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Fact-finding preliminary to the examination of the budget for 1999

Statement by the Governor of the Bank of Italy
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1. The macroeconomic framework

In the first half of this year economic activity slowed down sharply. The increase in output in real terms with respect to the preceding six months was very modest, amounting to 0.2 per cent. The stagnation in activity reflected a small rise in consumption, intense recourse to imports and moderate growth in exports. The low rate of increase in both current and expected demand held back the expansion in investment. Thanks to the economy's steady acceleration in 1997, output in real terms was 1.8 per cent higher in the first half of 1998 than in the same period in 1997; however, the expansion is plainly weaker than that recorded in the other European countries and the United States.

The available indicators of confidence signal considerable uncertainty over the development of economic activity. Orders and expected demand are tending to weaken in both the domestic and export components. The uncertainty also reflects the deepening of the international financial crisis during the summer.

Industrial production diminished between January and April, turned upwards in May and since then has basically stabilized at a level lower than the peak reached in December of last year.

The economy's performance to date has led to a revision of the official forecasts for growth this year. The expected increase in GDP has been reduced to 1.8 per cent, compared with the forecast of 2.5 per cent contained in the Economic and Financial Planning Document presented in April. For final consumption the estimated increase is now 1.3 per cent, against 1.8 per cent in the Document.

In the new macroeconomic context gross fixed investment is also seen as expanding more slowly, at a rate of 4.4 per cent, compared with the forecast of 5.3 per cent in April; the deceleration regards construction as well as machinery, equipment and transport equipment. So far the effects of the incentives introduced for residential building appear to have been smaller than expected; the impulse should prove larger in the second half of the year.

The forecast for export growth is now 6.0 per cent, against 6.8 per cent in the April Document; that for imports is 8.1 against 7.7 per cent.

There will have to be a marked acceleration in productive activity in the final part of the year if the GDP growth of 1.8 per cent hypothesized in the Forecasting and Planning Report is to be achieved. According to the available data, no such acceleration is under way.

2. The public finances in 1998

The Forecasting and Planning Report for 1998 set the target for general government net borrowing at 2.8 per cent of GDP, with a primary surplus of 5.6 per cent. The Government aimed at consolidating the significant gains achieved in 1997 and reducing the transitory component of the adjustment measures.

The budget correction needed to attain these objectives had been set in the autumn of 1997 at 25 trillion lire, equal to about 1.3 per cent of GDP. The passage of the Finance Bill and the accompanying legislation through Parliament left the overall amount of the adjustment unchanged but modified its composition; in particular, the curbs on social welfare spending were eased and social security contributions were increased. The instruments introduced in 1997 for controlling disbursements were confirmed; steps were taken to reduce the level of unspent appropriations, which had risen considerably in 1997.

In the quarterly Report on the Borrowing Requirement published in March the objective for net borrowing was lowered to 2.6 per cent of GDP. The change reflected not a further increase in the primary surplus, which was actually reduced to 5.5 per cent of GDP, but the downward revision of the estimate for interest payments from 8.3 to 8.0 per cent of GDP.

In the first nine months of the year, net of settlements of past debts and privatization receipts, the state sector borrowing requirement amounted to 59.1 trillion lire, compared with 51.5 trillion in the same period in 1997. The increase of 7.6 trillion was mainly due to the effects of the new regional tax on productive activities (IRAP) on the timing of tax receipts and to the possibility of paying the main self-assessed taxes in instalments. These measures postpone some tax receipts to the fourth quarter.

The course of developments appears consistent with substantial achievement of the objectives for 1998 for the general government accounts. Net borrowing should fall slightly, from 2.7 per cent of GDP in 1997 to 2.6 per cent, while the primary surplus should shrink by 1.3 percentage points from the 1997 figure of 6.8 per cent of GDP.

The effects of the budget measures and the significant reduction in interest payments are offsetting the expansionary momentum of some expenditure items and the disappearance of some of the revenue-side effects of the temporary measures included in the 1997 budget.

The forecasts for the public finance balances in 1998 also reflect factors that could adversely affect the accounts for 1999.

The slowdown in economic growth has attenuated the growth in revenue. Receipts from the regional tax on productive activities have been lower than expected. However, the difference has been made up by larger receipts from other taxes, attributable in part to a shift in consumption towards durable goods, which are taxed at a higher average rate, and in part to the greater efficacy of the set of reform measures introduced in recent years. On the expenditure side, the rate of increase in outlays has been temporarily curbed by the changeover from two-monthly to monthly pension payments; for the current year, this entails a significant postponement of disbursements.

The reduction in the ratio of tax and social security receipts to GDP is likely to be smaller than planned, amounting to around 1 percentage point instead of 1.3. The decline is due to the lapsing of the one-off measures introduced in 1997 and to the effects of the fall in interest rates on receipts from withholding tax on interest income from government securities and bank deposits.

The GDP ratio of primary expenditure, i.e. net of interest payments, is likely to rise by around half a percentage point, compared with the Planning Document's forecast of 0.2 points, notwithstanding the postponement of pension payments mentioned earlier. The increase reflects a high rate of growth in current expenditure. The Report on the Borrowing Requirement indicates that primary current payments of the public sector have outpaced the growth in nominal GDP and increased by 6.3 per cent in the first half of the year compared with the corresponding period of 1997.

According to the Forecasting and Planning Report, the ratio of the public debt to GDP should fall more sharply than it did last year, declining from 121.6 to 118.2 per cent.

3. The public finance targets for 1999

The macroeconomic framework for 1999 is less favourable than that set out in the Economic and Financial Planning Document in April.

The growth forecast of the Forecasting and Planning Report has been lowered from 2.7 to 2.5 per cent. As with 1998, the expected increase in households' consumption has been revised down, from 2.3 to 2.1 per cent. An expansionary impulse is expected to come from collective consumption; the rate of growth in imports is forecast to be higher and that in exports lower.

The target for growth appears ambitious. The Italian economy will not be able to attain a growth path significantly higher than 2 per cent in the absence of a decided improvement in the international situation. This requires a rapid restoration of confidence in the financial markets, a recovery in Asia, above all in Japan, now gripped by recession and deflation, and a correction of the macroeconomic imbalances afflicting several large countries of Latin America.

Achieving the objectives of growth established in the Forecasting Report will depend on continued and stepped-up action along the lines indicated in the official programmes: more flexible employment conditions, to be agreed by the social partners, and the provision of tangible and intangible infrastructure to foster business investment, especially in the South.

The Forecasting Report for 1999 confirms a net borrowing target equal to 2.0 per cent of GDP and a primary surplus of 5.5 per cent. The planned adjustment to the primary surplus remains equal to 8 trillion lire, or 0.4 per cent of GDP. A contribution to containing the overall deficit will come from interest payments: the dynamics of interest rates should produce additional savings of at least 5 trillion lire with respect to the indications contained in the Planning Document.

The ratio of interest expenditure to GDP has fallen steadily from a peak of over 12 per cent in 1993. In 1999 it is forecast to be just above 7 per cent. Of the fall of 7.5 percentage points in the ratio of net borrowing to GDP, around 5 points are attributable to the reduction in interest rates. Additional savings, on the order of 2 points, could come over the next five years from the gradual alignment of the average cost of the debt with market interest rates. In the longer term, the reduction in interest payments will depend solely on the ability to reduce the amount of the debt.

4. *The budget measures*

The composition of the adjustment to the primary balance, amounting to 8 trillion lire, is slightly different from that outlined in the Planning Document; it envisages 9.6 trillion in spending cuts and 5.1 trillion in of additional revenue. This action to reduce the deficit creates room for new social welfare and development measures totaling 6.7 trillion lire.

The estimate of the measures given in presenting the budget does not include several allocations for social policies and development, totaling some 1.8 trillion lire, which are offset by specific additional measures to increase revenue and reduce expenditure by a corresponding amount. In all, resources amounting to 8.5 trillion are earmarked for social policy and development programmes.

The net effects of the budget measures are estimated at 2.8 trillion lire on the revenue side and 5.2 trillion on the expenditure side.

The planned correction of 2.8 trillion lire on the revenue side consists of measures designed to increase receipts by 6.4 trillion and social policy and development interventions likely to decrease them by 3.6 trillion.

Most of the expected additional revenue is to come from the sale by INPS of claims to unpaid social security contributions: 5.3 trillion lire in 1999 and 5.9 trillion in 2000 and 2001. By its nature, this measure does not generate permanent revenue. The other measures basically concern the licence fees due from firms for operating public utilities, which are expected to bring in 1 trillion lire in 1999 and 100 billion in each of the two subsequent years, and a plan for the disposal and better management of state-owned real estate, expected to yield 100 billion.

The refunding of 60 per cent of the special tax for Europe is envisaged. The refund, which will be included in calculating the year-end balance of 1998 liabilities for employees and will be set off against tax payments due from January 1999 onwards for persons with VAT accounts, will reduce revenue by 3 trillion lire in 1999.

Additional relief from registration tax and VAT for the purchase of one's principal dwelling is granted. Income tax on small pensions is reduced; the tax credit for pensioners with annual income of up to 18 million lire is increased, and the welfare component of pensions topped up to the minimum level will be exempt from personal income tax. Some stamp duties and licence fees will be eliminated.

For subsequent years the budget package includes other measures and delegations of power to the Government that should leave overall fiscal revenue unchanged. One set of measures is basically aimed at reducing the environmental impact of economic activity through a reallocation of the fiscal burden. The excise duties on mineral oils are to be gradually remodeled and a tax on the combustion of fossil fuels in large plants will be introduced; the additional revenue is to be used to reduce the incidence of social security contributions on labour costs and lower the surtax on motor vehicles with diesel engines and the tax on heating oil in some parts of the country, to introduce a tax credit for hauliers, and to encourage energy efficiency.

Furthermore, the Government is delegated to issue one or more legislative measures revising the tax treatment of supplementary pension plans, life insurance policies and severance pay within nine months of the entry into force of the legislation accompanying the Finance Law; these measure must not impose any additional burden on the budget. Most of the transfers to the regions will be replaced by a revenue-sharing scheme for VAT and the excise on petrol. The Government is also entrusted with the task of revising the financing of the regions and the mechanism for offsetting inter-regional fiscal imbalances. The reform can be the occasion for better distributing tasks among the various levels of government. Finally, the additional receipts expected from the fight against tax evasion, defined as the increment in revenue exceeding that forecast each year, will be earmarked as appropriate to a permanent restructuring of income taxes.

For 1999, the official valuation calls for net expenditure savings of 5.2 trillion lire, with spending cuts of more than 10 trillion and additional outlays of 4.8 trillion. Part of the savings, 2.4 trillion lire, will come from budget reductions, including restrictions on purchases of goods and services by government departments that the Finance Bill imposes on individual ministries under current legislation. Transfers to regions and other local authorities will be reduced by 2.2 trillion lire. Under the internal stability pact these authorities are required to contribute to the achievement of the public finance targets by reducing their net borrowing by 0.1 per cent of GDP annually for the next three years. Transfers to the State Railways will be reduced by 700 billion lire and those to the Post Office by 500 billion. Additional savings of 1.2 trillion lire are expected from the extension to schools of the controls on current outlays already in effect for universities and research institutions. Payments should be reduced by 1.35 trillion lire as the result of a revision of the procedures for crediting banks with the contributions provided for by investment subsidy programmes.

Rationalization in social security and curbs on health spending should bring outlay reductions of 400 and 600 billion lire respectively. The requirement of authorization for hiring will be extended to all government departments and this, together with greater recourse to part-time employment and trainee contracts and reduced appropriations for overtime, is expected to produce staff cost savings of 450 billion lire. Other spending items are to be cut by a total of 250 billion.

The reductions in expenditure are partially offset by additional income support for the needy. Specifically, the old age welfare benefit and the allowances for families with three or more dependant children will be increased and the fixed prescription fee for some classes of health service patients will be abolished.

Finally, additional outlays of 2.5 trillion lire are allocated to investment in infrastructure and reconstruction in areas recently struck by natural disasters. Another 1 trillion lire is appropriated for specific intervention in sectors of key importance for economic growth and employment.

The programme for the reduction of the public debt will benefit in 1999 from extraordinary receipts of about 6 trillion lire as the Treasury's share of the profits realized by the Italian Foreign Exchange Office as a consequence of the transfer of foreign currency reserves to the Bank of Italy and the imputation to the profit and loss account of previous allocations to provisions.

This operation is an integral part of the transformation of the Foreign Exchange Office provided for by Legislative Decree 319 of 26 August 1998.

The funds to be transferred to the Treasury are the fruit of large-scale allocations in recent years deriving from the profits of the Office on the investment of the foreign exchange reserves.

At this point, with your permission, I should like to undertake a more specific examination of this issue, in relation to the debate that has been conducted in recent weeks.

Under the rules in effect until 30 September, the Italian Foreign Exchange Office held the country's foreign currency reserves, which it managed in the national interest on the basis of criteria of liquidity and yield. The Office was funded through a current account with the Bank of Italy, bearing a rate of interest related to the yield on the reserves.

Gold reserves have always been managed by the Bank of Italy itself, which also has a limited portfolio of reserve currencies for prompt foreign exchange market intervention.

In managing the reserves, when amounts are limited the emphasis is placed on liquidity. When amounts are substantial, yield becomes increasingly important.

At the end of 1992 the total gold and foreign exchange reserves of the Bank of Italy and the Italian Foreign Exchange Office amounted to $56.5 billion, but of this $23.2 billion was in gold. As virtually all of the foreign exchange reserves originated from short-term borrowings by the Bank and the Office from banks and financial institutions, net reserves amounted to just $5.7 billion. The laborious task of replenishing Italian reserves not derived from borrowing was begun. At the end of 1994 net foreign currency reserves, excluding gold, were $10.5 billion; by the end of 1996 they had increased to $30 billion; and at the end of 1997 they stood at $46.8 billion.

The need for more dynamic management to improve the return on reserve assets became more impellent, bearing in mind that the gold reserves are non-interest-bearing.

The Board of Directors of the Italian Foreign Exchange Office regularly issued general directives governing the management of reserves.

The reserves had always been invested with financial intermediaries of the highest international standing. In 1991 it was decided that a very small part could go into more dynamic investments, known as pilot portfolios. These assets too were entrusted to intermediaries of top international repute; they were managed more dynamically, with good results. On 30 September $600 million, or 1 per cent of Italy's official reserves, were invested in such assets, divided into five pilot portfolios.

In February 1994, after the requiste fact-finding, it was decided to invest $100 million in the Long Term Capital Management investment fund. The operation was conceived as part of the pilot portfolio programme. The intermediary enjoyed high esteem in the New York financial market and among the central banks participating in the Bank for International Settlements.

Investments in Long Term Capital Management can be redeemed every three years, with advance notice.

Given the exceptional performance of the financial markets, between 1994 and the first part of 1998 the investment generated high returns for the Fund's investors.

Overall, in the three years from 1994 through 1996 the Italian Foreign Exchange Office received $105.8 million in profits from Long Term Capital Management. At the end of 1996 the Office confirmed its participation. It also subscribed $150 million in bonds issued by the Fund, maturing 31 December 2000, at an interest rate higher than LIBOR. The Office received another $17.2 million at the start of 1998 as earnings on its $100 million investment in 1997; interest on the bonds was paid on schedule.

The summer of 1998 witnessed the grave, systemic crisis of the international financial markets, which now threatens the Office with the loss of a large part of the $100 million investment.

Given the rescue plan for Long Term Capital Management that has been undertaken by a group of international banks at the request of the Federal Reserve, no problem has yet arisen with the regular debt service payments on the $150 million in bonds.

As far as the capital investment of $100 million is concerned — the loss on which, let me repeat, could come to a very large part of the total investment — the Italian Foreign Exchange Office has already taken in $122.9 million in profits, credited over the years to its profit and loss account.

Through 30 June 1998 a total of $17.7 million had been received in interest on the bond holding.

According to the statement by Alan Greenspan, Chairman of the Federal Reserve, to Congress on 1 October, it is the intention of the committee of new investors that has undertaken the refinancing, retaining the previous managers in view of their high moral and professional standing, to "shrink LTCM's portfolio so as to reduce risk of loss and return the remaining capital to the investors as soon as practicable. I do not rule out the possibility that the new owners of what is left of LTCM may decide to keep part of it in business.”

For the sake of completeness, let me recall that the return on the Italian Foreign Exchange Office’s foreign currency reserves was 4.3 per cent in 1997, which as in the past was in line with market conditions and the yields of comparable portfolios.

On 1 October the reserves were transferred to the Bank of Italy. The Foreign Exchange Office has now become an instrumental entity of the Bank’s. In addition to its specific tasks under the laws on money laundering and usury and the gathering of balance-of-payments statistics, the Office will act as the Bank’s agent in implementing its reserve management strategy.

5. An evaluation of the budget for 1999. Prospects

The distinctive feature of the budget for 1999 is the effort to reactivate public investment, stimulate economic growth and provide support to people contending with severe economic hardship. The delegations of legislative authority concerning taxation and decentralized finance should help to make public action more efficient. These are important steps that need to be properly implemented and consolidated.

The budget does not appear to affect the medium-term trends of receipts and payments; the decisions regarding the revision of the levels of expenditure and taxation are put off to subsequent years.

Most of the expenditure savings are entrusted to reductions in budgetary allocations and transfers to non-state public bodies on the one hand and the extension of disbursement controls on the other, without affecting the norms regulating the activity of the various sectors. The achievement of the planned reduction will depend on the behaviour of administrators.

The curbs on transfers to non-state public bodies could imply tax or public service charge increases at the regional or local level. The reduction in contributions to the State Railways and the Post Office could lead to increased borrowing or the imposition of higher charges by these entities.

Temporary increases in revenue, besides compensating for the partial refunding of the tax for Europe, account for more than one third of the deficit reduction. In the absence of more resolute action on the spending side, this choice, which avoids a permanent increase in the tax rates, minimizes the impact of the deficit reduction on economic activity. But only a structural containment of expenditure can permanently ensure fiscal equilibrium and the easing of the tax burden.

The overall contribution to deficit reduction of measures with transitory effects will decline to 0.2 per cent of GDP, compared with 0.6 per cent this year.

In 1999 the tax burden will diminish marginally according to our estimates, although these do not take account of the increase in taxation at the local level that, as mentioned, could result from the planned reductions in transfers to non-state public bodies. It will remain at around 43 per cent of GDP, one percentage point below the peaks recorded in 1993 and 1997.

The rate of growth in primary expenditure in 1999 should not diverge from that in GDP.

The uncertainty bearing on some of the public finance results for the current year, the development of cyclical conditions in 1999 and several components of the budget package examined here necessitate careful monitoring of revenue and expenditure so as to correct any overshooting promptly.

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With 1997 the phase in which Italian budgetary policy aimed primarily at meeting the requirements for participation in the single currency came to a close. General government net borrowing was brought back below the limit of 3 per cent. The growth in the debt-to-GDP ratio was halted and a start made on reducing it. The action to adjust the public finances relied significantly on revenue increases, some of them temporary, and constraints on disbursements; major structural reforms were begun.

After the pause for consolidation this year, the action planned for 1999 reflects the commitment undertaken with the Stability and Growth Pact to move as quickly as possible towards budgetary balance or surplus. The Planning Document for the three years from 1999 to 2001 has outlined a path of gradual deficit reduction which on a current programmes basis is consistent with that commitment.

The recommendations contained in the European Monetary Institute’s Convergence Report call on the countries with high public debt ratios to reduce the debt rapidly. In this regard, it is essential that the primary surplus remain at least equal to 5.5 per cent of GDP.

The launch of the single currency opens a new phase in which fiscal consolidation will have to be complemented by greater attention to the profound impact that the size and structure of the budget have on economic activity, growth and employment.

The reduction in the ratio of tax revenue to GDP, which presupposes the curbing of expenditure, must proceed in conjunction with improvements in the budget balance. This is the condition for bringing the Italian economy back to a rate of growth at least equal to those of the other leading industrial countries.

In the medium term, reducing the tax pressure is essential to remove the factors that brake individuals’ and firms’ propensity to work and invest; in the context of increasing international integration, it will make the Italian economy more competitive.

The tax reforms introduced in 1998 move in the right direction. They make the tax system more neutral from the point of view of resource allocation, broaden the tax bases, restrict the possibilities of evasion and simplify the administrative obligations imposed on the public. The overall fiscal burden on the Italian economy remains disproportionately high for the new configuration of international economic relations.

Deeper tax cuts require curbs on the growth in spending. What is needed is a structural adjustment of expenditure that cuts out waste and alters the current trends by modifying the rules and practices that determine the level of social security and welfare benefits, the beneficiaries, and the quality and quantity of public services.

Following the passage of the Finance Bill, the new phase of economic policy must be characterized by a determined effort to lead the public finances onto a path that is sustainable in the medium and long term as well, thereby helping to improve the population’s expectations and reducing the uncertainty that stems from repeated budget adjustments.

The structural adjustment of current expenditure must expand the scope for investment in infrastructure; the administrative and financial constraints that now impede the execution of projects must be eliminated. The level of economic activity will benefit with the immediate creation of new jobs. The efficiency gains and the greater competitiveness of the economy will consolidate and reinforce the growth in employment.

Tables and Figures

Table 1

State sector balances (1)

(billions of lire and percentages)

	Year			First 9 months	
	1995	**1996**	**1997**	**1997**	**1998 (2)**
Primary balance (surplus: -)	**-68,130**	**-66,284**	**-126,304**	**-85,139**	**-61,000**
as a percentage of GDP	*-3.8*	*-3.5*	*-6.5*		
Borrowing requirement net of settlements of past debts and privatization receipts	**126,869**	**128,799**	**52,720**	**51,523**	**59,052**
as a percentage of GDP	*7.2*	*6.9*	*2.7*		
Settlements of past debts (3)	4,085	13,502	-409	1,871	2,042
Privatization receipts (4)	-8,354	-6,226	-21,179	-4,666	-8,151
Total borrowing requirement	**122,600**	**136,074**	**31,131**	**48,728**	**52,943**
as a percentage of GDP	*6.9*	*7.3*	*1.6*		
FINANCING					
Medium and long-term securities	88,649	126,909	99,003	92,240	93,783
Treasury bills in lire and ecus	-1,506	-27,453	-82,310	-57,560	-23,982
Treasury current accounts with BI	-8,195	17,370	-3,020	-7,248	-6,296
Other BI-UIC financing	-244	304	435	607	232
Post Office funds	15,791	13,229	11,635	8,618	2,076
of which: current accounts	*-735*	*-1,219*	*-630*	*653*	*-3,650*
Bank lending	2,254	-9,858	1,136	5,186	-4,529
Other domestic financing	253	194	194	175	274
Foreign loans	25,598	15,380	4,059	6,707	-8,616

(1) Based on Eurostat accounting rules.

(2) Provisional data.

(3) Includes Local Health Unit debts and the early redemption of a bond loan granted to IRI by the Deposits and Loans Fund.

(4) Includes Treasury purchases of shareholdings in STET drawing on the sinking fund for the redemption of government securities: 3,000 billion lire in 1996, 13,500 billion lire in 1997 and 8,166 billion lire in 1998.

Table 2

Estimated effects of the 1999 budget
(billions of lire)

REVENUE	
1. Increase in revenue	**6,426**
- Accelerated collection of INPS receivables	*5,300*
- Telecommunication licence fees	*1,010*
- Sales of real estate	*100*
- Other	*16*
2. Social and development policies	**-3,661**
- Partial refund of the special tax for Europe	*-3,000*
- Tax relief for housing	*-130*
- Tax relief for pensions	*-360*
- Abolition of stamp duty and taxes on government licences	*-171*
TOTAL REVENUE (net increase in revenue)	**2,765**
EXPENDITURE	
1. Reduction in expenditure	**10,038**
- Budget on a current programmes basis	*2,390*
- Accompanying measures	*7,648*
- Public employment	447
- Domestic stability pact	2,200
- Monitoring of school outlays	1,200
- Revision of investment procedures	1,350
- Rationalization of the social security sector	386
- Measures affecting the postal sector	520
- Reduction in transfers to the State Railways	700
- 5% reduction in purchases of goods and services	200
- Curbs on expenditure on pharmaceuticals	450
- Savings on physicians who also work privately	145
- Other	50
2. Social and development policies	**-4,800**
- Support for investment and reconstruction	*-2,500*
- Sectoral policies	*-1,000*
- Increase in pensions and welfare payments	*-430*
- Allowances for families with three or more children	*-390*
- Abolition of the fixed portion of health charges	*-450*
- Other minor items	*-30*
TOTAL EXPENDITURE (net reduction in expenditure)	**5,238**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**8,003**

Table 3

The public finances: outturns and objectives

	1997	1998	1999	1997	1998	1999
	(billions of lire)			*(as a percentage of GDP)*		
State sector						
Borrowing requirement (1)	52,602	52,700	45,210	2.7	2.6	2.1
Interest payments	179,024	159,400	152,650	9.2	7.8	7.2
Primary balance (surplus: -)	-126,422	-106,700	-107,440	-6.5	-5.2	-5.0
General government						
Current balance (surplus: -)	2,632	-10,400	-31,700	0.1	-0.5	-1.5
Net borrowing	52,220	52,500	43,600	2.7	2.6	2.0
Interest payments	185,163	163,900	160,000	9.5	8.0	7.5
Primary balance (surplus: -)	-132,943	-111,400	-116,400	-6.8	-5.5	-5.5

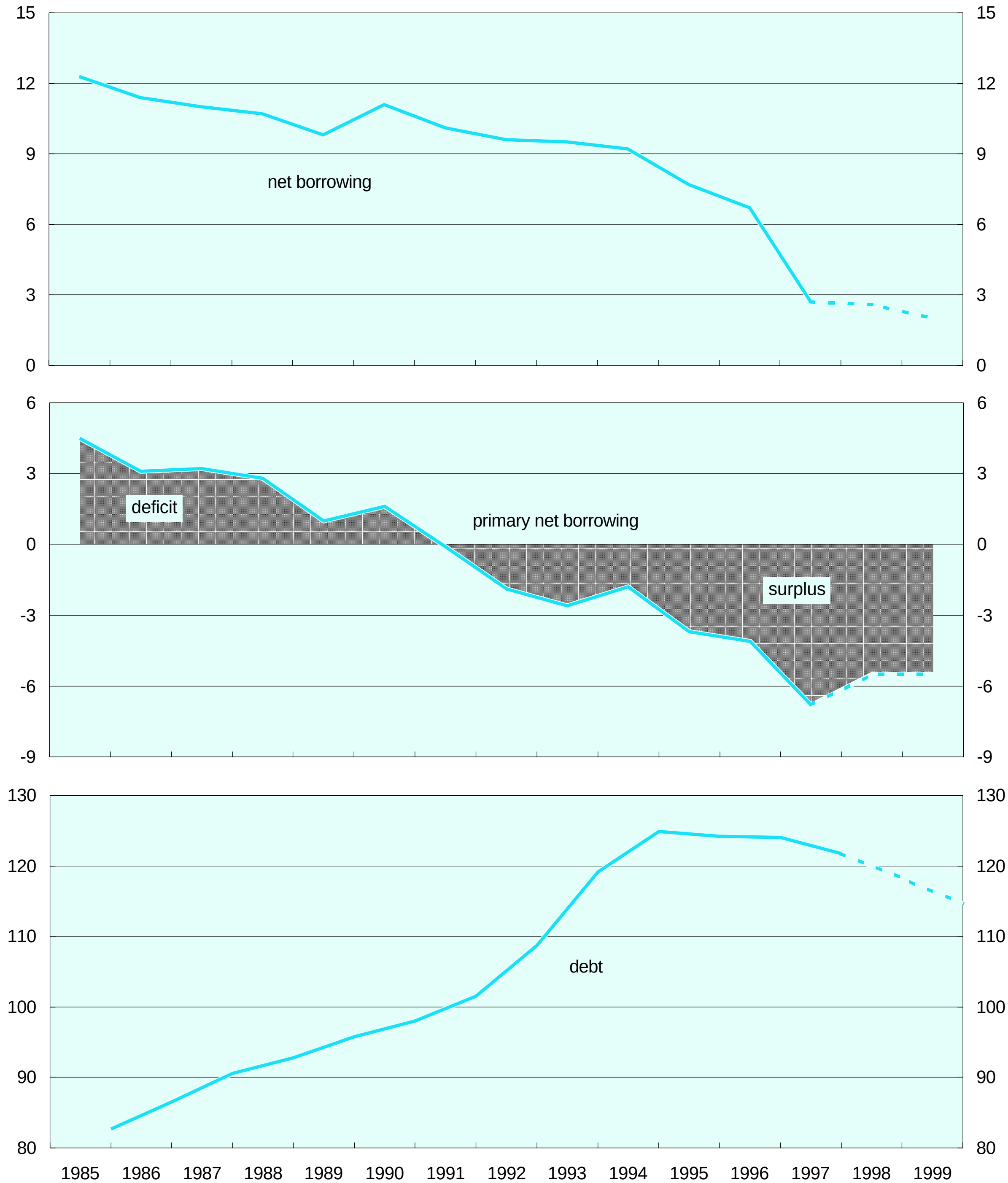
Source: ***Documento di Programmazione Economico-Finanziaria per gli anni 1999-2001*** **.**

(1) Net of settlements of past debts and privatization receipts.

Figure 1

General government net borrowing, primary net borrowing and debt (1)

(as a percentage of GDP)

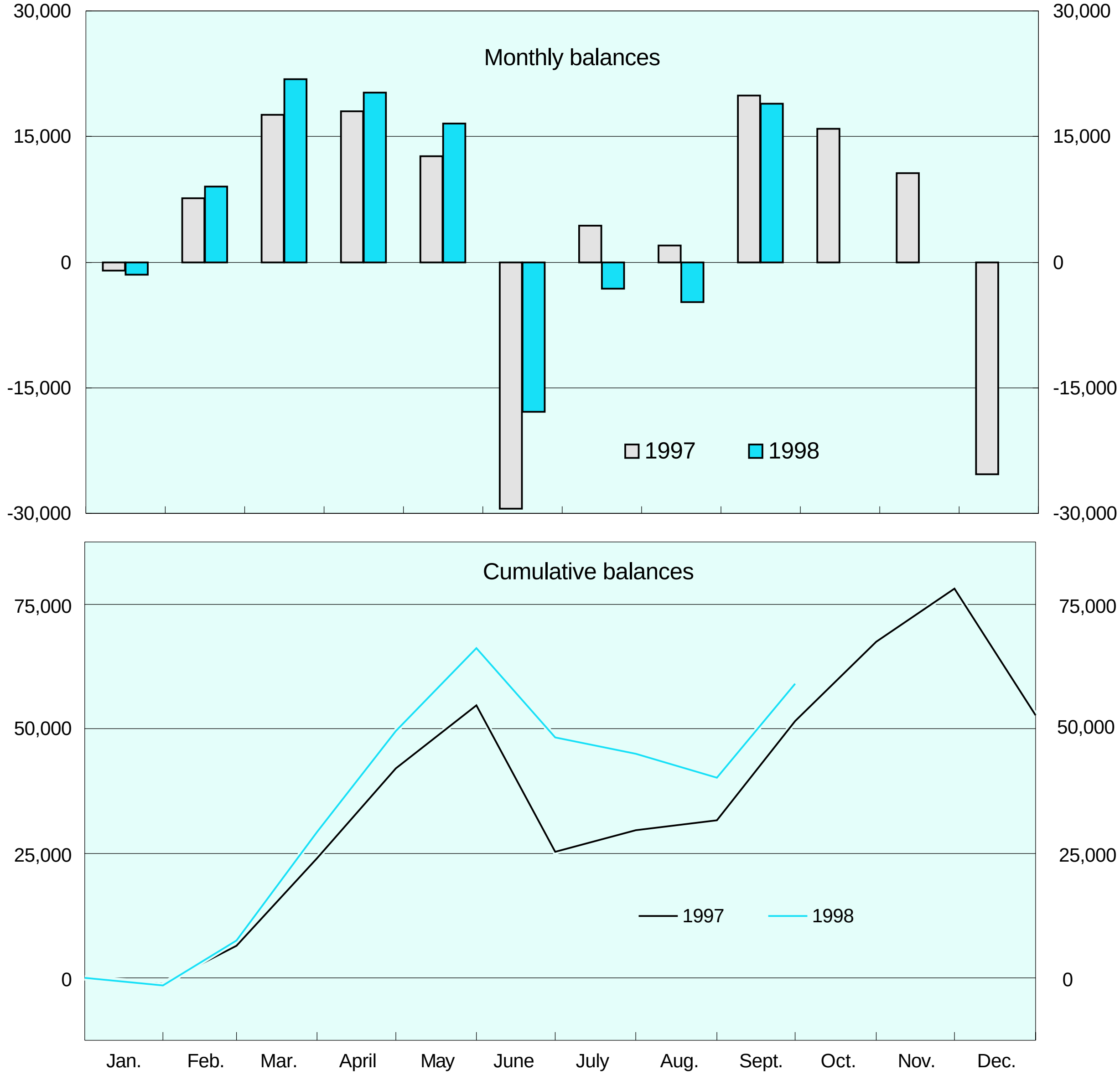


(1) For 1998 and 1999, forecasts published in *Documento di programmazione economico-finanziaria (1999-2001).*

Figure 2

State sector borrowing requirement in 1997 and 1998 (1)

(billions of lire)



(1) Net of settlements of past debts and privatization receipts.

Figure 3

General government revenue, social services expenditure and gross investment

(as a percentage of GDP)