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Fact-finding preliminary to the examination of the budget for 2002

Statement by the Governor of the Bank of Italy
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1. The economic situation

The slowdown in economic activity that began in the United States in the second half of 2000 has spread throughout the world. In the United States, the forecast for the recovery in production, initially expected to take place in the second half of this year, has been moved progressively further into the future.

The tragic events of 11 September will have an adverse effect on the economic situation, not least because of their serious repercussions on consumer behaviour. Uncertainty about economic activity in the next few months has increased.

In the United States, the authorities have reacted promptly with further reductions in interest rates, which have fallen to their lowest level in forty years, and substantial measures to shore up domestic demand, in addition to the tax cuts already decided and now being implemented. The extraordinary budget measures approved by Congress, for a total of $80 billion, serve mainly to increase spending on defence and security and provide support for victims' families. A further package was later submitted to Congress providing for a total of between $60 billion and $75 billion of unemployment benefits and new tax cuts.

Economic recovery could materialize in the first half of next year.

In Italy, national accounts data for the first half of the year show that GDP grew by 1.3 per cent compared with the second half of 2000, 0.5 percentage points more than the average for the euro-area countries. Growth held up well in the first quarter, when it was equal to 0.8 per cent compared with the last quarter of 2000, but came to a halt in the spring, in line with the economic slowdown in the main euro-area countries and Germany in particular.

GDP growth was supported by domestic demand, especially stockpiling and household consumption.

After stagnating in the first quarter, household spending rose in the second by about 2 per cent on an annual basis, owing to the increase in disposable income, the growth in employment, the tax measures introduced in the budget for 2001, and the easing of inflationary pressures. Following a substantial increase in the first quarter that was entirely attributable to the construction sector, investment fell slightly in the second quarter, partly because it was expected that new incentives would be introduced.

The cyclical downturn of the international economy and the continued weak growth of domestic demand caused a slowdown in imports and exports. In the first seven months of 2001, the trade surplus improved by almost 9 trillion lire compared with the same period last year, mostly as a result of the fall in oil prices in lire.

Employment has continued to grow this year: between April and July, it rose by more than 127,000 or 0.6 per cent on a seasonally adjusted basis, thanks to increases of 1.2 per cent in the service sector and 1.1 per cent in the construction sector; in industry there was a further drop of 0.9 per cent.

The increase in employment in the last twelve months consisted almost exclusively of payroll workers. Permanent jobs accounted for four-fifths of the increase and included

278,000 full-time and 36,000 part-time positions. The tax incentives introduced in the budget for 2001 encouraged the growth in the number of permanent positions.

The unemployment rate has continued to decline, falling to 9.4 per cent in July, as against 10.4 per cent a year earlier. In the South and Islands, the rate fell to 19.1 per cent and in the North to 3.9 per cent.

The acceleration in consumer prices that had been under way since 1999 came to a halt at the start of the summer. In Italy the twelve-month rise fell to 2.8 per cent in August and, on the basis of the preliminary indications from the main cities, declined to 2.6 per cent in September. The impact of external factors on consumer prices was limited by the moderation shown by domestic cost factors. The average annual increase in the consumer price index should be around 2.8 per cent.

In the summer, cyclical indicators showed that economic activity was still weak: in the third quarter, there was no change in industrial output on a seasonally adjusted basis. On the other hand, there were signs of a recovery in firms' demand expectations. The trends and expectations will now have to be verified in the light of the new international scenario. If GDP remains at its second-quarter level for the rest of the year, the Italian economy will grow by 1.8 per cent in 2001; a growth rate of nearly 2 per cent could be achieved.

Monetary policy has become more expansionary in Europe and all the major countries. Yield curves are everywhere at historically low levels. In the days immediately following the terrorist attacks in the United States, stock markets recorded sharp falls, most of which have since been made good.

2. The public finances in 2001

2.a Definition of the targets

The Economic and Financial Planning Document of June 2000 set a target of 1 per cent of GDP for general government net borrowing in 2001.

In September 2000, with the Planning Document Update and the Forecasting and Planning Report for 2001, the estimates of tax revenue on a current programmes basis were raised. The increase in receipts, attributed to structural factors, was used almost entirely to make further tax cuts.

According to official estimates, the budget approved by Parliament at the end of 2000 was expected to keep net borrowing in 2001 within 0.8 per cent of GDP, the figure indicated as the target in the Stability Programme Update submitted to the European Commission last December.

2.b The first half of 2001

The results for the borrowing requirement were decidedly poor in the early months of this year. In the March Quarterly Report on the Borrowing Requirement, the estimate of net borrowing in 2001 was raised to 1 per cent of GDP again. At the same time the estimate of the public sector borrowing requirement, which refers to an aggregate very similar to general government, was increased. Net of privatization receipts and the settlement of past debts, the new figure was 57.8 trillion lire or 2.4 per cent of GDP.

The Planning Document for 2002-2006, presented by the Government last July, showed a further deterioration in the estimates for 2001 on a current programmes basis. General government net borrowing was raised to 1.9 per cent of GDP and the state sector net borrowing requirement to 71 trillion lire or 3 per cent of GDP.

The estimates for this year continued to show the wide gap recorded in 2000 between the data on a cash basis and those on an accrual basis as defined by ESA95. Given how difficult it is to evaluate the items that go towards determining this gap, the Document prudently proposed a second estimate for net borrowing on a current programmes basis of 2.7 per cent of GDP.

Despite the worsening of the estimates, the Document confirmed the target of 0.8 per cent of GDP that had been indicated for general government net borrowing in the Stability Programme Update. It stressed, however, that the target would be hard to achieve in view of the trends in the public finances, the weakening of economic activity and the limited time available to apply corrective measures.

2.c The last few months

During the summer the Government curbed expenditure, particularly on purchases of goods and services, and formulated measures to relaunch economic activity. With the aim of reducing the deficit, it also approved block sales of general government real estate and made a new compact with the regional governments on healthcare spending.

The compact is based on recognition that the resources assigned to the sector are inadequate to cover the actual levels of spending. Increasing these resources will reduce the formation of hidden *deficits. In particular, the compact envisages a contribution by central government to making good the deficit for 2000 and an increase of 7 trillion lire in central government appropriations for healthcare in 2001. In order to benefit from the latter increase, regions will have to monitor the trend of expenditure during the year, sign the agreements covering purchases of goods and services, and keep the provision of services within the limits of essential expenditure. The Government, in agreement with the Standing Central and Regional Government Conference, must adopt a measure by 30 November establishing essential levels of assistance consistent with the resources assigned. This measure should permit application of the principle, confirmed in the compact, that the responsibility for financing any spending overshoots lies with the level of government that caused them.*

Since the summer the borrowing requirement has shown signs of improving; it benefited above all from the yield of the flat-rate tax in lieu of income tax on the revaluation of corporate assets, which totaled 9.6 trillion lire, compared with a forecast of 1.9 trillion; these receipts, however, will result in losses of revenue in the years ahead.

At the end of September the Forecasting and Planning Report for 2002, taking account of the government measures, estimated net borrowing for the current year at 1.1 per cent of GDP.

As regards outturns, in the first nine months of 2001 the state sector borrowing requirement net of privatization receipts and settlements of past debts was 57.5 trillion lire, compared with 46.6 trillion in the same period of 2000. The gap of 11 trillion is expected to narrow in the last two months of the year.

The general government borrowing requirement in the first eight months amounted to 38.6 trillion lire, 800 billion less than a year earlier.

The balances indicated for 2001 were calculated excluding tax refunds paid via the postal system, which amounted to more than 4 trillion lire.

The figure for net borrowing indicated in the Forecasting and Planning Report can be achieved only with tight curbs on outlays in the last three months of the year, the materialization of substantial receipts from the property sales now being planned and, above all, persistence of the marked gap between the data on an accrual basis and those on a cash basis. The latter — calculated by the Bank of Italy with reference to securities issued by central government and other public bodies, loans granted to the same by banks, and postal savings — show exactly how much debt these public bodies accumulated in each period.

As I remarked in my testimony on the Economic and Financial Planning Document, the size of the gap between the borrowing requirement and net borrowing is not in line with the pattern of the second half of the 1990s; it reflects the incomplete information available and cannot last, since the data on a cash basis are necessarily related to those on an accrual basis.

3. Action to relaunch the economy

The legislation "First steps to relaunch the economy" that Parliament has just approved includes investment incentives and measures to encourage the regularization of irregular employment. In addition, the Government has approved a decree law aimed at encouraging the repatriation of capital and the regularization of assets held abroad.

3.a Investment incentives

To promote new investments, temporary tax relief valid until 2002 has been granted similar to that in effect between 1994 and 1996. As then, 50 per cent of the cost of investments exceeding the average of the five previous years can be deducted from taxable income. The scope of the new measure has been extended to spending on staff training and to include self-employed workers, banks and insurance companies.

Firms made wide use of the relief in force between 1994 and 1996 and investment activity received a significant boost. In estimating the economic effects of the current measure, it is necessary to consider the context in which it falls. In 1994 the economy was coming out of a negative investment cycle and tax incentives for capital formation had not been introduced previously. In the last three years firms have benefited from specific reliefs; gross fixed investment has expanded at high rates in real terms, but there are signs of a slowdown.

The technical report accompanying the measure suggests that in the first two years the loss in revenue caused by the reliefs will be more than offset not only by the abolition of pre-existing reliefs but also by the increase in revenue connected with the economic growth stimulated by the new incentives. The report estimates a gain in revenue of 1.9 trillion lire in 2001 and 5.5 trillion 2002, followed by a loss of 2.2 trillion in 2003.

With regard to these estimate, it is necessary to point out that the increase in receipts of income tax and the regional tax on productive activities should be calculated on the additional volume of investment with respect to that which would have been carried out in any case and not relative to the average for the five previous years. Moreover, a part of the demand for new capital goods could flow abroad, dispersing the effects on economic activity beyond Italy's borders. Among *the indirect effects on revenue, consideration has been given to those tied to consumption, which are generally ignored in estimates of this kind.*

The incentive will stimulate investment and contribute to overcoming the current cyclical phase. Owing to the marked uncertainty about the course of economic activity in the coming months, econometric estimation of its impact is difficult. For the incentive to be effective, it will have to operate in a context of structural reforms fostering faster growth.

3.b Bringing irregular employment into the open

The regularization of employment relationships that violate the laws on taxes and social security contributions is to be encouraged by means of a composition of tax and social security liabilities for past years, supplemented by an easier regime to be applied in 2001 and the subsequent two years. There is also a special plan of compliance controls for tax and social security purposes, based on cross-checking the records of public service operators, tax and social security registers, and real and personal property registers.

The technical report accompanying the measure forecasts additional revenue on a cash basis amounting to 7.9 trillion in 2001 and 10.6 trillion in 2002. Only one fifth of the forecast revenue for 2002 is included in the budget.

The estimates contained in the report assume that one quarter of irregular employment will be brought into the open. Regularization requires an agreement between the company and the worker, which could prove difficult.

Reducing the scale of irregular employment is a goal of great social and economic importance. If significant and lasting results are to be achieved, at the end of the period of facilitation the framework of payroll taxes and labour market regulation must be such as will ensure the continuation of regular employment.

3.c Repatriation of capital and the regularization of assets held abroad

In September the Government approved a decree law providing for the disclosure of assets held abroad by natural persons in violation of the rules on tax monitoring. The measure permits individuals to repatriate or regularize such assets by paying a sum equal to 2.5 per cent of the amount declared or by investing a sum equal to 12 per cent in special government securities. Within the limits of the tax base constituted by the assets declared, the operation precludes all tax assessments and renders inapplicable the related administrative, tax and social security sanctions, and makes tax crimes other than fraud non-punishable.

Disclosure, effected by means of a confidential declaration of assets filed with an intermediary, involves the actual repatriation of the funds or the regularization of the assets held abroad. Only in the latter case does the declaration give rise to a notification naming the taxpayer to the tax authorities, as provided for by the rules on tax monitoring. In neither case may intermediaries transmit the contents of the declaration to the tax authorities; however, they are still required to record the transactions and transmit the data in the event of a request by the criminal justice authorities and in the cases provided for in order to combat money laundering.

4. The budget for 2002

The Economic and Financial Planning Document that the Government presented in July contained a baseline forecast for general government net borrowing in 2002 of 42.2 trillion lire, or 1.7 per cent of GDP.

In presenting the Finance Bill the Government has revised the baseline forecast for net borrowing downwards by around 12 trillion lire to 30 trillion, or 1.2 per cent of GDP. It has confirmed the objective of 0.5 per cent of GDP, equal to 12.6 trillion, indicated in the Stability Programme Update. The budget adjustment amounts to 17.6 trillion lire, or 0.7 per cent of GDP.

4.a Revenue

According to the official estimates, the planned adjustment will bring in net additional revenue of 21 trillion lire.

The measures to increase receipts and thereby curb net borrowing, amounting to nearly 26 trillion lire, are all of a one-off nature. The structural measures will be put in place with the measures accompanying the Finance Bill, which the Government has said it will present to Parliament in November.

The bulk of the increase in revenue planned for 2002 is to come from property sales, which are expected to yield 15 trillion lire. The sales are to be made to private companies, which will finance their acquisitions with domestic and foreign bond issues.

The remaining increase in revenue, amounting to almost 11 trillion lire, is connected primarily with extraordinary measures: the condonation of irregular employment (2 trillion); the incentive for declaring assets held abroad (1.9 trillion); the revaluation of companies' shareholdings and fixed assets and that of building sites owned by natural persons (4.4 trillion). The residual 2.6 trillion of additional revenue comes from the repeal of the reliefs enacted in the previous Finance Law and other minor measures.

The reductions in revenue amount to 5 trillion lire and are predominantly of a permanent nature. The principal measures concern the revision of the structure of tax credits for dependent children (more than 2 trillion lire) and some provisions in favour of employment (1.4 trillion). In addition, the elimination of minor taxes is to continue and the tax reliefs for building renovation work that were to expire at the end of 2001 will be extended for six months.

4.b Expenditure

The net increase in expenditure is estimated at 3.4 trillion lire.

The measures to reduce spending amount to more than 7 trillion lire.

The curbs on the growth in the current expenditure of local authorities under the domestic stability pact are expected to bring savings of more than 2 trillion lire. The planning of public sector hiring should reduce expenditure by almost 2 trillion. Expenditure savings of 1 trillion are forecast from action to rationalize purchases of goods and services. Spending cuts totaling 2 trillion are forecast to come from the revision of budget appropriations.

The increases in expenditure, forecast at 10.5 trillion lire, are largely of a permanent nature. They mainly concern contract renewals in public employment (3.2 trillion net of the effects on revenue) and increases in the lowest pensions (4.2 trillion).

4.b Evaluation of the budget

The Economic and Financial Planning Document outlined an economic policy designed to consolidate the public finances while strengthening the prospects for growth over a five-year span. Key points of the planned action are reduction of the tax burden, moderation of the growth in current expenditure and construction of major infrastructure. A modernization of economic and labour market regulation is planned.

The budget for 2002 comprises measures aimed at fostering economic activity and supporting the income of some strata of the population; better coordinating the action of the different levels of government and rationalizing expenditure on goods and services; and accelerating the sale of public property not related to the activities of general government.

According to the official estimates, the targets set in the Stability Programme Update will be achieved. The large-scale recourse to temporary measures attenuates the restrictive impact on disposable income during a cyclical slowdown but postpones structural adjustment, with adverse effects on expectations.

The effectiveness of some measures will depend on the procedures for their implementation and on the market's response. This is the case, as noted, with the tax incentives for new investment and for regularizing off-the-books employment. The plans to hold online auctions and use private firms to supply services now produced by government departments depend crucially on the action of administrators. Collaboration between the different levels of government is essential if the new rules on decentralized finances are to be effective.

Arrangements must be made for the implementation of the measures and their impact to be constantly monitored during the year, so that the necessary adjustments can be made promptly.

The ratio of primary expenditure to GDP was 37.1 per cent in 2000; according to the official estimates it will rise slightly to 37.2 per cent in 2001 and 37.3 per cent in 2002.

The lack of progress in containing current expenditure and the need to reduce the deficit prevent significant reductions in taxation in 2002. The ratio of taxes and social security contributions to GDP will decline only marginally, from the 42.2 per cent forecast for 2001 to 41.9 per cent.

The action initiated with the measures contained in the Finance Bill must be strengthened by curbs on expenditure that alter the medium-term trend.

In order to permit a rapid reduction in the tax burden and compensate for the lapsing of the temporary measures, total expenditure will have to be reduced in relation to GDP by approximately one percentage point per year over the next few years.

5. The public finance objectives for 2003-2006

Last July's Economic and Financial Planning Document confirmed the objective of balancing the budget in 2003, which had been set in the previous year's Planning Document and in the Stability Programme Update in December. The balance, according to the

Document, should remain stable over the following three years. This is a fundamental objective whose attainment, together with the downsizing of the public sector, is necessary to strengthen Italy's prospects for growth.

In presenting the budget package for 2002, the Government also revised the baseline projections for 2003 and 2004. This resulted in improvements in the primary balance of 13 trillion lire in 2003 and 23 trillion in 2004. The revision is ascribed mainly to the better macroeconomic picture, which accounts for budgetary improvements of 7.5 trillion lire in 2003 and 18 trillion in 2004. The previous estimates were based on forecasts of economic growth of 2.2 per cent in 2003 and 2.1 per cent in 2004. The revised estimates appear to be based on the growth rates indicated in the Forecasting and Planning Report, namely 3.0 per cent in both years.

To achieve a balanced budget in 2003, an adjustment of about 9 trillion lire is envisaged for that year.

The Planning Document calls for a reduction in the ratio of taxes to GDP of about 4 percentage points between 2002 and 2006. This can be achieved only with action to curb expenditure.

It is necessary that the structural reforms be implemented in 2002.

The improvement that Italy has achieved in its public finances enabled the country to participate in Economic and Monetary Union from the outset. This has produced benefits in terms of interest expenditure: despite the increase in the size of the debt in absolute terms, interest payments have declined from nearly 220 trillion lire in 1996 to a forecast 150 trillion this year. The ratio to GDP has fallen from 13 per cent in 1993 to a forecast 6.2 per cent.

The acceleration of the reduction in the public debt will ensure further decreases in the incidence of interest expenditure. Achieving a balanced budget will make it possible to turn fiscal policy to the purpose of economic stabilization.

6. Structural reforms

The aging of the population tends to produce a gradual increase in public spending. The integration of markets makes tax bases more mobile, with potential losses of revenue. These problems are serious in Italy, where the decline in the birth rate has been particularly pronounced and the volume of off-the-books employment is comparatively large, so that only a part of the economy bears the burden of taxation. Ways must be found to render the achievement of the traditional income-distribution aims of social policy and the supply of essential public services compatible with tax rates that are not excessively high.

6.a The pension system

A revision of some aspects of the pension system is necessary.

The ratio of pension spending to GDP must come down gradually to allow a reduction in the tax burden and make room for a higher level of public investment. The introduction of the new criteria must be gradual and take account of the impact on the distribution of income.

The outlook for the system was extensively analyzed by a committee instituted by the Ministry of Labour and Social Policy. According to its report, the incidence of spending by the main public pension schemes will increase progressively during this decade and the following ones. The committee's scenario shows pension expenditure rising to 14.5 per cent of GDP in 2010 and nearly 16 per cent in 2030.

The share of output going to pay pensions will be an increasing burden on the wage bill. The social security equilibrium rate, defined as the ratio of pension spending to labour compensation, would rise, for all public pension schemes, from 42 per cent in 2000 to nearly 47 per cent in 2030. For employees in the private sector the equilibrium rate would rise to over 48 per cent, as against the present legal contribution rate of 32.7 per cent. These trends imply a further increase in social security contribution rates, which are already higher than in the other major countries, or else more funding out of general tax revenues. Both solutions run counter to the need to make the economy more competitive.

The present public pension system has a number of problems. The transitional period under the 1995 reform is long. Not until 2030 will pension awards be almost entirely contribution-based. The average age at retirement remains relatively low. The trend in spending reflects a sharp reduction in the ratio of the average pension to average earnings and a considerable increase in the number of pensioners. The development of private pension plans is impeded by the lack of sufficient tax incentives, the limited use of allocations to severance pay funds and the high level of social security contributions.

To avoid an adverse impact on the standard of living of future retirees, savings on pension outlays must be attained principally by raising the actual age at which people retire. The rise in the ratio of pensioners to persons in employment must be slowed down; the employment rate for the 50-65 age-group is significantly lower in Italy than in the rest of Europe.

The public pension system must continue to provide an adequate income to all old people. At the same time, impetus must be imparted to the development of supplementary, funded pension plans. This will make it possible to begin the gradual lowering of social security contribution rates. A mixed pension system, partly pay-as-you-go and partly funded, will permit the diversification of workers' risks. Supplementary pension funds contribute to the development of the capital markets; they can increase the flexibility of the system and its ability to meet workers' needs. They must operate in a competitive environment. Workers must be assured the fullest possible freedom of choice.

6.b Health Care

In the field of health care, the efforts to achieve greater efficiency in service provision need to be continued. Defining the operational and financial responsibilities of every institution is essential.

Reform must guarantee adequate levels of assistance and the quality of services. Long waiting lists must be avoided, because they amount to a form of rationing, to the detriment of the weakest groups. The production of services must meet standards of efficiency that keep the expenditure to be defrayed by the public sector within limits.

The agreement of 8 August lays the basis for defining the criteria for attributing responsibility for any spending in excess of appropriations. It establishes the procedures for forecasting and monitoring expenditure. The agreement places substantial additional charges upon the central government and sets levels of essential health care consistent with the new volume of resources available. Making the new state funding conditional upon fulfilment of certain obligations strengthens the incentive for cooperation. The application of the agreement will be complex. In the past, the results of analogous initiatives have fallen short of expectations. The Government must take care to ensure it is implemented properly. The agreement is a transitional measure with a view to the reorganization of the entire health care sector.

6.c The efficiency of the public administration

Government efficiency is one of the most important factors in national economic competitiveness.

Continuing the actions undertaken in recent years, the Planning Document outlines a plan for administrative reorganization and streamlining. Operational arrangements guaranteeing the efficient allocation of resources must be devised. Some functions can be decentralized; some services can be entrusted to the private sector.

The gradual reduction of employment in some parts of the public sector must be accompanied by greater investment in human capital, in order to improve managerial and operational capabilities.

6.d Decentralization

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

Without a link between responsibility for spending and accountability for financing, the expected allocational benefits of decentralization would be lost. The lack of stringent budgetary rules for local government makes it hard to control the public finances at national level.

In this context, it is crucial to devise an accounting and reporting system that provides timely and accurate data on budget balances and the resources allocated to the various functions.

* * *

The budget for 2002 is part of a broader plan aimed at accelerating the country's development.

Some of the deficit-containment effects of the provisions of the Finance Law are temporary. The risk of budgetary disequilibria re-emerging in future years must be averted.

The provisions aimed at relaunching economic growth and the Finance Law will have positive effects on demand in the short term.

The economic policy design will be completed only with the structural measures to be introduced with the legislation accompanying the Finance Law.

In order to return to a path of sustained growth, it will be necessary to bring about an improvement in the competitiveness of the economy, based on a reduction in current public expenditure in relation to GDP, on a gradual but significant easing of the tax burden and on labour market flexibility. The "white paper" of the Ministry of Labour and Social Policy moves in the right direction. Action on the pension system must be flanked by a plan for the reform of the national health system.

It is necessary to increase our endowment of infrastructure. Measures to step up public investment must be implemented quickly and resolutely.

The measures on behalf of the population strata in conditions of economic difficulty are desirable with a view to the equity of income distribution.

Even in a negative phase of the cycle we must remain aware of the benefits of a lasting adjustment of the public finances.

The cyclical difficulties and the uncertainties concerning the international framework must act as a spur to innovation. They make it urgent to enact reforms that can improve expectations, achieve high levels of employment and accelerate growth.

Tables and Figures

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Table 1

STATE SECTOR BALANCES
(billions of lire)

	Year			First 9 months		
	1998	1999	2000	1999	2000	2001 (2)
Net borrowing requirement (net of settlements of past debts and privatization receipts) (1)	**58,503**	**30,994**	**49,150**	**45,545**	**46,634**	**57,496**
Settlements of past debts	4,770	12,118	8,904	9,573	6,924	12,673
- in securities	*-1,631*	*6,171*	*5,154*	*5,169*	*5,012*	*0*
- in cash	*6,401*	*5,947*	*3,750*	*4,404*	*1,912*	*12,673*
Privatization receipts (3)	-15,277	-43,839	-29,951	-786	-259	-8,367
Total borrowing requirement (1)	**47,996**	**-727**	**28,103**	**54,332**	**53,299**	**61,802**
FINANCING						
Medium and long-term securities	79,662	47,981	36,644	85,590	54,228	30,227
Treasury bills	-35,483	-35,107	-33,982	-15,794	-12,586	41,008
Treasury current accounts with BI	15,578	-14,048	18,797	-14,660	3,323	-22,119
Other Bank of Italy financing	384	46	-2,938	118	-2,736	245
Post Office funds	6,400	17,418	9,023	12,690	5,143	9,391
Bank lending (4)	-6,727	-7,047	-21,916	-6,497	-19,414	-7,652
Other domestic financing	405	98	3,015	61	1,919	1,271
Foreign loans (5)	-12,223	-10,068	19,460	-7,176	23,422	9,431

Memorandum item: Net borrowing requirement including tax refunds paid via the postal system (1)	58,503	30,994	49,150	45,545	46,634	61,659

(1) A plus sign indicates a deficit, a minus sign a surplus.
(2) Provisional data.
(3) Includes the part of the proceeds of the sale of UMTS licences used to reduce the public debt (20,736 billion lire).
The remaining part of the proceeds received in 2000 (2,304 billion lire) was recorded under revenue.
(4) Includes redemptions of loans granted to local authorities.
(5) Includes commercial paper.

Table 2

ESTIMATED EFFECTS OF THE BUDGET FOR 2002
ON THE GENERAL GOVERNMENT CONSOLIDATED ACCOUNTS (1)
(billions of lire and millions of euros)

REVENUE	lire	euros (2)
Increase in revenue	**25,900**	**13,380**
Property sales	15,000	7,750
Irregular employment brought into the open	2,000	1,030
Repatriation of capital from abroad	1,900	980
Lotteries and the like	1,000	520
Voluntary revaluation of shares, capital parts and other fixed assets	4,400	2,270
Change in Irpef rates	1,600	830
Decrease in revenue	**-4,900**	**-2,530**
Increase in tax credits for dependent children	-2,100	-1,090
Suppression of INVIM	-500	-260
Suppression of tax on shop signs	-200	-100
Extension of building restructuring incentives	-500	-260
Extension of measures regarding VAT	-200	-100
Social security contribution reliefs	-1,400	-720
NET CHANGE IN REVENUE	**21,000**	**10,850**
EXPENDITURE	**lire**	**euros (2)**
Reduction in expenditure	**-7,100**	**-3,670**
Domestic stability pact	-2,300	-1,190
Staff costs	-1,700	-880
Transformation of public entities and intermediate consumption	-1,100	-570
Revision of budget appropriations in the 2002 Finance Law	-2,000	-1,030
Increase in expenditure	**10,500**	**5,420**
Renewal of labour contracts	3,200	1,650
Increase in minimum pensions	4,200	2,170
Measures for the South, infrastructure and firms	2,300	1,190
Transfers to households and developing countries	600	310
Other	200	100
NET CHANGE IN EXPENDITURE	**3,400**	**1,750**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**17,600**	**9,100**

(1) Based on official estimates.
(2) Rounding following the conversion into euros may cause discrepancies in totals.

Table 3

GENERAL GOVERNMENT BUDGET OUTTURNS AND TARGETS

	1998	1999	2000 (1)	2001	2002	1998	1999	2000 (1)	2001	2002
	(billions of lire)					*(as a percentage of GDP)*				
Net borrowing	58,745	37,724	34,310	26,700	12,600	2.8	1.8	1.5	1.1	0.5
Interest payments	166,757	144,781	146,126	146,800	144,500	8.0	6.7	6.5	6.2	5.8
Primary surplus	108,012	107,057	111,816	120,100	131,900	5.2	4.9	5.0	5.1	5.3

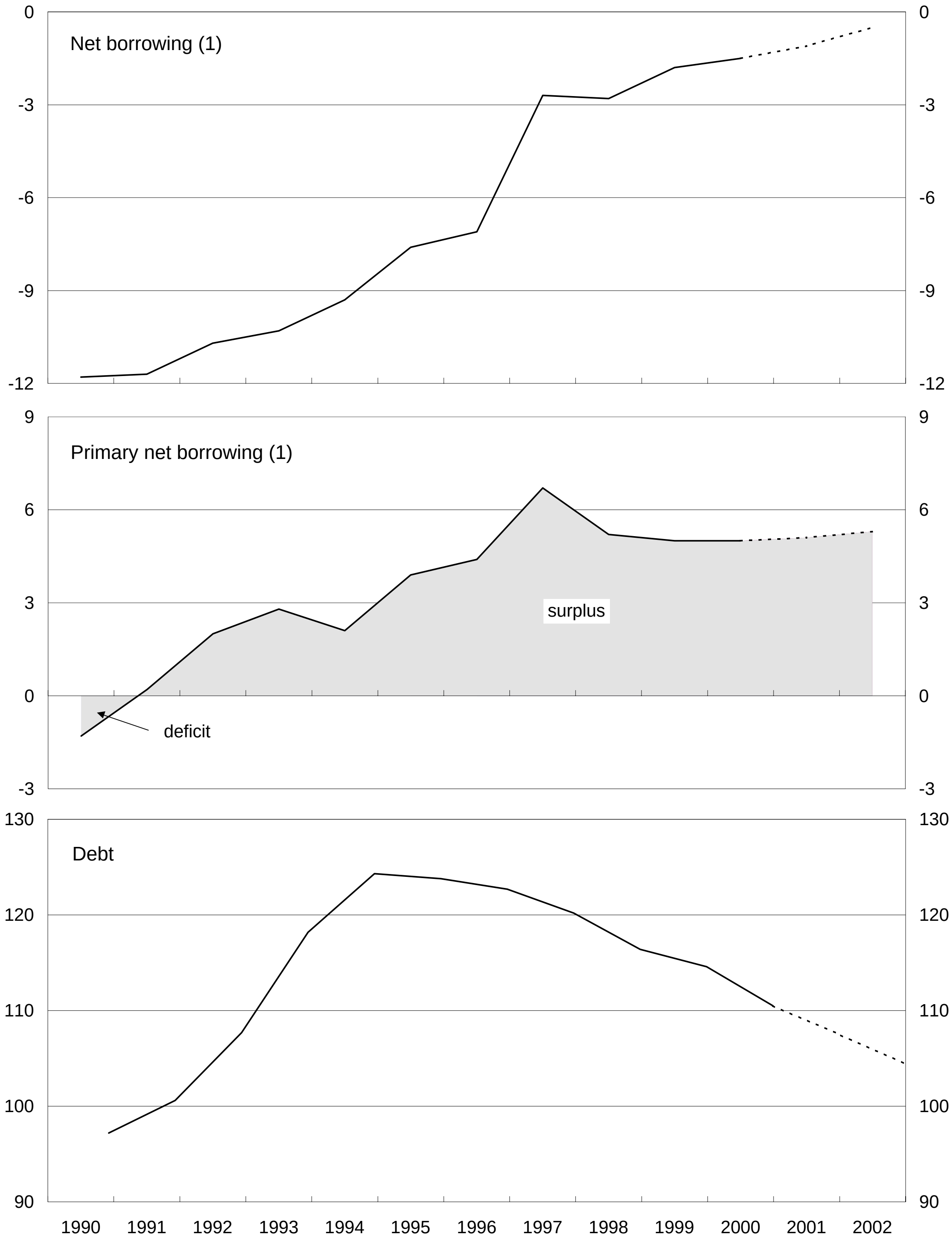
Sources: Istat and, for 2001 and 2002, *Relazione previsionale e programmatica per l'anno 2002*.

(1) Excludes the proceeds of the sale of UMTS licences (26,750 billion lire).

Figure 1

GENERAL GOVERNMENT NET BORROWING, PRIMARY NET BORROWING AND DEBT

(as a percentage of GDP)

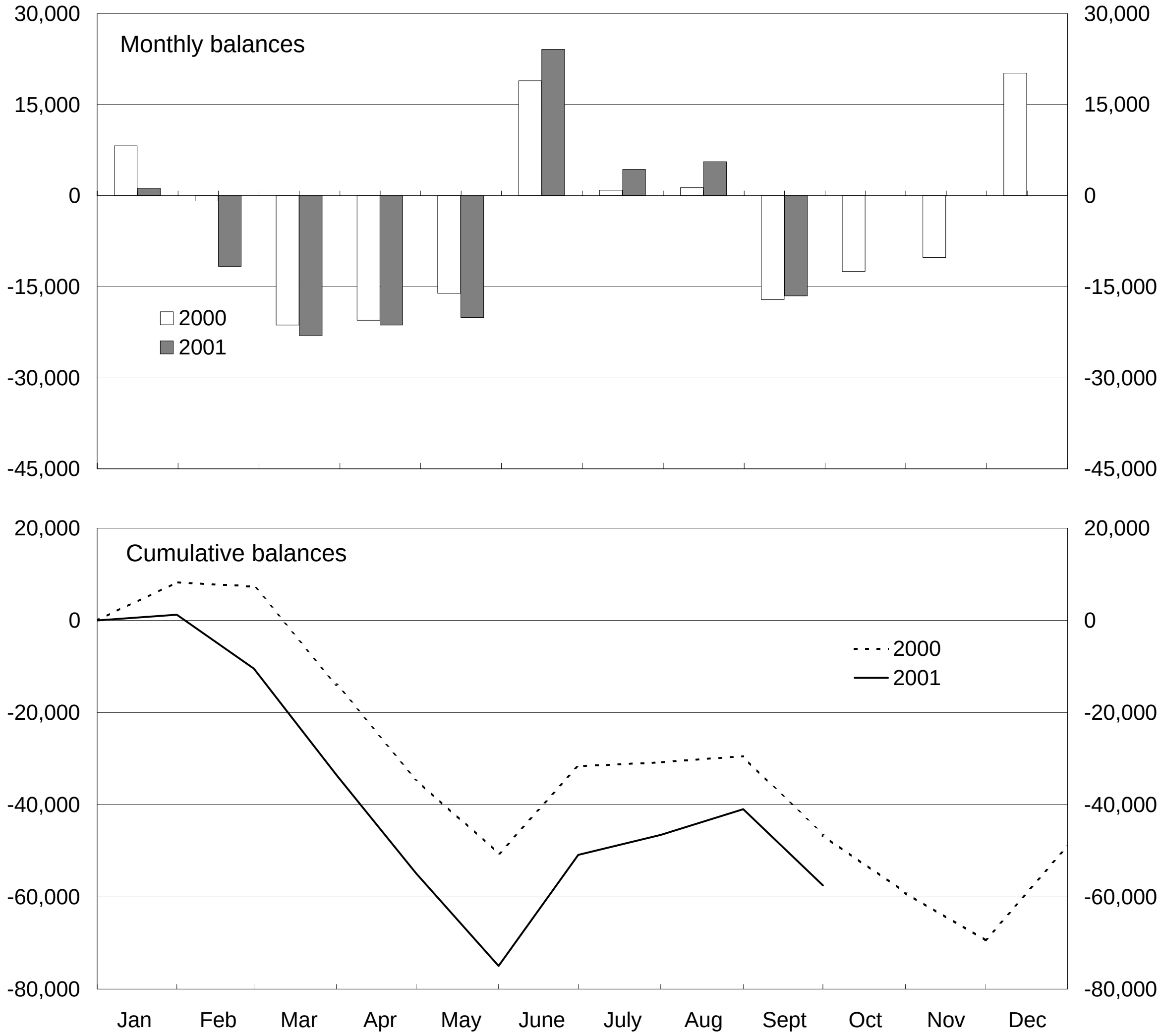


Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2001 and 2002, forecasts taken from the *Relazione previsionale e programmatica per l'anno 2002*.

(1) Excludes the proceeds of the sale of UMTS licences (26,750 billion lire in 2000).

Figure 2

STATE SECTOR BORROWING REQUIREMENT
IN 2000 AND 2001 (1)
(billions of lire)

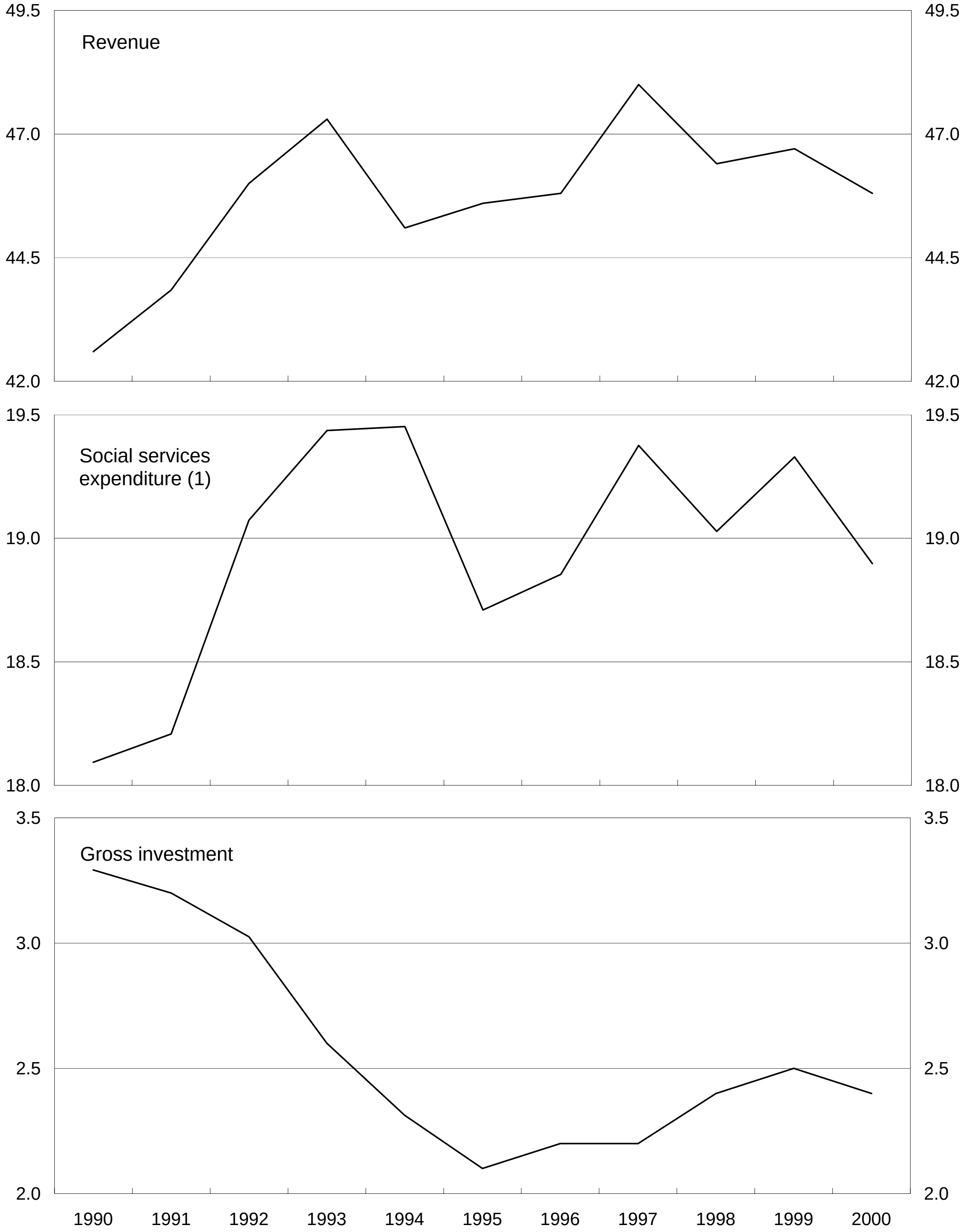


(1) Excludes privatization receipts and settlements of past debts. A plus sign indicates a surplus, a minus sign a deficit.

Figure 3

GENERAL GOVERNMENT REVENUE, SOCIAL SERVICES EXPENDITURE AND GROSS INVESTMENT

(as a percentage of GDP)



Source: Based on Istat data.

(1) Includes social services in money and in kind.