Joint Session
of the Fifth Committees of the
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Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 2000-2003

Statement by the Governor of the Bank of Italy
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Rome, 8 July1999

Contents

1. *The Italian economy in the European context*

GDP in the euro area grew at an average annual rate of 2 per cent in the nineties, compared with 3.4 per cent in the seventies and 2.3 per cent in the eighties. This slowdown in growth is partly attributable to the implementation of economic policies aimed at achieving the more balanced fundamentals needed to launch monetary union.

Satisfying the convergence criteria laid down at Maastricht for participation in the third stage of EMU called for restrictive budgetary measures; monetary policies were directed towards bringing inflation down further; increases in wages were moderate.

The process of reallocating the resources made available by the reduction in budget deficits was hindered by the rigidities present in the European economy.

The slowdown in the expansion of the Italian economy was pronounced. The difficulty of keeping up with the other countries was greater in the last three years, when the average annual growth in GDP was 1.2 per cent, as against 2.4 per cent in the other euro area economies.

This result can be ascribed not only to the scale of the efforts required to comply with the convergence criteria, but also to the composition of the budgetary measures adopted and the Italian economy’s numerous rigidities and structural weaknesses, which are more marked than in other countries.

At the beginning of the nineties inflation, interest rates and budget deficits were much higher in Italy than in the rest of Europe; the persistence of current account imbalances had led to a net external debt equal to 11 per cent of GDP at the end of 1992. Consequently, the budgetary, monetary and incomes policies needed to adjust the underlying conditions in the economy had to be more rigorous.

The reduction in the deficit was concentrated in the three years from 1995 to 1997. General government net borrowing came down gradually from 11.1 per cent of GDP in 1990 to 9.2 per cent in 1994, before dropping sharply to 7.7 per cent in 1995, 6.6 per cent in 1996 and 2.7 per cent in 1997 and 1998.

The weak growth of the Italian economy in recent years was due to the modest rise in domestic demand for consumer goods and investment. From the middle of 1997 onwards production was adversely affected by the brusque slowdown in world trade and the devaluation of several Asian countries' currencies.

Domestic demand, net of variations in stocks, grew by 1 per cent in 1996, 1.7 per cent in 1997 and 2 per cent in 1998. In 1997 consumption benefited from government incentives for the purchase of motor vehicles.

The tightening of fiscal policy and the curbing of public expenditure damped the consumption of wide swathes of consumers. The reduction in public investment was the decisive factor in the stagnation of the construction industry. The ending of extraordinary measures in the South contributed to the economic standstill in the area and, indirectly, to the slowdown in output in the rest of the country. After growing strongly in 1995, investment expanded at an annual rate of 2.2 per cent per year. The slower pace of economic growth had repercussions on employment and added further caution to consumer decisions.

In the absence of structural adjustments, a reduction in the budget deficit inevitably affects the pace of economic growth in the short term. The tax increases and expenditure cuts lead to a fall in demand, which tends to outweigh the positive effects of the fall in interest rates made possible by the smaller deficit.

In recent years monetary policy has been used with determination to bring expected and actual inflation gradually down towards the levels prevailing in the other leading European countries. The decisions to raise the discount rate in August 1994 and in February and May 1995 were taken at times when inflation risked getting out of control and Italy's inflation differentials with respect to its main European partners were widening; the credibility regained in the domestic and international markets made it possible, by lowering inflation expectations, for medium and long-term rates to come down.

Once inflation had begun to decline, monetary conditions were gradually relaxed. The caution with which official rates were lowered towards those of Italy's leading partners made it possible to overcome internal tensions and crises in the international markets without depressing the exchange rate, which would have been particularly dangerous in the run-up to the third stage of monetary union; it curbed the excessive growth in the monetary aggregates and accelerated the narrowing of inflation differentials with the major euro area countries.

After the period of monetary restriction, the gradual fall in short and long-term real and nominal interest rates in the last two years has sustained economic activity; its effects are still making themselves felt.

The increase in tax receipts has not only had positive effects by reducing the deficit but has also curbed demand and had an adverse impact on competitiveness and attitudes towards work and investment.

Given the difficulty of reducing the level of services offered to the community, the expenditure measures ended up by curtailing public investment, with repercussions for the quality of services. The organizational reform of the public sector has not produced all that it was hoped to achieve.

The reforms embarked on in the main areas of expenditure do not appear sufficient to ensure lasting equilibrium in the public finances; the resulting uncertainty regarding expected permanent income is leading consumers to be cautious about spending.

Full use of the resources made available by the reduction in the budget deficit has been hampered by the structure of production, which is dominated by low-technology sectors and small firms that are not always able to exploit new opportunities, the persistence of excessive rigidity in the labour market and high taxation.

2. Some comments on the structure of Italy's productive system

The introduction of radical changes in processes and products calls for substantial resources and considerable research ability and facilities. Italian industry is built around small firms and specializes in products with a low value added. Industrial districts partly offset this weakness.

According to surveys by the OECD, Italy is the only industrial country in which the share of low value added sectors has risen since the start of the seventies and that of advanced technology and high-wage sectors fallen. By contrast, specialization in production with high and medium value added has increased in Germany, France and the United Kingdom.

The products of mature sectors with a low technological content are more exposed to price competition, especially from countries with low unit labour costs and less social and environmental protection.

The census carried out in 1996 revealed that 94 per cent of Italian firms have fewer than 10 employees; the large share of small production units is accompanied by widespread self-employment. Italy has only a few large firms.

The small number of medium-sized firms, the natural step up for small businesses, is the result of tax, regulatory and financial impediments to their growth.

Industrial districts can mitigate the disadvantages of firms' small size. In this organizational model output is divided among several small production units, rather than being organized vertically. The distinguishing features of districts are the specialization of each firm in a single stage of processing, flexibility in the use of productive factors and the presence of specific externalities.

The importance of small firms is a consequence of the market's search for more advantageous forms of organization. It is precisely the adaptability and creativity of these units that have helped the Italian economy to weather its most difficult moments; they are important for the maintenance of competitiveness. They nonetheless cannot fully exploit the opportunities created by the globalization of markets and the benefits of economies of scale.

The employment structure also appears to be the result of suboptimal organizational choices. More investment is needed in education and vocational training; in 1995 only 35 per cent of the population aged between 25 and 64 had a diploma or a degree, approximately half the share in almost all the other leading industrial countries.

Italy absolutely must succeed in creating the competitive conditions found in other advanced economies: a capacity for innovation, a solid organization of markets, efficiency in the supply of public services and more flexible rules for firms.

3. The consolidation of the public finances

Between 1993 and 1998 general government net borrowing declined from 9.5 to 2.7 per cent of GDP, primarily owing to the fall of 4.6 percentage points in interest payments. The ratio of the primary surplus rose by 2.3 points.

The measures taken to achieve long-term adjustment of the public finances, which are those that have to be considered in assessing the impact on economic activity, have focused essentially on a tightening of the tax screw. Between 1989 and 1998 receipts rose in relation to GDP by five full percentage points, while the deficit was reduced by 7.1 per cent of GDP. The ratio to GDP of primary expenditure, i.e. total outlays net of interest payments, decreased by 0.9 percentage points: the increase of 0.4 points in the ratio of current payments was accompanied by a reduction of 1.3 points in that of capital expenditure.

The ratio of primary expenditure to GDP rose by 1.5 percentage points between 1989 and 1992, and by more than one point in 1993 alone, primarily owing to the decline in output; it fell by more than three points in 1994-95, since when it has remained broadly unchanged.

In 1998 primary expenditure expanded by 0.2 points in relation to GDP; the figure would have been 0.6 points if 8 trillion lire of outlays had not been postponed to this year by the introduction of the new system of paying INPS pensions on a monthly basis.

There is little change in the results if the ratio of tax and social security receipts to GDP is examined instead of the ratio of total revenue.

From a cyclical point of view an increase in the incidence of taxation has a similar effect to an equivalent reduction in expenditure for transfers. The results are identical if the increase in revenue comes from direct taxes; they differ only slightly in the case of increases in indirect taxes or in social security contributions.

From a structural point of view an increase in receipts produces a much greater contraction in economic activity than do cuts in transfer payments, for two reasons. In the first place because in the long term tax increases are eventually transferred to consumer prices — albeit to a varying extent according to the category of goods — thereby leading, with exchange rates stable, to a deterioration in competitiveness. In the second place because higher levels of tax and social security contributions curb the growth of supply.

The current level of taxation in Italy is in line with the average for the euro area. It is calculated as the ratio between revenue received by general government and GDP, which in Italy includes the activity of a large underground economy. Italians who discharge their tax obligations in full are under a heavy burden.

The continuous increase in taxation has contributed to the spread of the irregular economy.

The impact of public works on economic activity is equal to the corresponding outlay; subsequently, it has an additional effect as a result of the increase in disposable income. The restrictive effects of the cuts in public-sector investment mentioned above have been greater, even in the short and medium term, than those caused by the reduction in current expenditure for transfers.

Public transfer payments increase disposable income directly and affect production by boosting consumption; expansionary effects similar to those achieved by investment are subsequently induced by the consequent growth in disposable income.

In the Bank of Italy's econometric model of the Italian economy the public investment multiplier rises gradually, over a period of five years, to 1.5, while that of transfer payments is equal to 1.1. In the short term there is a larger differential in favour of investment. Measures to reduce transfer payments by 5 trillion lire and to increase investment expenditure by the same amount would generate an expansion in output of 4 trillion lire in the first year and of 4.5 trillion in the second year.

In the long term the existence of public infrastructure promotes gains in productivity, with beneficial effects on competitiveness.

The measures enacted to correct budget deficits must provide economic agents with certainty regarding their ability both to achieve the planned objectives in the time stated and to hold the growth trend of expenditure within limits that are compatible with a lasting adjustment of the public finances.

Doubts remain as to whether the 1995 pensions reform can effectively deliver a trend in current expenditure consistent with the balancing of the budget called for in the Stability and Growth Pact.

4. The economy in 1999

There was a marked slowdown in economic activity in the countries of the euro area in the second half of 1998 as a consequence of the contraction in world trade that had begun the previous year. Italy and Germany were the countries hardest hit.

In Italy GDP was less in the fourth quarter than in the third; industrial activity contracted sharply. Although the latter slid further in the first quarter of this year, GDP grew by 0.2 per cent, thanks to increases in the services and construction sectors and, above all, in agriculture.

This sharp slowdown in economic activity at a time of stable prices led the Eurosystem to lower the reference rates for monetary policy by 0.5 percentage points in April.

Industrial production in Italy stagnated in April and May; it picked up in June; cyclical indicators have for some months been pointing to a recovery in the second half-year. Trends in business confidence in Germany and France tell a similar story. It would appear that the euro area has passed the low point of the cycle.

For Italy to achieve GDP growth similar to that of recent years economic activity will have to gather pace rapidly; more specifically, the annualized growth rate in the second half of the year will have to be 3 per cent. A significant gap will remain compared with the current forecasts for growth in 1999 in the leading euro area countries.

The persistence of substantial external current account surpluses points to the existence of resources which, failing to find profitable investment opportunities in Italy, are transferred abroad in the form of either direct or portfolio investment. Some of these funds are to be found under “Errors and Omissions”, a large share of which presumably refers to assets accumulated abroad from export revenue.

5. The Economic and Financial Planning Document for the four years 2000-2003

The Government’s Economic and Financial Planning Document for the four years 2000-2003 sets the following targets for general government net borrowing in relation to GDP: 1.5 per cent in 2000, 1 per cent in 2001, 0.6 per cent in 2002 and 0.1 per cent in 2003. The forecast of 2.4 indicated in the Quarterly Report on the Borrowing Requirement in March this year is confirmed for 1999.

The macroeconomic planning scenario presupposes a gradual acceleration in the economy’s growth: from 2.2 per cent in 2000 to 2.6 per cent in 2001, 2.8 per cent in 2002 and 2.9 per cent in 2003. The Economic and Financial Planning Document estimates that output will expand rapidly in nominal terms, implying a sharp divergence between the prices of imports and those of exports.

On these assumptions, the budget should be virtually in balance at the end of the period, which has been extended to four years.

The ratio of interest payments to GDP is expected to decline from the estimate of 7.1 per cent for this year, to 5.3 per cent in 2003, notwithstanding a rise in the yields on twelve-month Treasury bills. The ratio of the primary surplus to GDP is forecast to rise from 4.6 per cent in 1999 to 5.2 per cent in 2003.

As in the previous Economic and Financial Planning Document, the reduction in the ratio of the public debt to GDP is expected to accelerate and to amount to 2.8 percentage points in 2000, 3.8 points in 2001, 4.5 points in 2002 and 4.6 points in 2003. The public debt ratio is thus expected to come down over the four years by more than fifteen points: from 115.7 per cent in 1999 to 100 per cent in 2003.

The targets for general government net borrowing for 2000 and 2001 set out in the Economic and Financial Planning Document presented in April 1998 and incorporated in the Stability Programme submitted to the European Union last December are confirmed. Nonetheless, as already indicated in the latest Quarterly Report on the Borrowing Requirement, the estimate for general government net borrowing in 1999 is higher than the figure of 2 per cent indicated in the earlier Document.

The primary surplus, which the earlier Document had indicated at 5.5 per cent of GDP — corresponding to almost 6 per cent according to the ESA95 system of accounts on which the new plan is based — is set to contract. The decline in the public debt ratio is slightly less pronounced, mainly on account of the slower growth in economic activity.

The Government's intention is to modify the structure of public spending, by shifting resources from current to capital expenditure and gradually easing the burden of taxation and social security contributions.

In the four years 2000-2003 the ratio to GDP of current spending net of interest payments should decline by 1.7 percentage points: from 37.9 per cent in 1999 to 36.2 per cent in 2003. Over the same period the capital expenditure ratio is expected to rise by 0.2 points, from 4 per cent in 1999. These trends also reflect the faster growth of domestic output in nominal terms.

The Document envisages budget measures totaling 11.5 trillion lire next year; the measures to reduce the deficit, comprising 11.5 trillion lire of cuts in current spending and 3.5 trillion of additional revenue, will be offset by 3.5 trillion lire of measures to sustain economic growth and employment.

The latter measures include 1.5 trillion lire in new investment, 1 trillion of tax relief and a further 1 trillion in additional current expenditure. Based on the indications contained in the Document, the total of 3.5 trillion lire is the minimum amount the Government intends to set aside for development.

Any additional savings arising from supplementary measures to rationalize and restructure social security spending should be assigned to financing new initiatives, including those aimed at supporting lower income sections of the community.

The planned budget adjustment is larger than that indicated in the earlier Document in view of the need to offset the higher net borrowing level forecast for 1999.

Development policies are set to receive, in addition to the 3.5 trillion lire allocated for the year 2000, 7.5 trillion in 2001 and 12 trillion in each of the two subsequent years.

Measures supplementing those described in the Document will be introduced with the aim of raising the additional resources needed from 2001 onwards to increase capital expenditure and achieve the planned objectives. If these additional measures are excluded, the ratio of capital spending to GDP would fall from 4 per cent in 1999 to 3.6 per cent in 2003.

The budgetary adjustment indicated in the Document focuses on current expenditure; the measures still to be defined are expected to involve: general government recruitment; local authority financing, through a strengthening of the domestic Stability Pact; controls on purchases of goods and services; the participation of private individuals and firms in the supply of public services; more effective exploitation of the land and buildings of the state and other public bodies; the rationalization of the organizations responsible for paying social security and welfare benefits; and the strengthening of supplementary pension schemes.

A large part of the increase in capital expenditure is expected to involve the South.

The planning framework envisages a fall in the ratio of total receipts to GDP from 46.5 per cent in 1999 to 44.9 per cent in 2003. This contraction, which is attributable mainly to increases in social security contributions, is broadly the same as that corresponding to the projections on a current programmes basis. The measures aimed at easing the tax burden are considered together with the funds for development policies; they amount to 1 trillion lire in 2000 and to 2 trillion in each of the three following years.

6. An economic policy for growth

Fiscal consolidation appears to be largely based on favourable developments in interest payments. Over time, the objectives set for the primary surplus have been gradually made less demanding. The Planning Document for 2000-2003 has continued this tendency.

The budget adjustment envisaged for 2000 is larger than that planned last year as a result of the increase in the deficit forecast for 1999.

A balanced budget is expected in 2003; it would have been desirable to reach this objective at least one year earlier. At all events, its attainment must be ensured, by taking determined corrective action and achieving sustained economic growth.

The reduction in the deficit is entrusted primarily, and correctly, to cuts in current expenditure. The exact content of the planned action is not yet known. The adjustment needs to be based on structural measures, in order to guarantee a decrease in the trend rate of growth in expenditure. They must involve the fields in which outlays are growing fastest.

As regards social security, action taken sufficiently in advance can avert the difficulties that will arise in the middle of the next decade; from then onwards there must be a planned reduction in the ratio of pension expenditure to GDP for then. The measures needed to improve the current trend in this ratio must be taken now; the innovations must not disappoint the expectations of workers approaching retirement or create major disparities of treatment between successive generations of pensioners; the launch of supplementary pension schemes must be encouraged to complement the benefits of the public system.

In a medium-term perspective and in the context of the current reforms, socially acceptable revisions of the right to public health care can curb expenditure; a contribution can come from the development of forms of private insurance.

The planned annual reduction of 0.4 percentage points in the ratio of taxation to GDP will only derive to a limited extent from a lowering of tax rates. It will be the result of the application of the Dual Income Tax and measures designed to bring forward its effects. Moreover, changes are foreseen in several aspects of the structure of personal income tax, whose implementation is conditional on the results of measures to reduce tax evasion.

The resources for growth policies include the financing of current expenditure, which accounts for 40 per cent of the total at the end of the period and principally concerns the renewal of labour contracts in the public sector. The additional resources for the investment planned for the years 2001-2003 must be found earlier.

The reform of the social security system is the precondition for a faster and more substantial reduction in the tax burden on firms and households and for an increase in investment. The objective of a return to higher growth rates should be based on a reduction in taxes and social security contributions as a ratio to GDP of around one percentage point in each of the four years. At the same time, it is necessary to proceed with tax harmonization within the Community. The certain prospect of a sizable and progressive reduction in the tax burden, together with the removal of structural rigidities and the construction of important infrastructure, will make it possible to return to sufficiently high rates of economic growth.

A lower tax burden has a positive effect on economic activity in several ways; it strengthens confidence and the propensity to invest and to work; it reduces unrecorded work and the black economy. The construction of public works that will increase the productivity of the economy can sustain demand and have a positive influence on expectations.

The Italian economy can return to a faster growth path. The saving and the technical resources, entrepreneurs and manpower that are available make this possible.

Achieving faster growth will contribute in turn to the consolidation of the public finances.

The opportunity to make an important preliminary check on the nature of the budget and the prospects for the Italian economy will come in the autumn, when the measures are set out in the Finance Law.

Greater flexibility in the use of the factors of production and a closer correlation between salaries, on the one hand, and the productivity and profitability of firms, on the other, are necessary to encourage job creation. Increasing employment solely by applying forms of flexibility would aggravate job precariousness.

The opportunities that stem from participation in the Monetary Union must be grasped with an economic policy that establishes the conditions for profitable investment, eliminates legal, tax and financial obstacles to business, and fosters growth in firm size.

A vigorous expansion in employment, the means of achieving new well-being, must be founded upon a return to high rates of economic growth.

TABLES AND FIGURES

Figure 1

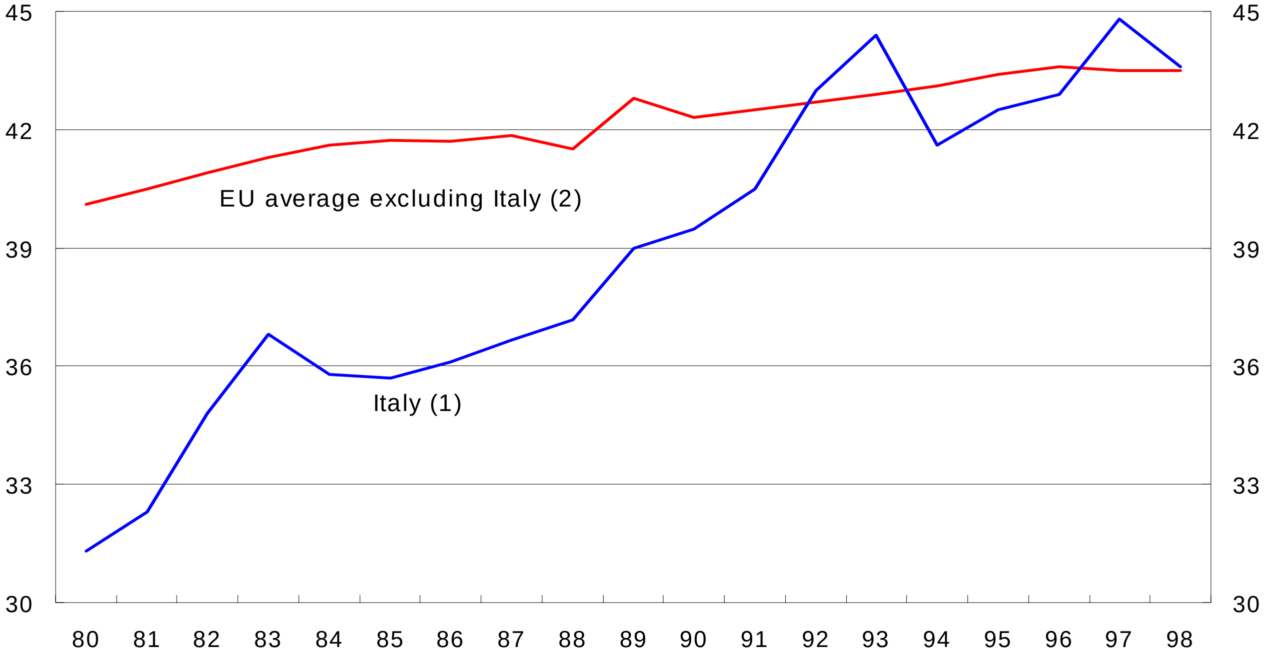
**GENERAL GOVERNMENT NET BORROWING,
PRIMARY BALANCE AND DEBT (1)**
(as a percentage of GDP)

Sources: Based on Istat data and Bank of Italy data for debt. The data were compiled using ESA79.
(1) Following the revision carried out by Istat in 1999, there is a break in the series between 1994 and 1995. A minus sign indicates a surplus.

Figure 2

FISCAL REVENUE

(as a percentage of GDP)



Sources: Based on Istat and EU Commission data. The data were compiled using ESA79, except for those for Denmark and the United Kingdom, which used ESA95 for the period 1996-98 and 1989-98, respectively.
(1) Following the revision carried out by Istat in 1999, there is a break in the series for Italy between 1994 and 1995. - (2) Weighted on the basis of GDP.

Figure 3

GENERAL GOVERNMENT EXPENDITURE

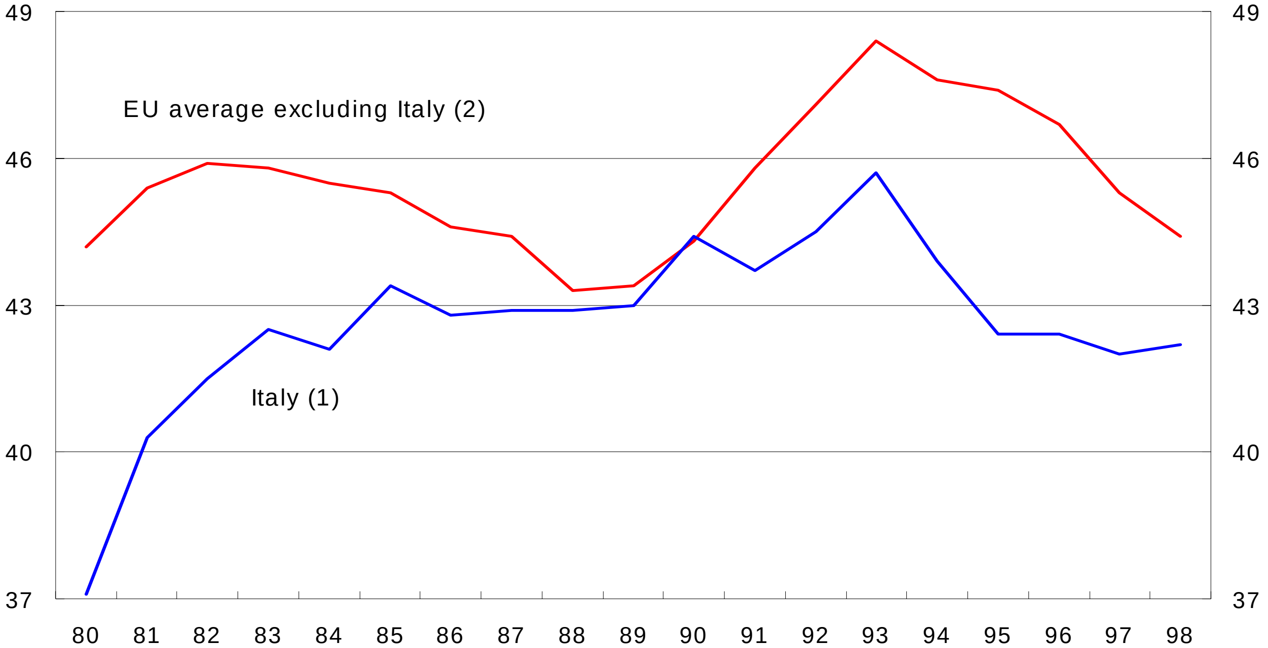
(as a percentage of GDP)

Sources: Based on Istat and EU Commission data. The data were compiled using ESA79, except for those for Denmark and the United Kingdom, which used ESA95 for the period 1996-98 and 1989-98, respectively.
(1) Following the revision carried out by Istat in 1999, there is a break in the series for Italy between 1994 and 1995. - (2) Weighted on the basis of GDP.

Figure 4

EXPENDITURE EXCLUDING INTEREST PAYMENTS

(as a percentage of GDP)

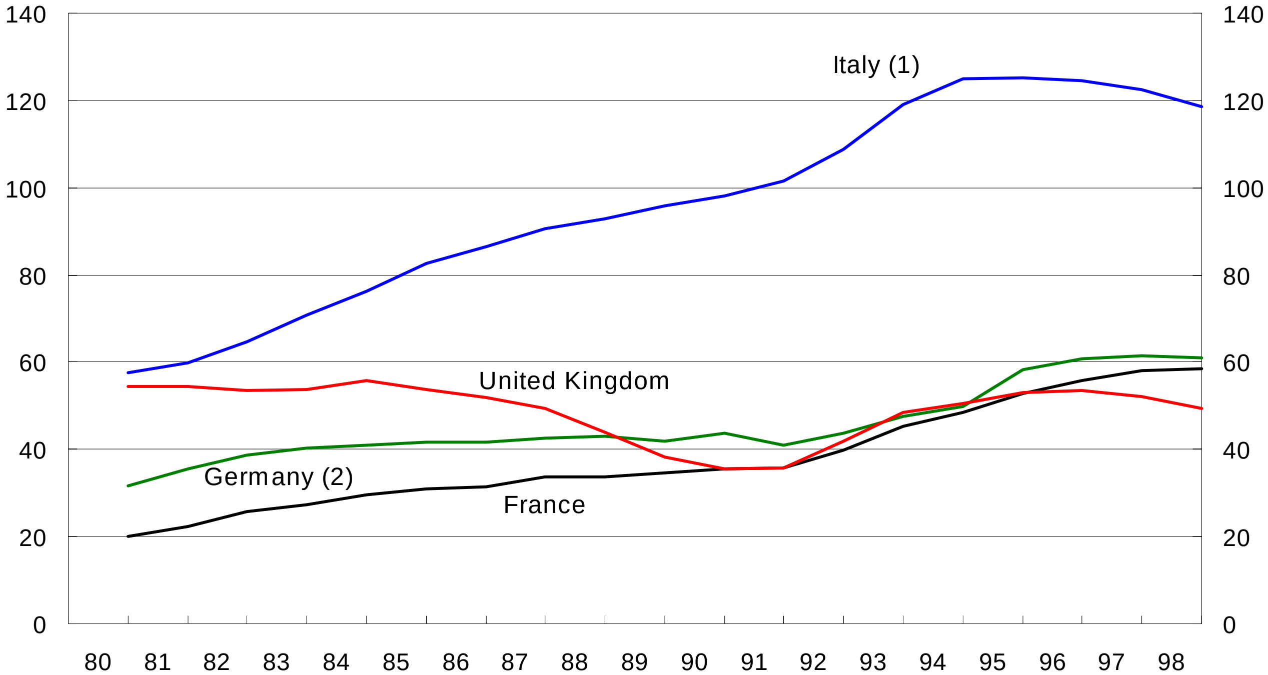


Sources: Based on Istat and EU Commission data. The data were compiled using ESA79, except for those for Denmark and the United Kingdom, which used ESA95 for the period 1996-98 and 1989-98, respectively.
(1) Following the revision carried out by Istat in 1999, there is a break in the series for Italy between 1994 and 1995. - (2) Weighted on the basis of GDP.

Figure 5

GENERAL GOVERNMENT DEBT

(as a percentage of GDP)

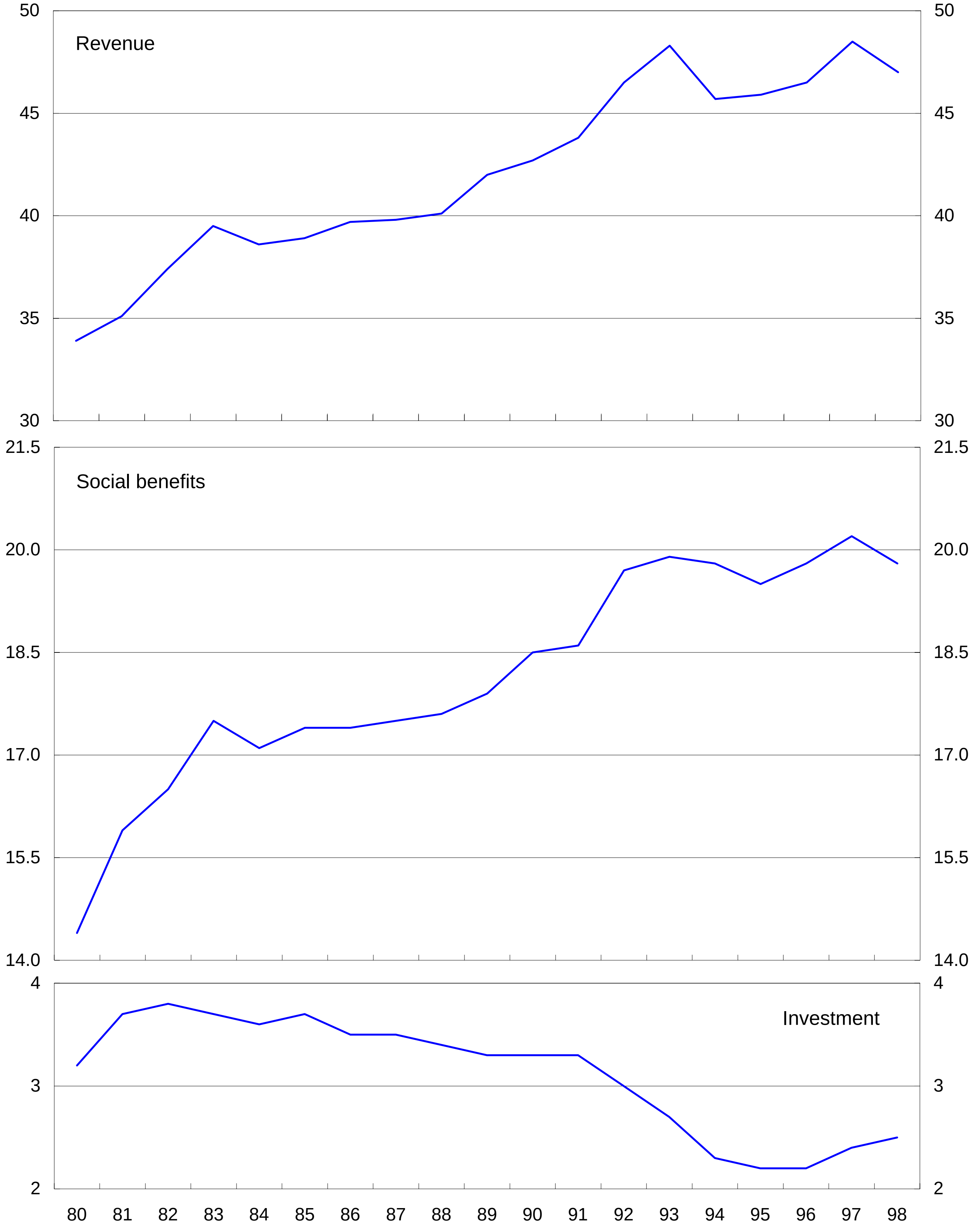


Sources: Based on Bank of Italy and EU Commission data. The data were compiled using ESA79.
(1) Following the revision carried out by Istat in 1999, there is a break in the series for Italy between 1994 and 1995. - (2) For Germany, western regions until 1990.

Figure 6

GENERAL GOVERNMENT REVENUE, SOCIAL BENEFITS AND INVESTMENT (1)

(as a percentage of GDP)

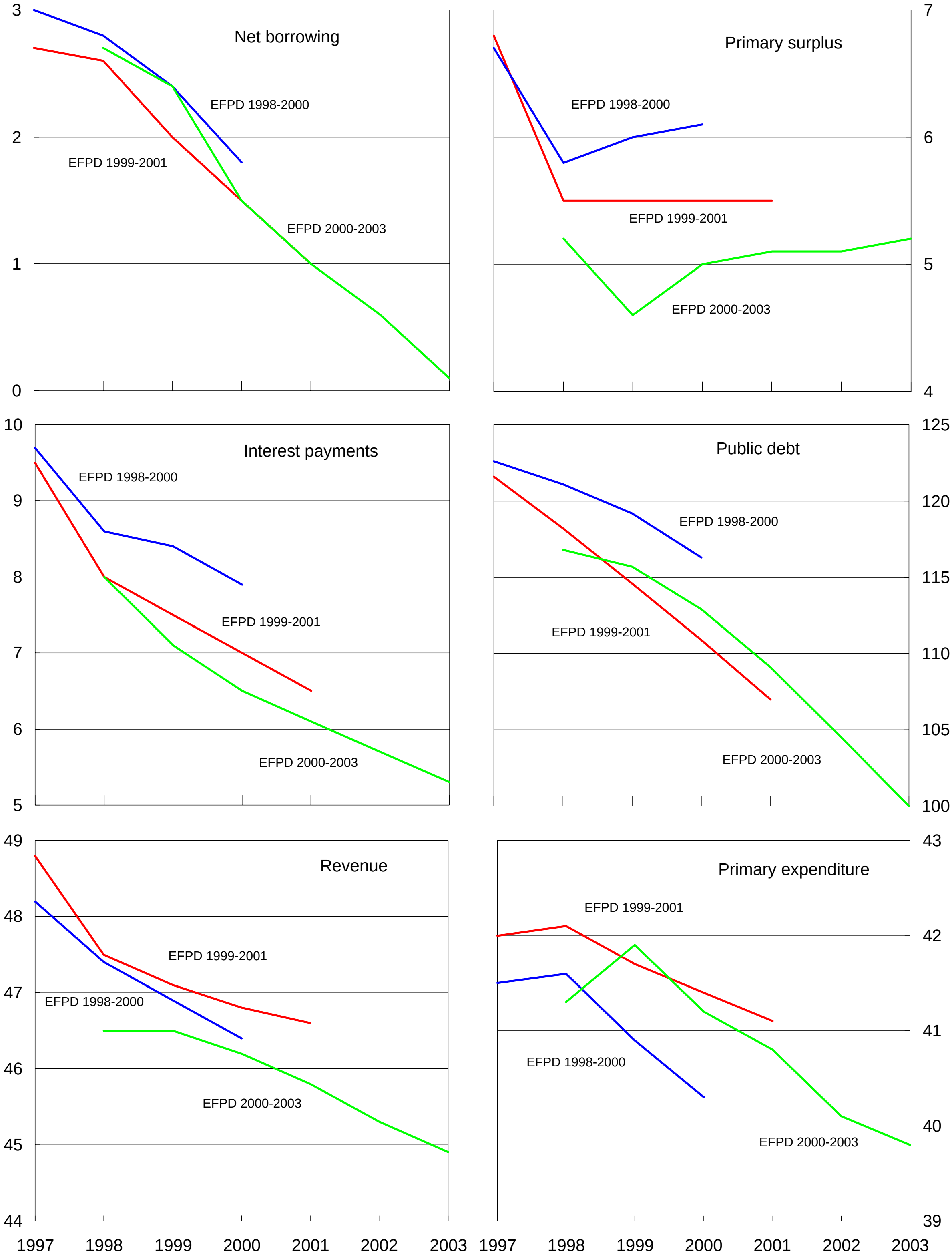


Source: Based on Istat data compiled using ESA79.
(1) Following the revision carried out by Istat in 1999, there is a break in the series for Italy between 1994 and 1995.

Figure 7

The Economic and Financial Planning Documents for 1998-2000, 1999-2001 and 2000-2003 (1)

(amounts as a percentage of GDP)



(1) The EFPD 1998-2000 and the EFPD 1999-2001 data were compiled using ESA79. Revenue and primary expenditure are shown net of settlements of tax credits in securities; the figures for these items in the EFPD 1998-2000 have been supplemented by those of Italy's Convergence Programme. The EFPD 2000-2003 data were compiled using ESA95.

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

Table 1

(as a percentage of GDP)

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
Italy (1)	8.3	12.3	11.1	10.1	9.6	9.5	9.2	7.7	6.6	2.7	2.7
France	0.0	2.9	1.6	2.1	3.9	5.8	5.8	4.9	4.1	3.0	2.9
Germany (2)	2.9	1.2	2.1	3.3	2.8	3.5	2.6	3.3	3.4	2.7	2.1
United Kingdom	3.4	2.9	1.6	2.8	6.6	8.1	6.9	5.7	4.4	1.9	-0.6
Spain	2.6	6.4	4.2	4.4	4.0	6.8	6.2	7.1	4.5	2.6	1.8
Belgium	8.7	9.1	5.4	6.3	7.1	7.3	4.9	4.0	3.1	1.9	1.3
Denmark	3.2	2.0	1.1	2.5	2.3	2.9	2.7	2.4	0.9	-0.4	-0.8
Greece	2.6	11.7	16.1	11.5	12.8	13.8	10.0	10.3	7.5	3.9	2.4
Ireland	12.1	10.6	2.2	2.3	2.4	2.3	1.5	2.1	0.3	-1.1	-2.3
Luxembourg	0.5	-6.5	-4.8	-1.9	-0.7	-1.6	-2.7	-1.8	-2.8	-2.9	-2.1
Netherlands	4.2	3.6	5.1	2.9	3.9	3.2	3.8	4.0	2.0	0.9	0.9
Portugal	8.7	10.5	5.1	6.0	3.0	6.1	6.0	5.7	3.3	2.5	2.3
Austria	1.7	2.4	2.4	3.0	2.0	4.2	5.0	5.1	3.7	1.9	2.1
Finland	-3.4	-2.9	-5.5	1.1	5.7	7.3	6.0	4.6	3.1	1.2	-1.0
Sweden	4.0	3.8	-4.2	1.1	7.7	12.2	10.3	6.9	3.5	0.7	-2.0
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Weighted averages (3)											
EU including Italy	3.4	4.5	3.6	4.3	5.2	6.2	5.5	5.0	4.1	2.3	1.5
EU excluding Italy	2.6	3.1	2.1	3.1	4.3	5.6	4.9	4.6	3.7	2.3	1.3
France, Germany and the UK	2.1	2.2	1.8	2.8	4.1	5.3	4.6	4.3	3.8	2.6	1.6

Sources: Based on Istat data for Italy and on EU Commission data for the other countries. The data were compiled using ESA79.
(1) Following the revision carried out by Istat in 1999, there is a break in the series between 1994-95.
(2) Western regions until 1990.
(3) Weighted on the basis of GDP at current prices translated into ecus.

Table 2

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

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
Italy (1)	3.2	4.5	1.6	-0.1	-1.9	-2.6	-1.8	-3.5	-4.0	-6.6	-4.9
France	-1.5	0.0	-1.3	-0.8	0.6	2.4	2.2	1.2	0.3	-0.6	-0.6
Germany (2)	1.0	-1.8	-0.5	0.7	-0.4	0.2	-0.7	-0.5	-0.3	-1.0	-1.5
United Kingdom	-1.3	-2.1	-2.2	-0.5	3.5	4.9	3.4	2.2	0.7	-1.6	-3.7
Spain	1.9	4.4	0.3	0.6	-0.3	1.7	1.5	1.7	-0.4	-1.8	-2.1
Belgium	2.7	-1.4	-5.1	-3.8	-3.7	-3.6	-5.3	-5.0	-5.5	-6.0	-6.2
Denmark	-0.7	-7.6	-6.4	-5.0	-4.6	-4.6	-4.2	-4.2	-5.1	-6.1	-6.2
Greece	0.6	6.8	5.9	2.1	1.1	1.0	-4.1	-2.6	-4.5	-5.7	-6.7
Ireland	5.9	0.9	-5.3	-5.0	-4.3	-4.0	-4.0	-2.8	-3.9	-5.0	-5.4
Luxembourg	-0.7	-7.5	-5.3	-2.3	-1.0	-2.0	-3.0	-2.1	-3.1	-3.2	-2.5
Netherlands	0.3	-2.8	-0.9	-3.3	-2.4	-3.0	-2.1	-2.0	-3.6	-4.3	-3.9
Portugal	6.0	2.8	-3.0	-1.9	-4.2	-0.1	-0.2	-0.6	-1.5	-1.8	-1.1
Austria	-0.7	-1.1	-1.7	-1.2	-2.3	-0.1	0.9	0.7	-0.7	-2.1	-1.9
Finland	-4.4	-4.7	-7.0	-0.9	3.1	2.7	1.0	-0.6	-2.5	-4.1	-6.4
Sweden	-0.1	-4.6	-9.2	-4.0	2.3	6.0	3.5	0.5	-3.7	-5.6	-9.0
°°°°°°°°°											
Weighted averages (3)											
EU including Italy	0.4	-0.3	-1.2	-0.6	-0.1	0.7	0.2	-0.4	-1.2	-2.6	-3.0
EU excluding Italy	-0.1	-1.2	-1.8	-0.7	0.2	1.3	0.5	0.1	-0.8	-1.9	-2.7
France, Germany and the UK	-0.5	-1.3	-1.2	-0.1	0.8	2.0	1.1	0.6	0.1	-1.1	-1.9

Sources: Based on Istat data for Italy and on EU Commission data for the other countries. The data were compiled using ESA79.
(1) Following the revision carried out by Istat in 1999, there is a break in the series between 1994-95.
(2) Western regions until 1990.
(3) Weighted on the basis of GDP at current prices translated into ecus.

GENERAL GOVERNMENT INVESTMENT

Table 3

(as a percentage of GDP)

	1980	1985	1990	1991	1992	1993	1994	1995	1996	1997	1998
Italy (1)	3.2	3.7	3.3	3.3	3.0	2.7	2.3	2.2	2.2	2.4	2.5
France	3.4	3.2	3.6	3.5	3.5	3.2	3.2	3.2	2.9	2.9	2.8
Germany (2)	3.6	2.4	2.3	2.6	2.8	2.7	2.6	2.4	2.2	1.9	1.8
United Kingdom	2.5	2.1	2.6	2.4	2.3	2.1	2.0	2.0	1.5	1.3	1.3
Spain	1.9	3.7	4.9	4.8	4.0	4.2	4.0	3.7	3.1	3.1	3.3
Belgium	4.4	2.6	1.3	1.4	1.5	1.6	1.7	1.4	1.1	1.4	1.4
Denmark	3.3	2.1	1.6	1.5	2.0	1.9	1.8	1.9	2.0	1.9	1.8
Greece	2.1	3.7	2.8	3.1	3.5	3.3	3.1	3.3	3.4	3.4	3.7
Ireland	5.6	3.8	2.0	2.1	2.0	2.1	2.3	2.3	2.2	2.4	2.5
Luxembourg	6.7	4.2	4.5	4.7	5.2	5.2	4.3	4.6	4.6	4.5	4.4
Netherlands	3.3	2.3	2.0	2.2	2.1	2.1	2.1	2.0	1.9	1.9	1.9
Portugal	4.3	3.3	3.3	3.4	3.8	4.0	3.6	3.7	4.1	4.3	4.2
Austria	4.3	3.6	3.2	3.3	3.3	3.3	3.3	2.8	2.8	2.0	2.0
Finland	3.8	3.7	4.0	4.1	3.8	3.1	3.2	3.0	3.0	3.2	3.0
Sweden	4.2	3.1	2.4	2.2	2.7	1.1	3.0	2.9	2.1	2.4	1.5
°°°°°°°°°											
Weighted averages (3)											
EU including Italy	3.3	2.9	3.0	3.0	2.9	2.7	2.6	2.6	2.3	2.2	2.2
EU excluding Italy	3.3	2.7	2.9	2.9	2.9	2.7	2.7	2.6	2.3	2.2	2.1
France, Germany and the UK	3.2	2.6	2.8	2.8	2.9	2.7	2.6	2.5	2.3	2.0	1.9

Sources: Based on Istat data for Italy and on EU Commission data for the other countries. The data were compiled using ESA79, except for those for Denmark and the United Kingdom, which used ESA95 for the period 1996-98 and 1989-98, respectively.

(1) Following the revision carried out by Istat in 1999, there is a break in the series between 1994-95.

(2) Western regions until 1990.

(3) Weighted on the basis of GDP at current prices translated into ecus.

Table 4

GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE

(as a percentage of GDP)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Direct taxes	13.4	14.3	14.4	14.5	14.7	16.2	14.9	14.8	15.3	16.0	14.5
Indirect taxes	10.0	10.4	10.6	11.1	11.2	12.0	11.7	12.2	12.2	12.6	15.4
Social security contributions	13.7	14.1	14.4	14.7	15.1	15.5	14.9	14.9	15.2	15.5	13.4
Subtotal	**37.1**	**38.8**	**39.5**	**40.4**	**41.0**	**43.7**	**41.6**	**41.9**	**42.6**	**44.1**	**43.2**
Capital taxes	0.1	0.2	0.1	0.2	2.0	0.7	0.1	0.6	0.3	0.7	0.4
Total	**37.2**	**39.0**	**39.6**	**40.6**	**43.0**	**44.4**	**41.7**	**42.5**	**42.9**	**44.8**	**43.6**

Source: Based on Istat data. The data were compiled using ESA79. Following the revision carried out by Istat in 1999, there is a break in the series between 1994-95.

Table 5

GENERAL GOVERNMENT EXPENDITURE

(as a percentage of GDP)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998
Compensation of employees	12.1	11.9	12.7	12.7	12.7	12.5	12.0	11.5	11.7	11.8	11.2
Intermediate consumption	5.0	4.9	4.8	4.9	5.0	5.2	5.0	5.0	5.0	4.8	4.9
Social services	17.3	17.6	18.2	18.3	19.3	19.5	19.5	19.2	19.4	19.9	19.6
Interest payments	7.9	8.8	9.5	10.2	11.5	12.1	11.0	11.2	10.6	9.2	7.5
Other current expenditure	3.2	3.5	3.0	3.1	2.9	3.6	3.2	2.2	2.4	1.9	2.7
Total current expenditure	**45.6**	**46.7**	**48.2**	**49.2**	**51.4**	**52.8**	**50.8**	**49.1**	**49.1**	**47.6**	**45.9**
Excluding interest payments	*37.7*	*38.0*	*38.8*	*39.1*	*39.9*	*40.7*	*39.8*	*37.9*	*38.5*	*38.4*	*38.4*
Investment	3.4	3.3	3.3	3.3	3.0	2.7	2.3	2.2	2.2	2.4	2.5
Other capital expenditure	1.9	1.8	2.3	1.5	1.6	2.3	1.8	2.5	1.7	1.1	1.3
Total expenditure	**50.8**	**51.8**	**53.8**	**53.9**	**56.1**	**57.8**	**54.9**	**53.6**	**53.1**	**51.2**	**49.7**
Excluding interest payments	*42.9*	*43.1*	*44.3*	*43.7*	*44.6*	*45.7*	*43.9*	*42.4*	*42.4*	*42.0*	*42.2*

Source: Based on Istat data. The data were compiled using ESA79. Following the revision carried out by Istat in 1999, there is a break in the series between 1994-95.

Table 6

Planning forecasts in the Economic and Financial Planning Documents for 1999-2001 and 2000-2003 (1)

(as a percentage of GDP)

	1998 OUTTURN		1999		2000		2001		2002	2003
	ESA79	ESA95	EFPD 1999-2001 (2)	**EFPD 2000-2003**	EFPD 1999-2001 (2)	**EFPD 2000-2003**	EFPD 1999-2001 (2)	**EFPD 2000-2003**	**EFPD 2000-2003**	**EFPD 2000-2003**
Total revenue	47.0	46.5	47.1	**46.5**	46.8	**46.2**	46.6	**45.8**	**45.3**	**44.9**
Primary expenditure	42.2	41.3	41.7	**41.9**	41.4	**41.2**	41.1	**40.8**	**40.1**	**39.8**
of which: current	*38.4*	*37.6*	*37.9*	***37.9***	*37.4*	***37.2***	*37.0*	***36.9***	***36.5***	***36.2***
capital	*3.8*	*3.7*	*3.8*	***4.0***	*4.0*	***4.0***	*4.1*	***3.9***	***3.6***	***3.6***
Primary surplus	4.9	5.2	5.5	**4.6**	5.5	**5.0**	5.5	**5.1**	**5.1**	**5.2**
Interest payments	7.5	8.0	7.5	**7.1**	7.0	**6.5**	6.5	**6.1**	**5.7**	**5.3**
Net borrowing	-2.7	-2.7	-2.0	**-2.4**	-1.5	**-1.5**	-1.0	**-1.0**	**-0.6**	**-0.1**
Debt	118.7	116.8	114.6	**115.7**	110.9	**112.9**	107.0	**109.1**	**104.6**	**100.0**

(1) The EFPD 1999-2001 and EFPD 2000-2003 data were compiled using ESA79 and ESA95, respectively.
(2) Revenue and primary expenditure are shown net of settlements of tax credits in securities.

Table 7

Planned Fiscal Adjustment in the four years 2000-2003 (1)

		1999	2000	2001	2002	2003
Total revenue *(as a % of GDP)*	**EFPD 2000-2003**	**-**	**0.1**	**-0.1**	**-0.1**	**0.0**
	EFPD 1999-2001	0.1	0.0	0.0	-	**-**
Primary expenditure *(as a % of GDP)*	**EFPD 2000-2003**	-	**-0.4**	**0.1**	**0.2**	**0.0**
	EFPD 1999-2001	-0.3	0.0	0.1		
Primary surplus	**EFPD 2000-2003**	**-**	**11,500**	**-4,000**	**-8,000**	**0.0**
	as a % of GDP	-	*0.5*	*-0.2*	*-0.3*	*0.0*
	EFPD 1999-2001	8,000	0	0	-	-
	as a % of GDP	*0.4*	*0.0*	*0.0*	-	-

(1) Obtained as the difference between the planning forecasts and the projections on a current programmes basis, assuming that the budgetary measures adopted in each year have a lasting effect. The EFPD 1999-2001 data are net of settlements of tax credits in securities.
The projection on a current programme basis in the EFPD 2000-2003 are based on "unchanged legislation", those of the EFPD 1999-2001 on "unchanged policies". In particular, the new EFPD includes the expenditure deriving from the renewal of labour contracts.