Joint Session
of the Fifth Committees of the
Italian Senate and Chamber of Deputies

Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 2002-2006

Testimony of the Governor of the Bank of Italy

Antonio Fazio

Rome, 24 July 2001

Contents

FIGURES AND TABLES

Public finance balances

The formulation and control of budgetary policy in Italy hinge on two principal indicators: the borrowing requirement and net borrowing. The role of the borrowing requirement was long pre-eminent. Since 1992, with the introduction of the European budgetary rules, net borrowing has become the focus of attention.

The borrowing requirement remains fundamental; it underlies the change in the debt.

Net borrowing is the result of non-financial transactions alone. The formation of the borrowing requirement also includes financial transactions, such as the granting of loans and acquisitions of equity.

The borrowing requirement is calculated on a cash basis. The new European System of Accounts (ESA95), adopted in 1999, is geared towards calculating net borrowing on an accrual basis.

There are two other minor differences between the borrowing requirement and net borrowing: transactions carried out by the central government on behalf of the European Union affect the borrowing requirement but not net borrowing according to the national accounts, and in some cases the accounting rules used to classify transactions as real or financial are different.

The general government borrowing requirement is calculated by the Bank of Italy, on the financing side, on the basis of securities issued in the bond markets, funds raised by the Post Office and loans disbursed by banks. By their nature these figures are certain since they are obtained from accounting records.

The State Accounting Office and the National Institute of Statistics (Istat) calculate, respectively, the public sector borrowing requirement and general government net borrowing on the formation side. Datasets based on the individual bodies' accounts for previous years and provisional accounting statements for the last year are used in the calculation, a complex operation that involves integrating and consolidating the accounts of the central government, more than eight thousand municipalities, twenty regions, the autonomous provinces, the hundred other provinces, two hundred local health units and numerous central and local public entities. Considerable recourse to estimation is necessary.

Net borrowing is computed by Istat in a relatively short period of time, after the close of each fiscal year, partly on the basis of data supplied by the State Accounting Office.

The complexity of the calculation is increased by the use of the accrual principle as defined in ESA95, which does not correspond with public sector accounting systems, requires non-accounting data and leads to a widening of the area subject to estimation.

The data for net borrowing calculated under the European System of Accounts are available from 1990 onwards. Between 1994 and 1999 the value of net borrowing on an accrual basis calculated by Istat was close to the estimate of net borrowing on a cash basis, arrived at by excluding financial items and asset disposals from the borrowing requirement computed by the Bank of Italy; on average, the former was 3.3 trillion lire larger than the latter. In 1995 the accrual balance exceeded the cash balance by 13 trillion, owing to the attribution of past liabilities under rulings of the Constitutional Court concerning pensions.

Net borrowing on an accrual basis was smaller than net borrowing on a cash basis by 6 trillion lire in 1999 and 39 trillion in 2000.

The gap of the last two years primarily reflects the difference between the public sector borrowing requirement calculated by the State Accounting Office on the formation side and the borrowing requirement computed by the Bank of Italy on the financing side.

The State Accounting Office's estimate of the borrowing requirement for 1999 was around 9 trillion lire less than that calculated by the Bank of Italy. The difference grew to more than 16 trillion in 2000. If these disparities were caused by transactions not referring to financial items and not attributable to previous years, Istat's figures for net borrowing should be increased by the corresponding amount.

The remaining part of the difference between net borrowing on a cash and an accrual basis reflects sizable reconciliation items.

The calculation of expenditure on an accrual basis must include an estimate of prospective expenditure carryovers, an exercise often hindered by the dearth of information especially for local governments. The regional governments' systematic requests for funds to cover their health care deficits suggest that the carryovers formed in that sector are substantial.

Last year there was a particularly sharp acceleration in tax refunds, which ought to be matched by a reduction in the outstanding amount of tax credits. However, this has not been made known.

For tax receipts and social security contributions, the estimates on an accrual basis are around 20 trillion lire higher than the figures on a cash basis for both 1999 and 2000.

In the Economic and Financial Planning Document the projected public sector borrowing requirement on a current programmes basis for 2001, including settlements of past debts but excluding privatization receipts, is 93 trillion lire, compared with 74.8 trillion in the

Quarterly Report on the Borrowing Requirement published in April. In the light of this revision, the projection for net borrowing on a current programmes basis has risen from 1 to 1.9 per cent of GDP.

Even assuming that there is no discrepancy in 2001 between the borrowing requirement determined by the Bank of Italy and that calculated by the State Accounting Office (equal, as mentioned, to 16 trillion lire in 2000), the difference between net borrowing on a cash basis and an accrual basis would still be large this year (around 30 trillion lire).

In stressing that the projection of 1.9 per cent of GDP for net borrowing assumes the persistence of a large divergence with respect to the borrowing requirement, the Document prudentially offers an estimate of net borrowing equal to 2.7 per cent of GDP. In the light of the information available, this appears substantially correct.

An update of the situation of the public finances for 2001 will be presented by the Government in the autumn.

For net borrowing to be an effective indicator in the formulation and control of budgetary policy, its calculation must be based on exhaustive and transparent sources.

This problem is destined to grow in importance with the decentralization of public sector functions. The system for collecting and processing local governments' data must be strengthened. Further efforts must be made to ensure that a complete reconciliation between cash and accrual accounts is provided at least for the annual outturn.

The Economic and Financial Planning Document for the years 2002-06

As in the Document presented in 2000, the current programmes scenario for the next five years is calculated on a current legislation basis. It does not take into account new appropriations for capital expenditure and the renewal of public employees' labour contracts, but only the interim increases established for contractual hiatus.

The current programmes scenario shows net borrowing amounting to 1.7 per cent of GDP in 2002. Despite the reduction in the expenditure ratio, due largely to the effects of the current legislation methodology, the budget would not be in balance even in 2006, when there would be a deficit of 0.4 per cent of GDP. The current programmes scenario of the Document presented last year showed a surplus being achieved in 2003.

The ratio of primary expenditure to GDP would rise from 40.8 per cent in 2000 to 41 per cent this year and then gradually fall back to 39.5 per cent in 2006. Interest payments, which amounted to 6.5 per cent of GDP in 2000, would remain stable until 2001 and then decrease to 5.7 per cent in 2006.

Total revenue, equal to 45.8 per cent of GDP in 2000, would decline to 45.5 per cent this year and 44.9 per cent in 2006. The tax burden, i.e. taxes and social security contributions, would decrease from 42.4 per cent in 2000 to 42 per cent in 2001 and come down by 0.6 percentage points between 2001 and 2006.

No figures are provided regarding general government debt.

The public finance plan presented in the Document confirms the objectives for the general government budget balance established last December in the update of the Stability Programme. For 2001 the target for net borrowing remains 0.8 per cent of GDP, compared with 1.5 per cent last year. However, the obstacles to achieving that objective are underscored. A balanced budget would be achieved in 2003; the budgetary position would remain stable at that level in the three following years. In the preceding Document a small surplus at the end of the planning period had been predicted.

The primary surplus is forecast to improve from 5 per cent of GDP in 2000 to 5.4 per cent in 2001 and 5.9 per cent in 2003, with a subsequent contraction bringing it back in 2006 to a value equal to that indicated for the current year.

The Document envisages a reduction of 5 percentage points in the tax burden, from 42 per cent of GDP in 2001 to 37 per cent in 2006.

The Document does not provide a detailed scenario for the different items of revenue and expenditure.

Whereas the public finance objectives for the current year will be revised in the autumn when the Planning Document Update is presented, for the subsequent years the revision will take place at the end of 2001 on the occasion of the update of the Stability Programme.

To reduce this year's deficit, the Government intends in the coming months to apply spending curbs based on administrative measures and careful checks on the sectors at greatest risk, health care first and foremost. A sharp acceleration in the timetable for disposals of general government property is planned.

For the following years the Document announces a curb on current expenditure as a ratio to GDP on a scale that will permit the planned reduction in the tax burden.

The essential lines of economic policy for the next five years are based on structural reforms of taxation on the one hand and pensions, health care and public employment on the other. Measures aimed at increasing labour market flexibility, speeding up decentralization and modernizing the public administration are envisaged.

The so-called “actions for the first hundred days” anticipate some of the measures. The package provides for incentives to bring unreported work into the open, temporary support for investment, the abolition of inheritance tax and the introduction of a law for the planning and execution of major public works. Company law is to be revised and bureaucratic, accounting and tax formalities for firms simplified.

Evaluation of the plan

The fundamental objective of the economic policy action described in the Document is accelerated growth for the economy in a setting of fiscal balance.

The centerpiece of this action is a significant curbing of the increase in primary expenditure to make it less than the growth in output and thus permit a reduction in the tax burden.

Growth is promoted through the encouragement of private and public sector investment, the pursuit of greater efficiency in the management of public services and the removal of constraints on economic activity and the supply of labour.

The reduction in the tax burden, enhanced flexibility in the use of the factors of production and the increase in the capital stock will boost supply, benefiting productivity and competitiveness of the economy. Demand is intended to find support in the implementation of the programme for infrastructure and the improvement in business and household confidence.

The certainty of a progressive easing of the tax burden is likely to influence economic agents' expectations, attenuate the disincentives to seeking work, assist the regularization of jobs and foster growth in the size of firms. It is essential in order to improve competitiveness and put the economy on a higher growth path.

The bill that the Government has submitted to Parliament provides for tax and social security contributions relief for companies that regularize their activity and stronger measures to combat evasion. Bringing tax bases into the net will make it possible for tax rates to be gradually reduced, thereby triggering a further contraction of the areas of tax evasion and avoidance and attenuating the distortions in resource allocation.

The incentives for investment are intended to give immediate support to growth. Compared with the similar action taken in the two years 1994 and 1995, the facilitations for 2001 and 2002 have been extended to financial companies and the self-employed; they also concern investment in human capital.

It is necessary to evaluate the effect of the incentives on the budget carefully and, if necessary, concentrate resources on the investments of greatest importance for a lasting improvement in Italy's competitiveness.

This action of a temporary nature will have to be consolidated in structural reforms permitting a permanent reduction in tax rates. The lowering of the ordinary corporate income tax rate to 33 per cent, envisaged in the Document, goes in this direction. A climate of legislative certainty must be ensured, avoiding frequent changes of rules that interfere with the choices of economic agents.

The reduction in the tax burden will extend to households with the revision of the structure of personal income tax.

Budget balance must be achieved quickly, in 2003. The adjustment is necessary to consolidate and reinforce economic policy action. It will give Italy's public finances adequate margins to operate countercyclically in a situation in which monetary policy reflects the economic conditions of the entire euro area.

The associated rapid decline in the ratio of public debt to GDP, with privatizations contributing, will limit interest payments and make it easier to achieve a lasting reduction in the tax burden. It can make a major contribution to the sustainability of the public finances in the long term.

As mentioned, control of public spending is the linchpin of the budgetary policy outlined in the Document.

The action to curb expenditure must be based on a systematic redesigning of the public sector's role, not least in view of the pressure on the budget caused by the ageing of the population.

The planning scenario provides for the ratio of current primary expenditure to GDP, which remained broadly unchanged between 1995 and 2000, to decline by five percentage points over the five years. This result implies a substantial constancy of primary current expenditure in real terms. On a prudential forecast of interest rate trends, the ratio of interest payments to GDP is expected to decline by about 0.2 percentage points a year.

Adequate resources must be ensured for investment. The contribution of the private sector to financing infrastructure will be essential. An increase in non-fiscal revenue from the sale of services supplied by general government is a possible source of funds for expanding capital expenditure.

It is necessary to move promptly to enact a reform that will gradually curb spending on pensions, which is now more than a third of all primary expenditure. In order not to lower future pensioners' living standards, this must be achieved through a reduction not in per capita benefits but in the rise in the ratio of pensions to workers, to be obtained by fostering a gradual increase in the average age at which people actually start to draw benefits.

In the health sector, the Document underscores the necessity of action to raise efficiency by means of quality and price indicators that will bring savings on purchases of goods and services. The rules for access to health services must be reconsidered and better combinations sought between the public and private components.

The decentralization of the public sector's activity must permit more efficient allocation of resources; the supply of public services can adapt better to the preferences of the population. Autonomy in spending decisions cannot be divorced from greater responsibility for financing at all levels of government and adequate powers of local taxation. Compatibility between decentralization and fulfillment of the targets set for the general government budget balance must be guaranteed by means of appropriate constraints.

In line with what the Document indicates, there is a need to rationalize the staffing of public bodies. This can create scope for pay increases in real terms linked to individual productivity and merit, to be defined in decentralized bargaining.

The scale of the necessary reforms calls for a careful assessment of their redistributive effects in order to avoid a rise in the incidence of poverty. The increases envisaged in minimum pensions are a step in this direction.

In the health sector, access to essential services must be ensured for the entire population by limiting the forms of rationing that hurt the poorer classes.

The economic situation

The recovery of the world economy and the easing of the tensions now affecting some emerging countries depend on the possibility of a return to rapid growth in the United States. Economic policies are working to achieve this result.

The slowdown in economic activity in the United States has been caused by the sharp fall in investment, especially in the new information technologies. Orders for capital goods continued to decline in the second quarter of this year.

The contraction in activity involves manufacturing, not services. This contrast is reflected in the figures on employment and in the expectations of purchasing managers in the two sectors.

The recent growth in consumption supports a non-pessimistic assessment of the possibility of a US economic recovery. In the first quarter private consumption grew at an annual rate of 3.4 per cent; in April and May it continued to expand at the same pace. The rise in the index of consumer confidence in May and June suggests that consumption will continue to sustain productive activity. In the future consumer spending may benefit from the fall in oil prices.

The expansionary action by the monetary and budgetary authorities should produce significant effects from the last quarter of the year onwards. The Federal Reserve forecasts that GDP will increase by between 1.25 and 2 per cent in the fourth quarter compared with the same period of the previous year. Economic activity is expected to accelerate sharply during 2002, with an annual rate of GDP growth of between 3 and 3.25 per cent in the fourth quarter.

Consumer price inflation is now running above 3 per cent; the rate is lower if energy products are excluded. According to IMF forecasts, the average inflation rate should be equal to 3 per cent in 2001 and then fall to 2.2 per cent in 2002.

In Japan, the data for the first quarter of this year signal a contraction in GDP. Industrial production fell again in May, the third consecutive decline. The quarterly survey conducted by the central bank in June showed an erosion in business confidence. Exports are continuing to decline, especially in the electronics sector. The downward trend in prices has grown more pronounced. The most recent forecasts indicate stagnant output this year and modest growth in 2002.

The slowdown of the world economy has had negative effects on the emerging economies. Financial tensions have appeared in some countries with marked internal and external imbalances, such as Argentina, and subsequently also in Brazil and Mexico. Turkey's situation remains precarious.

In the euro-area countries, a cyclical slowdown is under way. In the first quarter of 2001 GDP expanded at an annual rate of 2.4 per cent compared with the last quarter of 2000. The contribution of net exports remained positive, reflecting the contraction in imports. The resilience of household consumption compensated for the fall in investment.

Industrial production has been decreasing since the start of the year; according to preliminary estimates, it fell further in May. The cyclical developments of the past months have led to a general downward revision of the forecasts for growth this year. The expected increase now stands at around 2 per cent.

The forecasts of the international organizations point to a gradual recovery for the world economy beginning in the final part of this year, when the United States is expected to pull out of stagnation.

In Italy, GDP grew by 0.8 per cent in the first quarter compared with the preceding three months, but only thanks to stockbuilding on a major scale. Consumption stagnated, held in check by inflation. Gross fixed investment expanded modestly as a consequence of an acceleration in construction activity. Net exports made no contribution to the growth in output.

After recording unsatisfactory results for April and May, industrial production is estimated to have staged a partial recovery in June and July. GDP growth appears to have slackened in the second quarter. The cyclical indicators signal less negative growth prospects than in the rest of the euro area.

The 2.4 per cent increase in GDP indicated for this year by the Document will have to find support in an acceleration in investment and an improvement in the climate of confidence induced by the drafting of the proposed structural reforms.

Against the background of a trend in wages that so far has remained generally moderate, with the petering out of the inflationary impulse generated by the rise in oil prices and by the tensions in the meat products market, inflation has begun to fall back in the euro area. In the four major countries of the area, producer prices have continued to decelerate. In May they were 3.5 per cent higher than twelve months earlier, compared with 4.5 per cent in January; the rate of increase in the index net of food, energy products and automobiles also declined by 1.1 percentage points, from 2.7 to 1.6 per cent. Similar trends were recorded in Italy in May, with the twelve-month increase in both the general index and the index excluding food, energy products and automobiles decelerating by just under half a point to 2.9 and 1.9 per cent respectively.

The outlook

The Document presents a planning framework in which the Italian economy is set to grow at a rate of slightly more than 3 per cent in the next five years.

An average rise of 2.8 per cent in the general index of consumers prices appears possible in 2001, assuming that the recent slowdown in inflation continues. The objective of an average rate of 1.7 per cent in 2002 is ambitious; achieving it will require oil prices to remain basically stable at their present level, increases in nominal incomes to remain moderate and a significant acceleration of productivity.

According to the Government's plans, the positive trend of employment in the past two years will become more pronounced, as a result not only of the upturn in growth but also of the further reduction in the rigidities that are still to be found in the labour market. A decisive contribution to putting the economy on a higher growth path and raising the employment rate will have to come from the development of the South of Italy.

In the medium term it is essential that Italian firms improve their competitiveness and increase their specialization in the most innovative and dynamic segments of the world market. This is the underlying condition for ensuring that the growth in demand is met by domestic rather than foreign supply.

The state sector borrowing requirement for the first six months of the year amounted to 51 trillion lire, compared with 31.7 trillion in the corresponding period in 2000. In view of the surplus that is forecast for July, the borrowing requirement for the first seven months should fall to 45 trillion lire, compared with 30.8 trillion in the corresponding period in 2000. The figure for the first seven months of 2001 does not include more than 4 trillion lire of tax refunds paid via the Post Office; it benefits from around 9 trillion of full-settlement tax paid in June and July on the revaluation of corporate assets, which will reduce revenue in future years.

The excess of the borrowing requirement with respect to last year should contract in the coming months in view of the substantial tax reliefs concentrated in the last part of 2000.

The measurement of general government net borrowing according to the rules established by the European System of Accounts requires all the items for the reconciliation of the amounts on a cash and an accrual basis to be identified, with an explanation of the budget revenue and expenditure carryovers of the bodies concerned.

The restrictions on cash disbursements that the Government has begun to impose and the other measures taken and being prepared will make it possible to keep general government net borrowing within 2 per cent of GDP. The Government does not rule out being able to achieve more ambitious objectives.

Bringing the budget into balance in 2003 is possible. It will require a start on expenditure reforms, the emergence of unreported economic activities, a reduction in tax evasion, and an increase in other forms of revenue in connection with the supply of new and better public services. The budget for 2002 will have to reduce the deficit considerably with a view to achieving balance in 2003.

The economic policy formulated in the Planning Document seeks to reconcile structural adjustment of the public finances with an improvement in the outlook for growth. It rests on a reduction in the tax burden, incentives for private sector investment, and the realization of important infrastructure. The planned action includes a broad range of privatizations and measures to increase the efficiency of the civil service and streamline the rules that govern business and the labour market.

The credibility of the plan to reduce the tax burden is based in turn on reforms of the main branches of the public sector aimed at reducing the ratio of expenditure to GDP. They need to be launched without delay.

Increasing the rate of growth of economic activity will permit primary expenditure to be reduced substantially in relation to GDP while leaving its level unchanged in real terms over the five years considered in the Planning Document.

In implementing the plan it will be necessary to ensure the close monitoring of primary expenditure on an accrual basis and the consequent cash disbursements.

In the last few years the expansion of the Italian economy has been significantly slower than that of the other European countries; the causes lie in the loss of competitiveness of Italian products in the domestic and international markets, rigidities and inefficiencies in the public sector and the regulation of the use of the factors of production, and the lag accumulated in the supply of high-tech goods.

This trend must be inverted and the foundations laid, through structural reforms, for a new period of growth.

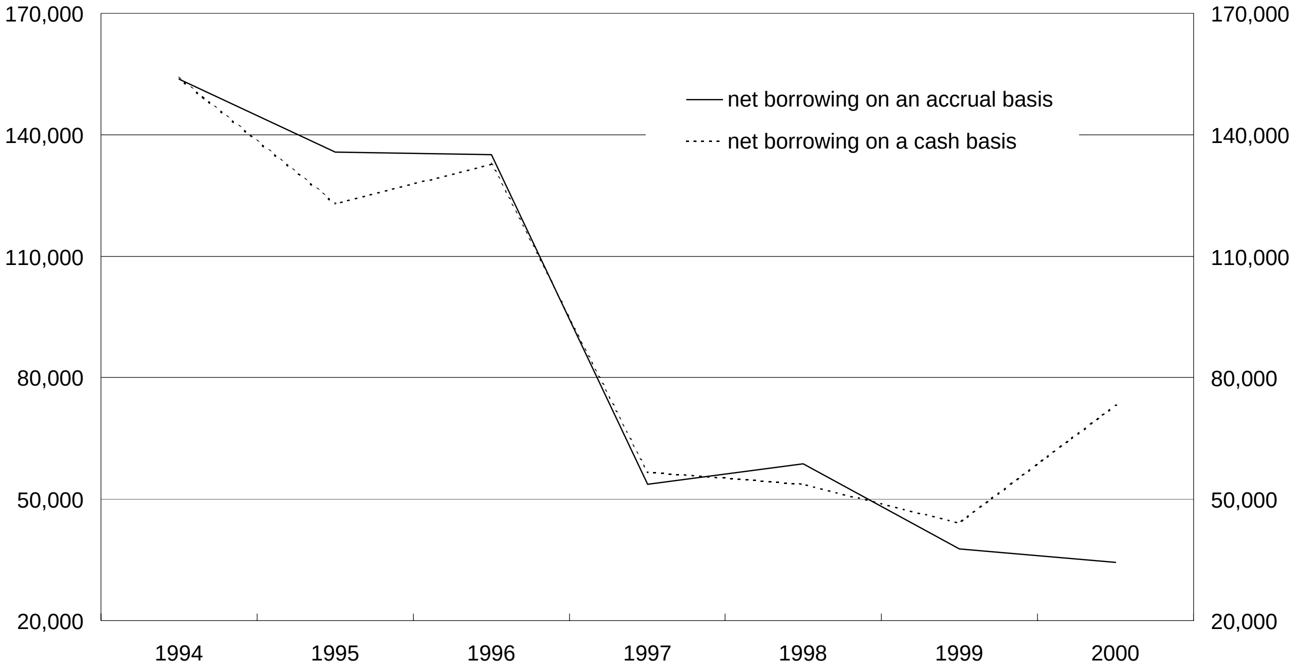
Italy has the manpower, the technical and managerial skills, and the savings for a lasting acceleration in economic expansion. Achieving a growth rate of around 3 per cent depends crucially on the prompt implementation of the structural measures outlined in the Planning Document in order to boost the confidence of firms and households.

Economic policy, the reforms of government expenditure and revenue, the involvement of firms and the social partners must create the conditions for stable and lasting growth, for the creation of good jobs.

Figure 1

GENERAL GOVERNMENT NET BORROWING: ON AN ACCRUAL AND A CASH BASIS (1)

(billions of lire)



Sources: For the net borrowing on an accrual basis, based on Istat data; for that on a cash basis, based on Bank of Italy and State Accounting Office data.
(1) The figures for 2000 do not include the proceeds of the sale of UMTS licences; these reduced net borrowing on an accrual basis by 26.75 trillion lire and that on cash basis by 23.04 trillion.

Figure 2

CLASSIFICATION OF GOVERNMENT REVENUE AND EXPENDITURE

Real transactions

<u>*Current and capital revenue*</u>
Taxes
Contributions
Sales of goods and services

<u>*Current and capital expenditure*</u>
Compensation of employees
Social benefits
Purchases of goods and services
Investment
Transfers to enterprises

Net borrowing
(formation)

Financial transactions

<u>*Revenue*</u>
Sales of shareholdings
Repayments of loans
Net reduction in deposits

<u>*Expenditure*</u>
Purchases of shareholdings
Disbursements of loans
Net increase in deposits

Balance of transactions in financial assets

Borrowing requirement
(formation)

<u>*Revenue*</u>
Issues of bonds
Proceeds of loans

<u>*Expenditure*</u>
Repayments of bonds
Repayments of loans

<u>*Revenue*</u>
Net reduction in Treasury deposits with the Bank of Italy

<u>*Expenditure*</u>
Net increase in Treasury deposits with the Bank of Italy

Borrowing requirement
(financing)

Net borrowing
(based on financial transactions)

Figure 3

DEFINITIONS OF GOVERNMENT

General government

or

Public sector (1)

- State (budget and treasury operations)
- Deposits and Loans Fund
- Other central government bodies

State sector

Social security institutions

- Regions
- Provinces
- Municipalities
- Local health units
- Other local government bodies

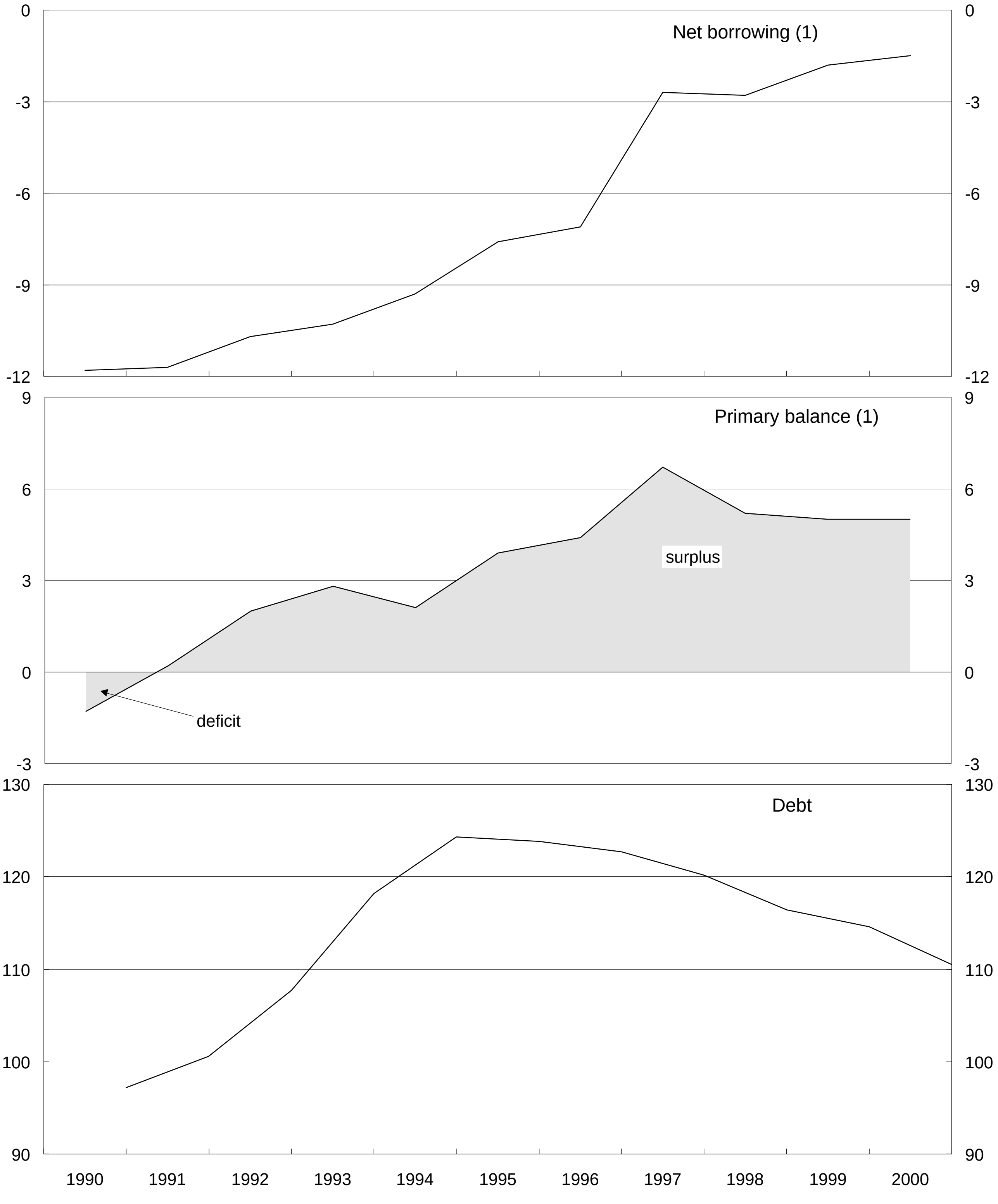
Local government

(1) The other central and local government bodies included in general government differ marginally from those included in the public sector.

Figure 4

GENERAL GOVERNMENT NET BORROWING, PRIMARY BALANCE AND DEBT

(as a percentage of GDP)

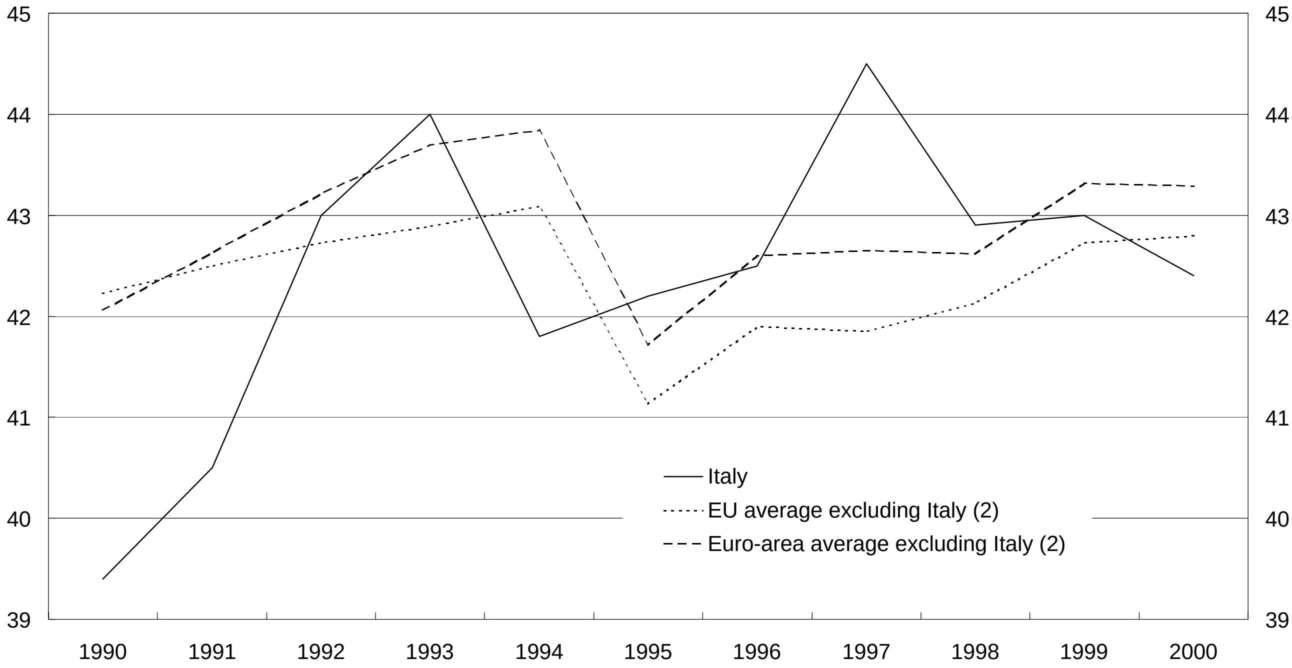


Sources: Based on Istat data and Bank of Italy data for the debt.
(1) The figures for 2000 do not include the proceeds of the sale of UMTS licences (26.75 trillion lire or 1.2 per cent of GDP).

Figure 5

TAX REVENUE AND SOCIAL SECURITY CONTRIBUTIONS (1)

(as a percentage of GDP)

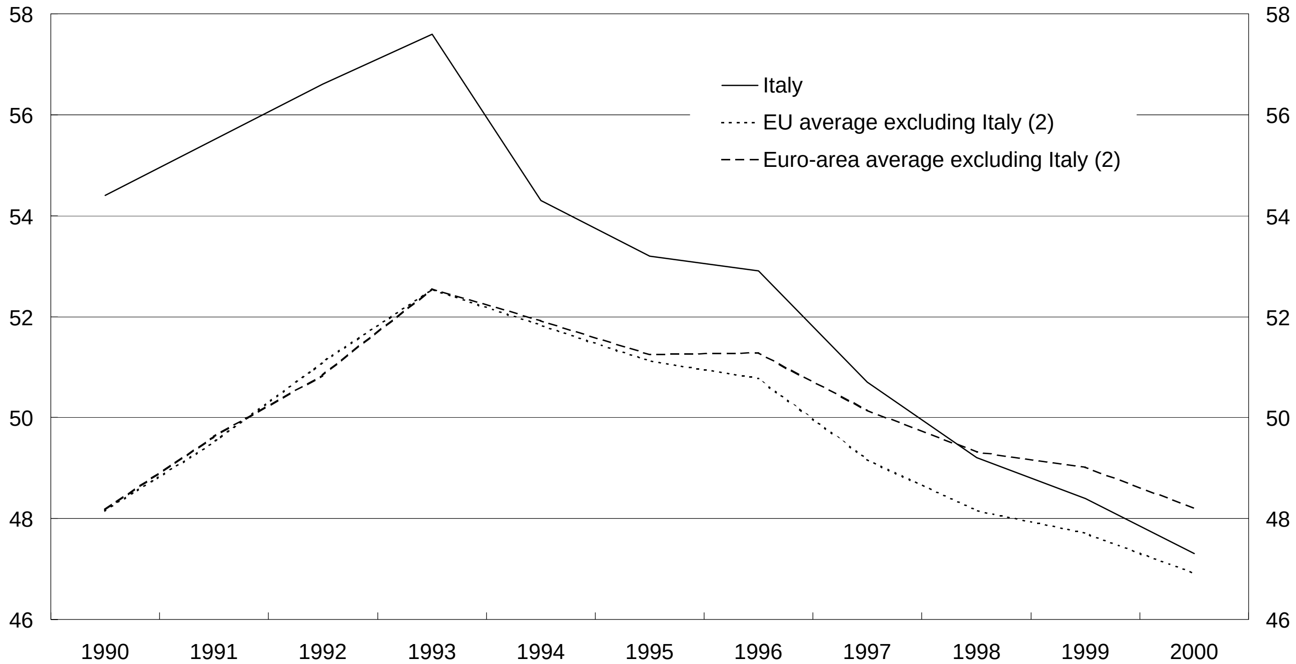


Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995 for every country except Italy. - (2) Weighted on the basis of GDP.

Figure 6

GENERAL GOVERNMENT EXPENDITURE (1)

(as a percentage of GDP)

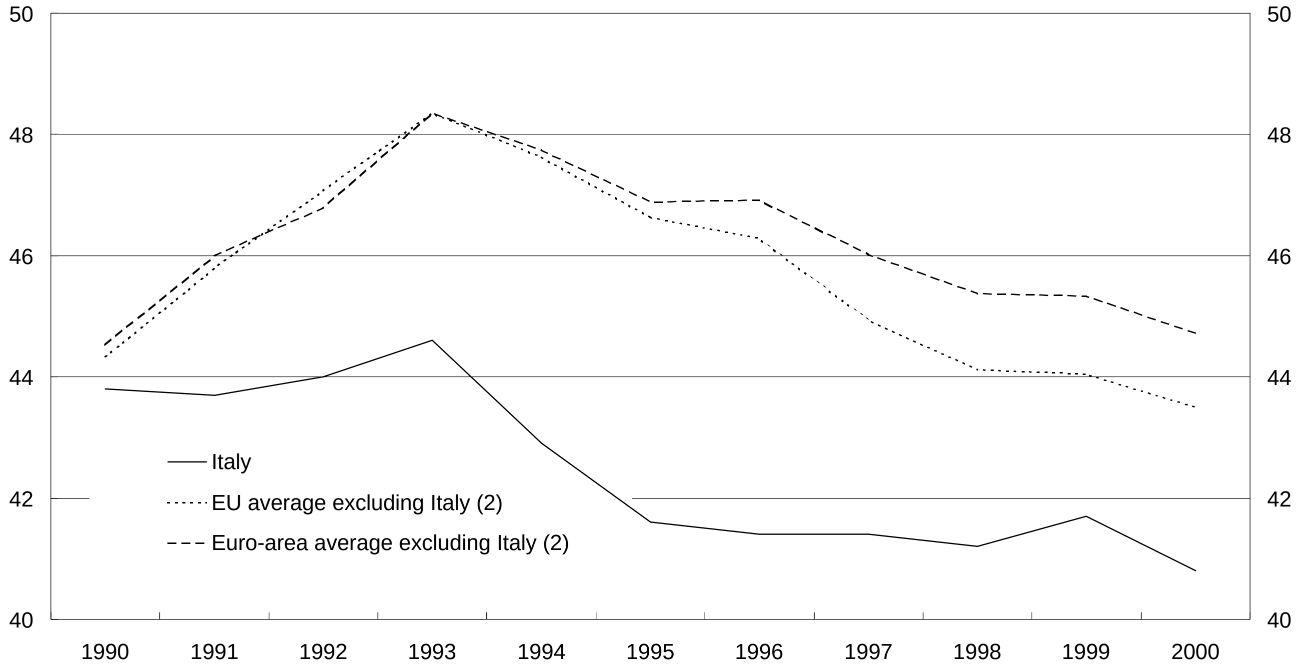


Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995 for every country except Italy. The figures for 2000 do not include the proceeds of the sale of UMTS licences. - (2) Weighted on the basis of GDP.

Figure 7

GENERAL GOVERNMENT EXPENDITURE EXCLUDING INTEREST PAYMENTS (1)

(as a percentage of GDP)

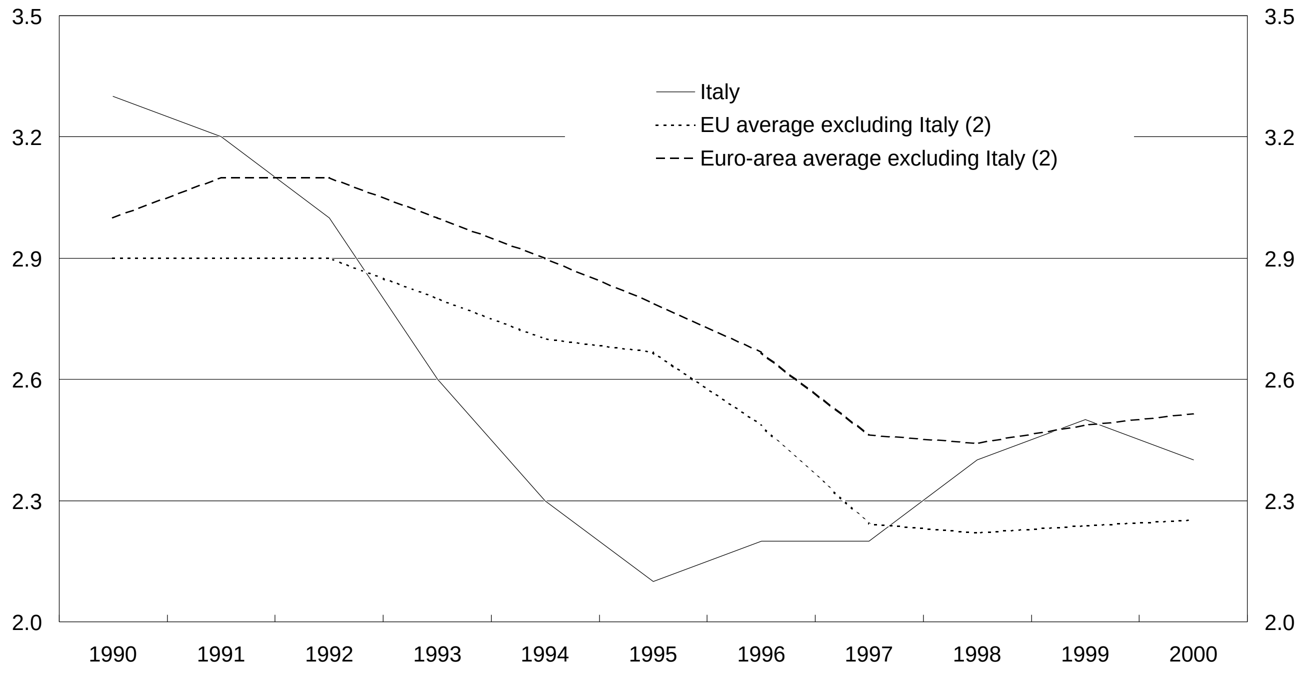


Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995 for every country except Italy. The figures for 2000 do not include the proceeds of the sale of UMTS licences. - (2) Weighted on the basis of GDP.

Figure 8

GENERAL GOVERNMENT INVESTMENT (1)

(as a percentage of GDP)



Sources: Based on Istat and EU Commission data.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995 for every country except Italy. - (2) Weighted on the basis of GDP.

Figure 9

AVERAGE COST OF THE PUBLIC DEBT, AVERAGE GROSS RATE ON TREASURY BILLS AND GROSS YIELD ON 10-YEAR TREASURY BONDS

(percentages)

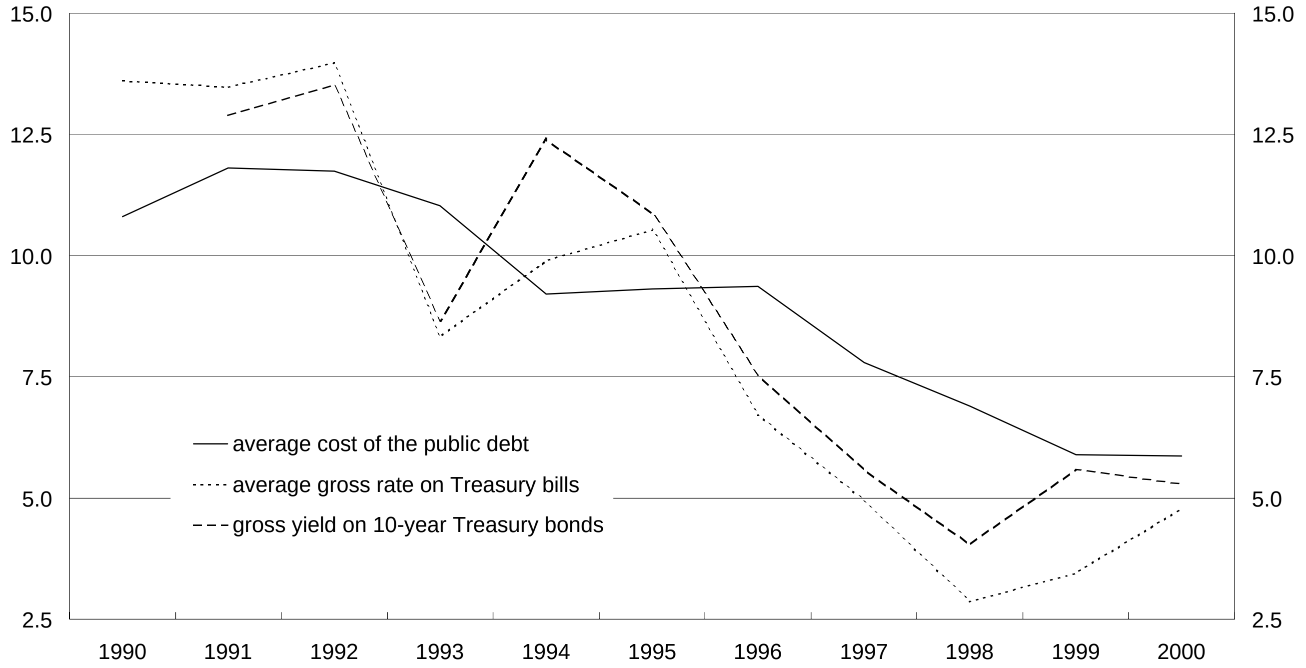
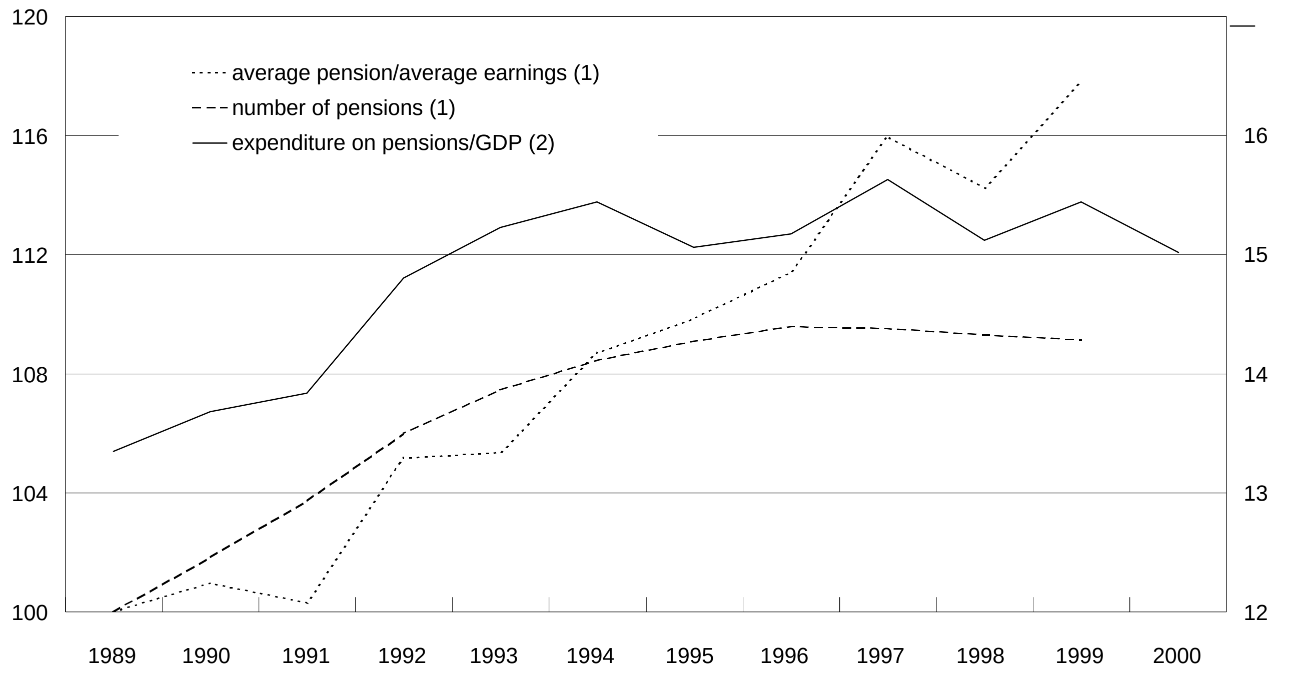


Figure 10

EXPENDITURE ON PENSIONS



Source: based on Istat data.
(1) Index: 1989=100. Left-hand scale. - (2) Percentages. Right-hand scale.

Table 1

GENERAL GOVERNMENT NET BORROWING (+) OR NET LENDING (-) (1)

(as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (2)
Italy	11.8	11.7	10.7	10.3	9.3	7.6	7.1	2.7	2.8	1.8	1.5
France	1.6	2.1	3.9	5.8	5.8	5.5	4.1	3.0	2.7	1.6	1.3
Germany	2.1	3.3	2.8	3.5	2.6	3.5	3.4	2.7	2.1	1.4	1.0
United Kingdom	1.6	2.9	6.7	8.2	6.9	5.8	4.4	2.0	-0.4	-1.3	-1.9
Spain	4.2	4.4	4.0	6.8	6.2	6.6	4.9	3.2	2.6	1.2	0.4
Belgium	5.4	6.3	7.1	7.3	4.9	4.3	3.8	1.9	0.9	0.7	0.0
Denmark	1.1	2.5	2.3	2.9	2.7	2.3	1.0	-0.4	-1.1	-3.1	-2.4
Greece	16.1	11.5	12.8	13.8	10.0	10.2	7.8	4.7	3.1	1.8	0.9
Ireland	2.2	2.3	2.4	2.3	1.5	2.2	0.2	-0.7	-2.1	-2.1	-4.5
Luxembourg	-4.8	-1.9	-0.7	-1.6	-2.7	-3.3	-2.5	-3.6	-3.2	-4.7	-5.3
Netherlands	5.1	2.9	3.9	3.2	3.8	4.2	1.8	1.1	0.7	-1.0	-1.3
Portugal	5.1	6.0	3.0	6.1	6.0	4.6	4.0	2.7	2.3	2.1	1.7
Austria	2.5	3.0	2.0	4.3	5.0	5.2	3.8	1.7	2.2	2.1	1.5
Finland	-5.5	1.1	5.7	7.3	6.0	3.7	3.2	1.5	-1.3	-1.8	-6.7
Sweden	-4.2	1.1	7.7	12.2	10.3	7.7	3.1	1.5	-1.9	-1.8	-4.0
°°°°°°°°°											
Averages (3)											
EU excluding Italy	2.1	3.1	4.3	5.6	4.9	4.8	3.7	2.4	1.3	0.5	-0.2
Euro area excluding Italy	2.4	3.1	3.5	4.7	4.2	4.5	3.6	2.6	2.0	1.1	0.5
France, Germany and the UK	1.8	2.8	4.1	5.3	4.5	4.6	3.8	2.6	1.5	0.7	0.2

Sources: Based on Istat data for Italy and EU Commission data for the other countries.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995 for every country except Italy.
(2) The figures for 2000 do not include the proceeds of the sale of UMTS licences.
(3) Weighted on the basis of GDP.

Table 2

GENERAL GOVERNMENT NET BORROWING (+) OR NET LENDING (-)
EXCLUDING INTEREST PAYMENTS (1)
(as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000 (2)
Italy	1.3	-0.2	-2.0	-2.8	-2.1	-3.9	-4.4	-6.7	-5.2	-5.0	-5.0
France	-1.4	-0.9	0.7	2.4	2.2	1.8	0.1	-0.7	-0.9	-1.8	-2.0
Germany	-0.6	0.6	-0.4	0.2	-0.7	-0.2	-0.3	-0.9	-1.5	-2.1	-2.3
United Kingdom	-2.3	-0.4	3.5	5.0	3.5	2.1	0.7	-1.7	-4.0	-4.2	-4.6
Spain	0.3	0.6	-0.3	1.7	1.5	1.4	-0.4	-1.6	-1.7	-2.4	-2.9
Belgium	-5.1	-3.9	-3.8	-3.6	-5.3	-5.0	-5.1	-6.1	-6.7	-6.5	-6.9
Denmark	-6.5	-5.0	-4.6	-4.6	-4.3	-4.1	-5.1	-6.1	-6.4	-7.7	-6.6
Greece	6.0	2.1	1.1	1.0	-4.1	-1.0	-2.8	-3.6	-4.7	-5.7	-6.4
Ireland	-5.3	-5.0	-4.3	-4.0	-4.0	-3.2	-4.4	-4.9	-5.5	-4.5	-6.6
Luxembourg	-5.3	-2.2	-1.1	-2.0	-3.1	-3.6	-2.9	-4.0	-3.6	-5.0	-5.6
Netherlands	-0.9	-3.3	-2.4	-3.0	-2.1	-1.7	-3.8	-4.1	-4.2	-5.4	-5.3
Portugal	-3.0	-1.8	-4.3	-0.1	-0.2	-1.7	-1.4	-1.6	-1.2	-1.1	-1.5
Austria	-1.6	-1.2	-2.3	-0.1	0.9	0.8	-0.4	-2.2	-1.5	-1.5	-2.0
Finland	-7.0	-0.9	3.0	2.7	0.9	-0.3	-1.1	-2.7	-4.9	-4.9	-9.4
Sweden	-9.1	-4.0	2.4	6.1	3.5	0.8	-3.7	-4.9	-7.8	-6.7	-8.3
°°°°°°°°°											
Averages (3)											
EU excluding Italy	-1.8	-0.7	0.2	1.3	0.5	0.3	-0.8	-1.8	-2.7	-3.2	-3.6
Euro area excluding Italy	-1.3	-0.5	-0.5	0.6	0.0	0.1	-0.7	-1.6	-2.0	-2.6	-3.0
France, Germany and the UK	-1.3	-0.1	0.9	2.0	1.1	0.9	0.1	-1.1	-2.1	-2.6	-2.9

Sources: Based on Istat data for Italy and EU Commission data for the other countries.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995 for every country except Italy.
(2) The figures for 2000 do not include the proceeds of the sale of UMTS licences.
(3) Weighted on the basis of GDP.

GENERAL GOVERNMENT INVESTMENT (1)

(as a percentage of GDP)

Table 3

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Italy	3.3	3.2	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.5	2.4
France	3.6	3.5	3.5	3.2	3.2	3.3	3.2	3.0	2.9	2.9	3.0
Germany	2.3	2.6	2.8	2.7	2.6	2.3	2.1	1.9	1.8	1.8	1.8
United Kingdom	2.6	2.4	2.3	2.1	2.0	2.0	1.5	1.2	1.2	1.1	1.2
Spain	4.9	4.8	4.0	4.2	4.0	3.7	3.1	3.1	3.3	3.3	3.3
Belgium	1.3	1.4	1.5	1.6	1.7	1.8	1.6	1.6	1.5	1.8	1.8
Denmark	1.6	1.5	2.0	1.9	1.8	1.8	1.9	1.9	1.7	1.7	1.8
Greece	2.8	3.1	3.5	3.3	3.1	3.2	3.2	3.4	3.6	4.1	4.3
Ireland	2.0	2.1	2.0	2.1	2.3	2.3	2.4	2.5	2.7	3.1	3.8
Luxembourg	4.5	4.7	5.2	5.2	4.3	4.5	4.7	4.2	4.6	4.3	4.4
Netherlands	2.0	2.2	2.1	2.1	2.1	3.0	3.1	2.9	3.0	3.0	3.2
Portugal	3.3	3.4	3.8	4.0	3.6	3.7	4.2	4.4	4.0	4.1	3.8
Austria	3.2	3.3	3.3	3.3	3.3	3.1	2.8	2.0	1.9	1.8	1.7
Finland	4.0	4.1	3.8	3.1	3.2	2.8	2.9	3.2	2.9	2.8	2.6
Sweden	2.4	2.3	2.7	1.1	3.0	3.4	3.0	2.7	2.7	2.8	2.5
°°°°°°°°°											
Averages (2)											
EU excluding Italy	2.9	2.9	2.9	2.8	2.7	2.7	2.5	2.2	2.2	2.2	2.3
Euro area excluding Italy	3.0	3.1	3.1	3.0	2.9	2.8	2.7	2.5	2.4	2.5	2.5
France, Germany and the UK	2.8	2.8	2.9	2.7	2.6	2.5	2.3	2.0	2.0	2.0	2.0

Sources: Based on Istat data for Italy and EU Commission data for the other countries.
(1) Following the switch to ESA95, there is a break in the series between 1994 and 1995 for every country except Italy.
(2) Weighted on the basis of GDP.

Table 4

GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE IN ITALY

(as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Direct taxes	14.2	14.3	14.6	16.0	14.9	14.7	15.3	16.0	14.3	14.9	14.5
Indirect taxes	10.7	11.1	11.3	12.0	11.8	12.1	11.8	12.4	15.3	15.2	15.1
Current taxes	**24.8**	**25.4**	**25.9**	**28.0**	**26.7**	**26.8**	**27.1**	**28.5**	**29.7**	**30.1**	**29.6**
Social security contributions	14.4	14.8	15.1	15.3	15.0	14.8	15.0	15.3	12.8	12.8	12.7
Current taxes and social security contributions	**39.3**	**40.3**	**41.0**	**43.3**	**41.7**	**41.6**	**42.2**	**43.8**	**42.5**	**42.9**	**42.3**
Capital taxes	0.1	0.2	2.0	0.7	0.1	0.6	0.3	0.7	0.4	0.1	0.1
Total taxes and social security contributions	**39.4**	**40.5**	**43.0**	**44.0**	**41.8**	**42.2**	**42.5**	**44.5**	**42.9**	**43.0**	**42.4**

Source: Based on Istat data. Rounding may cause discrepancies.

Table 5

GENERAL GOVERNMENT EXPENDITURE IN ITALY

(as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Compensation of employees	12.6	12.6	12.4	12.3	11.9	11.2	11.5	11.6	10.7	10.7	10.5
Intermediate consumption	4.9	5.0	5.1	5.2	5.2	4.8	4.8	4.7	4.8	5.0	5.0
Social services in kind	2.6	2.6	2.5	2.4	2.2	2.0	2.0	2.1	2.1	2.1	2.2
Social services in cash	15.5	15.6	16.5	17.0	17.3	16.7	16.9	17.3	17.0	17.2	16.7
Interest payments	10.5	11.9	12.6	13.0	11.4	11.5	11.5	9.4	8.0	6.7	6.5
Other current expenditure	2.8	3.0	2.8	3.3	2.7	2.3	2.5	2.2	2.9	2.8	2.8
Total current expenditure	**48.9**	**50.6**	**52.1**	**53.3**	**50.6**	**48.5**	**49.1**	**47.2**	**45.5**	**44.6**	**43.6**
Excluding interest payments	*38.4*	*38.7*	*39.5*	*40.3*	*39.2*	*37.0*	*37.6*	*37.8*	*37.5*	*37.9*	*37.1*
Investment	3.3	3.2	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.5	2.4
Other capital expenditure (1)	2.2	1.7	1.5	1.7	1.5	2.5	1.6	1.3	1.4	1.4	1.3
Total expenditure (1)	**54.4**	**55.5**	**56.6**	**57.6**	**54.3**	**53.2**	**52.9**	**50.7**	**49.2**	**48.4**	**47.3**
Excluding interest payments (1)	*43.8*	*43.7*	*44.0*	*44.6*	*42.9*	*41.6*	*41.4*	*41.4*	*41.2*	*41.7*	*40.8*

Source: Based on Istat data. Rounding may cause discrepancies.
(1) The figures for 2000 do not include the proceeds of the sale of UMTS licences (26.75 trillion lire or 1.2 per cent of GDP). In the national accounts this amount is accounted for as a reduction in capital expenditure.

Table 6

MAIN INDICATORS OF LOCAL GOVERNMENT FINANCES

(as a percentage of GDP)

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Total revenue	13.5	14.5	14.0	13.5	13.2	12.9	12.7	13.2	13.4	13.2	13.6
Total expenditure	14.8	14.8	14.3	14.1	13.8	12.8	13.1	13.4	13.4	13.6	13.5
Net borrowing	1.3	0.4	0.3	0.6	0.5	-0.1	0.4	0.2	-0.1	0.4	-0.1
Primary balance	2.0	-0.3	-0.3	0.0	-0.1	-0.6	-0.1	-0.3	-0.5	0.1	-0.5
Borrowing requirement (1)	0.1	0.8	0.1	0.4	-0.8	0.0	0.0	0.3	0.1	0.6	0.5
Debt (1)	2.8	3.4	3.3	3.6	2.6	2.4	2.3	2.5	2.5	3.0	3.4

(1) The data refer only to liabilities to non-general-government entities.

Table 7

STATE SECTOR BORROWING REQUIREMENT
(billions of lire)

	Year		First 6 months		
	1999	2000	1999	2000	2001 (1)
Borrowing requirement net of settlements of past debts and privatization receipts (*)	**30,994**	**49,150**	**67,340**	**31,667**	**51,027**
Settlements of past debts	12,118	8,904	4,519	6,630	10,042
in securities	*6,171*	*5,154*	*985*	*5,012*	*0*
in cash	*5,947*	*3,750*	*3,534*	*1,618*	*10,042*
Privatization receipts (2)	-43,839	-29,951	-786	-120	-8,365
Total borrowing requirement	**-727**	**28,103**	**71,073**	**38,177**	**52,704**
FINANCING					
Medium and long-term securities	47,981	36,644	71,738	57,994	52,906
Treasury bills	-35,107	-33,982	-5,363	-15,006	35,663
Current accounts with the Bank of Italy	-14,048	18,797	1,191	-10,104	-49,609
Other liabilities to the Bank of Italy	45	-2,938	10	-2,729	-1,164
Post Office deposits	17,419	9,023	8,659	4,310	6,519
Lending by banks (3)	-7,047	-21,916	-3,787	-18,503	-996
Other liabilities	98	3,015	78	1,367	
Foreign loans (4)	-10,068	19,460	-1,453	20,848	9,385

(*) Borrowing requirement including tax refunds paid via the Post Office	30,994	49,150	67,340	31,667	54,836

(1) Provisional.

(2) Includes the part of the proceeds of the sale of UMTS licences used to reduce the public debt (20,736 billion lire). The remaining proceeds received in 2000 (2,304 billion) have been included among revenues.

(3) Includes repayments of loans contracted by local authorities.

(4) Includes commercial paper.