Joint Session of the Fifth Committees of the
Senate of the Republic (Economic Planning and Budget) and of the
Chamber of Deputies (Budget, Treasury and Planning)

Preliminary hearing on the 2017 Update of the Economic and Financial Document

Testimony of the Deputy Director General of the Bank of Italy
Luigi Federico Signorini

Senate of the Republic
Rome, 3 October 2017

Mr President, Honourable Members of Parliament,

1. The macroeconomic outlook

The economy has strengthened in 2017 in all the main areas of the world; in the eurozone growth has been encouraged by the extremely accommodative financial and monetary conditions maintained by the Eurosystem.

Italy's economy has benefited from the favourable business cycle in Europe and the world, but mainly it has been driven by the consolidation of domestic demand. The rate of growth has remained stable at around 0.4 per cent in the last few quarters. By mid- 2017 the increase in GDP for the year underway (1.2 per cent) was already more than the increase for the whole of 2016.

The recovery is now less uneven thanks to the contribution of private services besides that of manufacturing industry; among the demand components, consumption and investment growth has consolidated. But despite growth in domestic demand, external accounts show no signs of tension. Last July, the balance-of-payment surplus on current account reached 2.7 per cent of GDP; in the first half of 2017, Italy's negative net international investment position was at its lowest for the last fifteen years, at around 8.5 per cent of GDP according to the recently revised time series.[1]

In the first eight months of this year, employment increased by just over 1 per cent, by 270,000 jobs in absolute terms, returning to pre-crisis levels, even though the hours worked per person are still more than 4 per cent below the 2007 average.

On the basis of the latest data, we estimate that GDP growth in the last quarter continued at a similar pace to the preceding ones. In August, new vehicle registrations continued to grow; in September consumer confidence increased further; in the same month the Bank of Italy's Ita-coin indicator, which measures the underlying trend of the Italian economy,

[1] The revised data contain new statistical information on the financial assets held by residents in non-resident funds. The data was collected by the Bank of Italy as part of an extraordinary survey. The availability of more accurate data on residents' assets held abroad produced a significant improvement in the balance of Italy's net international investment position (the end-2016 figure is now higher than previous estimates by an amount equal to 4.0 per cent of GDP; see the Methodological Note on the Bank of Italy website: Revision of Italy's external statistics - September 2017.

recorded a strong increase, returning to spring 2011 levels; in our surveys, firms are more optimistic about the development of demand and investment conditions.

The projections we published in last July's Economic Bulletin indicate GDP growth of 1.4 per cent in 2017 and just below that figure for the next two years. Data that has become available in the last few weeks suggest that the outturn for the current year could even be slightly better.

As I have mentioned, the improving situation in Italy is part of a globally favourable economic climate and calm financial markets. The risks weighing on this scenario are mainly of a geopolitical and financial nature: possible serious tensions in some areas and a sharp rise in risk aversion on the markets. The latter would lead to tighter funding conditions and possible turbulence.

The outlook for inflation still appears uncertain; it has risen this year but is still below the objective in both Italy and the euro area, especially as regards the core component. A contributory factor remains the unused capacity in the labour market; despite the fact that in the euro area the employment rate is above pre-crisis levels, in several countries – as in Italy – the hours worked per person have not shown any convincing signs of recovery and are still close to the lowest values.

Under the current-legislation scenario in the Update to the Economic and Finance Document (DEF), the Italian economy will grow by 1.5 per cent this year, by 1.2 per cent in 2018 and in 2019, and by 1.3 per cent in 2020. This year's estimate is consistent with the trends I referred to earlier; the estimate for 2018 also falls within the range of the forecasts currently available.

The policy scenario projections are 0.3 points higher for both 2018 and 2019; GDP is projected to rise by 1.5 per cent in each of the two years, only slowing later. In the policy scenario net borrowing is higher, compared with the current-legislation scenario, by about 0.6 per cent of GDP in each of the next two years; the increase in indirect taxation under current legislation for the next two years (the 'safeguard clauses') would be completely deactivated for 2018 and reduced for 2019. Some tax incentives for private investments are expected to continue and social contribution relief for employers would be introduced.

For 2018, assuming the external situation (global demand, the markets) is still encouraging in the near term, the growth objective of the policy scenario seems realistic. It is more difficult to express an opinion on the projections for 2019 in the absence of detailed information on the nature and composition of the measures to support economic activity indicated in the DEF Update.

2. The public finances in 2017

The DEF Update estimates that in 2017 net borrowing equals 2.1 per cent of GDP, in line with the objective indicated in the April DEF. Since Istat recently revised upward the outturn for 2016 (from 2.4 to 2.5 per cent), the reduction in the deficit-to-GDP ratio is expected to be slightly higher than had been programmed in the spring.

The increase in the primary surplus, buoyed by the positive performance of non-tax revenue, and the decline in interest expenditure would contribute to the reduction in net borrowing. Both primary expenditure as a percentage of GDP and the tax burden are expected to decrease modestly.

In the Update, the reduction in the primary expenditure as a percentage of GDP is the result of better control over the current component (in particular pension expenditure) owing in part to measures adopted in previous years. The reduction in the tax burden reflects the drop in capital tax revenue, in particular that from the voluntary disclosure programme; the latter has been revised downward from the spring. Indirect taxation relief (especially the reduction in the corporate income tax rate) is also a contributory factor.

The data observed up until now on trends in the borrowing requirement and tax revenues under the state budget are compatible with a reduction in net borrowing for the year in progress.

The general government borrowing requirement for the first nine months of 2017 can be estimated by approximating the August-September data, not yet available, with those of the state sector alone. Excluding the effects (estimated) of the main financial operations that do not have an impact on net borrowing and the various deferrals, the cumulative borrowing requirement through September is slightly lower than for the same period of last year.

In the first eight months of the year tax revenues under the state budget – excluding lottery revenues – were up 3.2 per cent compared with 2016, mainly thanks to the positive performance of VAT, which contributed over half of the total increase, driven in part by the recovery in consumption and measures to combat tax evasion. The increase in revenue would have been more limited if certain deferrals and accounting factors are taken into account, but nonetheless would have been essentially consistent with the tax revenue growth projections indicated in the Update.

It should be kept in mind however that any evaluation of net borrowing prospects based on the performance of cash-basis data is subject to a great deal of uncertainty this year, given legislative changes that have altered the timetable for self-assessed taxation payments and have reduced the corporate income tax rate, and given the differences between cash and accrual basis accounting of financial flows with the European Union. Close *monitoring of public finances over the next few months, especially in conjunction with upcoming tax payment deadlines, is therefore recommended.*

According to the Government, the structural deficit (i.e. cyclically adjusted and net of one-off measures), unlike net borrowing, is rising by 0.4 percentage points of GDP compared with 2016 (0.1 points more than the objective set in the spring), to 1.3 per cent. The difference between the two deficit measures is put down mainly to the improvement in the economy: the contraction in the output gap (approximately 1.1 percentage points) reduces the cyclical component of the deficit for more than half a point of GDP.

The reduction in net borrowing is also the result of one-off measures, for around 0.2 percentage points. These refer mainly to tax evasion measures contained in the latest budget law and contributions by banks to the National Resolution Fund.

The European Commission will assess compliance with the preventive arm of the Stability and Growth Pact in spring 2018 on the basis of 2017 outturn data and taking account of the flexibility allowed in connection to the migrant crisis and the restoration of safety to areas hit by earthquakes.

In July the Council of the EU assessed as not 'significant' the risks of deviations from the path of adjustment towards the medium-term objective (i.e. would not undermine compliance with the rules) for 2017. This assessment takes account of: the flexibility granted (equal to 0.34 per cent of GDP, half of which is attributable to exceptional expenditure related to the flow of migrants and the other half to earthquake safety measures); a correction equal to 0.2 per cent of GDP approved by the Government in April at the request of the Commission; and the expected performance in spending.

According to the Update, the debt-to-GDP ratio should fall from 132.0 to 131.6 per cent in 2017. The decrease indicated in the Update is greater than the marginal decline projected in the April DEF, despite weaker projected growth in nominal GDP (owing in turn to a smaller deflator) and at an equal level of net borrowing. The improvement is mainly attributable to the downward revision of the borrowing requirement (0.3 points of GDP).

As usual in September Istat published new estimates of the national accounts for the last two-year period. They were adjusted significantly, with nominal GDP revised upward by 0.4 per cent in 2015 and by a further 0.1 per cent in 2016. Consequently, the debt-to-GDP ratio fell in both years. In 2015, for the first time since 2007, the ratio fell compared with the prior year; in 2016 the ratio again rose, but remained below the level previously estimated.

3. The public finances in 2018-2020

Current-legislation scenario. – Compared with the April DEF, the Update has revised downward the projections for net borrowing based on current legislation for the 2018-2020 period by an average of about 0.3 percentage points of GDP per year. The revision reflects both higher GDP growth and lower interest expenditure. The reduction in interest expenditure derives from the expectation of lower yields that have been incorporated in the term structure of interest rates.

Net borrowing should decline to 1.0 per cent of GDP in 2018 and to 0.3 per cent the year after; a nominal balanced budget should be achieved in 2020. The primary surplus should rise over time owing to the increase in indirect taxation ('safeguard clauses') and the improvement in economic conditions. Interest expenditure is expected to fall by 0.2 percentage points of GDP in 2018, to 3.6 per cent of GDP, and to remain essentially stable over the next two years.

Policy scenario. – The Government plans to raise net borrowing in 2018 by more than half a point above its current-legislation trend to 1.6 per cent of GDP. The deficit should however be lower than projected for this year, thanks to the intensification of the cyclical upturn and the reduction in interest expenditure.

The restrictive fiscal stance programmed in the April DEF would be postponed to the subsequent years. Achievement of a substantially structural balanced budget would be delayed by one more year to 2020.

The fiscal stance is conventionally measured by the change in the primary balance corrected for the effects of the economic cycle. Rather than rise by 0.4 percentage points of GDP as indicated in the April DEF, the surplus should instead contract in 2018 by 0.2 points to 2.7 per cent of GDP, to then rise over the next two years up to a level of 3.3 per cent in 2020.

Notwithstanding the expansionary measures, the structural budget balance should improve by 0.3 percentage points compared with 2017; the reduction in the structural deficit seen in the new estimates reflects the fall in interest expenditure.

As with the nominal balance, the structural balance for next year is also now expected to improve less than had been indicated in the April DEF (0.8 points), as announced by the Government at the end of May.

In light of the European rules, given the debt-to-GDP ratio and the size of the output gap, in 2018 Italy should achieve a structural improvement in its accounts equal to 0.6 percentage points of GDP. The plans in the April DEF were slightly more ambitious. However, in a letter dated 30 May 2017 the Government communicated to *the European Commission its intention to revise downwards the size of the structural improvement for 2018, lowering it from 0.8 to 0.3 percentage points of GDP. In the letter, the Government maintained that a structural improvement of such magnitude would still reduce both net borrowing and debt-to-GDP ratios and a tighter fiscal consolidation would jeopardize the economic recovery and social cohesion. The Commission has confirmed that, in assessing the programmes submitted by the countries, it will take account of the dual need to support the economic recovery and to ensure the sustainability of the public finances; and that, based on qualitative assessments, it may even deem adequate a correction inferior to that required by the Stability and Growth Pact so long as it is consistent with Italy's commitment to reduce the deficit and ensure the decline in the debt-to-GDP ratio.*

The Government's budget is expected to allow for the complete deactivation of the safeguard clauses envisioned for next year (0.9 per cent of GDP). In addition, the Government intends to introduce measures aimed at stimulating investment and bolstering employment levels – by means of social contribution relief for hiring young workers – and to strengthen the measures in place to combat poverty. The details of these measures, along with those regarding coverage, will be set out in the next budget law. The Government expects to expand resources by about 0.35 points of GDP by increasing revenue (by intensifying the fight against tax evasion and avoidance, especially VAT) and by about 0.15 points by lowering expenses (mainly through the spending review process integrated into the economic and financial programming cycle).

In 2019 net borrowing should amount to 0.9 per cent of GDP, 0.6 points higher than the value on a current legislation basis. According to the Report to Parliament accompanying the Update, the planned slowdown in the adjustment of the accounts would allow only partial deactivation of that year's safeguard clauses. Therefore there remains a degree of uncertainty regarding the fiscal policy plans from 2019 onwards.

Net borrowing should fall by 0.7 points of GDP in 2020 as well, to 0.2 per cent of GDP. Even structural net borrowing should gradually diminish, until a substantially balanced budget is achieved in 2020.

4. Public debt

According to the plans in the Update, after the contraction expected this year, the debt-to-GDP ratio should continue to narrow, falling to 130.0 per cent in 2018. This value is substantially analogous to that of the current-legislation projection, notwithstanding an increase of 0.6 points in net borrowing. The effect of a higher deficit will largely be offset by a more favourable trend of the factors that affect debt but not net borrowing (stock-flow adjustment).

Both in the Update and in the DEF, for 2018 the stock-flow adjustment in the current-legislation projection is higher than that in the policy scenario by about 0.4 percentage points of GDP. The DEF explains that this difference is related to the single treasury regime for local governments: introduced on an interim basis, under current legislation it is scheduled to lapse in 2018 but the Government intended to extend it to 2020. In the absence of intervention in 2018 the Treasury's liquidity is expected to fall because the local governments' funds would return to their respective treasuries and, all things being equal, create a need for more government bonds issues, thereby increasing the debt.

The reduction in the debt-to-GDP ratio is expected to accelerate over the next two years by an average of approximately 3 percentage points per year. At the end of the planning horizon the ratio should amount to 123.9 per cent, thanks to a primary surplus that is expected to grow over time, to the proceeds from privatizations (for which the objective of 0.3 points of GDP per year in the three years 2018-2020 has been confirmed) and to the acceleration in nominal growth (from an expected 2.1 per cent this year, to 3.1 per cent for 2018, and 3.4 per cent for the last two years of the planning horizon). Notwithstanding the revision to the net borrowing objectives, the debt profile in the policy scenario does not vary significantly from that envisaged under the current-legislation scenario, especially on account of the more sustained nominal growth that is expected to be attained thanks to the planned measures.

The Update presents sensitivity analyses demonstrating what would happen to the debt-to-GDP ratio in case of growth and interest rate shocks. It concludes that, even in the presence of adverse shocks, the debt reduction trend would not be interrupted in the medium term even if the size of the reduction would obviously, and considerably, be more limited. These results are qualitatively in line with our analyses.

A few months ago, at the presentation of the Bank of Italy's Annual Report, and more recently during his speech in Varenna,[2] the Governor discussed a simulation exercise which linked the speed of the reduction in the debt-to-GDP ratio to various assumptions on growth, interest rates and the public finances. The exercise demonstrates that a significant reduction in public debt in the medium term is possible. In particular, it shows the breadth of the effort needed to bring the debt-to-GDP ratio below 100 per cent in ten years: under the assumption of average real annual growth of around 1 per cent, inflation at 2 per cent (consistent with the ECB's objective), and the average cost of debt gradually regaining pre-crisis levels, it would be necessary to maintain over the medium term a primary surplus of around 4 per cent of GDP.

[2] 'Economic progress and financial stability: the constraint of public debt', speech by Ignazio Visco, Governor of the Bank of Italy, at the 63rd Conference on Government Studies, Varenna, 21 September 2017 (in Italian only).

If the differential between interest rate and growth rate were lower, the debt could be reduced more quickly; on the other hand, a smaller primary surplus would lengthen the process. To give an example, the Governor pointed out that if the growth rate were 1 point higher, the 100 per cent threshold would be reached two years earlier; if the primary surplus were 2 points lower (at around 2 per cent), it would take six years longer.

In the baseline scenario of the simulations contained in the Update, in which the surplus holds steady at the level reached at the end of the planning horizon (3.3 per cent) and the macroeconomic assumptions differ only slightly from our own, the debt-to-GDP ratio comes to just over 106 per cent in 2028.

Although the European Commission, in its periodic projections, warns that the trend in Italy's public debt is subject to risk in the medium term, over longer horizons it has not, so far, indicated any significant sustainability risk. As the Governor of the Bank of Italy recalled in a recent speech, and as emphasized in the Update, the various reforms made to the pension system in the past twenty years or more have together significantly improved both its sustainability and inter-generational equity. However, the outlook in terms of demographic trends and growth potential has been updated and now appears less favourable. The latest projections on the spending-to-GDP ratio published by the State General Accounting Department are therefore higher than previously expected. The Update points out that these new estimates would worsen the European Commission's public finance sustainability indicators.

According to the report on the mid-long term trends for the pension, health and long term care systems published by the State General Accounting Department last August, the ratio of pension expenditure to GDP, which is now about 15.5 per cent, would reach slightly above 18 per cent between 2040 and 2045, before declining sharply and continuously. In every year of the period considered, pension spending is substantially higher than in the State General Accounting Department's previous projections (the gap between the two series reaches its widest point in 2045, at 2.7 percentage points of GDP). This deterioration mirrors Eurostat's downward adjustment of Italy's growth prospects, which is due, in turn, to the disappointing performance of total factor productivity and to lower net migration.

The latest projections for pension expenditure highlight the importance of ensuring that the reform measures approved in the past are fully implemented, without going back.

* * *

Mr President, Honourable Members of Parliament,

The recovery continues; the outlook for demand, employment, and the external accounts is good. We need to seize the opportunity offered by the contingent situation (output growth, albeit gradual; orderly balance of payments current account; exceptionally low interest rates; very moderate risk premiums on international financial markets) to strengthen the public finances and visibly reduce the debt, our perennial weak point, and to lay the foundations for long-term growth.

However technically sophisticated and modern our forecasting tools may be, we really cannot know what the future holds in the medium term. Analytical models and market expectations help to throw light on the nearest horizon and – the models in particular – to assess rigorously the coherence of our theories and results. But we cannot see where the future turning points lie. We cannot know if or when market conditions will change; our experience of the end of the Great Moderation has taught us that a phase of stable growth and low risk premiums can end abruptly. We also know, however, that a favourable cycle cannot, by its very nature, last forever; nor can the current, exceptionally accommodative monetary policy. We know that sounder structural conditions would allow the economy to cope better with adverse events and better exploit favourable ones. The future equilibrium of the public finances is one element in this soundness, and by no means the least important.

Fiscal policy needs to walk a narrow path between not suffocating the cyclical recovery and the compelling need to reduce the public debt; the Minister of Economy and Finance has reiterated this on several occasions. At this moment, the road ahead, though still difficult, is a little less narrow than in the past thanks to favourable cyclical and market conditions.

The DEF planned for 2018 a change of course in fiscal stance that – according to the most recent assessment of the European Commission as well – in the four years prior has been expansionary. The Update confirms the shift to a restrictive stance, but postpones it to subsequent years.

A significant reduction in the debt-to-GDP ratio in the medium term is within our reach; our analyses, like those of the Government, bear this out. Smaller primary surpluses may provide a temporary boost to growth, but they usually go hand in hand with a slower reduction of the public debt; they therefore leave the country longer at the mercy of market volatility; they threaten future growth.

In the current economic situation, primary surpluses slightly below the level programmed in April can be accommodated provided the measures required to achieve the medium-term objectives are set out clearly and implemented resolutely. This is the bare minimum that must be done. A credible commitment to ensure orderly public finances is essential if we are to ensure that a gradual return to normality in eurozone monetary and financial conditions does not widen the gap between cost of the public debt and economic growth, as this would, in turn, set off a vicious circle, causing the debt to expand.

TABLES AND FIGURES

Table 1

Macroeconomic outlook in the most recent official documents

(percentage changes)

	2017					Update to the 2017 DEF				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
					CURRENT-LEGISLATION SCENARIO					
Real GDP	**0.9**	**1.1**	**1.0**	**1.1**	**1.1**	**0.9**	**1.5**	**1.2**	**1.2**	**1.3**
Imports	*2.9*	*4.4*	*2.8*	*3.6*	*3.8*	*3.1*	*5.5*	*3.4*	*3.7*	*4.5*
Consumption by households and non-profit institutions	*1.4*	*1.0*	*0.5*	*0.8*	*0.8*	*1.5*	*1.4*	*1.0*	*1.0*	*1.2*
General government expenditure	*0.6*	*0.3*	*-0.1*	*0.2*	*0.8*	*0.5*	*1.0*	*0.1*	*0.3*	*0.8*
Investment	*2.9*	*3.7*	*3.1*	*3.4*	*3.5*	*2.8*	*3.1*	*2.7*	*2.2*	*3.0*
Exports	*2.4*	*3.7*	*3.2*	*3.3*	*3.1*	*2.4*	*4.8*	*3.5*	*3.6*	*3.6*
Nominal GDP	**1.6**	**2.2**	**2.9**	**2.9**	**2.8**	**1.7**	**2.1**	**3.0**	**3.0**	**3.0**
Consumption deflator	**0.0**	**1.2**	**2.1**	**2.1**	**1.8**	**0.0**	**1.5**	**2.0**	**2.1**	**1.8**
Employment (full-time equivalents)	**1.4**	**0.8**	**0.8**	**0.7**	**0.7**	**1.4**	**1.0**	**0.8**	**0.9**	**0.9**
					POLICY SCENARIO					
Real GDP	**0.9**	**1.1**	**1.0**	**1.0**	**1.1**	**0.9**	**1.5**	**1.5**	**1.5**	**1.3**
Imports	*2.9*	*4.4*	*2.9*	*3.4*	*4.1*	*3.1*	*5.5*	*4.1*	*3.9*	*3.3*
Consumption by households and non-profit institutions	*1.4*	*0.9*	*0.6*	*0.7*	*0.7*	*1.5*	*1.4*	*1.4*	*1.3*	*1.0*
General government expenditure	*0.6*	*0.2*	*0.1*	*0.1*	*0.7*	*0.5*	*1.0*	*0.1*	*0.7*	*0.5*
Investment	*2.9*	*3.6*	*3.0*	*2.7*	*3.2*	*2.8*	*3.1*	*3.3*	*3.0*	*2.3*
Exports	*2.4*	*3.7*	*3.2*	*3.5*	*3.5*	*2.4*	*4.8*	*3.6*	*3.7*	*3.7*
Nominal GDP	**1.6**	**2.3**	**2.7**	**3.0**	**2.8**	**1.7**	**2.1**	**3.1**	**3.4**	**3.4**
Consumption deflator	**0.0**	**1.2**	**1.7**	**2.1**	**1.8**	**0.0**	**1.5**	**1.4**	**2.1**	**2.5**
Employment (full-time equivalents)	**1.4**	**0.8**	**0.9**	**0.9**	**0.7**	**1.4**	**1.0**	**0.9**	**1.1**	**0.9**

Table 2

Main public finance indicators for general government (1)

(per cent of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Revenue	45.3	45.1	45.9	45.6	45.7	47.8	48.1	47.9	47.7	46.9
Expenditure (2)	46.8	47.8	51.2	49.9	49.4	50.8	51.1	50.9	50.2	49.4
of which: *interest payments*	*4.8*	*4.9*	*4.4*	*4.3*	*4.7*	*5.2*	*4.8*	*4.6*	*4.1*	*4.0*
Primary surplus (3)	3.2	2.2	-0.9	0.0	1.0	2.3	1.9	1.6	1.5	1.5
Net borrowing	**1.5**	**2.7**	**5.3**	**4.2**	**3.7**	**2.9**	**2.9**	**3.0**	**2.6**	**2.5**
Borrowing requirement	1.7	3.1	5.5	4.3	3.9	4.1	4.8	4.1	3.0	2.5
Borrowing requirement net of privatization receipts	1.9	3.1	5.6	4.3	4.0	4.6	4.9	4.3	3.4	2.6
Debt	**99.8**	**102.4**	**112.5**	**115.4**	**116.5**	**123.4**	**129.0**	**131.8**	**131.5**	**132.0**

Source: Based on Istat data for the general government consolidated accounts items.
(1) Rounding of decimal points may cause discrepancies in totals. – (2) The proceeds of sales of public assets are recorded as a deduction from this item. – (3) A negative value corresponds to a deficit.

Table 3

General government revenue (1)

(per cent of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Direct taxes	14.5	14.7	14.1	14.1	13.9	14.9	15.0	14.7	14.7	14.7
Indirect taxes	14.4	13.6	13.4	14.0	14.1	15.3	14.9	15.3	15.1	14.4
Capital taxes	0.0	0.0	0.8	0.2	0.4	0.1	0.3	0.1	0.1	0.3
Tax revenue	**28.9**	**28.3**	**28.4**	**28.3**	**28.4**	**30.3**	**30.2**	**30.1**	**29.9**	**29.5**
Social security contributions	12.6	13.0	13.5	13.3	13.2	13.4	13.4	13.2	13.3	13.2
Tax revenue and social security contributions	**41.5**	**41.3**	**41.8**	**41.6**	**41.6**	**43.6**	**43.6**	**43.3**	**43.2**	**42.7**
Production for market and for own use	1.8	1.9	2.0	2.0	2.0	2.1	2.3	2.3	2.3	2.2
Other current revenue	1.7	1.7	1.8	1.9	1.8	1.8	1.9	1.9	1.8	1.9
Other capital revenue	0.3	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.1
Total revenue	**45.3**	**45.1**	**45.9**	**45.6**	**45.7**	**47.8**	**48.1**	**47.9**	**47.7**	**46.9**

Source: Based on Istat data.
(1) Rounding of decimal points may cause discrepancies in totals.

Table 4

General government expenditure (1)

(per cent of GDP)

	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Compensation of employees	10.2	10.4	10.9	10.8	10.4	10.3	10.3	10.1	9.8	9.8
Intermediate consumption	4.9	5.1	5.4	5.4	5.3	5.4	5.6	5.5	5.4	5.4
Social benefits in kind	2.6	2.7	2.9	2.9	2.7	2.7	2.7	2.7	2.6	2.6
Social benefits in cash	16.4	17.0	18.5	18.6	18.6	19.3	19.9	20.2	20.1	20.1
Interest	4.8	4.9	4.4	4.3	4.7	5.2	4.8	4.6	4.1	4.0
Other current expenditure	3.4	3.4	3.7	3.7	3.7	3.9	4.1	4.2	3.9	4.1
Total current expenditure	**42.3**	**43.5**	**46.0**	**45.7**	**45.4**	**46.8**	**47.4**	**47.2**	**46.1**	**45.9**
of which: expenditure net of interest payments	*37.5*	*38.5*	*41.5*	*41.4*	*40.7*	*41.6*	*42.6*	*42.6*	*41.9*	*41.9*
Gross investments	2.9	3.0	3.4	2.9	2.8	2.6	2.4	2.3	2.2	2.1
Other capital expenditure	1.6	1.4	1.8	1.2	1.2	1.4	1.2	1.4	1.9	1.4
Total capital expenditure	**4.5**	**4.4**	**5.2**	**4.2**	**4.0**	**4.0**	**3.6**	**3.7**	**4.2**	**3.5**
Total expenditure	**46.8**	**47.8**	**51.2**	**49.9**	**49.4**	**50.8**	**51.1**	**50.9**	**50.2**	**49.4**
of which: expenditure net of interest payments	*42.0*	*42.9*	*46.7*	*45.6*	*44.7*	*45.6*	*46.2*	*46.3*	*46.1*	*45.4*

Source: Based on Istat data.
(1) Rounding of decimal points may cause discrepancies in totals.

Table 5

General government borrowing requirement

(billions of euros)

	Year			*First 7 months*		
	2014	2015	2016	2015	2016	2017
Borrowing requirement net of privatization receipts (a)	**69.9**	**56.9**	**43.1**	**21.4**	**22.5**	**39.7**
Privatization receipts (b)	3.3	6.6	0.9	3.3	0.8	0.1
Total borrowing requirement (c=a-b=d+e+f+g+h+i)	**66.6**	**50.3**	**42.2**	**18.1**	**21.7**	**39.6**
FINANCING						
Currency and deposits (1) (d)	14.7	5.1	-4.9	0.3	-5.4	7.6
of which: Post office funds	*-1.1*	*-1.5*	*0.1*	*-1.5*	*-0.6*	*-1.1*
Short-term securities (e)	-16.0	-9.5	-8.0	3.5	2.3	8.9
Medium- and long-term securities (f)	82.1	43.5	62.7	65.3	90.3	66.3
Loans from MFIs (g)	-4.3	1.7	1.1	1.8	0.7	-2.4
Other liabilities (2) (h)	-1.2	-1.1	-1.3	-3.0	-0.9	1.6
of which: loans via the EFSF	*1.8*	*-2.1*	*0.0*	*-2.1*	*0.0*	*0.0*
Change in the Treasury's liquidity balance (3) (i)	-8.8	10.7	-7.4	-49.8	-65.3	-42.5

(1) Includes coins in circulation, Post office funds and deposits held with the Treasury by entities not included in general government. – (2) Includes securitizations, trade credits assigned without recourse by the general government's supplier firms to non-bank intermediaries, private-public partnership operations and liabilities related to loans to EMU countries disbursed via the EFSF. – (3) A negative value corresponds to an increase in the Treasury's liquidity balance.

Table 6

Public finance objectives and estimates for 2017 (1)

(per cent of GDP)

	General government				*Memorandum item:* GDP growth	
	Net borrowing	Structural net borrowing	Primary surplus	Change in the debt (1)	Real	Nominal
Objectives						
April 2016 (2)	1.8	1.1	2.0	-1.5	1.4	2.5
September 2016 (3)	2.0	1.2	1.7	-0.3	1.0	1.9
October 2016 (4)	2.3	1.6	1.4	-0.2	1.0	2.0
April 2017 (5)	2.1	1.5	1.7	-0.1	1.1	2.3
September 2017 (6)	2.1	1.3	1.7	-0.4	1.5	2.1
Estimates						
April 2017 (5)	2.3	1.6	1.5	0.1	1.1	2.2
September 2017 (6)	2.1	1.4	1.7	-0.4	1.5	2.1

(1) Changes in the debt-to-GDP ratio over the previous year. – (2) 2016 Economic and Financial Document. – (3) 2016 Update to the Economic and Financial Document. – (4) 2017 Draft Budgetary Plan. – (5) 2017 Economic and Financial Document – (6) 2017 Update to the Economic and Financial Document.

Table 7

Public finance objectives in the most recent official documents

(per cent of GDP)

	2017					**Update to the 2017 DEF**				
	2016	2017	2018	2019	2020	2016	2017	2018	2019	2020
Net borrowing	2.4	2.1	1.2	0.2	0.0	2.5	2.1	1.6	0.9	0.2
Primary surplus	1.5	1.7	2.5	3.5	3.8	1.5	1.7	2.0	2.6	3.3
Interest payments	4.0	3.9	3.7	3.7	3.8	4.0	3.8	3.6	3.5	3.5
Debt	132.6	132.5	131.0	128.2	125.7	132.0	131.6	130.0	127.1	123.9
GDP growth	*0.9*	*1.1*	*1.0*	*1.0*	*1.1*	*0.9*	*1.5*	*1.5*	*1.5*	*1.3*

Table 8

Privatization receipts: objectives and outturns (1)

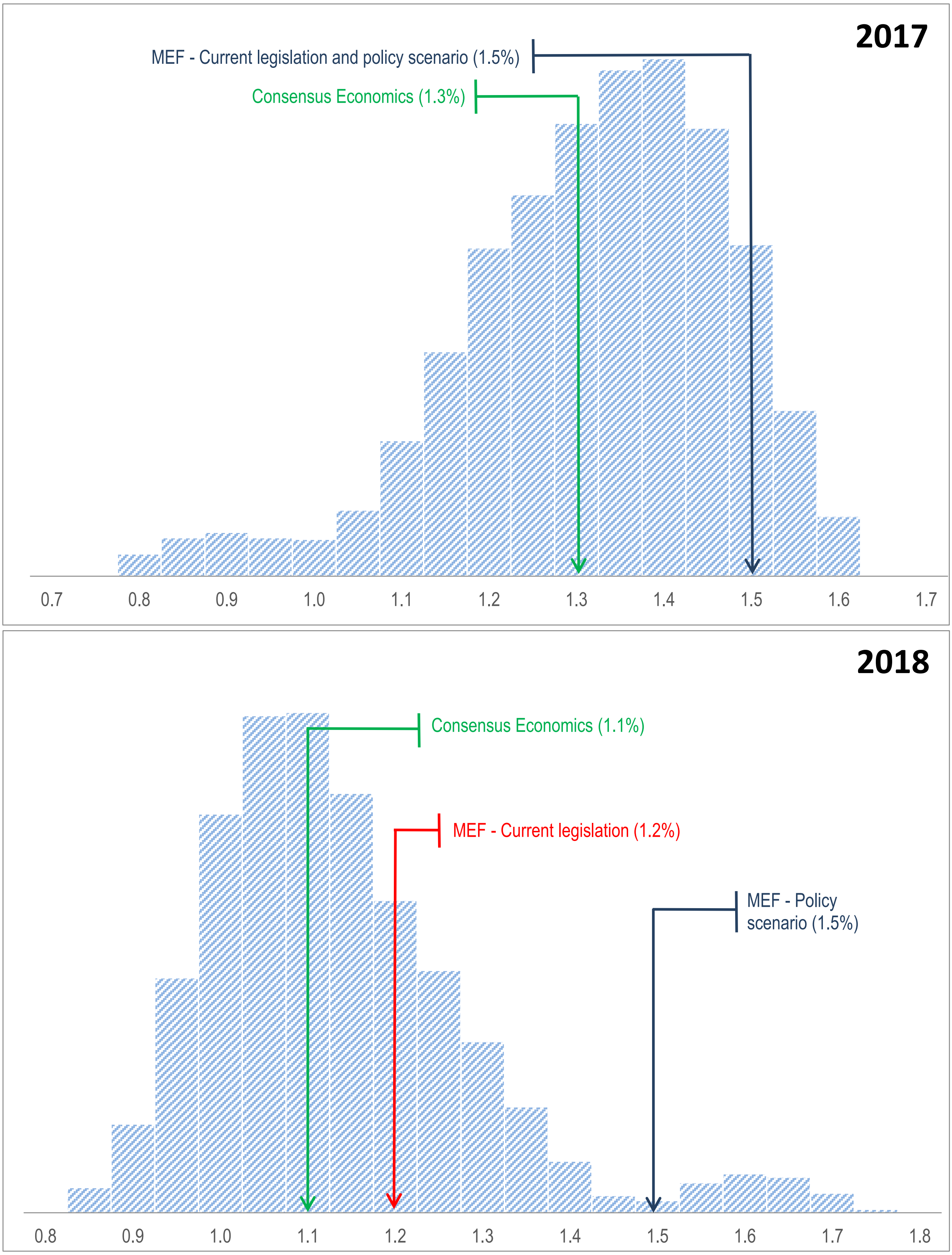
(per cent of GDP)

	2013	2014	2015	2016	2017	2018	2019	2020
Objectives								
DEF (April 2013)	1.0	1.0	1.0	1.0	1.0			
Update to the Economic and Financial Document (September 2013)		0.5	0.5	0.5	0.5			
DEF (April 2014)		0.7	0.7	0.7	0.7			
Update to the Economic and Financial Document (September 2014)		0.3	0.7	0.7	0.7	0.7		
DEF (April 2015)			0.4	0.5	0.5	0.3		
Update to the Economic and Financial Document (September 2015)			0.4	0.5	0.5	0.5		
DEF (April 2016)				0.5	0.5	0.5	0.3	
Update to the Economic and Financial Document (September 2016)				0.1	0.5	0.5	0.3	
DEF (April 2017)					0.3	0.3	0.3	0.3
Update to the Economic and Financial Document (September 2017)					0.2	0.3	0.3	0.3
Outturns (2)								
Total	**0.1**	**0.2**	**0.4**	**0.1**	**0.0** (3)			
Total net of Tremonti/Monti bonds	**0.1**	**0.0**	**0.3**	**0.1**	**0.0** (3)			

(1) The objectives expressed as a percentage of GDP are those indicated in the various planning documents. The objectives and outturns include reimbursements of the capitalization tools issued by the banks and underwritten by the MEF (the ‘Tremonti/Monti bonds’). – (2) The data refer to revenues accounted into item 4055 of the State budget (mostly proceeds from the sale of State shareholdings); for 2013, includes proceeds from the sale of Fintecna S.p.A., not accounted into item 4055 but accounted for as a reduction in the borrowing requirement (€0.6 billion). The GDP ratios are calculated using the GDP reported by Istat in the press release dated 22 September 2017; the GDP for 2017 is found in the 2017 Update to the DEF. – (3) Outturns up to August 2017.

Figure 1

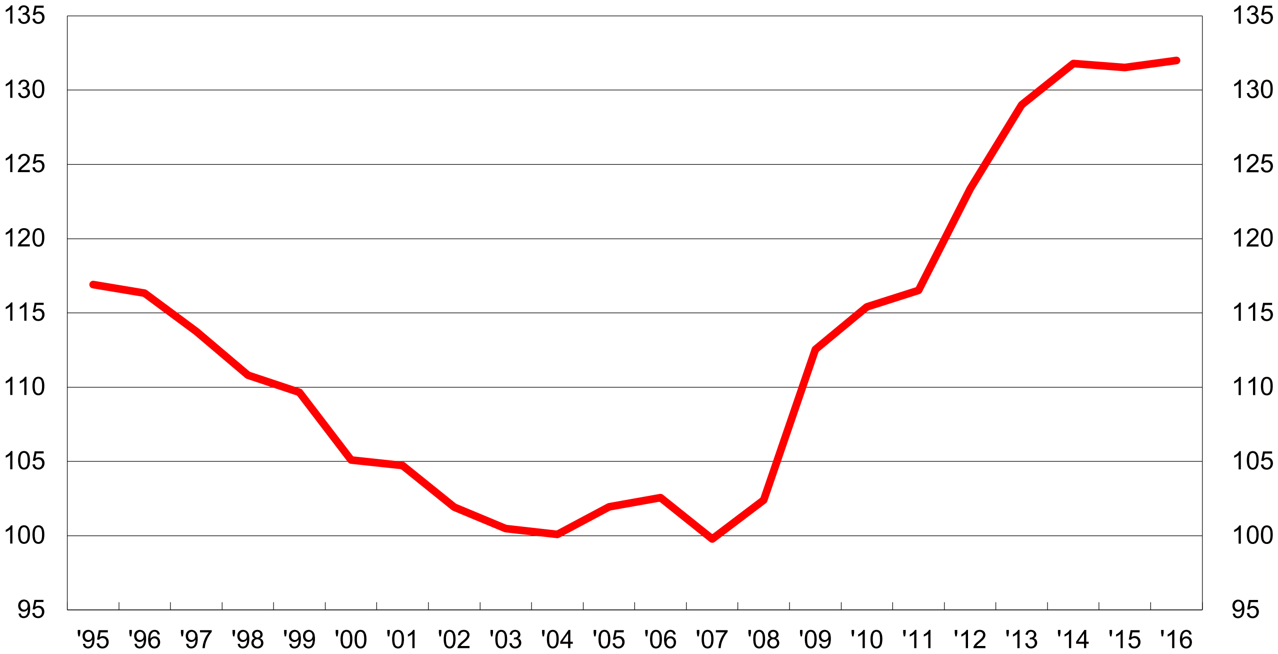
Interpolated distribution of the GDP growth forecasts (1)



(1) Forecasts updated to September 2017.

Figure 2

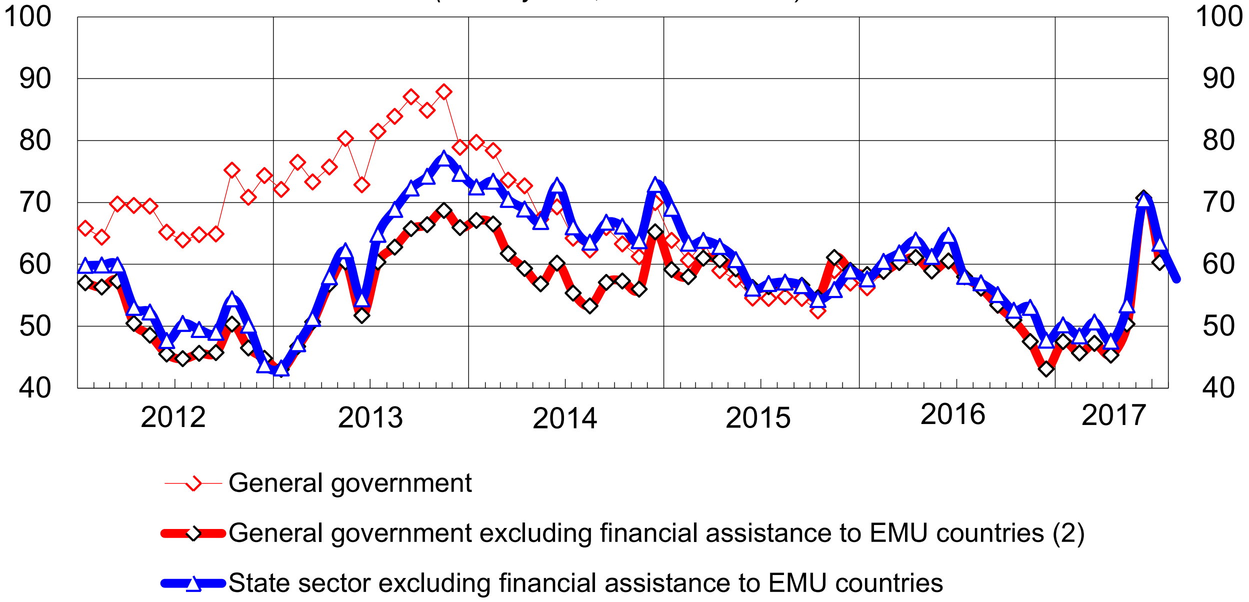
General government debt
(per cent of GDP)



Source: for GDP, based on Istat data (22 September 2017, press release).

Figure 3

Twelve-month cumulative borrowing requirement (1)
(monthly data; billions of euros)

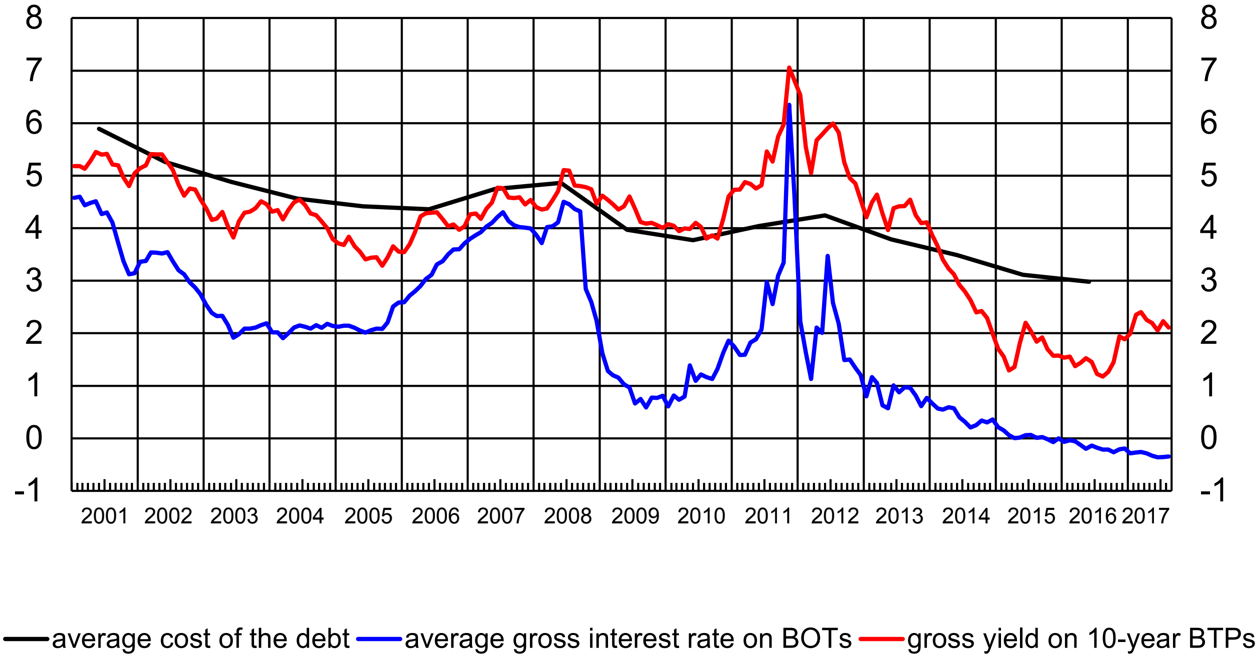


Source: Ministry of Economy and Finance for the state sector borrowing requirement.
(1) Excluding privatization receipts.– (2) Excludes liabilities related to Italy's capital contribution to the ESM and to loans to EMU member countries, disbursed both bilaterally and via the EFSF. – (3) Excludes liabilities in connection with bilateral loans to EMU member countries and Italy's capital contribution to the ESM; loans disbursed through the EFSF are not included in the state sector borrowing requirement.

Figure 4

Average cost of the public debt, average gross rate on BOTs, and gross yield on 10-year BTPs

(per cent)



Printed by the Printing and Publishing Division of the Bank of Italy