Joint Session
of the Fifth Committees of the
Italian Senate and Chamber of Deputies

# Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 2001-2004

Testimony of the Governor of the Bank of Italy
Antonio Fazio

Rome, 18 July 2000

**Contents**

1. *The Italian economy and the macroeconomic framework of the EFPD for 2001-2004* ............................ 2

2. *The public finances in the EFPD for 2001-04* .......................................... 6

3. *A budgetary policy for growth* .................................................................. 8

4. *Expenditure on pensions* .......................................................................... 10

5. *Health care* .............................................................................................. 13

6. *Local government finances* ...................................................................... 14

*Tables and Figures*

The nineties began with a serious imbalance in the public finances. In 1989 general government net borrowing was equal to 9.8 per cent of gross domestic product, about 9 percentage points higher than the average of the other European Union countries. The public debt was equal to 95.4 per cent of GDP and growing rapidly.

At the end of the decade the budget deficit was equal to 1.9 per cent of GDP; the gap compared with the European average had narrowed to 1.5 percentage points. The ratio of the public debt to GDP, which had reached 123.8 per cent in 1994, was gradually declining.

The reduction in the deficit in relation to GDP was primarily due to the increase of 4.9 percentage points in the revenue ratio and the decrease of 2 percentage points in that of interest payments. Primary expenditure decreased by 1.1 percentage points, as a result of the reduction in expenditure on capital account; current expenditure increased slightly.

The ratio of taxes and social security contributions to GDP, which had already risen by 10 percentage points in the eighties, rose from 39 per cent in 1989 to 43.3 per cent in 1999. In 1989 it was well below the European Union average; in 1999 it was 0.5 points above the average.

The burden on taxpayers who fulfil their fiscal obligations completely is greater than would appear from the national accounts, owing to the size of the underground economy. Irregular activity in the other European countries is on a much smaller scale than in Italy on average.

The consolidation of the public finances in the last three five-year periods was characterized by a succession of corrective measures, often serving to compensate for the expiry of temporary measures. According to the official estimates, the sum of the effects of the corrective measures introduced in the nineties was on the order of 30 per cent of GDP. The principal areas of expenditure were subject to a number of structural interventions; in some cases the reform process has not yet been completed.

The consolidation process was thus characterized by uncertainty, which influenced the expectations of consumers, entrepreneurs and financial operators, with negative effects on interest rates and the growth in domestic demand. The bulk of the adjustment was achieved on the revenue side; public-sector investment declined.

### *1. The Italian economy and the macroeconomic framework of the EFPD for 2001-2004*

In the nineties the Italian economy grew at an annual rate of 1.4 per cent, as against 2.4 per cent in the eighties. In the last ten years the shortfall in growth compared with the other ten euro-area countries amounted to 8 percentage points.

The slowdown in the expansion of economic activity became even more pronounced in the second half of the nineties; the restrictive effects of the budget measures were aggravated by those resulting from a steady loss of competitiveness. On average, net foreign demand made a negative contribution of about 1 percentage point to GDP growth each year between 1997 and 1999.

Italian exports failed to keep up with the expansion in world trade. At the same time, foreign goods satisfied a growing share of domestic demand. Industrial production increased less than in the other European countries.

The unfavourable trend in costs and relative prices, to which poor productivity growth made a major contribution, was accompanied by insufficient innovation: most Italian output consists of medium-to-low technology products, international demand for which is rising less fast than that for the products of advanced sectors.

Growth has been accelerating in Europe and in Italy since the second half of 1999 in response to the rapid expansion in world trade and the depreciation of the euro. Industrial production is rising throughout the entire euro area.

In Italy gross domestic product expanded at an annual rate of more than 3 per cent in the six months from October 1999 to March 2000, compared with the previous six months. Growth in net foreign demand was accompanied by a substantial increase in household consumption, especially for durable goods and services; investment in machinery, equipment and transport equipment rose at an annual rate of nearly 8 per cent.

The index of industrial production rose by 4.5 per cent in the first five months of 2000 compared with the same period of 1999. The flow of orders continues to show rapid growth.

Employment has begun to expand again after the pause at the end of last year. Between January and April employment increased by 133,000 persons; the improvement extended to Italy's southern regions.

Rising energy prices have continued to fuel consumer price inflation; the twelve-month rate rose to 2.5 per cent in May and to 2.7 per cent in June. In May the inflation rate was approximately 0.5 percentage points above the average of the other euro-area countries; calculated with respect to underlying inflation, which excludes food and energy products, the gap was wider and equal to 1.1 points.

The Economic and Financial Planning Document forecasts that GDP will grow by 2.8 per cent this year. The positive trend in net foreign demand recorded in the first quarter is expected to continue in the coming months. Domestic demand is seen as making the largest contribution to growth, primarily owing to the recovery in household consumption.

The Planning Document outlines a scenario in which the Italian economy's growth prospects remain favourable for the next four years. Gross domestic product is expected to expand at an average annual rate of 3 per cent; the shortfall in growth compared with the other euro-area countries that was a feature of the nineties should be eliminated.

The estimates are based on projections of an especially rapid expansion in international demand and a strong recovery in domestic demand, sustained by the vigorous pace of investment in equipment and machinery. Consumption is expected to increase by around 2.6 per cent on average in the three years 2002-2004. The growth in world trade is seen as allowing Italian exports to offset a substantial increase in imports.

Reliance is placed on a decline in oil prices and rising productivity to curb inflationary pressures of both domestic and external origin; after rising to 2.3 per cent this year, consumer price inflation is forecast to fall to 1.7 per cent in 2001 and 1.2 per cent thereafter. The values indicated for 2000 and 2001 can be achieved if the deceleration expected in the second half of this year is particularly pronounced.

The spread of part-time and fixed-term contracts and the acceleration of growth will prolong the recent favourable labour market trends. Employment is expected to increase by more than 1 per cent annually and the unemployment rate to decline gradually.

The consolidation of the recovery in domestic demand is based on a favourable climate of business confidence. The macroeconomic framework outlined by the Planning Document is marked by a degree of uncertainty that is due in part to the incomplete definition of the economic policy measures upon which it is founded and in part to exogenous factors.

The markets' expectations of a decline in oil prices have not yet been fulfilled. In the euro area the acceleration of economic activity may generate inflationary pressures.

After growing at an unsatisfactory pace in recent years, consumption in Italy should be sustained, as indicated in the Planning Document, by the shift to budgetary policies that are no longer restrictive and the recovery in households' disposable income.

The growth path indicated in the Planning Document assumes that Italian exports will maintain their present shares of international markets. However, the temporary benefit brought by the depreciation of the euro may benefit Italy less than the other euro-area countries, owing to its higher rate of inflation.

Effective structural measures are needed to remove the obstacles to improving Italy's competitiveness, avoid further losses and regain market shares.

The favourable cyclical conditions offer an opportunity to accelerate and complete the structural reforms.

***2. The public finances in the EFPD for 2001-04***

The EFPD takes the consolidation of the public finances as having been completed. The figures are on a current programmes basis but, in contrast with the past, do not include any estimate of foreseeable expenditure requiring new legislation. No major adjustments are deemed necessary before 2002 and expansionary measures are considered possible in the two following years.

Net borrowing is expected to decline from 1.9 per cent of GDP in 1999 to 1.3 per cent this year, 1 per cent in 2001 and 0.7 per cent in 2002. If no further expenditure were added, there would be a surplus of 0.2 per cent in 2003 and 1.3 per cent the following year.

The target deficit has been set at 1 per cent of GDP for next year, the same as the deficit on a current programmes basis. New measures are to be offset by amending individual items of expenditure and revenue.

Corrective measures amounting to 0.2 per cent of GDP are envisaged for 2002. In 2003 and 2004 the budget is forecast to become expansionary by 0.2 and 1 per cent respectively.

The figures on a current programmes basis take no account of the renewal of public sector employees' contracts or additional allocations for capital expenditure; between 1999 and 2004 the bill for public employment is seen as falling from 10.7 to 9.1 per cent of GDP and that for capital expenditure from 3.9 to 2.9 per cent.

On the basis of these assumptions, the primary surplus increases from 4.9 per cent of GDP in 1999 to 5.2 per cent this year and next and rises to 6.5 per cent in 2004.

The target for the primary surplus, which was set at 5.2 per cent for 2000 and 2001, has been set at about 5.5 per cent for the three following years.

Even though interest rates on twelve-month Treasury bills are presumed to increase from 5.1 per cent at the end of this year to 5.7 per cent in 2004, interest payments are expected to continue to fall in relation to GDP: from 6.8 per cent in 1999 to 6.5 per cent this year and 5.2 per cent in 2004.

The ratio of public debt to GDP is projected to fall from 112.1 per cent this year to 99.7 per cent in 2003 and 95 per cent in 2004.

Net borrowing, estimated at 1.5 per cent of GDP in the March Quarterly Report on the Borrowing Requirement, has been revised downward to 1.3 per cent to take account of the increased primary surplus and the decline in interest expenditure.

The Planning Document underlines the risk that some categories of expenditure may expand faster than forecast; spending by non-state public bodies, especially on health, may be greater than forecast. Tax revenue could be higher than expected, as in 1999.

These factors and the need for corrective measures will be evaluated in the update of the EFPD in September.

Expenditure adjustments could become necessary in the future to cover the cost of the renewal of public employees’ labour contracts, planned spending to support development, especially in the South, and any additional funding required by the health sector.

The scenario on a current programmes basis shows a gradual decline in the ratio of expenditure to GDP. Primary expenditure, equal to 42 per cent of GDP in 1999, is forecast to fall to 41.7 per cent this year and 37.8 per cent in 2004.

Total revenue is projected to fall from 46.9 per cent of GDP in 1999 to 46.8 per cent this year and 44.3 per cent in 2004. The tax burden, i.e. the ratio of taxes and social security contributions to GDP, is forecast to remain virtually unchanged between 1999 and 2000 on a current programmes basis, declining from 43.3 to 43.2 per cent; no account is taken of the possible increase in tax revenue envisaged for this year by the EFPD. The ratio is projected to fall by 2.1 percentage points in the four following years, to reach 41.1 per cent in 2004.

### *3. A budgetary policy for growth*

The targets set for the general government budget are in line with the Stability and Growth Pact, which commits the EU member states to achieve a budget close to balance or in surplus in the medium term.

This will make it possible to adopt countercyclical policies without incurring excessive deficits; it will reduce the risk of having to adopt procyclical policies in response to interest rate increases or negative shocks, and will accelerate the process of reducing the ratio of public debt to GDP.

The structural budget measures are not fully defined. Those for next year will be finalized as the necessary information becomes available.

A larger reduction in the tax burden than envisaged is essential in order to reinforce the growth prospects of the economy; I have suggested it should be on the order of 1 percentage point per year.

A more efficient allocation of resources is required to achieve the macroeconomic results described in the Planning Document. This is hindered by the present levels of taxation, which is particularly heavy for some classes of taxpayer. The march of economic integration and greater mobility of the factors of production make it easier to shift activities and tax bases towards countries with lower taxation.

The Planning Document postpones the start of the process of reducing the tax burden, leaving it broadly unchanged this year, whereas a reduction of 0.4 points had been forecast, as confirmed in the Quarterly Report on the Borrowing Requirement published last March.

This year will probably see a further increase in the tax burden. Most of the extra revenue expected in 2000, which it is still too early to quantify, will probably be reimbursed by means of tax relief starting from next year.

Measures to curb primary expenditure are the prerequisite for reducing the tax burden.

The renewal of labour contracts and the new investment programmes announced in the Planning Document must be financed by limiting other items of expenditure. The difference between the surplus on a current programmes basis and the target figure forecast for 2004, equal to 1 per cent of GDP, should be returned to the economy in the form of lower taxes.

Expenditure is under pressure from demographic trends. As indicated in the Planning Document, the sectors most affected are social security and health, in which the persistence of unresolved problems is emphasized.

Taking a long-term view, the reduction of expenditure calls for a revision of the tasks performed by the public sector and of the functions assigned to the various decision-making centres, greater efficiency in the use of the resources allocated to them and the modification of some of the parameters of the pension system. Action on these fronts would furnish proof of Italy's determination to set its public finances on a course compatible with the growth of the economy in the medium and long term; it would help to improve expectations by reducing the uncertainty generated by a succession of budgetary adjustments.

Public intervention was extended over the last decades beyond the limits compatible with sustainable growth. There has been no proper assessment of the State's ability to guarantee productive efficiency. The limited resources available and the persistence of inefficiencies in general government suggest that public-sector intervention should be concentrated in the sectors in which the public is most directly interested. Social insurance should cover only risks whose financial consequences cannot be borne by individual citizens; the weakest sectors of the community should continue to be guaranteed adequate protection.

### *4. Expenditure on pensions*

Profound changes in the Italian pension system have been under way since 1992. Spending on pensions and annuities had risen from 5 per cent of GDP in 1960 to 13.8 per cent in 1990, an unsustainable trend. In the absence of corrective measures, it would have grown to about 25 per cent of GDP by 2030.

The reform enacted in 1992 cancelled more than one quarter of the public sector's future spending commitments for the pension system.

Notwithstanding these measures and others adopted subsequently, spending on pensions had climbed to 15.6 per cent of GDP by 1999. During the nineties there was a considerable increase in the ratio between average pensions and average earnings, and the number of pensions increased by about 10 per cent. Between 1993 and 1999, despite the substantial increase in the minimum age requirement for old age pensions, the participation rate for men between the ages of 55 and 59 fell from 65 to 54 per cent; that for men between the ages of 60 and 64 also fell.

The pension system that emerged from the recent reforms has positive aspects. The separation of the system into two pillars, one managed on a pay-as-you-go contributions-related basis and the other on a funded basis is to be welcomed.

The new arrangements guarantee a link between individual contributions and benefits; however, they fail to ensure the overall financial equilibrium of the pension system, which remains vulnerable to demographic and economic shocks.

The Planning Document quotes the General Accountant's forecast that the ratio of pension expenditure to GDP will continue to rise gradually in the coming years.

This implies a further increase in what are already the highest contribution rates among the leading economies or additional calls on the budget. Both solutions conflict with the need to reduce the tax burden.

The ratio that emerged from the 1995 reform between new pensions and the final earnings of workers retiring at 65 with a high number of contribution years is relatively high and generally higher than that envisaged by the reform of 1992; in some cases it even exceeds that of the earlier system. The indexing of pensions only to prices, which is partial in the case of high- and medium-value pensions, implies a gradual reduction in the purchasing power of pensioners in comparison with workers.

To limit the growth of expenditure and initiate the process of lowering its ratio to GDP, the implementation of the 1995 reform must be accelerated and some of its parameters modified.

In order not to jeopardize the standard of living of future pensioners, the curbing of expenditure must not be achieved by reducing individual benefits. Above all, the increase in the ratio between workers and pensioners must be curbed by raising the retirement age as soon as possible.

The 1995 reform allows workers to retire between the ages of 57 and 65. The faculty to choose is undoubtedly a positive element. However, this age range should be adapted to the age structure of the population and the future working capacity of older people. The coefficients used to link pension benefits to workers' ages must be modified to discourage early retirement and ensure the system's financial equilibrium. A reduction in the initial amount of benefits could be offset by indexing the latter partially to increases in real wages.

The limiting of state pension benefits, which would allow contribution rates to be brought down, must be accompanied by the rapid development of supplementary pension schemes.

The pension system would continue to be largely on a pay-as-you go basis; it would be better able to withstand shocks. Supplementary pension provision will increase the system's flexibility and foster the development of the capital market.

Pension funds must be managed on a competitive basis, and workers guaranteed maximum freedom to choose.

## 5. Health care

In the eighties spending on health care regularly exceeded the amounts planned; the National Health Service accumulated deficits amounting to around 6 per cent of GDP. Public health spending rose from close to 5 per cent of GDP in the first half of the eighties to 6.4 per cent in 1992, when reforms were enacted that were intended to curb the cost of the National Health Service, in part by increasing the degree of local operational autonomy. Further measures to hold down expenditure, especially on pharmaceuticals, were enacted in the years that followed.

Spending continues to exceed the resources allocated. Although the overshoots were on a smaller scale in the nineties than in the eighties, the growth in the cost of health care is a cause for concern. After falling to 5.2 per cent of GDP in 1995, by 1999 it had risen to 5.7 per cent.

According to the World Health Organization, Italians are among the healthiest people in the world; they nonetheless continue to be dissatisfied with the quality of the services provided. By international standards the level of spending on public health care is relatively low. The tendency for it to expand will be strengthened by the ageing of the population.

It may be necessary to redefine the services and levels of assistance provided to citizens in order to concentrate public resources where they are most needed and avoid an increase in spending incompatible with the overall equilibrium of the public finances.

It will also be necessary to ensure the separation between public and private providers of health services and create conditions in which they compete. The World Health Organization itself considers the hazy distinction between public and private interests to be one of the main causes of inefficiency in health services.

## 6. *Local government finances*

The interaction between increasing fiscal autonomy at the local level in the member states and the budgetary rules laid down in the Growth and Stability pact is not without its problems. Compliance with the rules depends on the behaviour of all the different levels of government. In practice, however, it is central government that is held responsible and has to pay if they are violated.

In Italy a situation is developing in which the growing decentralization of fiscal powers is matched by weak constraints on borrowing by local authorities and local government revenues that are sensitive to the economic cycle. This is likely to be an obstacle to compliance with the budgetary rules and achievement of the allocative benefits of fiscal decentralization.

The Domestic Stability Pact, introduced with the budget for 1999 and updated in that for 2000, is a first step towards the solution of this problem. However, there was a deterioration in local government finances in 1999, with a surplus of around 2.5 trillion lire giving way to net borrowing of 5.2 trillion.

The State, the regions, the provinces and the municipalities must identify institutional mechanisms able to involve all the different levels of government in the definition and achievement of the objectives of budgetary policy.

The priority objectives of fiscal decentralization must be to ensure public services that satisfy the needs of local communities in terms of both quantity and quality and to increase the control exercised by users over both the management and the cost of public services. The cost of new services must be borne by the beneficiaries. In order to achieve these objectives, it is necessary to ensure sufficiently large sources of autonomous financing and rigorous observance of budgetary constraints.

Budgetary policy must now consolidate the adjustment of the public finances; it must contribute to the expansion of economic activity in Italy.

The Economic and Financial Planning Document indicates the economic policy choices needed to improve the growth prospects of the Italian economy in a set of structural measures that should have a lasting effect on the competitiveness of the productive system.

The measures are intended to improve the efficiency of the transport system, reduce bureaucratic constraints, grasp the opportunities offered by new technologies and enhance the value of human capital.

The proposed steps move in the right direction. It is necessary to give them concrete form.

The budgetary policy outlined in the Planning Document envisages a gradual reduction in the tax burden, leads to the elimination of the deficit and is consistent with bringing down the ratio of public debt to GDP. The objective set for the overall balance must be achieved, if necessary by means of larger primary surpluses than those indicated.

The planned reduction in the ratio of primary expenditure to GDP, from 42 per cent in 1999 to 37.8 per cent in 2004, is consistent with a small reduction in the tax burden and the elimination of the deficit. The achievement of these positive results appears uncertain, however; the fact that the Planning Document has been prepared on a strict current programmes basis means that it excludes expenditure that, in the light of the indications given by the Government, will have to be financed.

The conditions must be created for a larger reduction in the tax burden that, implemented through further cuts in tax and social security contribution rates, is soundly based and capable of lasting for several years.

To this end action must be taken to curb the rise in public expenditure, especially on pensions and health care, and to ensure local government compliance with budgetary constraints.

More generally, it is necessary to improve the functional effectiveness and efficiency of the public sector.

The contribution of the social partners will be crucial in this respect.

By having a positive effect on expectations, determined economic policy action will curb inflationary tendencies and increase the propensity to invest.

Implementation of the budgetary policy outlined in the Planning Document will require statutory legislation and implementing provisions that can be defined in the update of the Planning Document and the Finance Bill.

There must be a firm will to proceed in this direction.

Even some of our leading neighbours have initiated wide-ranging tax reforms.

Their economies have already acquired a competitive advantage over Italy’s and could further crowd out Italian industry and employment by competing more fiercely in domestic and foreign markets.

Firms will need all their innovative efforts to put economic activity back on course. Steps must be taken to ensure that the new technologies and organizational arrangements fostering the exceptional expansion of the US economy can be usefully employed in Italy.

The increase in the tax burden of the last twenty years is one of the factors that has led to the fragmentation of production and to the growing number of self-employed workers; recourse to forms of irregular employment is widespread.

Small firms enjoy considerable flexibility, but are not well placed to innovate processes and products. The obstacles hindering their growth and competitiveness must be removed.

Large and small firms alike will need to adopt new systems of industrial relations suited to the new context. These may have a positive impact on employment and firms’ growth. Greater flexibility in the labour market must be accompanied by more open competition in the market for products.

Cuts in current expenditure must be accompanied by additional investment in infrastructure. The endowment of public capital in Italy falls short of the levels in more developed economies. Economic law needs to be modernized; the initiatives launched by the Government in this field move in the right direction.

In today’s world the ability to compete depends above all on the accumulation of knowledge and its application to production, on the ability to exploit the externalities made available by new technologies.

The recovery under way makes it easier to tackle the structural problems that limit the Italian economy’s ability to grow.

We must not fail to grasp this opportunity.

*TABLES AND FIGURES*

Table 1. General government net borrowing/lending
Table 2. General government net borrowing/lending excluding interest payments
Table 3. General government investment
Table 4. General government tax and social security revenue
Table 5. General government expenditure
Table 6. Main indicators of local government finances
Figure 1. General government net borrowing, primary balance and debt
Figure 2. Fiscal revenue
Figure 3. General government expenditure
Figure 4. General government expenditure excluding interest payments
Figure 5. General government investment
Figure 6. Average cost of the public debt, average gross yield on BOTs and gross yield on 10-year BTPs
Figure 7. Average personal income tax rates in 1989 and 1999
Figure 8. Expenditure on pensions

Table 1

## GENERAL GOVERNMENT NET BORROWING (+) OR NET LENDING (-)
*(as a percentage of GDP)*

| | 1980 | 1985 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Italy (1) | 8,3 | 12,3 | 11,1 | 10,1 | 9,6 | 9,5 | 9,2 | 7,6 | 7,1 | 2,7 | 2,8 | 1,9 |
| France | 0,0 | 2,9 | 1,6 | 2,1 | 3,9 | 5,8 | 5,8 | 5,5 | 4,2 | 3,0 | 2,7 | 1,8 |
| Germany (2) | 2,9 | 1,2 | 2,1 | 3,3 | 2,8 | 3,5 | 2,6 | 3,3 | 3,4 | 2,6 | 1,7 | 1,1 |
| United Kingdom | 3,4 | 2,9 | 1,6 | 2,9 | 6,7 | 8,2 | 6,9 | 5,8 | 4,4 | 2,0 | -0,3 | -1,2 |
| Spain | 2,6 | 6,4 | 4,2 | 4,4 | 4,0 | 6,8 | 6,2 | 6,9 | 5,0 | 3,2 | 2,6 | 1,1 |
| Belgium | 8,7 | 9,1 | 5,4 | 6,3 | 7,1 | 7,3 | 4,9 | 4,2 | 3,7 | 2,0 | 1,0 | 0,9 |
| Denmark | 3,2 | 2,0 | 1,1 | 2,5 | 2,3 | 2,9 | 2,7 | 2,3 | 1,0 | -0,5 | -1,2 | -3,0 |
| Greece | 2,7 | 11,7 | 16,1 | 11,5 | 12,8 | 13,8 | 10,0 | 10,2 | 7,8 | 4,6 | 3,1 | 1,6 |
| Ireland | 12,1 | 10,6 | 2,2 | 2,3 | 2,4 | 2,3 | 1,5 | 2,5 | 0,6 | -0,8 | -2,1 | -2,0 |
| Luxembourg | 0,5 | -6,5 | -4,8 | -1,9 | -0,7 | -1,6 | -2,7 | -2,2 | -2,7 | -3,6 | -3,2 | -2,4 |
| Netherlands | 4,2 | 3,6 | 5,1 | 2,9 | 3,9 | 3,2 | 3,8 | 4,2 | 1,8 | 1,2 | 0,8 | -0,5 |
| Portugal | 8,7 | 10,5 | 5,1 | 6,0 | 3,0 | 6,1 | 6,0 | 4,2 | 3,8 | 2,6 | 2,1 | 2,0 |
| Austria | 1,7 | 2,4 | 2,5 | 3,0 | 2,0 | 4,3 | 5,0 | 5,1 | 3,8 | 1,9 | 2,5 | 2,0 |
| Finland | -3,4 | -2,9 | -5,5 | 1,1 | 5,7 | 7,3 | 6,0 | 3,7 | 3,2 | 1,5 | -1,3 | -2,3 |
| Sweden | 4,0 | 3,8 | -4,2 | 1,1 | 7,7 | 12,2 | 10,3 | 7,9 | 3,4 | 2,0 | -1,9 | -1,9 |
| °°°°°°°°° | | | | | | | | | | | | |
| Averages (3) | | | | | | | | | | | | |
| EU including Italy | 3,4 | 4,5 | 3,6 | 4,3 | 5,2 | 6,2 | 5,5 | 5,1 | 4,2 | 2,4 | 1,5 | 0,6 |
| Euro-area including Italy | 3,4 | 4,8 | 4,2 | 4,6 | 4,7 | 5,6 | 5,1 | 4,9 | 4,2 | 2,6 | 2,0 | 1,2 |
| EU excluding Italy | 2,7 | 3,1 | 2,1 | 3,1 | 4,3 | 5,6 | 4,9 | 4,8 | 3,7 | 2,4 | 1,3 | 0,4 |
| Euro-area excluding Italy | 2,4 | 2,9 | 2,4 | 3,1 | 3,5 | 4,7 | 4,2 | 4,4 | 3,6 | 2,5 | 1,9 | 1,0 |
| France, Germany and the UK | 2,1 | 2,2 | 1,8 | 2,8 | 4,1 | 5,3 | 4,5 | 4,5 | 3,8 | 2,6 | 1,4 | 0,6 |

Sources: Based on Istat data for Italy and EU Commission data for the other countries. The data were compiled on the basis of ESA79 until 1994 and ESA95 from 1995 onwards.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995.
(2) Western regions until 1990.
(3) Weighted on the basis of GDP.

## GENERAL GOVERNMENT NET BORROWING (+) OR NET LENDING (-) EXCLUDING INTEREST PAYMENTS

Table 2

*(as a percentage of GDP)*

| | 1980 | 1985 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Italy (1) | 3,2 | 4,5 | 1,7 | -0,1 | -1,9 | -2,6 | -1,8 | -3,9 | -4,4 | -6,7 | -5,3 | -4,9 |
| France | -1,5 | 0,0 | -1,4 | -0,9 | 0,7 | 2,4 | 2,2 | 1,8 | 0,2 | -0,7 | -0,9 | -1,6 |
| Germany (2) | 1,0 | -1,9 | -0,6 | 0,6 | -0,4 | 0,2 | -0,7 | -0,4 | -0,3 | -1,0 | -1,9 | -2,5 |
| United Kingdom | -1,3 | -2,1 | -2,3 | -0,4 | 3,5 | 5,0 | 3,5 | 2,1 | 0,7 | -1,7 | -3,9 | -4,1 |
| Spain | 1,9 | 4,4 | 0,3 | 0,6 | -0,3 | 1,7 | 1,5 | 1,7 | -0,4 | -1,6 | -1,8 | -2,5 |
| Belgium | 2,7 | -1,4 | -5,1 | -3,9 | -3,8 | -3,6 | -5,3 | -4,9 | -5,0 | -5,9 | -6,6 | -6,3 |
| Denmark | -0,7 | -7,7 | -6,5 | -5,0 | -4,6 | -4,6 | -4,3 | -4,1 | -5,1 | -6,2 | -6,5 | -7,7 |
| Greece | 0,7 | 6,8 | 6,0 | 2,1 | 1,1 | 1,0 | -4,1 | -1,0 | -2,8 | -3,7 | -4,7 | -5,8 |
| Ireland | 5,8 | 0,9 | -5,3 | -5,0 | -4,3 | -4,0 | -4,0 | -3,1 | -4,1 | -5,1 | -5,6 | -4,6 |
| Luxembourg | -0,8 | -7,5 | -5,3 | -2,2 | -1,1 | -2,0 | -3,1 | -2,6 | -3,0 | -3,9 | -3,6 | -2,8 |
| Netherlands | 0,4 | -2,7 | -0,9 | -3,3 | -2,4 | -3,0 | -2,1 | -1,7 | -3,8 | -3,9 | -4,1 | -5,0 |
| Portugal | 6,0 | 2,8 | -3,0 | -1,8 | -4,3 | -0,1 | -0,2 | -2,1 | -1,6 | -1,7 | -1,5 | -1,4 |
| Austria | -0,8 | -1,1 | -1,6 | -1,2 | -2,3 | -0,1 | 0,9 | 0,7 | -0,4 | -2,0 | -1,3 | -1,6 |
| Finland | -4,4 | -4,7 | -7,0 | -0,9 | 3,0 | 2,7 | 0,9 | -0,3 | -1,1 | -2,7 | -5,0 | -5,8 |
| Sweden | -0,1 | -4,5 | -9,1 | -4,0 | 2,4 | 6,1 | 3,5 | 0,8 | -3,7 | -4,8 | -8,0 | -7,4 |
| °°°°°°°°° | | | | | | | | | | | | |
| Averages (3) | | | | | | | | | | | | |
| EU including Italy | 0,4 | -0,3 | -1,3 | -0,6 | -0,1 | 0,8 | 0,2 | -0,3 | -1,3 | -2,5 | -3,1 | -3,5 |
| Euro-area including Italy | 0,8 | 0,4 | -0,7 | -0,4 | -0,8 | 0,0 | -0,3 | -0,6 | -1,4 | -2,5 | -2,7 | -3,1 |
| EU excluding Italy | 0,0 | -1,2 | -1,8 | -0,7 | 0,2 | 1,3 | 0,5 | 0,3 | -0,8 | -1,9 | -2,8 | -3,3 |
| Euro-area excluding Italy | 0,3 | -0,7 | -1,3 | -0,5 | -0,5 | 0,6 | 0,0 | 0,1 | -0,8 | -1,6 | -2,1 | -2,7 |
| France, Germany and the UK | -0,5 | -1,3 | -1,3 | -0,1 | 0,9 | 2,0 | 1,1 | 0,8 | 0,1 | -1,1 | -2,2 | -2,7 |

Sources: Based on Istat data for Italy and EU Commission data for the other countries. The data were compiled on the basis of ESA79 until 1994 and ESA95 from 1995 onwards.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995.
(2) Western regions until 1990.
(3) Weighted on the basis of GDP.

## GENERAL GOVERNMENT INVESTMENT

*(as a percentage of GDP)*

Table 3

| | 1980 | 1985 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Italy (1) | 3,2 | 3,7 | 3,3 | 3,3 | 3,0 | 2,6 | 2,3 | 2,1 | 2,2 | 2,2 | 2,4 | 2,6 |
| France | 3,4 | 3,2 | 3,6 | 3,5 | 3,5 | 3,2 | 3,2 | 3,3 | 3,2 | 3,0 | 2,9 | 2,9 |
| Germany (2) | 3,6 | 2,4 | 2,3 | 2,6 | 2,8 | 2,7 | 2,6 | 2,3 | 2,1 | 1,9 | 1,8 | 1,8 |
| United Kingdom | 2,5 | 2,1 | 2,6 | 2,4 | 2,3 | 2,1 | 2,0 | 2,0 | 1,5 | 1,2 | 1,3 | 1,2 |
| Spain | 1,9 | 3,7 | 4,9 | 4,8 | 4,0 | 4,2 | 4,0 | 3,7 | 3,1 | 3,1 | 3,2 | 3,3 |
| Belgium | 4,4 | 2,6 | 1,3 | 1,4 | 1,5 | 1,6 | 1,7 | 1,8 | 1,6 | 1,6 | 1,6 | 1,7 |
| Denmark | 3,3 | 2,1 | 1,6 | 1,5 | 2,0 | 1,9 | 1,8 | 1,8 | 2,0 | 1,9 | 1,7 | 1,5 |
| Greece | 2,1 | 3,7 | 2,8 | 3,1 | 3,5 | 3,3 | 3,1 | 3,2 | 3,2 | 3,5 | 3,7 | 4,2 |
| Ireland | 5,6 | 3,8 | 2,0 | 2,1 | 2,0 | 2,1 | 2,3 | 2,3 | 2,3 | 2,5 | 2,7 | 3,1 |
| Luxembourg | 6,7 | 4,2 | 4,5 | 4,7 | 5,2 | 5,2 | 4,3 | 4,6 | 4,7 | 4,2 | 4,6 | 4,9 |
| Netherlands | 3,3 | 2,3 | 2,0 | 2,2 | 2,1 | 2,1 | 2,1 | 3,0 | 3,1 | 2,9 | 2,8 | 3,1 |
| Portugal | 4,3 | 3,3 | 3,3 | 3,4 | 3,8 | 4,0 | 3,6 | 3,8 | 4,2 | 4,4 | 4,4 | 4,6 |
| Austria | 4,3 | 3,6 | 3,2 | 3,3 | 3,3 | 3,3 | 3,3 | 2,9 | 2,8 | 1,9 | 1,9 | 1,8 |
| Finland | 3,8 | 3,7 | 4,0 | 4,1 | 3,8 | 3,1 | 3,2 | 2,8 | 2,9 | 3,2 | 2,9 | 2,8 |
| Sweden | 4,2 | 3,1 | 2,4 | 2,3 | 2,7 | 1,1 | 3,0 | 3,4 | 3,0 | 2,6 | 2,7 | 2,8 |
| °°°°°°°°° | | | | | | | | | | | | |
| Averages (3) | | | | | | | | | | | | |
| EU including Italy | 3,3 | 2,9 | 3,0 | 3,0 | 3,0 | 2,7 | 2,7 | 2,6 | 2,5 | 2,2 | 2,2 | 2,3 |
| Euro-area including Italy | 3,4 | 3,1 | 3,1 | 3,2 | 3,1 | 2,9 | 2,8 | 2,7 | 2,6 | 2,4 | 2,4 | 2,5 |
| EU excluding Italy | 3,3 | 2,7 | 2,9 | 2,9 | 2,9 | 2,8 | 2,7 | 2,7 | 2,5 | 2,3 | 2,2 | 2,2 |
| Euro-area excluding Italy | 3,4 | 2,9 | 3,0 | 3,1 | 3,1 | 3,0 | 2,9 | 2,8 | 2,7 | 2,5 | 2,4 | 2,5 |
| 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 | 2,0 |

Sources: Based on Istat data for Italy and EU Commission data for the other countries. The data were compiled on the basis of ESA79 until 1994 and ESA95 from 1995 onwards, except for those for the United Kingdom, which adopted ESA95 in 1989.

(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995.

(2) Western regions until 1990.

(3) Weighted on the basis of GDP.

Table 4

**GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE**

*(as a percentage of GDP)*

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Direct taxes | 14,3 | 14,4 | 14,5 | 14,7 | 16,2 | 14,9 | 14,7 | 15,3 | 16,1 | 14,4 | 15,1 |
| Indirect taxes | 10,4 | 10,6 | 11,1 | 11,2 | 12,0 | 11,7 | 12,1 | 11,8 | 12,5 | 15,4 | 15,3 |
| **Current taxes** | **24,7** | **25,1** | **25,6** | **25,9** | **28,2** | **26,7** | **26,8** | **27,1** | **28,5** | **29,8** | **30,4** |
| Social security contributions | 14,1 | 14,5 | 14,7 | 15,0 | 15,5 | 14,9 | 14,7 | 15,0 | 15,4 | 12,9 | 12,8 |
| **Current taxes and social security contributions** | **38,8** | **39,5** | **40,4** | **41,0** | **43,7** | **41,6** | **41,6** | **42,2** | **43,9** | **42,7** | **43,2** |
| Capital taxes | 0,2 | 0,1 | 0,2 | 2,0 | 0,7 | 0,1 | 0,6 | 0,3 | 0,7 | 0,4 | 0,1 |
| **Total taxes and social security contributions** | **39,0** | **39,6** | **40,6** | **43,0** | **44,4** | **41,7** | **42,2** | **42,5** | **44,6** | **43,0** | **43,3** |

Source: Based on Istat data. Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical double line. Rounding may cause discrepancies.

Table 5

**GENERAL GOVERNMENT EXPENDITURE**

*(as a percentage of GDP)*

| | 1989 | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Compensation of employees | 11,9 | 12,7 | 12,7 | 12,7 | 12,5 | 12,0 | 11,2 | 11,5 | 11,6 | 10,7 | 10,7 |
| Intermediate consumption | 4,9 | 4,8 | 4,9 | 5,0 | 5,2 | 5,0 | 6,8 | 6,8 | 6,8 | 6,9 | 7,1 |
| Social services | 17,6 | 18,2 | 18,3 | 19,3 | 19,5 | 19,5 | 16,7 | 16,9 | 17,3 | 17,0 | 17,4 |
| Interest payments | 8,8 | 9,5 | 10,2 | 11,5 | 12,1 | 11,0 | 11,5 | 11,5 | 9,4 | 8,1 | 6,8 |
| Other current expenditure | 3,5 | 3,0 | 3,1 | 2,9 | 3,6 | 3,2 | 2,3 | 2,5 | 2,2 | 2,9 | 2,9 |
| **Total current expenditure** | **46,7** | **48,2** | **49,2** | **51,4** | **52,9** | **50,7** | **48,5** | **49,1** | **47,3** | **45,6** | **44,9** |
| *Excluding interest payments* | *38,0* | *38,8* | *39,1* | *39,9* | *40,8* | *39,7* | *37,0* | *37,6* | *37,9* | *37,5* | *38,1* |
| Investment | 3,3 | 3,3 | 3,3 | 3,0 | 2,6 | 2,3 | 2,1 | 2,2 | 2,2 | 2,4 | 2,6 |
| Other capital expenditure | 1,8 | 2,3 | 1,5 | 1,6 | 2,3 | 1,8 | 2,5 | 1,6 | 1,3 | 1,4 | 1,4 |
| **Total expenditure** | **51,8** | **53,8** | **53,9** | **56,1** | **57,8** | **54,9** | **53,2** | **52,9** | **50,9** | **49,4** | **48,8** |
| *Excluding interest payments* | *43,1* | *44,3* | *43,7* | *44,6* | *45,7* | *43,9* | *41,6* | *41,4* | *41,5* | *41,3* | *42,0* |

Source: Based on Istat data. Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical double line. Rounding may cause discrepancies.

Table 6

## MAIN INDICATORS OF LOCAL GOVERNMENT FINANCES (1)

*(as a percentage of GDP)*

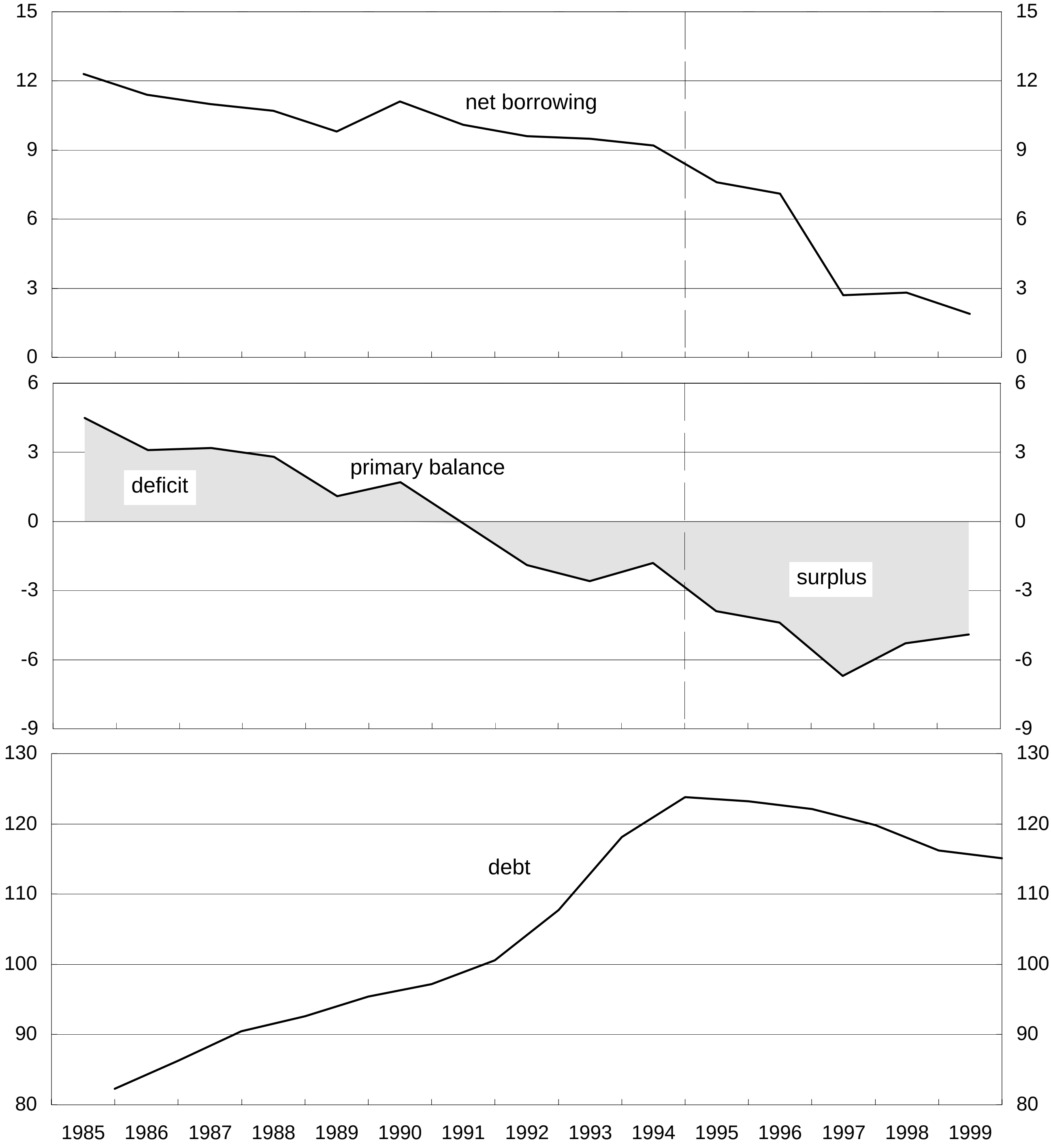
| | 1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total revenue** | 13,7 | 14,5 | 14,6 | 14,0 | 13,8 | 13,1 | 12,7 | 13,3 | 13,5 | 13,3 |
| **Total expenditure** | 15,0 | 15,1 | 14,7 | 14,4 | 14,2 | 13,1 | 13,1 | 13,4 | 13,3 | 13,6 |
| **Net borrowing** | 1,3 | 0,6 | 0,1 | 0,3 | 0,3 | 0,0 | 0,4 | 0,2 | -0,1 | 0,2 |
| **Primary balance** | 0,7 | -0,1 | -0,5 | -0,3 | -0,3 | -0,5 | -0,1 | -0,3 | -0,6 | -0,2 |
| **Borrowing requirement (2)** | 0,3 | 1,0 | 0,2 | 0,8 | 0,0 | 0,1 | 0,1 | 0,3 | 0,0 | 0,7 |
| **Debt (2)** | 3,0 | 3,7 | 3,8 | 4,5 | 4,2 | 4,0 | 3,9 | 4,1 | 3,8 | 4,5 |

(1) The series for the consolidated local government accounts based on ESA95 are available from 1996. The ratio to GDP for these series was calculated on the basis of the ESA79 value of GDP until 1995 and the ESA95 value from 1996. The break is marked by a vertical double line. The borrowing requirement and debt ratios do not show a break; they were calculated on the basis of the ESA95 value of GDP for the whole period.

(2) The data refer only to liabilities to non-general-government entities.

Figure 1

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

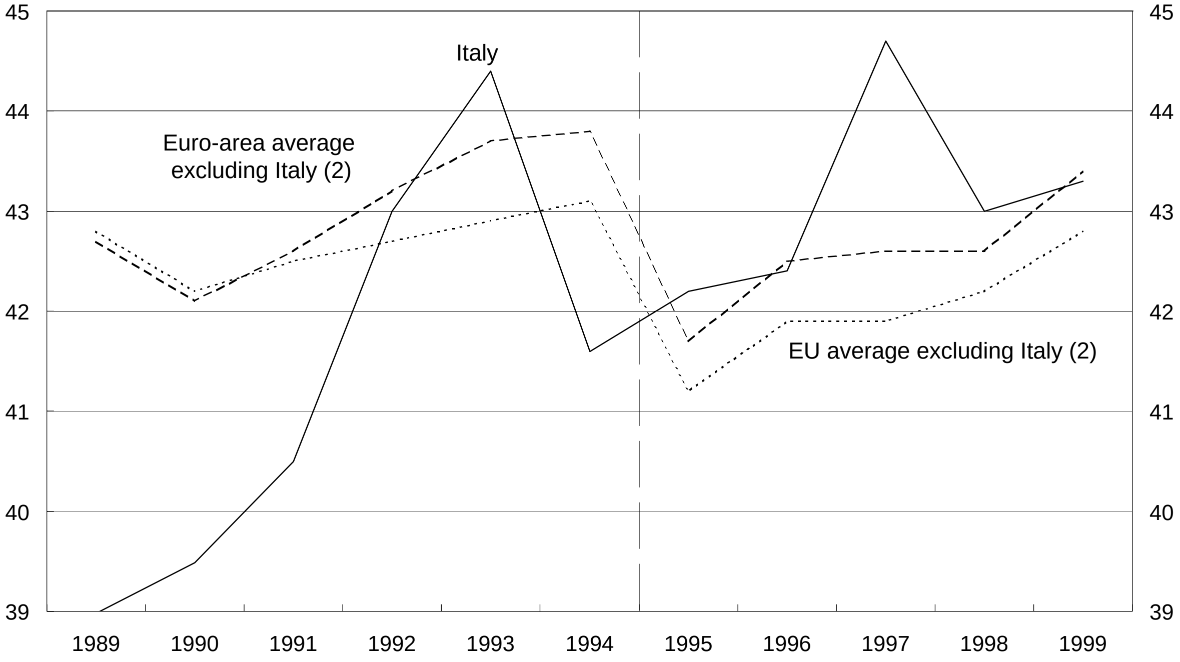



Sources: Based on Istat data and Bank of Italy data for the debt.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. There is no corresponding discontinuity in the debt series. A minus sign indicates a surplus.

**Figure 2**

**FISCAL REVENUE (1)**

*(as a percentage of GDP)*

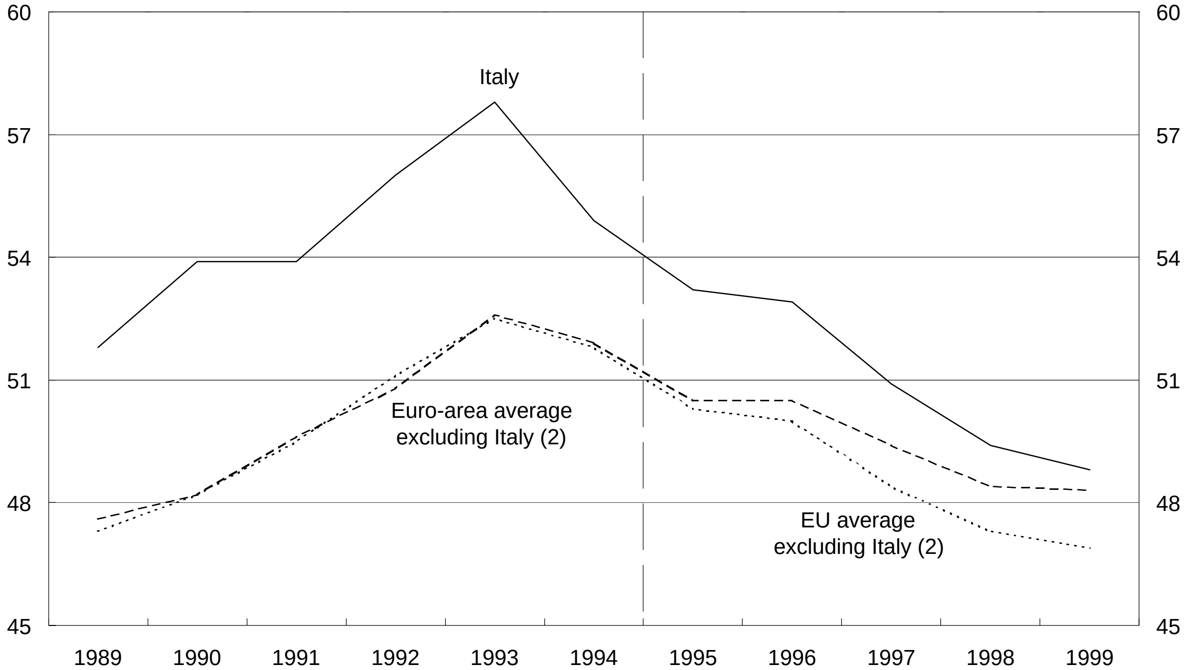



Sources: Based on Istat and EU Commission data.
(1) Includes imputed social contributions and capital taxes. Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. - (2) Weighted on the basis of GDP.

**Figure 3**

**GENERAL GOVERNMENT EXPENDITURE (1)**

*(as a percentage of GDP)*

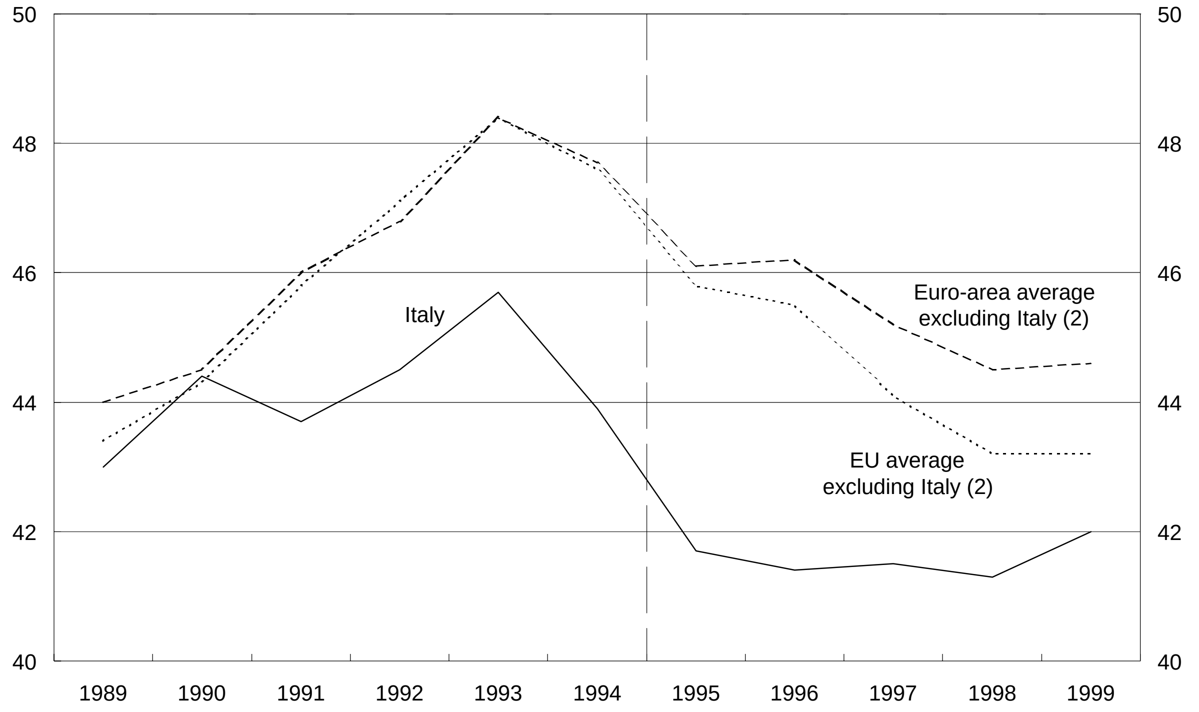



Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. - (2) Weighted on the basis of GDP.

Figure 4

**GENERAL GOVERNMENT EXPENDITURE EXCLUDING INTEREST PAYMENTS (1)**

*(as a percentage of GDP)*

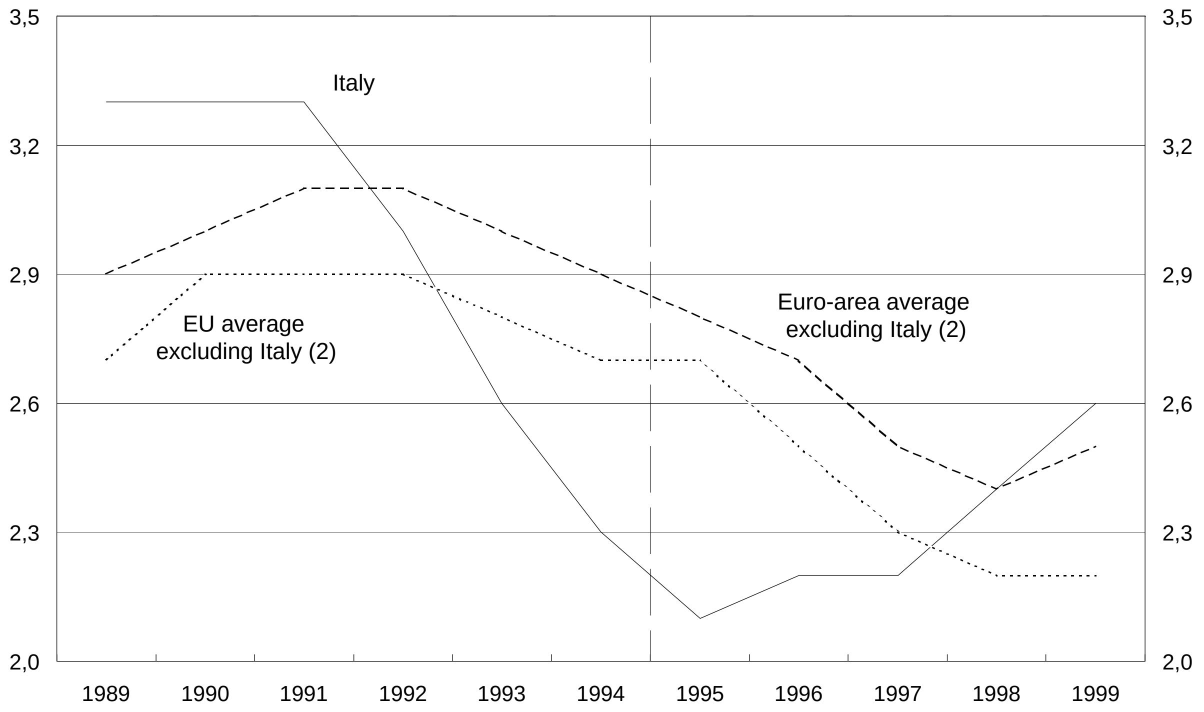



Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. - (2) Weighted on the basis of GDP.

Figure 5

**GENERAL GOVERNMENT INVESTMENT (1)**

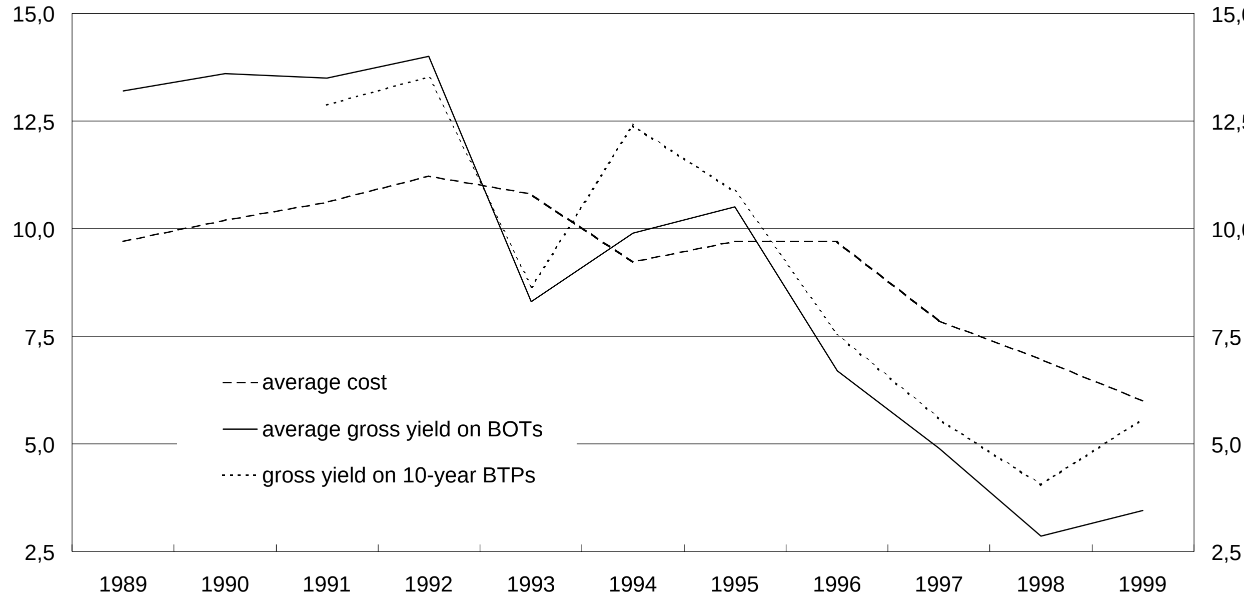
*(as a percentage of GDP)*




Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995, which is marked by a vertical dotted line. - (2) Weighted on the basis of GDP.

**Figure 6**

## AVERAGE COST OF THE PUBLIC DEBT, AVERAGE GROSS YIELD ON BOTs AND GROSS YIELD ON 10-YEAR BTPs (1)

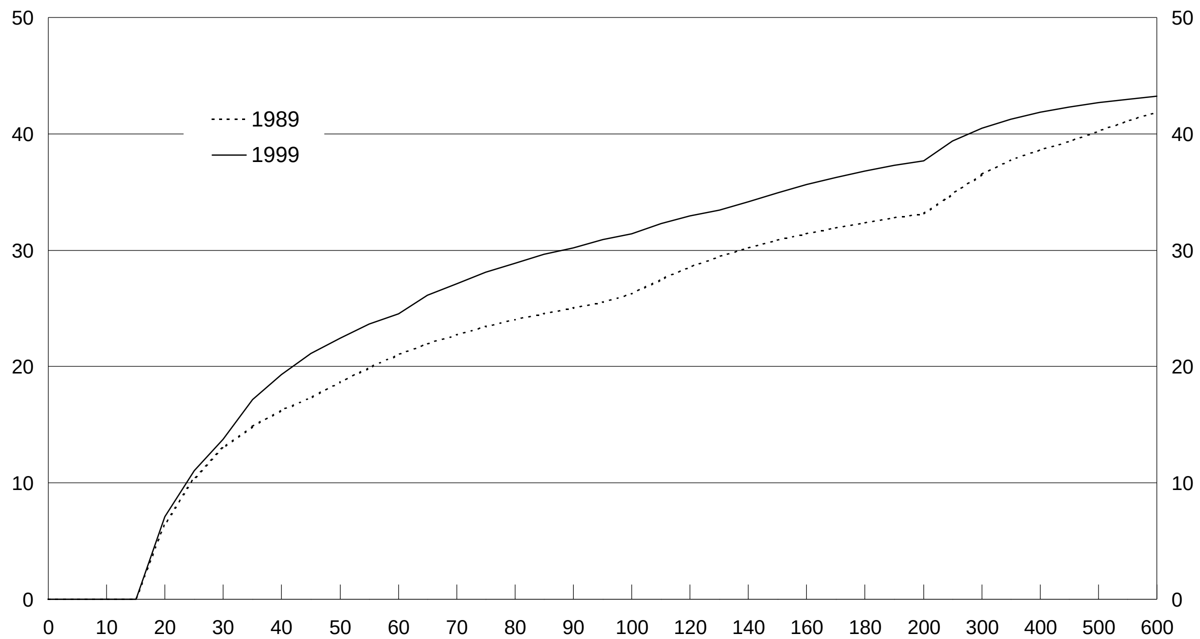



(1) Following the switch to ESA95, there is a break between 1994 and 1995 in the series for interest payments used to calculate the average cost of the public debt.

**Figure 7**

## AVERAGE PERSONAL INCOME TAX RATES IN 1989 AND 1999 (1)

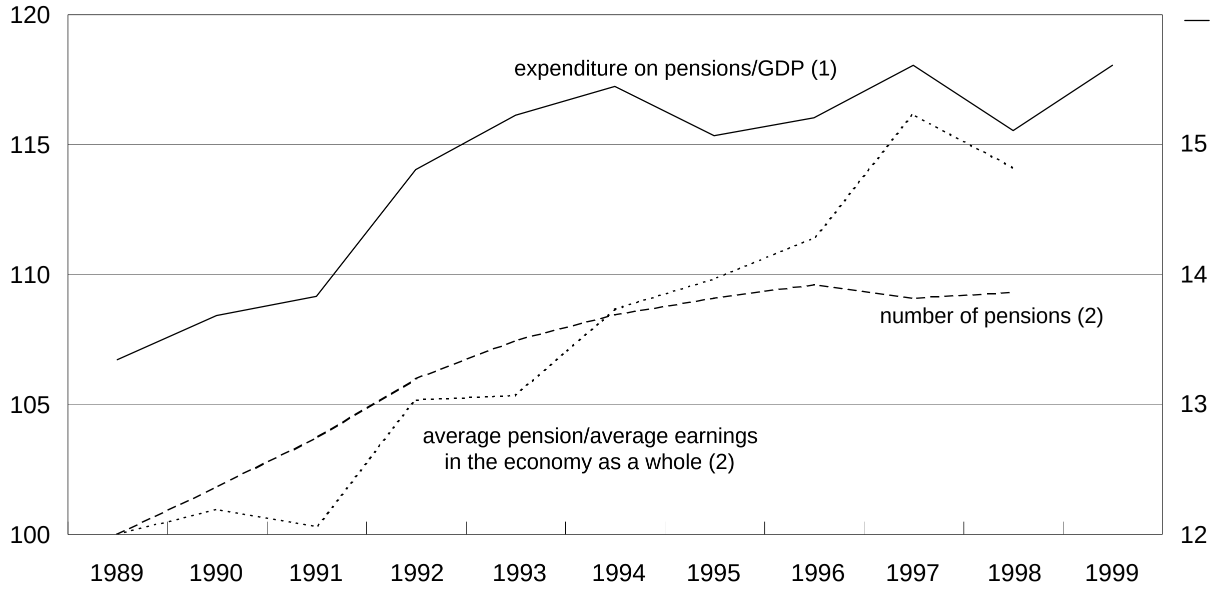
*(employee with spouse and two dependent children)*




(1) Taxable income in 1999 is shown in millions of lire on the x-axis; the average tax rate is shown on the y-axis. The taxable income corresponding to the curve of average tax rates in 1989 has been revalued on the basis of the increase in prices over the decade 1989-99 (56.4 per cent).

**Figure 8**

## EXPENDITURE ON PENSIONS




Source: Based on Istat data.
(1) Percentages. Right-hand scale. - (2) Index: 1989=100. Left-hand scale.