

SOCIO-ECONOMIC CONSEQUENCES OF MODERN BUDGETARY POLICY IN ITALY IN THE CONTEXT OF EUROPEAN-WIDE CHALLENGES

Budgetary policy remains one of the key instruments by which a state influences socio-economic development. In the context of profound transformations caused by the COVID-19 pandemic, the energy crisis, geopolitical instability, and increased inflationary pressures, the importance of public spending and its redistribution has grown multifold. Italy, as one of the leading economies of the European Union, faces particular challenges in budgetary regulation, among which high public debt levels, demographic aging, regional disparities, and low productivity should be highlighted. This necessitates an assessment of modern Italian budgetary policy through the lens of its socio-economic consequences.

As of 2024, Italy's public debt exceeded 137 % of GDP, representing the second-highest level among EU countries after Greece. This situation significantly complicates fiscal maneuvering and reduces the government's flexibility during periods of economic shock. At the same time, Italy is actively implementing the National Recovery and Resilience Plan (PNRR), under which the country has received over €194 billion from the NextGenerationEU fund. The principal areas of expenditure include digitalization, ecological transition, education, infrastructure, and healthcare. However, the effectiveness of using these funds remains a subject of discussion, given Italy's historical problems with implementing large-scale public investment projects [1].

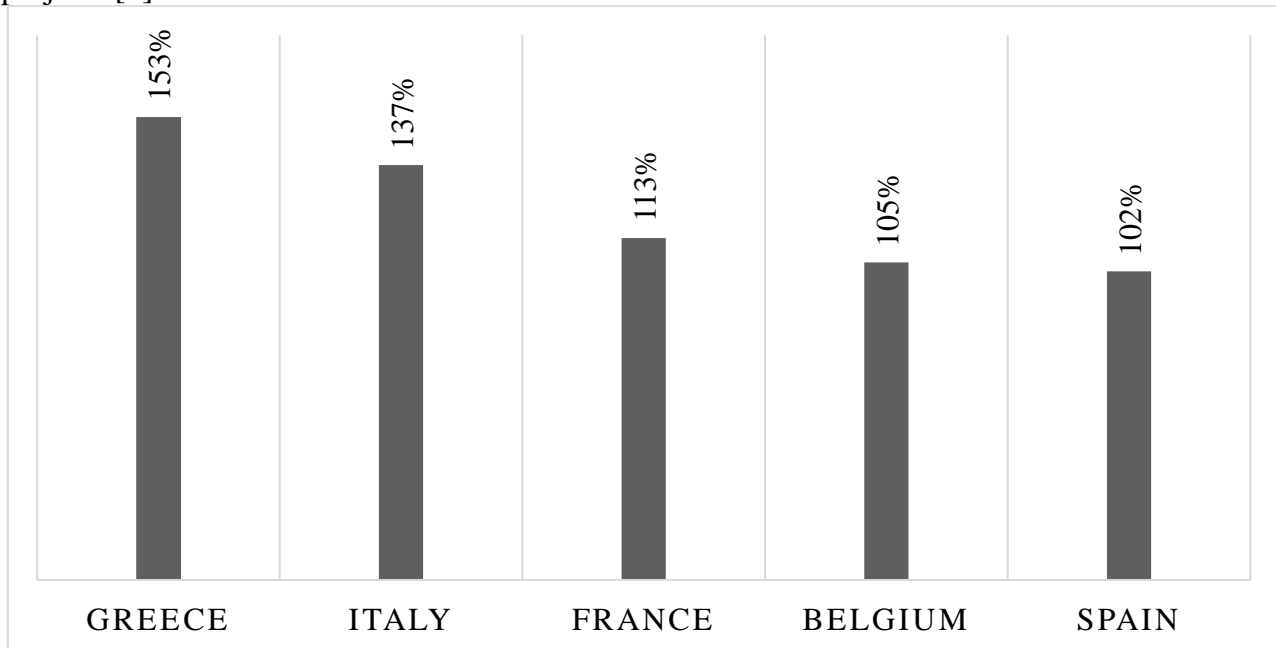


Figure 1. Ranking of countries with the highest public debt-to-GDP ratio
Source [1].

The social aspect of Italy’s budgetary policy is evident in the significant volume of spending on pension provision, which annually amounts to approximately 16 % of GDP. This spending structure is not only a result of demographic trends but also political sensitivity to retirement age and pension rights. Despite repeated attempts at reform, the system remains financially unsustainable, putting additional pressure on the budget. Youth, particularly in Southern Italy, suffer from high unemployment rates exceeding 15 % and the absence of effective employment support programs, despite numerous tax incentives for employers [2].

Close attention should be paid to the issue of support for small and medium-sized enterprises, which form the backbone of the country’s economy. During the pandemic and in the post-crisis period, the Italian government employed a wide range of fiscal instruments—from grants and subsidized loans to temporary reductions in tax burdens. However, the effectiveness of these measures proved ambiguous: according to the Bank of Italy, most of the aid went to businesses in regions with already developed infrastructure, while the South remained less covered. Such unevenness exacerbates social and economic imbalances between regions [3].

Italy’s budgetary policy also has significant poverty-related consequences. Despite substantial social transfers, including the “Reddito di Cittadinanza” program aimed at ensuring a basic income level for the most vulnerable segments of the population, the overall poverty level remains persistently high. In 2023, approximately 18.9 % of the population were at risk of poverty, one of the highest figures among developed EU nations. This is due both to imperfect targeting of programs and the limited capacity of local budgets to implement social initiatives [4].

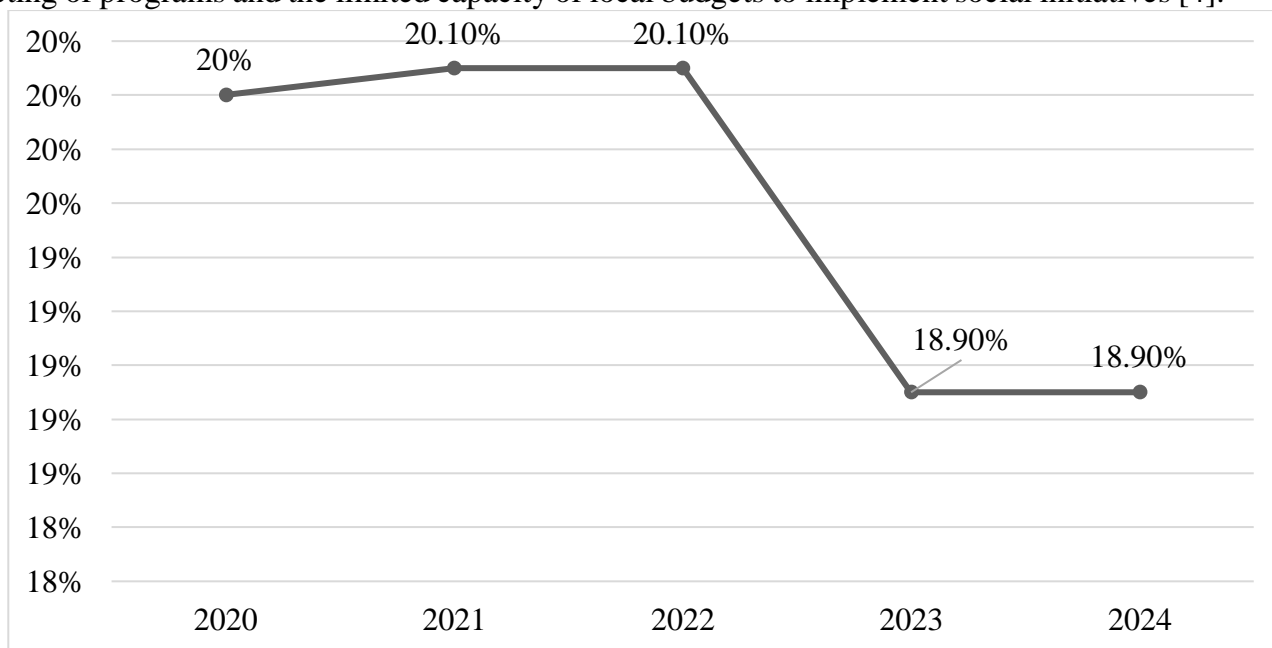


Figure 2. Dynamics of change in the percentage of Italy’s population at risk of poverty, 2020–2024.

Source [4].

A significant challenge for Italy’s fiscal policy is the problem of intergenerational equity. Considering rapid demographic aging, most budgetary resources are directed toward supporting pensioners, reducing opportunities to invest in education, innovation, and housing policies for young people. Such allocation of funds raises concerns in the context of long-term economic growth and social cohesion. Moreover, political fragmentation and frequent changes in government complicate the adoption of structural reforms, particularly in taxation and public fiscal management [5].

Italy’s institutional capacity to implement budgetary policy remains limited due to bureaucratic complexity and a fragmented intergovernmental system. The European Commission has repeatedly pointed to the need to improve spending efficiency and to the risks associated with

failing to meet the goals set out in the PNRR. Issues of control, transparency, and accountability strengthen public distrust of government institutions, which is an additional factor in social tension [6].

In summary, modern Italian budgetary policy is ambivalent in character. On the one hand, the country has received unprecedented financial support within the EU, creating unique opportunities for stimulating the economy and strengthening social protection. On the other hand, structural problems—such as excessive debt burden, inefficiency of expenditure, regional disparities, and political instability—continue to hinder the potential of fiscal policy as an instrument of sustainable development. To enhance the social effectiveness of Italy’s budgetary regulation, a combination of macro-fiscal responsibility with a flexible, targeted, and long-term oriented budget strategy is required.

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