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Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 1999-2001

Statement by the Governor of the Bank of Italy
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Rome, 22 April 1998

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The budgetary, monetary and incomes policies initiated towards the end of 1992 and pursued with determination in the last few years have caused conditions in the Italian economy to converge towards those prevailing in the countries with a longer tradition of stability.

The Economic and Financial Planning Document will be the basis for the Stability Programme to be submitted to the Council and the Commission of the European Union. The Planning Document must be assessed in terms of how far it succeeds, in the new context, in establishing guidelines and measures able to combine stimulating economic activity with completing the consolidation of the budget and the reduction of the debt within an appropriate period of time.

Achieving faster growth and increased employment requires a high level of competitiveness, to be reached and maintained by holding down costs, restoring flexibility and raising productivity. In such conditions consolidating the budget and reducing the public debt will help rather than hinder the strengthening of economic activity.

1. The results achieved in 1997 and budgetary policy in 1998

Major progress was made in reducing general government net borrowing last year. In relation to GDP it fell from 6.7 per cent in 1996 to 2.7 per cent. The reduction in the ratio of the public debt to GDP that began in 1995 was taken a step further. (Figure 1).

The budget deficit results in 1997 were better than expected for three reasons: the growth in economic activity was slightly faster than had originally

been projected; the fall in interest rates was larger than had been forecast, partly as a result of international developments; and the revised VAT rates provided for in the budget for 1998 were introduced on 1 October 1997.

The correction, including the additional measures adopted at the end of March 1997, is estimated to have improved the primary balance by some 3 per cent of GDP compared with that on a current programmes basis.

In relation to GDP the primary surplus rose from 4.1 to 6.8 per cent (Figure 1); interest payments fell by 1.3 percentage points. The overall improvement in general government net borrowing amounted to 4 per cent of GDP.

Around 2.4 percentage points of the rise in the primary surplus in relation to GDP were due to increases in revenue, while the other 0.3 percentage points came from reductions in expenditure. The sharp rise in spending on social services resulted in primary current expenditure increasing by 0.2 percentage points in relation to GDP. Capital expenditure declined by 0.5 percentage points, primarily because payments of tax credits in securities came to an end. (Table 5).

The reduction in the deficit attributable to temporary measures amounted to around one per cent of GDP.

A contribution to curbing expenditure was made by the measures aimed at controlling the cash flows of central government and non-state public bodies. The latter were required to make payments by drawing down the balances on their central treasury accounts, which declined significantly, and their total withdrawals were capped.

The measures concerning cash flows led to an increase in expenditure arrears. In order to diminish the latter's impact on the public finances in subsequent

years, steps were taken to reduce their amount and limit their transferability from one year to the next. It will be necessary to strengthen this action and modify the mechanisms governing the formation of expenditure.

Last September, with the aim of consolidating the results for 1997 that were beginning to take shape, it was decided to set the target for general government net borrowing in 1998 at 2.8 per cent of GDP. The target for the primary surplus was set at 5.6 per cent of GDP, compared with 5.8 per cent in the Planning Document for 1998-2000, one percentage point less than the forecast made at the time for 1997. The reduction in the surplus stemmed primarily from a decline in revenue expected to amount to 0.8 per cent of GDP.

Plans were made for a budget correction on the order of 25 trillion lire, with a prevalence of expenditure cuts. Parliament did not substantially change the overall size of the adjustment measures, but modified their composition: the additional revenue was increased from 11 to 13 trillion lire; the expenditure saving was reduced from 14 to 12 trillion.

The cut in spending on social services approved by Parliament was about half that originally planned. The reduction was offset by increases in some contribution rates and other measures.

The Quarterly Report on the Borrowing Requirement presented to Parliament in March of this year revised the targets for 1998 to take account of the better-than-expected results achieved in 1997.

The decline in interest rates allowed interest expenditure to be revised downwards. The general government borrowing requirement was set at 2.6 per cent of GDP. The target for the primary budget surplus was lowered further, to 5.5 per cent of GDP.

By comparison with 1997, therefore, the primary surplus should decline by 1.3 percentage points in relation to GDP. This is due almost entirely to a fall in the ratio of revenue to GDP, reflecting the termination or reduction in the proceeds from some temporary measures introduced in 1997 (the personal income surtax for Europe, company payments on account against future severance pay tax liabilities and earlier receipt of taxes from private collection offices) and a decrease in revenue from the withholding tax on interest income owing to the decline in rates.

In the first four months of the year the state sector borrowing requirement is expected to be about 49 trillion lire, 7 trillion more than in the same period of 1997. The difference is essentially due to the abolition of health service contributions, which have been incorporated into the new regional tax on productive activities, which falls due in the coming months.

Meeting the budget deficit target for the year requires that the rules serving to control the expenditure of central government departments and non-state public bodies should remain effective; it will depend on the spending behaviour of public managers. On the basis of current information, there does not appear to be any risk of overshooting the target.

2. The objectives for the public finances

The Planning Document lays out a strategy for complying with Italy's undertakings in connection with the Stability and Growth Pact and for accelerating the reduction of the public debt in conditions of economic growth.

Buoyed by a recovery in investment, the Planning Document foresees real GDP growth of 2.7 per cent in 1999 and of 2.9 per cent in both 2000 and 2001. For employment, the objective is an expansion of 0.7 per cent in 1999, of 0.9 per cent in 2000 and of 1 per cent in 2001. Inflation is forecast to slow from the rate assumed for this year and settle at 1.5 per cent.

The general government borrowing requirement is set to decline from 2.6 per cent of GDP this year to 2, 1.5 and 1 per cent in 1999, 2000 and 2001 respectively. The incidence of the public debt should continue to fall by several percentage points each year to reach 107 per cent of GDP in 2001. (Table 6).

The deficits projected in the Planning Document are slightly lower; the objectives are somewhat less ambitious than those indicated last year when account is taken of the significantly more favourable forecasts for interest rates and interest expenditure.

In the three years from 1999 to 2001 the primary surplus, which is the variable that budget policy directly controls, is kept at the same ratio to GDP as in 1998, 5.5 per cent. Compared with last year's Planning Document this implies a

reduction of 0.3 points in 1998, of 0.5 points in 1999 and of 0.6 points in 2000. (Table 6; Figure 7).

Interest expenditure, which last year's Planning Document forecast at 8.6 per cent of GDP in 1998, 8.4 per cent in 1999 and 7.9 per cent in 2000, is now expected to be 8, 7.5 and 7 per cent of GDP. It should fall further to 6.5 per cent in 2001. (Table 6; Figure 7).

These new estimates assume that pre-tax interest rates on twelve-month Treasury bills remain constant from 1999 to 2001 at 4.5 per cent, which is slightly below the values of the most recent auctions. The estimates of interest expenditure in 1998 would be affected only marginally if interest rates were to diverge from those forecast. In the subsequent years the incidence of this item could be higher; the estimates of interest payments are subject to continuous adjustment.

Both revenue and primary expenditure should decline by about 1 percentage point of GDP between 1998 and 2001 (Table 6).

Considering the current and capital components of total primary expenditure, the former is set to decline by 1.5 points of GDP and the latter to rise by 0.6 points (Table 6).

In 2000 current expenditure net of interest payments is now forecast to be 37.4 per cent of GDP, compared with 36.8 per cent in last year's Planning Document (Table 6).

Action to revive growth in capital expenditure has been stepped up. Capital outlays should expand significantly faster than GDP, rising from 3.5 per cent of that aggregate in 1998 to 4.1 per cent in 2001 (Table 6).

The forecast reduction in the ratio of revenue to GDP is slightly smaller than was projected last year; it is now expected to be 46.8 per cent in 2000, instead of 46.4 per cent (Table 6).

Most of the fall in the revenue ratio is set to come in 1999. In particular, that year will see the reimbursement of 60 per cent of the personal income surtax for Europe — an extraordinary operation of opposite sign to that effected in 1997.

The adjustment to the primary budget balance on a current programmes basis needed to achieve these results amounts to 19.5 trillion lire over the three years. The greater part of the adjustment, 13.5 trillion, is scheduled for 1999, with 9.5 trillion of spending cuts and 4 trillion of additional contributions. This will be followed by further adjustments of 4 trillion in 2000 and 2 trillion in 2001.

Transfers to public service companies are to be reduced on the basis of revised corporate plans; non-state public bodies will be called upon to help achieve the planned curbing of net borrowing planned for general government as a whole. Local authorities' tax-levying powers will be strengthened; in the meantime they can be assigned a share of the proceeds from the principal taxes. Action to curb expenditure on goods and services will continue at all levels of government. The eligibility standards for social benefits will also be reviewed.

Measures aimed specifically at stimulating productive activity and narrowing the gap between North and South are also envisaged. The amount

planned over the three years is equal to 26.6 trillion lire: 5.5 trillion in 1999, 9.5 trillion in 2000 and 11.6 trillion in 2001. Most of these resources, or a total of 15.6 trillion lire in yearly appropriations of 2.5, 5.5 and 7.6 trillion lire, will be used to support investment. Sectoral policies are to be allocated a total of 5 trillion lire, 1 trillion in 1999 and 2 trillion in each of the following two years. An additional 6 trillion lire will be used during the three years to provide tax relief.

The reduction in the tax burden should be accompanied by a reform of the procedures for collecting social security contribution, to bring them into line with those for taxes, and by measures to speed up the recovery of social security credits and to combat evasion. Taken together, these measures are expected to generate 4 trillion lire of additional annual revenue from 1999 onwards.

By the end of 2001 the ratio of the public debt to GDP should be down to 107 per cent, compared with an estimate of 118.2 per cent for the current year. This reduction will reflect not only the more favourable forecasts for the budget deficit and growth but also the contribution of privatizations, which are expected to produce receipts of 35 trillion lire over the three years.

Special attention will be devoted to the completion of the reform of the public administration, including the replacement of statute law with secondary legislation and deregulation, together with staff retraining. The aim is to streamline procedures, especially with a view to facilitating the activities of businesses. As for staff, second-level bargaining agreements will provide incentives to increase productivity and acquire new skills. Mobility will also be encouraged, in connection with the administrative decentralization that is already under way.

The decisions regarding the public finances in the next few years must be assessed in the light of the constraints imposed by Italy's participation in the European Monetary Union.

The Stability and Growth Pact commits participating countries to "respect the medium-term budgetary objective of positions close to balance or in surplus" and to "deal with normal cyclical fluctuations while keeping the government deficit within the reference value of 3% of GDP". In addition, the Maastricht Treaty establishes that "the ratio of government debt to gross domestic product" shall not "exceed a reference value" — fixed at 60 per cent of GDP in the Protocol on the excessive deficit procedure — "unless the ratio is sufficiently diminishing and approaching the reference value at a satisfactory pace".

The Convergence Report of the European Monetary Institute, published on 25 March, stresses that in Italy's case "significant and persistent overall fiscal surpluses are rapidly needed to be able to forcefully reduce the debt ratio to 60% of GDP within an appropriate period of time."

In the light of these constraints it is necessary to reduce the level of public debt towards the reference value at a satisfactory pace. The ratio of the primary surplus to GDP should be kept at least at the level envisaged for the current year even after 2001. According to the EMI's calculations, a primary surplus of 5.5 per cent would reduce the ratio to 60 per cent in 2112 in a macroeconomic environment substantially similar to that underlying the forecasts in the Planning Document. In particular, this scenario assumes annual nominal GDP growth of 4.5 per cent and an average cost of the public debt of 6 per cent. Primary surpluses of the order of those set out here should lead to overall budget surpluses as early as the first half of the next decade.

Compliance with the limits on the deficit and the public debt depends crucially on achieving the targets for output and employment growth. A change of one percentage point above (below) the trend rate of output growth reduces (increases) the deficit by around half a percentage point of GDP.

In a medium-term perspective, account must be taken of the uncertainty associated with macroeconomic developments and interest rates; the latter depend primarily on the performance of the economy and the international financial markets.

Convergence of the public finances towards the guidelines established by the Stability and Growth Pact appears essential in the presence of a single, European, monetary policy, which will necessarily be tailored to the performance of the economy of the area as a whole. The task of attenuating the impact of a recession in individual countries will fall entirely to fiscal policy, which will require greater room for manoeuvre than in the past.

3. The macroeconomic objectives

The goal of a new phase of economic growth is within Italy's reach. The country possesses considerable human resources, savings, entrepreneurial skills and capacity for work.

Strengthening economic activity ensures both greater welfare for citizens and greater stability. The creation of new jobs and the availability of additional

resources ease tensions in the distribution of income.

Economic growth is also a necessary condition, especially in the long run, for the soundness of the currency.

The Planning Document envisages a systemic change in the operation of the Italian economy and institutions compared with earlier decades. It is not easy at present to assess accurately whether the measures outlined are consistent with the macroeconomic objectives. The maintenance of the action to readjust the public finances and the simultaneous reduction in the tax burden, the simplification of bureaucratic procedures and the measures aimed at reviving public and private investment are steps in the right direction.

The results will nonetheless depend on how the individual measures are implemented, on the ability to achieve a high level of competitiveness and create a more favourable environment for economic activity, especially as regards flexibility in the use of productive factors. In the background, the government apparatus must be streamlined and made more efficient in order to reduce the administrative burden on firms and citizens and to provide public services that meet the needs of citizens.

The reductions in the tax burden and current expenditure appear acceptable in the short run, but modest in a longer term perspective.

Even though it has been corrected significantly, spending on social services is still growing (Figure 6), owing to the ageing of the population. This is more pronounced in Italy than in the other industrial countries.

On the basis of the outturn for 1997, the ratio of revenue and current expenditure to GDP is more than 2 percentage points higher in Italy than the average of the other European countries (Figure 2).

Wage levels inconsistent with productivity, labour market regulations and the heavy burden of social security contributions have resulted in part of the country having exceptionally high rates of unemployment and even higher rates of grey and irregular employment.

The leading European countries are about to or will have to make structural corrections to their finances and adopt economic policies to reduce expenditure and taxes.

For some time now awareness has been increasing at the international level of the need to reduce the size of the public sector in order to meet the challenges set by the globalization of markets and the consequent increase in competition. In Italy, a substantial strengthening of the action taken appears necessary in the medium term in order to ensure the achievement of the planned macroeconomic objectives. The ratio of current expenditure to GDP must be reduced further to create the financial leeway needed to permit a sizable reduction in the tax burden and an increase in investment.

More effective measures to reform the structural components of the public finances must be accompanied by economic policies that stimulate investment, especially in the private sector, and ensure more favourable labour market conditions, so as to reinforce the growth of economic activity and employment.

Eliminating inadequacies in infrastructure, especially in the southern areas of the country, will increase the economy's productivity.

The revival of investment is likely to be stimulated more by a certain and permanent reduction in taxation than by granting subsidies and incentives, which are always uncertain and in any case dependent on the completion of bureaucratic formalities and the verification of the existence of special conditions.

4. Conclusions

The economic policy guidelines set out in the Planning Document are a step in the right direction. The Government is aiming to achieve rapid growth in productive activity and employment.

In the present circumstances a strict budgetary policy will not hinder a revival in economic activity. Public opinion today is very conscious of the state of the public finances; people are spending cautiously in view of the uncertainties associated with the large public debt and the prospect of increasing imbalances in the pensions field. A budgetary policy that addresses, even in the medium term, the structural aspects of current expenditure and the public debt will create the conditions for a new phase of growth against a background of stability.

The budget needs to be brought into balance earlier in order to ensure full compliance with the constraints imposed by participation in the European Monetary Union and make our economy less vulnerable to possible adverse developments in the international economy and financial markets.

The relaunching of production calls not only for the measures envisaged in the Planning Document to remove the shortcomings in infrastructure that hamper

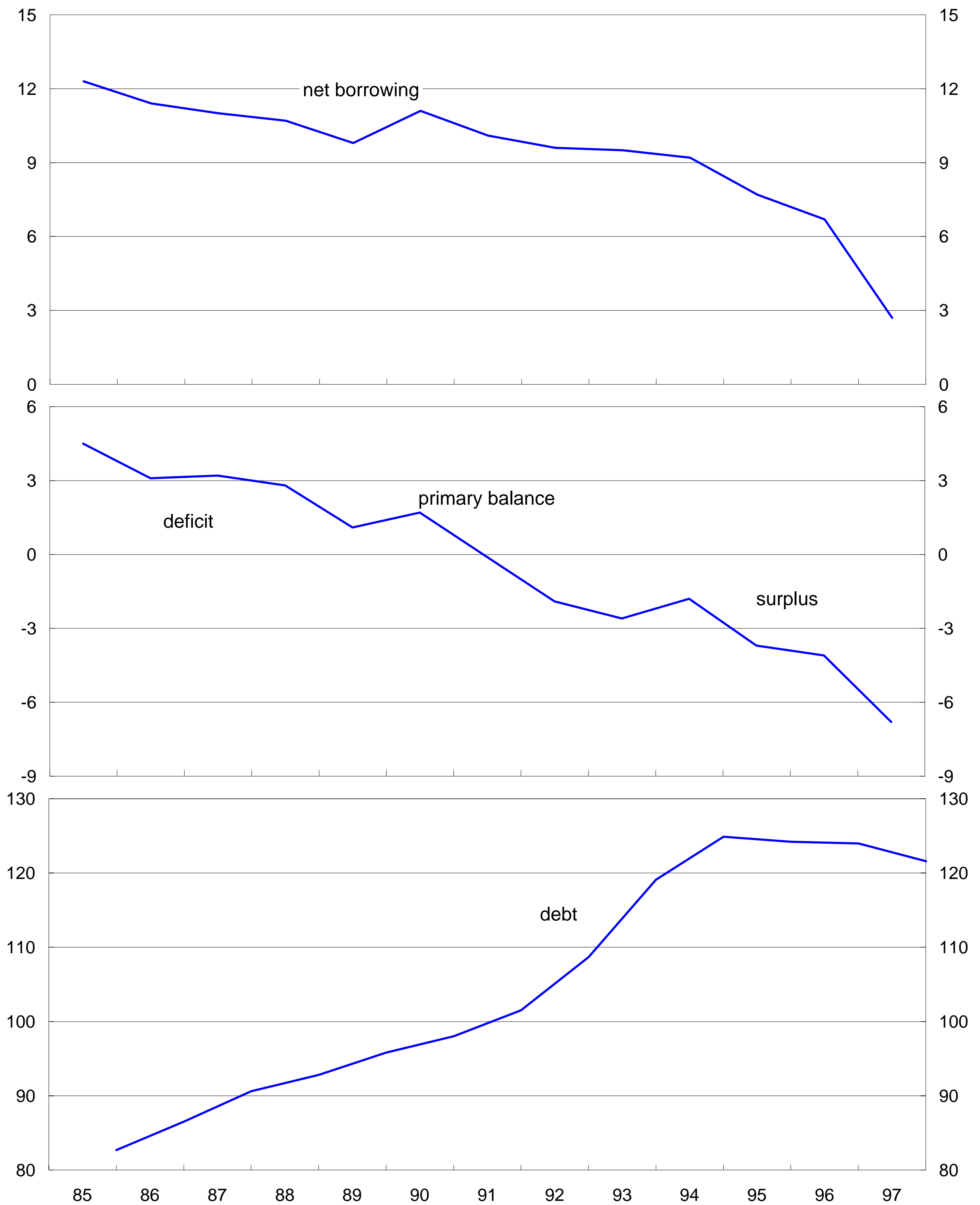
competitiveness in large areas of Italy, but also for the creation of a favourable environment for economic activity, greater competitiveness, a substantial reduction in the tax burden and more flexible use of the factors of production.

In adopting the Stability and Growth Pact at its meeting in Amsterdam in June 1997, the European Council emphasized that sound macroeconomic and budgetary policies go hand in hand with strong and sustainable employment growth. The Council also stated that "more attention will be given to improving European competitiveness as a prerequisite for growth and employment" and stressed "the importance for the Member States of creating a tax environment that stimulates enterprise and the creation of jobs."

These are the conditions that the implementation of the Planning Document will have to meet if Italy is to participate in Europe with a role in keeping with its tradition and potential. The other nations will have to address and solve similar problems if Europe is to succeed in taking advantage of the positive impact of the single currency and the opportunities offered by the globalization of markets to improve its prospects for growth and employment within a framework of stability.

TABLES AND FIGURES

Figure 1



Sources: Based on Istat data and Bank of Italy data for the debt.
(1) Net borrowing excluding interest payments. A minus sign indicates a surplus.

Table 1

GENERAL GOVERNMENT NET BORROWING (+) OR NET LENDING (-)

(as a percentage of GDP)

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
Italy	8.3	12.3	11.1	10.1	9.6	9.5	9.2	7.7	6.7	2.7
France	0.0	2.9	1.6	2.1	3.9	5.8	5.8	4.9	4.1	3.0
Germany (1)	2.9	1.2	2.1	3.1	2.6	3.2	2.4	3.3	3.4	2.7
United Kingdom	3.4	2.8	0.9	2.3	6.2	7.9	6.8	5.5	4.8	1.9
Spain	2.6	6.8	4.1	4.2	3.8	6.9	6.3	7.3	4.6	2.6
Belgium	8.6	8.8	5.5	6.3	6.9	7.1	4.9	3.9	3.2	2.1
Denmark	3.3	2.0	1.5	2.2	2.1	2.8	2.8	2.4	0.7	-0.7
Greece	2.4	11.6	16.1	11.5	12.8	13.8	10.0	10.3	7.5	4.0
Ireland	12.1	10.7	2.3	2.3	2.5	2.7	1.7	2.2	0.4	-0.9
Luxembourg	0.5	-6.5	-5.0	-1.9	-0.8	-1.7	-2.8	-1.9	-2.5	-1.7
Netherlands	4.2	3.6	5.1	2.9	3.9	3.2	3.8	4.0	2.3	1.4
Portugal		6.5	5.6	6.7	3.6	6.1	6.0	5.7	3.2	2.5
Austria	1.7	2.4	2.4	2.7	1.9	4.2	5.0	5.2	4.0	2.5
Finland	-3.4	-2.9	-5.4	1.5	5.9	8.0	6.4	4.7	3.3	0.9
Sweden	4.0	3.8	-4.2	1.1	7.8	12.2	10.3	6.9	3.5	0.8
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Weighted averages (2)										
EU including Italy	3.5	4.7	3.7	4.2	5.1	6.3	5.7	5.3	4.3	2.4
EU excluding Italy	2.6	3.2	2.2	3.1	4.3	5.7	5.0	4.8	3.8	2.3
France, Germany and the UK	2.1	2.2	1.6	2.6	4.0	5.3	4.6	4.4	4.0	2.6

Sources: Based on Istat data for Italy. For the other countries, based on EU Commission data for the years 1980-1992 and the 1998 EU Commission *Convergence Report* for the years 1993-1997.
(1) Western regions until 1990.
(2) Weighted on the basis of GDP at current prices expressed in US dollars using purchasing power parities.

GENERAL GOVERNMENT NET BORROWING (+) OR NET LENDING (-)
EXCLUDING INTEREST PAYMENTS
(as a percentage of GDP)

Table 2

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
Italy	3.2	4.5	1.6	-0.1	-1.9	-2.6	-1.8	-3.7	-4.1	-6.8
France	-1.5	0.0	-1.3	-0.8	0.7	2.4	2.2	1.2	0.3	-0.6
Germany (1)	1.0	-1.8	-0.5	0.6	-0.7	-0.1	-0.9	-0.5	-0.3	-1.1
United Kingdom	-1.3	-2.2	-2.3	-0.5	3.5	5.0	3.6	2.0	1.1	-1.6
Spain	1.9	3.4	0.2	0.5	-0.3	1.7	1.5	1.8	-0.5	-1.9
Belgium	2.6	-1.7	-5.0	-3.8	-3.2	-3.6	-5.1	-5.1	-5.3	-5.8
Denmark	-0.6	-7.9	-6.0	-5.3	-4.8	-5.1	-4.5	-4.3	-5.5	-6.5
Greece	0.4	7.2	5.9	2.1	1.1	1.0	-4.1	-2.6	-4.4	-5.6
Ireland	5.9	1.0	-5.4	-5.2	-4.4	-3.7	-3.9	-2.9	-4.1	-5.2
Luxembourg	-0.7	-7.5	-5.5	-2.3	-1.2	-2.1	-3.1	-2.2	-2.8	-2.1
Netherlands	0.3	-2.8	-0.9	-3.3	-2.4	-3.1	-2.1	-2.0	-3.3	-3.9
Portugal		-1.7	-2.5	-1.2	-3.6	-0.1	-0.2	-0.6	-1.6	-1.9
Austria	-0.7	-1.1	-1.6	-1.5	-2.4	-0.1	0.9	0.8	-0.4	-1.6
Finland	-4.4	-4.8	-6.9	0.0	3.3	3.4	1.4	-0.5	-2.3	-4.5
Sweden	-0.1	-4.6	-9.2	-4.0	2.4	6.0	3.5	0.5	-3.7	-5.4
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Weighted averages (2)										
EU including Italy	0.5	-0.2	-1.1	-0.6	-0.1	0.7	0.2	-0.4	-1.2	-2.7
EU excluding Italy	-0.1	-1.1	-1.6	-0.7	0.2	1.4	0.6	0.2	-0.7	-1.9
France, Germany and the UK	-0.4	-1.3	-1.3	-0.2	0.9	2.1	1.3	0.7	0.3	-1.1

Sources: Based on Istat data for Italy. For the other countries, based on EU Commission data for the years 1980-1992 and the 1998 EU Commission *Convergence Report* for the years 1993-1997.
(1) Western regions until 1990.
(2) Weighted on the basis of GDP at current prices expressed in US dollars using purchasing power parities.

GENERAL GOVERNMENT INVESTMENT

Table 3

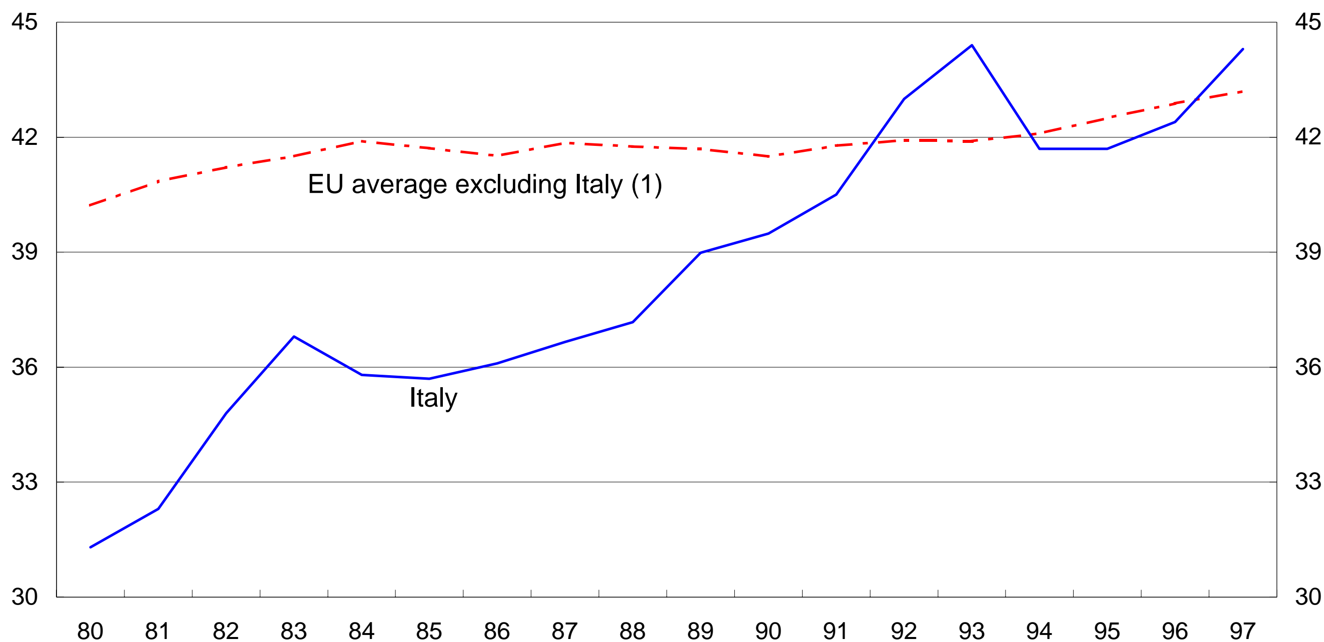
(as a percentage of GDP)

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997
Italy	3.2	3.7	3.3	3.3	3.0	2.7	2.3	2.2	2.3	2.4
France	3.4	3.2	3.6	3.5	3.5	3.2	3.2	3.2	3.1	3.1
Germany (1)	3.6	2.4	2.3	2.6	2.8	2.8	2.7	2.5	2.2	2.0
United Kingdom	2.5	2.1	2.3	2.1	2.1	1.9	1.8	1.8	1.4	1.1
Spain	1.9	3.7	5.0	4.9	4.1	4.2	4.0	3.8	3.1	3.1
Belgium	4.4	2.6	1.3	1.4	1.5	1.6	1.6	1.4	1.1	1.3
Denmark	3.4	2.2	1.6	1.3	2.1	2.0	2.0	1.9	2.1	1.8
Greece	2.1	3.7	2.8	3.1	3.5	3.3	3.1	3.3	3.1	3.3
Ireland	5.6	3.8	2.1	2.1	2.0	2.2	2.3	2.2	2.2	2.3
Luxembourg	6.7	4.2				5.4	4.4	4.6	4.8	4.9
Netherlands	3.3	2.3	2.0	2.2	2.1	2.1	2.1	2.0	1.9	2.2
Portugal	3.6	2.7	3.4	3.5	4.0	4.0	3.6	3.9	4.0	4.3
Austria	4.3	3.6	3.2	3.3	3.3	3.2	3.3	2.7	2.8	2.8
Finland	3.9	3.7	3.8	3.9	3.5	2.8	3.0	2.8	2.7	2.8
Sweden	4.2	3.1	2.4	2.3	2.7	1.1	3.0	3.1	2.3	2.5
°°°°°°°°°										
Weighted averages (2)										
EU including Italy	3.2	2.9	2.9	3.0	2.9	2.7	2.7	2.6	2.3	2.3
EU excluding Italy	3.2	2.8	2.9	2.9	2.9	2.8	2.7	2.6	2.4	2.3
France, Germany and the UK	3.2	2.6	2.7	2.7	2.8	2.7	2.6	2.5	2.3	2.1

Sources: Based on EU Commission data and Istat data for Italy.
(1) Western regions until 1990.
(2) Weighted on the basis of GDP at current prices expressed in US dollars using purchasing power parities.

Figure 2

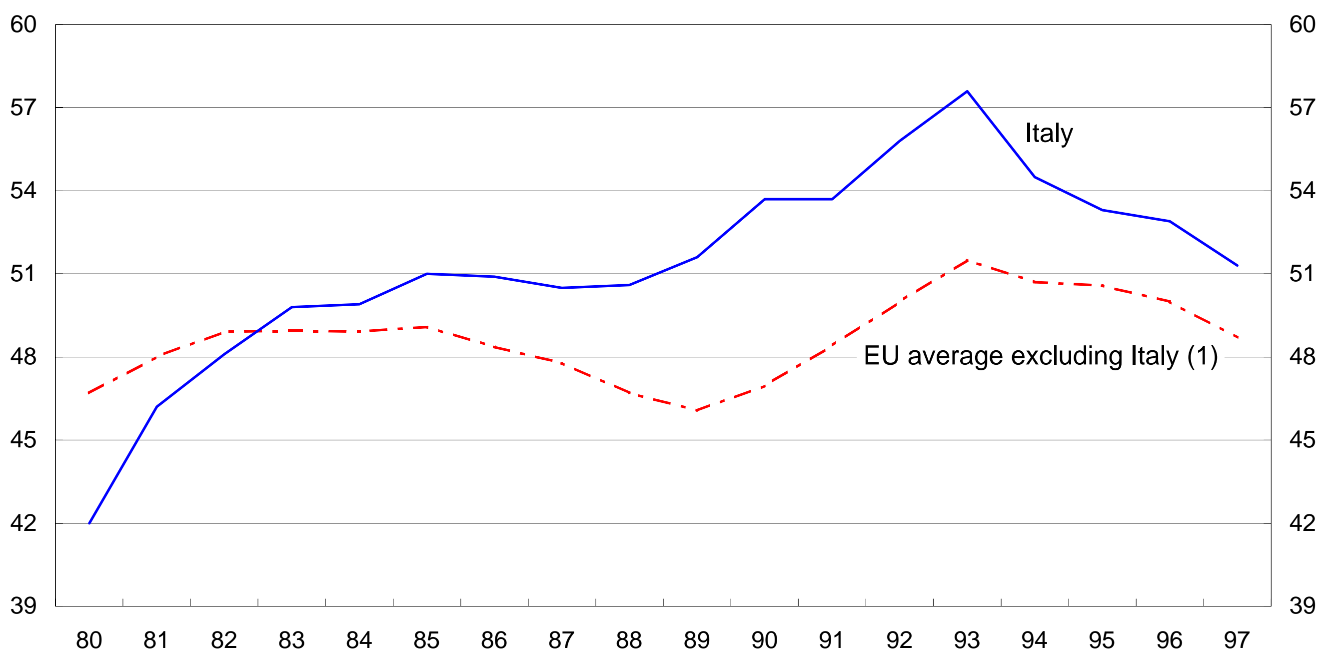
FISCAL REVENUE
(as a percentage of GDP)



Sources: Based on EU Commission data and Istat data for Italy.
(1) For Germany, western regions until 1990.

Figure 3

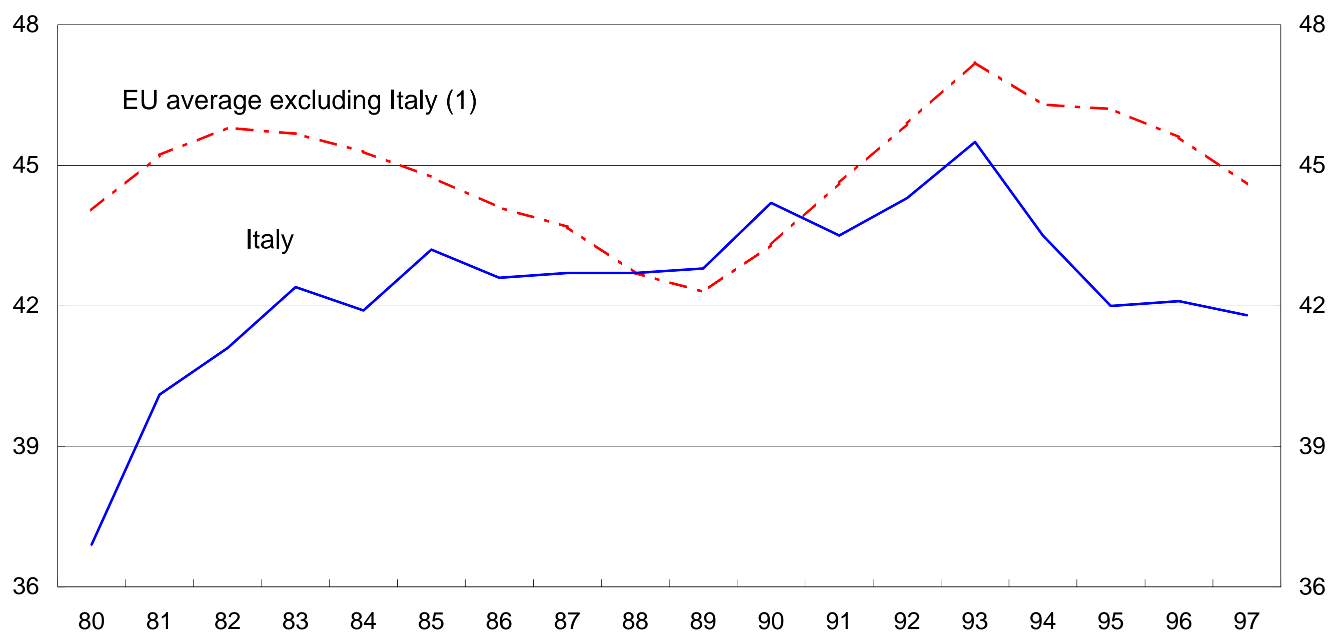
GENERAL GOVERNMENT EXPENDITURE
(as a percentage of GDP)



Sources: Based on EU Commission data and Istat data for Italy.
(1) For Germany, western regions until 1990.

Figure 4

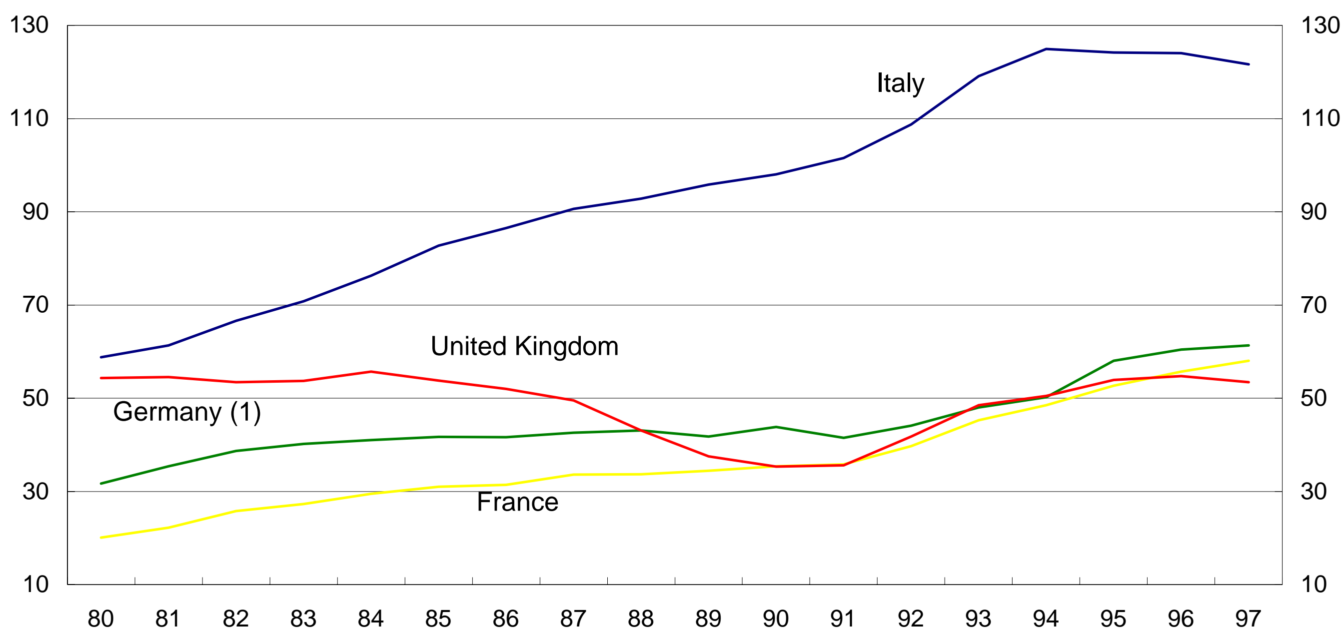
EXPENDITURE EXCLUDING INTEREST PAYMENTS
(as a percentage of GDP)



Sources: Based on EU Commission data and Istat data for Italy.
(1) For Germany, western regions until 1990.

Figure 5

GENERAL GOVERNMENT DEBT
(as a percentage of GDP)



Sources: Based on Bank of Italy data for Italy. For the other countries, based on EU Commission data for the years 1980-1992 and the 1998 EU Commission *Convergence Report* for the years 1993-1997.
(1) For Germany, western regions until 1990.

Table 4

GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE

(as a percentage of GDP)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Direct taxes	13.4	14.3	14.4	14.5	14.7	16.2	14.9	14.7	15.2	15.9
Indirect taxes	10.0	10.4	10.6	11.1	11.2	12.0	11.7	11.8	11.8	12.2
Social security contributions	13.7	14.1	14.4	14.7	15.1	15.5	14.9	14.8	15.1	15.5
Subtotal	**37.1**	**38.8**	**39.5**	**40.4**	**41.0**	**43.7**	**41.6**	**41.3**	**42.1**	**43.6**
Capital taxes	0.1	0.2	0.1	0.2	2.0	0.7	0.1	0.5	0.3	0.7
Total	**37.2**	**39.0**	**39.6**	**40.6**	**43.0**	**44.4**	**41.7**	**41.7**	**42.4**	**44.3**

Source: Based on Istat data.

Table 5

GENERAL GOVERNMENT EXPENDITURE

(as a percentage of GDP)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
Wages and salaries	12.1	11.9	12.7	12.7	12.7	12.5	12.0	11.4	11.6	11.8
Intermediate consumption	5.0	4.9	4.8	4.9	5.0	5.2	5.0	4.7	4.7	4.5
Social services	17.3	17.6	18.2	18.3	19.3	19.5	19.5	18.9	19.2	19.6
Interest payments	7.9	8.8	9.5	10.2	11.5	12.1	11.0	11.3	10.8	9.5
Other current expenditure	3.2	3.5	3.0	3.1	2.9	3.6	3.1	2.6	2.8	2.6
Total current expenditure	**45.6**	**46.7**	**48.2**	**49.2**	**51.4**	**52.8**	**50.7**	**48.9**	**49.1**	**48.0**
Excluding interest payments	*37.7*	*37.9*	*38.7*	*39.0*	*39.9*	*40.7*	*39.7*	*37.6*	*38.3*	*38.5*
Investment	3.4	3.3	3.3	3.3	3.0	2.7	2.3	2.2	2.3	2.4
Other capital expenditure	1.9	1.8	2.3	1.5	1.6	2.3	1.8	2.5	1.7	1.1
Total expenditure	**50.9**	**51.9**	**53.8**	**53.9**	**56.1**	**57.8**	**54.8**	**53.5**	**53.1**	**51.5**
Excluding interest payments	*43.0*	*43.1*	*44.3*	*43.7*	*44.6*	*45.7*	*43.8*	*42.2*	*42.3*	*42.0*

Source: Based on Istat data.

Figure 6

GENERAL GOVERNMENT REVENUE,
SOCIAL SERVICES EXPENDITURE AND INVESTMENT
(as a percentage of GDP)

Source: Based on Istat data.

Table 6

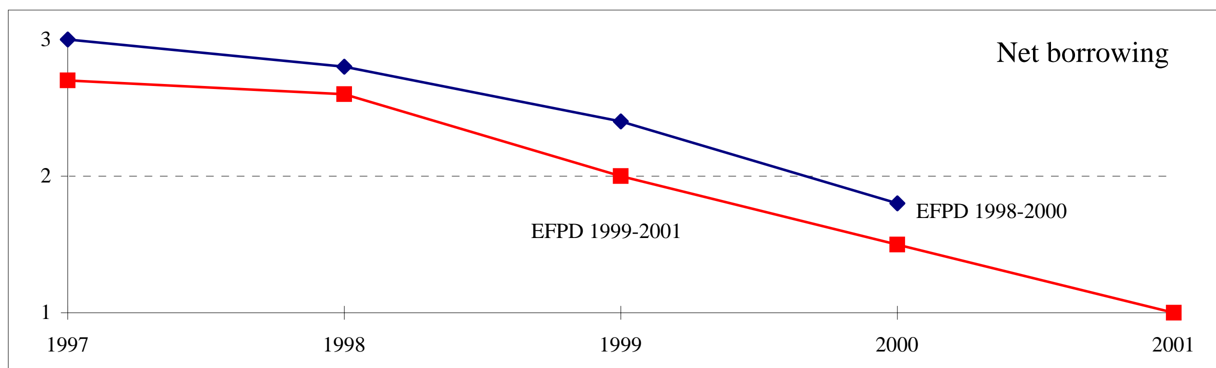
PLANNING FORECASTS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 1998-2000 AND 1999-2001[1]

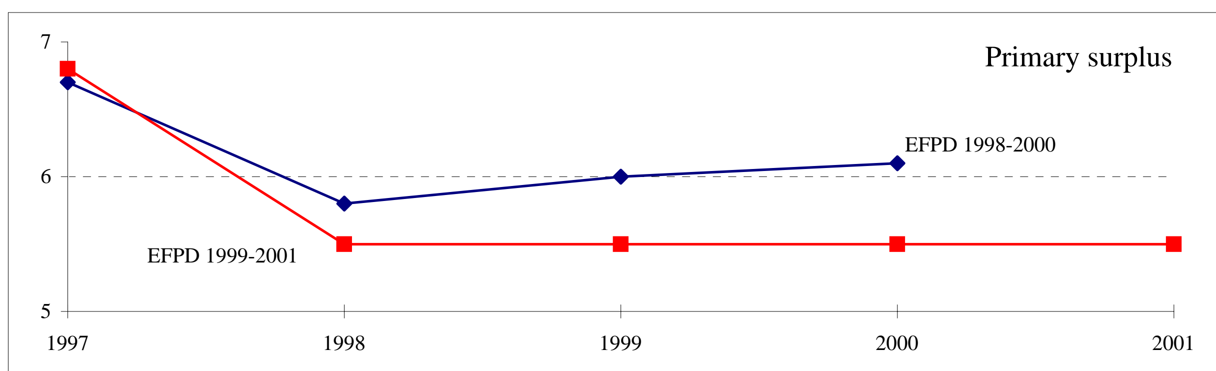
	1997	1998		1999		2000		2001
	OUTTURN	EFPD 1998-2000	**EFPD 1999-2001**	EFPD 1998-2000	**EFPD 1999-2001**	EFPD 1998-2000	**EFPD 1999-2001**	**EFPD 1999-2001**
Total revenue	48.8	47.4	**47.5**	46.9	**47.1**	46.4	**46.8**	**46.6**
Primary expenditure	42.0	41.6	**42.1**	40.9	**41.7**	40.3	**41.4**	**41.1**
of which: current	*38.5*	*38.1*	***38.5***	*37.3*	***37.9***	*36.8*	***37.4***	***37.0***
capital	*3.5*	*3.5*	***3.5***	*3.6*	***3.8***	*3.5*	***4.0***	***4.1***
Primary surplus	6.8	5.8	**5.5**	6.0	**5.5**	6.1	**5.5**	**5.5**
Interest payments	9.5	8.6	**8.0**	8.4	**7.5**	7.9	**7.0**	**6.5**
Net borrowing	-2.7	-2.8	**-2.6**	-2.4	**-2.0**	-1.8	**-1.5**	**-1.0**
Debt	121.6	121.1	**118.2**	119.1	**114.6**	116.4	**110.9**	**107.0**

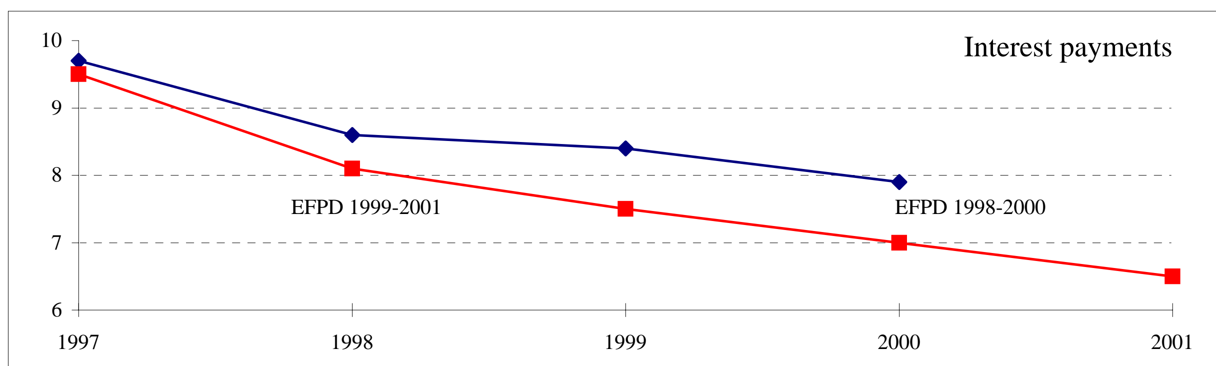
(1) For the sake of comparison, payments of tax credits in securities have been excluded from the EFPD figures for 1998-2000.

Figure 7

THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 1998-2000 AND 1999-2001
(percentages of GDP)







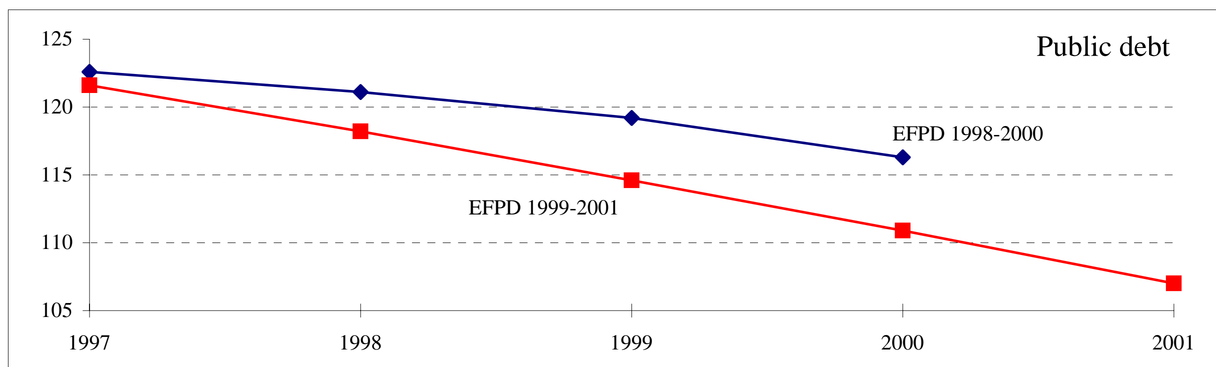


Table 7

PLANNED FISCAL ADJUSTMENT IN THE THREE YEARS 1999-2001[1]

		1999	2000	2001
Total revenue *(as a % of GDP)*	**EFPD 1999-2001**	**0.1**	**0.0**	**0.0**
	EFPD 1998-2000	0.3	0.1	-
Primary expenditure *(as a % of GDP)*	**EFPD 1999-2001**	**0.3**	**0.0**	**..**
	EFPD 1998-2000	0.4	0.1	-
Primary surplus	**EFPD 1999-2001**	**8,000**	**0**	**-100**
	as a % of GDP	*0.4*	*0.0*	*0.0*
	EFPD 1998-2000	14,503	6,793	-
	as a % of GDP	*0.7*	*0.3*	-
Interest payments	**EFPD 1999-2001**	**0**	**0**	**0**
	as a % of GDP	*0.0*	*0.0*	*0.0*
	EFPD 1998-2000	1,000	1,000	-
	as a % of GDP	*..*	*..*	-
Net borrowing	**EFPD 1999-2001**	**-8,000**	**0**	**100**
	as a % of GDP	*-0.4*	*0.0*	*0.0*
	EFPD 1998-2000	-15,503	-7,793	-
	as a % of GDP	*-0.7*	*-0.4*	-

(1) Obtained as the difference between the projections on a current programmes basis and the planning forecasts, assuming that the budgetary measures adopted in each year have a lasting effect.