MEF
Dipartimento
del Tesoro

II Quarter

2024

Quarterly Issuance Program

Updates on public debt issuance, the macroeconomic and public finance frameworks – March 2024

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1. QUARTERLY ISSUANCE PROGRAM SECOND QUARTER 2024

NEW BONDS TO BE ISSUED

Bond	Maturity	Minimum outstanding
BTP 3 years	07/15/2027	9 billion Euros
BTP 7 years	07/15/2031	10 billion Euros

The minimum final outstanding refers to the overall issuance of the bond and therefore it relates to the minimum amount the bond shall reach before being replaced by a new benchmark on the same maturity.

New bonds, in addition to the above-mentioned ones, could be issued during the second quarter, according to market conditions.

REOPENINGS OF OUTSTANDING BONDS

Moreover, during the same quarter further tranches of the following on-the-run bonds could be issued too:

Bond	Bond Accrual/maturity date	Minimum outstanding
BTP	02/27/2024 – 01/28/2026	3.20%
BTP	01/15/2024 – 02/15/2027	2.95%
BTP	03/01/2024 - 07/01/2029	3.35%
BTP	01/16/2024 – 02/15/2031	3.50%
BTP	03/01/2024 – 07/01/2034	3.85%

Furthermore, according to market conditions, the Ministry of Economy and Finance reserves the right to offer further tranches of on-the-run nominal bonds with maturity above 10 years, CCTeu and inflation-linked bonds, also with the aim to tackle possible secondary market dislocations of these bonds.

Finally, the Ministry of Economy and Finance could offer further tranches of off-the-run medium and long-term instruments, nominal – fixed rate and floating (CCTeu) – and inflation linked, in order to ensure secondary market efficiency.

The Treasury will place medium and long-term securities, nominal – fixed rate and floating (CCTeu) – and inflation linked (BTP€i), through the usual uniform-price (marginal) auction mechanism and it will discretionally set the price and the issuance amount within the interval communicated in the auction announcement press release.

2. UPDATE ON 2024 FUNDING ACTIVITY

At the end of February 2024, MEF has issued medium-long term bonds for a total nominal amount of around EUR 67 billion.

The funding activity, beyond covering the State sector cash borrowing requirement, was used to refinance medium-long term government bonds coming due in the same period, including the amounts repurchased through exchange and buyback operations, for a total amount of around EUR 50 billion.

For the rest of the year, from March 1st until December 31st, the funding activity will take into account the volume of medium-long term government bond redemptions for the same period, for a total amount equal to EUR 211 billion, as well as the 2024 residual share of the State sector cash borrowing requirement.

Considering the current cash balance and the already announced issues settling by March 31st, equal to 45 billion, with respect to the end of the year target, from April 1st to December 31st, MEF estimates a gross issuance volume of medium-long term government bonds for a total amount in the area of EUR 228-248 billion. Given the redemptions, this implies an expected net issuance volume of around EUR 39-59 billion for the same period.

Therefore, at the end of February 2023, the rate of progress in the funding activity for the current year stood at 19%. The latter rate rises to 33% if we include the issuances made and those already announced settling in the month of March.

The debt average life as of February 29th has been 7.03 years, slightly higher with respect to the 31st of December 2023 (6.97).

The average cost at issuance at the end of February 2024 has been 3.62% (against the 3.76% of the 31st of December 2023).

3. MACROECONOMIC FRAMEWORK

Against the backdrop of an uncertain global scenario and restrictive financial conditions, in the fourth quarter of 2023 GDP grew by 0.2% qoq. In 2023 as a whole, GDP rose by 0.9%, a result higher than the official forecast included in the 2024 Draft Budgetary Plan (0.8%) and than that of the euro area (+0.4%). Most recent economic indicators point to a positive outlook. The weakness in manufacturing activity is contrasted by the renewed momentum in services. The resilience of the labour market and the continued slowdown in inflation should support private demand, in a context marked by the easing of financial conditions, linked to expectations of gradual normalisation of monetary policy, and by the contribution to growth provided by the investments envisaged in the National Recovery and Resilience Plan. Despite the ongoing geopolitical turmoil, the improvement in the current account balance recorded in 2023 should consolidate thanks to the strong export performance.

Despite geopolitical instability and tight financial conditions, in the fourth quarter of 2023 the Italian economy proved its resilience. GDP grew by 0.2% qoq, outperforming the euro area average and confirming the expansion rate of Q3. The fall in inflation led to a decline in consumption, after the good performance recorded in the first three quarters of the year. Economic activity was predominantly supported by investment (+2.4 % t/t), with a marked contribution coming from the construction sector, buoyed by government incentives. At the same time, despite the weakness in global demand, exports increased significantly (+1.2% t/t). On the supply side, the robust expansion in construction and the stabilisation of the added value of manufacturing offset the slight retreat in services.

On the basis of the available indicators, the short-term outlook is positive overall, as a result of differentiated trends across sectors. The weak phase in the manufacturing sector - affected by the drop in industrial production at the beginning of the year and by a diffuse uncertainty - is contrasted by the renewed momentum in services. In February, the services PMI improved further, standing above the expansion threshold for the second time, thanks to an increase in production and new orders. In the same month, consumer confidence strengthened again, reflecting in particular the favourable savings opportunities - in line with the high demand for government bonds from households and small savers. Overall, households' spending decisions are marked by caution, although consumer expectations on inflation confirm the current slowdown trend.

In February, consumer inflation measured by the harmonised consumer price index (HICP) stood at 0.8% y/y (from 0.9% previously), well below the euro area average (2.6% y/y). The core component also decelerated, to 2.6% y/y (from 3.0% y/y in

January). In spite of the recent slight increases in energy prices anticipated by futures contracts, core inflation is expected to continue its descent phase. Overall, consumer inflation is expected to continue its downward trend in 2024.

The fall in energy commodity prices was followed by an improvement in the terms of trade and external accounts. Despite the fragile geopolitical environment, the trade balance returned to surplus in 2023, equal to €34 billion (from - €34 billion in 2022). At the same time, thanks to the robust growth of the merchandise surplus, the current account balance turned positive at the beginning of the fourth quarter, registering a surplus of €9.5 billion in the twelve months ending in January (from - €29.7 billion in the previous twelve months).

The resilience of economic activity is also confirmed by the positive dynamics in the labour market. In the fourth quarter, employment accelerated (0.6 % t/y, from 0.2 % previously), bringing the number of employed persons to the highest level in historical series (23.7 million) and the employment rate to 61.9 %. The buoyant employment dynamics were reflected in the continued reduction of the unemployment rate (7.4 %, from 7.6 %) to its lowest level since 2009.

Given the macroeconomic framework outlined, as well as the trends in GDP and its main components, the outlook for activity in 2024 appears, on the whole, encouraging. The slowdown in inflation, together with the effect of government measures aimed at expanding disposable income, should favour an increase in households' purchasing power, with a positive impact on consumption. At the same time, investment would benefit from the boost provided by NRRP resources, as well as from the easing of financing conditions associated with the gradual normalisation of monetary policy. Consequently, this should support labour demand and employment.

Risks to the forecast are still balanced. The impact on economic activity and inflation of the unstable geopolitical environment will be monitored carefully, although its macroeconomic implications have been limited so far. A further element of risk is associated with the weakening of global growth, particularly in China, where the difficulties in the real estate sector could entail more negative effects than expected. Finally, the tightening of monetary policy experienced in recent years may not have fully unfold its impact on the real economy.

4. PUBLIC FINANCE

The cash borrowing requirement of the State sector in 2023 was about 109 billion, raising by nearly 42 billion from the 2022 level. The increase was influenced not only by a growth in payments that exceeded that of receipts, but also by several factors unrelated to the real business cycle and to discretionary economic policy measures, including the lower amount of grants received from the Recovery and Resilience Facility (12 billion versus 20 billion received in 2022) and lower receipts from Bank of Italy profit payments (-3.9 billion), authorizations and licenses related to telecommunication services (-4.8 billion). In the first two months of 2024, the borrowing requirement is preliminarily estimated at around 21 billion, a level comparable to the one in the same period in 2023.

The year 2023 was characterized by a positive trend in tax revenues, which grew by 7.9% compared to 2022, despite the higher amount of tax offsets (+3.9%), resulting from the increase in tax credits granted. Within the sector, the most dynamic field was direct taxes (+8.4%) and in particular the IRPEF employee withholdings taxes, which grew by +9.5% thanks to the wage increases due to contract renewals, on the one hand, and the favourable labour market dynamics, on the other. The latter is also reflected in the increase in INPS social security contributions, which grew by +2.7 percent compared to 2022, despite the cut in the contribution rate on low and medium wages[1].

Even indirect tax revenues showed significant growth in 2023 (+7.2%), with VAT receipts increasing by +6.7%, which resulted as the effect of two opposing factors: an upward one provided by the domestic trade component (+9.4%), due to the recovery of domestic demand and the pressure exerted by core inflation, and a downward one due to the import component (-16.8%), influenced by the decrease in energy goods prices observed in the second half of the year and the decline in imported volumes recorded in national accounts data.

Finally, relevant effects on the trend of receipts come from the reinstatement in 2023 of ordinary excise duties on fuels, which led to an increase in excise on mineral oils receipts equal to +38.4%, and the payment of 3.4 billion related to the solidarity

[1] The social contribution cut for 2022, equal to 0.8 percentage points in favour of monthly wages up to EUR 2,692 (Law No. 234/2021), was raised up to 2 percentage points for the period July 2022 to June 2023 (Decree Law No. 115/2022 and Law No. 197/2022) and then further up to 6 percentage points for the period July 2023 December 2024 (Decree Law No. 48/2023 and Law No. 213/2023). From January 2023 to December 2024, the exemption is increased by 1 percentage point for monthly wage up to EUR 1,923 (L. No. 197/2022).

contribution imposed on the extra-profits of companies in the electricity, gas and oil sectors.

In January 2024, tax receipts showed a year-on-year increase (+5.1%), driven by direct taxes (+16.0%). However, the comparison with January 2023 can be misleading due to some differences pertaining to the scheduled payment deadlines and mainly due to the sharp reduction in residual account payments related to the VAT on domestic trade, with respect to the exceptional volume recorded in January 2023, which led to the decline in VAT receipts (-19.4%). Net of this factor, VAT collections would have increased by +9.5 percent, while overall tax receipts would have shown a markedly higher growth (+13.8 percent).

On the spending side, the trend in current payments in 2023 is significantly affected by inflationary pressures observed in 2022 through two main channels. The first one is related to the growth in social benefit payments, due to the indexation of pensions and other welfare programs to the previous year's inflation rate. The growth was partially contained by the limit on the revaluation of the highest pensions introduced for 2023 and 2024.

The second channel is the increase in interest payments driven by the share of 2022 inflation-indexed securities. In accrual terms, the impact of the revaluation of the redemption capital (i.e., capital uplift) is discounted in the interest expenditure in 2022, when it accrued, while in cash terms it is discounted only at the bond maturity (except for bonds indexed to the Italian inflation). However, the actual coupons cash payments also occurred during 2023, continuing to weigh on total interest payments. This phenomenon explains the cash/accrual discrepancy related to interest spending, whose expenditure in accrual terms shows a sharp decline in 2023 compared to 2022.

Capital payments in 2023 showed a significant increase, driven by both private investment subsidies and the positive dynamics of public investment, fuelled by RRF funds. Towards the end of the year, the fourth instalment was disbursed following the positive assessment about the achievement of the planned 43 milestones and 37 targets, and the request was submitted for the disbursement of the fifth one, expected in the current year.

Finally, the level of borrowing requirements in 2023 was also affected by the resources allocated to counter the effects of energy prices hikes. However, the process of gradual withdrawal of these emergency measures resulted in a significant reduction in the resources allocated for this purpose, with respect to 2022, contributing to limit the borrowing requirement raise.

The increase in the borrowing requirement of the State sector in 2023 compared to 2022 had already been discounted in official forecasts; indeed, the outturn data was significantly lower than the target set in the Update of the Economic and Financial Document published last September (5.2% of GDP versus 5.6%).

The better-than-expected trend in borrowing requirement was reflected in the value of the debt-to-GDP ratio, estimated at 137.3 percent in 2023, down by 3.2

percentage points from 2022 and 2.9 percentage points lower than the target set in the Update, also as a consequence of the much higher-than-expected nominal GDP.

The next Economic and Financial Document, to be presented in April, will include macroeconomic and public finance forecasts for the next three years updated according to the existing legislation scenario.