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Which fiscal policy will Italy follow next?

PROMETEIA
POSITION
NOTE

n.2 - July 2017

Main points

- After the major budget adjustments implemented in 2012 and the 2012-2013 economic recession…
- …the policies put in force during the period 2014-2017 have contributed to GDP growth by 1.5 percentage points
- Italy's GDP in 2017 will increase by 1.2 per cent, a rate not seen since 2010
- Our baseline projection is that Italy will move to a moderate fiscal tightening from 2018
- We think this is appropriate, for two reasons
- First, growth is improving, so the need for further fiscal support is less crucial
- Second, there is now the need to put the debt on a secure declining path

I. The second Prometeia Position Note

Prometeia started issuing Position Notes in early 2017 with the aim of offering its independent view on relevant economic issues. In this second issue, we address the following question: should Italy aggressively attack its mounting public debt, currently at a post-war peak (**Figure 1**), or else reduce its moderate deficit smoothly in an attempt not to kill the recovery? To tell the truth, among the Italian political parties there is no voice in favour of an aggressive fiscal consolidation. The current Italian government laid out an ambitious fiscal plan in April[1], mainly to com-

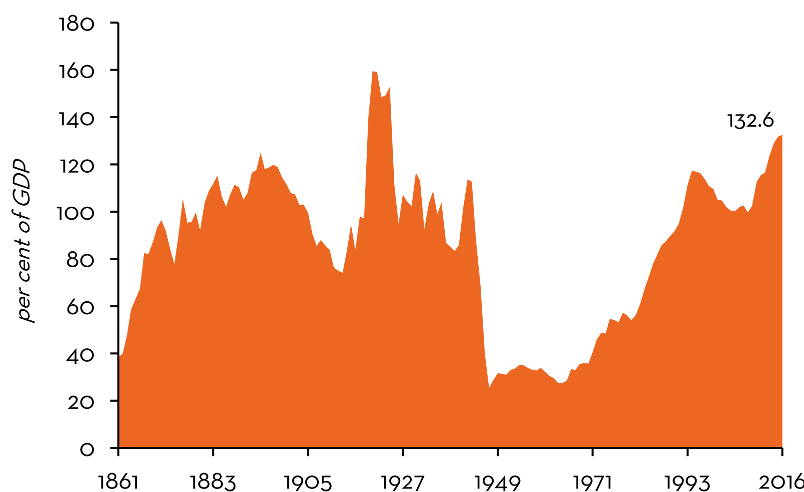


Figure 1

Italy's debt is at a peak since the First World War

Source: Bank of Italy and Istat data

1 *See 2017 Economic and Financial Document (2017 EFD), http://www.dt.tesoro.it/modules/documenti_it/analisi_progammazione/documenti_programmatici/def_2017/Sez.1_-_Programma_di_Stabilita_2017.pdf*

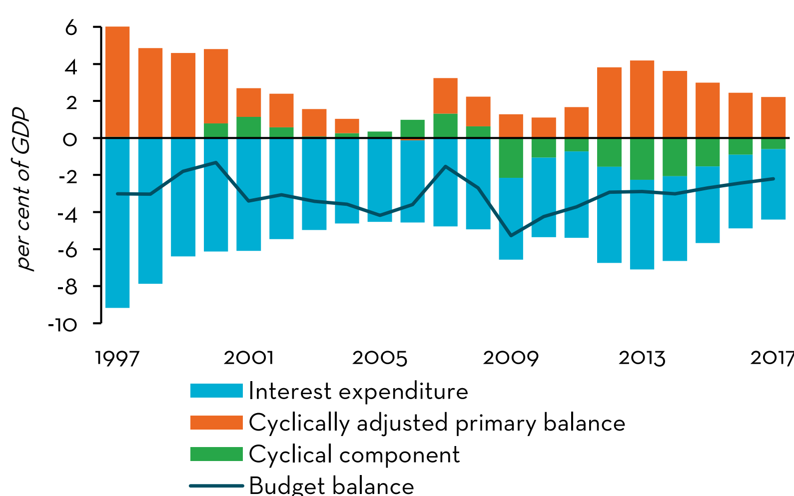
ply with the European fiscal rules, and it is now negotiating with the European Commission to soften this plan. This note will first review the budget policy implemented over the years 2014-2017 and then offer some considerations regarding the appropriate and probable fiscal stance going forward.[2]

II. The sovereign debt crisis forced Italy to implement a pro-cyclical fiscal contraction

Recent fiscal difficulties started with the outburst of the Global Financial Crisis... The global financial crisis put a strain on Italy's fiscal position. The budget balance deteriorated by 3.7 percentage points in 2008-2009 (**Figure 2**), mainly due to the recession and to the operation of automatic stabilizers (as Italy did not implement a fiscal stimulus during the crisis). In response, the country had to compensate the fall in the cyclical component of revenues by increasing its fiscal efforts.

Figure 2

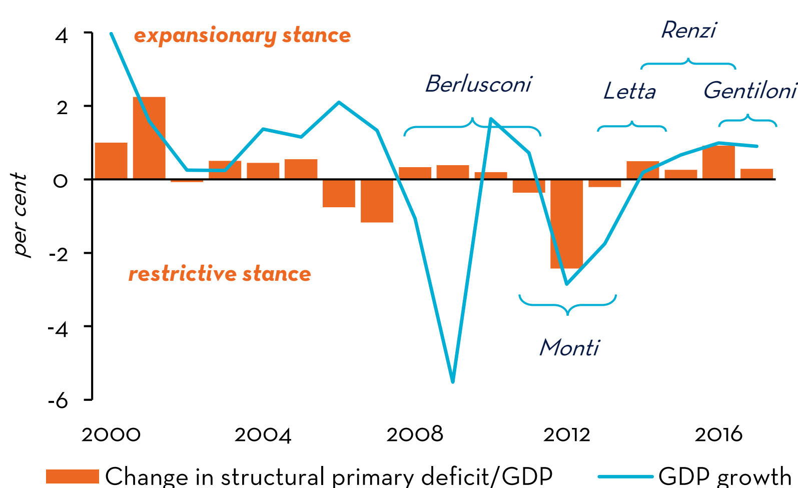
Twenty years of primary balance surplus



Source: Prometeia calculations on Ameco data

Figure 3

In 2012 Italy implemented a large fiscal adjustment



Source: Prometeia calculations on Ameco and Istat data

2 This note focuses on budget policy and does not discuss other areas such as structural reforms or the measures introduced in support of credit conditions and the banking system. The budget cost of the measures in support of the banking sector has been limited so far (Eurostat estimates a direct cost of 3 billion Euros or 0.2 per cent of GDP over the period 2007-2016).

...leading to the sovereign debt crisis... In the context of high uncertainty regarding the resilience of the European project and weak economic conditions, financial markets started fretting about the capability of Italy to repay its sovereign debt. The spread between 10Y BTP and Bund surpassed the 500bp mark in November 2011.

...forcing the government to implement a drastic fiscal contraction. The Prime Minister Monti, appointed in the late fall of 2011, had to pass a very restrictive budget for 2012 (**Figure 3**), that led to a sharp fall in the structural primary deficit by 2.1 percentage points of GDP. Apart from Spain in the same year, this was the most severe tightening seen among the four larger EMU countries after 2008. Not surprisingly, after having recovered in 2010 and 2011, Italy's growth turned negative again in 2012 and 2013, adding a further 4.6 percentage points of GDP reduction to those already lost during the first phase of the crisis. In the same two years, the debt to GDP ratio increased by 12.5 percentage points (compared to 16.7 percentage points over the years 2008-2011).

III. Fiscal policy became expansionary starting in 2014

Fiscal policy stance turned slightly countercyclical in 2014... Even though GDP stopped decreasing in the second quarter of 2013, activity remained flat for several months. The 2014 Budget Law, signed by Prime Minister Letta, changed the tone and pursued a broadly neutral stance, trying to redistribute the fiscal burden in a growth-friendly direction. At the beginning of 2014 the recovery had not started yet and the first act of the newly appointed Renzi's government was to introduce a tax rebate (the "80€ credit") with the aim of supporting domestic demand.

... more supportive in 2015... The Budget Law for 2015 was presented as a turnaround of Italy's fiscal policy. The target for the 2015 headline deficit was revised upwards to 2.6 per cent of GDP (from the 1.8 per cent originally planned, see Table 1), and the budget balance target was pushed back from 2017 to 2018. Most of the expansionary measures in the 2015 Budget Law were meant to give a boost to employment and output. The amount of expansionary measures added up to €34 billion (2.1 per cent of GDP), partly financed by increasing revenues for €28.2 billion (1.7 per cent of GDP). Thus, the net expansionary impulse of the 2015 Budget was limited, equivalent to 0.4 per cent of GDP (**Figure 4**; details of the composition will be discussed in section V). In order to avoid incurring an Excessive Deficit Procedure, the Italian government called upon a va-

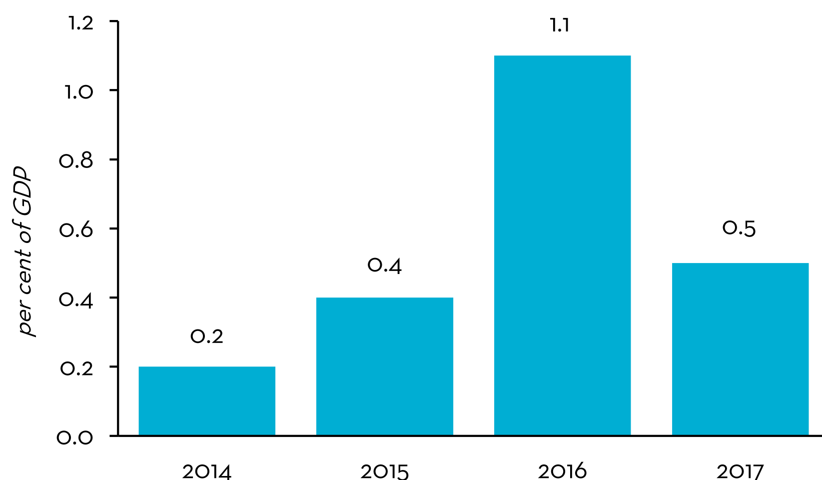


Figure 4

Trying to support the economy - official ex-ante estimates of net discretionary fiscal measures

Source: Parliamentary documents

Table 1 Fiscal balance targets - per cent of GDP

	2014	2015	2016	2017
Original target[1]	-1.8	-1.8	-1.8	-1.8
Budget Law target[2]	-3.0	-2.6	-2.3	-2.1[3]
Outcome[4]	-3.0	-2.7	-2.4	-2.2

Source: (1) Economic and Financial Document (issued in the previous year);
(2) Draft Budgetary Plan (issued in the previous year);
(3) Additional budgetary measures;
(4) Istat latest release and Prometeia forecast for 2017.

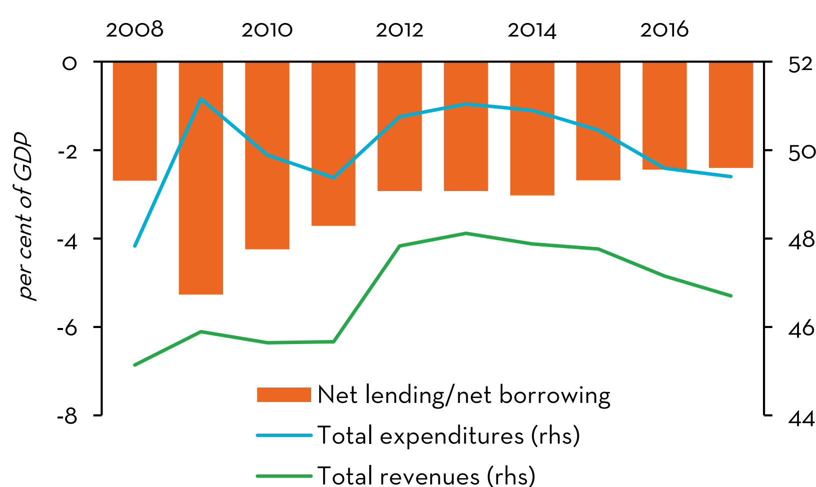
riety of exceptions contained in European treaties, under which temporary deviations from the adjustment path are permitted.[3]

...and increasingly so in 2016 and 2017. The Budget Law for 2016 set the deficit at 2.3 per cent of GDP, again a substantial revision from the original target. Similarly, the Budget Law for 2017, formally approved by the new government led by Mr. Gentiloni but based on the same draft prepared by Renzi's cabinet, revised the target for 2017 upward, from a deficit of 1.8 per cent of GDP to one of 2.3 per cent (revised to 2.1 per cent in April 2017 following the implementation of a supplementary budget required by the European Commission to avoid an Excessive Deficit Procedure).

IV. The government's budget strategy achieved its main goals: ...

The budget policy had two main goals.... Starting in 2014 and increasingly from 2015, the budget strategy strived to achieve two goals: (i) to smooth the deficit reduction path previously planned, while complying with the European fiscal rules; (ii) to reduce the burden of both expenditure and revenues, operating, at the same time, a growth-friendly redistribution between budget items.

...which were broadly achieved. Between 2013 and 2016 the deficit-to-GDP ratio decreased by 0.5 percentage points (from 2.9 to 2.4 per cent), broadly meeting the Budget Law targets (see Table 1). The fiscal burden was also reduced: total revenue fell by 1 percentage point of GDP, total expenditure by 1.5 (**Figure 5**). Nevertheless, on the expenditure side, the contraction was

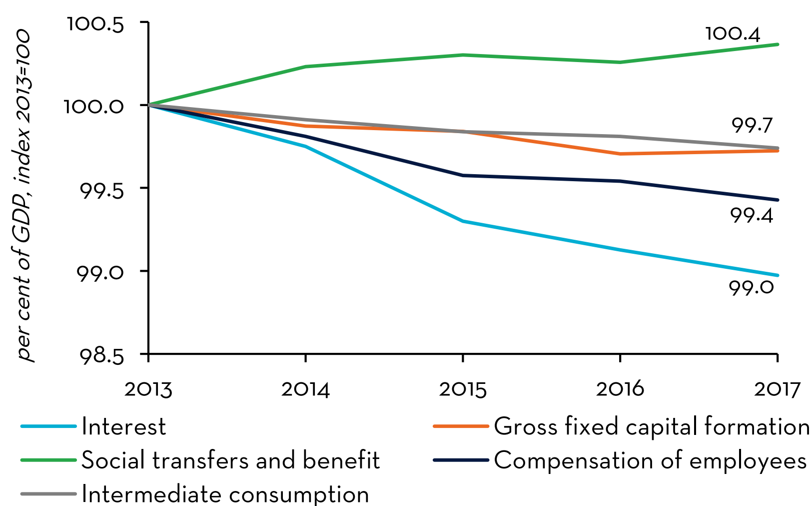


Sources: Prometeia calculations on Istat data

Figure 5

Budgetary developments

3 *See the Commission Communication "Making the Best Use of the Flexibility within the existing Rules of the Stability and Growth Pact" (COM (2015) 12 final, 13 January 2015). Italy benefitted from a 0.4 per cent of GDP deviation both in 2015 and 2016 under the structural reform clause. For Member States in the preventive arm of the Pact, the structural reform clause stipulates that the Commission will take into account the impact of structural reform plans adopted (with well-specified measures and credible timelines for their adoption and implementation) to allow possible temporary deviations from the medium-term budgetary objective (MTO) or the fiscal adjustment path towards it.*



Source: Prometeia calculations on Istat data

Figure 6

Expenditures in detail

due mainly to the fall in interest expenditures, thanks to the expansionary ECB policy. Among primary expenditures, public sector wages dropped as a proportion of GDP more than investment and intermediate consumption[4], while pensions and social payments recorded an increase (**Figure 6**).

V. ...it was able to support growth...

How to assess the growth supporting fiscal measures? To examine the discretionary budgetary measures introduced over the last four years, we classify them into expansionary discretionary measures and measures to reduce the deficit. Among the expansionary measures, we have: (a) measures to support household disposable income, (b) reductions in the tax wedge for employers and (c) incentives for private investment. These measures are quantified according to their ex-ante impact on the budget as estimated in official documents.[5]

According to official estimates, the support to household income was substantial... The cumulative impact of tax relief and additional resources devoted to welfare spending ranged from 0.8 per cent of GDP in 2015 to 1.5 per cent in 2017 (**Figure 7a**). The main measures are the €80 monthly credit for low income employees implemented from May 2014[6] and the abolition of property taxation on first residences from 2016.[7,8]

4 Public sector incomes declined by 0.5pp in term of GDP, investments by 0.3pp and intermediate consumptions by 0.2pp. However, in real terms the fall in investments amounted to 12 per cent, while intermediate consumptions increased by 0.8 per cent. This underscores the very different dynamics of the investment and consumption deflators.

5 Even though this approach has limits, as will be discussed below, because by using the ex-ante official estimates we assume that the measures have been fully implemented and the ex-ante estimates are unbiased, it is a reasonable approach and widely used by the so called "narrative approach" to identify discretionary fiscal measures (see Romer, C. D. and Romer D. H. (2010), "The Macroeconomic Effects of Tax Changes: Estimates Based on a New Measure of Fiscal Shocks", American Economic Review, Vol. 100, n. 3; Gujardo, J., Leigh D., and A. Pescatori (2014), "Expansionary Austerity? International Evidence", Journal of the European Economic Association, Vol. 12, Issue 4, August 2014).

6 The 'credit' of €80/month was meant for employees with yearly income between €8145 and €26000. The transfer is constant at €80 monthly for incomes up to €24000, then it decreases linearly, becoming zero for incomes of €26000 and above.

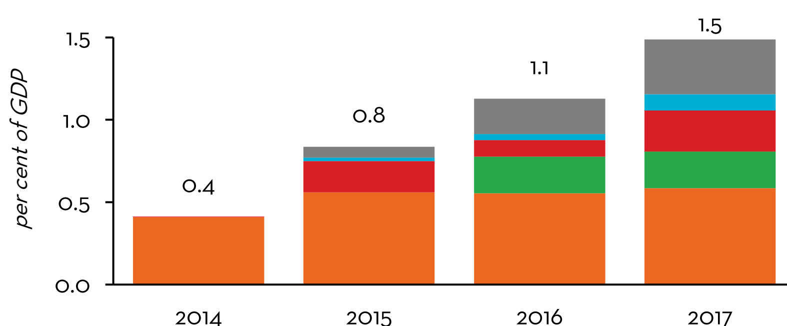
7 Taxes on the main dwelling in Italy are low compared to peer countries, therefore the government should have considered alternative measures to support households' consumption.

8 Other measures that were approved, although with a much more limited cost, are: contract renewals and new recruitment in the public sector; increase of the fourteenth-monthly pay and the extension of the no-tax area for pensioners; earlier retirement for specific categories of workers ("APE social"); extension of the measures to fight poverty and social exclusion (such as the extension of the SIA, Sostegno per l'Inclusione Attiva, supporting young people and families with children).

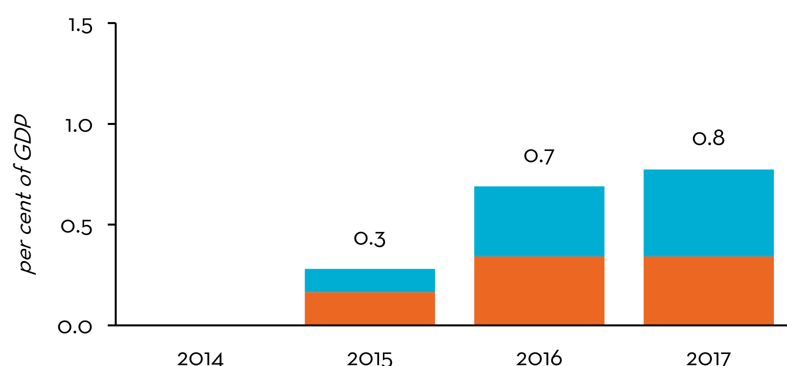
Figure 7

Expansionary measures: ex-ante cumulative net impact

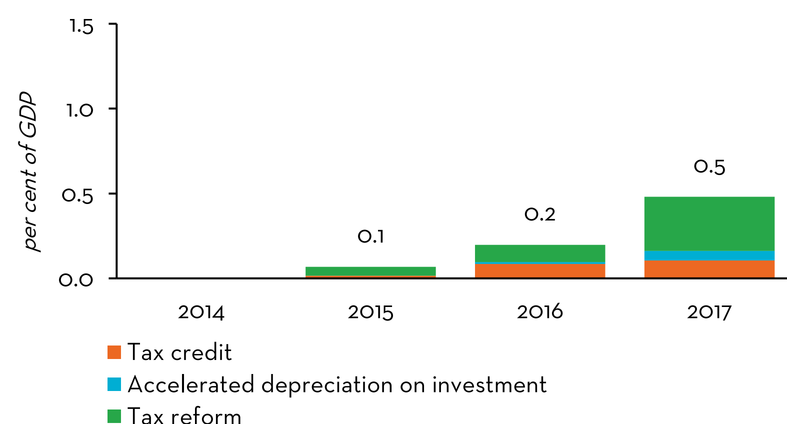
a) Increase in household disposable income



b) Reduction in the employers' tax wedge



c) Business incentives and taxation reduction

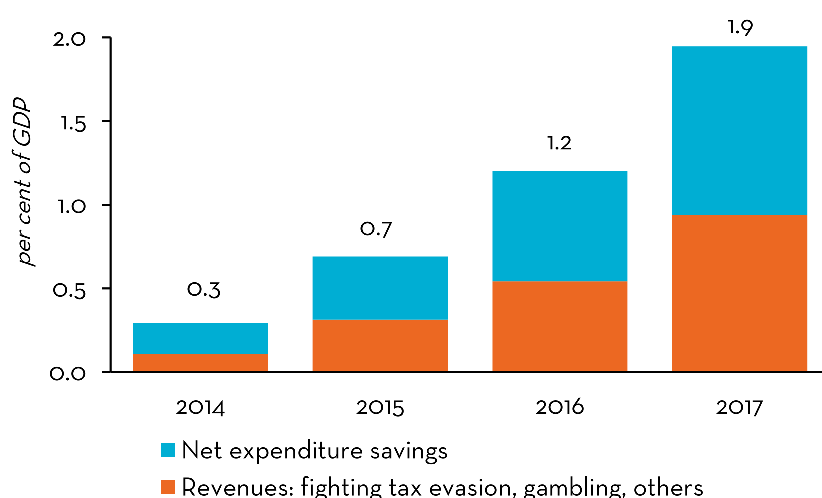


Sources: Prometeia calculations on Parliamentary documents and Istat data

… and the reduction of the tax wedge for employers was also significant… Starting from 2015, two measures were introduced: the reduction of the tax wedge[9] and the partial exemption of social contributions for employers hiring new workers under open-ended contracts in 2015 and 2016.[10] The overall resources amounted to 0.3 per cent of GDP in 2015, 0.7 per cent in 2016 and 0.8 per cent in 2017 (**Figure 7b**).

9 The labour cost for workers on open-ended contracts became fully deductible from the IRAP (Imposta Regionale sulle Attività Produttive) tax base.

10 The incentive amounts to €8060 and is available for up to three years for contracts signed in 2015, decreasing to €3260 for up to two years for contracts signed in 2016. €8060 corresponds to the amount of social contributions that an employer would pay for an employee with average wage (€26000 per year).



Souce: Prometeia calculations on Parliamentary documents and Istat data

Figure 8

Corrective measures: ex-ante cumulative net impact

... while business tax relief and incentives for investment have been less substantial. These measures are worth 0.1 per cent of GDP in 2015, 0.2 per cent in 2016 and 0.5 per cent in 2017 (**Figure 7c**). The key initiatives to boost private investment include the possibility, from October 2015, to deduct 140 per cent of the value of investment from the tax base (instead of 100 per cent), expanded up to 250 per cent in 2017, especially for digital investments ("Industry 4.0"), and the expansion of tax credits for R&D expenses. Tax reform measures include the reduction of the corporate income tax.[11]

Tax evasion and spending review were the main targets on the financing side. Part of the expansionary measures was meant to be financed by additional resources coming from the spending review process and the fight against tax evasion/avoidance, alongside one-off revenues.[12] Official estimates put the ex-ante impact of these measures at about 0.3 per cent of GDP in 2014 and up to 1.9 per cent of GDP in 2017 (**Figure 8**).

We evaluate that the overall impact on growth has been significant... Using the Prometeia Italian economy quarterly model (PIQM[13]), we estimated the overall effect of the expansionary measures on GDP at 2 percentage points cumulatively over the years 2014-2017 (**Figure 9**). Taking into account the financing measures, the positive effect decreases to around 1 percentage point. By using the PIQM we were able to disentangle the effects of the discretionary fiscal measures from other positive shocks to growth occurring at the same time, namely the drop of oil prices, the expansionary monetary policy and the depreciation of the euro.

..., as the measures supporting consumption and investment, ... a) The support to household disposable income increased GDP by 1 percentage point (see **Figure 9**), mostly through consumption. There was also an important indirect positive impulse on corporate investment that contributed 0.3 per cent to the overall increase of GDP coming from the additional demand; b) Reducing the tax wedge increased GDP by about 0.7 percentage points. These measures influenced domestic demand through the reduction of labour costs and, consequently, the reduc-

11 The statutory tax rate (IRES, Imposta sul Reddito delle Società) was reduced to 24 per cent from 27.5 starting from 2017 and a flat tax was introduced on the income of small firms (IRI, Imposta sul Reddito di Impresa).

12 On the financing side, we do not take into account the so-called "safeguard clause", as the corresponding VAT increase has been periodically postponed thus exerting no effect on the economy.

13 For an updated description of the PIQM, see Note di Lavoro, Prometeia, forthcoming.

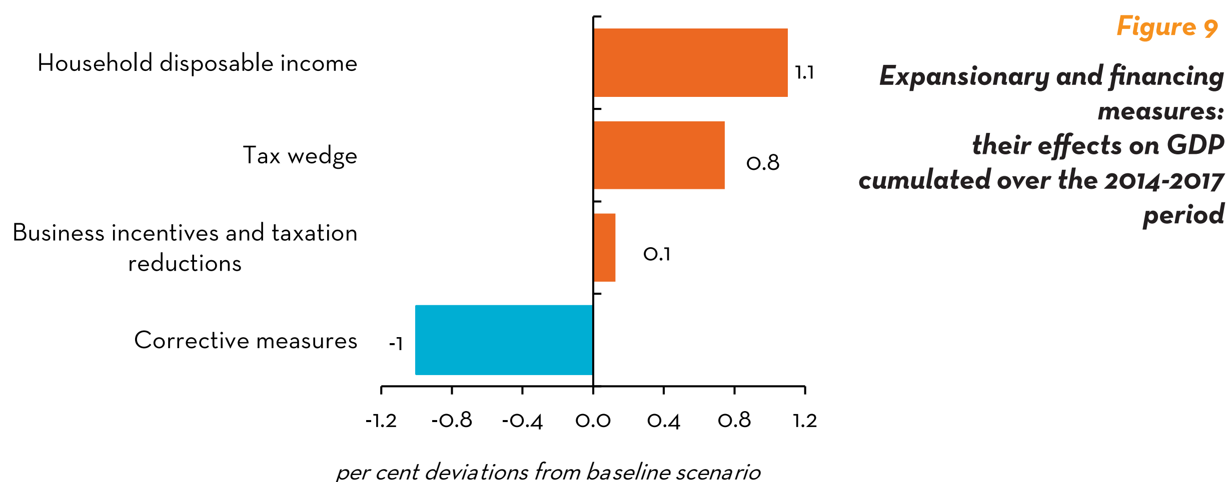


Figure 9

Expansionary and financing measures: their effects on GDP cumulated over the 2014-2017 period

Source: Prometeia calculations

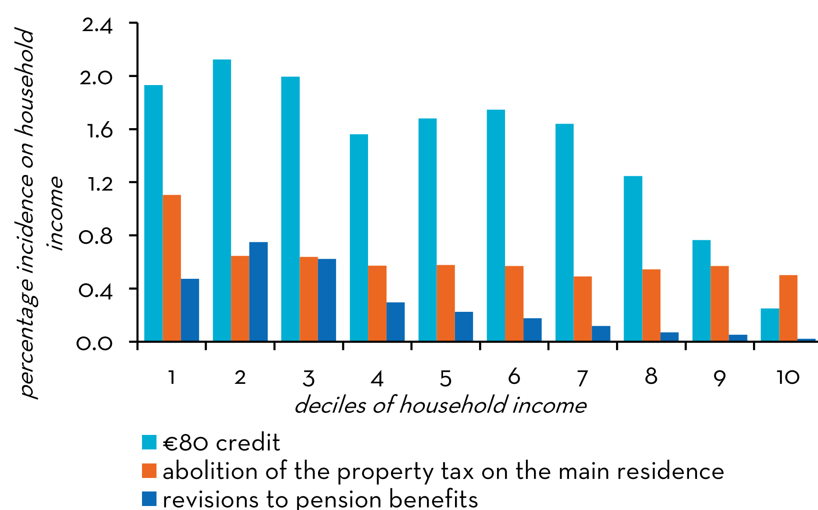
tion of prices on one hand, the increase of employment[14] on the other, with a positive influence on household purchasing power and competitiveness; c) Tax credits, fiscal incentives on investment and the reduction of corporate income tax rates boosted investment by reducing the user cost of capital and improving cash-flows. The overall effect of these measures on GDP, however, has been limited (0.1 percentage points).

... were not offset by financing measures... Based on their ex-ante evaluation, we estimate that the financing measures (so-called "coperture") reduced GDP growth by 1 percentage point (**Figure 9**).

... a fortiori because the financing did not fully materialize. So far, we have assessed the fiscal impulse according to a "bottom-up", or ex-ante, approach, starting from the individual discretionary legislated measures. But there is another approach to estimating the fiscal impulse: the "top-down" approach, considering the change in the cyclically adjusted primary balance as estimated ex-post. Thus, it measures the overall discretionary fiscal impulse as the difference between the change in the headline deficit and the variation in the cyclical component of the deficit. The top-down ex-post approach suggests an expansionary fiscal policy of about 2 per cent of GDP cumulatively over the period 2014-2017, while the ex-ante bottom-up of 0.9 per cent (2.8 per cent of GDP in additional expenditures minus about 1.9 in financing measures). We believe the discrepancy between the two approaches is largely due to the fact that the financing measures delivered only about half of the budgeted amounts.[15] In consideration of this lower impact of the financing measures, our assessment is that over the period 2014-2017 the expansionary measures introduced (net of additional financing) amount to about 2 per cent of GDP, with a cumulative impact on growth of about 1.5 per cent, therefore a fiscal multiplier of 0.7-0.8 per cent which is not negligible.

14 Employment has increased substantially over the last three years, above what we would estimate based on the employment elasticity to GDP estimated from historical data.

15 It is beyond the scope of this note to try to provide a detailed estimate of the ex-post effect of the tax evasion and spending review measures. Recently the government issued a report (http://www.mef.gov.it/inevidenza/documenti/Relazione_Commissario_20_Giugno_2017_.pdf) which estimates the ex-ante savings from the spending review measures legislated between 2014 and 2017 at 30 billion. This figure is higher than the one reported in this note because of a methodological difference: we estimated from budget documents the expenditure savings net of expenditure increasing measures, while the 30 billion figure refers only to spending reduction measures.



Source: Prometeia/CAPP calculations

Figure 10

Measures redistributed in favour of the low and middle-income households

VI. ...and redistribute to lower-income households (despite not directly tackling poverty)

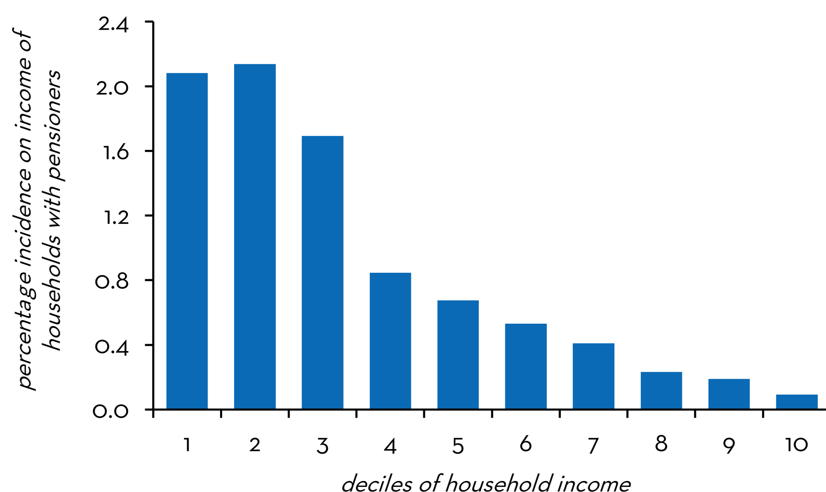
The government's policies redistributed in favour of lower incomes. We separately simulated the distributive impact on household income of three measures: (i) the introduction of the €80 credit to employees in 2014, (ii) the abolition of the property tax on the main residence in 2016 and (iii) two revisions to pension benefits (the extension of the no-tax area and the change in the design of the 14th monthly pay).[16]

The €80 credit was mainly received by middle-class households. We estimate that 38.8 per cent of households benefited from the €80 credit, corresponding to 9.7 million family units. The credit is, on average, higher for the central deciles of the household income distribution, from a minimum benefit of €481 in the first decile up to around €1100 in the deciles from the fifth to the eighth, since among richer households there are more likely to be two-earner families where both members benefited. The incidence of the credit on household income is 1.2 per cent on average for all households, ranging between 2 per cent in the first three deciles and 0.3 in the upper one, thus showing a redistributive pattern (**Figure 10**).

The exclusion of owner-occupied homes from the tax base of the property tax provides savings to the majority of households. Since in Italy the home-ownership rate is very high (around 68 per cent), the impact on household income from this measure is essentially proportional to income (**Figure 10**), although higher for the first income decile. Among the measures considered in this note with a significant effect on income distribution, this one is the least progressive.

The two revisions to pensions benefited mainly the lower income pensioners. The greatest percentage impact is observed in the first three deciles of the household income distribution (**Figure 10**). When restricting the sample to households with pensioners benefitting from at least one of the revisions, the impact on household income appears not negligible and indeed con-

16 All computations are based on the microsimulation model developed by Prometeia and CAPP (Centro di Analisi delle Politiche Pubbliche, University of Modena and Reggio Emilia). See also: Baldini, M., Giarda, E., Olivieri, A. (2015), "A tax-benefit microsimulation model for Italy: A partial evaluation of fiscal consolidation in the period 2011-2014", Prometeia, Nota di Lavoro n. 2015-01; Baldini, M., Giarda, E., Olivieri, A., Pellegrino, S., Zanardi, A. (2015), "Il 'bonus' degli 80 euro: caratteristiche ed effetti redistributivi", Rivista di Diritto Finanziario e Scienza delle Finanze, LXXIV, 1, 3-22. In Figures 10 and 11 deciles are calculated based on equivalised income, a measure of household income which accounts for household size and composition.



Source: Prometeia/CAPP calculations

Figure 11

Poorer pensioners gained the most

centrated in the first three deciles of the distribution (**Figure 11**).

Not progressive enough? A criticism raised against these measures is that they were not progressive enough and did not tackle the most severe forms of poverty. Albeit timidly, the government moved to address this issue. For example, it extended the Active Inclusion Support (SIA) at the national level, which opened the way to the introduction in 2017 of a form of minimum income scheme, the so-called Inclusion Income (REI, Reddito di Inclusione).

The budget strategy broadly achieved its main goals. It was able to smooth the fiscal adjustment path, implementing a mildly countercyclical fiscal stance to support growth, while at the same time reducing the burden of both expenditure and revenue. The strategy entailed redistributing resources to the lower-income households to boost consumption. The deficit-to-GDP ratio has fallen (from 2.9 per cent in 2013 to an estimated 2.2 per cent in 2017), but it would have increased without the positive economic background (the drop of oil prices, the expansionary monetary policy and the depreciation of the euro).[17]

VII. Which fiscal policy will Italy follow next?

So far, we have assessed the fiscal policy implemented in recent years. We have seen a remarkable change of approach, from the severe fiscal contraction of the 2012 budget to the more growth-supportive policies of the last few years. At the current juncture, the crisis years having passed, and now in recovery mode, the international community is wondering which path Italy will follow in the near future. Headwinds are building up, with the expected tightening of the monetary policy and elections looming. How to think about the appropriate fiscal stance for Italy going forward?

The fiscal stance is usually assessed on the basis of two main principles. Ideally, fiscal policy

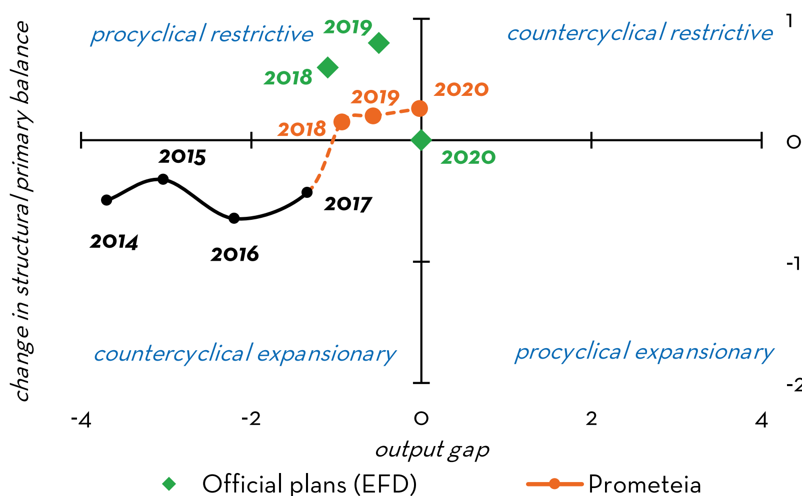
17 The reader might be puzzled by the fact that the deficit has fallen from 2.9 per cent of GDP in 2013 to 2.2 per cent in 2017 even though the government has implemented a fiscal stimulus of 2 percentage points of GDP. The puzzle is easily solved. Interest expenditure fell by 1 percentage point of GDP over the same period and the cyclical component of the budget improved by 1.7 per cent (of which about half can be attributed to the additional growth induced by the government policies). These two figures sum up to about 2.7 per cent of GDP, and indeed the headline deficit improved about 0.7 after subtracting the 2 per cent of the growth-supporting measures.

should be counter-cyclical (i.e. supportive when the economy is weak and restrictive when the economy is strong). Secondly, it should be consistent with a strategy to contain debt. Setting the debt-to-GDP ratio on a secure but smooth declining path would be appropriate. The debt decline should be secure, in order to be resistant to "reasonable" shocks, but the deficit needs to be adjusted as gently as possible to avoid choking the recovery. In the scenario, which worries the financial markets, that a significant shock might trigger a self-fulfilling crisis of confidence in the ability of the country to repay its debt, it is not going to matter much whether the debt is at 130 per cent of GDP or a few points lower. In any case, in order to spark off a crisis of confidence, there would need to be a significantly large shock since, as we make clear in our July 2017 Quarterly Report[18], given the current debt maturity structure, Italy would be prepared to confront significant increases in interest rates.

Since the crisis, Italy has not satisfied these two principles. Starting in 2008 and up to 2014, Italian fiscal policy did not satisfy either of the two principles. While being mildly neutral during the crisis years, fiscal policy turned pro-cyclical in 2012 without being able to reduce the debt-to-GDP ratio. Between 2014 and 2017 (**Figure 12**) fiscal policy turned counter-cyclical, but at the cost of not satisfying the second principle of debt reduction (**Figure 1**).

Given the current cyclical position, a moderately restrictive fiscal stance seems to be appropriate. GDP is expected to continue to grow above potential over the next two years, closing the output gap by 2020. Based on our projections on the macro and interest rate developments, a moderately restrictive fiscal stance in the next few years would not hinder the recovery while at the same time being able to set the debt-to-GDP ratio on a declining path. The debt-to-GDP ratio would moderately decline also assuming a neutral fiscal stance, but given the expected headwinds (tightening of the monetary policy and elections), Italy should take a slightly more precautionary stance.

The official fiscal plan, entailing a substantial fiscal adjustment for the future, ... Instead, the plan laid out in the 2017 Economic and Financial Document (EFD) finalized last April implies a pro-cyclical restrictive fiscal stance for the years 2018-2019 (**Figure 12**). The EFD foresees a deficit of 1.2 per cent in 2018 (from the 2.1 per cent targeted for 2017), and of 0.2 and zero per cent



Source: Prometeia calculations on Parliamentary documents and Istat data

Figure 12

Prometeia vs official plans (Budget law)

18 *Prometeia Rapporto di Previsione, July 2017.*

respectively in 2019 and 2020. Based on official estimates, this implies a fiscal contraction of 1.8 per cent of GDP in 2018-2019, reaching a primary surplus of 3.8 in 2020.

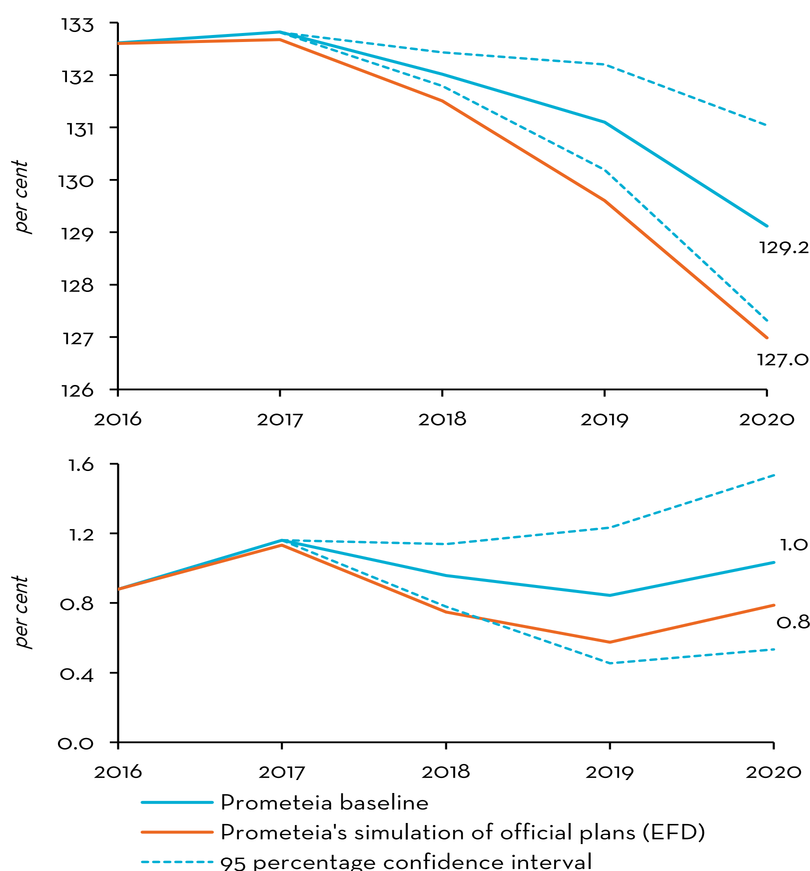
... is going to be revised. Nevertheless, the letter sent by the Italian government to the European Commission at the end of May argued for an adjustment of 0.3 per cent in cyclically adjusted terms in 2018[19], and goes in the direction of a milder restriction. The Commission is assessing the Italian position and has not taken a decision yet.

Our baseline projection is that Italy will move to a moderate fiscal tightening starting in 2018.... We assume the position of the Italian government will prevail and that the structural adjustment will be about 0.3 per cent in 2018. Based on current projections, a discretionary fiscal adjustment of about 0.5 cumulatively in 2019 and 2020 would satisfy the two principles stated above.

... as a stronger fiscal adjustment would put the recovery at risk without significant gains in terms of debt reduction. In fact, we have estimated the impact of the official adjustment path on growth and on the debt ratio (orange lines in the figures below) and compared it with our projected adjustment (very similar to the new desired government path; blue lines in the figures). The simulation is based on our July 2017 forecasts which incorporate the expected increase in interest rates and the effect on public debt of the recent resolution of the two venetian banks.[20]

Figure 13

Fiscal adjustment paths in comparison



a) Debt to GDP ratio

b) GDP growth (volumes)

Sources: Prometeia projections

19 See "The government intends to adjust the structural balance by 0.3 per cent of GDP" instead of 0.8 per cent. The letter gives no indication regarding the adjustment after 2018. http://www.mef.gov.it/inevidenza/documenti/Dombrovskis_30052017.pdf.

20 Based on official estimates, the resolution will have an impact on the public debt of €5.2 billion.

While the debt-to-GDP ratio would be only 2 percentage points of GDP lower in 2020 in the EFD scenario (**Figure 13a**), we estimate a cumulative growth loss over 2018-2020 of about 0.7 per cent compared with our scenario (**Figure 13b**).

The challenge for the next government will therefore be to reduce the debt without slowing down the recovery. The government will have to implement measures that are able to reduce the deficit but with the least negative impact on growth. Measures to be considered in this regard include the strengthening of the spending review and, on the revenue side, the update of the cadastral values (which are dated and unfair), the reform of real estate taxation, the reduction of tax expenditures, starting from the harmonization of VAT rates to decrease the role of the reduced rates, the fostering of the use of electronic invoicing and payments in order to reduce tax evasion. In general a shift from taxation on productive factors toward properties and consumption should be considered. We will have occasions to address these issues in some detail in the coming future.

prometeia associazione per le previsioni econometriche
via g. marconi 43, 40122 bologna, italia — tel. +39 051 648 0911 — fax +39 051 220 753
info_associazione@prometeia.com — www.prometeia.com
based on data available up to June 27st 2017

contributors: Elizabeth Casabianca, Lucia Cossaro, Monica Ferrari, Elena Giarda, Stefania Tomasini

contact person: lorenzo.forni@prometeia.com