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ITALY'S RECOVERY AND RESILIENCE PLAN

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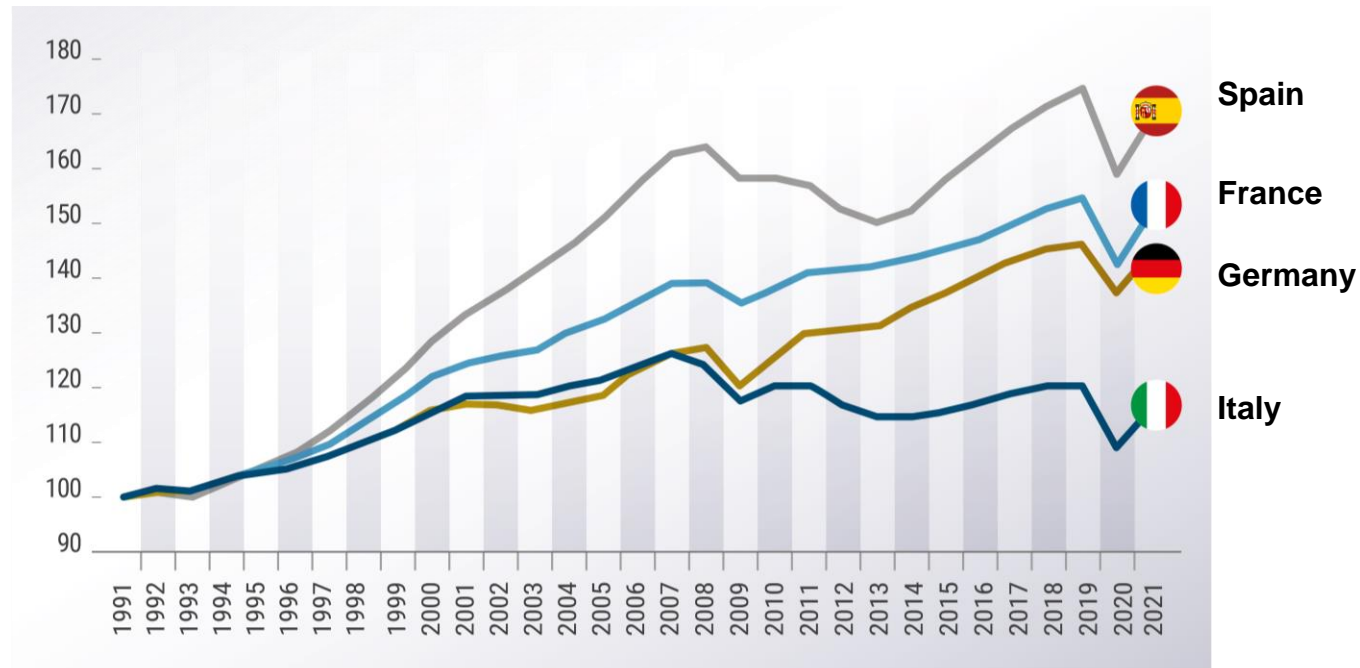
Centro Studi Confindustria

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The structural problem of Italian economy: the low GDP growth...

- The Italian economy problems do not arise from the current crisis, but from afar.
- Italy has the lowest average GDP growth rate between 1991 and 2019 among advanced countries and in the EU: Italy 0.7%, Germany 1.4%, France 1.6%, Spain 2.0%, USA 2.6%, UK 2.1%.
- The gap has widened since 2009: on average, Italy + 0.3% a year, France + 1.4%, Germany + 1.9%.

(Constant prices,
indexes 1991=100)



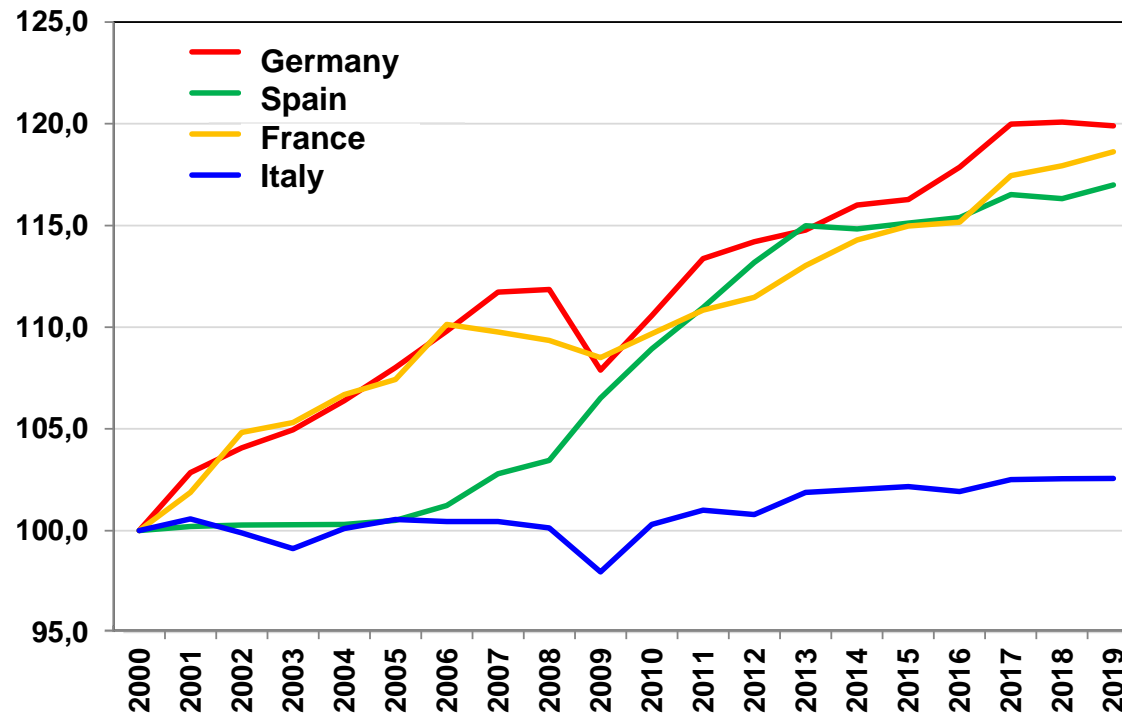
2020-2021: European Commission forecasts.

Source: Centro Studi Confindustria processing on European Commission data (Ameco).

...which reflects low productivity dynamics

- Since 2000 Italy has accumulated a gap of 19.9 percentage points with Germany, 18.7 with the UK, 18.6 with France, 17 with Spain.
- To grow at 1.5% per year (average of the 10 years 1997-2007), productivity must increase by 1 percentage point per year.

(Constant prices, total economy, added value per hour worked, 2000=100)

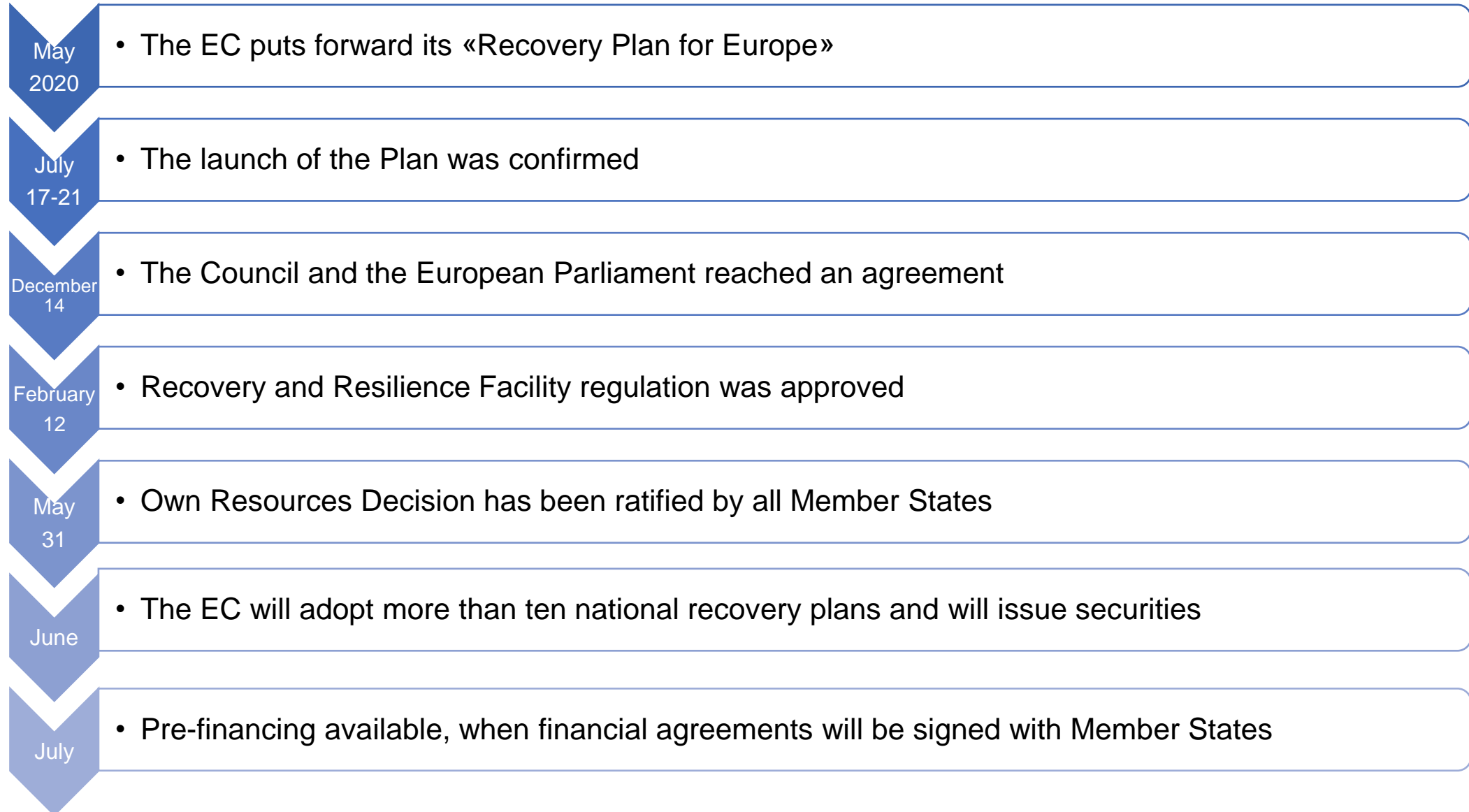


How to solve them?

- These are goals at hand only if you break with the past.
- In the last ten years, it has been difficult to tackle the bottlenecks of Italian economy (the difficulty of the successive governments to maintain political consensus in a declining economy while forced to adopt austerity measures; the focus of the governments on countercyclical policies to compensate the procyclical policies adopted to reduce public deficit)
- In this sense, the *Next Generation EU* program and the other instruments adopted by the European Institutions (i.e. the suspension of the SGP) represents a great opportunity.
- With a coherent strategy, where the long-term effects of investments are strengthened by adequate structural reforms, Italy could raise its potential GDP growth rate.



Timeline, past and future steps



Next Generation EU: the resources for Italy

- The share of resources allocated to each country depends on population, GDP per capita and average unemployment rate 2015-2019 (for 70%) and employment losses and GDP in 2020 (for 30%).
- Italy is entitled to **191.5 billion** from RRF (of which 122.6 as loans and 68.9 as grants), **13.5 billion** from React-EU and about **2 billion** from the other five minor funds*.
- Plus **30.6 billion** national resources from the **Complementary Fund** to finance strategic and complementary projects (not perfectly in line with the qualitative and quantitative criteria of RRF).
- The total amount of resources involved by the plan are **235,6 billion**.

* The 2 billion euros from the five minor funds are usually excluded from the total amount for prudential reasons.

The allocation - 1

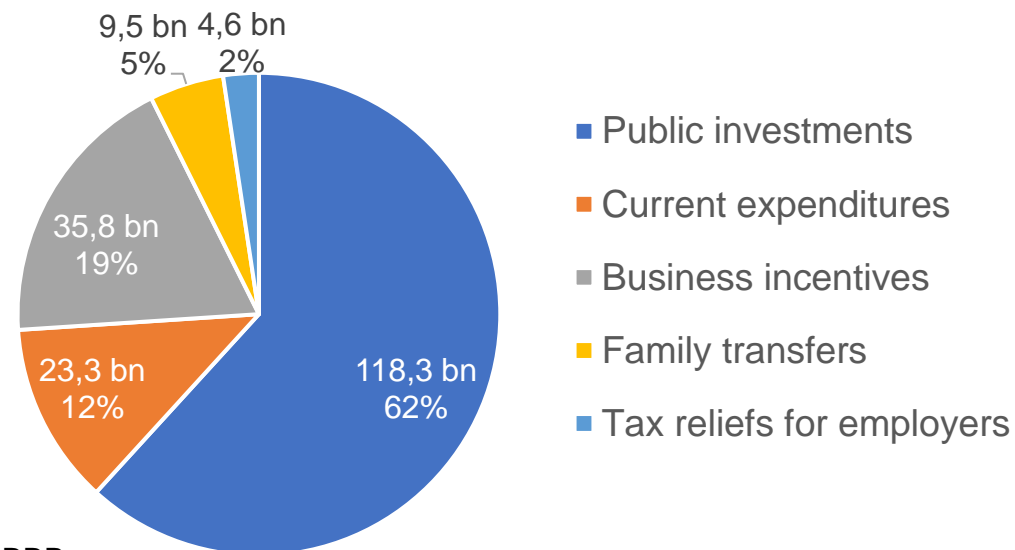
- The 235.6 billion are split into 6 Missions, 16 Components, 163 investments and 50 sectoral reforms (plus the so called “horizontal”, “enabling” and “accompanying” reforms).
- The plan is compliant with the two resource **allocation constraints** identified by the EC:
 - ✓ 40.8% (78.15 billion) are the resources devoted to investments for the **ecological transition** (the target is at least 37%);
 - ✓ 29.8% (57.15 billion) for the **digital transition** (the target is at least 20%).



Source: Italian NRRP.

The allocation - 2

- 39.6% (81.6 billion) of resources goes to **the South**.
- 61,8% of resources for **public investments**, 12,2% for **current expenses**, 18,7% for business incentives.



Source: Italian NRRP.

About investments...

CODE	MISSION	RRF		React-EU		Complementary Fund		Total	
		mld	%	mld	%	mld	%	mld	%
M1	DIGITIZATION, INNOVATION, COMPETITIVENESS AND CULTURE	40,32	21,1%	0,80	6,2%	8,74	28,5%	49,86	21,2%
M1C1	Digitization, innovation and security in the PA	9,75	5,1%	0,00	0,0%	1,40	4,6%	11,15	4,7%
M1C2	Digitization, innovation and competitiveness in the production system	23,89	12,5%	0,80	6,2%	5,88	19,2%	30,57	13,0%
M1C3	Turism and culture 4.0	6,68	3,5%	0,00	0,0%	1,46	4,8%	8,13	3,5%
M2	GREEN REVOLUTION AND ECOLOGICAL TRANSITION	59,47	31,1%	1,31	10,1%	9,16	29,9%	69,94	29,7%
M2C1	Sustainable agriculture and circular economy	5,27	2,8%	0,50	3,8%	1,20	3,9%	6,97	3,0%
M2C2	Energy transition and sustainable mobility	23,78	12,4%	0,18	1,4%	1,40	4,6%	25,36	10,8%
M2C3	Energy efficiency and building renovation	15,36	8,0%	0,32	2,5%	6,56	21,4%	22,24	9,5%
M2C4	Protection of the territory and of the water resource	15,06	7,9%	0,31	2,4%	0,00	0,0%	15,37	6,5%
M3	INFRASTRUCTURE FOR SUSTAINABLE MOBILITY	25,40	13,3%	0,00	0,0%	6,06	19,8%	31,46	13,4%
M3C1	High-speed / high-capacity rail network and safe roads	24,77	12,9%	0,00	0,0%	3,20	10,5%	27,97	11,9%
M3C2	Intermodal and integrated logistics	0,63	0,3%	0,00	0,0%	2,86	9,3%	3,49	1,5%
M4	EDUCATION AND RESEARCH	30,88	16,1%	1,93	14,8%	1,00	3,3%	33,81	14,4%
M4C1	Strengthening the offer of education services from nurseries to universities	19,44	10,2%	1,45	11,2%	0,00	0,0%	20,89	8,9%
M4C2	From research to business	11,44	6,0%	0,48	3,7%	1,00	3,3%	12,92	5,5%
M5	INCLUSION AND COEHSION	19,81	10,3%	7,25	55,8%	2,77	9,0%	29,83	12,7%
M5C1	Active Labor Market Policies	6,66	3,5%	5,97	45,9%	0,00	0,0%	12,63	5,4%
M5C2	Social infrastructures, families, communities and the third sector	11,17	5,8%	1,28	9,8%	0,34	1,1%	12,79	5,4%
M5C3	Special interventions for territorial cohesion	1,98	1,0%	0,00	0,0%	2,43	7,9%	4,41	1,9%
M6	HEALTH	15,63	8,2%	1,71	13,2%	2,89	9,4%	20,23	8,6%
M6C1	Proximity networks, structures and telemedicine for territorial healthcare	7,00	3,7%	1,50	11,5%	0,50	1,6%	9,00	3,8%
M6C2	Innovation, research and digitalization of the national health service	8,63	4,5%	0,21	1,6%	2,39	7,8%	11,23	4,8%
Total*		191,51		13,00		30,62		235,12	

Digitalization, innovation, competitiveness and culture

CODE	MISSION	RRF		React-EU		Complementary		Total	
		mld	%	mld	%	mld	%	mld	%
M1	DIGITIZATION, INNOVATION, COMPETITIVENESS AND CULTURE	40,32	21,10%	0,8	6,20%	8,74	28,50%	49,86	21,20%
M1C1	Digitization, innovation and security in the PA	9,75	5,10%	0	0,00%	1,4	4,60%	11,15	4,70%
	Digitization, innovation and competitiveness in the production system		12,50%		6,20%		19,20%		13,00%
M1C2		23,89		0,8		5,88		30,57	
M1C3	Turism and culture 4.0	6,68	3,50%	0	0,00%	1,46	4,80%	8,13	3,50%

- M1C1 In depth transformation of Public Administration through a strategy focused on Digitalization.
- Main objective: making the PA the best “ally” to citizens and industries.
 - Tools:
 - Digital infrastructure
 - Migration to cloud – “*once only*” principle
 - *Strengthen cybersecurity*
 - *Skills development and process simplification*

Digitalization, innovation, competitiveness and culture

- M1C2 Digitization, innovation and competitiveness in the production system.
- Main objective: Strengthening of production system through higher digitalization standard, technological innovation and developing the exposure to International markets.
- Tools:
 - New Transition 4.0 plan focused on small companies based in southern region
 - Specific measures for High technological sectors
 - Infrastructure investment (very high capacity Network) – in line with European flagship “connect”

New Transition 4.0: wider number of beneficiaries, capex, R&D, competences development

Forecasted utilization 15K companies p.a. for capex; 10K companies for R&D p.a.



- On the reform front, the NRRP identifies 4 types of reforms:
1. **horizontal** (PA and justice), designed to increase the fairness and efficiency of the system;
 2. **enabling** (simplification and rationalization of legislation, and competition), functional to the implementation of the plan (remove bureaucratic, administrative, regulatory and procedural obstacles);
 3. **sectoral**, contained in each mission, relating to specific areas. There are 50 of them, with only two of them that foresee expenses totaling 5.6 billion (i.e., reform of active policies);
 4. **accompanying** (tax system, social safety nets), which, although not included in the Plan, contribute to its realization.

The Public Administration reform

- The former horizontal reform regards the Public Administration and is structured around 4 axes:
1. **Access:** to speed up and simplify recruitment (a new portal like LinkedIn), and better staff management based on skills and competences.
 2. **Good administration:** to simplify rules, to reengineer and standardize procedures, reducing waiting times and costs for businesses and citizens.
 3. **Skills:** to invest and train human capital based on new needs and allowing full horizontal and vertical mobility among public employees.
 4. **Digitization:** to facilitate the implementation of reforms.



The enabling reforms

- Many **enabling reform** interventions will define specific details through implementing decrees. The reform guidelines concern:
 - a better legislative quality, clearer, more understandable and accessible;
 - a simplification of public contracts and purchases, reducing costs, favoring digitalized procedures and reducing the number of purchasing offices and contracting authorities;
 - a revision of the Procurement Code and subcontracting regulations;
 - an enhancement of the database of all contracts held by the National Anti-Corruption Authority;
 - a simplification of environmental legislation (Environmental Impact Assessment, EIA);
 - a simplification of the rules on investments, especially for Special Economic Zone and the South;
 - simplify the rules on disclosure obligations and on access to public information, providing a single platform for transparency;
 - A reduction of tax gaps.

The framework of the governance

Central coordination and steering level



Presidency of the Council of Ministers

Control Room



Monitoring and control level



Ministry of Economy and Finance – DSGA

Central Service for NRRP



Implementation level



Ministries

Coordination structure for Central Admin. (set up or *ex novo*)

Regions and local government

Own existing administrative management structures



Substitutive powers and overcoming dissent

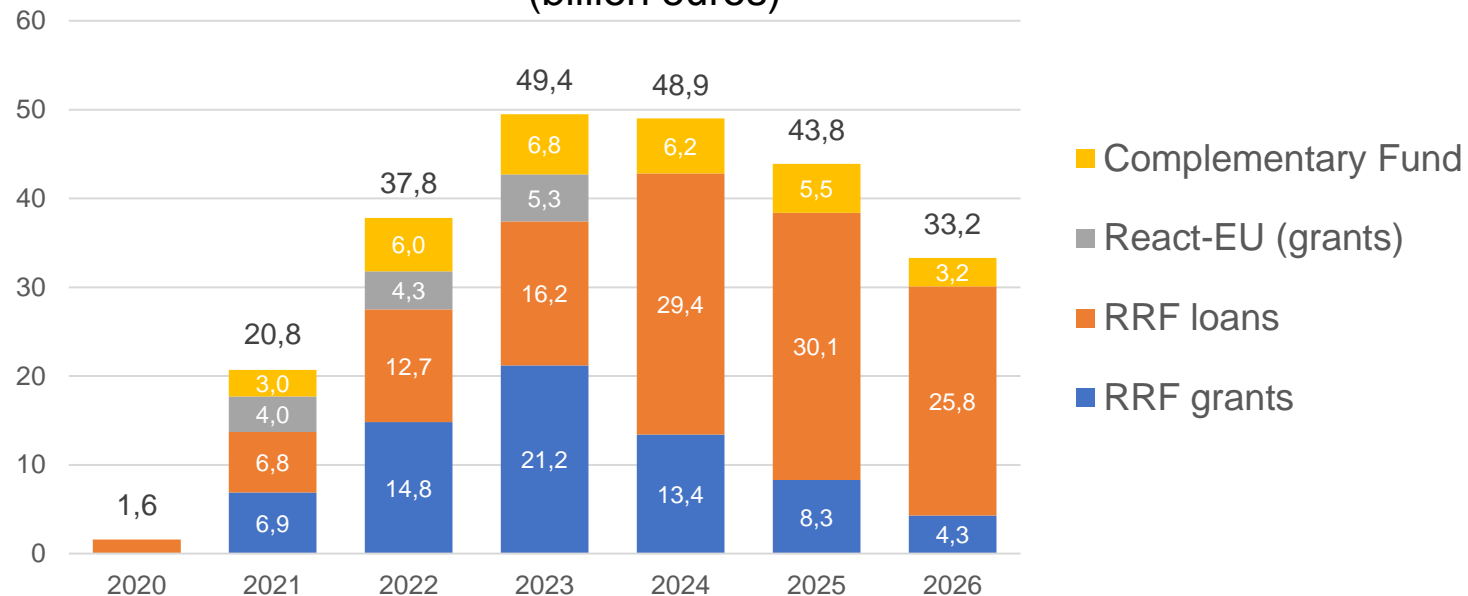
- The Prime Minister, in the event that the achievement of the intermediate and final objectives of the NRRP is at risk, assigns the interested party a term not exceeding 30 days to take action. In the event of inaction, the Council of Ministries (CoM) identifies the administration, or the ad acta commissioners, to whom it **attributes the power to carry out the necessary acts**, or to carry out the projects.
- In the event of dissent, denial, opposition or similar by a state body capable of precluding the realization of a project, the Technical Secretariat proposes to the Prime Minister to submit the request to the CoM within 5 days. Similarly, this process can also take place at the regional level, referring to the Permanent State-Regions Conference and defining the actions within 15 days. In the absence of a shared solution, it will be **the Prime Minister and the Ministry of Regional Affairs who will propose appropriate solutions to the CoM.**



The effects of GDP growth

- Out of 235.6 billion, 166.5 are used to finance “**additional**” measures (grants and 43% of loans), whilst the remaining 69.1 are used to finance “**replacement**” measures.
- For the purposes of macroeconomic impact of measures, the **total amount considered is 182.7 billion** (it includes the resources advanced by the Development and Cohesion Fund for 15.5 billion).

Temporal breakdown of the use of NGEU resources, by source
(billion euros)



Source: Stability Programme 2021 data.

The investment effects of GDP growth

- The impact of the NRRP is estimated at **3.6 points of GDP in 2026**, thanks to the nature of the projects financed (investments) and the assumptions of efficient spending. This means that the implicit multiplier on GDP is equal to 1.2 (high scenario).
- However, if the spending is not spent efficiently, the multiplier will be lower. Based on the estimates of a study by the Bank of Italy reported within the Plan, this could drop down to 0.7. Consequently, in the latter scenario of **lower efficiency**, **GDP in 2026** would be higher by only **1.8 points**.

Impacts on GDP of the NRRP - Different efficiency assumptions of public investments (% change from baseline scenario)

	2021	2022	2023	2024	2025	2026
GDP - High scenario	0,5	1,2	1,9	2,4	3,1	3,6
GDP - Medium scenario	0,5	1,1	1,6	2,00	2,4	2,7
GDP - Low scenario	0,5	0,9	1,4	1,5	1,7	1,8

Source : NRRP.

The reform effects of GDP growth

- Through another estimation model, constructed as the sum of the effects of the individual components (it does not take into account interactions among components), **a GDP increase of 3.1% at the end of 2026 is reached**: 0.5 points less than the estimate with the other model, which means that carrying out investments and reforms at the same time produces a positive spillover effect.
- Furthermore, the effects of reforms (PA, Justice, Simplifications and Competition) on GDP seems to be substantial: 1.4% after 5 years, 2.5% after **10 years and 3.3 in the long run**.

Total macroeconomic effects of reforms (% change from baseline scenario)

	T+5	T+10	Long run
GDP	1,4	2,5	3,3
Private consumption	1,2	2,3	3,1
Total investment	1,4	2,7	3,8

Source : NRRP.

Thank you!

