Joint Session of the Special Committees of the Senate of the Republic
and of the Chamber of Deputies for the examination of government measures

Preliminary hearing on the 2018 Economic and Financial Document

Testimony of the Deputy Governor of the Bank of Italy

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Chamber of Deputies

Rome, 9 May 2018

Mr President, Honourable Members of Parliament,

I would like to thank the Special Committees tasked with examining government acts for inviting the Banca d'Italia to give testimony regarding the 2018 Economic and Financial Document (DEF). This year, the DEF presented by the Government includes a current-legislation scenario for the macroeconomic outlook and for the public finances, but it does not contain a policy scenario. First, I shall focus on the current-legislation trends set out by the DEF. I shall then return to observations I have made on other occasions in recent years and discuss the developments in and the outlook for public debt.

1. The macroeconomic outlook

Italy's economic situation continues to benefit from the favourable international climate, the very accommodative monetary policy stance and the generally relaxed financial conditions. Italy's GDP increased by 1.6 per cent in 2017 and continued to grow in the first quarter of 2018 at a similar pace to the average growth rate recorded in the second half of last year, thanks above all to the positive performance of services.

In the early months of this year there were some signs of a slowdown in manufacturing: industrial production fell in January and February, wiping out December's increase and returning close to the figures recorded at the beginning of the autumn; business confidence indicators no longer seem to be on the increase, though they remain close to the highest levels for ten years. Purchasing managers' indices have also fallen recently across all sectors, however they remain consistent with a phase of modest economic expansion.

The weak performance of manufacturing might be temporary: our estimates, which use the latest electricity consumption and transport flow data, suggest a partial recovery in industrial production in March; there are similar indications in Confindustria's forecasts. Business surveys show that firms continue to judge investment conditions as positive. In the labour market – following a slight pause at the end of 2017 – employment returned to growth, especially youth employment.

The Banca d'Italia's Economic Bulletin published in January predicted an increase in GDP of 1.4 per cent this year and of 1.2 per cent in 2019 and in 2020.[1] We believe that this is still the most probable scenario; however, the risk of lower growth has increased, including in relation to the recent performance of the economy and the developments in international relations, as the DEF also points out. The latest economic indicators have been largely disappointing in most of the main countries. The introduction of tariffs on some US imports is fuelling fears of a generalised intensification in protectionist stances. The uncertain outlook for world trade could be transmitted to the financial markets and to household and business confidence and discourage investment and consumption: this could adversely affect Italy, which has a highly export-oriented production structure.

The DEF's macroeconomic outlook foresees a growth in GDP of 1.5 per cent this year and a slight slowdown over the next two years. For 2018 these estimates are in line with those of the leading forecasters. For the next two years the official forecasts are close to the upper limit of the range of estimates currently available.

2. The public finances in 2017 and the projections for 2018-2021

The public finances in 2017. – In 2017 net borrowing declined from 2.5 to 2.3 per cent of GDP; net of the one-off effects of measures to support the banking system, the deficit would have improved by around half a percentage point. The primary surplus remained steady at 1.5 per cent of GDP, while interest expense decreased from 4.0 to 3.8 per cent, the lowest figure in the last 40 years.

Both total revenue and primary expenditure fell by 0.3 percentage points of GDP. In nominal terms, revenue increased by 1.5 per cent, thanks above all to the good performance of indirect taxes and social security contributions (2.8 and 2.5 per cent respectively); direct tax revenue grew more slowly (0.9 per cent).

The increase in indirect taxes mirrors that in VAT revenues, which appear to have benefited from the growth in consumption and from the measures to combat tax evasion and avoidance introduced in 2017. The rise in social security contributions reflects the trend in private sector employment, as well as that of proceeds linked to the settlement of tax claims. The growth in direct taxes was boosted by income tax (Irpef) revenues; corporate tax (Ires) receipts have

[1] Estimates were based on quarterly data adjusted for calendar effects. Excluding this adjustment, GDP growth is expected to be 1.5 per cent in both 2017 and 2018, 1.2 per cent in 2019 and 1.3 per cent in 2020.

remained essentially stable: on account of the tax payment mechanisms, the lower tax rate enacted by the 2016 Stability Law (down from 27.5 to 24.0 per cent) seems to have had a limited effect on the revenues for 2017.

The decline in government investment, which has been going on since 2010, continued (-5.6 per cent), and its ratio to GDP was 2.0 per cent, one of the lowest figures for the euro area. Primary current expenditure continued to grow at a very modest pace, well below GDP (0.4 per cent).

The growth rate for primary current expenditure was equal on average to 1.6 per cent per year over the last ten years (against an average rate of 4.2 per cent for the ten years 1998-2007). Specifically, in the last four years primary current expenditure increased on average to a rate of below 1.0 per cent; in real terms it remained essentially stable.

Interest expense fell for the fifth year running (-€0.8 billion): the effect of the increase in debt was more than offset by that of the reduction of the average interest rate, which continued to benefit from the low cost of new issues of securities, the return on which is about two points lower than the average cost of the existing debt.

The debt-to-GDP ratio fell by 0.2 per cent, reaching 131.8 per cent at the end of the year. Having increased considerably since the onset of the crisis, it has stabilised over the last three years, though it remains very high compared with the other main euro-area countries.

The current-legislation projections for 2018-2021. – For the three-year period 2018-2020, the current-legislation projections in the DEF essentially confirm the policy scenario set out in last September's Update note to the DEF.

In 2018 general government net borrowing is expected to decline from 2.3 to 1.6 per cent of GDP, a figure in line with the objective indicated in the autumn. The improvement will stem from a further reduction in interest expense (from 3.8 to 3.5 per cent of GDP), and from the expansion of the primary surplus from 1.5 to 1.9 per cent of GDP.

The European Commission's forecasts released in early May point to a slightly higher net borrowing (1.7 per cent of GDP) despite similar forecasts for GDP growth.

In the coming years, interest expense is expected to remain constant at 3.5 per cent of GDP. The budget balance should steadily improve, reflecting growth in the primary surplus which is expected to increase from 2.7 per cent in 2019 to 3.7 per cent in 2021. In two years the budget should be balanced; a slight surplus is expected in 2021.

The indirect tax increases provided for under current legislation (the so-called 'safeguard clauses') significantly contribute to the increase in the primary surplus: 0.7 per cent of GDP in 2019 and 1 percentage point starting in 2020. Barring legislative changes, as of January 2019 the intermediate VAT rate will increase from 10 per cent to 11.5 per cent while the regular VAT rate will rise from 22 to 24.2 per cent. The former will reach 13 per cent in 2020, while the latter will go up to 24.9 per cent in 2020 and 25 per cent in 2021.

The increase in the Government's primary surplus estimates is partly due to the expectation that spending will grow at a markedly lower pace than GDP, as has been the case in recent years. In line with the current-legislation scenario (instead of on an unchanged-policies basis), the forecast only accounts for the effects of the laws currently in force; for example, it does not include the cost of renewing public-sector employment contracts.

Between 2018 and 2021 the ratio of current primary expenditure to GDP is expected to fall by almost 2 points, from 41.2 to 39.5 per cent, largely on account of the performance of both compensation of employees (which, under the current-legislation scenario, does not include the effects of the new round of contract renewals for the period 2019-21) and social benefits as a whole (in kind and in cash). The capital expenditure to GDP ratio is expected to remain substantially stable until 2019, and then narrow slightly in the two years 2020-21.

The tax revenue to GDP ratio is expected to narrow moderately, from 46.4 in 2018 to 46.2 per cent in 2021. The increase in indirect taxes envisioned under the safeguard clauses should offset the decrease in other tax revenues: the ratio of indirect taxes to GDP should fall in 2019, partly on account of the effects of certain measures, including the introduction of the optional tax for sole proprietorships and partnerships in the ordinary accounting regime (corporate income tax, IRI). The ratio of social benefits to GDP, after increasing by 0.2 points in 2018, should substantially return to the level recorded in 2017 by the end of the forecast period.

The debt-to-GDP ratio is expected to fall markedly. In 2018 it should fall by 1 point to 130.8 per cent. In the following years the decrease should accelerate, reaching almost 3 points of GDP per year on average. At the end of 2021 the debt-to-GDP ratio is expected to stand at 122 per cent.

3. The public debt

The ratio of Italian public debt-to-GDP is high by international and historical comparison. In the euro area, it is second only to Greece. It is 68, 35 and 34 percentage points higher than Germany, France and Spain respectively and 51 points higher than the average for the rest of the euro area.

Between 2007 and 2014 Italian public debt increased by about 30 percentage points of GDP, largely on account of the deep double-dip recession in that period.[2] However, even before the crisis Italian debt-to-GDP ratio was quite high: in 2007 it neared 100 per cent, 42 percentage points above the average for the rest of the euro area.

Even if fundamentally solvent, heavily indebted countries are nonetheless exposed to the risk of liquidity crises. Given the large volume of securities that are regularly placed on the market (in the order of €400 billion per year in Italy), fluctuations in investor confidence could translate into significant variations in financing costs. Just recall the most difficult moments of the euro crisis: the yield spread between Italian 10-year government bonds and the corresponding German Bund, which in the first semester of 2011 still averaged 160 basis points, rose to nearly 500 points on average in the last two months of that year.

Moreover, in the event of a significant worsening of the economic cycle, fiscal space for macroeconomic stabilization policies remains very limited. This is not merely a theoretical concern: we experienced it all too well in that same cycle when, to prevent a rapid increase in Italian sovereign spreads from triggering a potentially destabilizing vicious circle, together with the ECB's monetary policy measures, inevitably a restrictive domestic budgetary policy had to be adopted at a time of adverse economic developments.

Over a longer horizon, the sustainability of Italy's public debt largely hinges on the pension reforms introduced over the last few decades, which ensure a manageable increase in outlays overall notwithstanding the ageing population. It is one of the strengths of Italy's public finances and it should not be weakened , also in light of the fact that the latest projections are now less favourable than in the past. The DEF contains estimates on the future trend of pension expenditure as a ratio of GDP which incorporate the most recent macroeconomic and demographic scenarios agreed upon at European level.

The new estimates were negatively affected by changes in the denominator: indeed, the annual average GDP growth is estimated at about 0.7 per cent between 2016 and 2060, while it was nearly double that rate in the preceding

[2] See I. Visco, *The Governor's Concluding Remarks, Annual Report*, 31 May 2017; *Sviluppo dell'economia e stabilità finanziaria: il vincolo del debito pubblico*, address by Governor Ignazio Visco at the 63rd Conference on Government Studies, Varenna, 21 September 2017 (only in Italian).

scenario. The slower GDP growth rate primarily reflects worsening demographic projections resulting from a downward revision in the size of net migration flows (down from around 300,000 to less than 200,000 per year). The ratio of pension expenditure to GDP, which under the preceding scenario remained largely unchanged at current levels, is now expected to grow until about 2040 when it will be about 3 percentage points higher than it is today; this increase is expected to be reabsorbed by 2060.

The non-pension age-related component of public expenditure should increase slightly and gradually (in 2060 its share of GDP should be about 1 point higher than it is today); this trend is similar to that already forecast in last year's DEF.

The credible positioning of public debt along a path of durable and visible reduction is an objective that I believe is widely shared. This is the right time for two reasons: the economic climate is favourable and financial conditions continue to be relaxed.

It could be useful briefly to discuss the underlying mechanisms that govern the changes in the ratio of debt to GDP over time. The three main factors are: the spread between the average cost of debt and the nominal growth rate of the economy; the size of the primary balance; and the proceeds from the sale of assets.

The spread between average cost of the debt and growth. – The debt-to-GDP ratio has an inertial component: the ratio tends to increase because of interest expense relating to the stock of debt accumulated in the past, which depends on the average cost of the debt, and to fall if the nominal GDP growth rate is higher.

The spread between the average cost of the debt and the growth rate of the economy, after having reached a very high level during the crisis, has fallen to around 1 per cent in the last three years, nearly in line with the average of the preceding decade. Today, thanks to the still low yields at issue and strengthening growth, the trend is becoming more favourable. The debt's long average residual maturity, which exceeds 7 years, mitigates the effects on the average cost of possible increases in yields at issue, at least in the short to medium term. According to the estimates in the DEF, the spread is expected to be negative both this year and in the following two years.

This estimate assumes a gradual increase in interest rates; it would therefore not be jeopardised by an orderly exit from the present regime of exceptional monetary policy accommodation. However, it is also based on the absence of significant tensions on the financial markets, something to which a big debtor nation like Italy is particularly

vulnerable. Even though the possibility of this risk materializing cannot be generally ruled out, perhaps for reasons relating to the international context, the start of a credible debt reduction process on the one hand minimises the probability of an idiosyncratic crisis triggered by concerns about Italy, while on the other, it mitigates the repercussions of tensions from abroad.

The primary balance. – The significant reduction in the debt is predicated on achieving and maintaining an ample primary surplus. A recent study by the European Commission,[3] which analyses 27 episodes of debt reduction in EU countries and other advanced economies between 1980 and 2016, reports that in these cases the primary surplus was around 3 per cent of GDP on average, usually being higher for countries starting from higher debt levels.

Under the current-legislation scenario presented in the DEF, the primary surplus rises gradually from 1.5 per cent last year to a projected 3.7 per cent in 2021 thanks to two factors: the favourable economic outlook and the improvement in the structural balance (around 1 percentage point of GDP). The latter, in turn, stems from a limited growth in primary expenditure and an increase in indirect taxation due to the activation of the 'safeguard clauses'.

Sale of assets. – The contribution of revenue from the sale of general government real estate or financial assets to the reduction in Italian public debt was significant between the late 1990s and the early 2000s, with revenue estimated at just under 1 percentage point of GDP on average per year.[4] Since then revenue from this source has fallen considerably, hovering around 0.2 per cent of GDP on average. Given the size and strategic importance of the portfolio of equity investments held by the State and the variety of entities that own publicly held real estate (mainly municipalities), it is likely that over the next few years the proceeds from the sale of assets will remain at the low levels observed in recent years.

To sum up, a significant reduction in the public debt over the medium term can be achieved with an adequate primary surplus: by reaching and maintaining the primary

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[3] *Debt Sustainability Monitor – 2017*, European Commission, 2018; in particular, see Box 2.3 'Past episodes of public debt reductions: stylised facts'.

[4] The estimate takes into account revenue from the sale of State shareholdings, real estate and mobile phone licenses.

surplus level assumed in the DEF under the current-legislation scenario at the end of the forecasting horizon (3.7 per cent of GDP), while assuming an annual GDP growth rate of 1 per cent, inflation at 2 per cent (consistent with the ECB's target), and an average cost of the debt gradually rising to the levels observed prior to the crisis, the debt-to-GDP ratio would need about 10 years to return to 100 per cent.[5]

4. A budget restructuring conducive to growth

It is useful to consider, without prejudice to the adjustment of the public accounts, the options for restructuring the public budget so as to enhance growth which is also critical for reducing the debt ratio. It should not be forgotten that reducing the debt-to-GDP ratio also hinges on the denominator.

Public investment, which has been in steep decline since 2010, can play a central role in the growth prospects and therefore should be based on rigorous cost-benefit analysis and implemented with an eye to reducing waste and delays. Additional sources of funding for such investment must be found, including the elimination of less important expenditure.

The recent inclusion of the spending review in the State budgetary process provides a tool for facilitating the reallocation of resources. This new instrument can be leveraged and strengthened, for example by extending a similar approach to other levels of general government. The spending review process should lead to a periodic reconsideration of the strategies pursued and of the costs incurred and, in this way, limit the recessionary effects that are usually associated with across-the-board cuts.

The approach based on monitoring and systematic review was recently extended to 'tax expenditure', that is, incentives that do not belong to the core elements of the tax system. Savings can also be achieved in this area.

The committee responsible for drafting the annual report on tax expenditure identified 466 tax expenditure items in 2017. Each of these was linked to a specific budget heading.

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[5] The Bank of Italy has made similar technical assessments in the past: see *The Governor's Concluding Remarks, Annual Report*, 31 May 2017; *Sviluppo dell'economia e stabilità finanziaria: il vincolo del debito pubblico*, address by Governor Ignazio Visco at the 63rd Conference on Government Studies, Varenna, 21 September 2017 (only in Italian); 'Preliminary hearing on the 2017 Update of the Economic and Financial Document', testimony of the Deputy Governor of the Bank of Italy, Luigi Federico Signorini before the Senate of the Italian Republic, Rome, 3 October 2017.

With regard to revenue, as international institutions have also noted, obtaining funds by raising taxes on the factors of production – capital and labour – has both a recessionary impact on the economy and longer-term adverse effects on the country's production capacity. By contrast, the literature suggests that raising ordinary taxes on property and consumption usually has relatively more limited effects on employment and, especially over the medium term, growth.

Fighting tax evasion is crucial. The non-negligible results achieved in the recent past could be bolstered with appropriate measures, drawing upon national and international best practices.

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Mr Chairman, Honourable Members of Parliament,

To reduce the public debt significantly, the primary surplus must be maintained at an adequate level for a sufficiently long period of time. To give an idea of the amounts involved, I noted that with a primary surplus in the order of 3-4 per cent of GDP, the debt should fall to 100 per cent of GDP in about ten years, based on certain assumptions concerning real growth, inflation and interest rates.

Italy achieved much higher primary surpluses, in the range of 4.5 per cent of GDP on average, between 1995 and 2000. These enabled our country to reduce its public debt by 12 percentage points despite less favourable financial conditions than at present. Other high-debt countries followed the same path.

Since 2013 the ratio of interest expenditure has fallen each year; it is now at a forty-year low. Even at the end of the current regime of high monetary policy accommodation, the process will continue for some time, if we do not lose the confidence of the markets. An important contribution comes not just from the still exceptionally low interest rates on issuances, but also from the narrow spread between the average cost of the debt and the nominal GDP growth rate.

Under a current-legislation scenario, according to the DEF forecasts, the primary surplus is expected to reach 3.7 per cent in 2021. This result assumes modest growth in primary expenditure and increases in VAT arising from the deactivation of the safeguard clauses.

If instead one wants to avoid or contain any VAT increase, while nonetheless making a visible and significant cut in the public debt, alternative ways must be found to raise revenue or lower spending. It just has to be borne in mind that the primary surplus, which should be

valued realistically ex ante and verified ex post, is still the compass that makes it possible to hold a firm course towards balancing the public finances.

This is what matters to investors.. If we now hesitate or take a step backwards, we will remain exposed to the risk of a crisis of confidence, which could make the entire process more difficult and costly. On the contrary, if there is an even more clearly shared mission to address the structural imbalances in the public finances, the spread could narrow even further, making our task easier. This is what happened in the second half of the 1990s.

The debt-to-GDP ratio can also be reduced by acting on the denominator at the same time, by stimulating growth. Any policy that achieves a non-transitory increase in the growth rate helps to reduce, in the future, the debt-to-GDP ratio. If we want to restructure the budget to enhance growth, it would be better, assuming revenues hold constant, to limit the direct pressure on income arising from the utilization of factors of production (labour and capital); on the expenditure side, we should continue to limit primary current spending, finding enough room for manoeuvre to boost public investment.

TABLES AND FIGURES

Table 1

Macroeconomic outlook in the most recent official documents

(percentage changes)

	Update to the 2017 DEF (1)				**2018 DEF** (2)				
	2017	2018	2019	2020	2017	2018	2019	2020	2021
Real GDP	**1.5**	**1.5**	**1.5**	**1.3**	**1.5**	**1.5**	**1.4**	**1.3**	**1.2**
Imports	*5.5*	*4.1*	*3.9*	*3.3*	*5.3*	*5.4*	*4.0*	*3.4*	*3.5*
Household consumption	*1.4*	*1.4*	*1.3*	*1.0*	*1.4*	*1.4*	*1.0*	*0.9*	*1.2*
General government expenditure	*1.0*	*0.1*	*0.7*	*0.5*	*0.1*	*0.5*	*0.1*	*0.4*	*0.6*
Investment	*3.1*	*3.3*	*3.0*	*2.3*	*3.8*	*4.1*	*2.8*	*2.4*	*1.7*
Exports	*4.8*	*3.6*	*3.7*	*3.7*	*5.4*	*5.2*	*4.2*	*3.9*	*3.2*
Nominal GDP	**2.1**	**3.1**	**3.4**	**3.4**	**2.1**	**2.9**	**3.2**	**3.1**	**2.7**
Consumption deflator	**1.5**	**1.4**	**2.1**	**2.5**	**1.2**	**1.1**	**2.2**	**2.0**	**1.5**
Employment (full-time equivalent)	**1.0**	**0.9**	**1.1**	**0.9**	**0.9**	**0.8**	**0.8**	**0.9**	**0.9**

(1) Policy scenario. — (2) Current-legislation scenario.

Table 2

Main balance sheet indicators for general government (1)

(per cent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	45.2	45.9	45.7	45.7	47.9	48.1	47.9	47.7	46.9	46.6
Expenditure (2)	47.8	51.2	49.9	49.4	50.8	51.1	50.9	50.3	49.3	48.9
of which: *interest expense*	*4.9*	*4.4*	*4.3*	*4.7*	*5.2*	*4.8*	*4.6*	*4.1*	*4.0*	*3.8*
Primary surplus (3)	2.3	-0.8	0.1	1.0	2.3	1.9	1.6	1.5	1.5	1.5
Net borrowing	**2.6**	**5.2**	**4.2**	**3.7**	**2.9**	**2.9**	**3.0**	**2.6**	**2.5**	**2.3**
Borrowing requirement	3.1	5.5	4.3	3.9	4.1	4.8	4.1	3.1	2.6	3.4
Borrowing requirement net of privatization receipts	3.1	5.6	4.3	4.0	4.6	4.9	4.3	3.4	2.6	3.4
Debt	**102.4**	**112.5**	**115.4**	**116.5**	**123.4**	**129.0**	**131.8**	**131.5**	**132.0**	**131.8**

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

Table 3

General government revenue (1)
(per cent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Direct taxes	14.7	14.1	14.1	13.9	14.9	15.0	14.7	14.7	14.8	14.6
Indirect taxes	13.6	13.4	14.0	14.1	15.3	14.9	15.3	15.1	14.5	14.6
Capital taxes	0.0	0.8	0.2	0.4	0.1	0.3	0.1	0.1	0.3	0.1
Tax revenue	**28.3**	**28.4**	**28.3**	**28.4**	**30.3**	**30.2**	**30.1**	**29.9**	**29.6**	**29.3**
Social security contributions	13.0	13.5	13.3	13.2	13.4	13.4	13.2	13.3	13.1	13.2
Tax burden	**41.3**	**41.8**	**41.6**	**41.6**	**43.6**	**43.6**	**43.3**	**43.2**	**42.7**	**42.5**
Production for the market and for own use	1.9	2.0	2.0	2.0	2.1	2.3	2.3	2.3	2.3	2.2
Other current revenue	1.8	1.9	1.9	1.8	1.8	1.9	2.0	1.9	1.9	1.8
Other capital revenue	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.1	0.2
Total revenue	**45.2**	**45.9**	**45.7**	**45.7**	**47.9**	**48.1**	**47.9**	**47.7**	**46.9**	**46.6**

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

Table 4

General government expenditure (1)
(per cent of GDP)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Compensation of employees	10.4	10.9	10.8	10.4	10.3	10.3	10.1	9.8	9.8	9.6
Intermediate consumption	5.1	5.4	5.4	5.3	5.4	5.6	5.5	5.4	5.5	5.5
Social benefits in kind	2.7	2.9	2.9	2.7	2.7	2.7	2.7	2.7	2.7	2.6
Social benefits in cash	17.0	18.5	18.6	18.6	19.3	19.9	20.2	20.1	20.0	19.9
Interest	4.9	4.4	4.3	4.7	5.2	4.8	4.6	4.1	4.0	3.8
Other current expenditure	3.4	3.7	3.7	3.7	3.9	4.1	4.2	4.0	4.1	3.6
Total current expenditure	**43.5**	**46.0**	**45.7**	**45.4**	**46.8**	**47.4**	**47.2**	**46.1**	**45.9**	**45.1**
of which: *expenditure net of interest payments*	*38.5*	*41.5*	*41.4*	*40.7*	*41.6*	*42.6*	*42.6*	*42.0*	*42.0*	*41.3*
Gross fixed capital formation	3.0	3.4	2.9	2.8	2.6	2.4	2.3	2.3	2.1	2.0
Other capital expenditure	1.4	1.8	1.2	1.2	1.4	1.2	1.4	1.9	1.3	1.9
Total capital expenditure	**4.4**	**5.2**	**4.2**	**4.0**	**4.0**	**3.6**	**3.7**	**4.2**	**3.4**	**3.8**
Total expenditure	**47.8**	**51.2**	**49.9**	**49.4**	**50.8**	**51.1**	**50.9**	**50.3**	**49.3**	**48.9**
of which: *expenditure net of interest payments*	*42.9*	*46.7*	*45.6*	*44.7*	*45.6*	*46.2*	*46.3*	*46.2*	*45.4*	*45.1*

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

Table 5

General government borrowing requirement

(billions of euros)

	Year			First 2 months		
	2015	2016	2017	2016	2017	2018
Borrowing requirement net of privatization receipts (a)	**57.0**	**44.1**	**58.8**	**5.3**	**6.9**	**4.2**
Privatization receipts (b)	6.6	0.9	0.1	0.0	0.0	0.0
Total borrowing requirement (c=a-b=d+e+f+g+h+i)	**50.4**	**43.2**	**58.7**	**5.3**	**6.9**	**4.2**
FINANCING						
Currency and deposits (1) (d)	5.1	-4.9	0.0	-1.0	0.4	5.5
of which: *post office funds*	*-1.5*	*0.1*	*-1.9*	*-0.3*	*-0.9*	*0.1*
Short-term securities (e)	-9.5	-8.0	-0.5	3.5	7.5	6.3
Medium- and long-term securities (f)	43.5	62.7	41.1	42.1	13.2	14.3
Loans from MFIs (g)	1.7	1.1	3.7	0.6	-0.2	-2.5
Other liabilities (2) (h)	-1.0	-0.3	0.6	-0.9	-0.3	-0.3
of which: *loans via the EFSF*	*-2.1*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Change in the Treasury's liquidity balance (3) (i)	10.7	-7.4	13.8	-39.0	-13.7	-19.0

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

Table 6

Privatization receipts: objectives and outturns (1)

(per cent of GDP)

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

(1) The objectives expressed as a percentage of GDP are those indicated in the various planning documents. The objectives and outturns include reimbursements of the capitalization instruments issued by the banks and underwritten by the MEF (the 'Tremonti/Monti bonds'). – (2) The data refer to revenues listed under item 4055 of the State budget (mostly proceeds from the sale of State shareholdings).

Table 7

Public finance objectives in the most recent official documents (1)

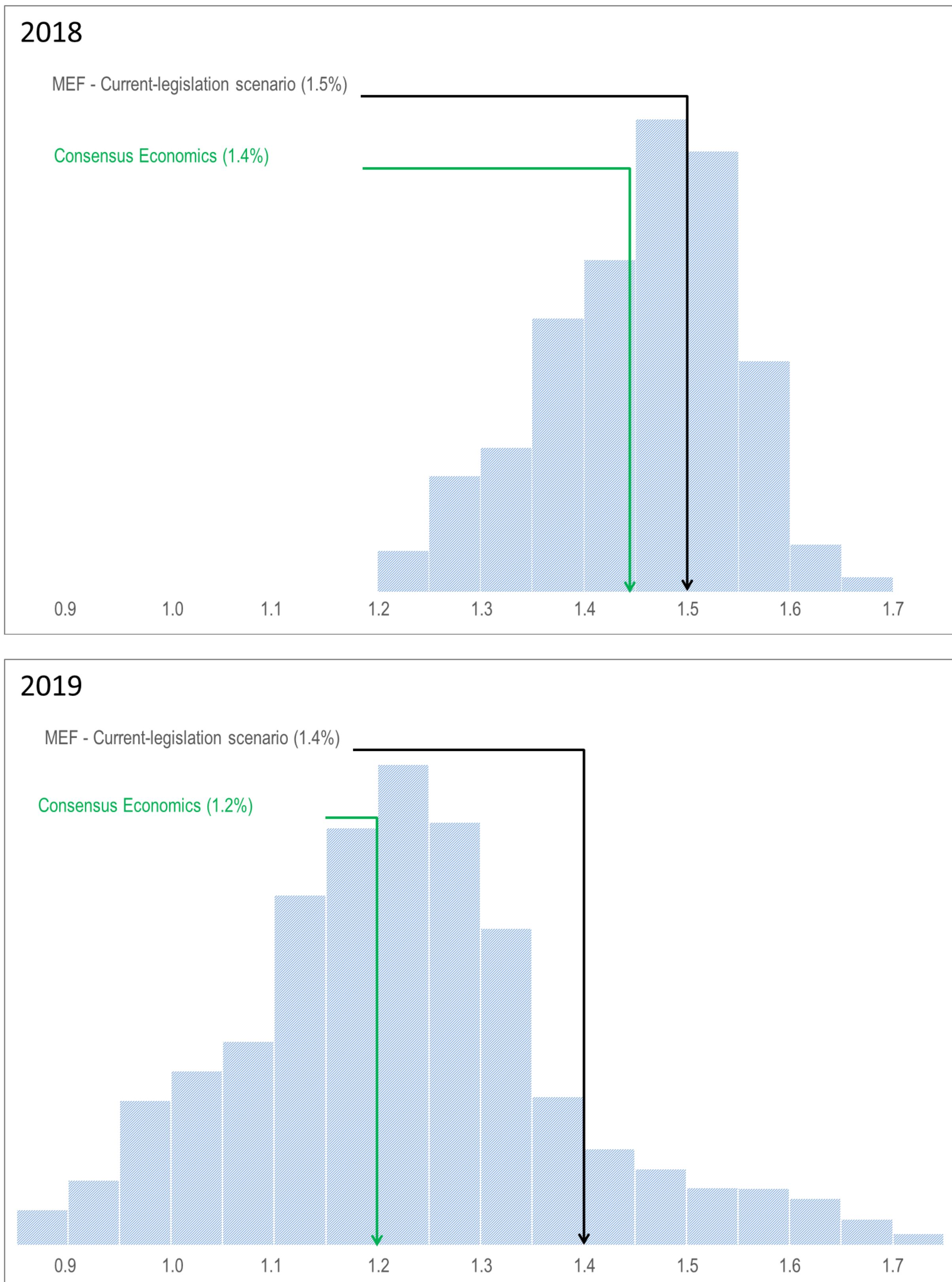
(per cent of GDP)

	2017	2018			2019			2020			2021
	Outturn	DEF 2017 (2)	Draft budgetary plan – Autumn 2017 (2)	DEF 2018 (3)	DEF 2017 (2)	Draft budgetary plan – Autumn 2017 (2)	DEF 2018 (3)	DEF 2017 (2)	Draft budgetary plan – Autumn 2017 (2)	DEF 2018 (3)	DEF 2018 (3)
Net borrowing	2.3	1.2	1.6	1.6	0.2	0.9	0.8	0.0	0.2	0.0	-0.2
Structural net borrowing	….	0.7	1.0	1.0	-0.1	0.6	0.4	0.0	0.2	-0.1	-0.1
Primary surplus	1.5	2.5	2.0	1.9	3.5	2.6	2.7	3.8	3.3	3.4	3.7
Interest payments	3.8	3.7	3.6	3.5	3.7	3.5	3.5	3.8	3.5	3.5	3.5
Debt	131.8	131.0	130.0	130.8	128.2	127.1	128.0	125.7	123.9	124.7	122.0
Real GDP growth	*1.5*	*1.0*	*1.5*	1.5	*1.0*	*1.5*	1.4	*1.1*	*1.3*	1.3	1.2

(1) Rounding of decimal points may cause discrepancies in totals. – (2) Policy scenario. – (3) Current-legislation scenario.

Figure 1

Interpolated distribution of the GDP growth forecasts (1)

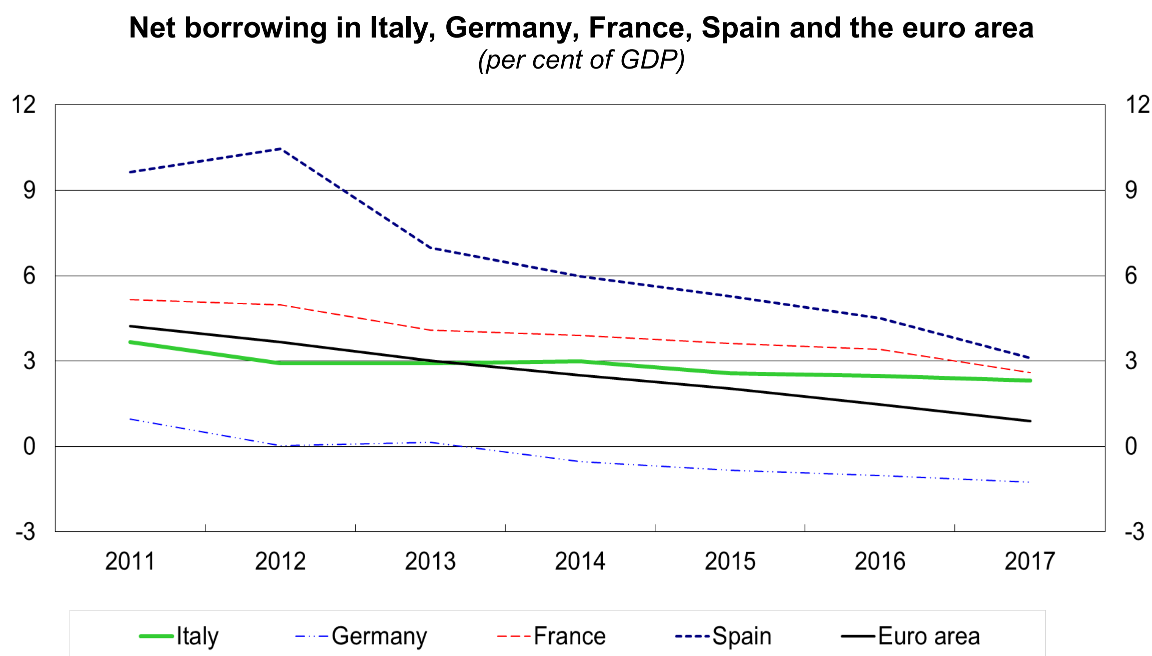


(1) Forecasts updated to April 2018.

Figure 2

Net borrowing in Italy, Germany, France, Spain and the euro area

(per cent of GDP)

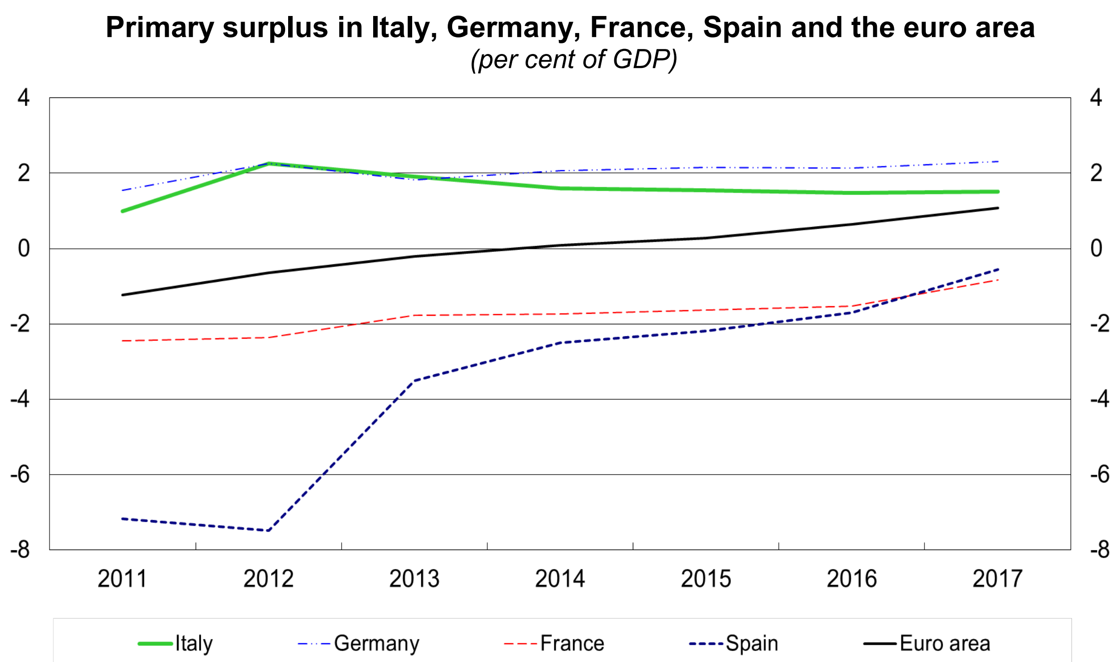


Sources: for Italy, Istat; for the other euro-area countries, European Commission (*European Economic Forecast – Spring 2018*).

Figure 3

Primary surplus in Italy, Germany, France, Spain and the euro area

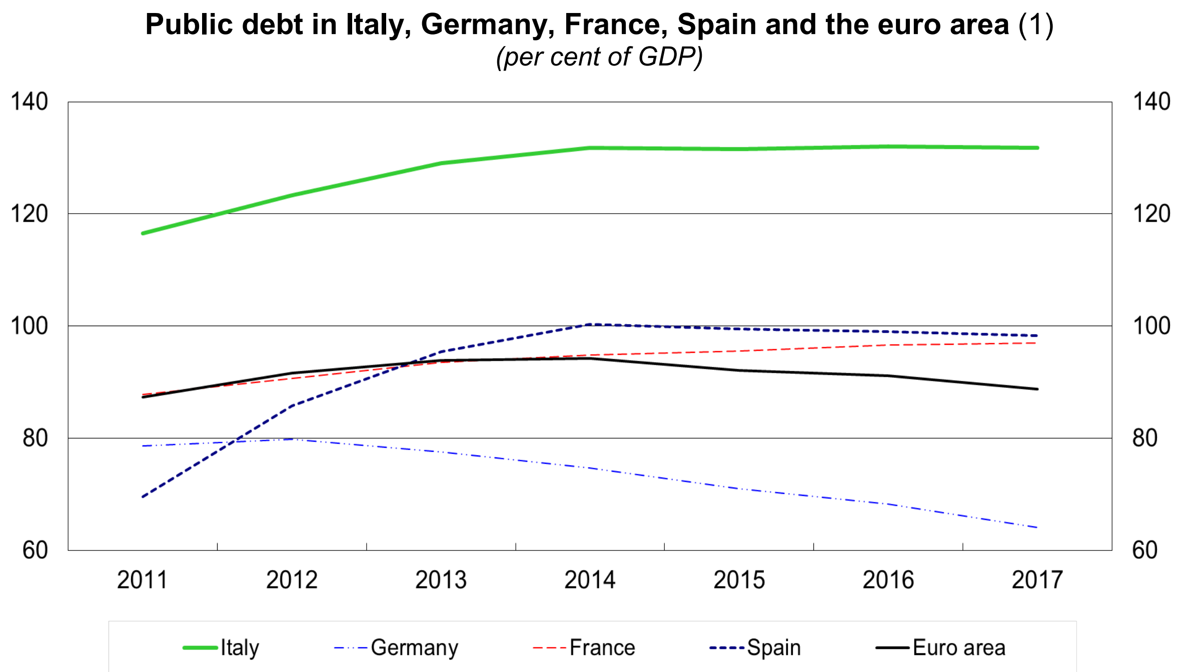
(per cent of GDP)



Sources: for Italy, Istat; for the other euro-area countries, European Commission (*European Economic Forecast – Spring 2018*).

Figure 4

Public debt in Italy, Germany, France, Spain and the euro area (1)
(per cent of GDP)



Sources: for Italy's GDP, Istat; for the other euro-area countries, European Commission (*European Economic Forecast – Spring 2018*).
(1) The euro-area public debt includes bilateral loans to support EMU countries in difficulty.

Figure 5

Primary surplus and interest expense
(per cent of GDP)

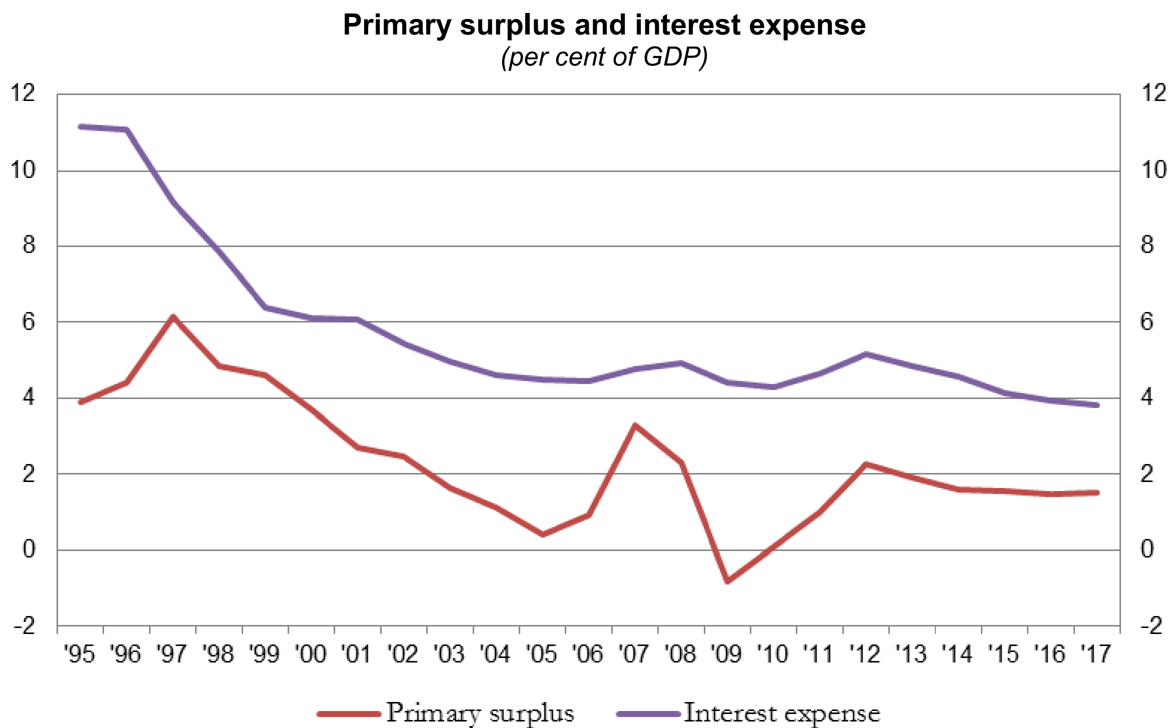


Figure 6

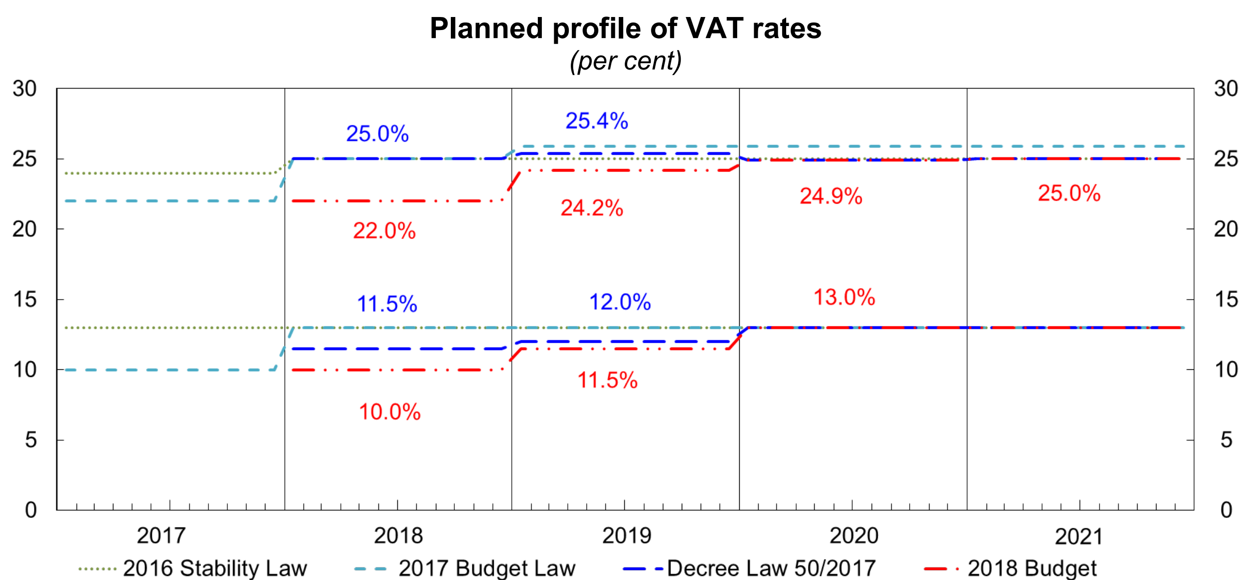
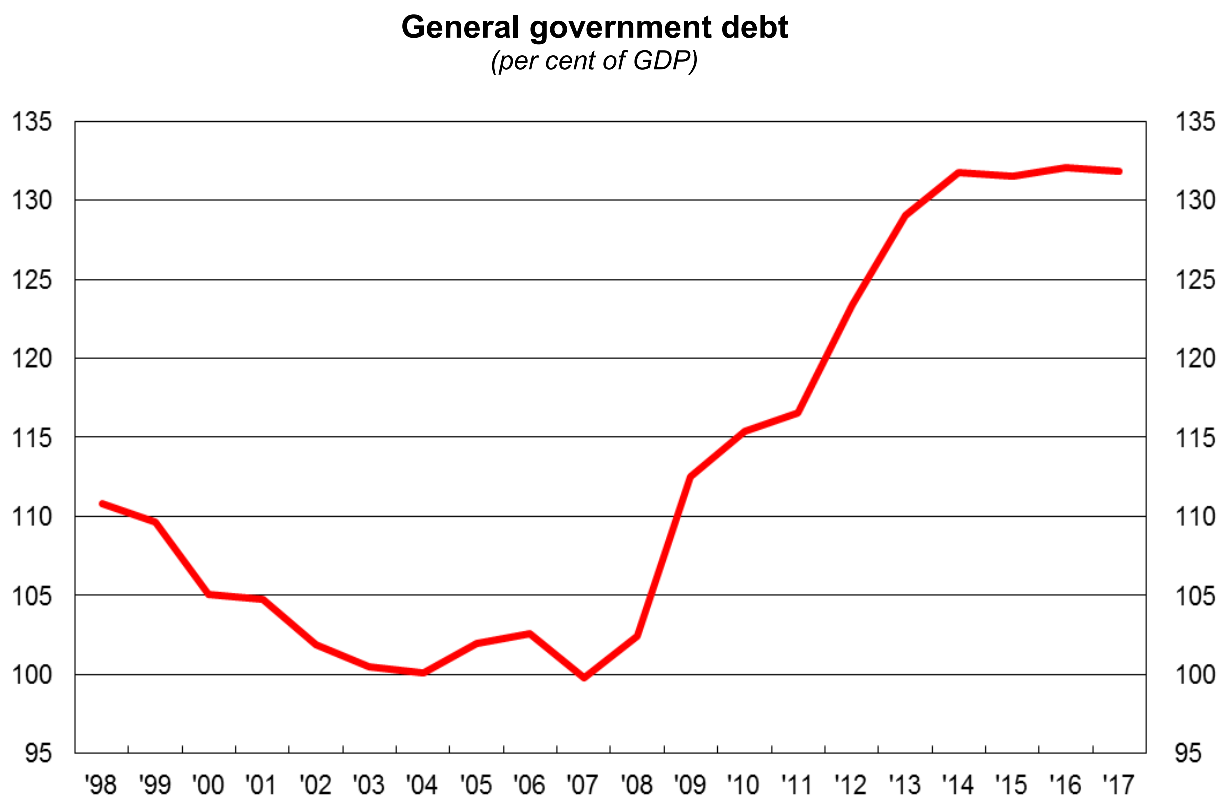


Figure 7

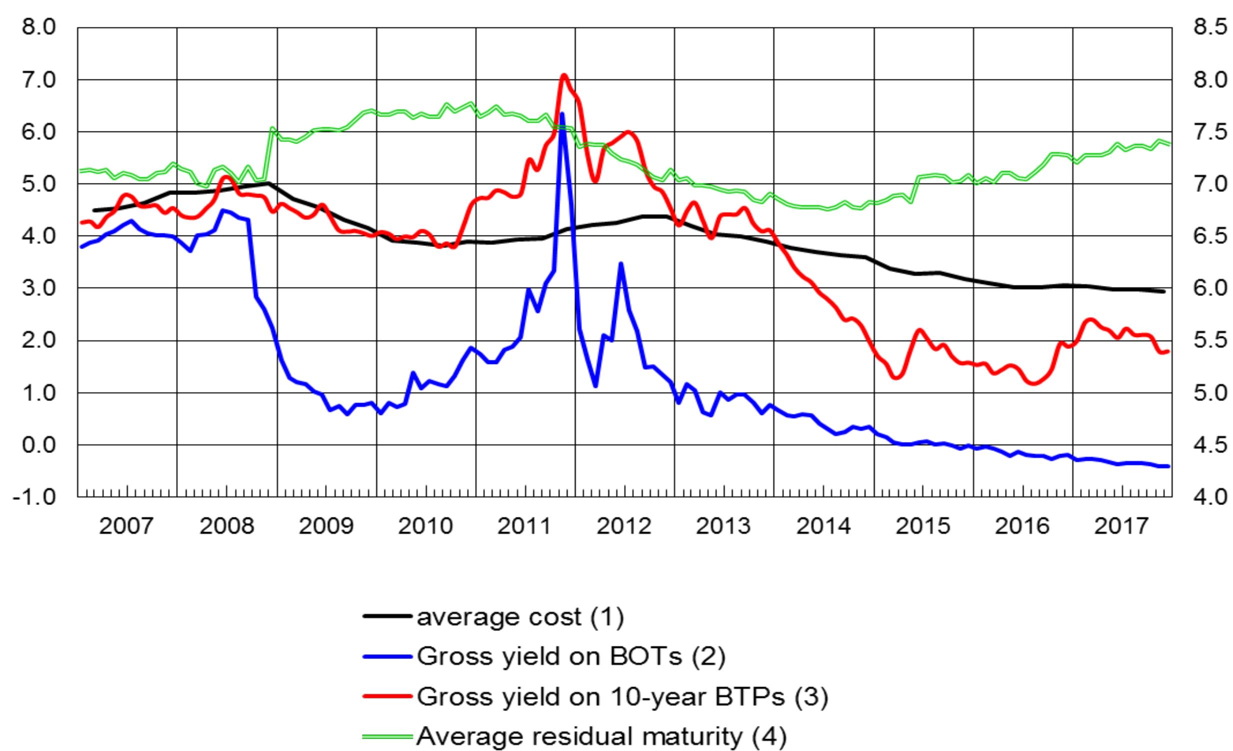


Source: for GDP, Istat.

Figure 8

Gross yields on BOTs and 10-year BTPs; average cost and average residual maturity of debt

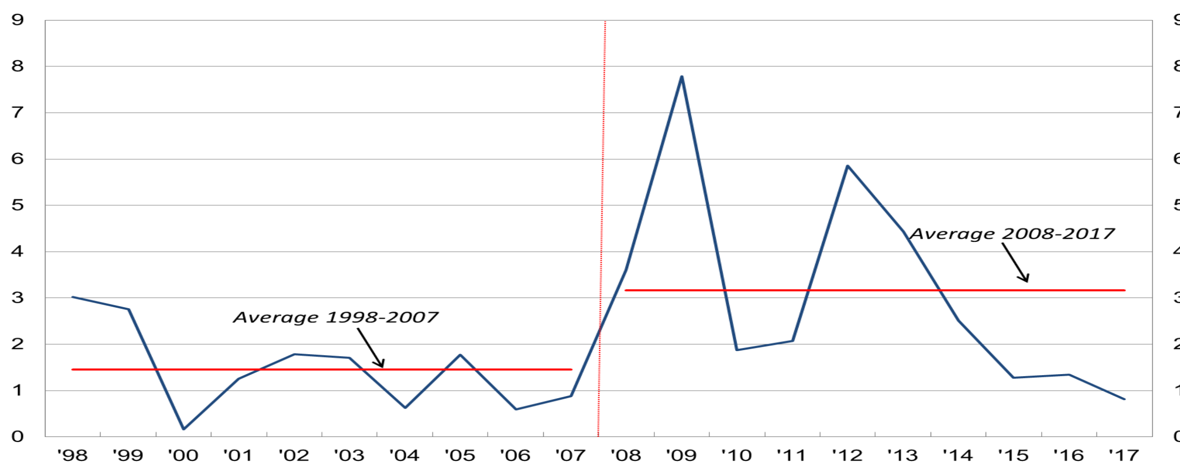
(per cent and years)



Source: for interest expense, based on Istat data.

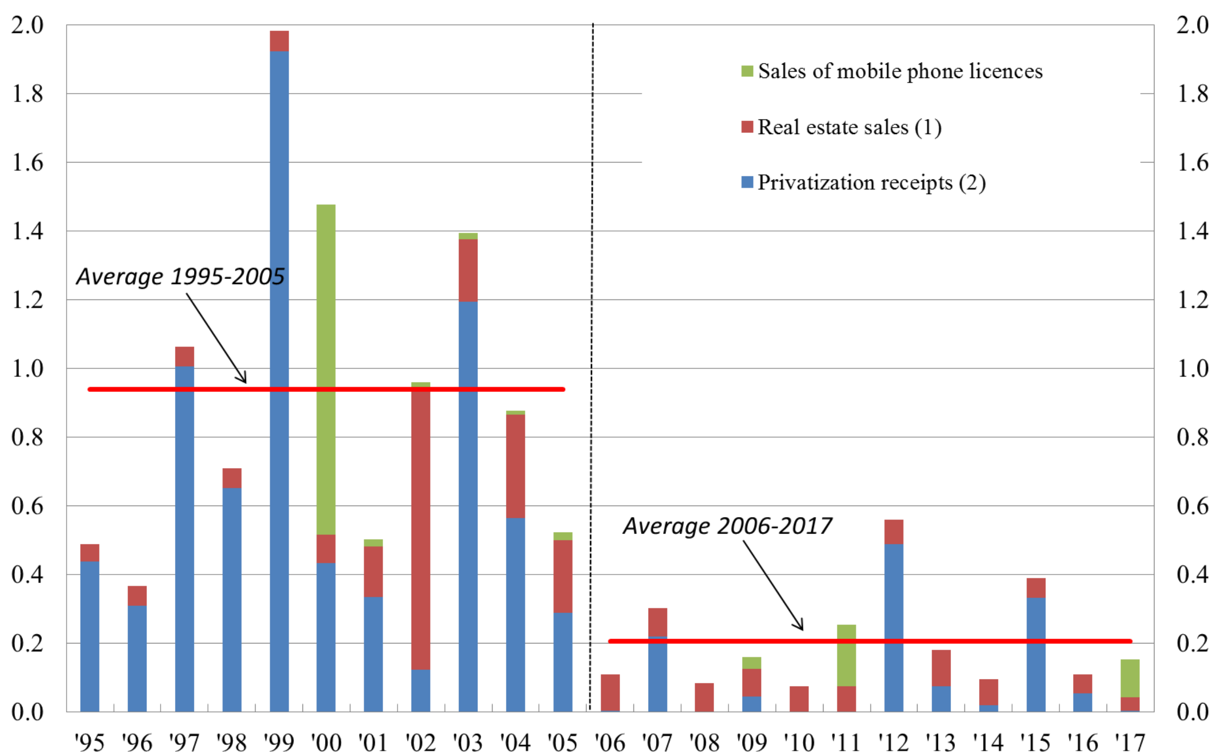
(1) Ratio between interest expense in the preceding 4 quarters and the stock of debt at the end of the year-earlier quarter. – (2) The yield at issue is the average, weighted by the issue amounts allotted, of the compound allotment rates at the auctions settled during the month. – (3) Average monthly yield at maturity of the benchmark traded on the electronic market for government securities. – (4) Right-hand scale.

Figure 9



Source: for GDP, Istat.

Figure 10

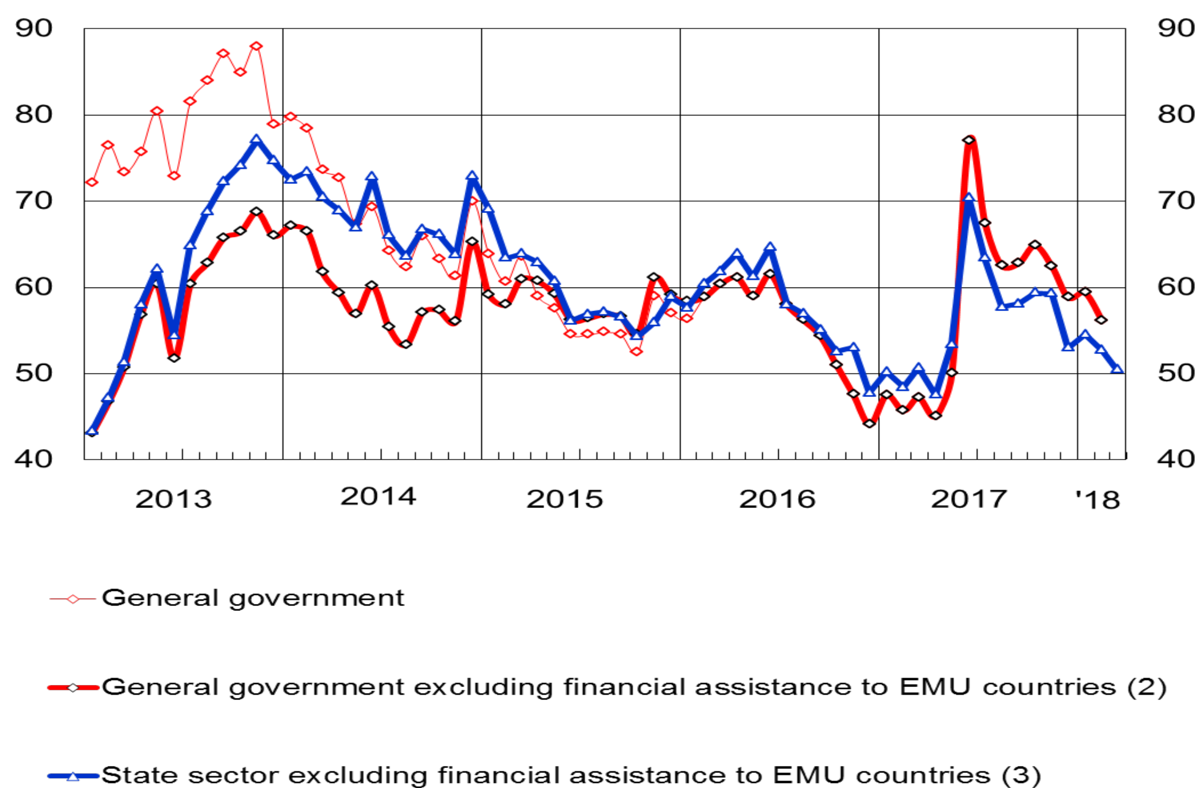


(1) Real estate sales comprise ordinary sales as well as sales to real estate funds and those made in connection with securitization operations. – (2) The data refer to revenues listed under item 4055 of the State budget (mostly proceeds from the sale of State shareholdings).

Figure 11

Twelve-month cumulative borrowing requirement (1)

(monthly data; billions of euros)



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