Joint Session of the Fifth Committees
of the Chamber of Deputies (Budget, Treasury and Planning)
and of the Senate of the Republic (Economic Planning and Budget)

Preliminary hearing on the *Update to the 2018 Economic and Financial Document*

Testimony of the Deputy Governor of the Bank of Italy

Luigi Federico Signorini

Chamber of Deputies

Rome, 9 October 2018

Mr President, Honourable Members of Parliament,

I wish to thank the Fifth Committees of the Chamber of Deputies and of the Italian Senate for once again giving the Bank of Italy this opportunity to provide its technical assessment as part of the consultations on the Update to the Economic and Financial Document.

1 The macroeconomic outlook

Following the severe crisis of 2008-13, the Italian economy has been recovering for the past five years. Last year GDP growth came to 1.6 per cent, with contributions from all the components of demand, domestic and foreign. In 2018, notwithstanding the overall solidity of domestic demand, the pace of growth gradually moderated, affected above all by the slowdown in world trade. Sales outside the EU nonetheless turned upwards again in August. Fears of a further spike in trade tensions appear to have dented the confidence of firms at international level and risk affecting economic activity even beyond the direct impact on trade of the protectionist measures implemented to date. The situation remains uncertain; the Italian economy is very open to foreign trade and is therefore exposed to the related risks.

According to the latest data released by Istat, industrial production fell sharply in July. In recent times the statistical variability of the index has intensified and it is therefore important not to overestimate the meaning of any one reading. Based on our estimates, which draw on updated data on energy consumption and goods flows, in August and September there appears to have been a recovery. It is nonetheless still likely that production in the third quarter will stagnate overall. What happens in the fourth quarter, which has just begun, will mark the point of departure for the level of industrial production growth achieved in 2019. The index based on the assessments of purchasing managers in industrial sector firms also fell during the summer months. The latest cyclical indications are instead more favourable in the service sector. According to our quarterly survey conducted in September, firms continue to expect investment to increase in 2018, albeit to a lesser extent than was expected six months ago.

Labour market data continue to be positive. The number of persons in employment in August was up by 300,000 compared with the end of last year, reflecting above all the increase in fixed-term contracts. The employment-intensive nature of the recovery has therefore been confirmed.

In recent weeks, signs of tension in the financial markets have intensified. The yields on Italian government securities have turned upwards again. Funding conditions and banks' market valuations have been affected as a result: in early October there was a steep drop in bank share prices and the CDS spreads of the leading credit institutions were up sharply on the first half of the year.

Yet still today the central projection remains that of – albeit rather slower – economic growth in the short term. In July's Economic Bulletin we had forecast an increase in GDP of 1.3 per cent this year and of 1 per cent in 2019, assuming the full deactivation of the safeguard clauses on indirect taxation. The latest data suggest that, provided economic policy assumptions remain unchanged, growth will be slightly lower both this year and the next.

The risks, especially those connected with the performance of world trade and the conditions on Italy's financial markets, have intensified. The accentuation of the protectionist stances of trade policies, enduring tensions in various parts of the world, and the knock-on effects on business confidence, could dampen world economic activity next year, slowing the impetus provided so far to our economy by the international context. On the home front, protracted tensions on the financial markets would have detrimental effects on the funding conditions of households and firms and on domestic demand.

The Government's current legislation macroeconomic scenario, which does not incorporate the deactivation of the safeguard clauses on indirect taxation, envisages 1.2 per cent GDP growth this year and 0.9 per cent the next. This figure is within the interval of the estimates currently available, even if it is based on assumptions about exogenous variables that are relatively favourable compared with the latest trends. In the two years 2020-21 GDP is expected to expand by 1.1 per cent.

The policy scenario raises GDP growth forecasts to 1.5 per cent next year, 1.6 per cent in 2020 and 1.4 per cent in 2021, thanks to the effect of the budgetary provisions.

These measures are expected to have a significant impact; the Government's estimate assumes that the values of the multipliers of the expansionary measures will be higher than those generally estimated for Italy and that the measures set out in the Update will stimulate economic activity already in the early months of next year. A more comprehensive assessment would require details that are not yet available on the composition, design and implementation of the measures, including their funding.

While for 2019 the VAT increases envisaged under the safeguard clauses have been eliminated, for 2020 and 2021 the planning scenario continues to incorporate them, at least in part; it therefore results in a future increase in indirect taxation, but how this would be designed and its entity are not indicated in the Update. The Government did, however, already announce that it does not intend to actually implement the increase, and that it will replace it with other measures to cut spending and improve tax revenue collection (these measures are also not specified further at present).

In addition to the direct effect of the budgetary measures on economic activity, the impact on the confidence of savers and the market must also be taken into consideration. I will return to this point in the concluding section of my address.

2 The public accounts in 2018

The Update to the Economic and Financial Document (DEF) revises the estimate for net borrowing, bringing it to 1.8 per cent of GDP, from 1.6 per cent indicated in April's DEF. The revision stems from a reduction of €3.9 billion in revenue, partly connected to lower expected GDP growth, and to an increase of €1.9 billion in interest payments.

In September Istat released new national accounts estimates for the last three years. Net borrowing for 2017 was revised upwards, from 2.3 to 2.4 per cent of GDP.

Compared with 2017, it is estimated that net borrowing will decrease by over half a percentage point of GDP, owing to an increase in the primary surplus (0.4 percentage points) and a reduction in interest payments (0.2 points). The tax burden will decline from 42.2 per cent in 2017 to 41.9 per cent this year, mainly due to developments in direct taxes.

The data observed so far on the borrowing requirement and government receipts appear consistent with a reduction in net borrowing in the current year.

Excluding the estimated effects of the main operations that do not impact net borrowing and a number of temporal asymmetries, the general government borrowing requirement in the first nine months of 2018 (estimated by approximating the still unavailable data for August and September with those for the state sector borrowing requirement) decreased compared with the corresponding period of 2017. In the same period, tax revenue entered in the State budget, net of lottery and gaming receipts, increased by 0.5 per cent compared with the same period of 2017, above all thanks to the positive performance of VAT and personal income tax (Irpef) revenue. If the data are adjusted to take account of some asymmetries of a purely accounting nature, the estimated increase in revenue would be greater, and basically consistent with the growth forecasts of general government tax revenue indicated in the Update.

In the policy scenario, the structural deficit (that is, cyclically-adjusted and net of temporary measures) is expected to reach 0.9 per cent of GDP.

The expected reduction in the structural deficit is less than that for the overall deficit (0.2 percentage points versus 0.5 points); the difference is mainly due to the reduction in the output gap, as the net effects of the temporary measures are extremely limited in both 2017 and 2018.

According to the Update, in 2018 the debt-to-GDP ratio will fall slightly, from 131.2 per cent at end-2017 to 130.9 per cent. The reduction is almost 1 percentage point less than that estimated in April, owing to higher net borrowing expectations and, especially, slower nominal GDP growth.

As part of its September revision of the national accounts data, Istat adjusted upwards its nominal GDP estimate for the two years 2016-17. Owing to these changes, in both years the debt-to-GDP ratio decreased by about 0.6 percentage points.

3 Public finance projections for 2019-2021

Current legislation scenario. – The Update revises the net borrowing forecasts for the three years 2019-2021 in the current legislation scenario, raising them (compared with April's DEF) by 0.4 percentage points for next year and by 0.7 points for each of the two years 2020-21. The revision takes account of a worsening GDP growth outlook and of higher interest payments (more than 0.1 percentage points in 2019, 0.2 points in 2020 and 0.3 points in 2021).

Notwithstanding this revision, current legislation net borrowing is expected to continue to decrease, also thanks to the safeguard clauses (whose effect is equal to 0.7 per cent of GDP in 2019 and to 1.0 per cent from 2020 onwards): as a percentage of GDP, net borrowing is estimated to fall to 1.2 per cent in 2019, 0.7 per cent in 2020 and 0.5 in 2021. The nominal budget balance, which according to April's DEF would have been attained in 2020, would now not be achieved in 2021 either. The primary surplus, while rising gradually to 3.3 per cent of GDP in 2021, would be lower than last April's estimates by 0.4 percentage points on average each year. Interest payments are expected to grow steadily, reaching 3.8 per cent of GDP in 2021. The higher interest payments compared with April's estimates, made on the basis of the interest rates foreseeable at the time, would amount to about €3 billion in 2019, almost €4 billion in 2020, and about €4.5 billion in 2021. If the tensions observed in the last two weeks, which have heightened further in recent days, were to persist, interest payments could be higher than indicated in the Update.

The Update clarifies that the forecasts are made on the basis of the forward rates observed during the period in which the document was prepared, and the macroeconomic scenario was developed on the basis of the information available at 22 September 2018. Ten-year BTP yields have risen by more than 60 basis points in the last two weeks, and those of three-year securities by more than 90 basis points. To give an idea of the relative impact, a permanent increase of 100 basis points in the yields of all government bonds implies that interest payments will be greater by 0.15 per cent of GDP in the first year, 0.3 per cent in the second year, and 0.45 per cent in the third year.

Policy scenario. – Compared with the current-legislation scenario, for 2019 the Government plans to raise net borrowing by more than 1 percentage point, to 2.4 per cent of GDP. In the following two years the deficit is projected to narrow again, an outcome to which the partial activation of the safeguard clauses and the resulting VAT increase would also contribute. The remaining safeguard clauses are not quantified in detail in the Update; as I observed earlier, the Government has already announced it does not intend to implement the increase in indirect taxation.

In the past, if activated or replaced with equivalent measures, the safeguard clauses served the purpose of attaining a balanced budget within the planning period. In the Update they only help to bring the deficit, at the end of the forecasting horizon, to more or less its starting point in 2018. In fact, the Update does not envisage a reduction in the structural deficit. Rather, it plans to increase it by 0.8 percentage points of GDP next year, bringing it to 1.7 per cent, and to keep it unchanged in the following two years. The Government has announced its intention to resume fiscal consolidation in 2022, the first year beyond the planning horizon; the resumption of fiscal consolidation would be brought forward only if, by 2021, real GDP and employment had returned to pre-crisis levels.

The structural deficit will remain at a significant level for a highly-indebted country; this does not afford much room for manoeuvre were it to become necessary to deal with a new cyclical slowdown.

The measures and their impact on the economic cycle. – As I have already recalled, in the Government's estimates the expansionary stance of the budgetary measures raises real GDP growth forecasts by about half a percentage point each year, to 1.5 per cent on average in the next three years.

In 2019 the fiscal policy stance (conventionally measured by the change in the cyclically-adjusted primary surplus) would be expansionary by almost 1 percentage point; in April's current legislation estimates, it was expected to be restrictive by 0.4 percentage points. In the following two years, the stance is expected to be largely neutral.

The macroeconomic effects of the budget depend on its composition and design; therefore, an assessment will only be possible once the details have been made known.

In any case, the Update provides an insight into the various areas of planned intervention.

The safeguard clauses on indirect taxes are set to be completely deactivated next year and redesigned in the following years. According to our assessments and based on the Bank of Italy's quarterly econometric model, the expansionary impact of this measure will be limited. This assessment is consistent with the Government's estimates contained in the Update. The impact could prove even more limited, or nil, if the decision not to increase VAT was already incorporated in households' expectations.

At the same time, the plan is to expand the number of those eligible for the 'simplified' taxation system in place for small firms, professionals and tradespeople.

The Government has announced that it intends to introduce a new poverty reduction mechanism in 2019 ('citizenship income') and to alter the requirements for pension eligibility, making them less stringent.

An increase in current transfers – such as those relating to social expenditure – as well as tax relief tend to have modest and gradual cyclical effects; we estimate that the income multiplier associated with these measures is limited.

As far as the 'citizenship income' is concerned, pursuing the goal of social protection should not disincentivise the supply of labour. A decisive factor in this regard is the amount of the benefit in relation to the potential wage that a worker could earn on the market; looking at the experience of other countries, it should be possible to develop an appropriate design. This is important not only with a view to assessing the cyclical impact of the measure on GDP and employment, but above all in order to refine the tool from a longer-term perspective.

According to the Update, the benefit – the amount of which has not yet been officially established – will provide income support to people below the relative poverty threshold. In other countries, the amount of the benefit in proportion to the national relative poverty threshold is usually less than one.[1] For a household of just one member, it is less than 50 per cent on average in the EU countries, with a peak (87 per cent) in the Netherlands; in Germany it is 39 per cent, in France, 50 per cent and in Spain, 63 per cent.

The conditions that should regulate eligibility for the benefit (especially its withdrawal after a given number of job offers) cannot be applied effectively unless job centres are provided with sufficiently increased capacity.

Regarding social security, the requirements for pension eligibility are to become less stringent; this measure will be set out in detail at a later date. We have often pointed out that, when making the pension age more flexible, it is important to respect the actuarial equivalence principle in order to ensure the long-term sustainability of the pension system, now a key strength of Italy's public finances.

Based on available research into the effects of past pension reforms that raised the minimum pension age, it is not possible to maintain that, in the medium-to-long term, an increase in the employment rate of older workers leads to worse job prospects for young people,[2] particularly in the private sector.

---

1 Our calculations based on the relative poverty risk indicator for 2016 computed by Eurostat and on information from the *Mutual Information System on Social Protection database* (co-ordinated by the European Commission and updated with the assistance of national experts).

2 For an overview of macroeconomic research, see OECD (2011), 'Helping Older Workers Find and Retain Jobs', Pensions at a Glance 2011: Retirement-income Systems in OECD and G20 Countries, OECD Publishing.

The Government also plans to allocate additional funds for public-sector investment, amounting to 0.2 percentage points of GDP in 2019, rising to over 0.3 points in 2021, inverting the trend observed in recent years. Indeed, public investment has diminished steadily since 2010; in 2017 it represented 2.0 per cent of GDP, compared with almost 3 per cent on average in the previous decade.

Investment spending can have a significant impact on GDP growth, not just in the short term but in the longer term as well, if investment helps to achieve a structural increase in production capacity. The Government's emphasis on the resumption of a major investment programme is therefore something that can be shared. The programme's effectiveness will depend on elements that cannot be taken for granted in Italy: fast implementation, efficient action, and careful selection of projects to identify those likely to produce a real qualitative and quantitative increase in capital. In view of the recent contraction, there is probably ample scope to make profitable investments; but only if they are properly selected and efficiently realised will they be able to achieve positive externalities for the growth of the economy.[3] Given the time needed to select projects and complete the planning and commissioning phases, the increase in spending might not become apparent for some time, diminishing the investment's contribution to growth in the short term.

Funding. – Finally, in order to assess the effects of the budgetary provisions, in terms of both growth stimulus and public accounts, it will be necessary to look carefully at how the costs will be covered once the funding measures have been finalised.

According to the Update, part of the funds should come from ending (in whole or in part) existing programmes such as the inclusion income support scheme, the optional tax regime offered to some types of businesses (tax on entrepreneurial income or IRI), and the tax allowance for corporate equity (ACE). Further funding should come from changes to the tax advance percentage rates and from ministerial spending cuts.

4 The public debt

In the Government's programmes, the debt-to-GDP ratio, which is expected to reach 130.9 per cent at the end of this year, should decrease on average by

[3] 'Public investment for developing the economy', address by the Governor of the Bank of Italy, Ignazio Visco, at the 64th Conference on Government Studies, Varenna, 22 September 2018.

1.4 percentage points a year over the next three years, coming to 126.7 per cent in 2021.

Compared with the current legislation scenario, the annual decrease in the policy scenario would be about 0.7 points less, on average: the rise in net borrowing (on average 1.3 percentage points a year) would be offset only in part by the increased growth in nominal GDP.

The trend of the debt-to-GDP ratio over the next three years assumes a small reduction in the Treasury's liquid balance (of about 0.1 percentage points of GDP per year). It is also based on estimated revenue from disposals of assets of 0.3 percentage points of GDP per year in 2019 and 2020, a figure that is in line with the amount forecast in the planning documents of the last two years.

The Update contains no details of the planned asset disposals. In the last two years and in the first nine months of 2018, privatisation receipts have been negligible.

The evolution of the debt-to-GDP ratio depends on the size of the primary surplus and the gap between the average cost of the debt and the rate of growth of the economy. Movements in interest rates have a considerable effect. Unlike the previous year, this year's Update includes neither an analysis of the sensitivity of the evolution of the debt-to-GDP ratio to growth and interest rate shocks, nor alternative scenarios for the medium term.

Italy's public debt has a high average residual maturity, more than seven years, which means that the effect of an increase in interest rates at issue on the average cost of the debt will occur gradually. Nevertheless, it can be estimated that at current rates in 2021 interest expense will already be about 0.6 percentage points of GDP higher than in the projections prepared in April.

In commenting on the DEF in May,[4] I had noted that at the interest rates prevailing at the time, it would have been possible to bring the debt to below 100 per cent of GDP in about ten years, provided that the primary surplus immediately started to converge towards 4 per cent of GDP, absent market shocks. If we were to repeat mechanically the same exercise using current interest rates and assuming that debt consolidation is resumed in 2022, as indicated in the Update, we would find that we would need another

[4] 'Preliminary hearing on the 2018 Economic and Financial Document', testimony of the Deputy Governor of the Bank of Italy, Luigi Federico Signorini, before the Chamber of Deputies, Rome, 9 May 2018.

seven or eight years, in theory, to obtain the same result. This would risk undermining the confidence of savers in the credibility of the debt reduction process.

As the Bank of Italy has pointed out on more than one occasion, the success of long-term debt reduction is also dependent on how well the public finances can cope with rising expenditure tied to the ageing population. The Update indicates, rightly, that the pension reforms introduced in the last 20 years have significantly improved both the sustainability and the intergenerational fairness of the Italian pension system.

It is critical that we do not lose ground on these two fronts, especially when – as demonstrated by the European Commission's latest long-term age-related expenditure projections – the risks to the sustainability of the public finances are also increasing due to worsening demographic projections.

* * *

Restoring the Italian economy to a path of sustained economic development is a structural matter; it depends on the continuation of the reform process of all those aspects of public action and the functioning of the economy and society that affect firms' ability to compete. Much has already been done: gross domestic product, while still lower than it was before the crisis, has risen by more than 5 points since its 2013 trough; investment has increased by about 15 points; the number of those in employment, which has risen by more than 1 million, has hit an all-time high. The productive fabric of the country has strengthened, especially in the export sector; the difficulties encountered by the banking system have been alleviated with the improvement in the real economy and the reduction in non-performing loans; the balance of payments has recorded a current account surplus since 2013; in June our country's net debtor position was equal to 3.4 per cent of GDP, almost 20 percentage points lower than it was in 2013.

There remain, however, large imbalances in the labour market, widespread income losses compared with ten years ago, and serious problems of poverty and social exclusion. Although the worst of the crisis is now years behind us, there is still much to do to place the Italian economy on a stable path to higher growth. Greater wealth and job creation is also key to helping those who are most vulnerable.

Public services should be made more efficient, the quality of our human capital improved, and competitive mechanisms strengthened.

In addition to this, the debt-to-GDP ratio should be lowered decisively. The debt is, for Italy, the great multiplier of turbulence. Given its size and the need to service each year a significant amount (around €400 billion), the danger of triggering a vicious circle between the cost of the debt and its share of GDP, with repercussions on the real economy, is ever present. Around two thirds of the debt is currently held by Italian citizens and institutions; but this does not insulate it from the laws of the market, which seeks out yields and flees from uncertainty. Fluctuations in the value of the debt also have an impact on the Italian citizens, households, firms and financial institutions that hold it. Ultimately, a significant portion of our savings is tied to the public debt.

A lower valuation of the government bonds held by banks in their portfolios has an effect on their capital requirements; above certain limits, it can reduce their ability to supply credit to the economy.

The Update envisages providing a significant cyclical boost to the economy by increasing the deficit; to achieve this, we have to assume high multipliers, which cannot be taken as given. But how effective fiscal policies are in supporting the economy also depends on whether the government's action is capable of convincing savers and the markets to remain confident in the process to consolidate the public finances.

Even assuming the full deployment of the expected expansionary effects of the budget, the Update envisages a slower reduction in the debt-to-GDP ratio than both the current legislation scenario and with respect to the possibilities afforded by today's economic conditions; it postpones the achievement of a balanced budget to an unspecified date in the future.

Given the large amount of bonds that the Italian State must periodically place on the market, the possibility that financial turbulence can arise, even unexpectedly, calls for clarity and certainty in the debt reduction process. Credibility is self-sustaining: bolstering the confidence of savers and investors brings down the risk premium on Italy's sovereign bonds, facilitates the debt reduction process and makes it more secure.

Another matter that deserves attention is the funding of the budgetary provisions. When specifying the planned measures, it would be advisable to avoid accompanying permanent expansionary measures with advances of revenue, other temporary funding measures or safeguard clauses of uncertain application.

Narrowing the growth gap with Europe, as stated in the Update, is a key objective; it is also necessary to get the debt-to-GDP ratio under control. Higher growth and greater social cohesion are not at odds with fiscal discipline. Lasting results can be achieved through budget recomposition: devoting a higher share to productive investments, sharing the tax burden more equitably, improving the equalisation capacity of public transfers. These results also rely on structural interventions to improve the underlying capacity of the Italian economy to post higher growth, above and beyond short-term stimuli. Any improvement achieved thanks to public intervention in the areas of income and its distribution will be the more solid, the more it is rooted in solid funding measures and the more carefully it is designed to take account of the incentives to create income and jobs, this being the most reliable way to combat the spread of poverty.

TABLES AND FIGURES

Table 1

Macroeconomic outlook in the most recent official documents

(percentage changes)

	Economic and Financial Document 2018					Update to the 2018 Economic and Financial Document				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
						CURRENT LEGISLATION SCENARIO				
Real GDP	**1.5**	**1.5**	**1.4**	**1.3**	**1.2**	**1.6**	**1.2**	**0.9**	**1.1**	**1.1**
Imports	*5.3*	*5.4*	*4.0*	*3.4*	*3.5*	*5.2*	*1.7*	*2.6*	*2.9*	*3.5*
Consumption by Households and non-profit institutions serving households	*1.4*	*1.4*	*1.0*	*0.9*	*1.2*	*1.5*	*1.1*	*0.7*	*0.8*	*1.1*
General government expenditure	*0.1*	*0.5*	*0.1*	*0.4*	*0.6*	*-0.1*	*0.4*	*0.6*	*0.6*	*0.5*
Investment	*3.8*	*4.1*	*2.8*	*2.4*	*1.7*	*4.3*	*4.4*	*2.2*	*1.5*	*1.6*
Exports	*5.4*	*5.2*	*4.2*	*3.9*	*3.2*	*5.7*	*0.4*	*2.7*	*3.4*	*3.6*
Nominal GDP	**2.1**	**2.9**	**3.2**	**3.1**	**2.7**	**2.1**	**2.5**	**2.7**	**2.8**	**2.6**
Consumption deflator	**1.2**	**1.1**	**2.2**	**2.0**	**1.5**	**1.1**	**1.3**	**2.2**	**2.0**	**1.5**
Employment (FTE)	**0.9**	**0.8**	**0.8**	**0.9**	**0.9**	**0.9**	**0.7**	**0.6**	**0.7**	**0.8**
						POLICY SCENARIO (1)				
Real GDP						**1.6**	**1.2**	**1.5**	**1.6**	**1.4**
Imports						*5.2*	*1.7*	*3.0*	*3.8*	*4.0*
Consumption by Households and non-profit institutions serving households						*1.5*	*1.1*	*1.3*	*1.3*	*1.2*
General government expenditure						*-0.1*	*0.4*	*1.1*	*0.8*	*0.5*
Investment						*4.3*	*4.4*	*3.7*	*3.2*	*2.8*
Exports						*5.7*	*0.4*	*2.6*	*3.4*	*3.6*
Nominal GDP						**2.1**	**2.5**	**3.1**	**3.5**	**3.1**
Consumption deflator						**1.1**	**1.3**	**1.4**	**2.2**	**1.7**
Employment (FTE)						**0.9**	**0.7**	**0.9**	**1.2**	**1.1**

(1) The 2018 Economic and Financial Document does not contain the policy scenario.

Table 2

Main public finance 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	46.5	46.4
Expenditure (2)	47.8	51.2	49.9	49.4	50.8	51.1	50.9	50.3	49.1	48.7
of which: *interest payments*	*4.9*	*4.4*	*4.3*	*4.7*	*5.2*	*4.8*	*4.6*	*4.1*	*3.9*	*3.8*
Primary surplus (3)	2.3	-0.8	0.1	1.0	2.3	1.9	1.5	1.5	1.4	1.4
Net borrowing	**2.6**	**5.2**	**4.2**	**3.7**	**2.9**	**2.9**	**3.0**	**2.6**	**2.5**	**2.4**
Borrowing requirement	3.1	5.5	4.3	3.9	4.1	4.8	4.1	3.0	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**	**131.6**	**131.4**	**131.2**

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	14.6	14.7	14.6	14.5
Indirect taxes	13.6	13.4	14.0	14.1	15.3	14.9	15.3	15.1	14.3	14.5
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**	**29.3**	**29.1**
Social security contributions	13.0	13.5	13.3	13.2	13.4	13.4	13.2	13.3	13.1	13.1
Tax revenue and social security contributions	**41.3**	**41.8**	**41.6**	**41.6**	**43.6**	**43.6**	**43.3**	**43.1**	**42.4**	**42.2**
Production for market and for own use	1.9	2.0	2.0	2.0	2.1	2.3	2.3	2.3	2.2	2.2
Other current revenue	1.8	1.9	1.9	1.8	1.8	1.9	2.0	1.9	1.8	1.8
Other capital revenue	0.2	0.2	0.2	0.2	0.3	0.3	0.3	0.3	0.1	0.1
Total revenue	**45.2**	**45.9**	**45.7**	**45.7**	**47.9**	**48.1**	**47.9**	**47.7**	**46.5**	**46.4**

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	9.7	9.5
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	2.6	2.6
Social benefits in cash	17.0	18.5	18.6	18.6	19.3	19.9	20.2	20.1	19.9	19.8
Interest	4.9	4.4	4.3	4.7	5.2	4.8	4.6	4.1	3.9	3.8
Other current expenditure	3.4	3.7	3.7	3.7	3.9	4.1	4.2	4.0	4.0	3.6
Total current expenditure	**43.5**	**46.0**	**45.7**	**45.4**	**46.8**	**47.4**	**47.2**	**46.1**	**45.7**	**44.9**
of which: expenditure net of interest payments	*38.5*	*41.5*	*41.4*	*40.7*	*41.6*	*42.6*	*42.6*	*42.0*	*41.7*	*41.1*
Gross fixed investments	3.0	3.4	2.9	2.8	2.6	2.4	2.3	2.2	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**	**4.1**	**3.4**	**3.9**
Total expenditure	**47.8**	**51.2**	**49.9**	**49.4**	**50.8**	**51.1**	**50.9**	**50.3**	**49.1**	**48.7**
of which: expenditure net of interest payments	*42.9*	*46.7*	*45.6*	*44.7*	*45.6*	*46.2*	*46.3*	*46.1*	*45.1*	*44.9*

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 7 months*		
	2015	2016	2017	2016	2017	2018
Borrowing requirement net of privatization receipts (a)	**56.9**	**44.1**	**58.8**	**22.5**	**46.5**	**24.1**
Privatization receipts (b)	6.6	0.9	0.1	0.8	0.1	0.0
Borrowing requirement (c=a-b=d+e+f+g+h+i)	**50.4**	**43.2**	**58.8**	**21.7**	**46.4**	**24.1**
FINANCING						
Currency and deposits (1) (d)	5.1	-4.9	0.0	-5.4	8.7	7.6
of which: Post office funds	*-1.5*	*0.1*	*-1.9*	*-0.6*	*-1.1*	*-0.7*
Short-term securities (e)	-9.5	-8.0	-0.5	2.3	8.9	6.7
Medium- and long-term securities (f)	43.4	62.7	40.8	90.3	65.8	66.0
Loans from MFIs (g)	1.7	1.1	3.7	0.7	4.0	-4.9
Other liabilities (2) (h)	-1.0	-0.3	1.0	-1.0	1.4	-0.6
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	-65.3	-42.5	-50.6

(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

Public finance targets and estimates for 2018 (1)

(per cent of GDP)

	General government				*Memorandum item:*	
	Net borrowing	Structural net borrowing	Primary surplus	Change in the debt (1)	Real GDP growth rate	Nominal GDP growth rate
Targets						
April 2017 (2)	2.1	1.5	1.7	-0.1	1.1	2.3
September 2017 (3)	2.1	1.3	1.7	-0.4	1.5	2.1
October 2017 (4)	1.6	1.0	2.0	-1.6	1.5	3.1
April 2018 (5)	-	-	-	-	-	-
September 2018 (6)	1.8	0.9	1.8	-0.3	1.2	2.5
Estimates						
April 2018 (5)	1.6	1.0	1.9	-1.0	1.5	2.9
September 2018 (6)	1.8	1.1	1.8	-0.3	1.2	2.5

(1) Changes in the debt-to-GDP ratio compared with the previous year. – (2) 2017 Economic and Financial Document. – (3) Update to the 2017 Economic and Financial Document. – (4) 2018 Draft Budgetary Plan. – (5) The 2018 Economic and Financial Document does not contain the policy scenario. – (6) Update to the 2018 Economic and Financial Document.

Table 7

Current legislation and policy scenarios in the most recent official documents (1)

(per cent of GDP)

	Economic and Financial Document 2018					**Update to the 2018 Economic and Financial Document**				
	2017	2018	2019	2020	2021	2017	2018	2019	2020	2021
CURRENT LEGISLATION SCENARIO										
Net borrowing	2.3	1.6	0.8	0.0	-0.2	2.4	1.8	1.2	0.7	0.5
Primary surplus	1.5	1.9	2.7	3.4	3.7	1.4	1.8	2.4	3.0	3.3
Interest payments	3.8	3.5	3.5	3.5	3.5	3.8	3.6	3.6	3.7	3.8
Debt	131.8	130.8	128.0	124.7	122.0	131.2	130.9	129.2	126.7	124.6
GDP growth	*1.5*	*1.5*	*1.4*	*1.3*	*1.2*	*1.6*	*1.2*	*0.9*	*1.1*	*1.1*
POLICY SCENARIO (1)										
Net borrowing						2.4	1.8	2.4	2.1	1.8
Primary surplus						1.4	1.8	1.3	1.7	2.1
Interest payments						3.8	3.6	3.7	3.8	3.9
Debt						131.2	130.9	130.0	128.1	126.7
GDP growth						*1.6*	*1.2*	*1.5*	*1.6*	*1.4*

(1) The 2018 Economic and Financial Document does not contain the policy scenario.

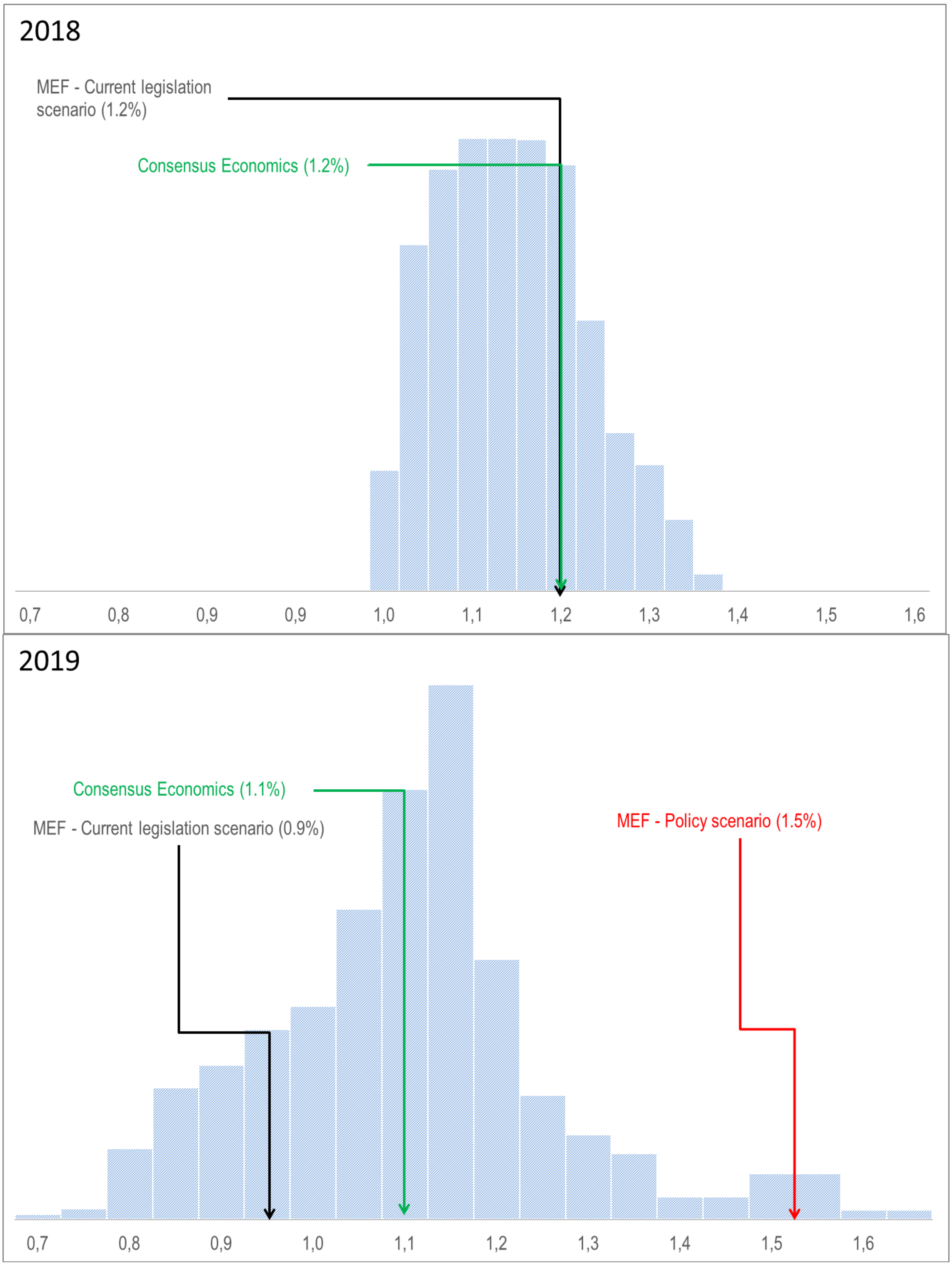
Privatization receipts: targets and outturns (1)

(per cent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021
Targets								
DEF 2014 (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 2015 (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 2016 (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 2017 (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 2018 (April 2018)					0.3	0.3	0.3	0.0
Update to the DEF (September 2018)					0.3	0.3	0.3	0.0
Outturns (2)								
Total	**0.2**	**0.4**	**0.1**	**0.0**	**0.0** (3)			
Totale net of Tremonti/Monti bonds	**0.0**	**0.3**	**0.1**	**0.0**	**0.0** (3)			

(1) The targets expressed as a percentage of GDP are those indicated in the various planning documents. The targets and outturns include reimbursements of the capitalization tools issued by the banks and underwritten by the MEF (the 'Tremonti/Monti bonds'). – (2) The data refer to revenues accounted into item 4055 of the State budget (mostly proceeds from the sale of State shareholdings); the GDP ratios are calculated using the GDP reported by Istat in the press release dated 21 September 2018; the GDP for 2018 is found in the Update to the 2018 Economic and Financial Document. – (3) Outturns up to September 2018.

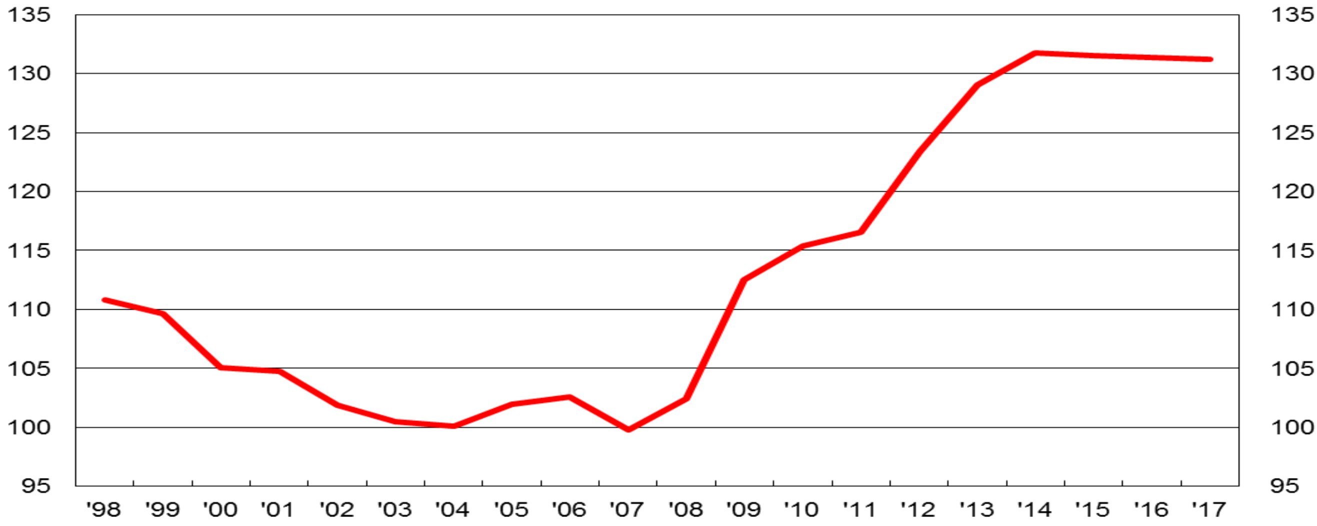
Interpolated distribution of the GDP growth forecasts (1)



(1) Consensus Economics' forecasts are equal to the average of those formulated before 10 September by: ABI, Confindustria, Econ Intelligence Unit, Barclays, Capital Economics, Goldman Sachs, HSBC, Natixis, Prometeia, UniCredit, UBS, Oxford Economics, Bank of America–Merrill Lynch, Centro Europa Ricerche, Moody's Analytics, Banca Nazionale del Lavoro, ING Financial Markets, REF Ricerche, Intesa Sanpaolo, IHS Markit, and Citigroup. The forecasts shown in the graph on 2019 were made prior to the publication of the Update to the 2018 Economic and Financial Document and do not therefore incorporate the budgetary provisions laid down in the policy scenario.

Figure 2

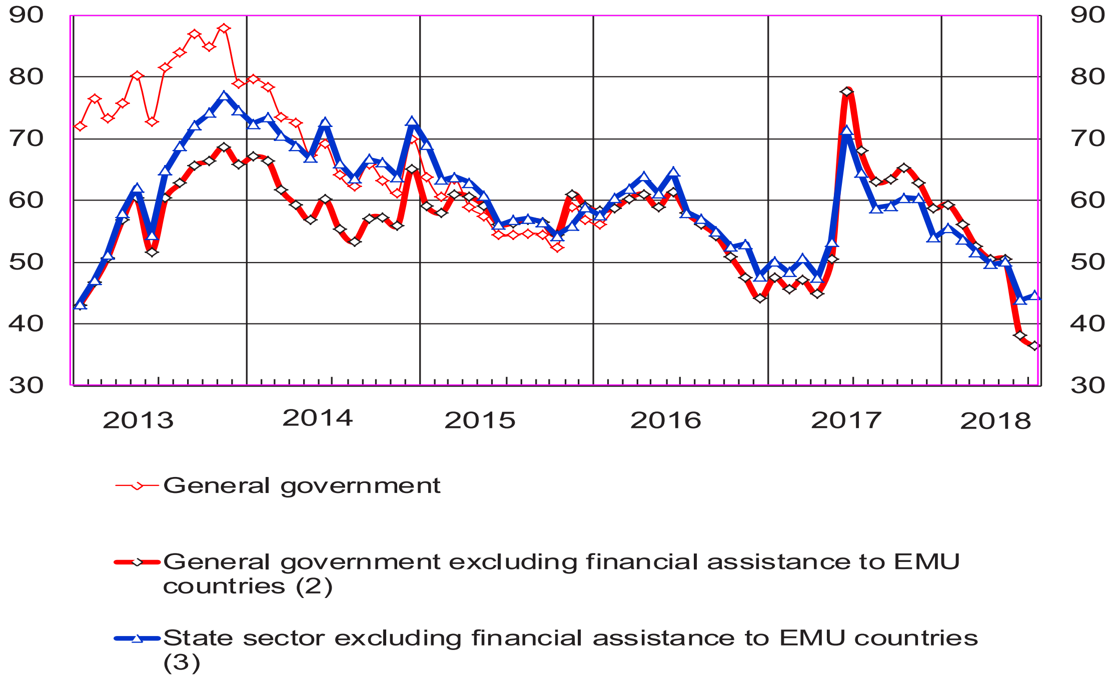
General government debt
(per cent of GDP)



Source: For GDP, based on Istat data (press release of 21 September 2018).

Figure 3

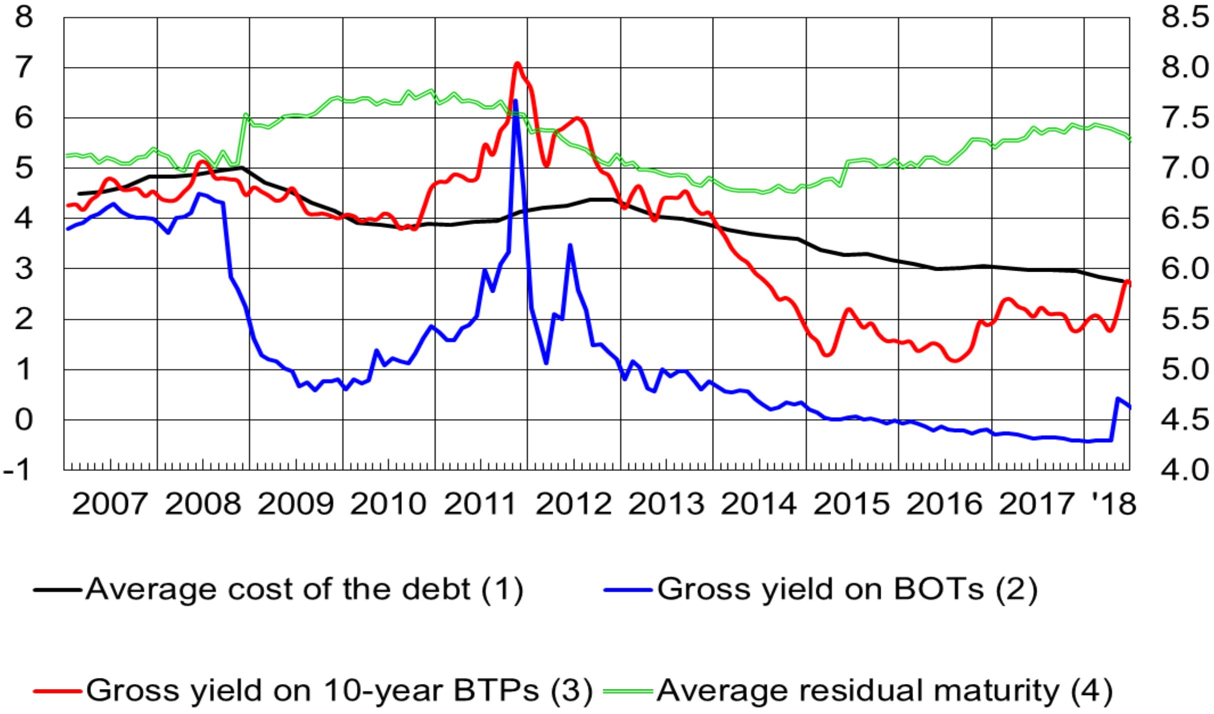
Twelve-month cumulative borrowing requirement (1)
(monthly data; billions of euros)



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.

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

(per cent and year)



Source: Istat, for interest expenses.
(1) Ratio between interest expense in the preceding 4 quarters and the stock of the 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 online government securities market. – (4) Right-hand scale.

Designed by the Printing and Publishing Division of the Bank of Italy