EUROPEAN
COMMISSION

Brussels, 23.5.2022
COM(2022) 616 final

Recommendation for a

COUNCIL RECOMMENDATION

on the 2022 National Reform Programme of Italy and delivering a Council opinion on the 2022 Stability Programme of Italy

{SWD(2022) 616 final} - {SWD(2022) 640 final}

Recommendation for a

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on the 2022 National Reform Programme of Italy and delivering a Council opinion on the 2022 Stability Programme of Italy

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Articles 121(2) and 148(4) thereof,

Having regard to Council Regulation (EC) No 1466/97 of 7 July 1997 on the strengthening of the surveillance of budgetary positions and the surveillance and coordination of economic policies[1] , and in particular Article 5(2) thereof,

Having regard to Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances[2] , and in particular Article 6(1) thereof,

Having regard to the recommendation of the European Commission,

Having regard to the resolutions of the European Parliament,

Having regard to the conclusions of the European Council,

Having regard to the opinion of the Employment Committee,

Having regard to the opinion of the Economic and Financial Committee,

Having regard to the opinion of the Social Protection Committee,

Having regard to the opinion of the Economic Policy Committee,

Whereas:

(1) Regulation (EU) 2021/241 of the European Parliament and of the Council[3], which established the Recovery and Resilience Facility, entered into force on 19 February 2021. The Recovery and Resilience Facility provides financial support for the implementation of reforms and investment, entailing a fiscal impulse financed by the Union. It contributes to the economic recovery and to the implementation of sustainable and growth-enhancing reforms and investment, in particular to promote the green and digital transition, while strengthening the resilience and potential growth of the Member States' economies. It also helps strengthen sustainable public finances and boost growth and job creation in the medium and long term. The maximum financial contribution per Member State under the Recovery and Resilience Facility [was] updated on [XX] June 2022, in line with Article 11(2) of Regulation (EU) 2021/241.

(2) On 24 November 2021, the Commission adopted the Annual Sustainable Growth Survey, marking the start of the 2022 European Semester for economic policy

1 OJ L 209, 2.8.1997, p. 1.
2 OJ L 306, 23.11.2011, p. 25.
3 Regulation (EU) 2021/241 of the European Parliament and of the Council of 12 February 2021 establishing the Recovery and Resilience Facility (OJ L 57, 18.2.2021, p. 17).

coordination. It took due account of the reaffirmed joint commitment of the Porto Social Summit of May 2021 to further implement the European Pillar of Social Rights, proclaimed by the European Parliament, the Council and the Commission on 17 November 2017. The European Council endorsed the priorities of the 2022 Annual Sustainable Growth Survey on 25 March 2022. On 24 November 2021, on the basis of Regulation (EU) No 1176/2011, the Commission also adopted the Alert Mechanism Report, in which it identified Italy as one of the Member States for which an in-depth review[4] would be needed. On the same date, the Commission also adopted a recommendation for a Council recommendation on the economic policy of the euro area, which was adopted on 5 April 2022 by the Council, as well as the proposal for the 2022 Joint Employment Report analysing the implementation of the Employment Guidelines and the principles of the European Pillar of Social Rights, which was adopted by the Council on 14 March 2022.

(3) Russia's invasion of Ukraine, in the wake of the global pandemic, has significantly altered the geopolitical and economic context. The impact of the invasion on Member States' economies has been felt for example through higher energy and food prices and weaker growth prospects. The higher energy prices weigh particularly on the most vulnerable households experiencing risk of energy poverty. The EU is also seeing an unprecedented inflow of people fleeing Ukraine. In this context, on 4 March 2022, the Temporary Protection Directive was triggered[5] for the first time, granting displaced persons from Ukraine the right to legally stay in the EU, as well as access to education and training, labour market, healthcare, housing and social welfare.

(4) Taking account of the rapidly changing economic and geopolitical situation, the European Semester resumes its broad economic and employment policy coordination in 2022, while evolving in line with the implementation requirements of the Recovery and Resilience Facility, as outlined in the 2022 Annual Sustainable Growth Survey. The implementation of the adopted recovery and resilience plans is essential for the delivery of the policy priorities under the European Semester, as the plans address all or a significant subset of the relevant country-specific recommendations issued in the 2019 and 2020 Semester cycles. The 2019 and 2020 country-specific recommendations remain equally relevant also for recovery and resilience plans revised, updated, or amended in accordance with Articles 14, 18 and 21 of Regulation (EU) 2021/241, in addition to any country-specific recommendations issued up to the date of submission of the modified plan.

(5) The General Escape Clause has been active since March 2020[6]. In its Communication of 3 March 2021[7], the Commission set out its view that the decision on the deactivation or continued application of the general escape clause should be taken as an overall assessment of the state of the economy, with the level of economic activity in the EU or euro area compared to pre-crisis levels (end-2019) as a key quantitative

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4 Regulation (EU) No 1176/2011 of the European Parliament and of the Council of 16 November 2011 on the prevention and correction of macroeconomic imbalances, OJ L 306, 23.11.2011, p. 25.

5 Council Implementing Decision (EU) 2022/382 of 4 March 2022 establishing the existence of a mass influx of displaced persons from Ukraine within the meaning of Article 5 of Directive 2001/55/EC, and having the effect of introducing temporary protection, OJ L 71, 4.3.2022, p. 1

6 Communication from the Commission to the Council on the activation of the general escape clause of the Stability and Growth Pact, Brussels, 20.3.2020, COM(2020) 123 final.

7 Communication from the Commission to the Council on one year since the outbreak of COVID-19: fiscal policy response, Brussels, 3.3.2021, COM(2021) 105 final.

criterion. Heightened uncertainty and strong downside risks to the economic outlook in the context of war in Europe, unprecedented energy price hikes and continued supply chain disturbances warrant the extension of the general escape clause of the Stability and Growth Pact through 2023.

(6) Following the approach in the Council opinion of 18 June 2021 on the 2021 Stability Programme, the fiscal stance is currently best measured as the change in primary expenditure (net of discretionary revenue measures), excluding COVID-19 crisis-related temporary emergency measures but including expenditure financed by non-repayable support (grants) from the Recovery and Resilience Facility and other EU funds, relative to medium-term potential growth[8]. Going beyond the overall fiscal stance, in order to assess whether national fiscal policy is prudent and its composition is conducive to a sustainable recovery consistent with the green and digital transitions, attention is also paid to the evolution of nationally financed[9] primary current expenditure (net of discretionary revenue measures and excluding COVID-19 crisis-related temporary emergency measures) and investment.

(7) On 2 March 2022, the Commission adopted a Communication providing broad guidance for fiscal policy in 2023, aiming at supporting the preparation of Member States' Stability and Convergence Programmes and thereby strengthening policy coordination[10]. The Commission noted that, based on the macroeconomic outlook of the 2022 winter forecast, transitioning from an aggregate supportive fiscal stance in 2020-2022 to a broadly neutral aggregate fiscal stance would appear appropriate in 2023, while standing ready to react to the evolving economic situation. The Commission announced that the fiscal recommendations for 2023 should continue to differentiate across Member States and take into account possible cross-country spillovers. The Commission invited the Member States to reflect the guidance in their Stability and Convergence Programmes. The Commission committed to closely monitor the economic developments and adjust its policy guidance as needed and at the latest in its Semester spring package of late May 2022.

(8) With respect to the fiscal guidance provided on 2 March 2022, the fiscal recommendations for 2023 take into account the worsened economic outlook, the heightened uncertainty and further downside risks, and the higher inflation compared to the winter forecast. Against these considerations, the fiscal response has to expand public investment for the green and digital transition and energy security, and sustain the purchasing power of the most vulnerable households so as to cushion the impact of the energy price hike and help limit inflationary pressures from second round effects via targeted and temporary measures; fiscal policy has to remain agile so as to adjust to the rapidly evolving circumstances, and be differentiated across countries depending on their fiscal and economic situation, including as regards the exposure to the crisis and the inflow of displaced persons from Ukraine.

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8 The estimates on the fiscal stance and its components in this recommendation are Commission estimates based on the assumptions underlying the Commission 2022 spring forecast. The Commission's estimates of medium-term potential growth do not include the positive impact of reforms that are part of the Recovery and Resilience Plan and that can boost potential growth.

9 Not financed by grants from the Recovery and Resilience Facility and other EU funds.

10 Communication from the Commission to the Council: Fiscal policy guidance for 2023, Brussels, 2.3.2022, COM(2022) 85 final.

(9) On 30 April 2021, Italy submitted its national recovery and resilience plan to the Commission, in accordance with Article 18(1) of Regulation (EU) 2021/241. Pursuant to Article 19 of Regulation (EU) 2021/241, the Commission assessed the relevance, effectiveness, efficiency and coherence of the recovery and resilience plan, in accordance with the assessment guidelines of Annex V to that Regulation. On 13 July 2021, the Council adopted its Decision on the approval of the assessment of the recovery and resilience plan for Italy[11]. The release of instalments is conditional on a decision by the Commission, taken in accordance with Article 24(5) of Regulation (EU) 2021/241, that Italy has satisfactorily fulfilled the relevant milestones and targets set out in the Council Implementing Decision. Satisfactory fulfilment presupposes that the achievement of preceding milestones and targets has not been reversed.

(10) On 27 April 2022, Italy submitted its 2022 National Reform Programme and, on 27 April 2022, its 2022 Stability Programme, in line with the deadline established in Article 4 of Regulation (EC) No 1466/97. To take account of their interlinkages, the two programmes have been assessed together. In accordance with Article 27 of Regulation (EU) 2021/241, the 2022 National Reform Programme also reflects Italy's bi-annual reporting on the progress made in achieving its recovery and resilience plan.

(11) The Commission published the 2022 country report for Italy[12] on 23 May 2022. It assessed Italy's progress in addressing the relevant country-specific recommendations adopted by the Council in 2019, 2020 and 2021, and took stock of Italy's implementation of the recovery and resilience plan, building on the Recovery and Resilience Scoreboard. Based on this analysis, the country report identified gaps with respect to those challenges that are not addressed or only partially addressed by the recovery and resilience plan, as well as new and emerging challenges, including those emerging from Russia's invasion of Ukraine. It also assessed Italy's progress on implementing the European Pillar of Social Rights and on achieving the EU headline targets on employment, skills and poverty reduction, as well as progress in achieving the UN's Sustainable Development Goals.

(12) The Commission carried out an in-depth review under Article 5 of Regulation (EU) No 1176/2011 for Italy and published its results on 23 May 2022[13]. The Commission concluded that Italy is experiencing excessive macroeconomic imbalances. In particular, Italy continues to face vulnerabilities relating to high government debt and weak productivity growth, in a context of labour market fragilities and some weaknesses in the financial sector.

(13) On 23 May 2022, the Commission issued a report under Article 126(3) TFEU. This report discussed the budgetary situation of Italy, as its general government deficit in 2021 exceeded the 3% of GDP Treaty reference value, while its general government debt exceeded the 60% of GDP Treaty reference value and did not respect the debt reduction benchmark. The report concluded that the deficit and debt criteria were not fulfilled. In line with the Communication of 2 March 2022, the Commission considered, within its assessment of all relevant factors, that compliance with the debt reduction benchmark would imply a too demanding frontloaded fiscal effort that risks to jeopardise growth. Therefore, in the view of the Commission, compliance with the

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11 Council Implementing Decision of 13 July 2021 on the approval of the assessment of the recovery and resilience plan for Italy (ST 10160/21; ST 10160/21 ADD 1 REV 2)

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debt reduction benchmark is not warranted under the current exceptional economic conditions. As announced, the Commission did not propose to open new excessive deficit procedures in spring 2022 and it will reassess the relevance of proposing to open excessive deficit procedures in autumn 2022.

(14) On 20 July 2020, the Council recommended Italy to take in 2020 and 2021 all necessary measures, in line with the general escape clause, to effectively address the pandemic, sustain the economy and support the ensuing recovery. It also recommended Italy to pursue, when economic conditions allow, fiscal policies aimed at achieving prudent medium-term fiscal positions and ensuring debt sustainability, while enhancing investment. In 2021, based on data validated by Eurostat, Italy's general government deficit decreased from 9.6% of GDP in 2020 to 7.2% in 2021. The fiscal policy response by Italy supported the economic recovery in 2021, with temporary emergency measures amounting to 3.5% of GDP, (down from 4.4% of GDP in 2020). The measures taken by Italy in 2021 have been in line with the Council Recommendation of 20 July 2020. The discretionary budgetary measures adopted by the government in 2020 and 2021 were mostly temporary or matched by offsetting measures. At the same time, some of the discretionary measures adopted by the government over the period 2020 to 2021 were not temporary or matched by offsetting measures, mainly consisting of a reduction of social security contributions in poorer regions, an extension of the tax credit on employment income and the introduction of a family allowance. Based on data validated by Eurostat, general government debt stood at 150.8% of GDP in 2021.

(15) The macroeconomic scenario underpinning the budgetary projections in the 2022 Stability Programme is favourable in 2022 and realistic thereafter. The government projects real GDP to grow by 3.1% in 2022 and 2.4% in 2023. By comparison, the Commission's 2022 spring forecast projects a lower real GDP growth of 2.4% in 2022 and 1.9% in 2023, mainly due to more prudent projections for domestic demand. In its 2022 Stability Programme, the Government expects that the headline deficit will decrease to 5.6% of GDP in 2022, and to 3.9% in 2023[14]. The decrease in 2022 mainly reflects the growth in economic activity and the unwinding of most emergency measures. According to the Programme, the general government debt-to-GDP ratio is expected to decrease to 147.0% in 2022 and to decline to 145.2% in 2023. Based on policy measures known at the cut-off date of the forecast, the Commission 2022 spring forecast projects a government deficit for 2022 and 2023 of 5.5% of GDP and 4.3% respectively. Compared to the 2022 Stability Programme, the deficit projected in the Commission forecast is almost the same in 2022 but higher in 2023, mainly due to lower economic growth. At the same time, the Commission 2022 spring forecast does not include the additional support measures for 2022 announced in the Programme, as details were not available before the cut-off date. The Commission 2022 spring forecast projects a higher general government debt-to-GDP ratio, of 147.9% in 2022 and 146.8% in 2023. The difference is due to the higher deficit and lower economic growth.

[14] The estimates presented in this recital are based on the detailed budgetary projections transmitted by Italy with the 2022 Stability Programme. Except for the overall figures for government deficit and debt, the projections transmitted by Italy do not take into account the fiscal package announced for May 2022. This package, adopted on 2 May 2022, included additional support measures in 2022 as well as more resources for nationally financed investment projects in both 2022 and in the coming years.

Based on the Commission spring 2022 forecast, the medium-term (10-year average) potential output growth is estimated at 0.4%. However, this estimate does not include the impact of the reforms that are part of the Recovery and Resilience Plan and can boost Italy's potential growth.

(16) In 2022, the government phased out the majority of measures taken in response to the COVID-19 crisis, such that the temporary emergency support measures are projected to decline from 3.5% of GDP in 2021 to 1.1% in 2022. The government deficit is impacted by the measures adopted to counter the economic and social impact of the increase in energy prices, which in the Commission spring 2022 forecast are estimated at 0.5% of GDP in 2022 and phased out in 2023.[15] These measures mainly consist of social transfers to poorer households, cuts to indirect taxes on energy consumption and subsidies to energy companies. These measures have been announced as temporary. However, in case energy prices remain elevated also in 2023, some of these measures could be continued. Some of these measures are not targeted, notably the across the board cuts in indirect taxes on energy consumption (VAT and fixed levies). The government deficit is also impacted by the costs to offer temporary protection to displaced persons from Ukraine, which in the Commission 2022 spring forecast are projected at 0.1% of GDP in 2022 and 2023.[16]

(17) On 18 June 2021, the Council recommended that in 2022 Italy[17] should use the Recovery and Resilience Facility to finance additional investment in support of the recovery while pursuing a prudent fiscal policy. Moreover, it should preserve nationally-financed investment. The Council also recommended Italy to limit the growth of nationally-financed current expenditure. It also recommended Italy to pursue, when economic conditions allow, a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring fiscal sustainability in the medium term, and at the same time, to enhance investment to boost growth potential.

(18) In 2022, based on the Commission's 2022 spring forecast and including the information incorporated in Italy's 2022 Stability Programme, the fiscal stance is projected to be supportive at - 2.7% of GDP.[18] Italy plans to provide continued support to the recovery by making use of the Recovery and Resilience Facility to finance additional investment as recommended by the Council. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.9% of GDP compared to 2021. Nationally financed investment is projected to provide an expansionary contribution to

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15 The figures represent the level of annual budgetary costs of those measures taken since autumn 2021, including current revenue and expenditure as well as – where relevant – capital expenditure measures.

16 The total number of displaced persons from Ukraine to the EU is assumed to gradually reach 6 million by the end of 2022, and their geographical distribution is estimated based on the size of the existing diaspora, the relative population of the receiving Member State, and the actual distribution of displaced persons from Ukraine across the EU as of March 2022. For budgetary costs per person, estimates are based on the Euromod microsimulation model of the Commission's Joint Research Centre, taking into account both cash transfers people may be eligible for as well as in-kind benefits such as education and healthcare.

17 Council Recommendation of 18 June 2021 delivering a Council opinion on the 2021 Stability Programme of Italy, OJ C 304, 29.7.2022, p. 53.

18 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

the fiscal stance of 0.3 percentage points in 2022.[19] Therefore, Italy plans to preserve nationally financed investment, as recommended by the Council. The growth in nationally financed primary current expenditure (net of new revenue measures) in 2022 is projected to provide an expansionary contribution of 1.3 percentage points to the overall fiscal stance. This significant expansionary contribution includes the additional impact of the measures to address the economic and social impact of the increase in energy prices (0.2 % of GDP)[20] as well as the costs to offer temporary protection to displaced persons from Ukraine (0.1 % of GDP). The growth in current expenditure also reflects higher expenditure on compensation of government sector employees, due to the renewal of public contracts for the period 2019-2021, for which a substantial part (amounting to ¼% of GDP) will be recorded in 2022, while additional resources are also budgeted for the healthcare sector (0.1% of GDP). On the revenue side, the reduction of personal income taxes and the regional tax on productive activities (0.4% of GDP) are also projected to contribute to the expansionary fiscal stance. Therefore, on the basis of current Commission estimates, Italy does not sufficiently limit the growth of net nationally-financed current expenditure in 2022.

(19) In 2023, the fiscal stance is projected in the Commission 2022 spring forecast at -1.2% of GDP on a no-policy change assumption.[21] Italy is projected to continue using the grants from the Recovery and Resilience Facility in 2023 to finance additional investment in support of the recovery. The positive contribution to economic activity of expenditure financed by Recovery and Resilience Facility grants and other EU funds is projected to increase by 0.7 percentage points of GDP compared to 2022. Nationally-financed investment is projected to provide an expansionary contribution to the fiscal stance of 0.2 percentage points in 2023.[22] At the same time, the growth in nationally-financed primary current expenditure (net of new revenue measures) in 2023 is projected to provide a broadly neutral contribution of -0.2 percentage points to the overall fiscal stance. This includes the impact from the phasing out of the measures addressing the increased energy prices (0.5% of GDP). At the same time, an increase in social transfers (0.4% of GDP), due to their indexation to the inflation rate of the previous year, and additional resources budgeted for the healthcare sector (0.1% of GDP), which are not matched by offsetting measures, are also projected to contribute to the growth in net current expenditure. Therefore, the broadly neutral contribution of nationally financed current expenditure relies on the phasing out of the measures to address the impact of the increase in energy prices as currently planned.

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19 Other nationally-financed capital expenditure is projected to provide a expansionary contribution of 0.3 percentage points of GDP. This is explained by investment grants by the government, also financed by loans under the Recovery and Resilience Facility, as well as additional provisions for government guarantees to SMEs.

20 In 2021, measures to address the economic and social impact of the increase in energy prices were already in place in Italy, amounting to 0.3% of GDP. These measures mainly consisted of reductions of fixed levies and VAT rates on electricity and natural gas bills and of an increase of the social bonus for electricity and natural gas bills.

21 A negative (positive) sign of the indicator corresponds to an excess (shortfall) of primary expenditure growth compared with medium-term economic growth, indicating an expansionary (contractionary) fiscal policy.

22 Other nationally-financed capital expenditure is projected to provide a neutral contribution of 0.0 percentage points of GDP.

(20) In the 2022 Stability Programme, the general government deficit is expected to gradually decline to 3.3% of GDP in 2024 and to 2.8% by 2025. Therefore, the general government deficit is planned to go below 3% of GDP by 2025. These projections assume a reduction in total expenditure by around 3 percentage points of GDP and a decrease in total revenue by around 2 percentage points of GDP between 2023 and 2025. According to the Programme, the general government debt-to-GDP ratio is expected to decrease by 2025, specifically falling to 143.4% in 2024 and to 141.4% in 2025. Based on the Commission's analysis, debt sustainability risks appear high over the medium term.

(21) In accordance with Article 19(3), point (b), and Annex V, criterion 2.2, to Regulation (EU) 2021/241, the recovery and resilience plan includes an extensive set of mutually reinforcing reforms and investments to be implemented by 2026. These address all or a significant subset of the economic and social challenges outlined in the country-specific recommendations addressed to Italy by the Council in the European Semester in 2019 and 2020, in addition to any country-specific recommendations issued up to the date of adoption of a plan. In particular, the effective and swift implementation of the plan has the potential to bring enduring structural changes and therefore have a lasting impact on the Italian economy and society. A wide range of reforms in key policy areas are expected to address long-standing barriers to economic growth. In particular, the plan contains reforms aimed at fostering structural changes to the functioning of the public administration and judicial system and at improving the overall business environment. Planned reforms and investments in the education, skills development and research sectors have the potential to enhance human capital and research capacities in the long run. The envisaged labour market reforms and investments to improve employment prospects, in particular of young people and women, have the potential to raise labour supply, provide equal access to skills, and ultimately support economic growth. Reforms in sectors like transport and water management are expected to structurally improve economic efficiency, inter alia, through a more systematic use of competitive procedures to assign the services contracts.

(22) The implementation of the recovery and resilience plan of Italy is expected to contribute to making further progress on the green and digital transitions. Measures supporting the climate objectives in Italy account for 37.5% of the plan's total allocation, while measures supporting digital objectives account for 25% of the plan's total allocation. The fully-fledged implementation of the recovery and resilience plan, in line with the relevant milestones and targets, will help Italy swiftly recover from the fallout of the COVID-19 crisis, while strengthening its resilience. The systematic involvement of social partners and other relevant stakeholders remains important for the successful implementation of the recovery and resilience plan, as well as other economic and employment policies going beyond the plan, to ensure broad ownership of the overall policy agenda.

(23) Italy submitted the cohesion policy programming documents on 17 January 2021 for the Partnership Agreement[23] and has submitted its first programmes to the European

[23] Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021 laying down common provisions on the European Regional Development Fund, the European Social Fund Plus, the Cohesion Fund, the Just Transition Fund and the European Maritime, Fisheries and Aquaculture Fund and financial rules for those and for the Asylum, Migration and Integration Fund, the

Commission. In line with Regulation (EU) 2021/1060 of the European Parliament and of the Council of 24 June 2021, Italy shall take into account the relevant country-specific recommendations in the programming of the 2021-2027 cohesion policy funds. This is a prerequisite for improving the effectiveness and maximising the added value of the financial support to be received from cohesion policy funds, while promoting the coordination, complementarity and coherence between these funds and other Union instruments and funds. The successful implementation of the Recovery and Resilience Facility and cohesion policy programmes also depends on the removal of bottlenecks to investment to support the green and digital transition and balanced territorial development.

(24) Beyond the economic and social challenges addressed by the recovery and resilience plan, Italy faces a number of additional challenges related to the taxation system. Policies to increase the efficiency of the tax system can help addressing long standing macroeconomic imbalances. In the medium and long run, a more growth friendly and efficient tax system would contribute in reducing the high government debt, help productivity growth, and support job creation, particularly for women.

(25) Italy's tax burden on labour is high and the profile of effective marginal tax rates on personal income is characterised by sharp discontinuities. At the end of 2021, Italy has taken steps to address these challenges, in particular by introducing a universal child allowance and reducing personal income taxes. These measures are expected to moderately increase labour supply, especially for women. The tax wedge on labour remains very high at all income levels compared to other EU Member States. At the same time, other sources of revenues, less detrimental to growth, are underused, leaving room to further reduce the tax burden on labour in a budgetary neutral way. The cadastral values, which serve as the basis for calculating the property tax, are largely outdated. The number and scope of tax expenditures, including for VAT, are high, and action should be taken to streamline them. Finally, despite the relatively high revenues from energy taxes in Italy, their design does not promote sufficiently the transition to cleaner technologies, due also to the extensive use of environmentally-harmful subsidies. These various dimensions are covered by the enabling law for the tax reform, presented by the government at the end of 2021, which, following the adoption, would need to be implemented by legislative decrees.

(26) In response to the mandate by the EU Heads of State or Government set out in the Versailles Declaration, the REPowerEU plan aims to phase out the European Union's dependence on fossil fuel imports from Russia as soon as possible. For this purpose, the most suitable projects, investments and reforms at national, regional and EU level are being identified in dialogue with the Member States. These measures aim to reduce overall reliance on fossil fuels and shift fossil fuel imports away from Russia.

(27) Italy is highly dependent on energy imports from Russia, in particular gas, with 43% of its gas imported from Russia (slightly below the 44% EU average) and 42% of gas in its energy mix. Crude oil dependency on Russia is lower, at 11%, lower than the EU average of 26% (oil represents 32% of Italy's energy mix).[24] Even though Italy does not face significant problems in the security of supply of natural gas over the short

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Internal Security Fund and the Instrument for Financial Support for Border Management and Visa Policy. OJ L 231, 30.6.2021, p. 159

[24] Eurostat (2020), share of Russian imports over total imports of natural gas, crude oil. For the EU27 average, the total imports are based on extra-EU27 imports. For Italy, total imports include intra-EU trade. Crude oil does not include refined oil products.

term given its significant storage capacity and the pipeline connections with North Africa and Azerbaijan, Russia's invasion of Ukraine may pose challenges over the medium and long term. Italy has room to overcome bottlenecks to increase energy transmission capacity both within the country and with neighbouring countries. New infrastructure and network investments related to gas are recommended to be future-proof where possible, in order to facilitate their long-term sustainability through future repurposing for sustainable fuels. Italy is currently diversifying its energy mix by increasing the share of renewables, particularly thanks to solar, wind, hydrogen and sustainable biomethane. Still, also in view of the potential challenges stemming from the current geopolitical situation, there is room to speed up and increase the rollout of renewable energy sources laid down in the National Energy Climate Plan (NECP). Italy has room to continue taking measures to facilitate the authorisation of renewable energy projects. In addition, Italy's objectives in terms of energy efficiency may not be sufficient to address these challenges nor to meet the ambitions of the Fit-for-55 package. The energy efficiency strategy for the building sector mostly relies on temporary measures and should be complemented by a medium- and long-term strategy, including stronger energy efficiency measures in businesses, in particular industry. In addition, there is a need to speed up the decarbonisation of the transport sector, including by accelerating the rollout of charging points for electric vehicles, and advancing key railway, cycling and public transport projects. Further ambition in reducing greenhouse gas emissions and increasing renewable energy and energy efficiency will be needed for Italy to be in line with the "Fit for 55" objectives.

(28) While the acceleration of the transition towards climate neutrality and away from fossil fuels will create significant restructuring costs in several sectors, Italy can make use of the Just Transition Mechanism in the context of cohesion policy to alleviate the socio-economic impact of the transition in the most affected regions. In addition, Italy can make use of the European Social Fund Plus to improve employment opportunities and strengthen social cohesion.

(29) In the light of the Commission's assessment, the Council has examined the 2022 Stability Programme and its opinion[25] is reflected in recommendation (1) below.

(30) In view of the close interlinkages between the economies of euro area Member States and their collective contribution to the functioning of the Economic and Monetary Union, the Council recommended that the euro area Member States take action, including through their recovery and resilience plans, to implement the recommendation on the economic policy of the euro area. For Italy, this is reflected in particular in recommendations (1) and (2) below.

(31) In the light of the Commission's in-depth review and this assessment, the Council has examined the 2022 National Reform Programme and the 2022 Stability Programme. Its recommendations under Article 6 of Regulation (EU) No 1176/2011 are reflected in recommendations (1) and (2) below. The recommendations (1) and (2) also contribute to the implementation of the Recommendation for the euro area, in particular the first, second and fourth euro area recommendations. Fiscal policies referred to in recommendation (1) help inter alia address imbalances linked to high government debt. Policies referred to in recommendation (2) help inter alia address imbalances related to high government debt and protracted weak productivity dynamics, in a context of labour market and banking sector fragilities.

[25] Under Article 5(2) of Council Regulation (EC) No 1466/97.

HEREBY RECOMMENDS that Italy take action in 2022 and 2023 to:

1. In 2023, ensure prudent fiscal policy, in particular by limiting the growth of nationally-financed current expenditure below medium-term potential output growth, taking into account continued temporary and targeted support to households and firms most vulnerable to energy price hikes and to people fleeing Ukraine. Stand ready to adjust current spending to the evolving situation. Expand public investment for the green and digital transition and for energy security, including by making use of the RRF, RePowerEU and other EU funds. For the period beyond 2023, pursue a fiscal policy aimed at achieving prudent medium-term fiscal positions and ensuring credible and gradual debt reduction and fiscal sustainability in the medium term through gradual consolidation, investment and reforms. In order to further reduce taxes on labour and increase the efficiency of the system, adopt and appropriately implement the enabling law on the tax reform, particularly by reviewing effective marginal tax rates, aligning the cadastral values to current market values, streamlining and reducing tax expenditures, also for VAT, and environmentally harmful subsidies while ensuring fairness, and by reducing the complexity of the tax code.

2. Proceed with the implementation of its recovery and resilience plan, in line with the milestones and targets included in the Council Implementing Decision of 13 July 2021. Swiftly finalise the negotiations with the Commission of the 2021-2027 cohesion policy programming documents with a view to starting their implementation.

3. Reduce the reliance on fossil fuels and diversify energy import. Overcome bottlenecks to increase the capacity of internal gas transmission, develop electricity interconnections, accelerate the deployment of additional renewable energy capacities and adopt measures to increase energy efficiency and to promote sustainable mobility.

Done at Brussels,

For the Council
The President