



Dipartimento
del Tesoro

I Quarter

2024

Quarterly Issuance Program

Updates on public debt issuance, the macroeconomic and public finance frameworks - December 2023



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1. QUARTERLY ISSUANCE PROGRAM FIRST QUARTER 2024

NEW BONDS TO BE ISSUED

Bond	Maturity	Minimum outstanding
BTP Short Term	01/28/2026	9 billion Euros
BTP 3 years	02/15/2027	9 billion Euros
BTP 5 years	07/01/2029	10 billion Euros
BTP 7 years	02/15/2031	10 billion Euros
BTP 10 years	07/01/2034	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 first 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	07/27/2023 - 09/29/2025	3.60%
BTP	10/02/2023 - 02/01/2029	4.10%
BTP	09/15/2023 - 11/15/2030	4.00%

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

In 2024 total issuance activity by the Treasury will be determined by the outstanding government securities redemptions that, net of T-bills (BOTs), will amount to a volume slightly below EUR 265 billion and by the new net cash borrowing requirement of the State Sector that, based on the preliminary estimates consistent with last September Update of the DEF (confirmed after in the last November Draft Budgetary Plan for 2024), should hover around EUR 130 billion.

Considering 2024 NGEU loans as well as the cash management activity over the year, that will take into account the 4th NGEU disbursement to be paid by the end of the current year (for EUR 16,5 billion, of which EUR 2 billion of grants and EUR 14,5 billion of loans), the information currently available brings to a forecast of total gross issuance volume of medium-long term bonds in an interval between EUR 340 and EUR 360 billion, in line with the volume issued in 2023 (almost EUR 360 billion, of which EUR 16,5 billion issued for exchange transactions).

3. MACROECONOMIC FRAMEWORK

In the third quarter of 2023, against a backdrop of high inflation and restrictive financial conditions, the Italian economy grew by 0.1% q/q, achieving a result above the Euro area average (-0.1% q/q). The uncertainty related to the evolution of the geopolitical framework and the length of the restrictive monetary policy cycle weighed on future prospects. Nevertheless, the deceleration of price growth rates to values below the European average and the resilience of the labour market are positive signs. The information coming from the most recent economic indicators points to a scenario of moderate expansion of activity in the final part of the year, thanks to the recovery of the industrial sector and the continuation of the inflation normalization phase.

In the third quarter of 2023, against a backdrop of widespread uncertainty, still high, albeit decelerating inflation and tightening financial conditions, the Italian economy proved resilient overall. After a first six months period in which economic activity was affected by the international cyclical weakening and by the restrictive guidance of monetary policy, GDP returned to growth in the third quarter (0.1% q/q), outperforming the Euro area average. The dynamic of activity was sustained prevalently by domestic demand, thanks to the boost of household consumption (+0.7% q/q) - in particular purchases of durable goods and spending on services - while gross fixed investments remained substantially stationary (-0.1% q/q) due to the recovery of those in construction and the physiological slowdown of the other investment items, already at their historically highest levels with respect to GDP. Among the sectors, the notable recovery in construction and the increase in added value in manufacturing after a year of decline offset the lower dynamism of services. On the foreign front, having overcome the contraction observed in the first half of the year, exports returned to growth (0.6% q/q), despite the weakness of world demand.

The most recent economic information bodes well for a moderately positive development of activity in the final quarter of the year. Despite the lower-than-expected drop in industrial production recorded in October (-0.2% m/m) after two months of consecutive increases, indications from qualitative surveys point to a continuation of the sector's recovery phase: thanks to the increase in production expectations and new orders, November saw the sector's confidence index reversing the trend after a prolonged period of weakness that had been underway since April. In the same month, electricity consumption by energy-intensive companies increased.

There were mixed signals in services. In November, the sectoral PMI index rose again after the marked decline in October, interrupting the downward trend that had been going on since May, while remaining below the expansion threshold. On the other hand, there was an improvement in sentiment for retail trade companies. Coinciding with the reduction of inflation, this was accompanied by an increase in

the volume of retail sales in October (0.3% m/m), the first since June. Therefore, although the overall level of uncertainty weighs on future prospects, services can be expected to confirm growth rates in the last quarter of the year and then accelerate in early 2024 thanks to the recovery in real disposable income.

Overall, the outlook benefits from a number of positive indications. After a downward phase, energy commodity prices have temporarily halted their downward path since mid-2023, rising in the months between July and October and then falling back afterwards. However, due to the risks associated with the reduction in oil supply announced by the producing countries as well as the geopolitical tensions in the Middle East that occurred from October onwards, that trend did not affect the expectations recorded by futures contracts. In addition, strategies to diversify supply sources, together with lower gas consumption and high storage fill rates, prevented further upward pressure on natural gas prices. The dynamics of energy commodity prices favoured the gradual improvement of the terms of trade and foreign accounts: in the twelve months ending in September, the current account deficit was almost reduced to zero, amounting to EUR 1.0 billion (from EUR 25.0 billion a year earlier).

The decline in energy prices was also reflected in the general price dynamics. Indeed, the reduction of consumer inflation was faster than expected in November: the Harmonised Index of Consumer Prices (HICP) slowed further (0.6% y/y, from 1.8% previously), settling below the Euro area average (2.4% y/y). The core inflation component (excluding energy and fresh food) followed the trend of the overall index, gradually slowing to 3.7% y/y after the peak reached in February (7.0% y/y).

On the basis of the forward-looking development of energy prices tracked by futures contracts, internal analyses foreshadow a continuation of the deceleration phase in core inflation. Overall, despite the fading of the base effect related to the high increase in energy prices in the last months of 2022, consumer inflation is expected to confirm the downward trend in 2024. This will support the recovery of household purchasing power and, consequently, should be reflected in an increase in consumer demand.

A further positive signal came from the resilience of the labour market. Indeed, the third quarter saw the consolidation of the phase of employment growth under way since 2021, albeit at a slower pace than in previous quarters. Nonetheless, the number of employed people reached the highest level in a historical series (23.6 million), accompanied by the renewed fall in the unemployment rate to its lowest level since 2009 (7.6%).

Given the macroeconomic framework outlined, as well as the GDP growth and its components in the third quarter, 2023 should see an economic growth rate in line with the DBP growth target, with an expected acceleration in the coming year. However, given the complexity of the cyclical phase and the high degree of uncertainty affecting the short-term scenario, a marginal revision with regard to the official target cannot be ruled out.

The medium-term risks to the forecast are balanced. On the one hand, the impacts that could arise from the fragility of the geopolitical environment should not be

underestimated, which, however, has so far not entailed major macroeconomic implications. Moreover, the transmission of monetary policy tightening to the private sector could weigh heavily on the financing conditions of households and businesses, affecting consumption and investment decisions. On the other hand, the recovery in the purchasing power of wages, together with the increase in disposable income fostered by the cut in the tax wedge on employees' incomes, should support consumption dynamics. Moreover, the impulse to growth provided by NRRP investments is expected to support overall demand, activating new investment opportunities for the private sector, with favourable effects on employment. Finally, the faster convergence of inflation towards the respective statutory targets could induce central banks to reshape the monetary policy tone, favouring an easing of credit restrictions.

4. PUBLIC FINANCE

In the first eleven months of 2023, the government sector's net cash borrowing requirement provisionally amounted to approximately EUR 108 billion, compared to EUR 64 billion in the corresponding period last year - an increase of almost EUR 44 billion. The worsening of the requirement is due to the effect of several factors, some of which are unrelated to economic trends, including the high amount of tax credits related to incentives for the construction sector, which continue to negatively affect the cash balance. Significant events during the period included the disbursement of EUR 20 billion in grants received through the Recovery and Resilience Facility (RRF) in 2022, while this year only one instalment, including EUR 10 billion in grants, was disbursed in October. The disbursement of the fourth instalment (including an additional EUR 2 billion in grants), which has already been approved, is expected by the end of the year.

The trend in **tax revenues** in the first ten months of the year was positive, with a growth rate of 7.1% in trend terms.

Among indirect taxes (+5.0%), VAT receipts grew despite the fact that the import component showed a negative trend rate of change, due to the fall in energy prices. VAT receipts on domestic trade show a positive growth rate. Excise duties show sustained growth, driven by those on energy products and their derivatives and on non-condensable gases. This increase depends on the disappearance of the temporary reductions in excise duties on fuels, which were introduced in 2022 to counteract the economic effects of rising prices, and which were not extended in 2023.

The growth in direct taxes remained at 8.8% in October, supported by the increase in IRPEF (10.0%), in particular for employee withholding taxes. The positive trend benefited from a renewed stability of GDP in the third quarter, and a good employment trend. With regard to IRPEF, the enabling act for tax reform envisages its revision and gradual reduction, including through the reduction of rates and relative brackets and the reorganisation of the system of deductions and allowances, preserving the principle of progressivity in order to reduce the tax burden on the labour factor and promote horizontal equity. A first phase of the implementation of the enabling act envisages a simplification of IRPEF rates by 2024 and a review of tax allowances for higher incomes.

The still positive performance of the labour market is reflected in the trend of **INPS social security contributions** (+2.1%), which remain on the rise despite the enhanced contribution exemption from July 2023¹. Both growth in the private sector and a positive trend in the public sector contribute to this result. Moreover, with respect to the latter, the contribution receipts of public employees benefit from the effects of the contractual renewals for the 2019-2021 three-year period signed during the previous financial year.

Inflation has a significant effect on government **spending**, due to the indexation of pensions and other social benefits to the previous year's inflation, as measured by the consumer price index. Interest payments also show an increase in trend terms mainly due to the increase in refinancing of maturing debt at higher market rates.

Capital payments continue to show sustained growth fuelled both by investment subsidies, which are affected by significant spending on building bonuses, but also by the boost provided by public investment. The RRFs contribute to the latter and will contribute even more to their growth in the coming years. Indeed, the European Commission has issued its positive assessment on the proposed revision of Italy's NRRP and approved the payment of the fourth instalment of EUR 16.5 billion (of which EUR 2 billion in grants), confirming that Italy has achieved all 28 milestones and targets set.

The net cash borrowing requirement benefits from the gradual removal of measures adopted to counter the effects of rising energy prices. The gradual reduction and stabilisation of prices has made it possible to reduce the resources allocated for this purpose, giving priority to the lengthening and extension of measures targeted at the most vulnerable households and businesses, limiting those of a more generalised and less efficient nature, which generate distortions in terms of price signals or which are at odds with energy-saving objectives.

In conclusion, provisional data through November suggest that the state sector's cash borrowing requirements in 2023 will be in line with expectations, which already discounted some discontinuities from the previous year. The Italian economy remains resilient, with benefits expected on the tax revenue side. The General Government deficit target for 2023, revised upward to 5.3% of GDP in the NADEF to finance some measures on pensions, public salaries, and migration management, is to be considered fully achievable, as is its progressive reduction below the 3% threshold by 2026. The General Government debt-to-GDP ratio, which has already fallen to 141.7% in 2022, is expected to decrease to 140.2% this year and to approximately 139.6% in 2026, the final year of the three-year programme.

¹ The 2023 Budget Law provided for a contribution exemption for incomes up to EUR 35,000 per year. This exemption was further strengthened, as of 1 July and until 31 December 2023, by the 'Lavoro' Decree (Italian Decree-Law No. 48 of 4 May 2023).