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BULLETIN

Italian Economic Recovery Plan

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Italy has started to rebuild its economy, which has fallen into deep recession because of the COVID-19 pandemic. The government wants to achieve this goal through infrastructure investments, export and tourism support, and temporary legalisation of stay and employment of migrants. Part of these activities will be financed with funds from the new EU budget. The government's economic recovery plan also presents an opportunity to reform the country, which increases the potential of an agreement on the shape of the EU budget, the multiannual financial framework (MFF) 2021–2027.

The International Monetary Fund and European Commission (EC) forecast that in 2020, Italy's GDP will decrease by 9.1–9.5% and unemployment will be 12–13%; the budget deficit will increase from a planned 2.2% to 11.1% of GDP and public debt will increase from 135% to 159% of GDP. The crisis mainly affects exports, which in 2020 may decrease by 11%, and tourism, which lost €8.1 billion in just the second quarter of 2020.

To reduce the scale of the recession, the government is lifting the restrictions on business it set in March. According to the Bank of Italy, every week of lockdown costs the Italian economy about €9 billion. On 4 May, industry, supermarkets, and take-away catering were allowed to resume operations. On 18 May, retail stores, barber shops, restaurant terraces, beauty parlours, museums and libraries were free to open. On 2 June, Italy allowed the movement of tourists in the country.

Ad Hoc Support for the Economy. To maintain employment, the government banned employers from firing employees during the lockdown and implemented wage subsidies for small and medium-sized enterprises (SME). Employees whose contracts were suspended and self-employed workers who lost income were granted compensation of €1,600. For the projected 2 million people who will be in financial difficulties by the end of August, the government will provide €400–800 of extra income. To support parents caring for children during the pandemic, the amount of paid parental leave was increased and a care benefit worth €500 and vouchers for the purchase of care services worth €600–1,200 were introduced. Measures to help companies maintain liquidity include freezing SME credit obligations until 30 September, tax relief for businesses to adapt to new sanitary requirements and the suspension of taxes and social security contributions. A fund backing loans of up to €5 million for companies employing up to 500 people was also created. State-owned export credit agency SACE is offering €200 billion in credit guarantees to exporters. The government also introduced provisions allowing the suspension of mortgage loans for 1.5 years for people who have lost their jobs, suspended their business, or lost more than 33% of their income as a result of the pandemic.

Long-Term Economic Recovery Plan. The plan presented on 27 May assumes support for companies in digitisation and innovation, as well as re-capitalisation and the consolidation and reconstruction of supply chains. The government also intends to simplify administrative procedures to accelerate the implementation of infrastructure investments worth about €109 billion. Among the goals, the ecological transformation of the country will be used to stimulate the economy, increase employment, promote agritourism, and strengthen the protection of the landscape and cultural heritage. Increasing innovation in the education system will be a way to increase the number of people with degrees. Shortening criminal and civil proceedings in courts will make the country more investor-friendly. An increase in budget revenues is also expected through reform of the tax administration and tax system planned for 2021, which involves more progressive tax rates and better collection.

The basic instruments for implementing the government's plan are in the decree of 13 May on the economic reconstruction of the country. It assumes support for companies by cancelling the regional business tax for June and allowing a tax deduction of 60% of the cost of renting premises if a company has a minimum 50% loss as a result of the pandemic. The Italian goods and services international promotion programme will be a tool to develop exports. The condition of the tourism industry should be improved by exempting it from property tax and a programme granting households with income below €40,000 per year €150–500 in financing a holiday in the country. To cover the agricultural labour shortage, the decree provides for a period of 6 months of stay and employment of irregular migrants. To further stimulate the economy, the government will also finance 110% of the costs to increase energy efficiency and seismic resistance of buildings.

The Government's European Policy. The key issue in rebuilding the economy is EU support. Since the beginning of the pandemic, the government has been striving for the establishment of an anti-crisis fund of grants and the issuance of eurozone-wide bonds. The Italian authorities also declared they will accept help from the European Stability Mechanism only if it is unconditional. Italy also supports the Spanish tourism-recovery plan, which assumes uniform standards of safe movement of people inside the EU and European funding for the tourism industry and adaptation of the aircraft industry to new sanitary requirements.

The Italian plans' chances increased with the announcement by Germany and France on 18 May of an EU-wide economic recovery plan, and the EC's presentation on 27 May of its proposal for the MFF 2021–2027. The EC's idea to increase the EU budget through the Next Generation EU programme, a plan worth €750 billion and financed by EU-wide bonds and own revenues (e.g., digital tax), is an extension of the Italian demands for the euro area to the entire Union. It also includes the Italian demand for non-returnable EU financing.

The EU's maintenance of the digitalisation and green transformation projects as priorities is also coherent with the Italian plan. The proposal to divide €50 billion from cohesion policy based on a states' amount of harm from the pandemic, including the level of youth unemployment, is also beneficial for Italy.

The main Italian allies in the budget negotiations are France and Spain. The opponents are Netherlands, Denmark, Sweden, and Austria. The northern countries want to make access to EU funds conditioned on economic reforms. The Italian government warns that if the support isn't sufficient, Eurosceptic moods in the country will increase and the demand for northern countries' goods will decrease. Right-wing opposition parties The League and Fratelli d'Italia advocate for leaving the eurozone. At the end of May, the "Orange Vest" protest movement, which arose during the pandemic, organised a demonstration in the biggest Italian cities, demanding Italy leave the zone. The result of the EU negotiations on the MFF will impact the position of the pro-European cabinet. Despite rising support from 39.1% in February to 59% in May, the government is in danger of collapse because of disloyalty on the part of co-governing party Italia Viva, which boycotted a meeting of the Senate arbitration committee, helping controversial former Deputy Prime Minister and Interior Minister Matteo Salvini avoid the lifting of his MP immunity.

Conclusions. The Italian government's actions offer the country the chance to boost GDP growth in 2021. The implementation of the EC budget proposal will help reduce Italian debt growth in the following years. The likely success in the budget negotiations will put off changes in the government, but the substitution of Italia Viva with some other partner will be necessary.

The reforms planned by the Italian government increase the chances of overcoming the resistance of the northern EU countries to the EC proposal for the next budget. The shape of the MFF, which benefits Italy, weakens voices demanding the country's withdrawal from the eurozone. However, Italy's debt will remain a problem for the common currency and the European Central Bank will have to support Italy. If that support is insufficient, Italy will demand an increase in EU responsibility for Member State debts.

Poland, like Italy, supports an increase in EU spending, the establishment of own revenues, and the continuation of high expenditures on cohesion policy. The countries may also cooperate in the area of the tax collection by fighting tax havens, for example. But the countries remain rivals over the allocation of EU funds.