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Fact-finding preliminary to the examination of the budget for 2001

Statement by the Governor of the Bank of Italy
Antonio Fazio

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Contents

1. The macroeconomic situation

During the summer the recovery in the euro area that had been under way for about a year began to show signs of flagging, primarily as a result of the slowdown in domestic demand.

The sharp rise in the price of oil and the simultaneous weakening of the euro are undermining the confidence of consumers and firms. The deterioration in the terms of trade may cause consumption to expand more slowly than most forecasts indicated at the start of the summer. Investment may also be affected by the less optimistic outlook for demand growth.

In Italy manufacturing production continued to increase until May this year. The index subsequently suffered two declines, in June and July, before partially recovering in August. Over the summer, industrial production expanded more slowly than is estimated for the other euro-area countries. The latest indicators suggest that it will continue to grow in the last part of 2000, although at a slower pace than in the first half of the year.

The Government has forecast real GDP growth of 2.8 per cent for 2000. Achieving this result will require a growth rate of 1.3 per cent in the second half of the year, only slightly less than that registered in the first six months, when GDP increased by 1.5 per cent; this compares with an average of 1.8 per cent for the euro area.

Domestic demand is expected to provide the main contribution to GDP growth. Gross fixed investment is projected to rise by 7 per cent under the impulse of stronger demand and tax incentives; the construction industry is expected to recover strongly. Consumption is forecast to increase by 2.1 per cent, in line with the rise in the first half of the year. Growth in consumption has been adversely affected by the impact of the rise in oil prices on inflation and, as a result, on households’ purchasing power.

The Government forecasts that net foreign demand will contribute 0.4 percentage points to growth. The strong impulse imparted by growth in world trade and the depreciation of the euro have helped to increase exports by 9.5 per cent, an even larger rise than the admittedly sizable increase of 8.5 per cent in imports. The pronounced worsening of the terms of trade as a result of higher oil prices has caused a significant deterioration in the balance of trade on current account, which is expected to register a deficit of about 3 trillion lire, the first negative result in seven years.

The expansion in economic activity is expected to foster a further increase in employment, thanks in part to moderate wage growth. The unemployment rate, which has been falling since last year, should remain below 11 per cent on average for the year.

2. *The public finances in 2000*

Government plans envisage a gradual reduction in general government net borrowing, with budget balance being achieved in 2003. In the Economic and Financial Planning Document of June 1999 and the Forecasting and Planning Report of September 1999 the Government forecast net borrowing of 1.5 per cent of GDP for 2000, with a primary surplus equal to 5 per cent of GDP and interest payments to 6.5 per cent. It was estimated that real GDP would rise by 2.2 per cent and the end-year interest rate on 12-month Treasury bills would be 3.7 per cent. The planned effect of the budget enacted at the end of the year was to reduce net borrowing by a total of about 2.4 trillion lire. The measures included tax relief of nearly 12 trillion to offset the larger-than-expected rise in tax revenues.

The target of 1.5 per cent for net borrowing was confirmed in the Stability Programme of December 1999 and the Quarterly Report on the Borrowing Requirement of April 2000.

In June 2000 the Economic and Financial Planning Document for 2001-2004 estimated that net borrowing for 2000 would fall to 1.3 per cent of GDP. The change reflected an improvement in the forecast for the primary surplus, which was expected to rise to 5.2 per cent of GDP as a result of the upward revision of the forecast for GDP growth to 2.8 per cent. The Document noted the possibility that tax revenues might be higher than the level consistent with the revised estimate for net borrowing.

In September, the Planning Document Update and the Forecasting and Planning Report confirmed the strong performance of revenues in 2000. In order to avoid an increase in the tax burden, the Government issued a Decree Law providing tax relief that is officially estimated at about 13 trillion lire and concentrated in the last two months of the year.

According to Government projections, the state sector borrowing requirement, net of settlements of past debts and privatization receipts, will fall from 31 trillion lire in 1999 to 26.4 trillion in 2000.

The borrowing requirement in the first nine months of 2000 was 47.2 trillion lire, about 1.5 trillion more than in the same period of 1999. According to the Treasury Ministry's most recent estimates (issued in October), in the first ten months of the year it is expected to be about 2 trillion less than in the corresponding period of 1999.

State sector revenues in the first nine months of the year increased at a faster rate than that implicit in the official estimates issued in April. The Planning Document Update attributes this result mainly to the emergence of previously hidden tax base and, to a lesser extent, to the rise in the price of oil products, which boosts VAT revenues.

In the first nine months of the year state sector tax receipts increased by 5.2 per cent with respect to the same period of 1999, outpacing the rise in nominal GDP. The increase in direct tax receipts was mainly attributable to the levies on interest and capital gains on securities held in asset management schemes, which soared from 2.9 trillion lire to more than 15 trillion. VAT revenues grew markedly faster than GDP.

The increased revenues did not reduce the state sector borrowing requirement because of developments in a number of items that affect the latter but do not have an impact on general government net borrowing owing to differences in accounting methods. The items involved were transactions with the EU and drawings on the Treasury by the regions for the settlement of past debts of the health service.

In the first half of 2000 public-sector spending was 4.8 per cent higher than in the same period of 1999; primary spending rose by 7.3 per cent. National accounts estimates indicate that general government primary expenditure also increased faster than GDP. The Planning Document had forecast a small decrease in the ratio of primary expenditure to GDP.

The downward trend in general government net borrowing from its level in 1999, thanks in part to the decrease in interest payments, is confirmed by the borrowing requirement in the first eight months of the year, which declined by about 6.5 trillion lire to 34 trillion with respect to the corresponding period of 1999. In particular, bank lending to local authorities, which had increased by 2.3 trillion in the first eight months of 1999, fell by 7.3 trillion in the same period of 2000.

According to official forecasts, the ratio of public debt to GDP will fall by 3 percentage points to 112.1 per cent. This projection takes account of receipts from the sale of UMTS licenses and privatizations, which are expected to amount to a total of 65 trillion lire in 2000-01. Developments to date appear to be consistent with the planned decline in the debt ratio for this year. It is possible that the nominal growth in GDP will exceed the 4.2 per cent envisaged in the Planning Document.

3. *Public finance targets for 2001-2004*

The Planning Document for 2001-2004 presented a current programmes scenario that did not call for significant corrective measures. Net borrowing was projected to decline from 1 per cent of GDP in 2001 to 0.7 per cent in 2002, followed by surpluses of 0.2 per cent in 2003 and 1.3 per cent in 2004. The primary surplus was projected to increase gradually from 5.2 per cent of GDP in 2001 to 5.3 per cent in 2002, 5.8 per cent in 2003 and 6.5 per cent in 2004. Even accounting for an increase in interest rates, interest payments were expected to continue to decline, from 6.2 per cent of GDP in 2001 to 5.2 per cent in 2004.

It should be noted, however, that defining projections on a current programmes basis rather than an unchanged policies basis excludes the effects of foreseeable measures that must be enacted with the Finance Law, such as contract renewals for public-sector employees and appropriations for investment expenditure.

The Planning Document indicated a target for the deficit in 2001 equal to the deficit on a current-legislation basis. Budgetary measures were to be limited to a recomposition of individual spending and revenue items. The budget for 2002 was estimated to reduce the deficit by 0.2 per cent of GDP; those for 2003 and 2004 to have an expansionary impact of 0.2 and 1 per cent of GDP respectively, partly owing to contract renewals and new investment programmes. The target for the primary surplus was set equal to 5.2 per cent of GDP in 2000 and 2001 and 5.5 per cent in the subsequent three years. The ratio of public debt to GDP was projected to decline to 95 per cent in 2004.

Unlike previous Planning Documents, that published in June 2000 did not contain a set of targets for expenditure and revenue. The tax burden on a current programmes basis remained basically unchanged in 1999 and 2000, at 43.3 and 43.2 per cent of GDP respectively, and then declined to 42.4 per cent in 2001. Between 2000 and 2004 it declined by a total of 2.1 points, to 41.1 per cent.

Developments in the first half of this year suggested that the rate of increase in certain expenditure categories and tax revenues might be higher than forecast. The quantification of the differences and the formulation of any necessary corrective measures were postponed to the Planning Document Update published at the end of September.

The Update did not reveal any changes in forecasts for primary expenditure. It reduced forecast interest payments for 2001 from 146 to 144 trillion lire. The table annexed to the Update indicated that the expected increase in revenue over the four-year period, mainly as a consequence of the emergence of previously hidden tax base, was equal to 26.4 trillion lire in 2001, 35.1 trillion in 2002, 38.2 trillion in 2003 and 42 trillion in 2004.

The budget measures for 2001 contained tax relief to offset the increase in revenues. The Planning Document Update thus confirmed the tax burden and the targets announced in the Planning Document in June, with only the figure for borrowing in 2001 being reduced, from 1 to 0.8 per cent of GDP.

4. The budget for 2001

Revenue reduction measures total 30.7 trillion lire, of which 28.5 trillion regard taxes and 2.2 trillion social security contributions. These effects are partly offset by tax increases totaling 8.7 trillion lire. Additional revenue of about 800 billion lire is expected from property sales. The overall reduction in revenue thus comes to 21.2 trillion lire.

Expenditure increases of 10.2 trillion lire are envisaged, including 6.4 trillion on current account and 3.8 trillion on capital account. This increase is to be offset by spending cuts of 7.2 trillion lire, producing a net rise of about 3 trillion.

The overall reduction in the primary surplus on a current programmes basis is thus expected to be 24.2 trillion lire.

The data are aggregated differently in the Planning Document Update: tax reductions are estimated to amount to 22 trillion lire; increases in current and capital expenditure to 6.4 and 3.8 trillion respectively and corrective measures at 8 trillion. The latter comprises reductions in current expenditure (7.2 trillion) and *revenues from disposals (800 billion). Since these are not tax receipts, they are excluded from the calculation of the reduction in tax revenue indicated in the Planning Document Update.*

On the revenue side, the reductions total 30.7 trillion lire and comprise: 15.2 trillion of changes to personal income tax rates; 3.7 trillion from reductions in corporate income tax rates and payments on account; 3.3 trillion mainly from a reduction in the regional tax on productive activities payable by small enterprises; 2.2 trillion from lower social security contributions; 1.9 trillion from subsidies for hirings and investment, especially in the South; 3.1 trillion from reductions in taxes on oil products and electricity; and 1.3 trillion from the extension of tax incentives for building renovations and other minor items.

Total revenue increases amount to 9.5 trillion lire and comprise: 2.1 trillion from the privatization of national lotteries and the introduction of new games; 2.5 trillion from the reduction in tax refunds owing to the maintenance of a limit for offsetting tax credits and liabilities; and 1.3 trillion from further disposals of property owned by the State and other public bodies and other minor measures. Bringing forward corporate tax relief originally planned for 2001 to 2000 will boost revenues by more than 3.6 trillion lire.

The tax relief for households primarily concerns personal income tax: the floor of the bottom bracket is raised from 15 to 20 million lire, increasing the proportion of income taxed at the lowest rate; the deductions for employment and self-employment are increased, raising the threshold of tax exemption; a gradual reduction in the brackets between 2001 and 2003 is planned; the deductions for dependents and rental payments for principal dwelling are increased; tax exemption of principal dwellings is to replace the maximum deduction of 1.8 million lire currently in force; and the incentives for building renovation are extended to 2001.

Several permanent measures reducing business taxes are planned; the public finances will reflect their effects especially in the years after 2001. The ordinary rate of corporate income tax is to be lowered *from 37 to 36 per cent in 2001 and to 35 per cent in 2003. The minimum level of 27 per cent for the average rate resulting from application of the Dual Income Tax is eliminated. Proportional taxation of business income is extended on an optional basis to sole proprietorships and partnerships, which up to now have been taxed according to the rules for personal income tax. Relief is granted to certain categories of entrepreneurs for new productive initiatives and so-called marginal activities. The Finance Bill also provides for IRAP tax bases not exceeding 350 million lire to be reduced by up to 10 million lire.*

An allocation of 2 trillion lire is planned to finance the extension until 30 June 2001 of the following tax cuts: 50 lire per litre for motor vehicle fuels, 100 lire per litre for fuel oil and liquefied petroleum gas for heating and 34 lire per cubic metre for methane for heating, as well as the extra reductions for mountainous areas. In addition, 1.1 trillion will go to reducing the tax on electricity for commercial and industrial use.

On the spending side the planned increases total 10.2 trillion lire and are as follows: 1.7 trillion is the net effect on the budget balance of the renewal of public employment contracts; 2.1 trillion derives from the increase in minimum pensions and other minor measures; 2.6 trillion from the larger allocations on current account provided for in the Finance Bill; and 3.8 trillion from larger capital outlays.

The spending cuts, amounting to 7.2 trillion lire, mainly concern intermediate consumption and involve both central government and local authorities.

In the field of social security, the indexation of pensions to inflation is increased (430 billion lire). There will be a larger topping-up of minimum pensions (870 billion). A special fund is to be established to guarantee continuity of insurance coverage for discontinuous forms of employment (70 billion).

As to intermediate consumption, expenditure on goods common to all government departments is to be rationalized through a centralized auction system. For the consumption goods specific to some departments, there are incentives for creating procurement consortia. In addition, the budget sets limits on the *increase in local authorities' primary current expenditure, places controls on their payments to and from the Treasury, and requires regional governments, in particular, to finance any deficits in the health care sector by using their autonomous power to levy taxes.*

5. Evaluation of the budget

According to the Government's estimates, the improvement in the public finances in 2001 on a current programmes basis will allow a reduction in the deficit even while granting tax relief on the order of 1 per cent of GDP. The steady improvement in the target balances in subsequent years is also coupled with a further gradual reduction in the tax burden.

The reduction in the general government deficit, until the budget is balanced in 2003, and the achievement of a slight surplus in 2004 are in line with the indications of the Stability and Growth Pact, under which the EU countries are committed to achieving a budget close to balance or in surplus in the medium term.

A budgetary position in balance or in surplus on a cyclically adjusted basis provides scope for adequate cyclical stabilization policies; it reduces the risk of adverse shocks requiring policies that would aggravate the effects of the shocks on economic activity; it accelerates the fall in the ratio of debt to GDP.

Reducing the debt ratio contributes to the long-term sustainability of the public finances, especially in view of the pressure that is exerted on the budget by the ageing of the population and by the growing geographical mobility of tax bases in connection with the progressive integration of the European economies.

According to the targets set in the Planning Document Update, between 2000 and 2004 the ratio of the primary balance to GDP will increase by 0.3 percentage points. The improvement in the general government budget balance will come largely from the expected reduction in interest payments, which are forecast to fall by a further 1.3 points over the period in question. In the light of current market expectations for interest rates, the interest payment forecasts for the final part of the period could prove optimistic.

If necessary, the objectives for net borrowing will have to be pursued by achieving larger primary surpluses than those planned.

It is vital to ensure that the measures for the primary balance are fully effective. In 2001 it is essential that the 7.2 trillion lire of cuts in intermediate consumption and the disposals of property be carried out entirely as planned. Receipts from the latter consist not only of the 800 billion included in the budget for 2001 but also most of the 8 trillion included in the preceding budget, which had envisaged receipts of 4 trillion in 2000.

The decision to provide tax relief in order to avoid an increase in the tax burden is opportune.

The budget assumes that actual expenditure will be in line with the plans. There is some uncertainty in interpreting the underlying causes of the improvement in revenue during the current year. Prompt corrective action will have to be taken if the increase in receipts proves to be partly attributable to non-structural factors or if expenditure grows faster than forecast.

Receipts from tax bases potentially subject to wide fluctuations, such as capital gains, must be estimated with extreme caution in order to achieve the objectives for net borrowing.

The budget for 2001 includes some measures generating temporary increases in revenue.

A timely evaluation of revenue and expenditure trends requires further refinement of the data and instruments for cyclical analysis. The availability of more detailed information makes forecasts more transparent and reduces uncertainty among economic agents, thereby fostering the effectiveness of budgetary policy and compliance with the rules of the Stability and Growth Pact. Rapid progress is essential in view of the need to coordinate the action of a multiplicity of levels of government, in a context in which local authorities are assigned increasing fiscal responsibility.

In general, causing tax bases to emerge and simultaneously returning the additional receipts through reductions in tax rates constitute a positive development. They make it possible to lessen tax-induced distortions in the allocation of resources and can facilitate a further shrinking of the areas of tax evasion and avoidance.

The reduction in the corporate income tax rate and the removal of the restriction on fully applying the Dual Income Tax, although not immediately effective, complete the reform launched in 1997. They move in the direction taken by the other main European countries. They can have a positive effect on Italian firms' investment and competitive position.

The cut in personal income tax rates increases households' purchasing power. A part of the relief offsets the tendency of income tax to rise owing to fiscal drag.

According to the Planning Document Update, the budget will cause the ratio of tax and social security receipts to GDP to fall from 43.3 to 42.4 per cent between 1999 and 2001. The subsequent trend on a current programmes basis would bring a similar reduction over the following two years.

The decrease still appears limited. The figure of 41.4 per cent indicated for 2003 is 1.1 percentage points lower than the average ratio in the 1990s.

Between 1995 and 1999 the ratio of primary expenditure to GDP remained virtually unchanged. It is not expected to vary substantially this year either.

The spending cuts in the budget for 2001 concern desirable rationalization measures in general government intermediate consumption. The increase in lower pensions and the attenuation of the erosion of the purchasing power of average and higher pensions due to inflation respond to legitimate equity concerns.

The budget for 2001 does not include significant measures of a structural nature able to reduce the ratio of primary expenditure to GDP over a horizon of several years.

6. Budgetary rules for decentralization

The functions and responsibilities of the various levels of government are undergoing rapid change in Italy. During the 1990s significant steps were taken in decentralizing the responsibilities for expenditure and strengthening local tax powers.

A more decentralized institutional structure is now under discussion, with reference primarily to the regions, which would become responsible for an important part of public functions and services. There is a broad consensus for this process in Italy.

Economic theory provides arguments in favour of a decentralized structure of government. The advantages in terms of the efficient use of resources can be substantial in the Italian case, given the considerable diversity of regional situations. Transparent procedures and rules for transferring resources from the more developed to the economically less endowed areas are necessary in order to guarantee basic services to the whole population. Enjoying the advantages of decentralization requires adequate levels of efficiency in all local authorities.

It is essential that the process of decentralization be based on strict compliance with budgetary constraints at all levels of government.

Without a link between responsibility for expenditure and responsibility for financing, the expected allocative benefits of decentralization would fail to materialize. Furthermore, the absence of stringent budgetary rules in local government finances makes it difficult to control the public finances at national level.

The Domestic Stability Pact, introduced with the budget for 1999 and revised in the framework of the budget for 2000, represents a first step towards solving this problem. Further measures are proposed in the Finance Bill for 2001. The provisions appear to need strengthening.

It may prove desirable to introduce a balanced-budget requirement for each local authority, together with rules that permit the financing of investment and address the problem of absorbing the effects of cyclical fluctuations on local authorities' budgets.

7. Conclusions

The macroeconomic conditions exist for a budgetary policy that will wipe out the deficit, diminish the weight of the debt and progressively reduce the tax burden.

It is necessary to ensure that the objectives indicated for the budget balance are achieved. If interest payments are higher than forecast, the primary surplus will have to exceed the levels now planned.

It is necessary to ensure that the measures to limit net borrowing included in the budget for 2001 are fully implemented and effective.

The provisions producing temporary effects must be replaced in the subsequent years with measures that will produce a lasting reduction in expenditure. Any overshoots of the objectives for outlays and tax revenues must be promptly identified.

In my evaluation of the Planning Document I stressed the need for a review of the tasks performed by the public sector and for a revision of some parameters of the pension system and of the procedures for managing the resources allocated to public bodies.

The urgent need for effective and enduring measures is heightened by the pressure demographic trends are exerting on the budget; by the implications of economic integration for the mobility of tax bases; by the necessity, underscored by the European Council meeting in Lisbon, of directing a larger proportion of public expenditure to the accumulation of physical and human capital and to research and development.

Control of spending must be the linchpin of budgetary policy. Now that the benefits of the decline in interest rates on the public debt have already been reaped, only by curbing primary expenditure in relation to GDP will it be possible to reduce the tax burden.

In the present circumstances, it is essential to reduce tax-induced distortions in the allocation of resources and to offer a sure prospect of taxation being reduced in the years to come.

Causing tax bases to emerge and simultaneously returning the additional receipts through reductions in tax rates constitute a positive development.

It is necessary, however, for resolute curbs on spending to achieve a progressively larger reduction in the tax burden than that indicated in the Planning Document.

The certainty of a gradual decline in taxation reduces labour supply disincentives, fosters investment and improves Italian firms' competitiveness, thereby enhancing the prospects of economic growth and permanently higher employment.

Tables and Figures

Table 1

State sector balances

(billions of lire and percentages of GDP)

	Year			First 9 months	
	1997	1998	1999	1999	2000(1)
Primary surplus	**124,647**	**92,139**	**105,110**		
as a percentage of GDP	*6.3*	*4.5*	*4.9*		
Borrowing requirement net of settlements of past debts and privatization receipts	**52,670**	**58,513**	**31,044**	**45,563**	**47,239**
as a percentage of GDP	*2.7*	*2.8*	*1.5*		
Settlements of past debts(2)	-409	4,770	12,118	9,573	6,885
Privatization receipts(3)	-21,179	-15,277	-43,839	-786	-259
Total borrowing requirement	**31,081**	**48,005**	**-677**	**54,349**	**53,865**
as a percentage of GDP	*1.6*	*2.3*	*0.0*		
Financing					
Medium and long-term securities	99,009	79,662	47,981	85,590	54,190
Treasury bills in lire and ecus	-82,310	-35,483	-35,106	-15,793	-12,586
Treasury current accounts with the Bank of Italy	-3,020	15,578	-14,048	-14,660	3,323
Other BI-UIC financing	435	384	95	144	-2,770
Post Office funds	11,641	6,400	17,496	12,767	4,938
of which: current accounts	*-1,062*	*-6,104*	*0*	*0*	*0*
Bank lending(4)	1,074	-6,718	-7,125	-6,584	-18,533
Other domestic financing	194	405	98	61	1,880
Foreign loans(5)	4,059	-12,223	-10,068	-7,176	23,422

(1) Provisional data.

(2) Includes Local Health Unit debts and the early redemption of a bond loan granted to IRI by the Deposits and Loans Fund.

(3) Includes Treasury purchases of shareholdings in STET drawing on the sinking fund for the redemption of government securities: 3,000 billion lire in 1996, 13,500 billion in 1997 and 8,166 billion in 1998.

(4) As of 1999 includes redemptions of loans granted to local authorities.

(5) As of 1999 includes commercial paper.

Table 2

Estimated effects of the budget for 2001 on the general government consolidated accounts (1)

(billions of lire)

REVENUE	
Increase in revenue	**9,500**
Increases in current receipts	*8,700*
Lotteries and the like (*)	2,100
Limit on offsetting tax credits and liabilities	2,500
Reduction in Irpeg and Irap payments on account in 2000 (*)	3,600
Other tax measures	500
Property sales	*800*
Decrease in revenue	**-30,700**
Tax receipts	*-28,500*
Changes in Irpef (2)	-15,200
Changes in Irpeg rates and payments on account in 2001	-3,700
Tax credits for firms	-1,900
Regional taxes (Irap and Irpef supplement)	-3,300
Reduction in taxes on electricity for firms	-1,100
Reduction in excise duties on oil products	-2,000
Changes in VAT	-1,300
Social security contributions	*-2,200*
Reduction in contributions for family allowances	-2,200
NET CHANGE IN REVENUE	**-21,200**
NET CHANGE IN TAXES AND CONTRIBUTIONS	***-22,000***
EXPENDITURE	
Reduction in expenditure	**-7,200**
Intermediate consumption	-7,200
Increase in expenditure	**10,200**
Increases in current expenditure	*6,400*
Renewals of labour contracts	*1,700*
Pensions	*1,400*
of which: increased indexation	430
increase in minimum pensions	870
Social policies and other minor items	*700*
of which: national fund for social policies	200
assistance for the disabled	250
Increase in current account appropriations	*2,600*
Increase in capital expenditure	*3,800*
NET CHANGE IN EXPENDITURE	**3,000**
TOTAL CHANGE IN NET BORROWING	**24,200**

(*) Estimates of the effects of the decree law of 30 September 2000.

(1) Based on official estimates.

(2) Includes 2.6 trillion lire of relief granted in the decree law of 30 September 2000.

Table 3

General government budget outturns and targets

	1999[1]	2000	2001	2002	2003	2004	1999[1]	2000	2001	2002	2003	2004
	(billions of lire)						*(as a percentage of GDP)*					
General government												
Net borrowing	40,511	29,600	19,500	12,500	-800	-7,500	1.9	1.3	0.8	0.5	0.0	-0.3
Interest payments	145,726	144,400	144,400	146,000	143,400	140,300	6.8	6.5	6.1	6.0	5.6	5.2
Primary surplus	105,215	114,800	124,500	133,500	144,200	147,800	4.9	5.2	5.3	5.5	5.6	5.5

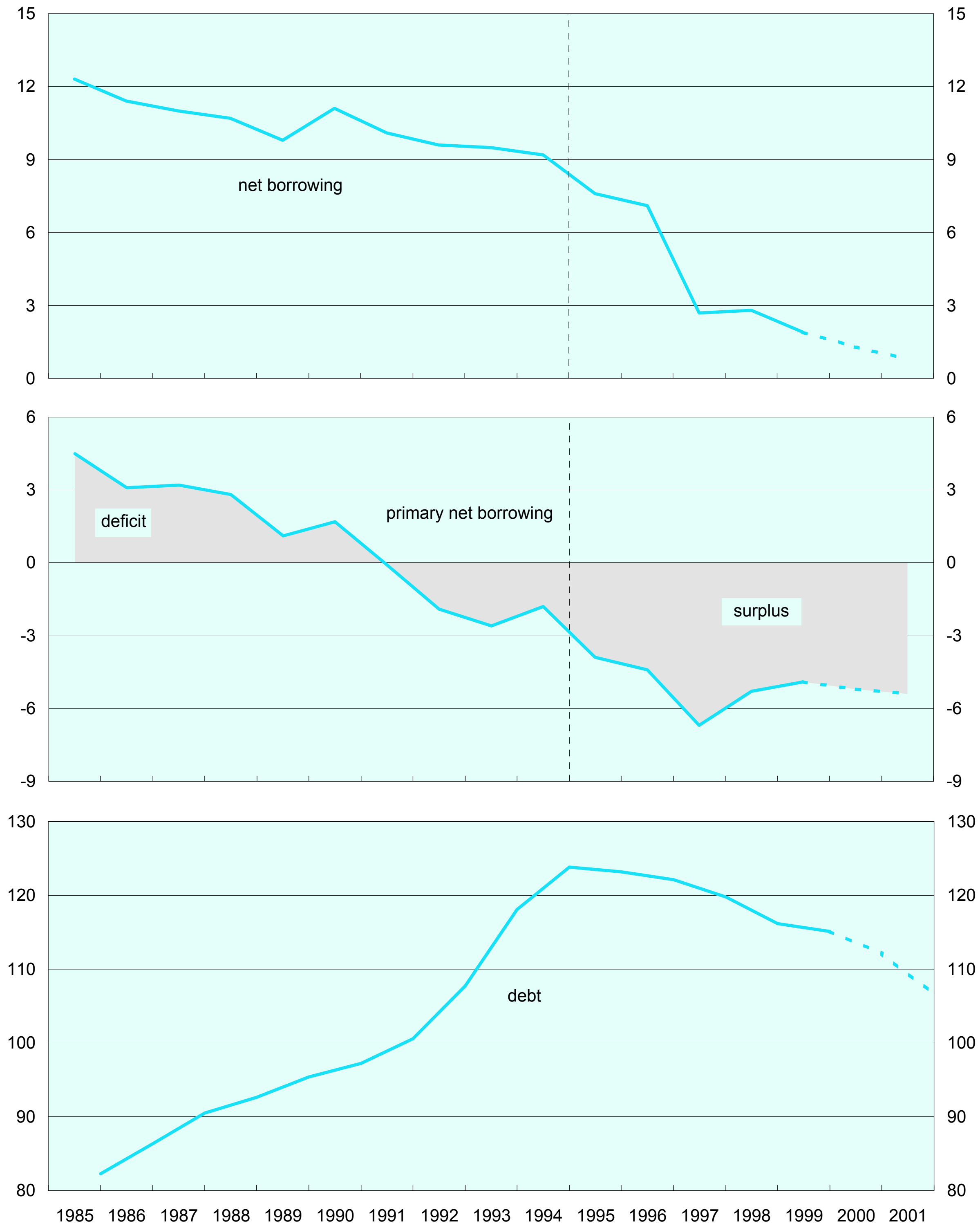
Sources: Based on *Documento di programmazione economico-finanziaria per gli anni 2001-2004* and the subsequent *Nota di aggiornamento* to the same.

[1] Outturns.

Figure 1

General government net borrowing, primary net borrowing and debt (1)

(as a percentage of GDP)



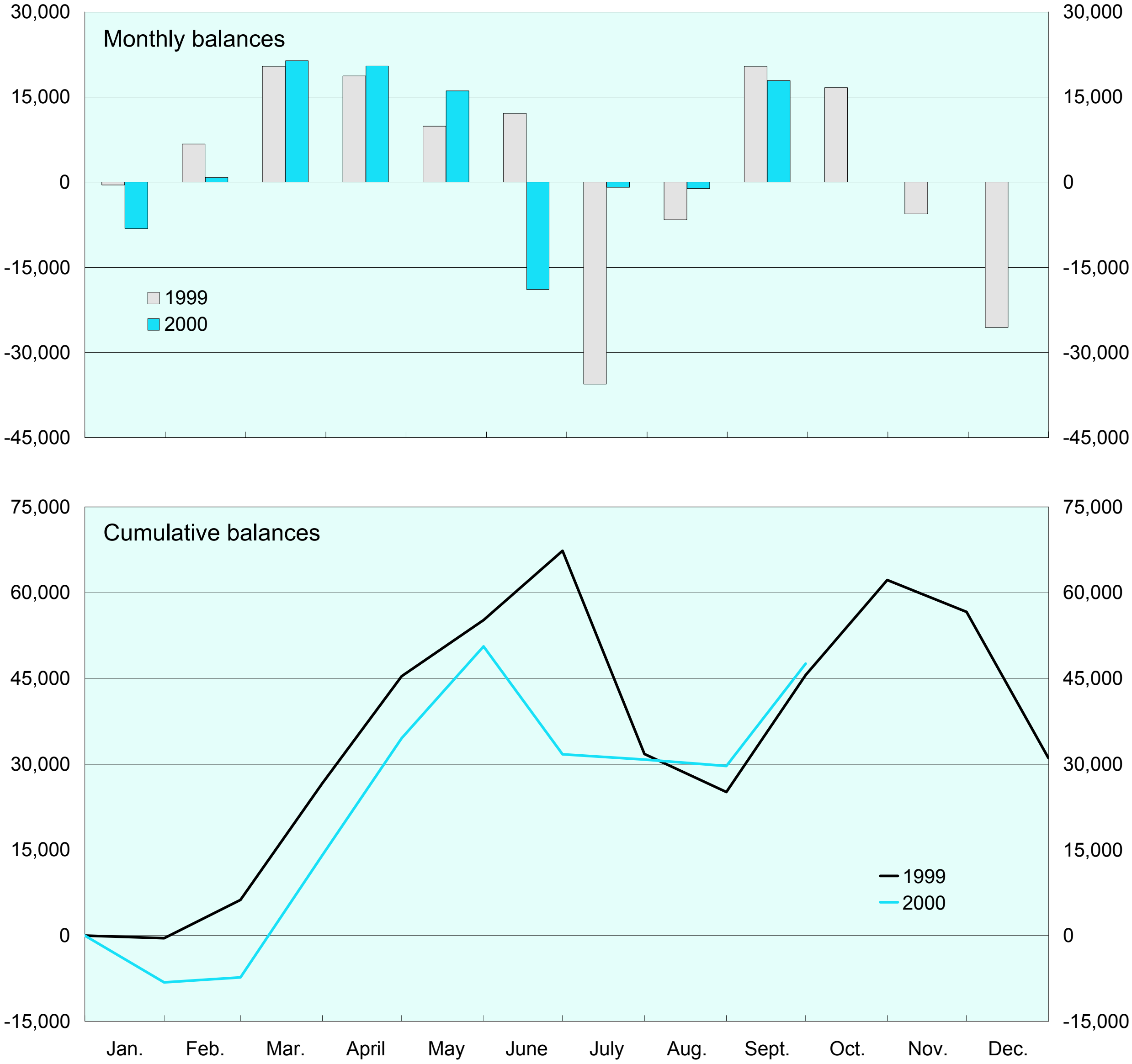
Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2000 and 2001, forecasts taken from the *Relazione previsionale e programmatica* (September 2000).

(1) Following the adoption of ESA95, there is a break in the series between 1994 and 1995 (shown by the dotted line). A minus sign indicates a surplus.

Figure 2

State sector borrowing requirement in 1999 and 2000 (1)

(billions of lire)



(1) Net of settlements of past debts and privatization receipts.

Figure 3

General government revenue, social services expenditure and gross investment (1)

(as a percentage of GDP)

Source: Based on Istat data.

(1) Following the adoption of ESA95, there is a break in the series between 1994 and 1995 (shown by the dotted line).

(2) Under ESA95, social services in kind have been reclassified under intermediate consumption.