

The Italian draft budgetary plan confirms a fiscal expansion for 2022

There are likely to be heated parliamentary discussions on the details of the most divisive new measures. In our view, however, PM Draghi will manage to strike a balance, keeping the political risk at bay, at least in the short term.



Mario Draghi at his last ECB news conference

Another fiscal push in 2022 and, possibly, also in 2023

With just a few days delay, yesterday the Italian government submitted its budgetary draft for 2022, to the EU Commission. The macro picture underlying the draft budget foresees growth at 6% in 2021 and at 4.7% in 2022. That is in line with our own forecasts for the current year although we believe it is on the optimistic side for 2022.

The document acknowledges the risks to growth which is posed by higher inflation, although it assumes that the propulsion of the recovery plan will be able to compensate for it, helped by an additional fiscal push in 2022.

Comparing the projected trend deficit and the planned deficit, we note the latter to be higher by some 23bn€ (or 1.3% of GDP). Interestingly, the government foresees that the fiscal stance will remain expansionary until GDP reaches the level projected before the outbreak of the Covid-19

pandemic (and not simply the pre-Covid level). As this is not expected to happen until 2024, another fiscal push is expected in 2023, when the European budgetary rules (in whatever form) should be applied again.

The return of the debt/GDP ratio on a declining trend will therefore build in the short-run on higher GDP growth, resulting from the combined effect of investments and reforms foreseen by the EU recovery fund and in the medium/long run also on adequate primary surpluses.

Continuity with emergency times and a first bit of tax reform among planned new measures

How will the 23bn€ of new funds budgeted for 2020 be spent?

The draft plan does not go into detail. However, with the aim of supporting the Italian economy in its climb out of the Covid emergency, it is suggested that they will fund reform of social shock absorbers and introduce a first stage of the tax reform. But it's also suggested they will follow a line of continuity with the measures adopted during Covid times. The result is therefore likely to include a combination of tax incentives for business innovation and investment, and for households' energy efficiency expenditures. It is also likely to include the refinancing of Covid related health expenditures and new funds for local administrations and education.

Parliament has now started debating the details, which will be included in the new budget law. Given the very diverse nature of the current national unity majority, we expect heated debate on a number of divisive issues such as the reform of the citizenship income (the flagship measure of the 5SM) and the new early pension regime which will have to substitute the so-called "quota 100" temporary rule (the flagship measure of the League), which is set to expire by the end of the year. Other relevant issues, such as the cut of the tax wedge (the first likely element of tax reform) are likely to get less controversial support.

All in all, we believe that PM Draghi will manage to strike a balance on these divisive matters, keeping the political risk attached to the parliamentary discussion, well under control.

Short term political risk tamed, also thanks to recent municipal election round results

The recent round of municipal elections, which ended with a success for the PD party and poor overall results for the 5SM and for the right-wing parties in the big cities, possibly contributed reducing the short term political risks at the national level. To be sure, a local vote should not necessarily be given national relevance, but the abnormally high abstention rate, particularly among the losers according to electoral flow analyses, sent a warning signal nonetheless. With the country still deeply into its re-opening rebound effort and with the risks of a new wave far from over, flirting with the no-green pass front did not pay off for the League and FdI. Re-connecting with the moderate part of their electorate will likely take some time. The League, part of the current government coalition, might adopt in the process a less challenging approach. Looking at the winners' side, we believe that the PD party will refrain from rushing to capitalize the local vote in the short run, and that will work to set-up an enlarged coalition in view of the 2023 national elections instead. On both fronts, a lot of energy will be soon put into the closed-door negotiations in view of the all-important election (by secret ballot) of the new Italian President, due in early February 2022.

Author

Paolo Pizzoli

Senior Economist, Italy, Greece

paolo.pizzoli@ing.com

Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies)*. The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit <http://www.ing.com>.