

# FOREWORD

The Covid-19 pandemic has affected the Italian economy worse than in other European countries. In 2020, gross domestic product fell by 8.9% compared with an average 6.2% decrease across the European Union. The health crisis hit Italy earlier and harder. The first local closures were imposed in February 2020, and Italy was the first EU country to introduce a general lockdown in March 2020. To date, records show almost 120,000 deaths due to Covid-19. This makes Italy the country with the highest death toll in the EU.

The crisis struck an already fragile country from an economic, social and environmental point of view. Between 1999 and 2019, Italian GDP grew by 7.9%. Over the same period, in Germany, France and Spain, the increase was 30.2%, 32.4% and 43.6% respectively. Between 2005 and 2011, the population below the absolute poverty line rose from 3.3% to 7.7% and the rate increased further to 9.4% in 2020.

Women and young people were the most affected. Italy is the EU country with the highest rate of 15–29-years-old neither in employment nor in education and training (NEETs). The participation rate of women in the labour force is only 53.8%, well below the average 67.3% at EU level. These problems are even more acute in the Southern regions (*Mezzogiorno*), where the process of convergence with the richest areas of the country has come to a stop.

Italy is highly vulnerable to climate change and in particular to increasing heat waves and droughts. Coastal areas, river deltas and floodplains are likely to suffer the effects of rising sea levels and heavy rainfall. According to estimates by the Higher Institute for Environmental Protection and Research (Ispra), 12.6% of the population lived in areas classified as high-dangerous from landslides or subject to floods in 2017, with a total worsening as compared with 2015 data. After a sharp fall between 2008 and 2014, per capita emissions of climate-altering gases in Italy, expressed in tonnes of CO<sub>2</sub> equivalent, remained substantially unchanged until 2019.

The difficulties of the Italian economy in keeping pace with other advanced European countries and bridging social and environmental gaps is mainly due to its productivity trends, much slower than in other Member States of the EU. From 1999 to 2019, GDP per hour worked in Italy grew by 4.2%, while in France and Germany it increased by 21.2% and 21.3% respectively. Total factor productivity, an indicator that measures the overall efficiency of the economy, decreased by 6.2% between 2001 and 2019, against a general increase at the European level.

Among the causes of such a poor productivity performance is that Italy was not able to seize the many opportunities offered by the digital revolution. This weakness is both due to the lack of adequate infrastructure and to the structure of the productive fabric itself, characterized by the prevalence of small and medium-sized enterprises, which have often been slow in adopting new technologies and moving towards higher value-added productions.

The lack of familiarity with digital technologies also affects the public sector. Before the outbreak of the pandemic, 98.9% of public administration employees in Italy had never experienced remote working. Even during the pandemic, compared with a rough 53% potential of this working mode in the public sector, the actual rate amounted to only 30%, with even lower levels, by about 10%, in the Southern regions.

The problem is partly linked to the decline in both public and private investment, which has slowed down the most needed modernization process of the public administration, infrastructure and production chains. Over the 1999-2019 period, total investment in Italy increased by 66%, against 118% in the euro area. In particular, while the share of private investment climbed, global public investment fell from 14.6% in 1999 to 12.7% in 2019.

Another factor that hampers Italy's growth potential is the relative slow pace in the implementation of some structural reforms. Despite progress in recent years, excessive delays in civil justice remain: on average, it takes more than 500 days to close a civil case at first instance. Furthermore, barriers to market access remain high in several sectors, in particular among regulated professions. This has a negative impact on both investment and productivity.

These weaknesses risk condemning Italy to a low-growth future, from which it will be increasingly difficult to escape. Recent economic history, however, shows that Italy is not necessarily destined to decline. After the Second World War, during the "economic miracle", our country recorded growth rates of GDP and productivity among the highest in Europe. Between 1950 and 1973 per capita GDP grew by an average 5.3% yearly, industrial production by 8.2% and labour productivity by 6.2%. In less than a quarter of a century, Italy has carried out an extraordinary process of convergence towards the most advanced countries. The average income in Italy has risen from 38% to 64% of that of the United States and from 50 to 88% of that of the United Kingdom.

Such exceptional growth rates are certainly linked to particular features of that time - first of all, the post-war reconstruction and the industrialization in a country whose economy had been largely based on agriculture -, but they also testify with the great transformative role that investment, innovation and international openness can play in a country's economy.

The European Union response to the pandemic crisis was the Next Generation EU (NGEU) Plan. An unprecedented far-reaching and ambitious plan, including investment and reforms aimed at accelerating the green and digital transition across the EU, improving workers' skills (both women and men) and achieving greater gender, territorial and generational equity.

The NGEU is an unmissable opportunity for Italy's development, investment and reforms. Italy must modernise its public administration, strengthen its production systems and deploy the best efforts in tackling poverty, social exclusion and inequalities. The NGEU can be an opportunity and a pathway to sustained and future-proof economic growth in Italy by removing the barriers that have hampered development in recent decades.

Italy is the first beneficiary, in absolute value, of the two main NGEU instruments, the Recovery and Resilience Facility (RRF) and the Recovery Assistance for Cohesion and the Territories of Europe (REACT-EU). The RRF allocates resources amounting to EUR 191.5 billion, to be used over the period 2021-2026, of which 68.9 billion are non-refundable grants. Italy also intends to make full use of its own financing capacity through the RRF loans,

estimated at 122.6 billion.

The RRF requires each Member States to submit a package of investment and reforms. The Italian National Recovery and Resilience Plan (PNRR) sets out a package encompassing 6 policy areas (*missions*) and 16 actions, the result of a close interaction that took place in recent months with the European Parliament and the European Commission, on basis of the RRF Regulation.

The six policy areas are: digitisation, innovation, competitiveness, culture; green revolution and ecological transition; infrastructure for sustainable mobility; education and research; inclusion and cohesion; healthcare. The Plan is fully consistent with the six NGEU pillars and broadly meets the parameters set out in the European regulations on shares of green and digital projects.

About 40% of the resources allocated for the territories are earmarked for the *Mezzogiorno*, which testifies with the attention paid to the issue of territorial rebalancing. The Plan is strongly geared towards gender inclusion and support to education, training and employment of the young. It also contributes to the seven flagship projects of the EU's Annual Sustainable Growth Strategy. Indirect environmental impacts have been assessed and impact factors have been minimized in line with the principle of "do no significant harm" (DNSH) inspiring the whole NGEU.

The Plan includes an ambitious reform project. The government intends to implement four major "context" reforms: public administration, justice, simplification of legislation and promotion of competition.

The public administration reform improves administrative capacities both at central and local level; it modernizes procedures for the selection, training and skilling of civil servants; it encourages administrative procedures' simplification and digitisation. The reform is aimed at fostering digital services in the areas of identity, authentication, health and justice. The main comprehensive objective is cutting the regulatory burdens currently borne by businesses and citizens in terms of costs and time waste.

The reform of justice is meant to address the structural nodes in both civil and criminal proceedings and to review the organization of judicial offices. In the field of civil justice, both first and second instance trial procedures are simplified and digital proceedings are finally implemented. The Plan also provides for measures to reduce tax litigation and the timing for closing the procedure. As for criminal justice, the Government is committed to reform the investigation and preliminary hearing phases; encourage the widespread use of alternative procedures; make the prosecution and access to trial debates more selective; fix the terms for proceedings' duration.

The reform aimed at streamlining and simplifying legislation repeals or amends laws and regulations which have a negative impact on the daily lives of citizens, businesses and public authorities. The reform encompasses regulation on public administrations and public contracts, affecting free competition, or providing scope for fraud or corruption.

Promoting and ensuring fair competition is an essential factor for economic growth and equity. Competition is not only related to market dynamics, it can also contribute to greater social justice. The European Commission and the Competition Authority, in their institutional independence, play an effective role in detecting and sanctioning cartel activity, abuse of dominant positions and mergers or acquisitions with significant impact on fair competition. The Italian Government is committed to submit to the Parliament the annual Bill on Market and Competition so as to

approve regulatory norms that could improve business activities in strategic sectors such as digital infrastructure, energy and ports. The Government is also committed to mitigate the possible negative effects of these measures and to strengthen regulatory mechanisms. The more we promote competition, the more we need to strengthen social protection.

The Government has prepared a governance scheme of the Plan which provides for a central coordination structure at the Ministry of Economy and Finance. This task force supervises the implementation of the Plan and is responsible for sending payment requests to the European Commission, which are subject to the achievement of the intended objectives. In addition, evaluation and control units are also put in place. Instead, each administration is responsible for its own investment and reform plan and sends reports to the central coordination structure. The Government will also set up local support units to help territorial administrations improve their investment capacity and cut administrative burdens.

The Government estimates that the investment Plan will have a significant impact on the main macroeconomic variables. In 2026 – the fixed term for the closing of the Plan – gross domestic product is expected to be 3.6 percentage points higher than the baseline scenario. In the 2024-2026 period, the employment rate is expected to be 3.2 percentage points higher. The investment plan ought to remarkably improve indicators on regional disparities, women and youth employment rates. The reform programme is likely to further improve these indicators.

The PNRR is part of a broader and more ambitious strategy for modernising the country. The Government intends to update national strategies on development and sustainable mobility; environment and climate; hydrogen; the automotive; the health sector.

Italy must combine imagination, design capacity and concreteness, in order to deliver to the next generations a more modern country within a stronger and more inclusive European Union.

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