https://www.lemonde.fr/en/economy/article/2024/10/12/in-italy-budget-cuts-and-targeted-taxes-to-reduce-abysmal-public-debt_6729123_19.html?lmd_medium=al&lmd_campaign=envoye-par-appli&lmd_creation=ios&lmd_source=default

In Italy, budget cuts and targeted taxes to reduce abysmal public debt
Giorgia Meloni's government, which is looking for €25 billion in savings, must present its draft budget for 2025 by October 20.
By Allan Kaval (Rome (Italy) correspondent)
Published yesterday at 12:06 am (Paris), updated yesterday at 11:04 pm
3 min read

Call for sacrifices or promise to avoid them? With the Italian budget bill for 2025 due to be presented before October 20, the government has issued dissonant messages on the fiscal policy to be pursued. In a context marked by resilient but moderate growth, there is limited budgetary room for maneuver, a heavy debt burden whose weight amounts to 137% of gross domestic product (GDP) and the absolute necessity of sending back a "credible" image to the financial markets.
On Wednesday, October 9, Council President Giorgia Meloni grabbed her phone to record a video message for her constituents, in which she claimed to read "fanciful statements that [she would] like to raise taxes." "But that's what left-wing governments did. We're lowering them," she said, promising that no "new sacrifices" would be asked of Italians.
For an Italian Right whose deep-rooted identity is linked to a discourse of defending taxpayers, the challenge is also to please its base with a view to a cycle of three regional elections due to open at the end of October. In this respect, Meloni was extinguishing a fire that was lit, on Thursday, October 3, by her Economy and Finance Minister Giancarlo Giorgetti (League, far right). In an interview with the Bloomberg agency, he too had used the term "sacrifices," but presented these efforts as a necessity "for everyone."

Severe market reaction
On this occasion, the minister announced an increase in the contributions to be paid by companies that have benefited from the current economic crisis. Giorgetti specifically targeted the arms industry and the big banks, which benefited from the high interest rates set by the European Central Bank, but he also spoke of the need for an effort to be made by "individuals ... small, medium and large companies."
Market reaction was severe – as it was in the summer of 2023, when Italian government announced a tax on lenders' excess profits, before being forced to rescale the project. After the economy and finance minister's statements, the country's benchmark stock market index fell by 1.5%. Giorgetti also finds himself politically isolated, with his Forza Italia (center-right) allies and representatives of his own party rejecting the idea of a more restrictive fiscal policy. Thus, Meloni has announced that income taxes will be cut and that subsidies for lower-income families will be maintained in 2025.

Beyond electoral deadlines, however, Giorgetti's objective is to bring the public deficit – which reached 3.8% of GDP in 2024 – below 3% by 2026. He must ensure compliance with the new framework introduced by the reform of the European Union's budgetary rules, which will come into force on January 1, 2025, bearing in mind that Italy, like France, is the subject of an excessive deficit procedure launched by Brussels this summer.
In accordance with the new Stability and Growth Pact, on Wednesday, October 9 the Italian Parliament also approved the budget plan setting out the objectives for the coming years, which must now be examined by the European Commission. The document, which sets the level of public spending, offers a roadmap that is supposed to detail a path for consolidating the Peninsula's finances by 2029.

'Superbonus' controversy

To finance the debt, plans to privatize or sell off public holdings have been put on the table. In this respect, Rome has already been able to bring €1.4 billion into the state coffers, by parting with 2.8% of the capital of the national hydrocarbon giant ENI, even if it means forgoing its dividends. In addition, the government intends to tackle the 625 types of tax advantages provided by national regulations.
In the shorter term, however, Giorgetti needs to find around €25 billion by 2025. There is talk of bringing diesel taxes into line with those on petrol, which could bring in €3.4 billion a year, according to data from the Ministry of the Environment and Energy Security. Controversy is also raging over the idea of imposing higher taxes on property owners who benefited from the "superbonus," a measure now deemed ruinous despite having boosted national growth. It consisted of generous subsidies for energy-efficient building renovation.
"The government will try to pledge to its electorate with the extension of income tax cut measures, which could account for half of the 25 billion or so the government needs," said Lorenzo Codogno, visiting professor at the London School of Economics and former director general of the Italian Treasury. "Part of this could be financed by budget cuts and targeted taxes on certain companies, in the spirit of Giancarlo Giorgetti's statements."
Allan Kaval (Rome (Italy) correspondent)