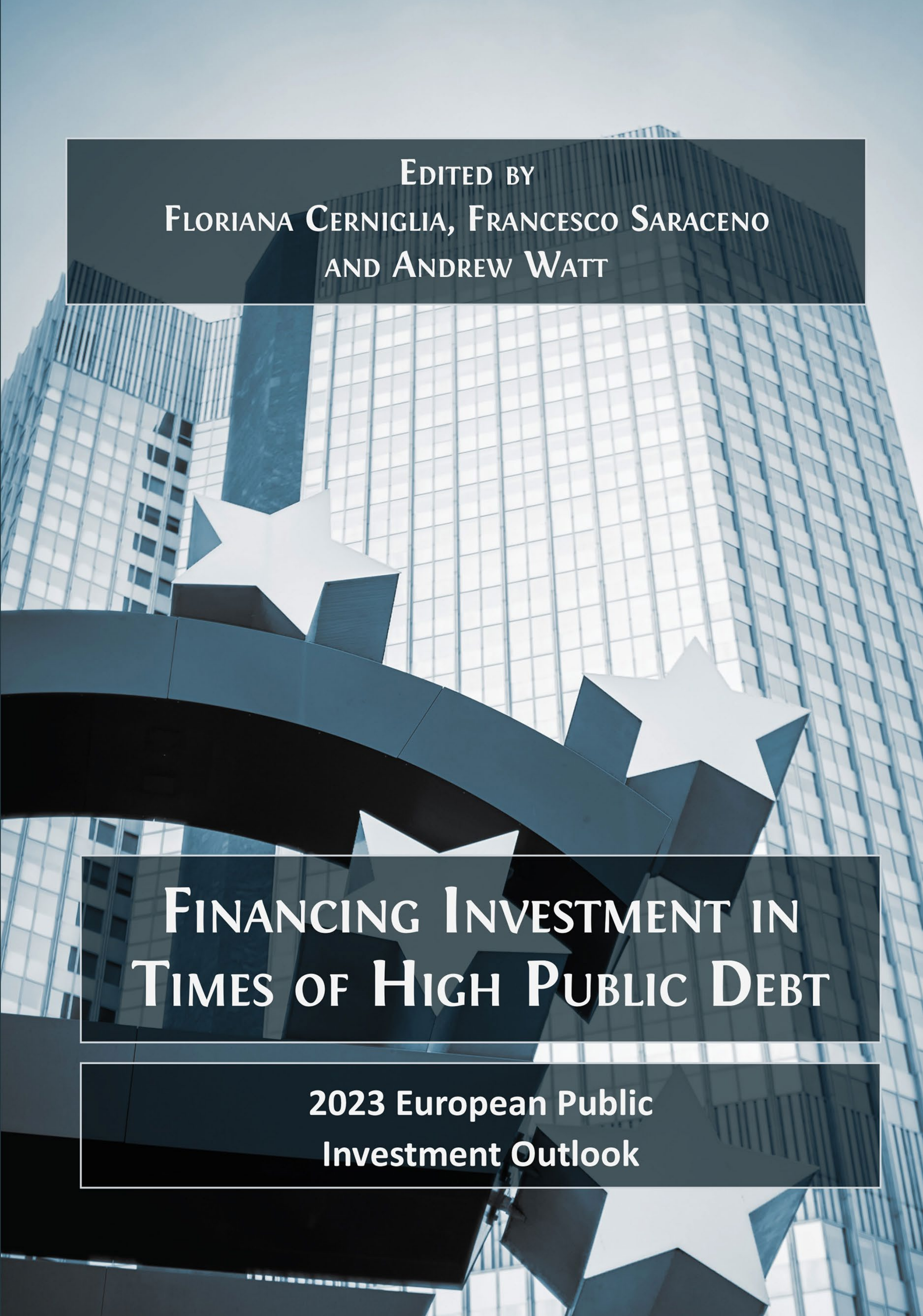

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4. Italy's Public Investments. The NRRP and Beyond

Giovanni Barbieri, Floriana Cerniglia, Enzo Dia

This chapter provides the country report on Italy with an analysis of the role the Italian National Recovery and Resilience Plan in boosting public investment up to and beyond 2026. Italy's NRRP has 235 billion euros available for investments and reforms, making it one of the most remarkable modernization initiatives in the last seventy years. The impact of the NRRP is assessed and specific implementation challenges are highlighted, some of which have been caused by factors such as fragmented governance, a lack of effective monitoring, and compliance issues. Overcoming these difficulties is crucial for continuing to receive disbursements from the European Commission. The effectiveness of its governance is examined. An open question is how to ensure a positive capital-spending trajectory in Italy (especially after 2026) in compliance with the new rules set out in the Stability and Growth Pact.

4.1 Introduction

Italy's National Recovery and Resilience Plan (NRRP) is worth €235bn: €191.5bn come from the Recovery and Resilience Facility (RRF), €13.5bn from React-EU, and €30.6bn from direct Italian government funding through its Complimentary Fund.[1] Thus, over two hundred billion euros have been devoted to investments and reforms for Italy; it is one of the most impressive modernization plans of the past seventy years. If fully implemented, it could potentially generate one additional point of growth over the next decade. While this is a considerable amount, it is de facto equivalent to what was lost in the decade from

1 See Barbieri, G., Cerniglia, F., Gori, G. F., Lattarulo, P., (2022), 'NRRP—Italy's strategic Reform and Investment Programme', in F. Cerniglia and F. Saraceno (eds), *Greening Europe—2022 European Public Investment Outlook*. Cambridge, UK: Open Book Publishers: 55-70, https://www.openbookpublishers.com/books/10.11647/obp.0328; and Barbieri, G., F. Cerniglia, (2021), 'Relaunching Public Investment in Italy', in F. Cerniglia, F. Saraceno, A. Watt (eds), *The Great Reset—2021 European Public Investment Outlook*, Cambridge, UK: Open Book Publishers: 63-78, https://doi.org/10.11647/OBP.0280

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2009–2019 due to the economic and financial crisis of 2008–2009 and the austerity measures that followed to curb public spending that mainly impacted capital investments.[2]

Moreover, to truly tackle the existing North-South disparities in Italy, even greater resources are required than those currently available. While 40% of the NRRP funds are to be dedicated to the Mezzogiorno region and the reduction of the North-South gap is one of the Plan's transversal objectives, projections suggest that the resources from the NRRP will only decrease but not eliminate the gap. For example, the GDP per capita in the Mezzogiorno is currently 55% of that in central and northern Italy; in 2026 it should rise to 59%.

In addition, the NRRP is currently facing a series of implementation challenges. There is concern over the planning and spending capabilities of certain local governments, which are expected to receive a substantial portion of the allocated resources. There is also concern over the recent surge in raw material costs which act like a sword of Damocles, as the Plan was originally designed with lower infrastructure-expenditure commitments. In fact, the Italian government have negotiated with the European Commission to amend the Plan in order to facilitate the feasibility of the projects and coordination with the REPowerEU programme.

Public-investment flows over the coming year will be fuelled in Italy not only by the NRRP's resources but also by cohesion policies primarily focused on the Mezzogiorno region. The overarching goal of these is the reduction of territorial gaps. Here, again, much depends on the spending-planning capacity of local governments especially in the Mezzogiorno. Furthermore, there are growing concerns that the constraints imposed by the new European fiscal regulations, set to take effect (potentially) in 2024, may not ensure a consistent trajectory of public investment in Italy beyond 2026. Yet, a comprehensive programme, aimed at recuperating a decade of declining public investments and addressing the significant funding needs resources required posed by the digital and green transitions, call for a timeline and resources that go well beyond 2026.

The progress of Italy's NRRP and the constraints that could hinder the path towards sustained growth of public investments beyond 2026 are outlined in this chapter. An update on the current state of advancement is also provided. We evaluate whether the resources allocated by the Plan genuinely contribute to enhancing investment and assess whether Next Generation EU (NGEU) can be deemed successful, including as an experiment for a shared European-debt framework in funding critical public investments crucial for growth and EU convergence.

2 This progression has been extensively documented in the chapter on Italy of the previous *Outlook* instalments.

4.2 Italy's NRRP

The total resources available in Italy's NRRP from the Recovery and Resilience Facility are €191.5bn (which is 26.5% of the entire RRF), of which €68.9bn are grants and €122.6bn are loans. It is aligned with the strategic guidelines outlined within the NGEU and is divided into six missions: 1. Digitization, innovation, competitiveness, culture and tourism; 2. Green revolution and ecological transition; 3. Infrastructure for sustainable mobility; 4. Education and research; 5. Inclusion and cohesion; and 6. Health. The €191.5bn budget is allocated in the plan as follows: 21% for Mission 1; 31% for Mission 2; 13.3% for Mission 3; 16.1% for Mission 4; 10.4% for Mission 5; and 8.2% for Mission 6.

Italy's NRRP is designed as a performance-driven strategy rather than a mere expenditure programme. It is structured around reforms and investments, carefully timed through the achievement of milestones (a total of 213) and targets (a total of 314) by the set deadline: 2026. As a result, all measures within the NRRP are accompanied by a clear implementation schedule and a list of expected outcomes that must be fulfilled in order to receive the planned allocation of financial contributions or loans.

Each reform and investment are associated with a comprehensive description of the measure's objectives and with indicators that reflect the aims. The indicators serve as benchmarks for evaluating[3] progress and elaborate: a) milestones, that is, critical stages of implementation (both in terms of tangible progress and procedural steps), including the adoption of specific regulations, the full functionality of information systems, or the successful completion of projects; and b) targets, that is, measurable indicators that gauge the outcomes of public interventions (such as kilometres of constructed railways) or the impact of public policies (like reducing the incidence of informal employment). Table 4.1 shows, for each deadline, the number of milestones and targets corresponding to the total funds received, divided into grants and loans.

3 In accordance with Regulation UE 2020/852 ('framework to facilitate sustainable investment') and with the European Green Deal's objectives, the RRP's measures must comply with the principle of Do-No-Significant-Harm (DNSH) to provide a substantial contribution to protecting the ecosystem without significantly damaging the environment. See De Vincenti, C. (2022), 'Green Investments: Two Possible Interpretations of the "Do No Significant Harm" Principle', in Cerniglia, F., Saraceno, F. (eds), *Greening Europe—2022 European Public Investment Outlook*, Cambridge, UK: Open book Publishers, 2022:177–85, https://doi.org/10.11647/OBP.0328

Table 4.1 Grants and Loans Timeframe

	Milestones and Targets	Gross amount (€bn)			Disburse-ments (€bn)
Deadline		*Grants*	*Loans*	*Total*	
13/08/2021					24.9
31/12/2021	51	11.5	12.6	24.1	21
30/06/2022	45	11.5	12.6	24.1	21
31/12/2022	55	11.5	10.3	21.8	19
30/06/2023	27	2.3	16.1	18.4	16
31/12/2023	69	8.1	12.6	20.7	18
30/06/2024	31	2.3	10.3	12.6	11
31/12/2024	58	6.3	15	21.3	18.5
30/06/2025	20	2.3	10.3	12.6	11
31/12/2025	51	4.6	10.3	14.9	13
30/06/2026	120	8.5	12.3	20.8	18.1
	527	**68.9**	**122.6**	**191.5**	**191.5**

Source: italiadomani.gov

The disbursed instalments to date include:

- 13 August 2021: pre-financing instalment of €24.9bn (of which €8.957bn in grants and €15.937bn in loans), which represents 13% of the total amount allocated to Italy in grants and loans under the Recovery and Resilience Facility.
- 13 April 2022: first six-month instalment of €21bn (€10bn in grants and €11bn in loans), following the positive assessment of the NRRP targets that Italy had to reach by 31 December 2021.
- 8 November 2022: second semi-annual instalment of €21bn (€10bn in grants and €11bn in loans) following the positive assessment on the achievement of 45 targets and objectives. Some of the targets and objectives covered include reforms in public administration, public procurement, tax administration, and territorial health care. In addition, investments were made in key strategic sectors, including ultrawideband and 5G, research and innovation, tourism and culture, hydrogen development, urban redevelopment, the digitalisation of schools, and reducing the backlog of court cases.
- 28 July 2023: third six-month instalment of €18.5bn was approved by the Commission after accepting the Italian government's proposed revisions to the NRRP (see details in section 4.3 below). The European Commission did not approve the disbursement of the full instalment of €19bn (€10bn in grants and €9bn in loans); €500 million were deducted because the government had not reached a required objective on implementing measures to ensure

more student accommodations (beds), which was one of the milestones that needed to be reached by 31 December 2022.[4]

- 22 September 2023: The request for payment of the fourth instalment was forwarded by the Government to the European Commission. The next milestones and targets will need to be reached by the Italian government to obtain the disbursement of the fourth instalment (renegotiated with the Commission) so as to obtain by end 2023 the total €35bn planned for the year.[5]

As mentioned above, in addition to investments, the NRRP commits Italy to a major reform programme aimed at improving regulatory and legal conditions in order to steadily increase the country's equity, efficiency, and competitiveness.[6] Figure 4.1 shows the number of investments and implemented reforms by Mission.

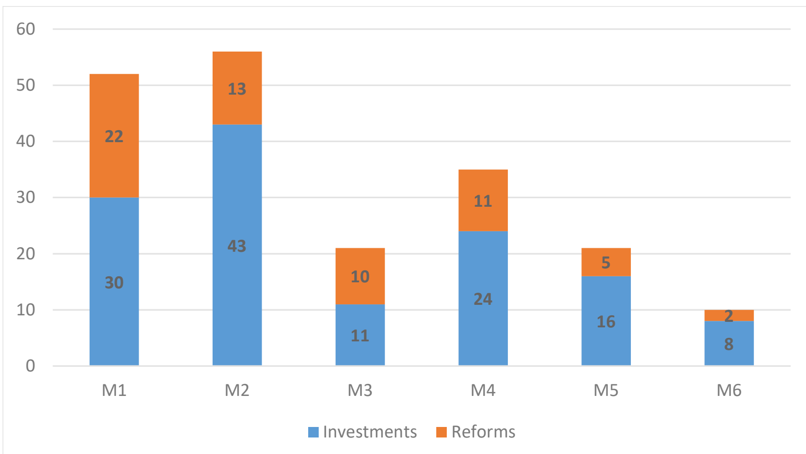

Fig. 4.1 Number of Investments and Reforms by Mission.
Source: Calculations of structure of NRRP Missions based on ReGiS data.

4 The initial target of assigning 7,500 beds by 31 December 2022—a target that the EU Commission assessed with exceptional precision—is now being transformed into a qualitative milestone (of reaching the larger objective of 60,000 beds by 2026). This adjustment is being proposed alongside ten previously submitted changes in order to receive the fourth instalment of the NRRP.

5 The EU Council adopted on 19 September 2023 the decision approving the amendments to Italy's RRP relating to certain goals and objectives to be achieved by 30 June 2023 for obtaining the fourth instalment of 16.5 bn euros.

6 The NRRP contains three main types of reforms: 1) horizontal or contextual reforms, that cross-cut across all the NRRP's Missions. These consist of structural innovations to the system, aimed at improving equity, efficiency, and competitiveness, thus contributing to the overall economic climate of the country (for example reforms within the public administration and the justice system); 2) enabling reforms, these reforms constitute a subset of contextual reforms and are directly aimed at ensuring the implementation of the NNRP and, in general, and removing administrative, regulatory, and procedural barriers that influence economic activities and the quality of services provided (for examples reforms related to public contracts, simplification of regulations and procedures, boosting competition, and the reduction of payment delays by public administrations; 3) sectoral reforms, included within each individual Missions that consist of legislative innovations for specific areas of intervention or economic activities aimed at introducing more efficient regulatory and procedural frameworks within their respective sectoral domains (for example, reforms related to the labour market and education).

Noteworthy is that €68.9bn in non-repayable grants have been allocated to Italy . This is not attributable to any specific negotiating activity between the government and the Commission but is simply the result of applying a calculation criterion that takes into account the size of the population, negative GDP growth, and the increase in unemployment in Italy compared to the European average. Non-repayable grants in principle have a neutral impact on the net borrowing balance, or could even improve it, since they reduce the deficit because they are considered as revenue. However, 'additional' loans are not considered as additional revenue from an economic point of view. Rather, they are considered financial transactions, the interest of which impacts public debt, worsening the net-borrowing balance. 'Replacement' loans, by contrast, do not have an impact on the general-government account, as they merely involve the replacement of already existing financing lines against expenditure already discounted in the public-finance forecasts. Grants and loans finance both 'new projects' (72%) and 'existing projects', that is, projects already financed prior to the NRRP. The choice of the distribution of grants and loans over time, coupled with the initial concentration of so-called 'existing projects' in the early years and the subsequent prevalence of new projects, distinctly impact the balances of the public budget. This effect is highlighted in a special dossier by the Chamber of Deputies.[7] In 2021 and 2022, the heightened emphasis on subsidizing pre-existing projects, which were already incorporated within the financial framework, created a fiscal leeway and a budgetary margin that favored the financial strategy of those specific years. The focus now is on new projects, accompanied by a gradual decrease in subsidies for loans. As a result, the overall impact of the NRRP on the government budget balance is turning negative, thereby constraining the government's flexibility and room for manoeuvre—see Figure 4.2 for a timeline of the disbursements of loans and grants.

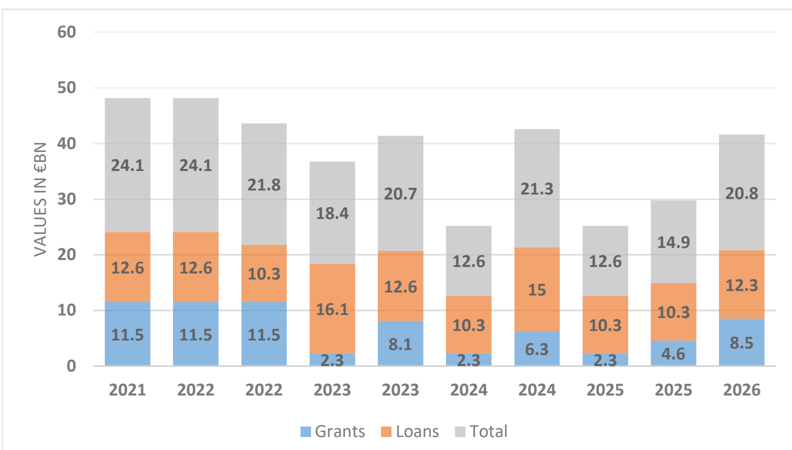

Fig. 4.2 Timeline of Loans and Grants.
Source: Calculations of structure of NRRP Missions based on ReGiS data.

7 Dossier by the Chamber of Deputies, *I profili finanziari del Piano Nazionale di Ripresa e Resilienza (PNRR)*, 7 November 2022.

The NRRP covers many areas of intervention and public-regulatory aspects. It is notably complex and covers a total of 187 'Investment Lines' (including the Complementary Fund), each designated for specific areas of intervention. The economic scale also varies significantly: 62% of the resources are earmarked for public investments, 12% for current expenditures and 19% for incentives. The remaining portion is for transfers to families and tax cuts. Measures resulting in tangible interventions dominate. This is a positive development, especially considering the substantial decline in public-infrastructure investments during the 2010s, given the drawn-out implementation timelines for public works in Italy.

This crucial aspect demands careful consideration. The NRRP employs a centralized governance structure, with the Presidency of the Council of Ministers assuming a central role. Regions played and continue to play a relatively minor part in the planning and execution of the NRRP; while social stakeholders and local governments contribute primarily in an advisory capacity. In August 2021, the responsibility for all NRRP measures was devolved to individual Ministries. This marked the start of the practical implementation phase: meticulous selection of interventions, criteria for allocation of resources to implementing entities, methods for carrying out investments. The NRRP, developed along sectoral-territorial lines, however, resembles 'organ pipes' that rarely intersect (Viesti 2023).[8]

In 122 of the 187 'Investment Lines', no indications are given regarding territorial devolvement. Consequently, projects come from the top down, with the obvious risk of not being able to capitalize on the available local expertise or tap into lessons learned in recent years. Currently, the transition from overarching NRRP guidelines to the specific identification of projects and beneficiaries takes place through various methods: (a) identified projects, that is, resources have already been allocated in the text of the NRRP or Complementary Fund for previously identified projects within a specific area. These are, to a great extent, investments entrusted to large stakeholders that are part of the broader public sector, as in the case of rail networks (almost all of which have been assigned to Rete Ferroviaria Italiana). The estimated amount of this type of investments is around 20% of the total budget; (b) direct procurement: some of the funds are directly overseen by local administrations responsible for managing the resources through procurement processes; for example, the digitalization of the Public Administration, modernizing judicial facilities, and developing broadband networks overseen by the Ministry of Innovation Technology and Digitalisation (MITD). Despite their significance, these allocations constitute a relatively minor portion of the overall funding, approximately 5%; (c) limited fund loans:

8 See also Viesti, G. (2021), 'Il PNRR e il Mezzogiorno. 80 miliardi, un totale in cerca di addendi', in *Quaderni di Rassegna Sindacale*, 2:53-62; Viesti, G. (2022), 'Un piano per rilanciare l'Italia?', in *Il Mulino*, 2:23-38; Viesti, G. (2022b), 'Il PNRR, gli asili nido e l'uguaglianza delle opportunità', in *Menabò di Etica ed Economia*, 3 July; Viesti, G., C. Chiapperini, E. Montenegro (2022), *Le città italiane e il PNRR*, WP Urban@it; Viesti, G. (2022), 'The Territorial Dimension of the Italian NRRP', in A. Caloffi, M. De Castris, G. Perucca (eds), *The Regional Challenges in the Post-Covid Era*, Milan, FrancoAngeli:201–18; Viesti, G. (2023), *Riuscirà il PNRR a rilanciare l'Italia?*, Rome, Donzelli Editore:53–62.

a share of the resources is allocated, upon request, to private individuals, businesses, or citizens. This applies to significant measures like the Transition 4.0 programme for business investments in digital modernization, as well as the 'Superbonus' and 'Ecobonus' for building renovations. It is estimated that these measures constitute around 15% of the available resources; (d) allocation plans: a share of the resources is distributed by the responsible Ministries to public entities based on regional-distribution plans. After the initial distribution, the regional administrations typically choose the projects or activities to be funded within their jurisdictions. These notably cover important interventions in healthcare or active labour policies. These measures are also estimated to account for approximately 15% of the Plan's resources; lastly, (e) calls for bids: a substantial share of the resources (around 45%) is and will be allocated through competitive calls issued by local administrations. These calls for bids require prospective public beneficiaries to prepare projects that involve ranking-based selections in accordance with the indications specified within the calls themselves. The main beneficiaries are mostly municipal administrations; others include water and waste-service providers and universities. Examples of some of the numerous projects in this category include schools and nurseries, urban-regeneration and quality-housing projects, a significant portion of water infrastructure, and measures that promote research, innovation, and partnerships between universities and businesses. The allocation and procurement mechanisms implemented thus far have differed greatly from case to case.

Moreover, each ministry reserves the right to choose projects deemed 'best' according to criteria they themselves define in the various calls for bids. Yet, in this way, investment implementation is decoupled from the endowment (and thus 'need'- based) indicators of the respective territories. Indeed, a shortcoming of the NRRP is that it lacks political guidelines regarding the principles that should govern the criteria for project selection and the territorial allocation of resources under each measure. Allocations between regions, cities, large and small municipalities, urban and inland areas result *ex post*: that is, they are the eventual outcome of the resource-allocation process and, specifically, of the call-for-bids mechanism. For instance, it is becoming evident that the process to address calls for kindergarten facilities has resulted in a territorial distribution of services that will only partially mitigate the significant disparities that exist nationwide in terms of providing young children and their families with the practical aspects to fully access their rights as citizens. In conclusion, this complex mechanism for allocating resources does not guarantee that the 40% resources target will be reached in the Mezzogiorno.

4.3 Challenges of the NRRP

The entire NRRP must be completed by 2026. This is an immense challenge considering the plan does not account for the steep rise in prices of raw materials, which have a significant impact on infrastructure costs that have become much more substantial compared to the initial, pre-Ukraine war, investment forecasts for each Mission and

Component of the NRRP. There is genuine concern that not all the infrastructure projects listed in the NRRP can secure funding and/or be successfully completed on time.

In light of the unforeseen challenges, some countries have requested the Commission to revise parts of their respective Plans.[9] The Italian government, on 7 June, submitted to Parliament a report on the status of the NRRP's enactment with an overview of the challenges that are emerging in the implementation of single interventions.[10] This is a significant step forward in terms of transparency and monitoring, fulfilling the government's required accountability to both Parliament and its citizens.[11] The report identifies challenges on a broad range of interventions. In fact, 118 out of 285 NRRP measures have been flagged as having critical aspects, but only 51 have significant issues. Collectively, these measures amount to €80bn, which is 42% of the NRRP's total budget (€191.5bn). The financial interventions that have notable challenges include 'Ecobonus' and 'Sismabonus' (approximately €14bn), high-speed railway lines to Northern Europe (€8.6bn), initiatives aimed at increasing resilience, territorial enhancement, and municipal energy efficiency (€6bn, for as many as 46,000 projects), an overall plan for nurseries and kindergartens (€4.6bn), and measures addressing flooding and hydrogeological risk management (€2.5bn). There are also NRRP flagship projects that are facing challenges; these include community healthcare involving the construction of social housing (€2bn) and community hospitals (€1bn). Of these, the most frequently reported issues regard regulatory hurdles (in 32% of the cases).[12]

Other problems include the low participation rate of companies in the bidding process and investments that are unattractive to market players. Delays in implementing the NRRP is another challenge. Municipalities are also having difficulty in carrying out projects effectively. Although they are the implementing authorities for nearly €42bn, they often lack the necessary planning capacity. What further aggravates the situation is that, since 2009, municipalities have been disempowered by the growing tendency to outsource essential public-policy tasks of a technical nature. Inflation is also a problem for municipalities since they have a high concentration of infrastructure contracts, like the kindergarten plan, that involve the purchase of goods and services which have seen significant price hikes this past year.

9 Estonia, France, Slovakia, Malta, Denmark, Spain, Slovenia, and Austria had their RRPs revised to include RePowerEU; while Germany, Luxembourg, Finland, and Ireland requested and obtained revisions of their RRPs for measures other than RePowerEU.

10 This detailed document presents an overview of the achieved objectives in the second half of 2022 regarding the disbursement of the third instalment (€18.5bn) of European funding. It also offers an initial assessment of the prospects for attaining the objectives set for the first half of 2023, which are associated with the fourth instalment of €16bn.

11 The report from the Court of Auditors (March 2023) had already highlighted a series of delays and challenges in the implementation of the actual spending phase envisaged by the NRRP.

12 See Rizzo, L., R. Secomandi, A. Zanardi, (2023), 'Criticità del PNRR tra rimodulazione e restituzione dei fondi', *Lavoce*, 16 June, https://lavoce.info/archives/101391/criticita-del-pnrr-tra-rimodulazione-e-restituzione-dei-fondi/

The NRRP's critical profiles include the ability to monitor challenges. This is a crucial issue both for an effective discussion between the Italian government and the Commission on the actual implementation process and for assessing the impact of current and future investments on economic growth. Timely follow-up is needed for a better assessment of macroeconomic and public-finance forecasts. Thus, the receipt of prompt and accurate information on the temporal distribution of resources regarding the actual economic nature of each initiative and the relative state of implementation is crucial. To date, that information is lacking. The primary official source for accessing the information is ReGIS.[13] However, the platform is limited in terms of completeness and updates (timeliness and frequency). For example, in some cases, lines of intervention have been executed but are not reported as such by the platform. Some of the stakeholders and municipalities have difficulty accessing ReGIS. Moreover, measures that are provided as incentives and facilitations for reporting require time-consuming audits by the Internal Revenue Service. Unfortunately, ReGIS, at least for now, does not provide consistent, timely information and cannot be relied upon to assess the NRRP's implementation progress (achieved and implementable expenditure).

Mapping the NRRP's weaknesses and, thus, the risk of delaying or failing to meet milestones and targets was obviously crucial in identifying possible revisions to the Plan. In fact, on 27 July 2023, Raffaele Fitto, Minister for European Affairs, South, Cohesion Policies and the NRRP, presented a revised proposal of the NRRP which included the creation of a dedicated chapter on REPowerEU. The following day, the European Commission approved the payout of the third NRRP instalment, which was linked to the achievement of the December 2022 targets. It approved the revised targets for the fourth instalment (due June 2023) and postponed some milestones to December 2023. The European Commission's disbursement decisions are based on confirmation of the achievement of the previous year's targets by end of year. This decision triggers the release of the corresponding payment, provided there is a positive assessment of the micro changes, and the EU Council approves the targets (which in the case of the June 2023 targets had not yet taken place). The proposed amendments to the NRRP, in relation to the fifth instalment, were sent to the European Commission on 7 August. These request the deferral of thirteen goals, the elimination of six goals (which can be covered with other sources of financing), and the integration of the milestone relating to the new measure of the single Special Economic Zone (reform). If all the proposed amendments are approved, as of 31 December 2023, the results to be achieved would reduce from 69 to 51, the number of targets from 46 to 30, and the number of milestones from 23 to 21.

The Italian government's revised NRRP proposal is worth some attention. It introduces a number of changes for 2023–2026. The new chapter on REPowerEU (as

13 This is an IT platform introduced in 2021 where central and other levels of government, local authorities, and other implementing entities are required to upload information relevant to the monitoring, reporting, and oversight of measures and projects funded by the NRRP.

per EU Regulation 2023/435[14] — a response to the energy crisis caused by the war in Ukraine) increases the financial provisions of NGEU. New resource allocations by the Commission, in the form of grants and loans to Member States, aim to facilitate a socially sustainable energy transition and to accelerate energy independence through the use of renewable-energy sources. Despite the fact that the proposal introduces changes to almost 1/3 (144 out of 349) of the goals originally set out in the NRRP, the affected amount is rather modest: €19.2bn, barely 10% of the total budget. Upon initial observation, it seems that the revision is mostly limited to dropping some of the original ambitious goals (that is, cutting the backlog in the justice system) and replacing them with less ambitious ones (that is, reducing tax evasion). If the Italian proposal is approved, it would mean an additional €2.7bn for Italy, equivalent to 13.8% of the additional €20bn provided through REPowerEU. These funds would be financed by issuing bonds for offsetting excess emissions through the Emission Trading System. Once again, Italy (this time with Poland) is the Member State that receives by far the most funds from the EU.

4.4 Italian Public Finance: Public Investment Beyond the NRRP

The trend forecasts of the General Government Income Statement (Conto economico consolidato delle Amministrazioni Pubbliche) shows a downward trend in total capital expenditure: 4.3% of GDP in 2026 compared to 5.1% in 2025.[15] The significant value for 2021–2022 is due to the resources allocated for the so-called 'Superbonus' for energy efficiency in buildings (3.3% in 2021 and 4.0% in 2022)—a scheme the government plans to suspend.

More specifically, in the DEF (the government's economic and finance document) forecast for 2022–2026, capital expenditure averages around 5% of GDP and public investment around 3.5%. Both figures are significantly higher than previous years due to the impact of additional NRRP-related measures. For the 2024–2025 period, the forecasted share of GDP (3.8% and 3.7%) is in line with the capital-expenditure peak of 2009, after which Italy experienced a dramatic slump in public investment that lasted twenty years.[16] NRRP resources — provided by the European Recovery

14 The Regulation was adopted in response to the energy crisis caused by Russia's war of invasion into Ukraine, it contains increases in the financial provisions of Next Generation EU with new resources that the Commission will allocate in the form of grants and loans to Member States in order to foster a socially sustainable energy transition and speed up energy independence with production from renewable sources.

15 Total capital expenditure consists of three components: i) public investment; ii) money transfers, for example to private companies, public institutions, citizens etc; and iii) shareholdings and provision of loans. Notably, ii) was 8.2% in 2021 and 7.7% in 2026.

16 See Barbieri, G., F. Cerniglia, G. F. Gori, P. Lattarulo, P., (2022), 'NRRP—Italy's strategic Reform and Investment Programme', in F. Cerniglia and F. Saraceno (eds), *Greening Europe—2022 European Public Investment Outlook*, Cambridge, UK: OpenBookPublishers: 55–70, https://doi.org/10.11647/OBP.0328; and Barbieri, G., F. Cerniglia (2021), 'Relaunching Public Investment in Italy', in F. Cerniglia, F. Saraceno, and A. Watt (eds), *The Great Reset—2021 European Public Investment Outlook*, Cambridge, UK: Open Book Publishers: 63–78, https://doi.org/10.11647/OBP.0280

and Resilience Facility (RRF) — accounted for 0.2% of Italy's GDP in 2022; they are expected to peak at 1.8% in 2025 (if all the funds received are actually spent), less than half of the investment forecasted for that year. In essence, the data show that Italy's positive trend in public investments, mostly driven by the NRRP, will end in 2026.

Hence, it is more important than ever that Italian budgetary policy support a positive public-investment trend beyond 2026. Unfortunately, the phase before us (already from this year) is one of great uncertainty. Fiscal policy must now reckon with lower internal economic growth prospects, and low growth in countries with which Italy has strong interdependencies. Italy's macroeconomic dynamics are also conditioned by the geopolitical turmoil triggered by the war in Ukraine, inflation, and restrictive monetary policies implemented by Central Banks, which have begun to drain liquidity from the economic system.

Key Italian macro- and public-finance data for the upcoming years, as provided in the DEF, are here reviewed.[17] The GDP growth trend in real terms is 0.9% for 2023, 1.4% for 2024, 1.3% for 2025 and 1.1% for 2026.[18] It should be noted that the highest growth (expected in 2024) should occur thanks to the large amounts of public investment over the period here considered. The new European fiscal rules — which will most likely put Italy on a path of deficit and debt reduction — will introduce enormous constraints, given the country's high public debt. Fom 2024, the so-called 'general escape clause', activated by the Commission in 2020 in response to the economic consequences of the COVID-19 pandemic, will cease to apply. As is well known, the European Commission had begun a discussion on reforming the Stability and Growth Pact's rules and the economic governance of the European Union before the effects of the COVID-19 pandemic became apparent. This discussion was last raised in November 2022 with the presentation of a series of guidelines.[19]

The Italian government, while supporting the main tenets of the European Commission's proposal, pointed out critical aspects on several occasions. Concerns were raised about the division of Member States into three categories, according to a debt sustainability analysis conducted by the European Commission and recommended greater involvement by the

17 Submitted by the Government to Parliament on 13 April 2023, to be followed by Update to the Economic and Finance Document (DEF) (by September 2023) and the Budget Law (December 2023) for 2024 and beyond. The DEF contains trends, forecasts, and real economic data.

18 NADEF updates (September 2023) are as follows: 0.8% in 2023, 1.2% in 2024 and 1.4% in 2025. As noted by the Parliamentary Budget Office, the projections presented in the DEF are subject to a notable degree of uncertainty regarding the execution of the NRRP. This uncertainty is further accentuated by the lack of tables in the DEF on annual expenditure forecasts. The DEF's forecasting methodology, encompassing both trend and programme-based projections, is premised on the assumption that expenditure will be fully implemented by 2026. See Testimony of the President of the Parliamentary Budget Committee during the hearing on the 2023 Economic and Finance Document, Rome 2023, https://www.upbilancio.it/audizione-nellambito-dellesame-del-def-2023/#:~:text=20%20April%202023%207C%20The%20President,e%20finance%20(DEF)%202023

19 https://eur-lex.europa.eu/legal-content/IT/TXT/PDF/?uri=CELEX:52022DC0583 by conducting a series of hearings and formulating final documents—see https://www.senato.it/service/PDF/PDFServer/BGT/1372239.pdf and https://www.camera.it/leg19/824?tipo=A&anno=2023&mese=03&giorno=08&view=&commissione=05

Member States in the process. They also linked the review of economic governance to the ongoing discussions on the reform of state-aid rules and (re)designing industrial policies. A crucial aspect not yet addressed is how to show preference for public investment aimed at combatting climate change and promoting digital transition—two pillars of the NRRP—and supporting international commitments undertaken in defence spending.

In the 2023 DEF, the Italian government outlined its intention to gradually, but systematically, reduce its deficit and debt of GDP over three years (4.5% of GDP in 2023, 3.7% in 2024, and 3% in 2025). In 2026, however, the deficit target has been set at 2.5% of GDP. With reference to the debt-to-GDP ratio: it is expected to be 144.4% in 2022, 142.1% in 2023, 141.4% in 2024, 140.9% in 2025, and 140.4% in 2026.[20] Obviously, higher interest expenditure in relation to GDP than in previous years and higher average costs when issuing new debt will have a major impact on the expected decrease of (merely) four points.

The Parliamentary Budget Office has also developed some scenarios to consider the debt-to-GDP ratio, up to 2024, in the context of the new framework elaborated and proposed by the European Commission. These show that a decreasing debt trend is only possible with economic growth; furthermore, from 2033, the ratio could rise due to the progressive increase of Italy's aging population.

Moreover, the NADEF 2023, adopted in September 2023, confirms the Government's desire to fully implement the NRRP. The new growth forecasts, in fact, continue to incorporate the full implementation of the NRRP. The Government continues to move forward with its planned expenditure but spending flows have been slightly revised downwards for 2023, to a lesser extent for 2024, and revised upwards for 2025 and 2026. The Parliamentary Budget Office, in a letter validating the macroeconomic framework trend for 2023–24, has highlighted the risks of these continuous slippages in terms of supply bottlenecks, also in reference to the expertise necessary to manage and start the works.[21] It follows that overall investments—although supported by the NRRP—will be less dynamic in the short term than forecasted in the DEF (-11.7%).

To conclude, only by increasing public investment—even beyond 2026—can the debt-to-GDP ratio decrease at a faster pace, and, above all in times like these, allow the EU *in primis* to try to build a new framework capable of withstanding the new world powers. A massive public-investment programme funded by European fiscal capacity could enable the (re)construction of a European model that combines democracy, growth, cohesion, and welfare. It is likewise abundantly clear that major emergencies (like climate change) render public intervention hollow if limited to a single state or even groups of states, for example, if the EU alone were to act globally on green transition.

20 NADEF updates for deficit are: 5.3% in 2023, 4.3% in 2024, 3.6% in 2025. With reference to the debt-to-GDP ratio: 140.2% in 2023, 140.1% in 2024, 139.9% in 2025, and 139.6% in 2026.

21 See https://www.upbilancio.it/wp-content/uploads/2023/10/Audizione-NADEF-2023.pdf

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