 0.013. The reduction of the PMR sub-index, therefore, would be reflected in a 0.11 percentage point decrease in the mark-up of the final goods sector.

The assessment of simplification measures in public contracts was carried out following the methodology introduced by a recent IMF study[315] with reference to

[310] The elasticity of TFP compared to the duration of the processes, estimated in the study quoted in the text, is 0.03. A reduction in the length of civil proceedings by 40 percent would thus lead to an increase in TFP of 1.2 percent. For criminal justice, which is not covered by the aforementioned study, a particularly conservative elasticity of 0.01, or one third of what was found for civil justice, is assumed. This hypothesis can be supported by the fact that in the judicial years 2018-2021, an average of approximately 3 million in new civil proceedings and 1.3 million in new criminal proceedings were registered. A reduction in the duration of criminal proceedings of 25 percent would thus result in an increase in TFP of 0.25 percent. These values are then reduced by half, on a conservative basis, as described in the text.

[311] The reform is embodied in Mission 1, Component 2, Axis 2 and Axis 4 of component M1C1.

[312] See Table 1 in Thum-Thysen, A., Canton, E. (2015), 'Estimation of service sector mark-ups determined by structural reform indicators', European Economy, Economic Papers No 547, ECFIN. The estimated elasticity of the average mark-up to changes in PMR indices is heterogeneous across sectors. The one considered for this exercise is the estimated average elasticity for the energy sectors (0.0306) and transport networks (0.0134), among the sectors most affected by reform actions and for which econometric estimates are available.

[313] See 'A detailed explanation of the methodology used to build the OECD PMR indicators'. Based on the 2023 PMR database, the OECD in its latest Economic Outlook Interim Report considers that "the relaunch of product market reforms that promote the opening of markets with healthy competitive dynamics is an essential step to help stimulate stronger and sustained economic growth and mitigate long-term fiscal pressures". See OECD (2024), OECD Economic Outlook, Mid-Term Report, September 2024: The global economy is at a turning point'.

[314] As regards the measures foreseen in the annual competition laws, the PMR indicator does not cover measures related to the electricity sector and concessions of ports, motorways, etc. Similarly, for the sub-indicator on public procurement, there has been no possibility to affect the planned changes in the RRP. For this reason, the Single Market Scoreboard indicator was used. See Vitale, C., Terrero, J., 'Assessment of the links between the European National Recovery and Resilience Plans and the OECD Product Market Regulation Indicators'.

[315] See Belhocine, N., Jirasavetakul, L. B. F. (2020), 'Lessons from Two Public Sector Reforms in Italy', IMF Working Paper No. 20/40.

the Italian case. According to this study, the quality of public procurement procedures can be measured through the public procurement performance indicator of the European Commission's Single Market Scoreboard. It is assumed that simplifications may affect the sub-indicator on decision-making speed, which measures the average time between the receipt of tenders and the award of the contract. In this sub-indicator, Italy has a score of -1. The changes would bring the score to 1 (less than 120 days, the current average). As a result, the overall indicator would rise, all other things being equal, from -3.33 to -1.33, with an improvement of 60 percent. Based on the IMF study, this change would imply an increase in the ratio of public investment to GDP by 0.08 percent[316].

TABLE A.V.4: STRUCTURAL ELEMENTS FOR THE SIMULATION OF NRRP REFORMS

	Prudential Scenario				Favorable scenario	Adverse Scenario
Model and empirical studies	**Line of action:**	**Synthetic indicator of the measure** (variation)	**Model variable** (exogenous shock)	**Timing**	**Synthetic indicator/Variable model** (variation/shock)	**Synthetic indicator/Variable model** (variation/shock)
(a) Education and research						
Simulation model: QUEST-III R&D Empirical studies: Égert et al. (2022)	School dropout	School dropout (-31,200/year)	Share of low-skilled (+ 31,200/year)	2022: T1-2027: T4		Share of low-skilled (+ 15,600/year)
	Human Capital	Human capital composition by level of education	Share of medium-skilled (+51,500) Share of high-skilled (+14,500)	2024: T1-2029: T4 2025: T1-2028: T4		Share of medium-skilled (+25,750) Share of high-skilled (+7,250)
	Quality of the education system	PISA test score (+2.2%)	TFP (+1.7%)	2022: T1-2070: T1	PISA test score (+6.5%)	
	Research	R&D subsidies (+0.1% of GDP)	R&D subsidies (+0.1 % of GDP)	2021: T1-2026: T4		
(b) Active labour market policies						
Simulation model: QUEST-III R&D Empirical studies: Thévenon (2013)	Participation	Inactive people (-500,000)	Inactive people (-500,000)	2022: T3-2026: T4		Inactive people (-250,000)
	Female participation	Gender gap reduction	Inactive people (-110,000) Inactive people (-14,650)	2023: T1-2032: T4 2024: T1-2026: T2	Inactive people (-220,000)	Inactive people (-7,325)
	Search and matching	Matching efficiency (+5%)	Matching efficiency (+5%)	2022: T2-2031: T4	Matching efficiency (+10%)	

[316] On the basis of the aforementioned IMF study, the elasticity of the ratio of public investment to changes in the Scoreboard would range from 0.04 to 0.07. Using, on a conservative basis, the lowest elasticity, the change in the scoreboard (+2 points) would result in a permanent increase in the ratio of public investment to GDP by 0.08 percent. This change was gradually triggered over a five-year period, from 2022 to 2026. At the same time, a corresponding reduction in current expenditure is assumed.

TABLE A.V.4 CONTINUED: STRUCTURAL ELEMENTS FOR THE SIMULATION OF NRR REFORMS						
	Prudential Scenario				Favorable scenario	Adverse Scenario
Model and empirical studies	Line of action:	Synthetic indicator of the measure (variation)	Model variable (exogenous shock)	Timing	Synthetic indicator/Variable model (variation/shock)	Synthetic indicator/Variable model (variation/shock)
(C) Public Administration						
Simulation model: QUEST-III R&D Empirical studies: Giordano et al. (2020) Jona-Lasinio and Venturini (2024) (1)	Efficiency	Efficient frontier gap (-1/6)	TFP (+0.75%)	2022: T2-2032: T1	Efficient frontier gap (-1/3)	
	Bureaucratic costs	Fixed entry costs for businesses (-5%)	Entry costs (-5%)	2022: T2-2027: T1	Entry costs (-10 %)	
	Human capital	Training courses (+525,000)	Medium-skilled efficiency (+0.3%)	2024: T1-2026: T4		Training courses (+262,500)
(1) Jona-Lasinio, Cecilia, and Francesco Venturini. 'On-the-job training, wages and digitalisation: evidence from European firms', International Journal of Manpower 45.3 (2024): 500-520.						
(D) Justice						
Simulation model: QUEST-III R&D Empirical studies: Ciapanna et al. (2023)	Duration of proceedings	Length of civil proceeding (-40%)	TFP (+0.60%)	2022: T2-2027: T1		Length of civil proceedings (-20%)
		Length of criminal trials (-25%)	TFP (+0.12%)	2022: T2-2027: T1		Length of criminal trials (-12.5%)
(E) Competition and procurement						
Simulation model: QUEST-III R&D Empirical studies: Guangzhou and Thum-Thysen (2015) Belhocine and Jirasavetakul (2020)	Competition	PMR Transport Index (-8%)	Price mark-up (-0.11 p.p.)	2023: T1-2027: T4		PMR Transport Index (-4%)
	Simplification	Single Market Scoreboard (+ 2 points)	Public investment/GDP (+0.08%)	2022: T2-2027: T1		Single Market Scoreboard (+ 1 point)
Note: the extended references to the empirical studies cited can be found in D'Andrea, S., D'Andrea, S., Di Bartolomeo, G., D'Imperio, P., Infantino, G., and Meacci, M. (2023), 'Structural Reforms in the Italian National Recovery and Resilience Plan: A macroeconomic assessment of their potential effects', Working Paper No 2, 2023, MEF-DT.						

A.V.2.2 Macroeconomic impact of new reforms extending and strengthening the measures of the RRP

Complementing what has already been reported in Paragraph III.4, this section reports the details and simulation assumptions of the macroeconomic impacts of the new reform measures contained in the Plan, limiting the perimeter to the measures valid for the extension of the adjustment period.

The simulation strategy is the same as for the reforms of the RRP. The model used is the QUEST-III R&D model developed by the European Commission updated

to 2024, in line with the timing of the new measures that will start to be implemented as of 2025. Table A.V.7 shows, for each reform area, information on the model used for simulations and any auxiliary studies, the lines of action, the synthetic indicator, the model variable and timing of each measures.

Extension and reinforcement of the RRP measures: Justice reform

The extension and reinforcement of the measures already foreseen in the RRP concerning the area of justice aim to consolidate and strengthen initiatives regarding the efficiency of civil and criminal proceedings, the reduction of the backlog and the process of rationalisation, digitisation and green transition of judicial administration offices.

The reference indicator for measuring the effects of the measures on the agenda is the so-called 'disposition time', a measure of the length of proceedings that the Government has committed to reduce compared to what will be observed in 2026.

The simulation assumptions are similar to what has already been described for the justice reform in the context of the RRP[317].

Extension and reinforcement of the RRP measures: Business environment

The Plan includes a number of measures to improve the business environment by increasing competition and a range of initiatives to stimulate and encourage private investment by small and medium-sized enterprises (SMEs).

Measures to promote private investment are modelled through a change in fixed entry costs[318], while measures aimed at increasing competition are simulated through a reduction in business mark-ups.

For the quantification of shocks, it is conservatively assumed that investment promotion measures will close 5 percent of the gap with the average of the top three European countries in terms of entry costs. These costs amount to 13.8 percent of per capita income in Italy and 0.1 percent on average in the three top-three European Countries[319]. The assumption on closing the gap would reduce these costs by 0.7 percentage points.

Regarding competition measures, it is assumed that they would close 10 percent of the gap with the three best European Countries, as measured by the OECD's PMR index. This assumption would imply an improvement in the 2023 overall PMR index for Italy by around 0.04 points, which would, all other things being equal, decrease

[317] As in the case of the justice reform under the RRP, the TFP elasticity to the length of proceedings has been estimated at 0.03. A reduction in the length of civil proceedings, which is assumed to be 8 percent conservatively, would thus lead to an increase in the TFP of 0.24 percent. For criminal justice, an elasticity of 0.01 and a reduction in the length of criminal trials of 5 percent is assumed, which would result in a 0.05 percent TFP increase.

[318] In the logic of the model, the decline in the fixed entry-costs stimulates demand for research and development (R&D) and the employment of skilled workers. This increase in investment in knowledge improves the total productivity of the economy through the integration of innovative intermediate goods into production.

[319] See World Bank Doing Business Database.

from 1.19 to 1.16[320]. For the purpose of the simulation, it is assumed that the measures in this reform area will gradually take effect between 2027 and 2029 (see Table A.V.7).

Entry costs are an exogenous variable of the model, while price mark-ups are calibrated in QUEST-III 2024 in proportion to the PMR index[321]. Consequently, it is possible to act directly on the variables of interest, without the help of external econometric studies.

Extension and reinforcement of the RRP measures: Public administration

The main objective of the measures is to improve the quality and quantity of public services provided to businesses and citizens by making public administration processes more efficient.

The effect of the reform on the efficiency of PA is introduced in the model following the IMF methodology already used for RRP measures in the same field[322]. Conservatively, it is assumed that 10 percent of the gap between the current level of efficiency of administrations and the one potentially achievable (efficient frontier) could be reached in 5 years thanks to the new measures contained in the Plan, generating an increase in output of 0.3 percent[323].

The mapping into the model follows the logic already described for the same RRP line of action.

A.V.2.3 Results on the impact of reforms of the RRP and the Plan

Table A.V.5 extends what has already been reported in Paragraph III.4 of the Document, setting out not only the total effects of the reforms implemented and to be implemented in the RRP, but also the effects per individual reform area in the prudential scenario. The Table also shows the macroeconomic impacts of the new measures extending and strengthening the reforms of the RRP.

By 2050, the reforms of the RRP would gradually increase the level of GDP by 6.0 percent, to which both the measures implemented (3.4 percentage points) and those still to be implemented (2.7 percentage points) would contribute. Among the RRP reform areas, the most significant effects would come from the reform of education and research and labour market measures. On the other hand, the new

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[320] The same indicator, in its version 2018, was used for similar simulations under the RRP described above. The assumption corresponds to an improvement in the sub-indicator 'Barriers in Service & Network sectors'. This indicator consists of two sub-indices. For the first, for services, an improvement is assumed from 3.03 to 2.58, i.e. 20 percent of the gap with the average of the top 3 EU Countries (0.78). For the second, which includes transport and other network services affected by the reforms, Italy (0.95) exceeds the average of the best EU Countries. Italy is therefore expected to close the gap with Germany, which has a score of 0.93.

[321] Given the model calibration, the PMR reduction would correspond to a reduction of the mark-up on final goods sector prices of 0.3 percentage points.

[322] See Giordano R., Lanau, S., Tommasino, P., Topalova, P. (2020), 'Does public sector inefficiency constraint firm productivity? Evidence from Italian evidence', International Tax and Public Finance, 27 (4), 1019-1049. Previously published as IMF working paper (WP/15/168).

[323] For the simulation, the TFP is assumed to improve by 0.45 percent. This is the minimum change needed to achieve an improvement in GDP of 0.3 percent over five years.

measures extending and strengthening the reforms of the RRP would lead to a further increase in the level of GDP in 2050 by 0.9 percent compared with the baseline scenario.

Overall, by 2050, the reform measures to be implemented, and thus valid for the extension of the adjustment period of the Plan, would contribute to raising the level of GDP by 3.5 percent compared with the baseline scenario.

TABLE A.V.5: IMPACT ON GDP OF THE PLAN REFORMS (percentage deviations from the baseline)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2050
NRRP Reforms	0.0	0.2	0.6	1.1	1.7	2.3	2.8	3.1	3.4	3.7	3.9	6.0
Education and research	0.0	0.0	0.0	0.1	0.1	0.2	0.3	0.3	0.4	0.4	0.5	1.2
Implemented	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.3	0.3	0.7
to be implemented	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.5
Labour market	0.1	0.2	0.4	0.7	1.0	1.2	1.5	1.6	1.8	1.9	2.0	2.6
Implemented	0.1	0.2	0.4	0.7	0.4	0.5	0.6	0.7	0.8	0.8	0.9	1.1
to be implemented	0.0	0.0	0.0	0.0	0.5	0.7	0.8	0.9	1.0	1.1	1.1	1.5
Public administration	0.0	0.0	0.1	0.1	0.2	0.4	0.4	0.5	0.6	0.7	0.7	1.0
Implemented	0.0	0.0	0.1	0.1	0.2	0.2	0.3	0.4	0.4	0.5	0.5	0.7
to be implemented	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.2	0.3
Justice	0.0	0.0	0.1	0.2	0.3	0.4	0.5	0.5	0.5	0.5	0.6	0.7
Implemented	0.0	0.0	0.1	0.2	0.3	0.3	0.4	0.4	0.4	0.4	0.4	0.5
to be implemented	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Competition and procurement	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2	0.2	0.2	0.6
Implemented	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.3
to be implemented	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.2
New reforms to be implemented					0.0	0.0	0.0	0.1	0.2	0.4	0.5	0.9
Justice					0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.3
Business environment					0.0	0.0	0.0	0.0	0.1	0.1	0.1	0.2
Public administration					0.0	0.0	0.0	0.0	0.1	0.1	0.2	0.4
Total implemented reforms (NRRP)	0.0	0.2	0.6	1.1	1.0	1.3	1.5	1.7	1.9	2.1	2.2	3.4
Total to be implemented reforms, valid for the extension of the Plan	0.0	0.0	0.0	0.0	0.7	1.0	1.2	1.5	1.7	2.0	2.2	3.5
of which NRRP	0.0	0.0	0.0	0.0	0.7	1.0	1.2	1.4	1.5	1.6	1.7	2.7

Note: Any inaccuracies are due to rounding. Source: MEF- DT, QUEST-III R&D model.

Alternative scenarios

The assumptions described above underlie the prudential scenario referred to in the main Document. To produce a simple sensitivity analysis of the results, Table A.V.6 sets out, when different, the simulation assumptions in two alternative scenarios for the reforms of the RRP.

The first, 'favorable scenario', is a more balanced scenario, less conservative than the prudential scenario and broadly aligned with the impact assessments contained in previous official documents, net of limited updates and innovations in simulation strategies. The second, 'adverse scenario', is a more pessimistic scenario, in which some of the assumptions of the prudential scenario are further revised downwards.

Compared to the prudential scenario, less conservative assumptions are used in the favorable scenario regarding PISA scores, measures relating to female participation, job matching and measures on public administration efficiency and bureaucratic costs. In the adverse scenario, more conservative assumptions are

adopted regarding measures on early school leaving, human capital, labour market participation, human capital in public administrations, length of civil and criminal proceedings, competition and simplification[324].

As regards the new reforms to be implemented in the Plan, however, we propose only an 'adverse scenario' in which the simulation assumptions are halved for all action lines and the associated simulation channels (see Table A.V.7).

The GDP impacts of the RRP reforms and new measures in the alternative scenarios are documented in Table A.V.6. As regards the RRP, GDP in the two alternative scenarios would be 9.3 percent higher in the favorable scenario at 2050 percent and 4.3 percent higher in the adverse scenario. For the new reforms to be implemented, in the adverse scenario, the impact on GDP would reach 0.4 percent in 2050.

TABLE A.V.6: GDP IMPACT IN DIFFERENT SCENARIOS, NRRP AND PLAN REFORMS (percentage deviations from the baseline)

	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2050
NRRP Reforms Favorable Scenario	0.1	0.3	0.8	1.5	2.3	3.0	3.7	4.3	4.8	5.2	5.6	9.3
NRRP Reforms Adverse Scenario	0.0	0.1	0.4	0.7	1.1	1.4	1.8	2.0	2.3	2.5	2.7	4.3
New Reforms Adverse Scenario	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.2	0.3	0.4

Source: MEF- DT, QUEST-III R&D model.

Combined impact of the Plan's reforms and investments

The Figure below shows the combined impact of reforms and investments in the prudential and two alternative scenarios. The overall assessment is equal to the sum of the simulated impacts of investments (see Table A.V.1) and reforms implemented and to be implemented (see Table A.V.5) in the prudential scenario, used as a reference in Paragraph III.4.

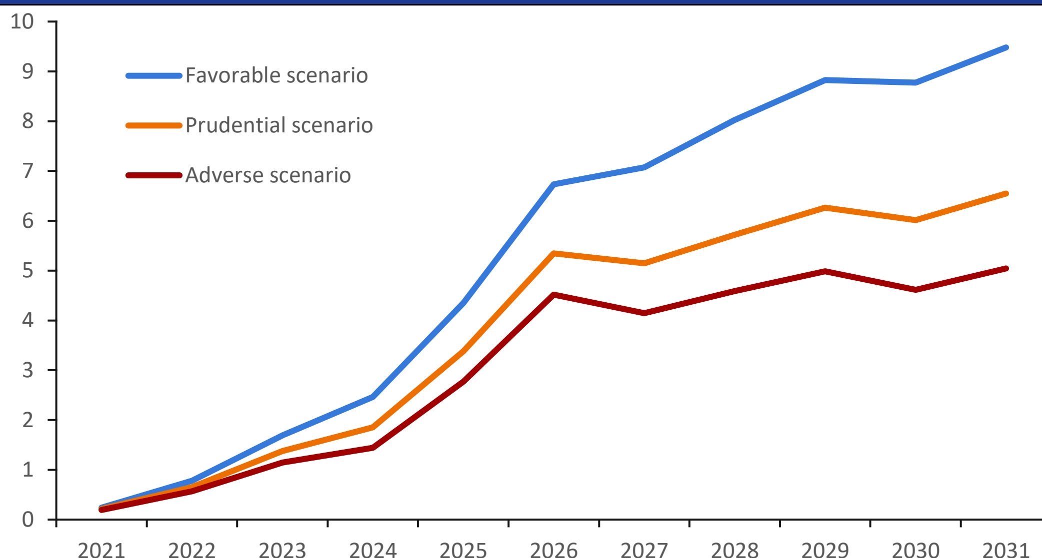
For a sensitivity analysis, the overall favourable and adverse scenarios are constructed using, respectively, the most optimistic and conservative assumptions of the impacts previously reported for investments and reforms. The favorable scenario is, therefore, the combination of the impact of high-efficiency investments, of RRP reforms in the favorable scenario and of new reforms in the prudential scenario. The adverse scenario, on the other hand, is the sum of the prudential investment scenario and of the adverse scenario of the RRP and new reforms.

Figure A.V.1 shows the dynamics of the level of GDP in percentage deviation from the baseline scenario (i.e. in the absence of measures) in the three scenarios considered. In 2031 GDP would be higher by 9.6 percent, 6.6 percent and 5.1

[324] Compared to the MEF-DT study referred to in Note 289, from which the methodology is based, the 'favorable' and 'adverse' scenarios are, to a large extent, aligned with the scenarios defined in the study as 'baseline' and 'low'. The prudential scenario is generally aligned with 'baseline' assumptions when the simulation strategy follows the approach defined in the study as bottom-up and with the 'low' scenario assumptions in other more discretionary cases.

percent respectively in the three favorable, prudential and adverse scenarios. The conservative approach used for the assumptions in the prudential (reference) scenario is confirmed by the fact that its estimated impacts are below the average of the two alternative scenarios proposed and therefore closer to the adverse scenario.

FIGURE A.V.1: GDP IMPACT OF NRRP AND PLAN REFORMS AND INVESTMENT (percentage deviations from the baseline)



Source: MEF-DT elaborations, QUEST-III R&D model.

TABLE A.V.7: DETAILED ELEMENTS FOR THE SIMULATION OF THE NEW REFORMS OF THE PLAN

	Prudential Scenario				Adverse Scenario
Model and empirical studies	Line of action	Synhtetic indicator of the measure (variation)	Model variable (exogenous shock)	Timing	Synthetic indicator of the measure (variation)
(a) Justice					
Simulation model: QUEST-III R&D Empirical studies: Ciapanna et al. (2023)	Duration of proceedings	Length of civil proceedings (-8%)	TFP (+0.24%)	2027: T1-2028: T4	Length of civil proceedings (-4%)
		Length of criminal trials (-5%)	TFP (+0.05%)	2027: T1-2028: T4	Length of criminal trials (-2.5%)
(b) Business environment					
Simulation model: QUEST-III R&D	Competition	PMR Index 2023 (-3%)	Price mark-up (-0.3 pps)	2027: T1-2029: T4	PMR Index 2023 (-1.5%)
	Promotion of private investment	Fixed entry costs for businesses (-5%)	Entry costs (-5%)	2027: T1-2029: T4	Entry costs (-2.5%)
(C) Public Administration					
Simulation model: QUEST-III R& D Empirical studies: Giordano et al. (2020)	Efficiency	Efficient frontier gap (-1/10)	TFP (+0.45%)	2027: T1-2031: T4	Efficient frontier gap (-1/20)

Note: the references extended to the empirical studies cited can be found in D'Andrea, S., D'Andrea, S., Di Bartolomeo, G., D'Imperio, P., Infantino, G., and Meacci, M. (2023), 'Structural Reforms in the Italian National Recovery and Resilience Plan: A macroeconomic assessment of their potential effects', Working Paper No 2, 2023, MEF-DT.

ANNEX VI: REFERENCE TABLES FOR REFORMS AND INVESTMENTS

A.VI.1. REFORMS AND INVESTMENT TO PROMOTE ECONOMIC GROWTH AND FISCAL SUSTAINABILITY UNDERPINNING AN EXTENSION OF THE ADJUSTMENT PERIOD

This paragraph reports the main reforms and investment aimed at improving economic growth and resilience potential and supporting fiscal sustainability.

In compliance with Regulation (EU) No 1263/2024, the tables below specify: i) the measure within RRP and/or European Cohesion Policy Partnership Agreement that actions reinforce or complement; ii) EU Country-Specific Recommendations they address; one or more common EU priorities they contribute to.

Additionally, for each action, are included targets and indicators to monitor the implementation of reforms and investment in the following years, also specifying intermediate investment in some areas.

For a more detailed description of reforms and investment included in the tables, see paragraph III.2.

TABLE A.VI.1: REFORMS AND INVESTMENT IN THE AREA OF JUSTICE

Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Reform of civil justice	M1C1.R1.4	Entry into force of primary and secondary legislation; Reduce the backlog at civil courts and disposition time for civil cases	2024_2.1 2023_2 2022_2.1 2020_4.1 2019_4.1 2019_4.2	Social and economic resilience	To streamline civil proceedings and promote alternative means of dispute resolution.	Q2 2026	RRP targets and milestones
Implementation of the insolvency reform		Take actions to ensure and strengthen the implementation of the insolvency reform	2019_4.1 2019_4.2 2019_5.1	Social and economic resilience	Reduce the length of bankruptcy proceedings and promote the use of out-court instruments.	Q2 2027	Ensure, and where necessary strengthen, the effective implementation of the insolvency reform. To this end, continue to support the competencies of courts in insolvency matters and provide adequate staffing; strengthen the information system to collect granular information on the cost, efficiency and outcomes of insolvency and restructuring procedures (both for out-of-courts and in court cases).
Implementation of the insolvency reform	M1C1-R1.6	Carry out an impact assessment and adopt corrective actions where needed	2019_4.1 2019_4.2 2019_5.1	Social and economic resilience	Reduce the length of bankruptcy proceedings and promote the use of out-court instruments.	Q4 2027	Carry out an impact assessment of the insolvency reform and adopt corrective actions, where needed.
Increasing efficiency of civil courts	M1C1-R1.4	Reduction of backlog cases for the Civil Ordinary Courts (first instance)	2024_2.1 2023_2 2022_2.1 2020_4.1 2019_4.1 2019_4.2	Social and economic resilience	Reduce the backlog at civil courts	Q4 2028	Reduce by 90 percent the number of pending cases that had been opened between 1 January 2023 and 31 December 2025 and that were still open as of 31 December 2025 in the Civil Ordinary Courts (first instance).
	M1C1-R1.4	Reduction of backlog cases for the Civil Court of Appeal (second instance)	2024_2.1 2023_2 2022_2.1 2020_4.1 2019_4.1 2019_4.2	Social and economic resilience	Reduce the backlog at civil courts	Q4 2028	Reduce by 90 percent the number of pending cases that had been opened between 1 January 2023 and 31 December 2025 and that were still open as of 31 December 2025 in the Civil Court of Appeal (second instance).
	M1C1-R1.4	Reduction in the length of civil proceedings	2024_2.1 2023_2 2022_2.1 2020_4.1 2019_4.1 2019_4.2	Social and economic resilience	Reduce disposition time for civil cases	Q4 2028	Reduce the disposition time by 12 percent of all instances of civil and commercial litigious cases compared to the disposition time recorded on 31 December 2026.
Improving the efficiency of the justice system	M1C1-I1.8	Ensure adequate personnel for the office of trial and the technical administrative personnel.	2024_2.1 2023_2 2022_2.1 2020_4.1 2019_4.1 2019_4.2	Social and economic resilience	Ensure adequate human resources in the court system	Q4 2026 Q4 2027 Q4 2028 Q4 2029	Maintain 6,000 positions characterized by tasks equivalent to those under M1C1 Investment 1.8 of the RRP.

TABLE A.VI.2: REFORMS AND INVESTMENT IN THE AREA OF TAXATION							
Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Tax Administration reform	M1C1R1.12	Entry into force of primary and secondary legislation and regulatory provisions, and completion of administrative procedures to encourage tax compliance and improve audits and controls. compliance letters. Reduction in tax evasion as defined by the evasion propensity indicator.	2024_1. 3 2023_1.5 2022_1.4 2019_1.3	Social and economic resilience	Reduction in the propensity to tax evade	Q2 2026	RRP targets and milestones
Accelerating VAT repayment times		Achievement of annual performance targets that progressively ensures a reduction in VAT repayment times.	2024_1.3 2023_1.5 2022_1.4 2019_1.3	Social and economic resilience	To promote simplified interactions with taxpayers through faster VAT refunds	Q4-2025 Q4-2027 Q4-2029	Reduction of average time of payment of VAT refunds (expressed in days) compared to [2024]: • 5 percent by Q4-2025 • 10 percent by Q4-2027 • 15 percent by Q4-2029
Fostering tax compliance		Achievement of annual performance targets that progressively ensures higher revenues from prevention and enforcement activities.	2024_1.3 2023_1.5 2022_1.4 2019_1.3	Social and economic resilience	To increase revenues stemming from prevention activities, tax compliance promotion, including revenues generated by compliance letter, and more selective and risk-based anti-evasion actions (including those based on the use of artificial intelligence techniques and the development of database interoperability)	Q4-2027 Q4-2029	Additional total revenue from prevention and enforcement activities compared to 2024 (14 billion), including revenues from compliance letters, '*inviti al contraddittorio*', '*atti istruttori ravvedibili*', while excluding 'ruoli', '*concordato preventivo*' as well as any measure aimed at settling past tax liabilities at advantageous conditions such as '*rottamazione cartelle esattoriali*', '*saldo&stralcio*' and '*ravvedimento speciale*': • 5 percent by Q4-2027 • 10 percent by Q4-2029

TABLE A.VI.2 CONTINUED: REFORMS AND INVESTMENT IN THE AREA OF TAXATION							
	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Fostering tax compliance		Strengthen the fight against tax evasion resulting from omitted declarations, by (i) in the event of detected tax evasion, removing tax advantages (‘*compensazione orizzontale*’, ‘*rimborsi di imposte*’, ‘*regimi premiali*’) and, where relevant, suspending the exercise of the public concessions; (ii) integrating national short-term rental codes into the databases for tax risk analyses conducted by the Revenue Agency; (iii) introducing compulsory connections between automatic cash registers and electronic payments for all businesses; (iv) requiring traceable means of payments for the tax deductibility of expenses related to transport, food and accommodation.				Q4-2026	Entry into force of primary and secondary legislation
Improving the efficiency of the tax system		Simplify the tax system through the review of the scope of tax expenditures	2024_1.3 2023_1.5 2022_1.4 2019_1.3	Social and economic resilience	To intervene in the tax deduction system, aligning it with the objectives of supporting family burdens, economic growth, and ecological transition within a multi-year perspective.	Q4-2028	A 15 percent reduction of revenue loss related to tax expenditures compared to the 2019 government report (49 billion euro), including in the areas of environmentally harmful subsidies, reduced VAT rates and exemptions and personal income tax (IRPEF). The reduction of environmentally harmful subsidies by 3.5 billion envisaged by 2030 under the RRP is relevant for the reduction of revenue losses related to tax expenditures.

<table>
<tr><th colspan="8">TABLE A.VI.2 CONTINUED: REFORMS AND INVESTMENT IN THE AREA OF TAXATION</th></tr>
<tr><th>Reform/investment</th><th>RRF/PA</th><th>Key steps</th><th>CSR</th><th>Common Priorities</th><th>Main objective</th><th>Implementation date</th><th>Indicator (s) on objective</th></tr>
<tr><td rowspan="3">Improving the efficiency of the tax system</td><td rowspan="3"></td><td>Reduction of the labour tax wedge</td><td rowspan="3">2024_1.3
2023_1.5
2022_1.4
2019_1.3</td><td rowspan="3"></td><td>Reduction of the tax burden on low- and middle-income families and support for employment.</td><td>Q4-2026</td><td>The average labour tax wedge shall be permanently reduced compared to the levels recorded in 2023</td></tr>
<tr><td>Mapping of properties that are not included in cadastral register;</td><td rowspan="2">Updating cadastral register</td><td>T4-2027</td><td>Introduction of the reference legislation and entry into force, completion of activities of mapping, controlling and updating cadastral register.</td></tr>
<tr><td>Updating cadastral values for property taxes for buildings that have undergone energy efficiency and/or structural improvement interventions, financed in whole or in part by public funds, since 2019.</td><td>T4-2028</td><td>Introduction of the reference legislation and entry into force and completed update of the cadastral register for all properties defined in the key steps column/section</td></tr>
</table>

TABLE A.VI.3: REFORMS AND INVESTMENT IN THE AREA OF BUSINESS ENVIRONMENT							
Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Annual Competition Laws	M1C2.R 2	Entry into force of annual competition laws and implementing acts.			Protection and promotion of competition to foster efficiency and economic growth through the revision of laws and regulations that hinder the proper functioning of the market	Q2 2026	RRP targets and milestones
R&D		Increase public R&D spending	2019_3.1 2024_4.1	Social and economic resilience	Increase R&D investments prioritizing projects that can crowd in additional private investment	Q4 2025 Q4 2026 Q4 2027 Q4 2028 Q4 2029	Increase public spending on research and development, in order to raise the ratio between such spending and GDP, which is estimated to be close to 0.5 percent for 2024, to 0.6 percent in 2029 (1)
Firms incentives	M1C2-R3	Rationalization and simplification of incentives for firms, following up on reform M1C2-R3 in the RRP	2024_4.1	Social and economic resilience	Fostering the efficiency and effectiveness of public incentives on investment.	Q2 2028	Drastically reduce the number of incentive measures, and reduce the number of granting authorities, based on the results of the impact assessment undertaken in 2025.
Competition		Adoption of Annual Competition Laws	2024_4.1 2024_4.2 2021_1.3 2019_3.1 2020_3.3 2019_3.3	Social and economic resilience	Promotion of competition to foster efficiency and economic growth through the removal of bottlenecks and entry barriers (also of legislative nature). Removal or revision of laws and regulations that hinder the smooth functioning of the markets.	Q4 2026 Q4 2027 Q4 2028 Q4 2029	Continue the adoption of an Annual Competition Law and related implementing acts each year, by addressing the CSRs and satisfactorily considering AGCM's recommendations, based on adequate regulatory impact assessments.

(1) R&D expenditure is to be computed in GERD terms.

TABLE A.VI.3 CONTINUED: REFORMS AND INVESTMENT IN THE AREA OF BUSINESS ENVIRONMENT							
Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
SMEs reform		Adoption of a framework law on SMEs on annual basis, based on an impact assessment, and entry into force of the implementing instruments	2024_4.1 2021_1.3 2019_3.1	Social and economic resilience	Increase SMEs competitiveness facilitating business size growth, fostering generational transition, investment orientation and skills matching.	Q4 2026	Entry into force of the SME Framework Law. The law shall cover at least the following elements: • facilitating business size growth and firms aggregation; • administrative simplification; • ease of doing business; • fostering generational transition, including via hiring professional management. • enhancing investment; • increasing skills.
						Q4 2027 Q4 2028	Entry into force of all implementing instruments and annual updates.

TABLE A.VI.4: REFORMS AND INVESTMENT IN THE AREA OF PUBLIC ADMINISTRATION AND CHILDCARE							
Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Public employment reform and simplification reform	M1C1R1.9	Entry into force of primary and secondary legislation; simplification and/or digitalization of critical procedures; Implementation of strategic human resources management in the public administration	2024_2 2023–1.3. 2023_2 2022_1.2 2022_2.1 2021_1.3 2020_3.4 2019_3.2	Social and economic resilience	To develop administrative capacity at both central and local levels through the strengthening of selection, training, promotion and mobility processes for public employees, streamlining bureaucracy and digitizing administrative procedures	Q2 2026	RRP targets and milestones
Reform of public employment	M1C1R2.03.01	Implementation of vertical mobility	2024_2 2023–1.3 2023_2 2022_1.2 2022_2.1 2021_1.3 2020_3.4 2019_3.2	Social and economic resilience Fair green and digital transition	Promote vertical mobility	Q4 2026	At least 20 percent of annual vacancies for managerial positions allocated to incumbent officials through a promotion mechanism linked to performance.
	M1C1R2.03.01	Implementation of horizontal mobility	2024_2 2023–1.3 2023_2 2022_1.2 2022_2.1 2021_1.3 2020_3.4 2019_3.2	Social and economic resilience Fair green and digital transition	Promote horizontal mobility	Q4 2026	At least 15 percent of annual vacancies allocated to officials moving from another public administration or agency.
	M1C1R2.03.01	Valorization of performance-based framework	2024_2 2023–1.3 2023_2 2022_1.2 2022_2.1 2021_1.3 2020_3.4 2019_3.2	Social and economic resilience Fair green and digital transition	Valorize the performance-based framework	Q4 2028	First round of performance evaluation and bonus payments completed under the new framework
Childcare		Increase in yearly public expenditure	2024_3 2020_2.3 2019_2.3	Social and economic resilience	Ensure adequate financial coverage for operating available childcare facilities	Q4 2027	Increase public expenditure to cover for the operating costs of the existing and new childcare facilities realized through NRRP investments and national resources, of children aged 0-2. The increase will amount to at least 20% of the yearly public expenditure dedicated to running costs of available childcare facilities for children under 3 years of age including the costs of new places resulting from the NRRP infrastructure.

TABLE A.VI.4 CONTINUED: REFORMS AND INVESTMENT IN THE AREA OF PUBLIC ADMINISTRATION AND CHILDCARE

Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Childcare		Ensure the adequate availability of childcare places	2024_3 2020_2.3 2019_2.3	Social and economic resilience	Ensure adequate supply of childcare services in line with the Barcelona Target and the national target for 2027, taking into account regional disparities	Q4 2027	Ensure that 33 percent of children under 3 years of age have access (coverage quota) to public and private childcare facilities at national level. Ensure a minimum of 15 percent of coverage at regional level
		Definition of contribution brackets for parental contributions			Increase the affordability of childcare		Define national minimum standards for both childcare service access and fee brackets, with the aim of increasing affordability.

TABLE A.VI.5: REFORMS AND INVESTMENT IN THE AREA OF PUBLIC EXPENDITURE

Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Spending reviews	M1C1,R1.13:	Entry into force of legislative framework to improve the effectiveness of spending review Adoption and achievement of savings targets for spending reviews for the years 2023-2025.	2024_1.2 2023_1.2 2022_1.1 2021_1.2 2020_1.1 2019_1.1	Social and economic resilience	To ensure better expenditure programming through effective tools for forecasting trends and the impacts of public spending, as well as the adoption of integrated and systematic processes for its control	Q2 2026	RRP Targets and Milestones
Ensure better planning, monitoring and control of public expenditure		Implementation of yearly spending reviews based on the national legal framework	2024_1.2 2023_1.2 2022_1.1 2021_1.2 2020_1.1 2019_1.1	Social and economic resilience	To strengthen the capacity for programming, monitoring and evaluation of public spending	Q2-2027 Q2-2028 Q2-2029 Q2-2029	Adoption of one annual monitoring and evaluation plan which foresees proposed interventions from each Ministry which contribute to fiscal sustainability. Over the timeframe of the Medium-term Structural Plan, the monitoring and evaluation plans cover overall a spending area equal to a total of 10 percent of the spending allocated to the financing of policies under the direct responsibility of central administrations, with the aim of formulating proposals and actions for the improvement of the efficiency or quality of spending. On an annual basis, the monitoring and evaluation plan should cover a spending area of at least 1 per cent of the spending allocated to the financing of policies under the direct responsibility of central administrations. An annual report prepared by the Ministry of Economy and Finance illustrates the implementation status of the monitoring and evaluation plan, and in particular showing the adoption of at least one action implemented by each ministry contributing to fiscal sustainability.

<table>
<tr><th colspan="8">TABLE A.VI.5 CONTINUED: REFORMS AND INVESTMENT IN THE AREA OF PUBLIC EXPENDITURE</th></tr>
<tr><th>Reform/investment</th><th>RRF/PA</th><th>Key steps</th><th>CSR</th><th>Common Priorities</th><th>Main objective</th><th>Implementation date</th><th>Indicator (s) on objective</th></tr>
<tr><td rowspan="3">Ensure better planning, monitoring and control of public expenditure</td><td></td><td>Strengthened competence of the Ministry of Economy and Finance to conduct inspections on public spending management of all entities receiving public support, including subnational authorities and state-owned enterprises.</td><td>2024_1.2
2023_1.2
2022_1.1
2021_1.2
2020_1.1
2019_1.1</td><td>Social and economic resilience</td><td>To enhance expenditure monitoring, including through the creation and strengthening of dedicated structures within Public Administrations, for the assessment of the quality and impact of services provided</td><td>Q1-2028</td><td>Entry into force of primary and secondary legislation</td></tr>
<tr><td rowspan="2"></td><td rowspan="2">Reform of the framework for the control of public expenditure for central public administrations, providing for enhanced financial responsibility of administrations for the management of resources as well as strengthened programming and enhanced monitoring and evaluation of policy outputs and impacts.</td><td rowspan="2">2024_ 1.2
2023_ 1.2
2022_1.1
2021_1.2
2020_1.1
2019_1.1</td><td rowspan="2">Social and economic resilience</td><td rowspan="2">To enhance control of public expenditure</td><td>Q1 2026</td><td>Entry into force of primary legislation</td></tr>
<tr><td>Q1-2028</td><td>Entry into force of secondary legislation</td></tr>
</table>

TABLE A.VI.6: REFORMS AND INVESTMENT IN THE AREA OF RATIONALISATION OF STATE-OWNED ENTERPRISES

Reform/investment	RRF/PA	Key steps	CSR	Common Priorities	Main objective	Implementation date	Indicator (s) on objective
Effective national provisions for the rationalisation of State Owned Enterprises		Take actions to ensure and strengthen the implementation of the legal framework on State Owned Enterprises	2024_ 1.2 2023_ 1.2 2022_1.1 2021_1.2 2020_1.1 2019_1.1	Social and economic resilience	Streamline State Owned Enterprises in line with national legislation (legislative decree. n. 175/2016)	Q4-2027	Ensure, and where necessary strengthen, the effective implementation of the legal framework (legislative decree. n. 175/2016) related to the activities and operational efficiency of State-Owned Enterprises with the aim of ensuring an effective rationalisation and dismissal of non-efficient SOEs without jeopardising the provision of public services.

A.VI.2 OTHER STRATEGIC REFORMS AND INVESTMENTS

This paragraph mentions the reforms and investment which, although not conducive to extending the period of consolidation of the Plan, are also strategic for the economic and social development of the Country.

In compliance with Regulation (EC) No 1263/2024, for each reform or investment it is specified: i) any potential consistency with the measures included in Italy’s RRP and/or in Italy’s European Cohesion Policy Partnership Agreement; ii) one or more EU Country-Specific Recommendations to which it addresses; iii) one or more common EU priorities it contributes to[325].

As regards the measures in line with the RRP, the tables do not specify whether they implement a commitment provided for in the RRP to be implemented by 2026 or whether they concern extensions or reinforcements to be launched between 2027 and 2029. For these aspects, please see paragraphs III.3.1, III.3.3, III.3.2 and III.3.4.

[325] They concern the fair, green and digital transition, including the climate targets set out in Regulation (EU) 2021/1119, social and economic resilience, including the European Pillar of Social Rights, energy security and defence capability development.

TABLE A.VI.7: REFORMS AND INVESTMENTS TO IMPROVE THE QUALITY OF INSTITUTIONS AND THE BUSINESS ENVIRONMENT (1)			
Reform/Investment	RRF/MMF	CSR	EU common priorities
Streamlining the justice administration	NO	2024_2 2023_2 2022_2.1 2020_4.1 2020_4.2 2019_3.2	Social and economic resilience
Construction and energy efficiency renovation and structural improvement of buildings of justice administration	M2C3I1.02	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4	Energy security Fair, green and digital transition
Preventive agreement (*concordato preventivo)* and the enhancement of collaborative compliance (adempimento collaborativo)	NO	2024_1.3 2023_1.5 2022_1.4 2019_1.3	Social and economic resilience
Reorganisation of the tax collection system and identification of past debt stocks uncollected and non-recoverable	NO	2024_1.3 2023_1.5 2022_1.4 2019_1.3	Social and economic resilience
Reforming capital markets to increase accessibility to SMEs and support businesses financing	NO	2024_4.1 2024_4.2 2020_3.1 2019_5.2	Social and economic resilience
Reform and related investment to enforce the industrial property system	M1C2R6.1 M1C2I6.1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.3 2019_3.3	Social and economic resilience
Fair compensation measures	NO	2024_4.1 2024_4.2 2020_3.1 2019_5.2	Social and economic resilience
Emerging technologies funds and instrument to support technology transfer	NO	2024_4.1 2024_4.2 2020_3.1 2019_5.2	Social and economic resilience
Funds to support the internationalization of businesses	NO	2024_4.1 2024_4.2 2020_3.1 2019_5.2	Social and economic resilience
Transfer of responsibilities between extraordinary commissioners and administrations	M1C2I5.1	2024_2 2023_2 2022_2.1 2020_4.2 2019_3.2	Social and economic resilience
Upskilling and generational transition	NO	2024_2 2023_2 2022_2.1 2020_4.2 2019_3.2	Social and economic resilience

(1) The reforms and investment referred to therein are not considered to be useful measures for extending the consolidation period of the Plan.

TABLE A.VI.8: REFORMS AND INVESTMENTS PLANNED TO SUPPORT THE FAMILY, THE BIRTH RATE AND THE REDUCTION OF SOCIAL AND TERRITORIAL GAPS

Reform/Investment	RRF/MMF	CSR	EU common priorities
Strengthening the Universal Single Allowance	NO	2024_3 2020_2.1 2019_2.3	Social and economic resilience
Plan for nurseries and early childhood education and care services	M4C1I1.1	2024_3 2020_2.3 2019_2.3	Social and economic resilience
Plan for nurseries: realization of additional places for 0-2 years at national and local level	NO	2024_3 2020_2.3 2019_2.3	Social and economic resilience
School 4.0 - innovative schools, new classrooms, and laboratories	M4C1I3.02	2024_3 2020_2.4 2019_2.4	Social and economic resilience
Plan for the safety and renovation of school buildings	M4C1I3.03	2024_2 2023_3.5 2022_3.5 2021_1.3 2020_3.4	Social and economic resilience
Introduction of innovative doctorates that provide for innovative competences needed by enterprises and promote the recruitment of researchers from enterprises	M4C2I3.3	2024_4.1 2023_1.3 2021_1.3 2020_3.5 2019_3.1	Social and economic resilience
Plan for extending full-time schooling service	M4C1I1.2	2024_3 2020_2.3 2019_2.3	Social and economic resilience
Enhanced parental leave	NO	2024_3 2020_2.3 2019_2.3	Social and economic resilience
Contribution exemption for working mothers with three or more children	NO	2024_3 2020_2.1 2019_2.3	Social and economic resilience
National Plan for Youth, Women and Work	NO	2024_3 2020_2.3 2019_2.3	Social and economic resilience
Support to the creation of women's businesses	M5C1I1.2	2024_3 2020_2.3 2019_2.3	Social and economic resilience
2024 Women hiring bonus	NO	2024_3 2019_2.3	Social and economic resilience
Gender Equality Certification System	M5C1I1.3	2024_3 2019_2.3	Social and economic resilience
Enforcement of the recruitment of qualified and full-time contracted teachers	M4C1R2.01	2024_3 2020_2.4 2019_2.4	Social and economic resilience
Reform of degree programs	M4C1R1.05	2024_3 2020_2.4 2019_2.4	Social and economic resilience
Reform of the school of Higher Education and compulsory training for school managers, teachers and technical-administrative staff	M4C1R2.02	2024_3 2020_2.4 2019_2.4	Social and economic resilience
Integrated digital education and training on the digital transition of school staff	M4C1I2.01	2024_3 2020_2.4 2019_2.4	Social and economic resilience
South Agenda: actions to integrate and strengthen the basic disciplinary areas with reference to the primary and secondary school	No	2024_3 2020_2.4 2019_2.4	Social and economic resilience
Enhancing the tertiary professional education system	M4C1I3.01	2024_3 2020_2.4 2019_2.4	Social and economic resilience
Development of the tertiary vocational training system (ITS)	M4C1I1.05	2024_3 2020_2.4 2019_2.4	Social and economic resilience

TABLE A.VI.8 CONTINUED: REFORMS AND INVESTMENTS PLANNED TO SUPPORT THE FAMILY, THE BIRTH RATE AND THE REDUCTION OF SOCIAL AND TERRITORIAL GAPS			
Reform/Investment	RRF/MMF	CSR	EU common priorities
Policies to attract international students and promote international research collaborations at university level	NO	2024_4.1 2023_1.3 2021_1.3. 2020_3.5. 2019_3.1	Social and economic resilience
GOL programme	NO	2024_3 2020_2.3 2019_2.2	Social and economic resilience
New Skills Transitions Plan	M7C1R5	2024_3 2023_3.7 2020_2.4 2019_2.4	Fair, green and digital transition Social and economic resilience
ALMPs and Vocational Training	NO	2024_3 2020_2.2 2020_2.3 2019 _2.2	Social and economic resilience
Dual system	M5C1I1.04.00	2024_3 2020_2.2 2020_2.3 2019_2.2	Social and economic resilience
Universal Civil Service	M5C1I2.01	2024_3 2020_2.3 2019_2.2	Social and economic resilience
Plan for adaptation of age requirements for access to retirement	NO	2024_1.1 2023 _1.4 2022_1.1 2021_1.2 2020_2. 1 2020 _2.2 2019_1.4	Social and economic resilience
Strengthening of SEZs	NO	2024_4.1 2023_1.3 2022_1.2 20211.3 2020_3.4 2019_3.1	Social and economic resilience
Measures to close territorial employment gaps (SEZs bonus)	NO	2024_4.1 2020_2. 3 2019_2.2 2019_3.1	Social and economic resilience
Tax credit for the South	NO	2024_4.1 2023_1.3 2022_1.2 20211.3 2020_3.4 2019_3.1	Social and economic resilience
Strategic plan for the SEZs	NO	2024_4.1 2023_1.3 2022_1.2 20211.3 2020_3.4 2019_3.1	Social and economic resilience
Investment in primary water infrastructure for security of supply - National plan for infrastructure investments for the security of the water system	M2C4I4.01	2024_4.1 2023_3.6 2022_1.2 2020_3.7	Social and economic resilience
Structured socio-educational interventions to combat educational poverty in Southern Italy, with a focus on Service Sector	M5C3I1.03	2024_4.1 2019_2.4	Social and economic resilience
National plan to combat undeclared work	M5C1R1.2	2024_4.1 2020_2.2 2019_2.1	Social and economic resilience

TABLE A.VI.8 CONTINUED: REFORMS AND INVESTMENTS PLANNED TO SUPPORT THE FAMILY, THE BIRTH RATE AND THE REDUCTION OF SOCIAL AND TERRITORIAL GAPS			
Reform/Investment	RRF/MMF	CSR	EU common priorities
Measures to combat corporatism in agriculture	NO	2024_4.1 2020_2.2 2019_2.1	Social and economic resilience
Reinforcement of transport infrastructure and system	NO	2024_4.1 2023_3.6 2022_1.2 2020 _3.4 2020_3.8	Social and economic resilience
High-speed railway connections to the South for passengers and freight	M3C1I1.01	2024_4.1 2023 _1.3 2022_1.2 2021_1.3 2020 _3.4 2020_3.8 2019_3.1	Fair, green and digital transition Social and economic resilience
High-speed lines in the North connecting to Europe	M3C1I1.02	2024 _4.1 2023 _1.3 2022_1.2 2021_1.3 2020 _3.4 2020_3.8 2019_3.1	Fair, green and digital transition Social and economic resilience
Installation of electric charging infrastructure	M2C2I4.03	2024_4.1 2023_3.6 2022_1.2 2020_3.4 2020_3.8	Fair, green and digital transition Energy security
TEN-T programme	NO	2024 _4.1 2023 _3.6 2022_1.2 2021_1.3 2020 _3.4 2020_3.8 2019_3.1	Energy security
Reduction of environmentally harmful subsidies	M7C1R02.1	2024 _2 2023_1.3 2022_1.2 2021_1.3 2020_3.4	Fair, green and digital transition
Implementation of the revision of the Procurement Code	M1C1R1.10	2024 _4.1 2023 _1.3 2022_1.2 2020 _3.4 2019_3.1	Social and economic resilience
Simplification of strategic planning, authorization procedures for cold ironing facilities and project evaluation in the field of local public transport (TPL) systems	M3C2R1.1 M3C2R1.3 M2C2R4.1	2024 _4.1 2023 _1.3 2022_1.2 2020 _3.4 2019_3.1	Fair, green and digital transition Social and economic resilience
Single Window for Controls and the digitalisation of customs documents	M3C2R2.1	2024 _4.1 2023 _1.3 2022_1.2 2020 _3.4 2020_3.8 2019_3.1	Social and economic resilience
The competitive awarding of concessions in port areas	M3C2R1.2	2024 _4.1 2023 _1.3 2022_1.2 2020 _3.4 2020_3.8 2019_3.1	Social and economic resilience

TABLE A.VI.8 CONTINUED: REFORMS AND INVESTMENTS PLANNED TO SUPPORT THE FAMILY, THE BIRTH RATE AND THE REDUCTION OF SOCIAL AND TERRITORIAL GAPS			
Reform/Investment	RRF/MMF	CSR	EU common priorities
A national strategic platform for the network of ports and interports	M3C2R2.2	2024 _4.1 2023 _1.3 2022_1.2 2020 _3.4 2020_3.8 2019_3.1	Social and economic resilience
Infrastructure investments for Special Economic Zones (SEZs)	M5C3I1.04	2024_4.1 2023_1.3 2022_1.2 2020_3.4 2019_3.1	Fair, green and digital transition
Strengthening of the regional public transport railway fleet with zero emission trains and universal service	M7C1I11.1	2024_4.1 2023_3.6 2022_1.2 2020 _3.4 2020_3.8	Fair, green and digital transition
Contributions to the replacement of maritime fleets	NO	2024 _4.1 2023 _1.3 2022_1.2 2020 _3.4 2019_3.1	Fair, green and digital transition
Contributions for the replacement of road and rail rolling stock, investments for integrated logistics and for cold ironing	M2C2I4.4.2 M7C1I11.1 M3C2I2.3	2024 _4.1 2023 _1.3 2022_1.2 2020 _3.4 2019_3.1	Fair, green and digital transition
Messina bridge	NO	2024 _4.1 2023 _3.6 2022_1.2 2020 _3.4 2020_3.8 2019_3.1	Social and economic resilience
Mobility and road network measures	M3 and M7	2024_4.1 2023_3.6 2022_1.2 2020_3.4 2020_3.8 2019_3.1	Social and economic resilience Fair, green and digital transition
Draft law for the construction of infrastructures of pre-eminent national interest and other strategic interventions in the field of public works and logistics	NO	2024 _4.1 2023 _3.6 2022_1.2 2020 _3.4 2020_3.8 2019_3.1	Social and economic resilience Fair, green and digital transition
Support to the production system for the Ecological Transition, Net Zero Technologies and competitiveness and resilience of strategic supply chains	M1C2I7	2024_4.1 2023_1.3 2023_3.1 2022_1.2 2021_1.3 2020_3.3	Fair, green and digital transition
Innovation and technology of Microelectronics	M1C2I2.1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.3 2020_3.5 2019_3.1	Social and economic resilience
National Centres, Enlarged partnerships and Innovation Ecosystems	M4C2I1.3	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.5 2019_3.1	Social and economic resilience

TABLE A.VI.8 CONTINUED: REFORMS AND INVESTMENTS PLANNED TO SUPPORT THE FAMILY, THE BIRTH RATE AND THE REDUCTION OF SOCIAL AND TERRITORIAL GAPS

Denomination	Continuity with the RRP o Cohesion programmes	CSR	Common EU priority
Reform of collective credit guarantee consortia (Confidi)	NO	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.5 2019_3.1	Social and economic resilience
Strengthening of the research facilities and creation of "national R&D champions" on some Key Enabling Technologies	M4C2I1.4	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.5 2019_3.1	Social and economic resilience
Fund to create an integrated system of research and innovation infrastructures	M4C2I3.1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.5 2019_3.1	Social and economic resilience
Measures to support tourism: mountainous inland areas, major events, support for companies in the sector, creation of national champions and digital tourism hubs	NO	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.5 2019_3.1	Social and economic resilience
Strengthening healthcare facilities (Community Hospitals)	M6C1I1.3	2024 _3 2023_2 2022_2.1 2021_1.4 2020_1.2	Social and economic resilience
Improving the availability of healthcare technology devices in hospitals	M6C2I1.1	2024 _3 2023_1.3 2022_2.1 2021_1.4 2020_3.8 2019_3.1	Social and economic resilience
Development of the technical, professional, digital and managerial skills of healthcare professionals	M6C2I2.2	2024_3 2023_1.3 2022_2.1 2021_1.4 2020_3.8 2019 _3.2	Social and economic resilience
Supporting vulnerable people	M5C2I1.01	2024_3 2020_2.2 2020_2.3 2019 _2.2 2019_2.3	Social and economic resilience
Monitoring of health expenditure also through indicators of efficiency and adequacy of service levels	NO	2024_2 2021 _1.4 2020 _1.2 2019_3.2	Social and economic resilience
Development and reorganization of tools for supplementary health, care and incapacitated people, such as improved supervision of health funds and measures for long-term care	NO	2024 _2 2021 _1.4 2020 _1.2 2019_3.2	Social and economic resilience
Planning of staff recruitment according to efficiency criteria	NO	2024_3 2021_1.4 2020 _1.2 2019_3.2	Social and economic resilience

TABLE A.VI.8 CONTINUED: REFORMS AND INVESTMENTS PLANNED TO SUPPORT THE FAMILY, THE BIRTH RATE AND THE REDUCTION OF SOCIAL AND TERRITORIAL GAPS

Reform/Investment	RRF/MMF	CSR	EU common priorities
Strengthening of territorial assistance and health buildings (including financial instruments and public-private partnerships).	NO	2024_2 2021 _1.4 2020_1.2 2019_3.2	Social and economic resilience
Funding of Regions below performance standards for the reorganization of services and skills.	NO	2024_2 2021 _1.4 2020 _1.2 2019_3.2	Social and economic resilience
Updating of LEAs (essential levels of social services to be provided by public sector)	NO	2024_2 2021 _1.4 2020_1.2 2019_3.2	Social and economic resilience
Food and nutrition security information programme	NO	2024_2 2021 _1.4 2020_1.2 2019_3.2	Social and economic resilience
Control tools to reduce the environmental impact of plant protection use	NO	2024_1.2 2023_1.3 2022_1.2 2021 _1.3 2020_3.4	Fair, green and digital transition
Measures on Extraordinary Income and Operating Continuity Allowance	NO	2024_3 2023_1.1 2020_2.1 2020 _2.2 2020_2.3 2019_2.2 2019_2.3	Social and economic resilience
Housing and support policies for vulnerable people, workers and out-of-home students (Piano Casa Italia)	NO	2024_3 2023_1.1 2022_1.1 2020_2.1 2019_2.2	Social and economic resilience
Measures to reduce energy poverty, included in the NECP	NO	2024_3 2023_1.1 2022_1.1 2020_2.1 2019_2.2	Social and economic resilience
Supplementary pension measures	NO	2024_3 2023_1.1 2022_1.1 2020_2.1 2019_2.2	Social and economic resilience
Action plan to simplify and improve the management of criminal enforcement and minors and community justice	NO	2024_2 2020_4.1. 2019_4.1 2019_4.2	Social and economic resilience
Measures to improve the efficiency of public administrations at local and regional level	NO	2024_1.2 2023_1.2 2022_1.1 2022_1.2 2020_1.3	Social and economic resilience

TABLE A.VI.8 CONTINUED: REFORMS AND INVESTMENTS TO ACCELERATE THE GREEN TRANSITION			
Reform/Investment	**RRF/MMF**	**CSR**	**EU common priorities**
Integrated National Energy and Climate Plan (INECP)	NO	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2020_3.8 2019_3.1	Fair, green and digital transition Energy security
NRRP and RepoweEU measures, including:	Mission 2 and 7	2024_2 2023_2 2022_1.2 2021_1.3 2020_3.4	Fair, green and digital transition Energy security
Tyrrhenian link	M7C1I04.1	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2020_3.8 2019_3.1	Energy security
Reduction of connection costs of biomethane production	M7C1R03.1	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2019_3.1	Energy security
Strengthening of the Ecobonus for energy efficiency	M2C3I2.01	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4	Energy security Fair, green and digital transition
Improving energy efficiency in cinemas, theatres and museums	M1C3I1.03	2024 _2 2023_1.3 2022_1.2 2021_1.3 2020_3.4	Energy security Fair, green and digital transition
Hydrogen use in hard-to-abate sectors	M2C2I3.02	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2020_3.8 2019_3.1	Fair, green and digital transition
Hydrogen use in hard-to-abate sectors	M2C2I3.02	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2020_3.8 2019_3.1	Fair, green and digital transition
Green ports: renewable energy and energy efficiency interventions in ports	M3C2I1.01	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2020_3.8 2019_3.1	Fair, green and digital transition
Investments in urban regeneration projects, aimed at reducing situations of marginalization and social degradation	M5C2I2.01	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2019_3.1	Fair, green and digital transition

TABLE A.VI.9 FOLLOWS: REFORMS AND INVESTMENTS TO ACCELERATE THE GREEN TRANSITION			
Reform/Investment	RRF/MMF	CSR	EU common priorities
Decarbonising transport	NO	2024_2 2023_3.5 2022_1.2 2021_1.3 2020_3.4 2020_3.6 2019-3.1	Fair, green and digital transition
Financial instrument for the efficiency of public housing, including residential housing (ERP) and housing of low-income and vulnerable households	M7C1I17.1	2024_1.2 2023_3.5 2022_1.2 2021_1.3 2020_3.4	Fair, green and digital transition
Mattei Plan	NO	2024_4.1 2023 _1.3 2022_1.2 2021_1.3 2020_3.4 2019_3.1	Energy security Fair, green and digital transition
Measures to strengthen energy infrastructure	M7	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2019_3.1	Energy security
Energy renovations of public buildings to reduce energy consumption of public administrations	NO	2024_2 2023_3.5 2022_1.2 2021_ 1.3 2020_3.4	Energy security Fair, green and digital transition
Measures for the energy efficiency of residential buildings	NO	2024_2 2023_3.5 2022_1.2, 2021_ 1.3 2020_3.4	Energy security Fair, green and digital transition
Strategies and instruments for the mobilisation of public and private capitals for the energy and ecological transition (green bonds, sustainable finance)	NO	2024_1.2 2023_3.5 2023_1.3 2022_1.2 2021_1.3 2020_3.4	Fair, green and digital transition

TABLE A.VI.10: REFORMS AND INVESTMENTS TO ACCELERATE THE DIGITAL TRANSITION			
Reform/Investment	RRF/MMF	CSR	EU common priorities
Digital Decade Policy Programme 2030	NO	2024 _4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2020_3.8	Fair, green and digital transition
National Strategy for Digital Skills	NO	2024 _4.1 2023_1.3 2022_1.2 2021_1.3 2020_2.4 2019_2.4	Fair, green and digital transition
NRRP measures	M1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2020_3.8 2019_3.1	Fair, green and digital transition
Streamlining and simplifying business incentives	M1C2R3	2024_4.1 2023_1.5 2022_1.4	Social and economic resilience
Fast internet connections (ultra-broadband and 5G)	M1C2I3.1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.3 2020_3.8 2019_3.1	Fair, green and digital transition
Digital infrastructure	M1C1I1.01	2024_4.1 2023 _1.3 2022_1.2 2021_1.3 2020 _3.4 2020_3.8	Fair, green and digital transition
IPCEI	M4C2I2.1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.4	Fair, green and digital transition Social and economic resilience
Satellite technology and space economy	M1C2I4.1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.5 2019_3.1	Fair, green and digital transition
Digitisation of large central administrations	M1C1I1.06	2024 _4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.8	Fair, green and digital transition
Digital Civil Service	M1C1I1.07.01	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.8	Fair, green and digital transition
Piano Isole Minori	M1C2I 3.1	2024_4.1 2023_1.3 2022_1.2 2021_1.3 2020_3.4 2019_3.1	Fair, green and digital transition

TABLE A.VI.11: DEFENCE-ENHANCING REFORMS AND INVESTMENTS			
Reform/Investment	RRF/MMF	CSR	EU common priorities
Cybersecurity	M1C1I1.5	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.8 2019_3.1 2019_3.2	Development of defence capabilities
Digitalisation of Defence	M1C1I1.6	2024_2 2023_1.3 2022_1.2 2021_1.3 2020_3.8 2020_4.2 2019_3.1 2019_3.2	Development of defence capabilities

A.VI.3 INVESTMENT NEEDS

This paragraph provides a mostly qualitative summary of investment needs that may be necessary to achieve the EU's objectives regarding common priorities.

TABLE A.VI.12: INVESTMENT NEEDS	
Common priorities	Description of investment needs
Social and economic resilience, including the European Pillar of Social Rights	In order to contribute to the achievement of the EU's common goals for 2030, Italy intends to align its medium-term economic and social policy planning to ensure, by 2030: i) an employment rate of 73 percent of the population aged 20-64; ii) a 60 percent rate of adult population engaged in annual education and training programs; iii) the reduction of at least 3.2 million people at risk of poverty or exclusion. These objectives are complemented by the commitment to increase early childhood facilities, which will contribute to the achievement of the EU 2030 target. To ensure the achievement of these results, it is noted, on a planning basis, that additional investments will be necessary in the areas where the most critical issues have been detected. Labour market First, to consolidate and strengthen the currently positive labour market performance, it will be necessary to insist on enhancing active labour market policies. This involves continuing the NRRP investments that promote labor market participation and training activities necessary to align workers' skills with those required by firms. In this context, it will be essential to invest in the continuation of measures that, such as the 'Dual System', apprenticeships and the Universal Civil Service, have proved particularly effective. Education and Training Further investments are needed to strengthen the education and training system, in order to provide new generations with the skills to face future labour market challenges and opportunities to improve their economic and social condition. In this context, it would be worthwhile to extend investments within the NRRP and initiatives aimed at mitigating the skills, territorial and gender gaps. Territorial divides and infrastructures To ensure that the current progress in the dynamics of labour market and growth is evenly distributed at territorial level, it will be necessary to provide instruments for investments that reduce the persistent and historical territorial gaps in the country. In particular, it will be crucial to continue investing in the strategic sectors defined by the cohesion policy and the Single Special Economic Zone Strategic Plan (including hydrogeological risk, water resources and reconstruction after catastrophic events), in the infrastructure endowment and in combating illegality. In particular, the economic and social convergence of the country in terms of infrastructure endowment will require additional resources for the extension of some initiatives already launched with the NRRP, including interventions for high-speed networks and regional railways, technological and digital upgrading of TEN-T networks, ports and their connections, as well as the strengthening of infrastructure investments in the SEZ. Strategic supply chains, innovation and technology transfer

TABLE A.VI.12: INVESTMENT NEEDS	
Common priorities	Description of investment needs
	In the coming years, it will be necessary to invest in strategic supply chains, innovation and technology transfer while promoting the development of high-tech sectors and continuing the most effective investments of the NRRP, including those for cooperation among universities, research centres and businesses and for the technological and digital transformation of SMEs and business networks. It will be essential to support the country's competitiveness in key sectors of the Italian economy, enhancing investments also in the tourism sector. Health system, measures to combat poverty and the enhancement of childcare services. Priority should be given to investments in the health system in a view to strengthening the most effective initiatives aimed at improving the efficiency of general medical networks, proximity networks, structures and telemedicine for assistance, the modernisation of large health equipment and research, the training and the skill development of staff. In context, it is noted the Government's commitment to maintain public investment in relation to GDP for the years after 2026 at the level recorded during the time horizon of the NRRP. Further measures to address territorial gaps and to achieve the 2030 targets include investment in tackling in-work poverty, housing policies and reducing the risk of energy poverty. Moreover, additional investment will be needed to further enhance low-cost access to early childhood facilities, as well as the increase of care services for disabled and dependent elderly people that burden families, to tackle low birth rates and to support women's participation in employment. Investments in women's empowerment, employment incentives and interventions to support mothers and women in care will also be key to support women's employment and labour market participation.
a) A fair and digital transition	The Digital Decade prioritize a fair and digital transition across four key areas: digital skills, digital infrastructure, businesses digitalization and public services digitalisation. The Digital Decade Policy Programme 2030 oulines 60 measures totaling approximately 32 billion (around 1.6 percent of GDP). The NRRP's allocation of 47 billion for digitalization has facilitated progress toward achieving the 2030 digital targets, especially in terms of the digitalisation of public services. In the coming years, further investments will be needed to bridge the digital skills gap, ensuring alignment with the European average and mitigating gender disparities. In particular, upskilling and reskilling workers is essential to adapt the labor force to emerging challenges and mitigate potential social consequences of the digital transition. Regarding digital infrastructure, investment in edge nodes is crucial for achieving the 2030 target. Additionally, supporting the digital transformation of businesses (by reinforcing some of the measures already in place, including those related to centres for technology transfer) and public administration (in particular health services and administration of justice).
b) A fair, green transition, including coherence with the European Climate Law	The Integrated National Energy and Climate Plan (INECP) outlines the investments needed to achieve the European targets of 2030. Cumulative additional investment of approximately 174 billion are estimated for 2024-2030, including 60 billion for transport, 35.7 billion for power generation and 34.6 billion for residential sectors. Mission 2 of the NRRP has allocated about 55 billion for investments in the areas of agriculture sustainability, renewable energy, energy efficiency and water resources. These resources will need to be complemented by additional investments at sectoral level. In particular, it will be necessary to allocate resources to enhance investments for the decarbonisation of transport, the deployment of biofuels, the modal shift and the development of infrastructure to make the transport of people and goods more sustainable, including the enhancement of the role of rail transport. Water system investments are also needed to address critical issues and reduce waste. In addition to the NECP, the National Climate Change Adaptation Plan identifies 361 measures and actions to achieve 2030 adaptation and restoration goals. Investments in information, adaptation processes, governance, infrastructure and ecosystem-based solutions are crucial for implementing these actions. To address pollution control and prevention, water and waste management and biodiversity and ecosystems, the European Commission has estimated an annual environmental investment need of at least 37 billion during 2021-2027.
Energy security	The national strategy for energy security, outlined in the updated Integrated NECP, prioritizes diversifying energy supplies, to reduce import dependence and enhancing the flexibility and resilience of the national energy system. The RepowerEU Mission aligns with these objectives, which includes investments for the diversification of energy supply, in particular gas, the enhancement of biomethane availability and the use of hydrogen, the evolution of the energy mix, accelerating the shift toward renewable energy sources like onshore and offshore wind and solar and supporting heat pump deployment and setting more ambitious targets and transforming processes in energy-intensive industries. Aligned with energy security objectives, the Mattei Plan has strengthened investments, infrastructures and partnership agreements with energy supplier countries. Future additional investments will be needed for the construction of infrastructures and the development and deployment of energy technologies, with the aim of making Italy a European energy hub.

TABLE A.VI.12: INVESTMENT NEEDS	
Common priorities	Description of investment needs
	Public administration buildings require renovation to meet European targets. Additionally, research, development and testing of new energy vectors, including nuclear, are crucial for future energy security.
Where necessary, the build-up of defence capabilities	In order to contribute to strengthening European defence, additional investment will be needed to ensure a relevant Italian participation in international peace-keeping missions, operations and other activities. In quantifying investment needs, resources to be devoted to the Cooperation Agreement with Ukraine, the efficiency of the transfer of materials in the framework of international cooperation and collaboration and for the refinancing of the '*Strade sicure*' and '*Stazioni sicure*' operations, the Fund for High and Very High Operational Readiness Arrangements and the Fund for National Defence Needs should be considered.

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