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Monthly Brief on the Italian Political Economy

June 2024

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Every month, our Monthly Brief on the Italian Political 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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[1] We thank Giovanni Pacchiardi, Giulio Petrillo and Stefano Chiappo for their excellent research assistance.

LAST MONTH IN BRIEF

13-15/06	Italy hosts in Apulia the key event of the G7 featuring all the political leaders of the participating states. At the end of the meeting, the leaders agree on a final communiquè
19/06	Minister for Enterprises and Made in Italy Adolfo Urso signs a decree to unlock €1.7 bln in NRRP funds for development contracts for net-zero, renewable, and battery technologies
19/06	The European Commission decides to launch an excessive deficit procedure against seven member states, including Italy, creating new economic tensions for Rome (see **Deep Dive 1**)
19/06	The Italian Parliament approves the devolution law ("Autonomia Differenziata"), giving Italian Regions the possibility to request more autonomy in certain policy domains
20/06	The council of ministers approves a decree law on critical raw materials with the goal of revitalising Italy's mining industry and enhancing the recycling of raw materials to make the Italian economy more resilient and strategically independent
20/06	The council of ministers approves the first Italian law on the space economy (see **Deep Dive 2**)
28/06	Italy is the first member state to send to the European Commission the payment request for the sixth NRRP instalment, worth €8.5 bln
28/06	Singaporean company Silicon Box announces it will build its €3.2 bln chiplet plant in the city of Novara (Piedmont), in the north-west of Italy (see LUHNIP March Monthly brief)

DEEP DIVE 1

The European Commission's infringement procedure against Italy

The European Commission (EC) will launch an Excess Deficit Procedure (EDP) against Italy and other six European countries (including France). The decision was the result of a detailed analysis by the Commission, which confirmed that the non-compliance with the 3% deficit rule is non-temporary and cannot be justified by exceptional circumstances. This motivated the activation of the corrective arm of the Stability and Growth Pact. The next step will be the formal proposal by the EC to the Council to open an EDP in July.

Commentary

The EC's decision did not come as a big surprise. However, it still has important implications: while it will not necessarily demand a return to austerity, the procedure will likely significantly limit the government's fiscal policy space, as well as create an additional obstacle to the investments required by Italy to achieve the twin transition.

The decision was largely anticipated. According to projections in the Economic and Financial Document ("DEF")—the country's version of the Stability Programme plan—published by the Italian government in April, the deficit will remain above the 3% threshold for the next few years. The Parliamentary Budget Office had warned that this fiscal trajectory was very likely sufficient to trigger the procedure (for more details see our April Monthly Brief). Economy and Finance Minister Giancarlo Giorgetti reacted to the news pledging a responsible budget. Indeed, new policies to be approved over the course of the year may change the fiscal outlook, but their effects are still unknown as they were not included in the "light" version of the DEF published in April (see our April Monthly Brief).

In the short term, abiding by the new European Stability and Growth Pact rules (see the December 2023 Brief) will require restricting the current fiscal stance but without large adjustments compared to policies already in place. A recent analysis by Bruegel estimates that respecting both the deficit-based EDP rule (which was left unchanged by the reform) and the debt rule (which has been reformed) would require an average 0.6pp adjustment of structural primary balance over 7 years. This is lower than the average 0.8pp adjustment put forward in the DEF in its existing policies scenario. Thus, if the current macro forecast stands, Italy will not necessarily need severe public expenditure cuts and to go "back to austerity". However, the government is left with very limited room for manoeuvre in the next few years, making it unlikely that it will be able to pass the ambitious fiscal policies or tax reforms it originally promised.

Perhaps the biggest impact of the EDP for Italy will then be in the long term. To abide by the rules of the procedure, Italy risks not being able to step up public investment exactly at a time when it is most needed to meet the challenges of the green and digital transition. This is a broader European problem, where the public investment gap is estimated at €1.3 trillion over

DEEP DIVE 2

The first Italian Space Economy Law

On 20 June, the Council of Ministers approved the first Italian law on space and the space economy. The purpose of the bill is both to create a solid regulatory framework for this sector's activities and to allocate public funding to support Italian enterprises working in the field.

Minister for Enterprises and Made in Italy Adolfo Urso is the key promoter of the bill. After a series of meetings with the main public and private stakeholders of the sector, he brought the bill to the council of ministers where he found full support from the rest of the government. The bill will now have to undergo Parliamentary examination and will probably be approved towards the end of the year.

Commentary

The official text of the bill is yet to be published, but two main considerations emerge from the available drafts.

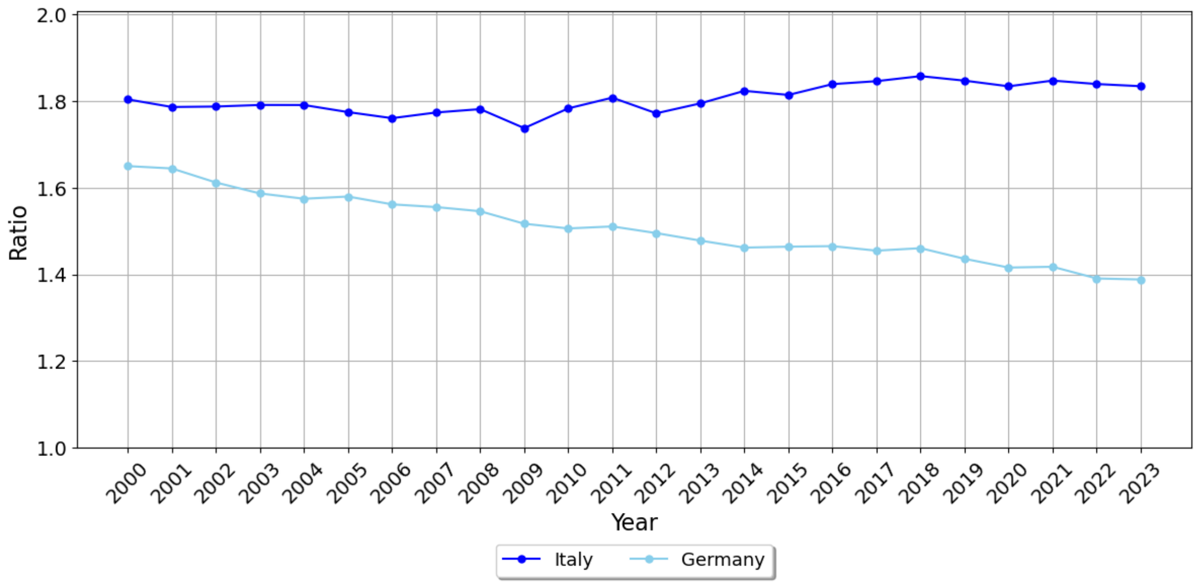
First, the essence of the bill consists largely in a regulatory framework determining a series of bureaucratic and procedural provisions. The key measures are a requirement to obtain authorisation to conduct space activities from Italy's territories and an obligation for operators to secure insurance coverage for up to at least €100 million per space incident. The law also assigns to the Italian Space Agency (ASI) a new key responsibility as the supervisor of private-sector actors in the space field. It means the Agency will take care of the procedures related to the authorisation concessions and will have the power to carry out inspections. Therefore, the bill strengthens ASI's role of being the link between the private sector and the public authorities related to space matters, such as the Ministry of Defence and the Ministry of Enterprises.

The bill also introduces some planning tools and resources for an industrial policy for the sector. First, the government will draft a five-year strategy (National Plan for the Space Economy), which will identify the needs of the sector and highlight the investment opportunities to strengthen it. Second, the law sets up a Space Economy Fund of around €295 million for the period 2024-2026. The fund will aim to support market innovation via public investments and attract private capital to the sector. It should be noted that, without further details on the targets of such investments, these resources appear very limited for a highly capital-intensive sector such as the space economy. However, these new funds should be put in the context of the significant investments the Italian NRRP has allocated to the sector (around €7.3 bln until 2026).

In conclusion, the bill fulfils the purpose of establishing a general regulatory framework but does not in itself promise new significant resources for the sector and Italian enterprises.

GRAPH OF THE MONTH

Ratio of GDP per Capita between Richest Macro-Region and Poorest Macro-Region over Time



Note: The regions in Northern Italy include (Provincia Autonoma di Bolzano/Bozen, Provincia Autonoma di Trento, Veneto, Friuli-Venezia Giulia, Emilia-Romagna, Piemonte, Valle d'Aosta/Vallée d'Aoste, Liguria, Lombardia). The German states have been divided into East and West. The states used for West Germany include (Baden-Württemberg, Bayern, Bremen, Hamburg, Hessen, Niedersachsen, Nordrhein-Westfalen, Rheinland-Pfalz, Saarland, Schleswig-Holstein). The states used for East Germany include (Brandenburg, Mecklenburg-Vorpommern, Sachsen, Sachsen-Anhalt, Thüringen).

Source: ARDECO

This graph compares GDP per capita of the richest macro region and the poorest macro region within Italy (North vs. South) and Germany (West vs. East) from 2000 to 2023. Initially, these geographical differences in the two countries were comparable. However, since 2000, Germany's regional disparities have steadily reduced, while Italy's have not improved and even increased. This trend, among others, speaks of the need to rethink the approach to industrial policy for the South as existing measures have proven insufficient (see our recent article in La Repubblica Affari e Finanza).

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For the next two months our Monthly Briefs will take a summer break as political activity in Italy slows down. We will be back in September.