

## The Italian Recovery and Resilience to be submitted to the EU Commission

It will represent a big opportunity and a challenge, as its success will crucially depend on a thorough implementation of reforms. Higher potential growth and more debt sustainability could follow, eventually paving the way to more EU integration



### A long gestation, involving two governments

The genesis of the plan goes back to the times of the Conte 2.0 government, whose last draft had been disclosed in mid-January. Criticisms on the way Conte had managed the file had been one of the official reasons offered by Matteo Renzi, the leader of Italia Viva, to pull the plug and starting the government crisis. From day-1 of the new Draghi government tenure it appeared clear that he had two main objectives: speeding up the vaccination process and finalising and implementing the Italian recovery plan. Progress on the first front is already materialising and, notwithstanding residual regional differences and lingering vaccine supply shortfalls.

---

*The new Draghi government has two main objectives: speeding up the vaccination process and finalising and implementing the Italian recovery plan.*

---

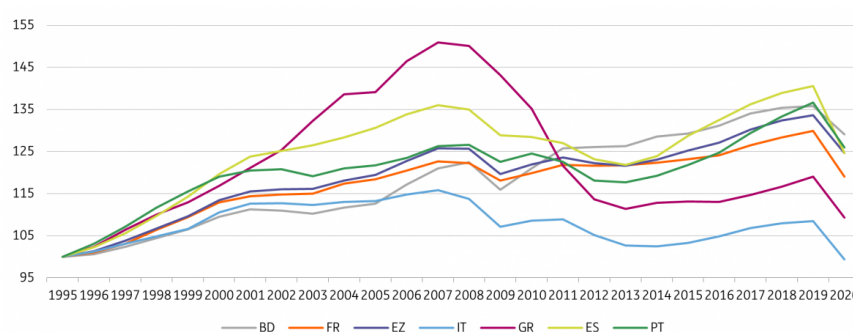
Unlike vaccinations, the finalisation of the national recovery and resilience plan has had little publicity, taking place far from the spotlight. Draghi chose a multi-pronged approach, advancing in the domestic selection of projects while negotiating the details of the plan with the EU Commission in order to check ex-ante their viability. The result is the 300+ page draft which has been disclosed to the Parliament early this week, passing resolution votes in both branches without amendments. After yesterday's final approval by the Italian Cabinet, the Plan will be sent today to the EU Commission.

## An opportunity to help Italy reducing the growth gap

The whole architecture of the NGEU program, beyond trying to help the countries more directly affected by the economic consequences of the Covid-19 pandemic, is obviously meant to help restore lost macroeconomic convergence among member countries. Italy, having suffered from a widening growth gap over the last two decades (see graph below) will be among the countries benefiting most from the inflow of EU funds (the biggest taker together with Spain in absolute terms). The key mission of the plan will thus be to help Italy realize the productivity gains badly needed to sustainably increase potential output and improve public debt sustainability.

## A long lasting growth gap weighs on Italy

Per capita GDP growth - 1995=100



Source: Refinitiv Datastream, ING

## A paramount role for reforms, starting from justice and public administration

When examining the new structure of the plan, the paramount role of reforms stands out. Reforms are not seen as ancillary to investments, instead they are given a comparable standing. This acknowledges the fact that the success of the entire plan is inextricably tied with that of the reform agenda, which spans areas that have recurrently been at the heart of the EU Commission's (and the IMF's, by the way) country recommendations over the years, soliciting only partial responses.

---

*The success of the plan is inextricably tied with that of the reform agenda.*

---

Justice and public administration are key areas of reform, affecting horizontally all missions in the plan. These will be integrated by an ambitious plan of simplification and rationalization of current legislation and of enhancement of competition, which will help to make possible the implementation of the plan. The reform section of the plan includes a clear definition of objectives and, crucially, a detailed timetable for implementation. Pragmatically, it distinguishes between urgent measures, to be adopted in the very near future (many in May and June 2021), and more structural measures which will be implemented over the life of the plan.

The stress on short-term reforms confirms their key function for an effective implementation of the investment programme. A more malicious interpretation might link this also to the awareness that the current national unity government will have a life span of two years at most, and that the drive for reforms might not remain unabated after the next political elections. The imminent parliamentary discussions on the urgent reform measures will offer a first meaningful test of the appetite for reforms in the current heterogeneous majority. We are not ruling out some political noise during the discussions, but we believe that the conditional role of reforms in the disbursement of funds will limit the scope for obstructionism, at least in the short run.

## Six missions to help propel productivity

Turning to the investment side of the PNRR, its structure closely follows the pattern seen in the Conte government draft. Italy will use both grants (some €69 bn in total) and loans (an estimated €122bn), funding both already budgeted items and new projects. In order not to overburden public debt, almost 60% of loans will be used to finance already budgeted plans, while grants and the rest of loans will be used to fund new investments.

Following the programme's rules, the plan channels upcoming EU funds into 6 missions (see table below), with the green revolution and the digitalization ones taking the biggest shares. The RRF will be integrated (across the same 6 missions) by React EU funds (to be frontloaded over the 2021-2023 period) and by a new domestically funded complementary investment fund (to be deployed over a 10y time span), recently announced in the Economic and Financial Document (DEF).

## The Italian Recovery and Resilience plan by mission (€bn)

	RRF	React EU	Complementary fund	Total
Digitalisation, innovation competitiveness and culture	40.7	0.8	8.5	50.1
Green revolution and ecologic transition	59.3	1.3	9.3	70.0
Infrastructures for a sustainable mobility	25.1	0.0	6.3	31.5
Education and research	30.9	1.9	1.0	33.8
Inclusion and cohesion	19.8	7.3	2.6	29.6
Health	15.6	1.7	2.9	20.2
<b>Total</b>	<b>191.5</b>	<b>13.0</b>	<b>30.6</b>	<b>235.1</b>

Source: Italy's PNRR, April 2021

## A big opportunity and a challenge

The big inflow of money, channeled in productivity-enhancing investment plans together with the ambitious reform plan which will accompany it represents a big opportunity for Italy. If projects will

pass the Commission's scrutiny and reforms will be implemented effectively, the investment-driven push to GDP growth characterizing the first years will be eventually morph into productivity enhanced higher potential growth over the remaining life of the 2021-2026 plan, helping to contrast the drag coming from poor demographics. The obvious, but not trivial, side effect of this would be fostering the sustainability of Italy's public debt, a highly desirable outcome for a debt-laden country.

Crucially, Italy's ability to implement the plan will be under the close scrutiny of Italy's EU partners. A thorough and consistent implementation would help prove to Italy's EU partners that turning an emergency-driven temporary exercise of a common fiscal policy into something permanent could be feasible, making more EU integration possible.

## The next steps

After receiving the national plan from the Italian government, the EU Commission will have up to two months to examine it and submit a proposal to the EU Council, which will be called to make a decision within four weeks. The whole process should be completed by 31 July at the latest, opening the door to the possible disbursement of the first front-loaded tranche within 3Q21.

## Author

**Paolo Pizzoli**

Senior Economist, Italy, Greece

[paolo.pizzoli@ing.com](mailto: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 [www.ing.com](http://www.ing.com).