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Monthly brief on the Italian Economy
November 2023

Lorenzo Moretti and Donato Di Carlo

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Every month, our Monthly Brief on the Italian Economy provides a bullet-point recap of the month's main events, followed by reasoned deep dives and/or interesting graphs and commentaries on topics of significance for economic policymaking in Italy.

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LAST MONTH IN BRIEF

25/10	Parliament approves the **Incentives Decree**, a provision rationalising the system of public incentives for companies, to reduce the bureaucratic burden and complexity for firms and entrepreneurs.
1/11	**Fabio Panetta**, former member of the ECB Executive Board, officially assumes the role of Governor of Italy's central bank, Banca d'Italia. Among other responsibilities, he will oversee Italy's banking system at a delicate time as credit provision is tightening and pressure on banks is mounting (see LUHNIP's report on Italy's windfall tax).
3/11	The Government approves a decree to initiate the so-called **Piano Mattei** for Africa, a cooperation plan for Italy to enhance its support to African partners as well as increase its role around the Mediterranean.
5/11	The Board of Directors of the (partly) state-owned telco company **TIM** accepts the offer from private equity fund KKR to acquire TIM's fixed network assets, the first step in a long process that should facilitate the government's plan to create a single owner of the fibre infrastructure in Italy.
14/11	The Government's **2024 budget law** starts its parliamentary approval process, with discussions in the Budget Committee of the Senate **(see Deep Dive 1 below)**.
17/11	**Moody's** confirms Italy's rating and lifts its debt outlook from negative to stable. The Meloni government presents it as an approval for its economic policies.
21/11	The Meloni government uses "**golden power**" to block a French acquisition that would impact an Italian defence company, showing the growing challenges in the European ambitions to defend strategic autonomy **(see Deep Dive 2 below)**.
21/11	Parliament approves the **Energy and Family Support Decree**, a provision supporting families and firms against the high costs of energy and reforming the incentives framework for energy-intensive enterprises.
24/11	The European Commission approves **Italy's changes to the Next Generation EU plan**, including the REPowerEU components, and provides preliminary endorsement for the release of the fourth tranche of funding (€16.5bn).

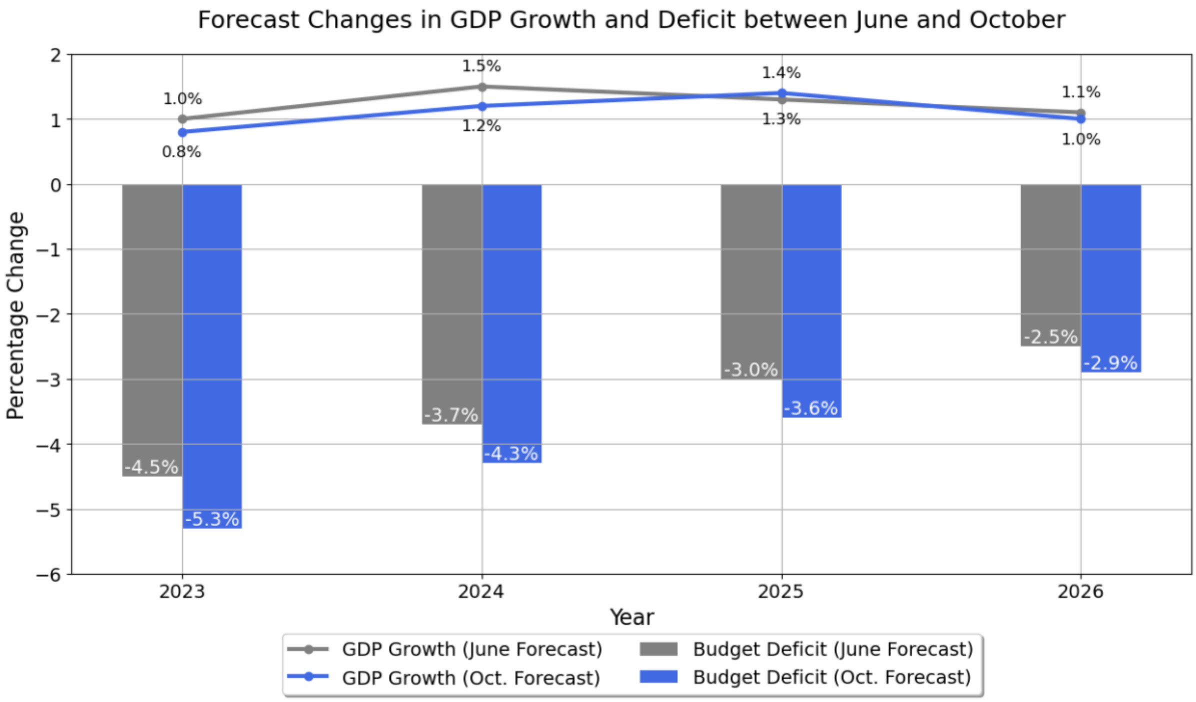
DEEP DIVE 1

The NADEF and the Budget law

Between mid-October and early November, the Italian Government initiated the process for the approval of the 2024 budget law. It first published the NADEF (Nota di Aggiornamento al Documento di Economia e Finanza), which provides the "financial framework" with an updated 3-year economic forecast, and unveiled its €24bn budget law. The Government revised downward the growth projections for 2023 and 2024. It also expects higher budget deficits together with a slower path to debt reduction. The law has now started its approval process in Parliament: it will be discussed by the relevant parliamentary committees and voted in each chamber of Parliament (Senate first, Chamber of Deputies second), with a hard deadline on December 31st.

Prime Minister Meloni requested that the majority's parties refrain from proposing any amendments, while the opposition coalesced mostly around requests for higher spending on healthcare. So far the majority has proven cohesive, presenting essentially no amendments. Changes are still possible in the next phases, and the majority is currently negotiating pre-agreed and coordinated modifications to propose via the majority parties' MPs who will present the law to parliament.

Figure 1: Italy's updated growth and deficit forecasts



Source: DEF June 2023, NADEF October 2023.

Commentary

This is the first budget law fully developed by the Meloni government. The 2022 budget law was largely written by the previous government. The current one is thus important because it delineates this government's view on the country's finances and its broader approach to fiscal policy.

First, compared to earlier estimates, the government revised GDP growth downward to 0.8% for 2023 and to 1.2% for 2024 (vs 1% and 1.5%, respectively)—see lines charted in figure 1. This results also in a slower path to debt reduction, with deficit projections going from 5.3% in 2023 to 2.9% in 2026. It must be noted, however, that the government's growth projections are more optimistic than the IMF's, at 0.7% for both 2023 and 2024. This means that real deficits might turn out to be higher than projected, unless the government's rosier growth picture materialises. Such higher-than-expected deficits could be problematic for the government's credibility in the eyes of international investors and EU partners.

Second, the document helps to understand the government's economic policy priorities. It used the little fiscal space it had to signal its commitment to reducing the tax burden and promote family-friendly policies. As tabel 1 shows, of the €24bn budget, around ¾ was required by hard-to-avoid expenditures. These include the renewal of public sector contracts (including the NHS') and a temporary extension of a labour tax wedge deduction, which has been providing a real-income benefit during times of high inflation. The government committed the remaining ¼ to signalling commitment to some of its electoral pledges. Primarily, it is lowering taxes for middle-to-lower income families by eliminating one of the incomes tax (IRPEF) brackets. It is also providing benefits to working women with at least 2 children. On the flip side, finding room for these policies meant sacrificing spending in other areas, in particular healthcare. The law increases spending for the NHS but not enough to keep up with inflation and GDP growth. The result is that Italy's historically low healthcare spending as a percentage of GDP is expected to decline further, offering an opportunity for criticism to the opposition.

Table 1: Key budget law measures with related earmarked resources

	Main Measures	Earmarked resources (€bn)	Earmarked resources (%)
Real incomes' support	Extension of labour tax cuts	~ 10	41.7
	Tax cuts for lower-middle classes personal income tax (IRPEF Reform)	~ 4	16.7
Refinancing of public sector wage-setting; Social policies	Funding for the national health system, in particular, to renew contracts	~ 3	12.5
	Funding to renew public sector collective agreements	~ 5	20.8
	Funding for family policy and pro-natal policies	~ 1	4.2
Miscellaneous items		~ 1	4.2
TOTAL		**24**	**100%**

Source: Elaboration based on Budget law, Il Sole 24 Ore, Fasi.

DEEP DIVE 2

Italy uses "golden power" to stop a French acquisition

On July 21st, the prominent French aerospace and defence company Safran announced its intention to purchase Collins Aerospace from Raytheon Technologies for $1.8 billion. On November 20th, however, Italy's government invoked its 'golden power' to block the deal. With Germany's backing, this move was motivated by concerns regarding potential disruptions at Microtecnica, an Italian subsidiary of Collins Aerospace, which provides critical services to NATO's Eurofighter and Tornado jet fighter programmes. The Italian authorities found Safran's measures for compliance insufficient, citing the risk of slowdowns or interruptions in Microtecnica's supply chain as a reason for blocking the deal. This decision represents a rare instance of Italy using golden power to block a deal involving a company from another major EU member.

Table 3: Instances of the use of golden power by Italian governments

Year	Company Affected	Nationality of Company Affected	Sector	Impact
2023	Safran	French	Aerospace and Defence	Blocked the acquisition of Collins Aerospace
2023	Sinochem	Chinese	Automotive	Prevented Sinochem from choosing a new Pirelli CEO
2023	Nebius	Dutch/Russian	Technology	Blocked the acquisition of Tecnologia Intelligente due to Nebius' ties with Russian company Yandex
2022	Rusatom GasTech	Russian	Energy	Blocked the acquisition of Faber Industrie Spa
2022	Mars Information Technology	Chinese	Aerospace and Defence	Mars Information Technology disinvestment from Alpi Aviation
2022	Efort Intelligent Equipment	Chinese	Technology	Blocked an increase in Efort's ownership of ROBOX from 40% to 49%
2022	Shenzhen Investment Holdings	Chinese	Semiconductors	Blocked the acquisition of 70% of LPE

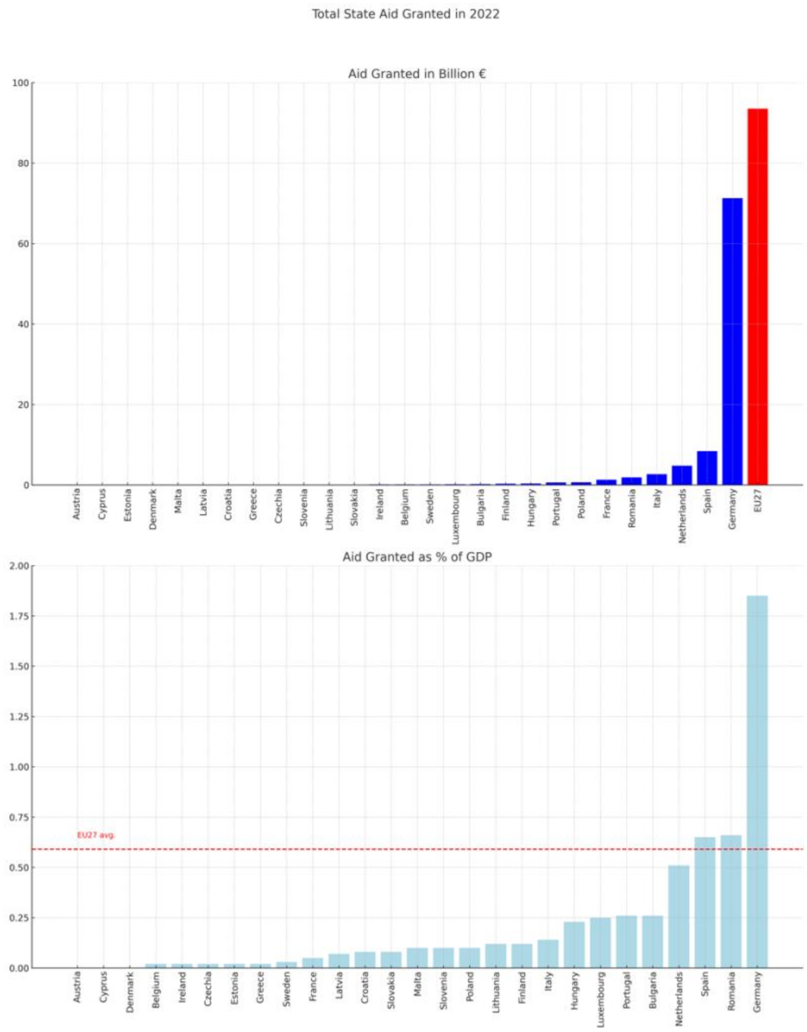
Commentary

The Italian government introduced the Golden Power Decree in 2012 to regulate or halt foreign direct investments and corporate transactions involving strategic Italian assets—initially in defence, national security, and infrastructure. Mario Draghi's government further expanded the decree to cover additional critical sectors such as fintech and 5G technology. Historically, this decree was mostly used to fend off investments by firms from countries considered geopolitical adversaries such as Russia and China (see table). For instance, last July the Italian government invoked golden power to prevent the Chinese company Sinochem from appointing the next

CEO of Italian tyre manufacturer Pirelli, despite Sinochem being Pirelli's largest investor with a 37% stake. The Government deemed the company's tyre sensors a "critical technology of national strategic importance." The application of golden power to Safran's proposed acquisition, however, stands out as an unusual case insofar as the Italian government is halting a transaction involving a company from a fellow EU member state. The French state is Safran's primary shareholder with an 11.2% stake. The circumstance is thus particularly counterintuitive as Microtecnica is currently under the ownership of Raytheon Technologies, a US-based firm, while the transaction would have returned ownership to the EU.

This event underscores how difficult it can be for the EU to create pan-European industrial champions in strategic industries such as defence. European governments—as well as the European Commission—are becoming increasingly sensitive about technological strategic autonomy. But there is an asymmetry: policy tools for [investment screening] remain largely at the national level rather than at the European one in the single market. The result is that in an effort to defend autonomy, national governments risk preventing the creation of European industrial champions that may fully benefit from the single market's scale effects.

GRAPH OF THE MONTH



Source: Own elaboration from EU Commission, Competition State Aid [Brief], Issue 1/2023 – July 2023

Since the Covid-19 pandemic, the European Commission has softened rules on state aid to grant Member States greater flexibility in supporting the economy in the context of the coronavirus outbreak. Following Russia's invasion of Ukraine, and the energy crisis' fallout, further regulatory flexibilities have been extended to Member States via the Temporary Crisis Framework (TCF) adopted in March 2022. Based on preliminary data from the Commission's survey, during 2022, the Commission approved nearly €672 billion of aid under the TCF (4,3% of combined EU27 GDP in 2022). More than half of this budget was approved for operations in Germany (53%). However, of the total €672 billion approved, only €93.52 billion was actually granted by Member States (representing 14% of all the aid approved and 0.59% of EU27 GDP in 2022).

Germany has provided the most state aid at €71.29 billion, which is 76% of the total aid granted and 1.85% of its GDP. Spain is the second largest contributor with €8.42 billion (0.65% of its GDP), followed by the Netherlands at €4.77 billion (0.51% of its GDP). Italy has granted €2.66 billion in state aid (0.14% of GDP), and Romania €1.88 billion (or 0.66% of GDP). Collectively, Germany, Spain, and the Netherlands account for 91% of all aid granted.

Germany's granted aid to its domestic firms was three times larger (1.85% of GDP) than the average aid of the other EU 27 countries (around 0.59% of GDP). Thus, Germany was able to support its industry significantly more than any other EU Member State during both the Covid and the energy crises (see our LUHNIP working paper on *Germany's coordinated adjustment to the energy crisis*). The reasons behind this outcome likely relate to the different structural composition of the EU economies (Germany being an energy-intensive manufacturing economy), but especially to Germany's greater fiscal capacity and greater vulnerability to the Russian gas supply disruptions since its invasion of Ukraine. The graph presents a clear cautionary message for the EU's new industrial policy ambitions: *nationally provided state aid risks jeopardising the single market's integrity and enhancing cross-country economic disparities*.