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Monthly Brief on the Italian Political Economy

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

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LAST MONTH IN BRIEF

11/11	MPs present around 4,500 amendments to the budget bill, which includes also a controversial provision that will raise taxes on companies conducting their business online (see **Deep Dive 1**)
25/11	In Berlin, the Ministers of Industry of Italy and Germany hold the first summit foreseen by the Action Plan signed by the ministers in November 2023, focusing on measures to strengthen industrial competitiveness, in particular IPCEIs and strategic value chains
25/11	Unicredit, the biggest Italian bank, launches a voluntary public exchange offer for Banco BPM, triggering immediate political reactions (see **Deep Dive 2**)
26/11	The Minister of Environment and Energy Security presents Italy's new strategy for hydrogen, setting measures and goals to expand the hydrogen industry in the country
26/11	The European Commission adopts a positive assessment of Italy's progress on NRRP milestones and targets, giving the green light for the payment of the sixth instalment worth €8.7 bln (see our **Graph of the month**)
29/11	The Council of Ministers declares of strategic interest the project by Amazon Web Services (AWS) to build new cloud infrastructures in the Milan area, worth €1.2 bln
29/11	The European Commission approves the commitments proposed by Lufthansa and the Italian Minister of Economy to eliminate competition concerns, thus authorising the acquisition by the German airline of Italian state-owned ITA Airways after more than a year of negotiations

DEEP DIVE 1

Digital "payments": the surprising extension of the web tax

Article 4 of the budget bill under examination by the Italian Parliament foresees an extension of the digital service tax, commonly known as the "web tax"—a 3% levy on revenues from digital services. Crucially, the provision removes the thresholds of €750 mln in global revenues and €5.5 mln in Italian revenues, in practice extending this additional tax to all digital companies operating in Italy. As we are writing this brief, the Parliamentary debate is still ongoing, and negotiations are taking place to provide some safeguards at least to digital SMEs.

Commentary

The measure can be analysed from three main viewpoints: industrial, financial, and political.

First, from an industrial standpoint, the move is surprising. Italy has a significantly high number of SMEs, which—at the same time—also tend to be less digitalised than their equivalents in peer European countries. The extension of the web tax also to these companies would risk adding a further obstacle to the catch-up of Italy's industrial base in this regard. The move would be particularly counterintuitive, coming from a government that has been portraying itself all along as being on the side of small businesses.

Second, financially the tax is not expected to add much to the state's revenue. The government estimates it will generate only an additional €51.6 mln with the new version of the tax. Such a low return does not seem to justify the negative signal the move would send to SMEs and, especially, to innovative companies.

Politically, however, Minister of Economy Giancarlo Giorgetti has so far strongly defended the provision. He declared that the new web tax would eliminate the discriminatory aspects which generated commercial retaliation by the US. His position had frozen the majority's action in Parliament: only one majority amendment, signed by a Forza Italia MP, called for the removal of the measure from the budget bill. It is yet to be seen if the majority will find a different compromise.

In conclusion, the provision, if approved in its original form, would completely change the nature of the web tax. The measure would stop being a levy on big techs—which create revenues in Italy but can elude the fiscal system—and would instead become a tax on all digital services, a counterintuitive move for a country that could reap significant productivity gains from further digitalisation. As mentioned above, it remains to be seen to what extent the measure, and Mr Giorgetti's determination, will withstand Parliamentary scrutiny.

DEEP DIVE 2

Unicredit's attempt to acquire Banco BPM

On 25 November UniCredit announced a voluntary public exchange offer for Banco BPM, with a valuation of approximately €10 billion. The move represents a strategic attempt to solidify UniCredit's domestic market presence and the proponent said that it expects the deal to be completed by June 2025. If it were to materialize, the deal would result in a consolidation of the Italian banking sector, with a merger between the second player (Unicredit) and the fourth (BBPM) by assets. The operation has however been criticized both by executives of BBPM itself and by members of the Italian government.

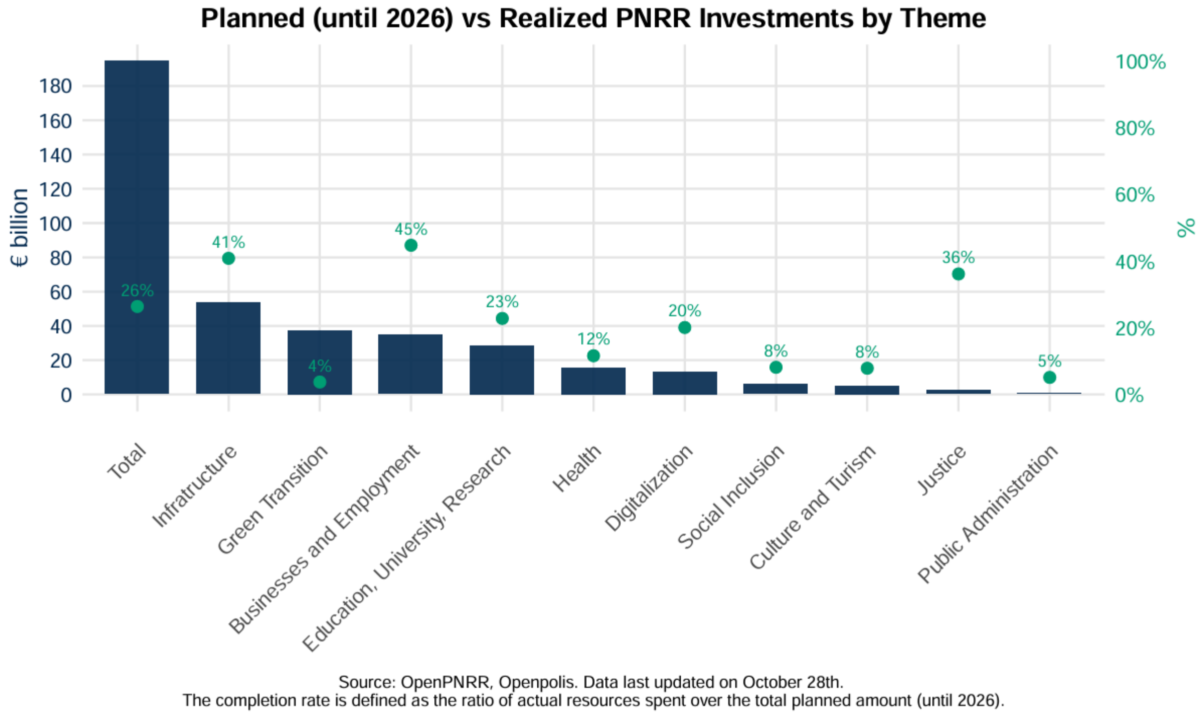
Commentary

Two aspects are worth highlighting. First, despite the upsides underlined by Unicredit, the deal was met with some opposition. On the one hand, Unicredit itself underlined potential synergies for around €1.2bn between cost savings and revenue generation, over 24 months. On the other hand, BBPM criticised the valuation and raised concerns over such estimates, underlying how cost synergies of more than one third of its cost base may imply a significant employment and social impact from the deal. Even the Italian government expressed irritation about the move as this may complicate its attempts to merge the state-backed Monte dei Paschi di Siena (MPS) with BBPM. Nonetheless, it has ruled out issuing a decree to allow BBPM to circumvent the passivity rule and increase its stake in MPS. Economy minister Giorgetti is considering exercising the golden power - a law that allows the government to block or set conditions for operations affecting national interests - but such a move is opposed by Forza Italia secretary and Minister of Foreign Affairs Tajani.

Second, this event shows once again how, despite frequent calls for building scale in the European banking sector (see, for example, Draghi's recent report and declarations of support for cross-border mergers by ECB President Christine Lagarde), in practice political obstacles abound for European financial champions to emerge. Indeed, earlier this year Unicredit increased its stake in Commerzbank in a first step towards a potential takeover. Since then, however, the deal has been strongly opposed by the German government and unions, with CEO Orsel acknowledging that there may not be an ability to move on with the operation. Unicredit's focus on BBPM may thus signal its shifting attention from cross border to domestic consolidation in the context of persisting obstacles to building truly European Banking and Capital Markets.

GRAPH OF THE MONTH

NRRP: Realization of Public Investments



Source: Open PNRR

The National Recovery and Resilience Plan (NRRP) represents an unprecedented opportunity for revamping Italian growth. Research has underlined how most of the macroeconomic impact (in terms of additional GDP growth compared to an alternative scenario without the Plan) stemming from additional expenditures is expected to be driven by public investments. It is therefore key to monitor their advancement. The European Commission has positively evaluated the broad advancement of the Plan - green lighting the payment of the sixth instalment of funds. Reforms also appear broadly on track. However, getting a comprehensive assessment of the realization and effects of the investments is more complicated. As highlighted by the Openpolis observatory, data publication has been at times slow and incomplete, especially following the revision of the Plan. From the data available, it appears that so far only a small fraction of the total resources for the anticipated investments has been spent. This is particularly true in the case of public investments related to the Green Transition, which are expected to represent the second investment area by amount, but appear to be at less than 5% completion so far. As recently as in the European Commission Autumn forecasts NRRP, public investments remain key drivers of projected Italian growth. The existing data shows this dynamic is mostly to materialise yet.

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