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Monthly Brief on the Italian Political Economy

September 2024

Lorenzo Moretti, Giovanni Pacchiardi and Giulio Petrillo

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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 interesting graphs and commentaries on topics of significance for economic policymaking in Italy.

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LAST MONTH IN BRIEF

17/09	The Council of Ministers approves the decree for the partial privatisation of Poste Italiane, in the first significant move with the privatisation plan announced last year
18/09	Minister of Enterprises and Made in Italy Adolfo Urso signs the entry into force of a provision allocating €80 mln to support SME investment for the digital transformation
25/09	German Chancellor Olaf Scholz condemns Italian bank Unicredit's move on German Commerzbank, jeopardising a significant attempt to create an EU-wide financial player
26/09	Minister Urso presents Italy's proposals for a European industrial policy at the EU Competitiveness Council, calling for a European Automotive Act
26/09	Italian Parliament starts the examination of the annual Competition Law, which includes provisions to boost investments in start-up and innovation projects
27/09	The Council of Ministers adopts the medium-term structural budget plan under new EU fiscal rules (see **Deep Dive 1**)
27/09	The Council of Ministers declares the project of a chiplet factory by Singaporean company Silicon Box (see LUHNIP March 2024 Monthly brief) of strategic interest, therefore enabling a faster authorisation and implementation timeline (see **Deep Dive 2**)
30/09	PM Meloni meets with Larry Fink, Chairman and CEO of BlackRock, to discuss BlackRock's possible investments in strategic sectors in Italy, such as data centres and infrastructures

DEEP DIVE 1

The Government presents its Medium-Term Structural Plan

The Government has transmitted to the Parliament the Medium-term Structural Plan (MTSP), a document required by the new EU fiscal rules (see the December 2023 Monthly Brief) and to be eventually submitted to the Commission.[1] The document updates macroeconomic forecasts and, most importantly, budget projections.

Commentary

Three considerations stand out. First, unlike the "light" version of the DEF published in April (see our April Monthly Brief), the MTSP incorporated the effects of the budget measures expected to be approved over the course of the year. The government indicated the intention to exploit the limited room for manoeuvre—originating from the gap between policies already in place and fiscal requirements (see the June 2024 Brief)--mostly to confirm the reduction of the labour tax wedge worth approximately 0.2pp of GDP (around €10bn), in line with the previous announcements made by Finance Minister Giancarlo Giorgetti.

Second, the budget projections–although perhaps optimistic–appear to be broadly in line with the new fiscal rules[2] (see the December 2023 Brief). Indeed, the increase of 1.5pp in average annual net spending over the 7-year adjustment period is in line with the Commission recommendation shared earlier in June. The deficit is also expected to fall below 3% in 2026, while the debt/GDP ratio should start decreasing from the subsequent year.[3]

Third, while the MTSP does not mark a return to austerity, it also precludes those key investments which would be needed to face the green and digital transitions and to relaunch growth. As already highlighted in our June 2024 Brief, this is part of a broader European problem. The new fiscal framework does not allow Italy to fill the public investment gap, estimated at €1.3 trillion over 2025-2031, as also recognised by a recent ECB analysis. With the Draghi Report calling for even more substantial investments—to the tune of €800bn per year—the "new" European fiscal rules already appear rather old.

[1] The Plan will likely be submitted to the Commission in the first weeks of October, later than the initial deadline set for September 20. The delay was requested by the Italian government to ensure a national account update by Istat and a parliamentary approval.

[2] GDP forecasts are in the top range of a set of economic forecasters.

[3] Such fiscal projections benefited from a better starting point for the 2024 deficit (now expected at 3.8% vs the 4.4% included in the Commission Spring forecasts), also thanks to the recent upward revision of GDP by Istat. The government is therefore already expecting a (limited) primary surplus at 0.1% GDP in 2024. On the other hand, the debt is still expected to grow until 2026, also because of the lagged effect of the Superbonus.

DEEP DIVE 2

Attracting FDI: the first "preeminent strategic interest" project

On September 27, the council of ministers deliberated the declaration of "preeminent strategic interest" for the Vulcan project, under the 2023 Strategic Investments Law. The investment is a chiplet factory in northwestern Italy by the Singaporean company Silicon Box and was announced in March this year (see LUHNIP March 2024 Monthly brief).

Commentary

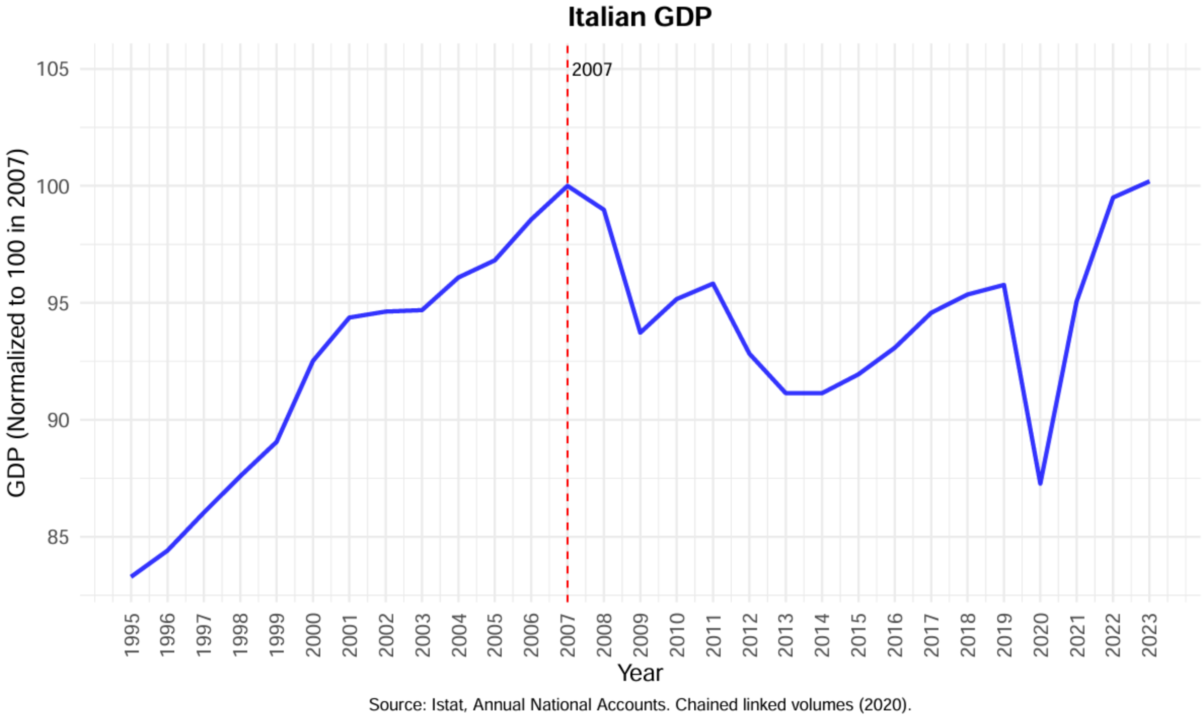
The declaration of the Vulcan project marks the first time Italy has triggered its 2023 Strategic Investments Law.

The law was written to attract FDI by simplifying the authorisation and execution processes of significant projects. When a project is declared of "preeminent strategic interest", it benefits from a series of bureaucratic and procedural shortcuts. Above all, the law enables the project to have a special commissioner and a single-authorisation process. The special commissioner is a figure entrusted with specific powers to speed up all the procedural steps the investment implementation requires. The single authorisation is a special permit issued by the special commissioner, which supersedes the patchwork of authorisations typically needed to kick off a large-scale project in the country.

Italy's strategic investments law is a welcome legislative tool to increase the country's competitiveness in attracting FDI. As such, it might turn out to be a key tool for Italy's industrial policy ambitions. On the flip side, the need for a special process highlights the complexity of the standard bureaucratic hurdles that projects typically face in Italy. Since this is the first time the law is used, the Silicon Box case will thus shed light on how much the provisions work in practice and on what the rest of the Italian authorisation system can learn from it.

GRAPH OF THE MONTH

In 2023, the Italian economy size has finally exceeded its pre-Great Financial Crisis peak



Source: Istat

Istat has recently released new estimates for Italy's post pandemic GDP, introducing upward revisions for more than €20bn, €30bn and €40bn for 2021, 2022, and 2023, respectively. Consequently, annual GDP is now for the first time estimated to have exceeded the 2007 level, after the alternating steep recessions and feeble recoveries that followed the Great Financial Crisis. Although this is a positive development, Italy's recovery has been slow if compared to other large eurozone economies, such as those of Germany, France and Spain, all of which have already exceeded the pre-GFC by more than 10pp.