PBO assessment of Italy's Medium-term structural fiscal plan

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Italy's MTP – Process

- Government presented draft MTP to Parliament on the 27th of September

- Joint Budgetary commissions of Lower and Upper Houses of Parliament organised hearings with social partners, NGOs and selected institutions (among which PBO), besides the Minister of Finance

- After the hearings, Parliament approved favourable opinion of the MTP on the 9th of October

- Government presented final MTP to Commission on the 15th of October together with the DBP

- Previously, Government had organised closed-door meeting with social partners and had engaged in informal dialogue with subnational governments (no official documents or press releases)

Italy's MTP – PBO role

- In June, Government asked PBO to engage in the regular endorsement process of the macroeconomic forecast, both trend and policy scenario (more on this in subsequent slides)

- During August/September, the PBO endorsed the trend macroeconomic scenario, but pointing to downward risks

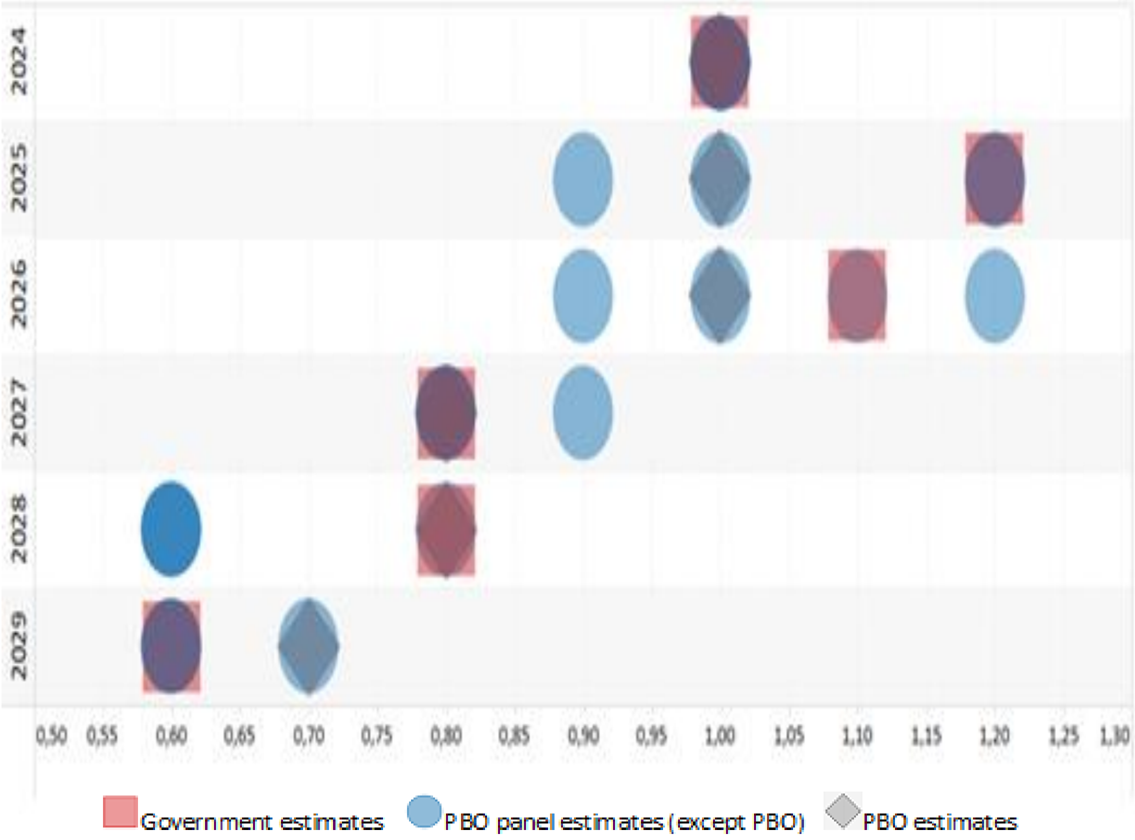
- After presentation of draft MTP to Parliament, the policy macroeconomic scenario was endorsed by the PBO, which again signalled downside risks.

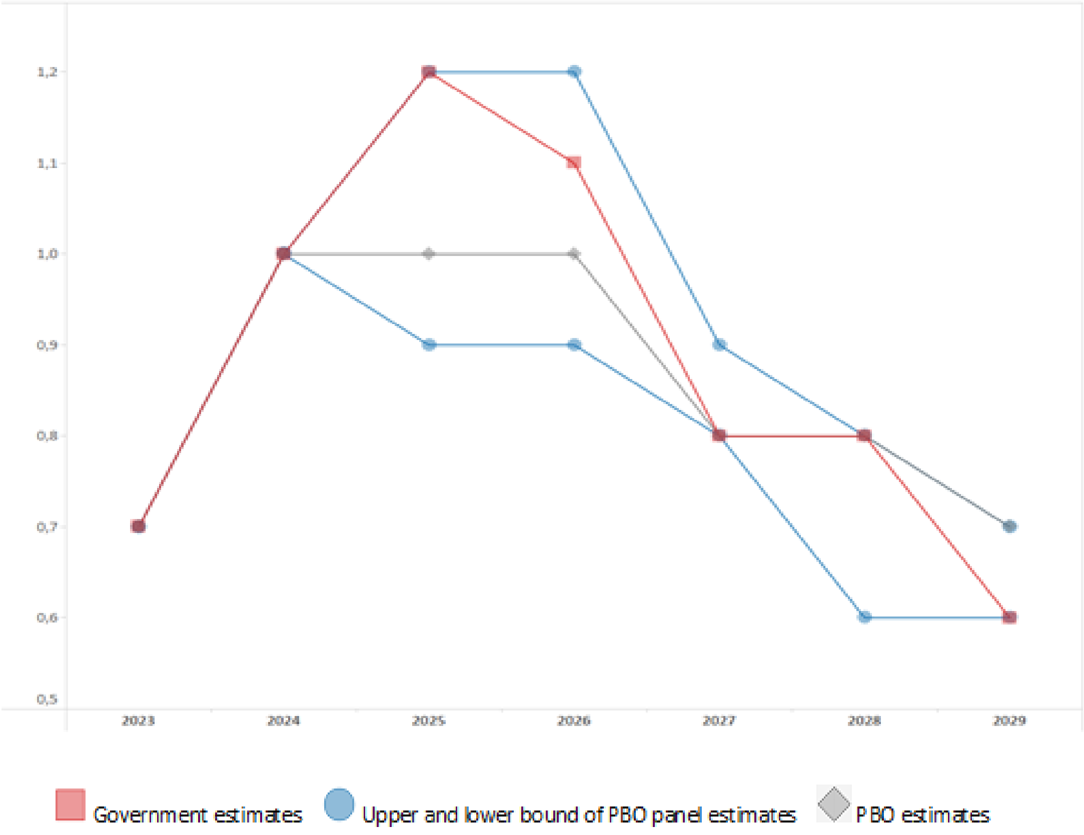
- In October, during a hearing, PBO presented to the Budgetary commissions of Parliament the result of the endorsement process as well as an assessment of the whole document, notably on the fiscal strategy

Policy forecasts of the Government and the PBO panel (1)

Real GDP

(annual growth rates)



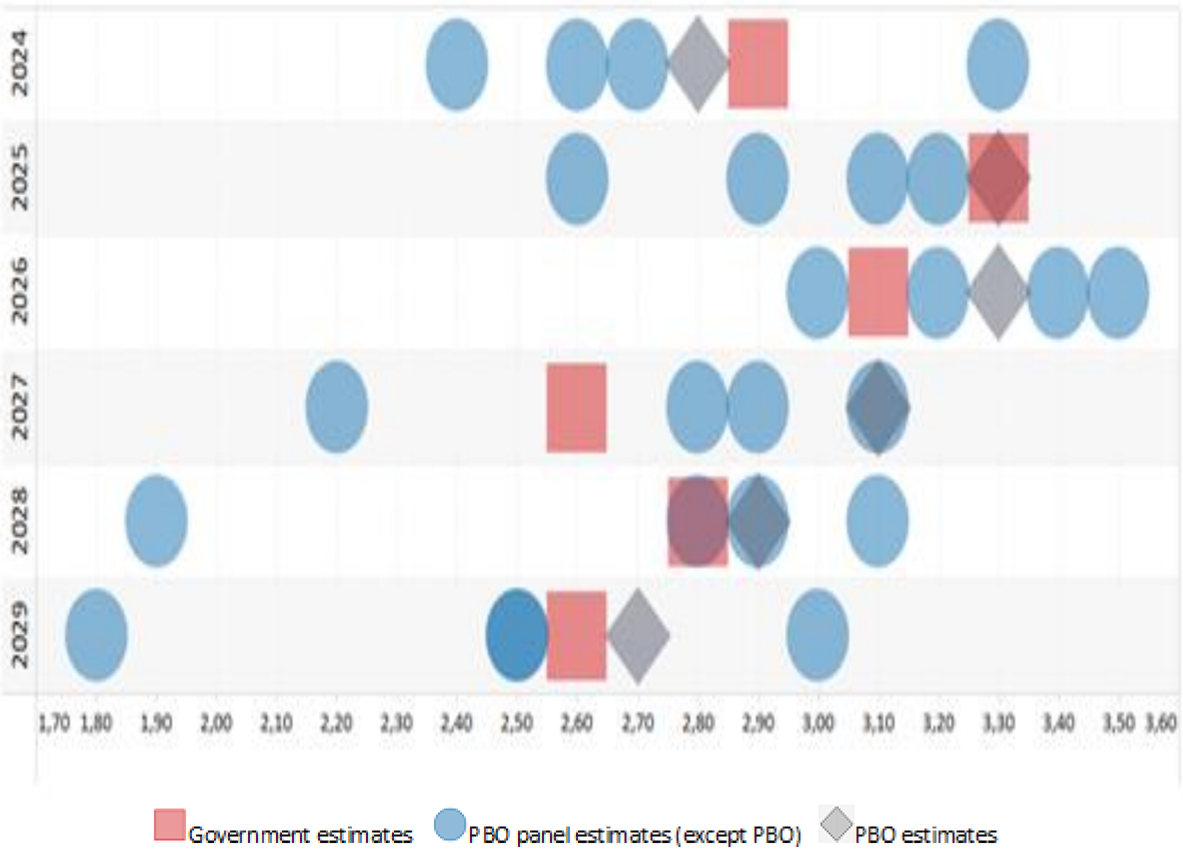


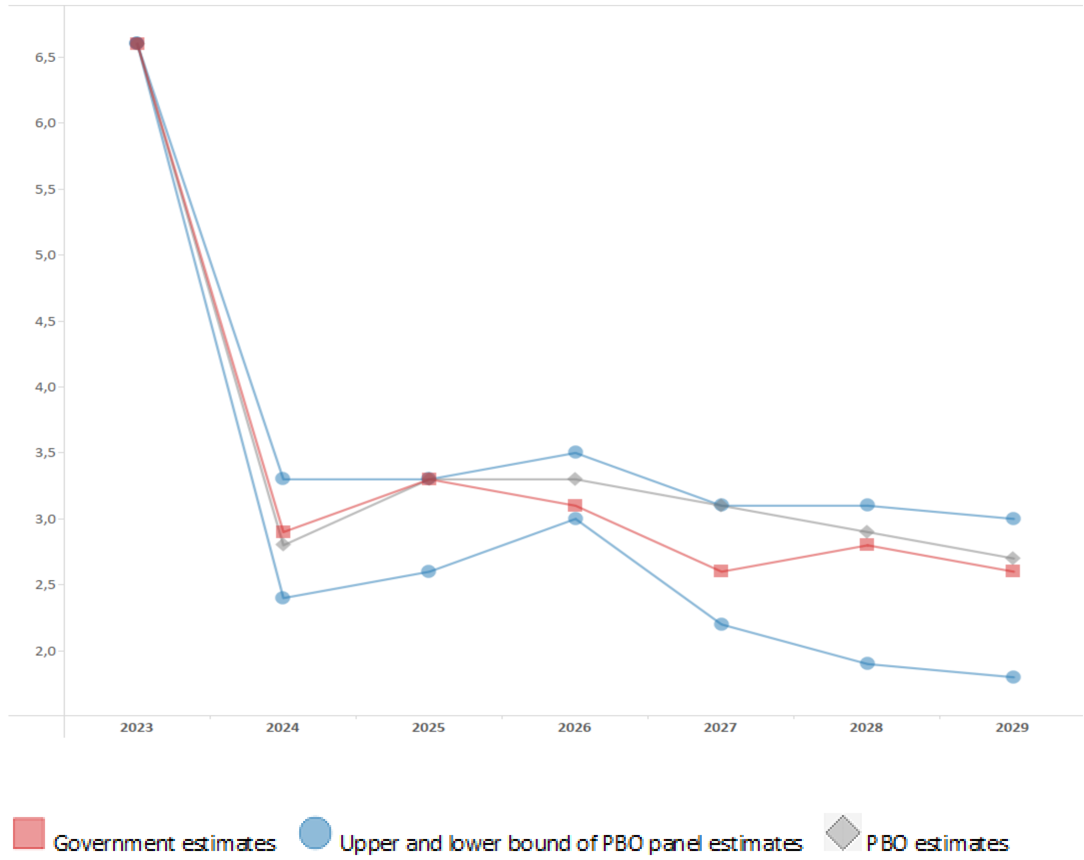
- On October the PBO endorsed the macroeconomic forecasts of the MTP. The forecasts are considered to be acceptable, but exposed to several downside risks: in the MTP real GDP growth strengthens to 1.2 per cent in 2025 (from 1.0 per cent in 2024) and slows to 1.1 per cent in 2026 and to 0.8 per cent in 2027.

Policy forecasts of the Government and the PBO panel (2)

Nominal GDP

(annual growth rates)





- The government's projections for nominal GDP are less exposed to downside risks than the real GDP projections. Nominal GDP is a key variable for public finance estimates.

Impact of the budget (over the trend scenario)

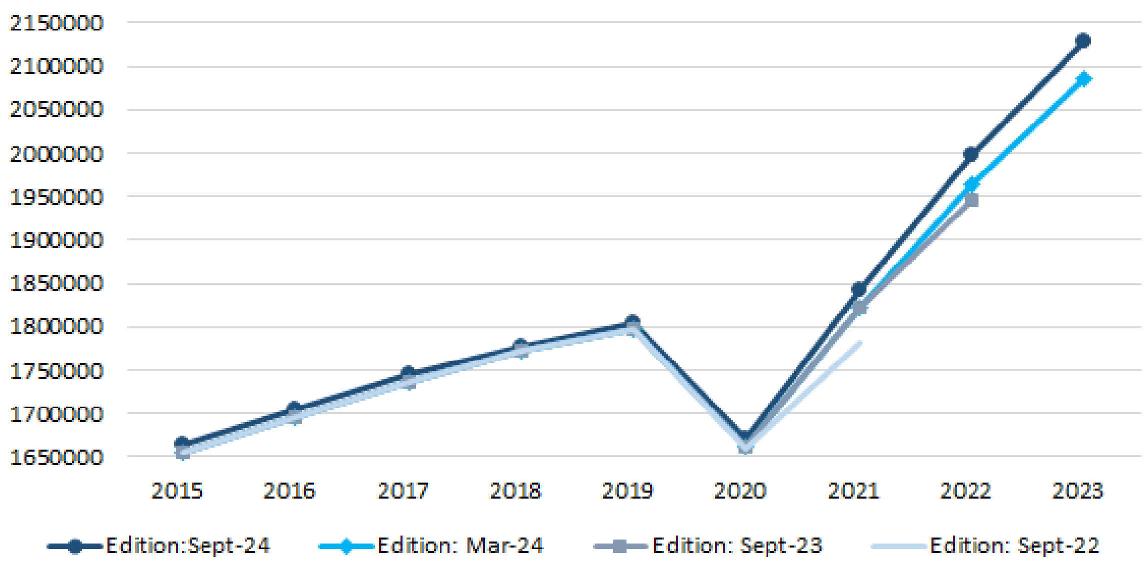
- The impact of the budget compared with the trend scenario is expansionary. However the budget is consistent with the government target of gradual reduction of the deficit-to-GDP ratio set out in the 2025-29 MTP (and the 2025 DBP): the deficit would be back below 3 per cent of GDP by 2026. Compared to the trend scenario, the gross budget is 35.3 billions in 2025, 40.2 in 2026 and 49.4 in 2027.

- The measures with the greatest macroeconomic impact include: the renewal of the reduction of the tax wedge; the extension of the personal income tax measures (with three brackets); the refinancing of the National Health Service; measures in the social, pension and parenting sectors; the renewal of public sector employees' contracts.

- According to simulations carried out with the econometric model used by PBO (MeMo-It), the cumulative impact of the budget on GDP would be 0,4 p.p., similar over the whole period to that indicated by the Government, but with a slightly different distribution over time (marginally lower in 2025 and slightly stronger in 2027).

The national accounts revisions

Italy's nominal GDP in various Istat publications
(millions of Euro)



- Istat's revisions of the national accounts changed the picture of Italy's macroeconomic dynamics from 1995 to 2023. Compared to the annual series released in March 2024, nominal GDP was increased, especially in the years 2021-23. In 2023, real GDP is for the first time above the all-time high of 2007, reached before the global financial crisis.
- The revised quarterly national accounts, published a few days after the MTP, lowered the GDP growth in 2023, with a statistical impact on the carry-over for 2024 (-0.2 percentage points); expectations for nominal GDP remained broadly unchanged. The impact on public finance estimates for 2024 is limited.

Comparison with the most recent projections for Italy

Real GDP and GDP deflator growth rate forecasts

		PIL				GDP Deflator			
		2024	2025	2026	2027	2024	2025	2026	2027
Consensus Economics [1]	27-dic	0.5	0.8	0.9					
Prometeia [1]	13-dic	0.5	0.5	0.8	0.5	2.0	2.0	2.2	2.1
Bank of Italy	13-dic	0.7	0.7	1.2	0.9				
Oxford Economics [1]	10-dic	0.5	0.8	0.9	0.8	1.9	0.7	2.0	1.8
EU Commission	15-nov	0.7	1.0	1.2		1.6	1.9	1.8	
OECD [1]	05-dic	0.5	0.9	1.2					
Centro studi Confindustria	22-ott	0.8	0.9			1.3	1.9		
IMF	22-ott	0.7	0.8	0.7	0.6	1.8	2.0	2.0	2.0
REF-Ricerche [1]	25-ott	0.8	0.8	1.1		1.6	2.0	1.8	
MEF DPB 2025	15-ott	1.0	1.2	1.1	0.8	1.9	2.1	2.0	1.8

[1] Data WD adjusted

- Net of the data revisions to the quarterly accounts, the Government’s forecasts are close to the range of the recent estimates of external forecasters, published after the MTP and the DPB. Compared with the external projections, the government's targets for economic growth are broadly consistent (considering the WDA), but are at the upper end of the range of expectations.
- The government's estimates of the GDP deflator dynamics appear to be in line with those of the main forecasters, which tend to converge towards two per cent.

Italy's MTP – Evaluation of the fiscal strategy in a nutshell

- PBO assessment of MTP's fiscal strategy was overall favourable…:

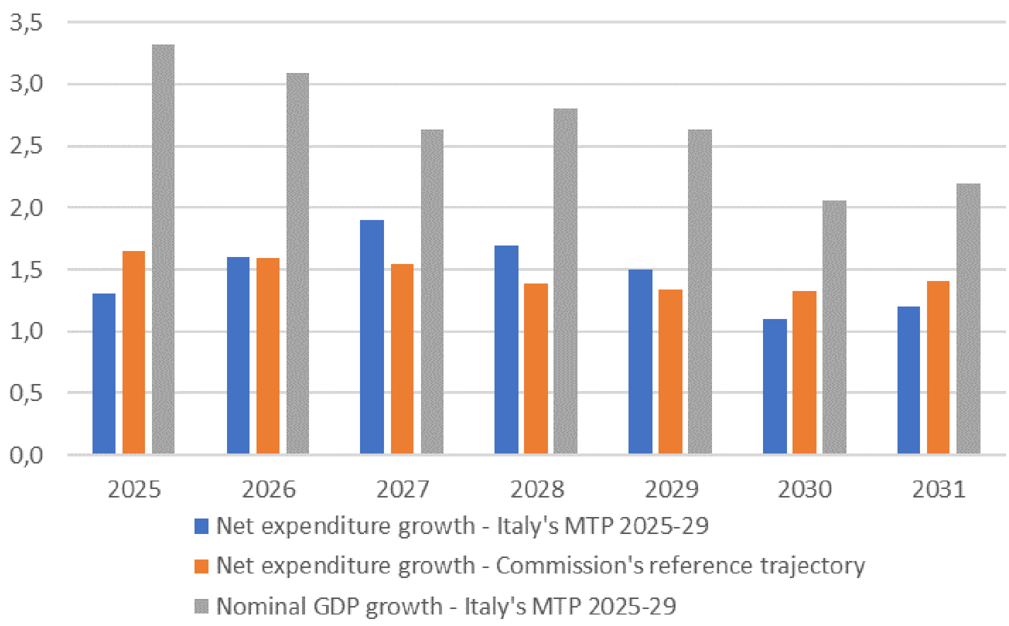
1) fiscal consolidation consistent with fiscal rules (7-year adjustment period)
2) deficit ratio below 3 per cent (2.8) by 2026 (1.8 per cent by 2029; estimated at 3.8 in 2024)
3) net expenditure growth overall consistent with reference path (1.5 per cent on average in 2025-2031 vs. 2 per cent inflation)
4) plausible and continuous decline of debt ratio after 2026

- ….but with some concerns mainly on the informational content of the document:

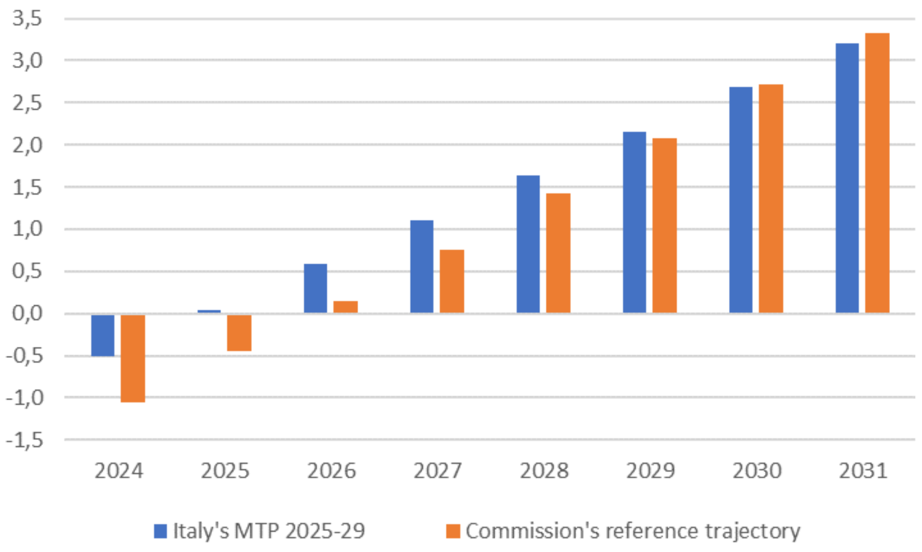
1) only general information on fiscal corrective measures (only later with DBP for which assessment was positive in any case because of enhanced predictability)
2) insufficient information on reforms and investment, notably those extending the adjustment period (only later with final version)
3) upside risks for deficit from geopolitical situation, climate change and energy transition
4) possible "fiscal fatigue" after 2026?

Italy's MTP – Fiscal rules

Net expenditure growth and nominal GDP growth (per cent)

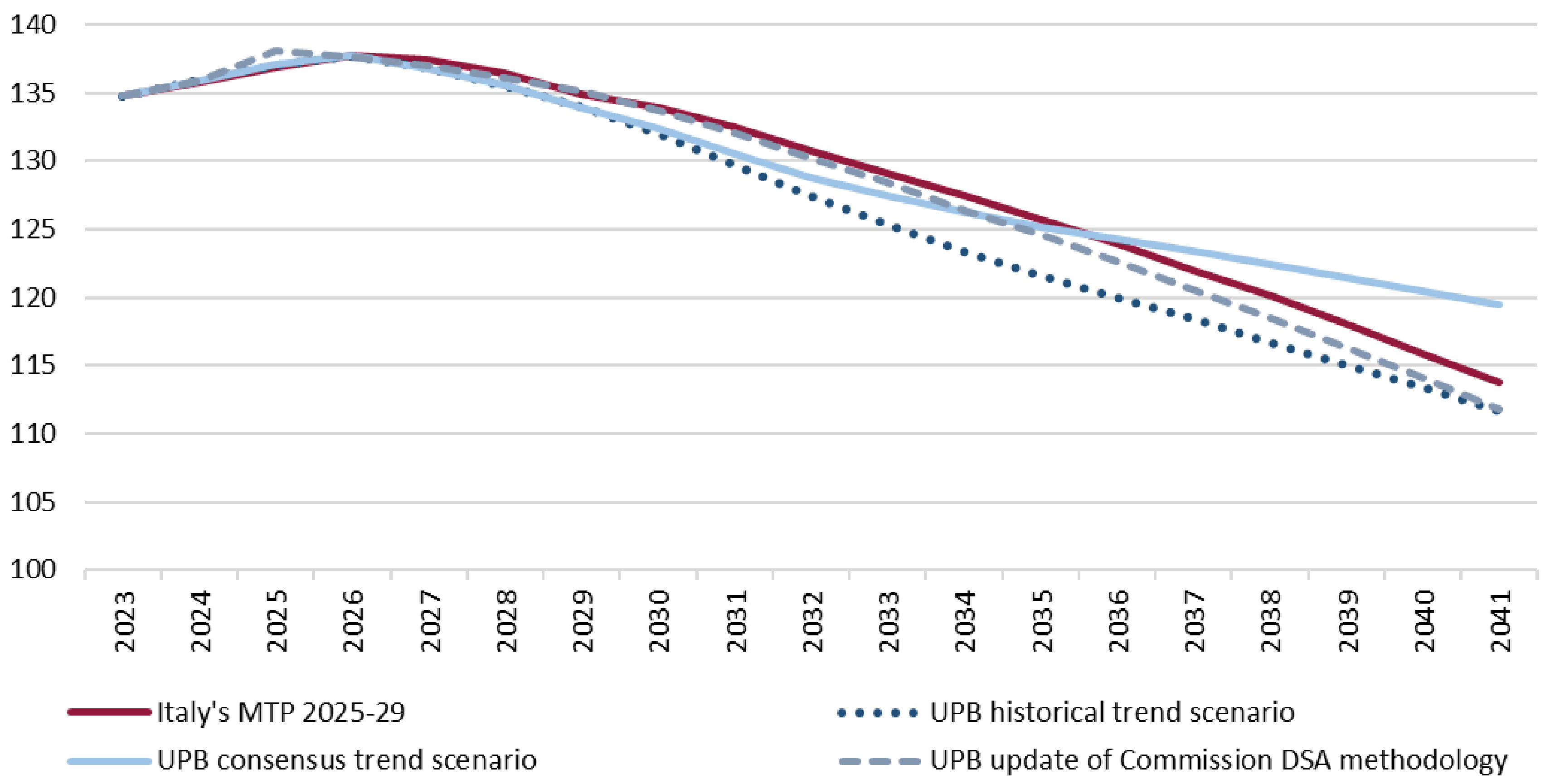


Structural primary balance (per cent of potential GDP)



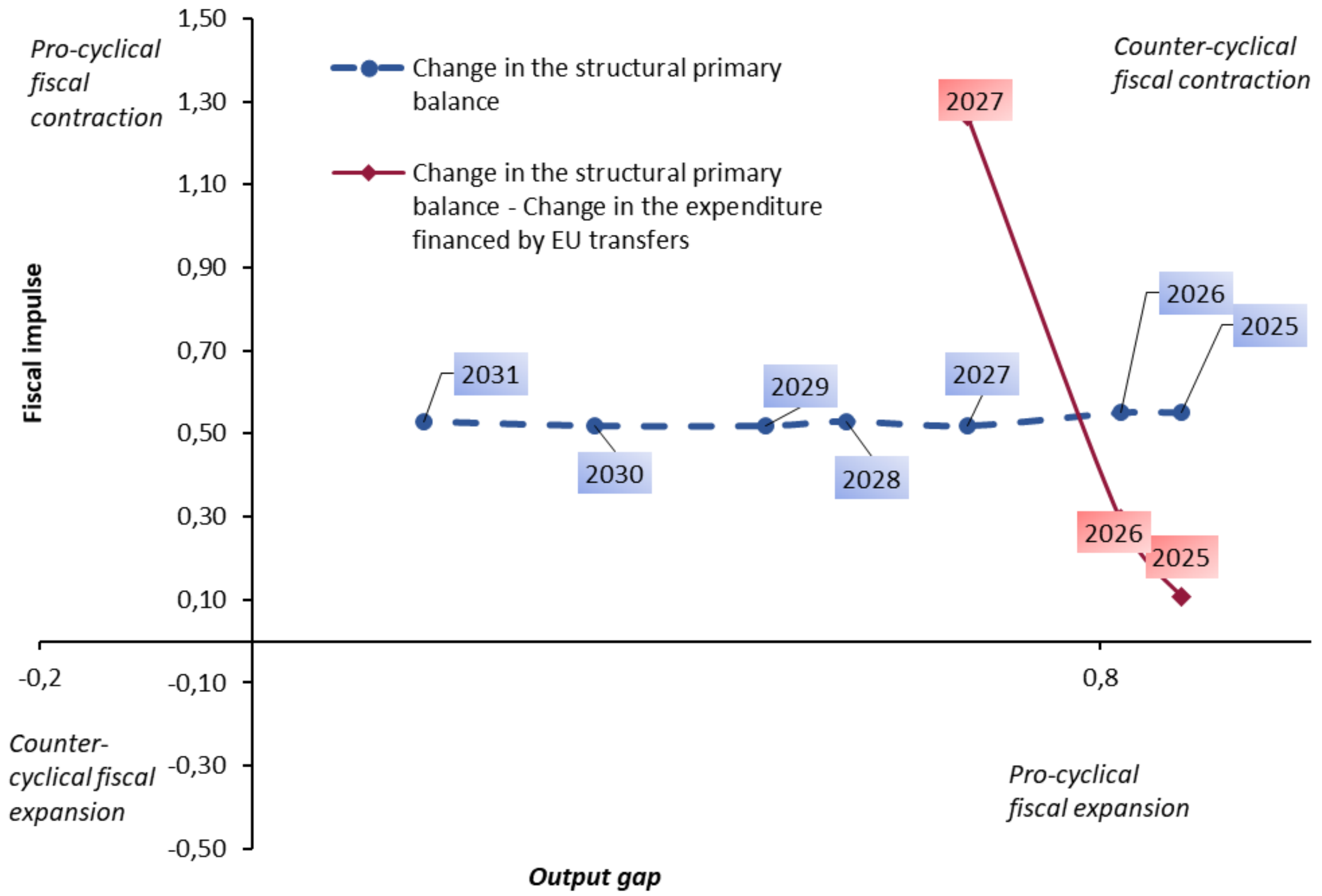
Italy's MTP – Debt dynamics

Debt ratio (per cent of GDP)



Italy's MTP – Fiscal stance

Fiscal impulse and output gap (per cent of potential GDP)



Thank you