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Preliminary hearing on the 2019 Update of the *Economic and Financial Document*

Testimony of the Deputy Governor of the Bank of Italy

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Senate of the Republic

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1. The macroeconomic scenario

The outlook for the global economy has weakened further in the last few months. Among other things, this reflects the heightened trade tensions and slower economic growth in China. The slowdown in economic activity continued in the euro area, more markedly in Germany, where the industrial sector is particularly vulnerable to export developments, but it has spread across the whole area.

The ECB Governing Council adopted a broad package of expansionary measures to ensure that inflation returns to levels that are below, but close to 2 per cent, against a backdrop of economic weakness that has gone on for longer than expected. The Eurosystem deposit facility rate was further reduced; net asset purchases were relaunched again; and more advantageous conditions for banks' refinancing needs were introduced to support lending.

The weak cyclical conditions also continued in Italy over the last few quarters, underlining the close production and trade ties between Italy and Germany. Based on the information available, our assessments suggest that in the quarter that has just come to an end, GDP was more or less stationary; value added declined in industry, while services and construction made a modestly positive contribution.

Industrial production fell by 0.7 per cent in July; changes in electricity consumption and goods transport in August and September will probably result in a reduction in the quarter's index. A modest increase in activity in services is suggested by the purchasing managers' indices (PMIs) for this sector, which stand just above the threshold compatible with expansion. The trend for new car registrations and retail sales are consistent with a slight increase in consumption.

In the second quarter, investment in capital goods increased by 1.9 per cent compared with the previous quarter, probably also thanks to the tax incentives reintroduced in April; the increase was particularly marked for transport equipment (9.8 per cent). As part of our usual September survey, firms reported slightly more expansionary investment plans compared with the previous survey and they expressed opinions regarding the conditions for investment and the general economic situation that were less unfavourable. Assessments of the risks stemming from global trade tensions are still pessimistic.

Decree Law 34/2019 (the Growth Decree), converted into law on 28 June, reintroduced super-amortisation for investments in capital goods: this tax benefit means that 130 per cent of the cost of purchases made from 1 April to 31 December 2019 for investment expense (not exceeding €2.5 million) can be deducted for income tax purposes.

Monetary and financial conditions have become more expansionary, thanks in part to the new monetary accommodation measures adopted by the ECB Governing Council[1] and, in Italy, to the reduction of sovereign spreads, which played a crucial role. The yield spread on ten-year Italian and German government bonds has halved. Yields on Italian securities have reached historical lows (falling to around 0.8 per cent for ten-year bonds, a decline of 2 percentage points from levels recorded at the start of the year). The cost of wholesale banking and corporate bond funding also fell significantly; between May and August, the cost of new bank loans to the private sector decreased slightly.

Italy's sovereign spread, which stood at 270 basis points at the beginning of the year, reaching 290 points at the end of May, has returned to around 140 points, below the level recorded at the start of 2018. The part of the spread attributable to redenomination risk in the first half of the year fluctuated around 90 basis points; in July it had already fallen below 40 points, following the decision by the European Commission not to recommend an excessive deficit procedure against Italy, after the downward revision of the deficit estimates for 2019 and the approval of additional measures implemented by the Italian Government. At the end of September, redenomination risk accounted for less than 35 basis points. The average yields on bonds issued by Italian banks and non-financial corporations declined, falling by about 100 and about 70 basis points respectively since the end of May, returning close to the levels recorded at the beginning of the year.

The leading analysts revised downwards their growth expectations for 2019 and 2020. The latest Bank of Italy projections were published in July's Economic Bulletin. Based on the latest information, growth next year could be slightly lower than that forecast (0.8 per cent); it is instead possible that it will be slightly higher in 2021, reflecting the effect of the more favourable conditions for funding, as long as the outlook for world trade also improves. However, there is a significant risk of less favourable trends, compounded by the recent heightening of trade conflicts, including the prospect of the US imminently imposing new tariffs on European producers.

According to the professional forecasters polled in September by Consensus Economics, on average, they expect GDP growth to be nil this year and 0.4 per cent in 2020. The OECD's macroeconomic projections, also published in September, concur with these figures.

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[1] See 'The euro-area economy and the recent monetary policy decisions', speech by the Governor of the Bank of Italy, I. Visco, at the third edition of the 'Giornate di Economia' in memory of Marcello De Cecco.

The macroeconomic policy scenario in the Update to the 2019 Economic and Financial Document (DEF) includes the elimination of the VAT increase planned under the safeguard clauses for 2020 and a reduction of those planned in the following years; it also includes some other expansionary measures, including a reduction in the tax wedge on payroll earnings and an increase in public investment. These measures would only partly be paid for by higher revenue and lower spending. Therefore, in each year of the planning horizon, the deficit will exceed the projections in the current legislation scenario.

In the light of these plans, the Government envisages GDP growth of 0.6 per cent in 2020 and 1.0 per cent in 2021. Net of funding, the Government's expansionary measures would increase GDP in relation to the amount in the current legislation scenario by 0.2 percentage points both in 2020 and in 2021. The multipliers implicit in this forecast are prudent ones, given the announced composition of the budgetary plan and, in particular, given the intention of prioritising investment.

An increase in spending on public investment can have significant macroeconomic effects, with the fiscal multiplier even exceeding 1, as long as the resources are used efficiently (see Chapter 16, 'Public investment', Annual Report for 2018*, 2019*). *Reducing the tax wedge can also provide a not insignificant stimulus to the economy, albeit a gradual one, by increasing both firms' competitiveness and real income and therefore household consumption (see the box 'Effects on the projections of changes in the underlying assumptions',* Economic Bulletin*, 1, 2019).*

Nevertheless, the propagation of the expansionary effect of the budget will depend on keeping conditions relaxed on the financial markets. In order to reach this objective, the general framework of interventions and their implementation will have to ensure, in the short term, that the fiscal targets are actually achieved and, going forward, that the public finances follow a sustainable path. I will return to these aspects at the end of my testimony.

2. The public finances in 2019

The Government estimates that net borrowing for this year will be equal to 2.2 per cent of GDP, the same as in 2018, according to Istat's latest revision of the data. Despite an increase in revenue in the order of €13 billion, the primary surplus is expected to fall by almost €3.5 billion, mainly because of the marked increase in primary current expenditure, which reflects to a significant extent the introduction of the new minimum income scheme (*reddito di cittadinanza*) and the revision of pension requirements established by the 2019 Budget Law. Investment expenditure is also expected to increase by almost €3 billion, after the unfavourable

performance of recent years. The drop in the primary surplus is offset by lower interest expense.

Last July, in order to prevent the start of an excessive deficit procedure, the Government made an agreement with the European Commission to reduce the deficit target by about 0.4 percentage points of GDP from the level indicated in last April's DEF (2.4 per cent; see the box 'The recent budget measures and the European Commission's assessments', in *Economic Bulletin*, 3, 2019). Compared with what was previously envisioned, the trend in revenues and primary expenditure are today seen as less favourable: indeed, in July a slight increase in the primary surplus had been expected rather than a slight decline. However, in the new estimates, interest expenditure falls still more quickly than planned in April, reflecting the lower market rates observed in the meantime. From the start of July to today, the yield on ten-year BTPs has fallen by about 100 basis points.

In structural terms, i.e. after adjusting for the effects of the economic cycle and the one-off measures, net borrowing should improve by 0.3 percentage points of GDP compared with 2018, to reach 1.2 per cent. Indeed, although the nominal deficit is expected to be unchanged, the output gap will be higher than last year's, so the share of the deficit attributable to the negative effects of the economic cycle would be greater.

In the Government's estimates, the cyclical component of the deficit, equal to 0.8 per cent of GDP in 2018, should rise to 1 per cent in 2019. This increase reflects a widening of the negative output gap, measured on the basis of the method used at European level, from 1.4 to 1.8 per cent. The effect of the temporary measures is constant over the two years at 0.1 per cent of GDP.

The Update expects that the debt-to-GDP ratio will increase by almost 1 percentage point this year, going from 134.8 per cent at the end of 2018 to 135.7 per cent. The increase is more than the 0.4 percentage points estimated in the DEF last April, partly because of the absence of the privatisations planned at that time, the proceeds of which would have been equal to 1 per cent of GDP.

3. The public finance balances in the three years 2020-22

In the estimates in the Update, the current-legislation projection for the public accounts is much more favourable than in April. Net borrowing is lower by an average of 0.8 percentage points of GDP in the three years 2020-22. The revision is largely due to lower-than-expected interest expenditure (0.4 points lower in 2020, 0.6 points in 2021, and just under 1 point in 2022); this is partly thanks to the

general decline in interest rates, but it is largely due to the lower risk premium on Italian public debt. Moreover, the primary surplus for 2020 was revised upwards by 0.3 percentage points on account of lower expenditure.

Net borrowing on a current-legislation basis is expected to decline from an estimated 2.2 per cent of GDP for 2019 to 1.4 per cent in 2020, then to 1.1 per cent in 2021 and to 0.9 per cent in 2022. In the April DEF, the net borrowing estimate for 2019 was 2.4 per cent of GDP, and it was expected to decline to 2 per cent in 2020, to 1.8 per cent in 2021 and to 1.9 per cent in 2022.

For 2020, the Government is planning to expand the budget with respect to the current legislation scenario, by about 0.8 per cent of GDP. Net borrowing would therefore remain unchanged at the level estimated for this year. The deactivation of the safeguard clauses envisaged in the Update entails a reduction in revenue of 1.3 per cent of GDP, which would be partially offset by other measures.

The deficit is expected to be higher than under the current-legislation scenario also in the two years 2021-22. The difference also reflects an as yet unquantified reduction in the size of the safeguard clauses. The deficit is expected to continue to diminish, falling to 1.8 per cent in 2021 and to 1.4 per cent in 2022.

The Government's plans will lead to a worsening in the structural balance for 2020 of 0.1 percentage points of GDP. The nominal balance is expected to remain unchanged thanks to the favourable trend in the transitional components. In the coming two years, structural borrowing is expected to fall by 0.2 points per year owing to the decline in interest expenditure; this projection includes the effects of the residual safeguard clauses.

The decision to wholly deactivate the clauses in 2020 limits the amount of resources that may be allocated to reducing the tax wedge on payroll earnings (0.15 per cent of GDP in 2020, 0.3 per cent in 2021).

The fact that, given the fiscal targets, the safeguard clauses envisioned for 2021 onwards are expected to be smaller than in the past is to be looked upon positively. In view of the continuing practice of deactivating these clauses on the eve of their entry into force, their (theoretical) presence, which is decisive for achieving the balances set out in the DEF for the second and third years of the planning period, has progressively made medium-term planning of the public finances less transparent.

On the expenditure front, the Government plans to allocate resources for the renewal of some expiring programmes, including Industry 4.0. In addition to the revival of public investment, the Update announces new measures that are

designed both to increase funding for education and research and to strengthen the health system.

Other resources, accounting for 0.1 percentage points of GDP, will be allocated to measures that fall under the heading of 'no-change policies'.

To finance all the measures specified, the Government is planning interventions that will increase revenue and lower expenditure in the order of 0.8 percentage points of GDP in 2020. Approximately half the funding will come from combatting tax evasion and tax fraud, including measures that encourage the use of traceable payment instruments. Additional revenue-generating measures are also planned (accounting for more than 0.2 points), including new environmental taxes and the reduction of tax expenditures that have the effect of incentivising behaviour that is harmful to the environment.

On the expenditure front, a spending review should yield savings of more than 0.1 per cent of GDP.

With regard to containing expenses, please allow me a brief digression. First of all, it should be borne in mind that the growth in primary current expenditure in Italy has decreased significantly in recent years; the acceleration in the opposite direction expected for this year reflects, as I have already mentioned, the introduction of the new minimum income scheme and the legislative changes concerning pensions. Between 1998 and 2008, primary current expenditure grew by an average of almost 2.0 per cent per year in real terms; between 2008 and 2018, the average annual growth rate was almost 0.5 percentage points, again in real terms. Net of social security benefits in cash (which include payments for pensions and unemployment benefits), the primary current expenditure moves from 2.0 growth to a contraction of 0.3 per cent.

Compensation of employees – which in the ten years preceding the economic and financial crisis grew by an annual average rate of 1.6 per cent in real terms – contracted by about 1.0 per cent per year on account of the various measures that over time froze contract renewals and limited staff turnover in the public sector. As of 2016, this expenditure item has returned to growth, albeit at low rates. The real growth rate of social transfers fell from 1.8 per cent before the crisis to 1.2 per cent in the ten years that followed. The slowdown is the result of the pension reforms approved in the 1990s and of the additional measures taken in 2011 to contain the effects of the ageing of the population. In 2019, social security benefits in cash are expected to accelerate on account of both the legislative changes concerning pensions and the measures to combat poverty introduced this year. The annual average growth rate of the other primary current expenditure items taken as a whole (which largely consist of intermediate consumption and production subsidies) went from 2.4 per cent in the decade before the crisis to 0.3 per cent in the years that followed.

However, given the significant decline in GDP during the double-dip recession, all of this proved insufficient to prevent a further increase in the ratio of primary current expenditure to GDP, which grew from 38.6 per cent in 2008 to 41.4 per cent in 2018. It follows that it will be necessary to continue decisively along our chosen path. The inclusion of the ministerial spending reviews in the budget cycle, pursuant to the 2016 reform of the law on accounting and public finance, is potentially an effective tool to this end.

In the short term, i.e. in the light of the next budget law, in order to cut costs, measures are needed to address the current expenditure items that are less subject to legislative restrictions and are more easily readjusted on an annual basis (such as intermediate consumption).

In the medium term, a more in-depth reflection would be opportune. The fight against waste must certainly continue, but expectations should remain realistic concerning the results that can be achieved in any given year. However, to prevent new cuts from unduly affecting the quality of the services provided by general government or from undermining the professionalism of public sector employees, it may be necessary to include the spending review in the broader set of reforms on the structure and functioning of the public administration, acting systematically on incentives and, perhaps, carrying out a careful reassessment of the role and tasks of general government. The draft laws accompanying the budget law could begin to move in this direction.

4. Measures to combat tax evasion

As we very well know, tax evasion subtracts a large amount of revenue from the state coffers, but this missing revenue is not the only consequence of tax evasion. Tax evaders are able to supply goods and services at prices that are lower than those of their law-abiding competitors; the ensuing distortion alters the allocation of factors of production, with negative effects on efficiency, productivity and growth. Tax evasion translates into a greater tax burden for compliant companies, thereby limiting their competitiveness; similarly, the higher tax burden on compliant taxpayers raises issues concerning the equal treatment of citizens, especially if the effects of fraudulent tax disclosures extend beyond the tax realm to other areas, such as benefits and social services for the less well-off. In short, tax evasion impacts both efficiency and fairness: it impedes the proper functioning of the market and alters the redistribution mechanisms enshrined in law. Understandably, there is broad consensus concerning the need to implement effective measures to combat this problem.

On this issue, in my opinion, two points should be borne in mind. The first concerns the advisability of capitalising and building on the results already achieved. In recent years, including within the context of greater cooperation and coordination at international level, the strategy for combating tax evasion in Italy has been strengthened by new tools. The 2014 delegated legislation which tasked the Government with reforming the tax system resulted in a framework that, on the one hand, simplified the tax obligations and created incentives for spontaneous taxpayer compliance, and on the other, expanded the amount of information available to the tax authorities and strengthened synergies between institutions. In addition, a number of measures were taken to prevent and contain improper conduct vis-à-vis the tax authorities, especially as regards VAT. The reforms that introduced the split payment system, the new tax-compensation methods, electronic invoicing, and electronic transmission of sales data are designed to leverage the greater availability of data to carry out more targeted controls, while also encouraging greater taxpayer compliance.

Taking account of the risks inherent in possessing large quantities of personal data, the individual measures and procedures should always effectively safeguard the privacy of taxpayers, though they should also make full use of the wealth of data that is available to the tax authority to fight tax evasion.

The results, though preliminary, are encouraging. The 2019 report on the unobserved economy and on tax and social security contribution evasion, published alongside the Update to the DEF, showed a decline in the propensity to evade between 2014 and 2017; the tax gap (the difference between tax revenue as it ‘should be’ and as ‘it is’ collected) declined from €95.4 billion in 2014 to €90.8 billion in 2017. It is likely that additional progress has been made since then. The report also quantifies the increase in revenue attributable to the individual measures. It is a start. After all, perhaps no country has been successful in fully eradicating tax evasion; therefore, we must try to close the gap with the more virtuous countries and capitalise on the progress made so far.

In this context, the Bank of Italy looks favourably upon measures that incentivise the use of traceable payment instruments that tend to reduce transaction times and costs and can help to fight both tax evasion and other types of illegal activities; however, safeguards are still needed to avoid undue intrusions into a taxpayer’s personal life and to protect those who still find it difficult to use modern payment methods. It is important to design these instruments with technical considerations in mind in order to minimise their costs, their conceptual and operational complexity, and any distortive effects, and thereby maximise their efficacy.

The second point that I would like to underscore is that due caution is required in assessing the results that can be achieved in only one year. It takes time to see progress in the fight against tax evasion; the effects of the new measures and their timing cannot be accurately quantified in advance and it is good practice to continue to analyse their efficiency and efficacy on a case by case basis, and then make any technical adjustments necessary. Lastly, changes in the behaviour of taxpayers, which is a gradual process, is of the utmost importance,

In the short term, although it is reasonable – based on recent experience – to expect positive effects from the new tax evasion measures, a cautious approach must be taken in their quantification in any budget law.

5. The public debt in the three years 2020-22

According to the Government's plans, next year the debt-to-GDP ratio is expected to fall by about 0.5 percentage points, following the increase expected for this year. In the following two-year period, the debt burden is expected to continue to decline by about 2 points on average each year, partly thanks to the revenue from the residual safeguard clauses; the ratio is expected to equal 131.4 per cent in 2022.

Compared with the projections in the DEF in April, the estimates are also affected by changes to the methods used to calculate the public debt agreed at the European level. These changes, while having increased the debt level, have no effect on the evaluation of the sustainability of the public finances.

In September, the Bank of Italy released updated estimates for general government debt for the years 2015-18. The revisions take account of the new Manual on General Government Deficit and Debt (MGDD) published by Eurostat in August, and the extension of the perimeter of general government as defined by Istat in agreement with Eurostat. For Italy, the main methodological revision introduced by the MGDD concerns the inclusion in the public debt of interest that was accrued but not yet paid on post office savings certificates (BPFs), which were issued by Cassa Depositi e Prestiti up until 2001 and were then assigned to the Ministry of Economy and Finance following the transformation of the Cassa into an SpA (a limited company) in 2003. Information on the amount of interest matured but not yet paid was nonetheless published by the Bank of Italy in its Financial Accounts, for which European statistical standards envisage a system whereby interest is recorded on an accrual basis (going forward, this interest will decline to zero as the outstanding securities are redeemed). The revision resulted in a higher debt-to-GDP ratio (up by 3.7 percentage points in 2015, 3.6 percentage points of GDP in 2016, 3.5 percentage points in 2017 and 3.3 percentage points in 2018), but with a more favourable trend (compared with 2015, at the end of 2018 the debt-to-GDP ratio was slightly lower rather than higher). The annual accrued interest on BPFs issued up to 2001 had always been included in the general government's interest expenditure. The revision therefore reduces the average

cost of the debt calculated as the ratio between interest expenditure and the public debt. The evaluation of the sustainability of the accounts is not affected.

Overall, the decline in the debt-to-GDP ratio planned for the next three years is lower by about one percentage point of GDP compared with the decline expected under the current legislation scenario. The higher net borrowing level (up by an average of 0.7 percentage points of GDP per year) will be offset in part by income expected from privatisations (0.2 percentage points of GDP per year) and by more sustained nominal GDP growth.

As we know, changes in the debt-to-GDP ratio essentially depend on the interaction between the primary balance and the difference between the average cost of the debt and nominal GDP growth. On the one hand, the Government plans a reduction of the primary surplus with respect to the current legislation scenario (by an average of about 0.6 percentage points of GDP per year). On the other hand, it forecasts that the difference between the average cost of the debt and nominal GDP growth – equal to 1.5 per cent in 2019 – will fall by about two thirds next year and will become negative, at around -0.5 percentage points, in the following two years. This forecast includes an increase in the GDP deflator from 0.9 per cent in 2019 to 1.7 per cent in 2022, to which the effects of the residual safeguard clauses would also contribute.

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The weak cyclical conditions continue in Italy, partly affected by the further slowdown in the euro area. The effect of the heightened trade tensions has been partly offset by the more favourable financial conditions, made possible not only by the monetary accommodation but also by the large reduction in sovereign risk premia.

The macroeconomic and public finance scenario in the Update presupposes that these conditions are maintained; it would be at risk were this not to occur.

The Government expects the deficit to remain unchanged in 2020 and the fall in interest payments will offset the reduction in the primary surplus. The fiscal policy stance will be slightly expansionary, largely reflecting the cancellation of the safeguard clauses, and the structural correction will again be deferred to later years. These budget decisions are motivated by a macroeconomic outlook that is less favourable than was previously expected and by non-negligible downside risks.

The Update to the DEF indicates a path towards a gradual reduction of the weight of the debt on the economy. To be credible, this path must be founded on clearly defined budget measures and on a prudent quantification of their financial impact. The credibility of the debt reduction strategy in the medium term also affects the efficacy of the expansionary measures planned for the coming year.

The debt-to-GDP ratio, which is expected to increase this year, should fall slightly in 2020. For a country where the public debt is one of the main points of weakness, ensuring that the change in this indicator has the right sign is the very least one can hope for.

In order to meet the budget objective for next year, more than €14 billion must be found. In the Update, the Government identified the main areas in which it intends to intervene. For some of these, especially as concerns the measures to combat tax evasion, a precise quantification is arduous. In order to ensure that the objective is met, the public accounts should be monitored periodically and corrective measures should be readily available to address any deviations from the objective.

For the following years, the fiscal policy stance is expected to be substantially neutral; the slight structural improvement would solely stem from the contraction in interest expenditure; the stance includes the effect of the residual safeguard clauses, the amount of which is not defined in the Update.

Interest expenditure is tied to the sovereign spread; the latter reflects the confidence of investors and savers concerning the credibility of the consolidation path. Given the size of Italy’s public debt, the country pays a very high penalty when this credibility is questioned, in that money has to be diverted from services, investment or from tax reductions in order to cover the higher cost of the debt. The experience accrued during the crisis years has dramatically demonstrated this; on the other hand, the effects on interest expenditure of the rapid decline in the spread in recent months clearly show the monetary value of a recovery in confidence.

However, it is worth noting that, despite all the recent improvements, Italy’s sovereign spread remains twice that of Spain and four times that of France. To move closer to the levels recorded in these countries (and keeping in mind the fact that Spain had a higher spread than Italy’s until mid-2016), confidence must not only be preserved, it must be strengthened. Both the public accounts and economic growth must contribute.

The situation over the past few years has been exceptional from a historical perspective. Nominal interest rates are the lowest on record. This situation must be leveraged to put the debt-to-GDP ratio on a lasting downward path.

Much depends on the medium- and long-term fiscal policies. It is certainly appropriate to adjust the debt reduction path in the light of the macroeconomic context; however, only if the pursuit of the fundamental objective remains convinced and credible can we count on a lower level of interest expenditure and on less vulnerability with respect to the uncertainties surrounding the euro-area and global economies.

To reduce the debt, in the medium-term, the Government should programme primary surpluses that are sufficiently high to achieve the fiscal targets agreed at European level and provided for in our Constitution. Going forward, a comprehensive and coherent tax reform, based on careful analysis, seems necessary. As things stand, it cannot consist in cutting all taxes. When defining the measures to be adopted, account should be taken of all the available instruments, including indirect taxes, directing the choice towards the set of measures that best reduces the contractionary impact on the economy, distortions in the allocation of resources and unwanted redistributive effects.

However, much also depends on GDP growth. To drive the recovery, systematic structural reforms are needed, reforms that are capable of increasing the economy's growth potential. The presentation of the National Reform Programme, planned for next April, may be an opportunity to reflect on such a strategy and to define its implementation. It is not only an important goal in itself, but also a fundamental prerequisite to ensure the sustainability of the public finances. For what is of interest here, I note that an 'expansionary rebalancing' of the budget may also help, one which favours tangible and intangible investment and makes the tax system less distortive by reducing the tax burden on the factors of production.

TABLES AND FIGURES

Table 1

Macroeconomic outlook in the most recent official documents

(percentage changes)

	Economic and Financial Document 2019					Update to the 2019 Economic and Financial Document				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
						CURRENT LEGISLATION SCENARIO				
Real GDP	**0.9**	**0.1**	**0.6**	**0.7**	**0.9**	**0.8**	**0.1**	**0.4**	**0.8**	**1.0**
Imports	*2.3*	*2.2*	*2.5*	*2.5*	*2.5*	*3.0*	*0.7*	*2.0*	*3.2*	*3.6*
Consumption by households and non-profit institutions	*0.6*	*0.6*	*0.6*	*0.7*	*0.8*	*0.8*	*0.4*	*0.3*	*0.7*	*1.0*
General government expenditure	*0.2*	*-0.3*	*0.4*	*0.1*	*0.0*	*0.4*	*-0.2*	*0.1*	*0.1*	*0.2*
Investment	*3.4*	*0.7*	*1.2*	*1.3*	*1.5*	*3.2*	*2.1*	*1.6*	*1.7*	*2.2*
Exports	*1.9*	*2.1*	*2.3*	*2.5*	*2.6*	*1.8*	*2.8*	*2.3*	*2.8*	*3.2*
Nominal GDP	**1.7**	**1.2**	**2.6**	**2.5**	**2.4**	**1.7**	**1.0**	**2.3**	**2.3**	**2.5**
Consumption deflator	**1.1**	**1.0**	**2.3**	**1.8**	**1.5**	**0.9**	**0.8**	**2.0**	**1.7**	**1.5**
Employment (FTE)	**0.8**	**-0.2**	**0.2**	**0.5**	**0.6**	**0.8**	**0.5**	**0.2**	**0.5**	**0.7**
						POLICY SCENARIO				
Real GDP	**0.9**	**0.2**	**0.8**	**0.8**	**0.8**	**0.8**	**0.1**	**0.6**	**1.0**	**1.0**
Imports	*2.3*	*2.2*	*2.7*	*2.6*	*2.5*	*3.0*	*0.7*	*2.3*	*3.3*	*3.4*
Consumption by households and non-profit institutions	*0.6*	*0.6*	*0.7*	*0.7*	*0.6*	*0.8*	*0.4*	*0.7*	*0.8*	*0.6*
General government expenditure	*0.2*	*-0.4*	*0.8*	*0.1*	*-0.1*	*0.4*	*-0.2*	*-0.2*	*0.3*	*0.1*
Investment	*3.4*	*1.4*	*2.0*	*1.8*	*1.6*	*3.2*	*2.1*	*2.2*	*2.3*	*2.2*
Exports	*1.9*	*2.1*	*2.3*	*2.4*	*2.6*	*1.8*	*2.8*	*2.2*	*2.9*	*3.1*
Nominal GDP	**1.7**	**1.2**	**2.8**	**2.6**	**2.3**	**1.7**	**1.0**	**2.0**	**2.7**	**2.6**
Consumption deflator	**1.1**	**1.0**	**2.3**	**1.9**	**1.6**	**0.9**	**0.8**	**1.0**	**1.9**	**1.8**
Employment (FTE)	**0.8**	**-0.1**	**0.3**	**0.6**	**0.5**	**0.8**	**0.5**	**0.4**	**0.6**	**0.9**

Table 2

Main public finance indicators for general government (1)
(per cent of GDP)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	46.0	45.7	45.6	47.6	48.1	47.9	47.8	46.6	46.2	46.2
Expenditure (2)	51.1	49.9	49.2	50.6	51.0	50.9	50.3	49.0	48.7	48.4
of which: interest payments	*4.4*	*4.3*	*4.6*	*5.2*	*4.8*	*4.6*	*4.1*	*3.9*	*3.8*	*3.7*
Primary surplus (3)	-0.7	0.0	1.1	2.2	2.0	1.6	1.6	1.5	1.3	1.5
Net borrowing	**5.1**	**4.2**	**3.6**	**2.9**	**2.9**	**3.0**	**2.6**	**2.4**	**2.4**	**2.2**
Borrowing requirement	5.6	4.3	3.7	4.1	4.7	4.1	3.1	2.5	3.4	2.2
Borrowing requirement net of privatization receipts	5.7	4.3	3.8	4.6	4.9	4.3	3.5	2.6	3.4	2.2
Debt	**116.6**	**119.2**	**119.7**	**126.5**	**132.4**	**135.4**	**135.3**	**134.8**	**134.1**	**134.8**

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)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Direct taxes	14.1	14.1	13.8	14.8	14.9	14.6	14.7	14.6	14.4	14.1
Indirect taxes	13.4	13.8	14.0	15.1	14.8	15.2	14.9	14.3	14.3	14.3
Capital taxes	0.8	0.2	0.4	0.1	0.3	0.1	0.1	0.3	0.1	0.1
Tax revenue	**28.2**	**28.1**	**28.2**	**30.0**	**30.0**	**29.9**	**29.6**	**29.2**	**28.8**	**28.5**
Social security contributions	13.4	13.3	13.1	13.3	13.4	13.2	13.2	13.0	13.0	13.3
Tax revenue and social security contributions	**41.7**	**41.4**	**41.3**	**43.3**	**43.4**	**43.1**	**42.9**	**42.2**	**41.8**	**41.8**
Production for market and for own use	2.2	2.2	2.3	2.3	2.5	2.5	2.5	2.5	2.4	2.4
Other current revenue	1.8	1.9	1.8	1.8	1.9	2.0	1.9	1.8	1.8	1.9
Other capital revenue	0.2	0.2	0.2	0.2	0.3	0.3	0.5	0.1	0.2	0.1
Total revenue	**46.0**	**45.7**	**45.6**	**47.6**	**48.1**	**47.9**	**47.8**	**46.6**	**46.2**	**46.2**

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)

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Compensation of employees	11.0	10.8	10.4	10.3	10.3	10.2	9.9	9.8	9.6	9.8
Intermediate consumption	5.6	5.6	5.5	5.6	5.7	5.6	5.6	5.7	5.7	5.7
Social benefits in kind	2.9	2.9	2.7	2.7	2.7	2.7	2.7	2.6	2.6	2.6
Social benefits in cash	18.5	18.5	18.5	19.2	19.8	20.1	20.1	19.8	19.7	19.8
Interest payments	4.4	4.3	4.6	5.2	4.8	4.6	4.1	3.9	3.8	3.7
Other current expenditure	3.6	3.6	3.6	3.8	4.0	4.1	3.9	3.9	3.5	3.6
Total current expenditure	**46.0**	**45.7**	**45.3**	**46.7**	**47.4**	**47.3**	**46.2**	**45.7**	**44.8**	**45.1**
of which: *expenditure net of interest payments*	*41.6*	*41.5*	*40.6*	*41.6*	*42.6*	*42.7*	*42.1*	*41.8*	*41.1*	*41.4*
Gross fixed investment	3.7	3.1	2.9	2.6	2.5	2.3	2.4	2.3	2.2	2.1
Other capital expenditure	1.5	1.1	1.0	1.2	1.0	1.3	1.7	1.0	1.7	1.2
Total capital expenditure	**5.1**	**4.2**	**3.9**	**3.9**	**3.5**	**3.6**	**4.1**	**3.3**	**3.8**	**3.3**
Total expenditure	**51.1**	**49.9**	**49.2**	**50.6**	**51.0**	**50.9**	**50.3**	**49.0**	**48.7**	**48.4**
of which: expenditure net of interest payments	*46.7*	*45.7*	*44.5*	*45.4*	*46.1*	*46.3*	*46.2*	*45.1*	*44.9*	*44.7*

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		
	2016	2017	2018	2017	2018	2019
Borrowing requirement net of privatization receipts (a)	**43.8**	**58.8**	**38.9**	**47.0**	**24.9**	**25.8**
Privatization receipts (b)	0.9	0.1	0.0	0.1	0.0	0.0
Borrowing requirement (c=a-b=d+e+f+g+h+i)	**42.9**	**58.8**	**38.9**	**46.9**	**24.9**	**25.8**
FINANCING						
Currency and deposits (1) (d)	-5.1	-0.6	5.2	9.2	7.2	4.1
of which: *Post Office funds*	*0.1*	*-1.9*	*-0.2*	*-1.1*	*-0.7*	*-0.3*
Short-term securities (e)	-8.0	-0.5	0.8	8.9	6.7	9.0
Medium- and long-term securities (f)	63.3	41.1	42.3	65.8	66.3	74.9
Loans from MFIs (g)	0.5	3.4	-4.5	3.9	-4.0	-3.0
Other liabilities (2) (h)	-0.3	1.5	0.8	1.6	-0.7	0.5
of which: loans via the EFSF	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*	*0.0*
Change in the Treasury's liquidity balance (3) (i)	-7.4	13.8	-5.8	-42.5	-50.6	-59.7

(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 2019

(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						
September 2018 (2)	2.4	1.7	1.3	-0.9	1.5	3.1
December 2018 (3)	2.0	1.3	1.7	-1.0	1.0	2.3
April 2019 (4)	2.4	1.5	1.2	0.4	0.2	1.2
September 2019 (5)	2.2	1.2	1.3	0.9	0.1	1.0
Estimates						
April 2019 (4)	2.4	1.6	1.2	0.6	0.1	1.2
September 2019 (5)	2.2	1.2	1.3	0.9	0.1	1.0

(1) Changes in the debt-to-GDP ratio compared with the previous year. – (2) Update to the 2018 Economic and Financial Document. – (3) Update to the macroeconomic outlook and the public finances, December 2018. – (4) 2019 Economic and Financial Document. – (5) Update to the 2019 Economic and Financial Document.

Table 7

Current legislation and policy scenarios for the public finances in the most recent official documents.

(per cent of GDP)

	Economic and Financial Document 2019					**Update to the 2019 Economic and Financial Document**				
	2018	2019	2020	2021	2022	2018	2019	2020	2021	2022
CURRENT LEGISLATION SCENARIO										
Net borrowing	2.1	2.4	2.0	1.8	1.9	2.2	2.2	1.4	1.1	0.9
Primary surplus	1.6	1.2	1.6	1.9	2.0	1.5	1.3	1.9	1.9	2.0
Interest payments	3.7	3.6	3.6	3.7	3.9	3.7	3.4	3.2	3.1	2.9
Debt	132.2	132.8	131.7	130.6	129.6	134.8	135.7	134.1	132.5	130.4
GDP growth	*0.9*	*0.1*	*0.6*	*0.7*	*0.9*	*0.8*	*0.1*	*0.4*	*0.8*	*1.0*
POLICY SCENARIO										
Net borrowing	2.1	2.4	2.1	1.8	1.5	2.2	2.2	2.2	1.8	1.4
Primary surplus	1.6	1.2	1.5	1.9	2.3	1.5	1.3	1.1	1.3	1.6
Interest payments	3.7	3.6	3.6	3.7	3.8	3.7	3.4	3.3	3.1	2.9
Debt	132.2	132.6	131.3	130.2	128.9	134.8	135.7	135.2	133.4	131.4
GDP growth	*0.9*	*0.2*	*0.8*	*0.8*	*0.8*	*0.8*	*0.1*	*0.6*	*1.0*	*1.0*

Table 8

Privatization receipts: targets and outturns (1)

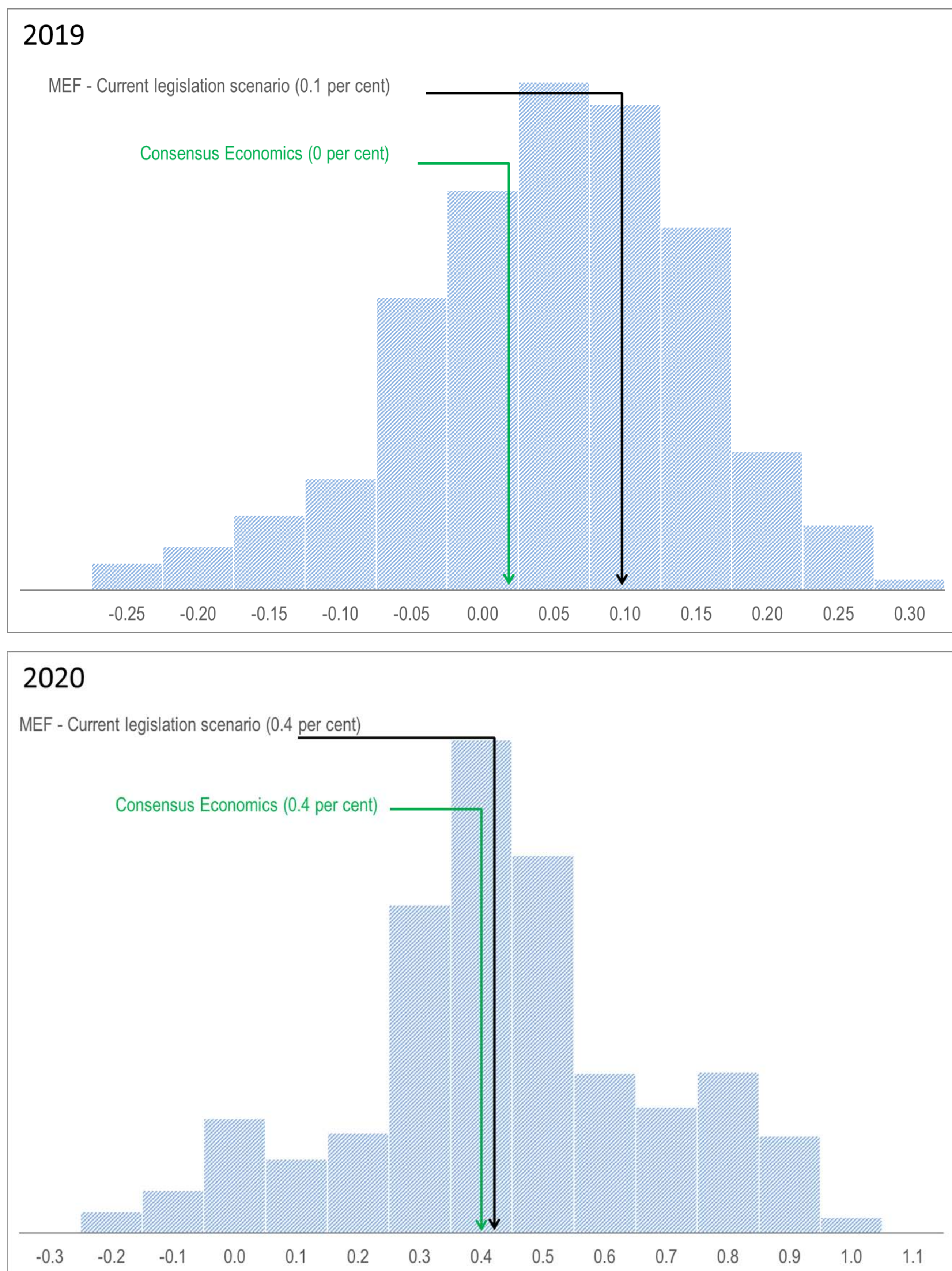
(per cent of GDP)

	2014	2015	2016	2017	2018	2019	2020	2021	2022
Targets									
DEF 2014 (April 2014)	0.7	0.7	0.7	0.7					
Update to the DEF 2014 (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 2015 (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 2016 (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 2017 (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 2018 (September 2018)					0.3	0.3	0.3	0.0	
Update to the macroeconomic outlook and the public finances (Dec. 2018)						1.0	0.3		
DEF 2019 (April 2019)						1.0	0.3	0.0	0.0
Update to the DEF 2019 (September 2019)						0.0	0.2	0.2	0.2
Outturns (2)									
Total	**0.2**	**0.4**	**0.1**	**0.0**	**0.0**	**0.0** (3)			
Total net of Tremonti/Monti bonds	**0.0**	**0.3**	**0.1**	**0.0**	**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 latest estimates for GDP reported by Istat. – (3) Outturns up to September 2019.

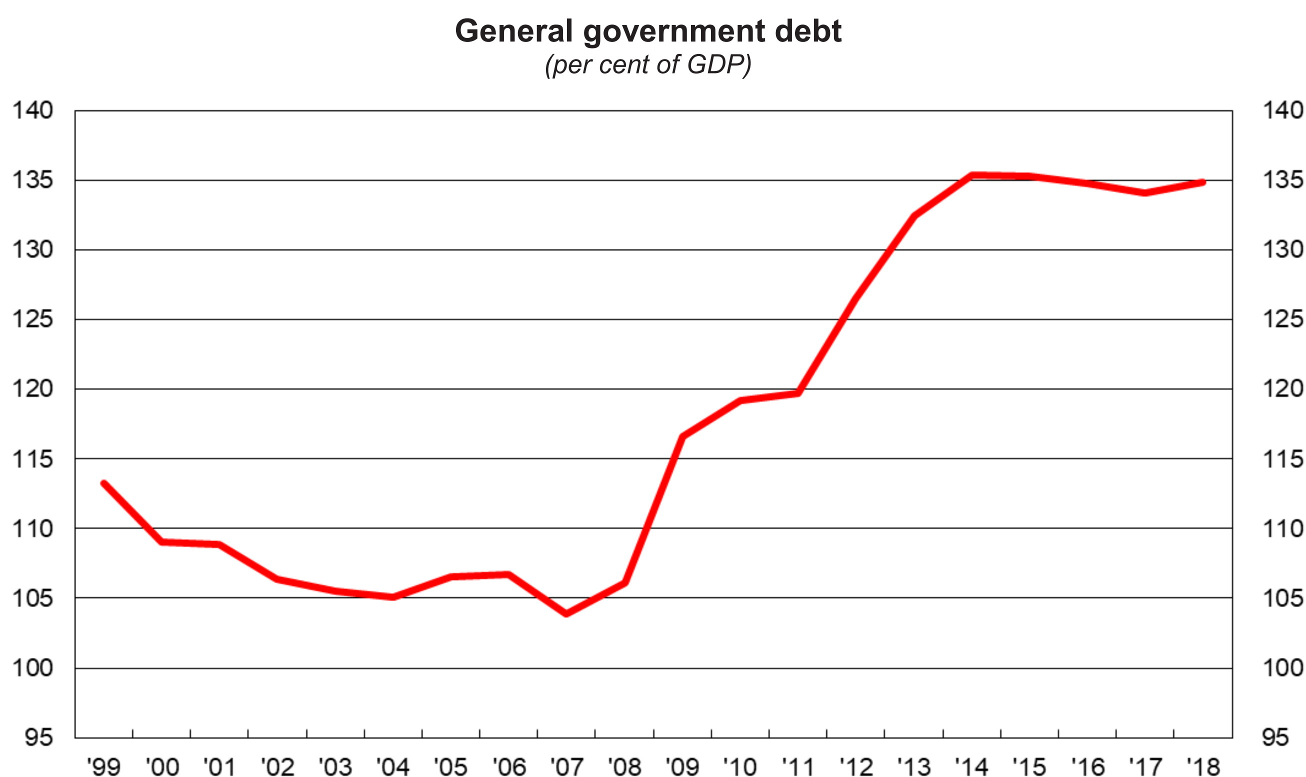
Figure 1

Interpolated distribution of the GDP growth forecasts (1)



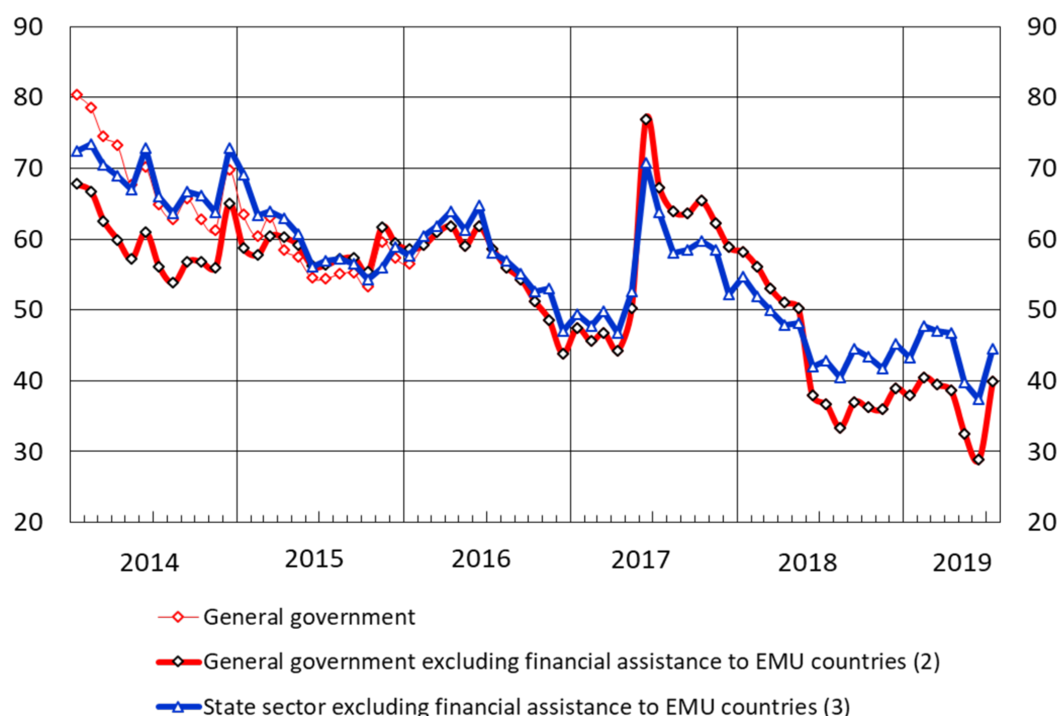
Consensus Economics' forecasts are equal to the average of those formulated before 13 September by: ABI, Allianz, Moody's Analytics, Banca Nzle del Lavoro, Centro Europa Ricerche, Econ Intelligence Unit, Goldman Sachs, Prometeia, Bank of America–Merrill, UBS, Oxford Economics, Intesa Sanpaolo, Barclays, Confindustria, HSBC, ING Financial Markets, Natixis, REF Ricerche, UniCredit, IHS Markit, Citigroup, LC Macro Advisors and Capital Economics. The forecasts shown in the graph on 2020 were made prior to the publication of the Update to the 2019 Economic and Financial Document and do not therefore incorporate the budgetary provisions laid down in the policy scenario.

Figure 2



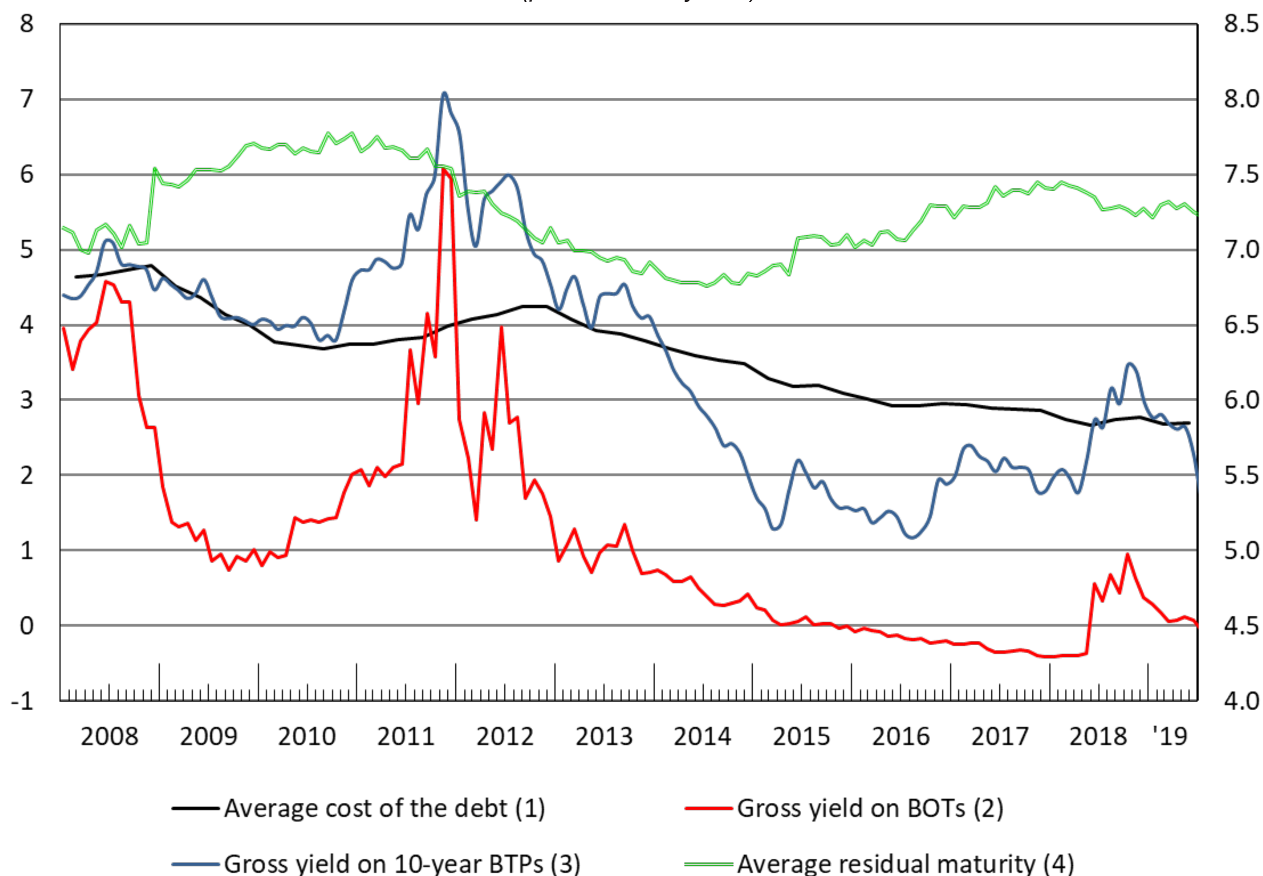
Source: For GDP, based on Istat data (press release of 23 September 2019).

Figure 3



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.

Figure 4

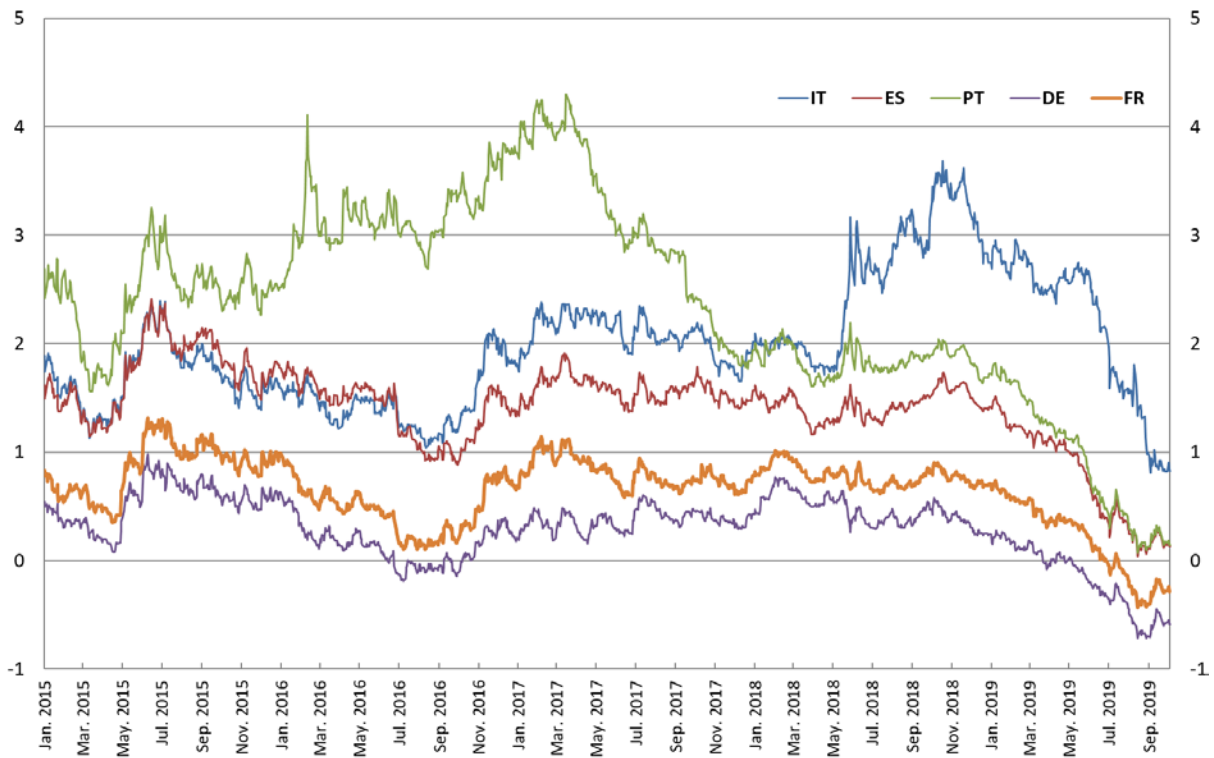


Source: Istat, for interest expense.
(1) Ratio between interest expense in the preceding 4 quarters and the stock of the debt at the end of the year-earlier quarter. – (2) The yield at issue is the average, weighted by the issue amounts allotted, of the compound allotment rates at the auctions settled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

Figure 5

Gross yields on 10-year government securities

(daily data; per cent)

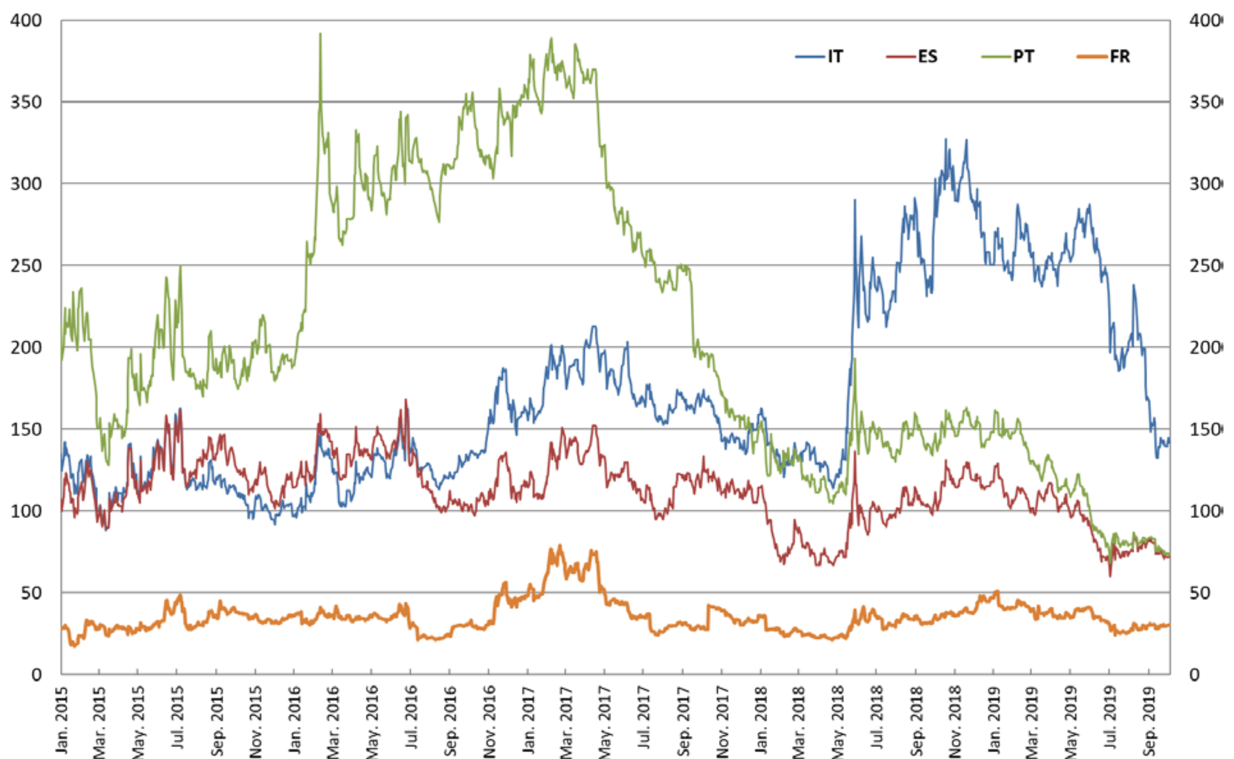


Source: Bloomberg.

Figure 6

Yield spreads between 10-year government bonds and the corresponding German Bund

(daily data; percentage points)

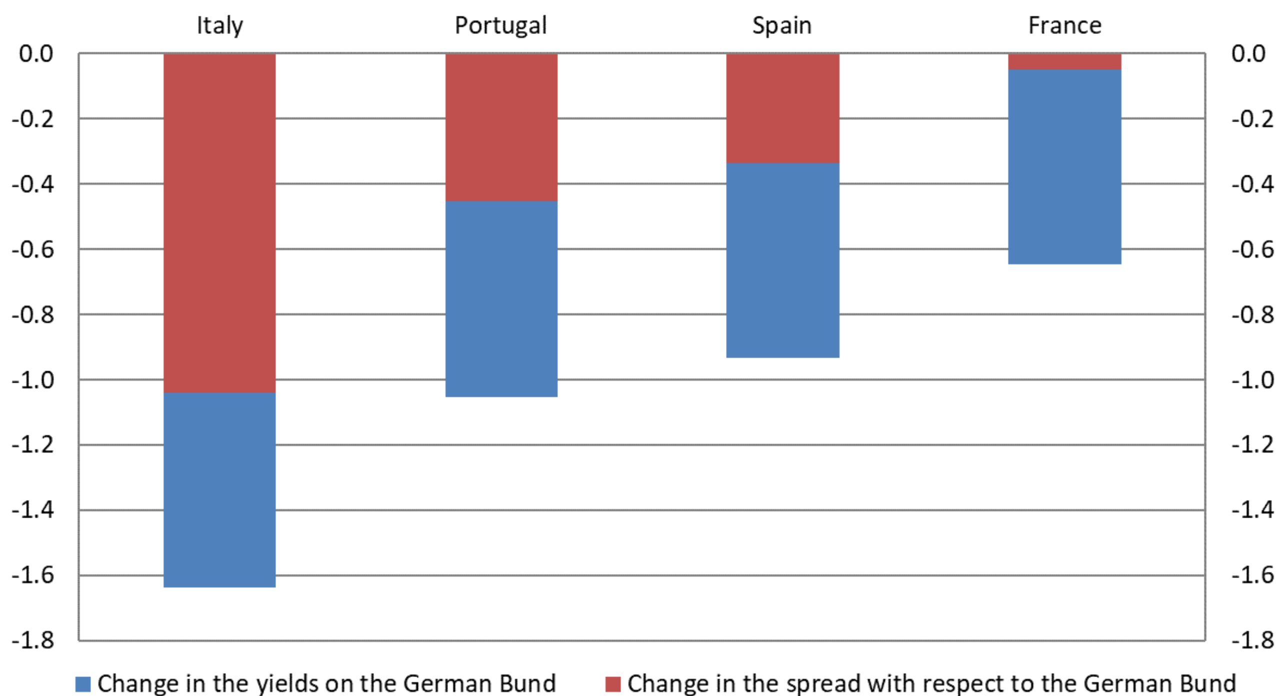


Source: Bloomberg.

Figure 7

Change in the yields on 10-year government bonds compared with April (1)

(per cent)



Source: Bloomberg.

(1) The change was calculated by comparing the yield as at 4 October 2019 with the average yield recorded over the period 5-15 April 2019.

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