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

Fact-finding preliminary to the examination of the budget documents for the period 2003-05

Statement by the Governor of the Bank of Italy
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Rome, 11 October 2002

Contents

1. The international setting and the Italian economy

The world economy, which had been slowing down since the second half of 2000, was affected by the climate of uncertainty in the wake of the terrorist attacks of 11 September.

In the United States monetary policy and fiscal policy provided prompt, substantial support to economic activity. By the fourth quarter of 2001 GDP had returned to annualized growth of 2.7 per cent as public spending expanded rapidly.

Thanks to the great flexibility of the economy, US monetary policy could be deployed decisively following 11 September. The lowering of official interest rates, which had begun at the start of the year, continued throughout 2001 with ten successive measures. In December the policy rate was lowered to 1.75 per cent.

In view of the substantial budget surpluses and the moderate level of debt, spending increases and tax cuts totaling 1.5 per cent of GDP were enacted in 2002. With the additional effect of built-in stabilizers, the overall impact came to almost 3 per cent of GDP; the federal budget accordingly swung from a surplus of 1.3 per cent in the 2001 fiscal year to a deficit of 1.5 per cent in 2002.

Growth accelerated to 5 per cent in the first quarter of this year. Consumption expanded at a rate of more than 3 per cent, thanks partly to the substantial tax cuts and increased government transfers. A decisive contribution to growth came from the significant reduction in the running down of inventories.

Growth slowed abruptly in the second quarter, however, to a rate of 1.3 per cent. The expansion in consumption slackened substantially, to 1.8 per cent. The broad stabilization of private investment expenditure was confirmed; there was an appreciable expansion of demand for information technology products.

Thanks to a partially unexpected new step-up in private consumption, the rate of growth in the third quarter may have exceeded 3 per cent. However, in these summer months economic activity started to feel the effects of the fall in stock prices that had begun in the spring and, more recently, of the heightened uncertainty over international political developments. Industrial production decreased slightly in August, and non-farm employment contracted in September.

The months-long decline in the leading indicators points to a slowdown in the fourth quarter to a growth rate of about 2 per cent. And an even worse performance cannot be ruled out, especially if the present uncertainties persist, with repercussions on the confidence of households and firms. For the year as a whole GDP growth should nevertheless be slightly better than 2 per cent. The deceleration of economic activity in the fourth quarter will have an adverse impact on average growth in 2003, which the IMF now estimates at 2.6 per cent.

The other major economies have also shown signs of weakening. In Japan economic activity may contract by 0.5 per cent this year. Among the emerging countries, the strong performance of those in Asia, and of China in particular, has been accompanied by difficulties in a number of Latin American countries and Turkey. Access to world financial markets has become very costly for these countries.

In the euro area there was a sharp slowdown in production in the second half of 2001, reflecting the US slowdown and the impact of the terrorist attacks of 11 September on the climate of confidence.

In this setting, the Governing Council of the European Central Bank lowered its reference rates in several successive steps.

Persistent large budget deficits and the need to proceed with the consolidation of the public finances in the main euro-area countries prevented expansionary measures from being taken this year. Support for economic activity came only from built-in stabilizers. Tax reductions enacted in previous years but not offset by adequate curbs on public expenditure have resulted in a widening of deficits.

Economic activity accelerated at the start of the year, fueled by the expansion of world trade. However, the upturn was modest, decreasing in strength as the year proceeded, and significantly less than had been forecast. GDP increased by 0.4 per cent in the euro area as a whole in the first half of the year. In Italy it remained practically stationary.

The Italian index of industrial production rose month-on-month by 0.6 per cent in July. Preliminary estimates indicate that it remained virtually unchanged in August and September.

Economic expansion in the first half of the year was sustained by the rebuilding of inventories, owing in part to an improvement in firms' assessments of the economic outlook. Turning to the other components of final demand, the continued weakness of consumer spending, especially on durables, was joined by a decline in investment, especially in machinery and equipment.

A positive signal, albeit one that is still hard to read, is to be found in the index of business confidence, which first stabilized in August and then rose in September. In July, retail sales had expanded for the second consecutive month.

Unlike the other leading European economies, the Italian economy has been held back by a decline in exports of goods and services, which contracted by more than 1 per cent in the first half of 2002. Export performance continues to be affected by the relatively limited presence of Italian industry in high-tech sectors and the unsatisfactory growth in productivity. French and German exports both increased by about 1 per cent during the period.

The twelve-month rate of Italian consumer price inflation was just under 2.5 per cent in the first half of the year, about the same as at the end of 2001. In the summer, according to provisional figures for September, it rose to 2.6 per cent, owing in part to the increases in prices recorded by the most volatile components, i.e. fresh food and energy.

During the summer there was a widening of the gap between inflation as perceived by consumers and as measured by the official statistics. The changeover to the euro may have played a role, in that its impact on prices, though limited overall, may have been greater for everyday goods and services.

The latest cyclical data suggest that economic growth in the third quarter was about the same as in the second.

If the international political crisis does not worsen, the economic recovery should gather momentum next year, sustained mainly by an acceleration in world trade, with substantial effects on consumption and investment demand.

2. The public finances in 2001 and 2002

2.a The results for 2001

General government net borrowing – i.e. the budget deficit on an accrual basis net of financial items – came to €26.8 billion (2.2 per cent of GDP) in 2001, compared with €20.2 billion (1.7 per cent of GDP) in 2000. The increase in the deficit was due above all to a rise in non-interest expenditure and in particular to spending on health care, boosted by the abolition of prescription charges. The ratio of tax revenue and social security contributions to GDP was reduced by just 0.1 percentage points. The tax cuts enacted in the Finance Law for

2001 were largely offset by the larger-than-expected proceeds of temporary measures, such as the tax on the revaluation of corporate assets.

In 2001 the general government net borrowing requirement – i.e. the budget deficit on a cash basis net of settlements of past debts and privatization proceeds – amounted to €40.2 billion (3.3 per cent of GDP), €2.5 billion over the projection for the year made in the Economic and Financial Planning Document published in July 2001.

Despite the spending curbs introduced in the second half of the year, net borrowing in 2001 was well above the most optimistic projection on a current-legislation basis in the Planning Document, namely 1.9 per cent of GDP. It was lower than the Planning Document's pessimistic estimate of 2.7 per cent, owing not only to the restrictive measures adopted but also to the persistently wide gap between the budget figures on a cash and those on an accrual basis. The difference between the net borrowing requirement and net borrowing narrowed from 1.4 per cent of GDP in 2000 to 1.1 per cent in 2001. In the 1990s, on average, it had been nil. The highest estimate of net borrowing in the Planning Document was based on the assumption that the gap would have virtually disappeared.

2.b The objectives for 2002

The Planning Document released in July 2001, based on a scenario of economic growth of 3.1 per cent, set a net borrowing target for 2002 of 0.5 per cent of GDP, less than the deficit of 0.8 per cent for 2001 projected at that time. The Planning Document indicated a reduction of 3.8 percentage points in the ratio of the public debt to GDP in 2002.

In September 2001, the Government's Forecasting and Planning Report for 2002 reaffirmed the objective for the deficit; it lowered the growth forecast to 2.3 per cent; it raised the projection for net borrowing in 2001 to 1.1 per cent. It forecast a reduction of 3.1 percentage points in the debt ratio.

The September projections were confirmed in the update of Italy's Stability Programme prepared in November 2001.

To attain the net borrowing target for 2002, the Government submitted to Parliament a budget providing for a correction estimated at around 0.7 per cent of GDP, which passed with marginal amendments. It included temporary revenue-raising measures valued at about 1 per cent of GDP, including 0.6 per cent from real estate disposals, and spending increases and tax reductions that were largely permanent.

The April 2002 Quarterly Report on the Borrowing Requirement confirmed the GDP growth forecast and the 0.5 per cent general government net borrowing target for the year.

In March 2002 Istat had estimated general government net borrowing in 2001 at 1.4 per cent of GDP, or 0.3 points above the Forecasting and Planning Report projection. In June this estimate was raised to 1.6 per cent, mostly because of revised figures for health care spending. In July the estimate was raised again, to 2.2 per cent, as a consequence of Eurostat's ruling on the accounting treatment of securitizations.

The forecast for the state sector borrowing requirement in 2002, net of privatization receipts and settlements of past debts, was put at €26.3 billion in the spring Report on the Borrowing Requirement. The public sector borrowing requirement was estimated at €30.1 billion, or 2.4 per cent of GDP.

The Planning Document for 2003-06, presented by the Government in July 2002, recognized the delay in the economic upturn and the worse-than-forecast trends in revenue and expenditure. The net borrowing target for the year was revised to 1.1 per cent of GDP, and the economic growth projection was lowered from 2.3 to 1.3 per cent. The expected reduction in the ratio of debt to GDP was lowered from 3.1 to 1.3 percentage points.

At the beginning of July the Government and employer and labour organizations, with the exception of the CGIL trade union confederation, signed a "Pact for Italy" with measures affecting the tax system, the labour market and the South.

2.c The first nine months of 2002 and the estimates for the full year

By comparison with the estimate of €26.3 billion for the entire year issued in the spring, the state sector borrowing requirement net of debt settlements and privatization receipts for the first nine months amounted to €41.3 billion, €11.3 billion more than in the same period of 2001. According to the latest estimates of the Ministry for the Economy, the net borrowing requirement for the first ten months is expected to be €49 billion and the difference compared with 2001 broadly unchanged.

In the first eight months of 2002 the general government net borrowing requirement was about €34 billion, €13 billion more than in the year-earlier period.

Even assuming the completion of the real-estate securitizations scheduled and the persistence of an ample difference between the deficits on a cash and an accrual basis, the results registered indicate that if corrective action had not been taken, general government net borrowing could have gone well above 2.5 per cent of GDP.

Faced with substantial borrowing requirement overshoots, the Government acted in the summer months to curb outlays and to increase taxes, especially on companies. The worsening of the borrowing requirement was the result of a decline in central government tax revenue, reflecting the absence of the extraordinary revenue received in 2001 and the unfavourable economic situation.

With a decree law issued on 8 July the Government blocked the tax credits for new hiring and investment in disadvantaged areas for the second half of the year.

With a decree law approved on 6 September the Government accelerated the cancellation of appropriation carryovers and established that if there was a significant budget overrun the Minister for the Economy, after consulting the Council of Ministers, could impose ceilings on the use of budget allocations for some types of expenditure. These provisions may help to underpin the efforts to ensure full application of the constitutional budget constraint.

With a decree issued on 20 September the Government enacted measures to increase tax revenue in the last few months of the year by some €3.2 billion; €2.7 billion will be raised from firms through a reduction in relief provided by the dual income tax and changes in the treatment of capital losses on equity holdings and insurance company reserves. Another €500 million, temporary in nature, will come from an increase in the year-end advance that tax collection offices must pay against receipts of some taxes. The revenue from these measures is estimated at €3.6 billion in 2003 and €2.7 billion in 2004, to come entirely from firms.

At the end of September the Forecasting and Planning Report for 2003 and the Planning Document Update revised the economic growth projection for 2002 downwards again, to 0.6 per cent. The estimate of the state sector borrowing requirement for the year was raised to €32.6 billion, or 2.6 per cent of GDP, and that of net borrowing to 2.1 per cent. The reduction of the debt ratio was now projected at no more than 0.4 percentage points.

Achievement of the net borrowing objective requires the revenue-raising measures and expenditure curbs enacted during the summer to be fully effective. In order to bring net borrowing down to 2.1 per cent of GDP, the recent revenue and expenditure measures must produce an overall improvement of more than 0.5 per cent of GDP between now and the end of the year.

The effects of one-off measures, including securitizations still to be realized, can be estimated at 1.3 per cent of GDP, roughly twice the figure for 2001.

The tax measures enacted in September are likely to limit the reduction in the ratio of tax revenue and social security contributions to GDP to about half a percentage point.

The very substantial difference between economic growth as estimated in the Planning Document in July 2001 and current projections justifies a widening of the deficit of about one percentage point over the initial target of 0.5 per cent of GDP.

3. The public finance objectives for 2003

With the Forecasting and Planning Report and the Planning Document Update, the Government raised its baseline projection of net borrowing in 2003 to 2.5 per cent of GDP, assuming realization of the Planning Document's real-estate securitizations, worth about half a percentage point. In the absence of the revenue correctives enacted in September, it is officially estimated that the figure would have been 2.8 per cent of GDP.

The net borrowing target for 2003 was set at 1.5 per cent. The corrections envisaged should thus reduce net borrowing by 1 per cent of GDP, from 2.5 per cent on a current programmes basis to 1.5 per cent.

According to the budget forecasts in the Planning Document Update, total revenue should remain at 45.9 per cent of GDP, its level with virtually no change since 2000. Interest payments should also be the same as in 2002 at 6 per cent of GDP. In this scenario the improvement in the balance in 2003 is to come essentially from the decline in non-interest current expenditure from 38.1 to 37.6 per cent of GDP, bringing it back to its level in 2001.

The draft budget includes the measures agreed as part of the "Pact for Italy," which called for tax relief and spending increases for a total of €6.4 billion (0.5 per cent of GDP); it also introduces corrective measures amounting to around €20 billion (1.5 per cent of GDP).

The Government's official estimates put the net reduction in expenditure at €9.9 billion, net revenue increases at €3.7 billion.

The reduction in expenditure is the result of increases of €2.1 billion and decreases of €12 billion, including €4 billion to come from operations still being finalized. The revenue increases reflect tax increases of €8 billion and decreases of €4.3 billion.

3.a Revenue

On the revenue side, the budget provides for structural reductions in both personal income tax and corporate income tax, as well as for some extraordinary measures, mostly involving firms, that are intended to produce an increase in revenue that will be concentrated in 2003.

The law initiates the reform of personal income tax, the guidelines for which are laid down in the fiscal reform enabling bill. The changes introduced will reduce taxation by about €3.7 billion, or 0.5 per cent of total household consumption.

Most of the reduction goes to low-income taxpayers. In 2003 the bottom part of the tax curve is modified, and a start is made on the transformation of tax credits into income deductions. Specifically, the law introduces a deduction, for all taxpayers, that varies according to type of income and that gradually decreases as income rises, being eliminated entirely above levels ranging between €29,000 and €33,500. For higher incomes, the absence of reductions means stiffer taxation in real terms, in the absence of a norm for the automatic offsetting of fiscal drag.

The corporate income tax rate is lowered from 36 to 34 per cent, 1 point below the rate that would have gone into effect in 2003. There is a limited initial reduction in the tax base of the regional tax on productive activities.

The bill introduces a tax indulgence for the years from 1997 to 2000, reserved to self-employed workers and small businesses. Official estimates put the revenue from this measure at €5.8 billion. The scheme for the repatriation and regularization of capital held abroad in violation of the tax monitoring rules is renewed; the rate payable on these amounts is raised from 2.5 to 4 per cent; estimated revenue from the measure is put at €2 billion.

Finally, indulgences relating to pending tax disputes and value adjustments to stocks should bring in €200 million. A three-year "pre-emptive indulgence" is envisaged, reserved to the self-employed and small businesses.

Under this scheme taxpayers may determine the taxable income from their economic activities for three years in advance on the basis of sector studies. Adherence to the indulgence does not entail advance payment of the tax due and makes any excess income exempt. For some categories of taxpayer, the new method reinforces the principle of taxation based on presumed or normal income rather than actual income.

3.b Expenditure

Capital expenditure savings of €1.4 billion are expected from the partial replacement of investment grants by subsidized loans, of €500 million from the reduction in local government investment, and of €200 million from the transformation of ANAS into a company limited by shares in August 2002.

Turning to current expenditure, measures affecting the health care system should curb outlays by €2 billion. The transfers to the regions called for under the agreement of 8 August

2001 have been made conditional upon the adoption of a series of measures to ensure the economically efficient provision of services. The patient fees for diagnosis and specialist services are retained, those for thermal treatment increased. To curb spending on drugs, the 5 per cent reduction in the price of medicines is extended to 2003.

Savings of €700 million should come from the 10 per cent reduction in the non-compulsory intermediate consumption of ministries and social security agencies.

The ban on new permanent hiring by government departments, use of mobility and other measures affecting public employment are expected to reduce outlays by €400 million.

Measures concerning local government finance should reduce general government expenditure by €2.3 billion.

Local authorities' expenditure on goods and services next year cannot exceed the level recorded in 2001. In substance, the provisions issued at the end of 2001 for the Domestic Stability Pact are reconfirmed.

Increases in personal income tax surcharges by municipalities and regions enacted after 29 September 2002 are suspended until an agreement on funding mechanisms is reached between central, regional and local governments. Revenue sharing of 1 per cent of the personal income tax is instituted for provinces, while the municipalities' share of that tax is raised from 4.5 to 6.5 per cent; transfers to these bodies are reduced by a corresponding amount.

Additional savings of about €4 billion are expected from measures still to be defined, which according to preliminary reports will bear on the activities of Infrastrutture S.p.A. and Patrimonio S.p.A.

There will be increases in expenditure of €800 million for public employment, €600 million for local government finance, €400 million for social security and welfare and €300 million on capital account.

4. Evaluation of the budget

In what remains an unfavourable economic setting, the budget necessarily had to reconcile deficit containment with support for economic activity.

Together with potentially structural cuts in expenditure tax relief is to be granted, concentrated on low-to-middle-income taxpayers to sustain their income and capacity for consumption.

The measures to increase revenue should make it possible to reduce the deficit without adverse effects on economic activity. The tax indulgence can increase revenue without leading taxpayers to reduce their estimate of their net wealth and hence their consumption. The disposal of public buildings may provide a stimulus to the construction industry, as a consequence of restructuring or conversion to new uses.

The benefits of consumption support are temporary. Lasting growth has to be based on gains in productivity and an increase in the competitiveness of the entire economy, which can be attained only through greater investment and structural measures.

The periodic resort to indulgences may help to bring out concealed taxable income but threatens to undermine the credibility of the tax administration.

The expansion of investment requires a progressive, lasting reduction in taxation. According to the official estimates, the combined effect of the September measures and the budget will be an increase in corporate taxation compared with the baseline projection of €3.4 billion in 2003, although a diminution is projected for subsequent years.

The recent change, effective this year, in the rules on the treatment of capital losses on equity holdings and the tax credits for new jobs and investment in disadvantaged areas, on the basis of which firms had made choices that can no longer be reversed, may discourage entrepreneurial risk-taking. The revision of the dual income tax mechanism significantly lowers the return on investments financed out of own funds that were made prior to the freezing of the tax benefit, effective from July 2001 onwards.

Some of the revenue-raising measures, by their nature, are difficult to evaluate precisely; they depend on the situation and the behaviour of taxpayers.

The tax indulgence for past years closely resembles that of 1994, which raised 8.7 trillion lire in 1994 and 1995, against an initial forecast of 11.5 trillion. The amount forecast for the new measure is equal, at constant prices, to that of 1994. However, the scope has been narrowed in terms of potential beneficiaries and the number of fiscal years covered.

The planned expenditure reductions are aimed at improving the efficiency of public services. To attain this objective, innovations in decision-making procedures and organization are required. Stimulus by the Government will be indispensable. Deterioration of services must be avoided, and it is necessary to ensure that the savings are structural.

In the framework of the relaunching of major public works already begun this year, the activity of Infrastrutture S.p.A. can produce savings for general government if it is directed towards investments that can guarantee a reasonable rate of return. The input of private capital must not turn into financing of the public sector; it must correspond to an actual assumption of risk by private investors.

The achievement of the potential benefits of decentralization requires legislation to be framed for the prompt implementation of the amendment passed in 2001 to Title V of the second part of the Constitution.

The drafting of the rules governing autonomous tax-levying powers, revenue redistribution, budget constraints and the accounting framework must be completed. The responsibilities of each level of government must be spelled out. Spending power must be matched by adequate responsibility for taxation. The role of taxes fully under the power of local government, of surtaxes, of revenue-

sharing in central government taxes and of central government transfers must be consistently defined. Transfers must be specified in advance.

The Domestic Stability Pact, designed to involve local government in the effort to achieve the public finance targets set at European level, needs further refinement. Its implementation should comply with the principle of budgetary balance net of investment expenditure for every entity.

In the years after 2003, action to compensate for the termination of temporary measures will be required. Overall, taking into account the securitizations included in the baseline projections and the residual effects of the measures for 2002, the impact of one-off measures can be put at about 1.3 per cent of GDP in 2003, about the same as in 2002.

Structural reforms affecting the future trends in primary expenditure are lacking. The ratio of primary current expenditure to GDP in 2003, despite the reduction forecast by official planning estimates, is at the level prevailing since the mid-1990s.

5. The public finance objectives for 2004-06

In September the Planning Document Update deferred achievement of budgetary balance by a year. Net borrowing is to be reduced from 1.5 per cent of GDP in 2003 to 0.6 per cent in 2004 and 0.2 per cent in 2005; a surplus of 0.1 per cent is projected for 2006.

In this scenario, in the three years from 2004 to 2006 the primary surplus rises from 5 to 5.5 per cent of GDP. These are slightly less ambitious objectives than had been set in the Planning Document in July.

The new public finance objectives are based on an economic scenario that assumes the recovery will gather strength. Italian GDP growth rates are assumed to be near 3 per cent from 2004 onwards.

Once corrective measures have been adopted to compensate for the termination of the effects of temporary measures, equal to about 1.3 per cent of GDP, the reduction of the deficit in the years from 2004 to 2006 would reflect the favourable development of the economy and the trend in interest expenditure.

The Planning Document Update forecasts that the public debt will fall below 100 per cent of GDP in 2005. The planned reduction is especially pronounced in 2003 and 2004, on the order of 5 percentage points each year. For 2003, the update forecasts a slight decline in the nominal public debt and a state sector borrowing requirement of €36 billion.

* * * *

The budget for 2003 aims to resume the adjustment of Italy's public finances. Its composition reflects the difficult economic situation. The share of temporary revenue-raising measures is large. To provide income support to less well-off households, tax relief initiating the planned tax reform has been instituted. This could lend impetus to consumer spending.

Improving the prospects for growth will require gains in Italian firms' productivity and competitiveness.

It is necessary to create conditions that will encourage private investment, to speed up the realization of public infrastructure by promptly implementing the Government's plan.

The essential instrument to stimulate economic activity is the progressive, lasting reduction of taxation. Certainty concerning the legal and regulatory framework of the tax system must be ensured. It is essential to begin reform of the principal areas of the public sector, along the lines set out in the Planning Document, to guarantee the permanent adjustment of expenditure.

Territorial and institutional decentralization, in a framework of unity, represents an opportunity to enhance the efficiency of government and to respond better to the needs of citizens. Necessary conditions for attaining these benefits are the accountability of administrators for tax and spending decisions and adequate monitoring of their actions by the community.

In the 1990s the Italian economy grew at modest rates, lower than the other leading European countries. Relaunching the growth process requires an economic policy that tackles the structural problems, by removing the factors that prevent the full utilization of human resources and slow down the accumulation of capital.

The Fiat affair is part and parcel of Italy's economic difficulties. The point of departure for possible solutions must be a business plan which, taking account of the auto industry's competitiveness and position within the economy, embraces a wide-ranging strategy. The public authorities and the social partners, the institutions, private initiative and finance must work together, with a focus on employment, to offer certainty and prospects for the future. The interests of the company, of the industry, of local communities and of the economy must be reconciled with the general interest of the nation.

The South remains a central question. It can become an opportunity for growth.

The draft finance bill, modifications of which have been announced, can only be considered as a first step towards faster, sustained growth of the Italian economy.

The budget pursues the aim of avoiding the deterioration of the public finances, which is inherent in existing legislation and in the composition of expenditure, owing among other things to unalterable demographic patterns and the uncertain trend of the economy.

An economic policy that can achieve the definitive adjustment of the public finances and make room for an easing of the tax burden and substantially higher investment, with the aim of raising the pace of GDP growth permanently towards an annual rate of 3 per cent, requires structural measures to supplement the finance bill.

Tables and Figures

Table 1

STATE SECTOR BORROWING REQUIREMENT (1)

(millions of euros)

	Year			*First 9 months*		
	1999	2000	2001	2000	2001	2002 (2)
Net borrowing requirement (net of debt settlements and privatization receipts) (3)	**16,011**	**25,472**	**34,857**	**23,788**	**30,028**	**41,350**
Debt settlements	6,259	4,599	10,290	3,576	7,163	3,360
- in securities	*3,187*	*2,662*	*563*	*2,588*	*357*	*0*
-in cash	*3,072*	*1,937*	*9,727*	*988*	*6,806*	*3,360*
Privatization receipts (4)	-22,641	-15,450	-4,329	-115	-4,321	-178
Total borrowing requirement (3)	**-371**	**14,621**	**40,818**	**27,249**	**32,870**	**44,532**
FINANCING						
Medium and long-term securities	24,780	18,638	12,339	27,993	16,138	29,330
Treasury bills	-18,131	-17,550	11,717	-6,500	21,180	18,204
Treasury current accounts with BI (5)	-7,255	9,708	-2,119	1,716	-11,423	-10,473
Other Bank of Italy net financing	27	-1,515	-1,929	-1,414	107	2,061
Post Office funds	8,996	4,660	10,919	2,656	5,519	3,330
Bank lending (6)	-4,166	-11,312	-5,286	-10,134	-4,215	-2,292
Other domestic financing	578	1,942	7,426	835	728	-246
Foreign loans (7)	-5,200	10,050	7,751	12,097	4,836	4,618

Memorandum item: Net borrowing requirement including tax refunds paid via the postal system (3)	16,012	25,472	37,960	23,788	32,179	42,488

(1) Account is taken of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations.
(2) Provisional data.
(3) A plus sign indicates a deficit, a minus sign a surplus.
(4) Includes the part of the proceeds of the sale of UMTS licences received in 2000 and used to reduce the public debt (10,709 million euros). The remaining part (1,190 million euros) was recorded under revenue.
(5) Treasury payments account and the sinking fund for the redemption of government securities.
(6) Includes redemptions of loans granted to local authorities.
(7) Includes commercial paper.

Table 2

GENERAL GOVERNMENT BORROWING REQUIREMENT (1)

(millions of euros)

	Year			First 8 months		
	1999	2000	2001	2000	2001	2002 (2)
Net borrowing requirement (net of debt settlements and privatization receipts) (3)	**25,116**	**36,505**	**40,245**	**19,837**	**20,823**	**33,936**
Debt settlements	6,259	4,599	10,290	3,530	6,662	1,919
- in securities	*3,187*	*2,662*	*563*	*2,588*	*357*	*0*
-in cash	*3,072*	*1,937*	*9,727*	*942*	*6,305*	*1,919*
Privatization receipts (4)	-22,641	-15,450	-4,329	-77	-4,321	-178
Total borrowing requirement (3)	**8,734**	**25,654**	**46,206**	**23,290**	**23,164**	**35,677**
FINANCING						
Medium and long-term securities	25,736	18,847	13,900	30,406	16,206	30,277
Treasury bills	-18,049	-17,467	11,293	-9,425	18,930	16,901
Treasury current accounts with BI (5)	-7,255	9,708	-2,119	-5,375	-19,622	-16,348
Other Bank of Italy net financing	27	-1,515	-1,929	-1,407	125	2,057
Post Office funds	8,996	4,660	10,919	3,125	4,660	3,308
Bank lending (6)	1,977	-2,799	-2,441	-6,323	-5,604	-3,917
Other domestic financing	578	1,942	7,426	716	586	-139
Foreign loans (7)	-3,276	12,278	9,157	11,573	7,883	3,538

Memorandum item: Net borrowing requirement including tax refunds paid via the postal system (3)	-8,728	-25,654	-43,103	-23,290	-21,022	-35,010

(1) Account is taken of the decision adopted by Eurostat on 3 July 2002 with regard to the accounting treatment of the proceeds of securitizations.
(2) Provisional data.
(3) A plus sign indicates a deficit, a minus sign a surplus.
(4) Includes the part of the proceeds of the sale of UMTS licences received in 2000 and used to reduce the public debt (10,709 million euros). The remaining part (1,190 million euros) was recorded under revenue.
(5) Treasury payments account and the sinking fund for the redemption of government securities.
(6) Includes redemptions of loans granted to local authorities.
(7) Includes commercial paper.

Table 3

ESTIMATED EFFECTS OF THE BUDGET FOR 2003
ON THE GENERAL GOVERNMENT CONSOLIDATED ACCOUNTS (1)
(millions of euros)

REVENUE	
Increase in revenue	**7,980**
Repatriation of capital	2,000
Tax indulgence scheme	5,760
Inventory indemnity scheme	130
Closure of tax disputes	90
Decrease in revenue	**-4,320**
Changes to personal income tax	-3,490
Effects on personal income surtax	-210
Reduction of corporate income tax rate	-190
Irap relief for agriculture	-330
Other measures	-100
NET CHANGE IN REVENUE	**3,660**
EXPENDITURE	
Reduction in expenditure	**-12,040**
Conversion of grants into subsidized loans	-1,400
Other capital expenditure	-830
Health care	-1,960
Minimum pensions	-520
Intermediate consumption and purchases of goods and services	-720
Public employment	-360
Domestic Stability Pact	-2,250
Other (2)	-4,000
Increase in expenditure	**2,100**
Public employment	820
Local finance	560
Social assistance and security	390
Capital expenditure and other	330
NET CHANGE IN EXPENDITURE	**-9,940**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**13,600**

(1) Based on official estimates.
(2) Measures not included in the Finance Bill.

Table 4

BUDGET FORECASTS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2002-06 AND 2003-06 AND THE SEPTEMBER 2002 PLANNING DOCUMENT UPDATE

(as a percentage of GDP)

	2001 (1)	**2002**			**2003**			**2004**			**2005**			**2006**		
	Outturn	EFPD 2002-06	EFPD 2003-06		EFPD 2002-06	EFPD 2003-06		EFPD 2002-06	EFPD 2003-06		EFPD 2002-06	EFPD 2003-06		EFPD 2002-06	EFPD 2003-06	
			July	Sept. (2)		July	Sept. (2)		July	Sept. (2)		July	Sept. (2)		July	Sept. (2)
Net borrowing	**2.2**	**0.5**	**1.1**	**2.1**	**0.0**	**0.8**	**1.5**	**0.0**	**0.3**	**0.6**	**0.0**	**-0.1**	**0.2**	**0.0**	**-0.2**	**-0.1**
of which: current	*-1.6*	*-2.6*	*-1.7*	*-1.5*	*-3.5*	*-2.2*	*-1.4*	*-3.3*	*-2.7*	*na*	*-3.3*	*-2.7*	*na*	*-3.1*	*-3.1*	*na*
capital	*3.8*	*3.1*	*2.8*	*3.6*	*3.5*	*3.0*	*2.9*	*3.3*	*3.0*	*na*	*3.3*	*2.6*	*na*	*3.1*	*2.9*	*na*
Primary surplus	**4.1**	**5.5**	**4.7**	**3.8**	**5.8**	**5.1**	**4.5**	**5.8**	**5.5**	**5.0**	**5.6**	**5.8**	**5.3**	**5.4**	**5.7**	**5.5**
Total revenue	**45.8**	**na**	**46.2**	**45.9**	**na**	**na**	**45.9**	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
of which: taxes and social security contributions	*42.4*	*42.0*	*42.3*	*na*	*41.5*	*41.9*	*na*	*40.4*	*41.4*	*na*	*39.3*	*40.4*	*na*	*38.2*	*39.8*	*na*
Primary expenditure	**41.6**	**na**	**41.4**	**42.0**	**na**	**na**	**41.4**	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**	**na**
of which: current	*37.6*	*na*	*38.0*	*38.1*	*na*	*na*	*37.6*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
capital	*4.1*	*3.8*	*3.4*	*4.0*	*3.9*	*na*	*3.9*	*3.9*	*na*	*na*	*3.9*	*na*	*na*	*3.7*	*na*	*na*
Interest payments	**6.3**	**6.0**	**5.9**	**6.0**	**5.8**	**5.9**	**6.0**	**5.8**	**5.8**	**5.6**	**5.6**	**5.7**	**5.5**	**5.4**	**5.5**	**5.4**
Debt	**109.8**	**103.2**	**108.5**	**109.4**	**100.6**	**104.5**	**105.0**	**97.9**	**99.8**	**100.4**	**95.5**	**97.1**	**98.4**	**92.8**	**94.4**	**96.4**

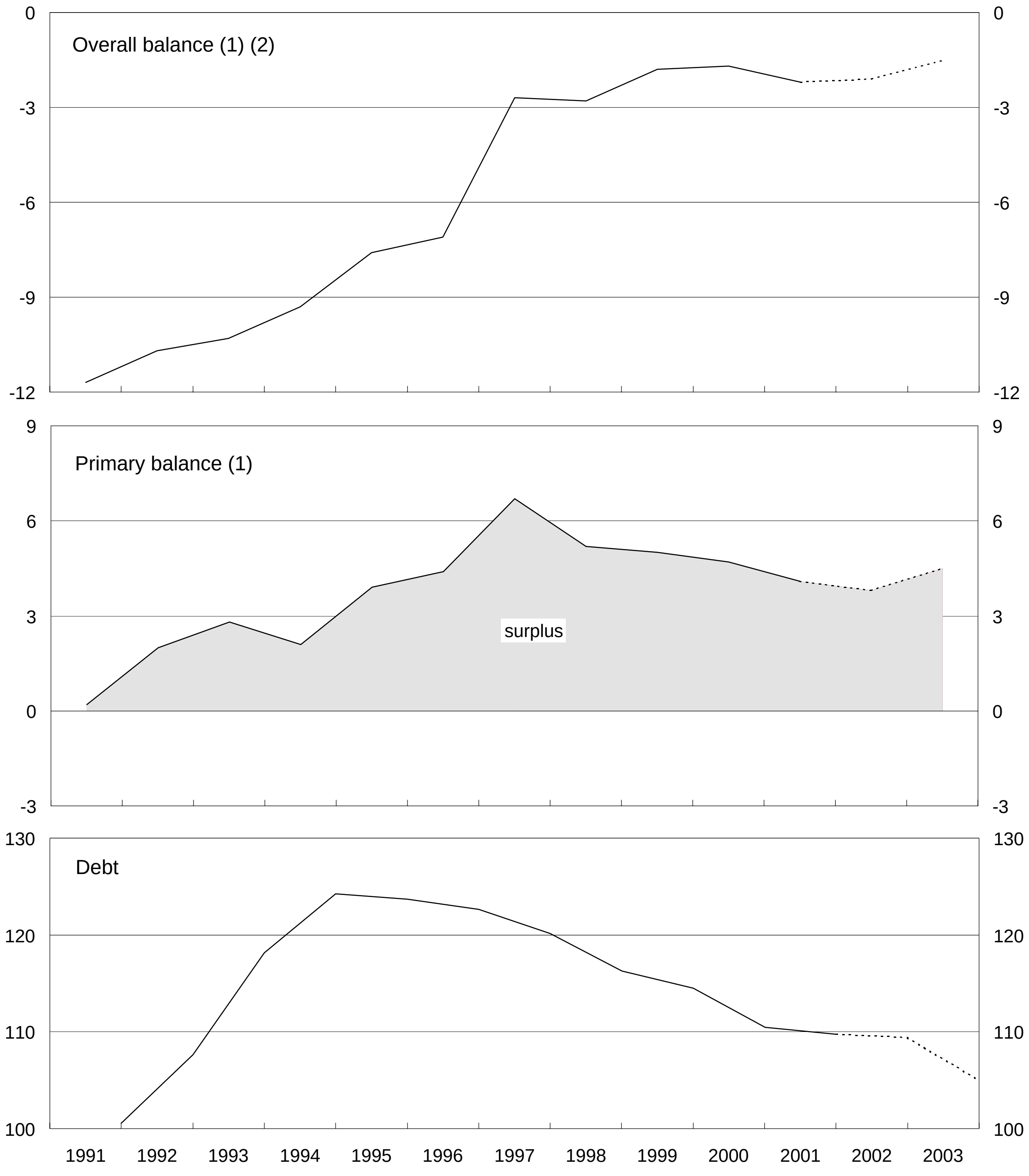
(1) The figures take account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July with regard to the accounting treatment of the proceeds of securitizations.

(2) Update of the Economic and Forecasting Planning Document for 2003-06, presented by the Prime Minister and the Minister of the Economy and Finance on 30 September 2002.

Figure 1

GENERAL GOVERNMENT OVERALL BALANCE, PRIMARY BALANCE AND DEBT

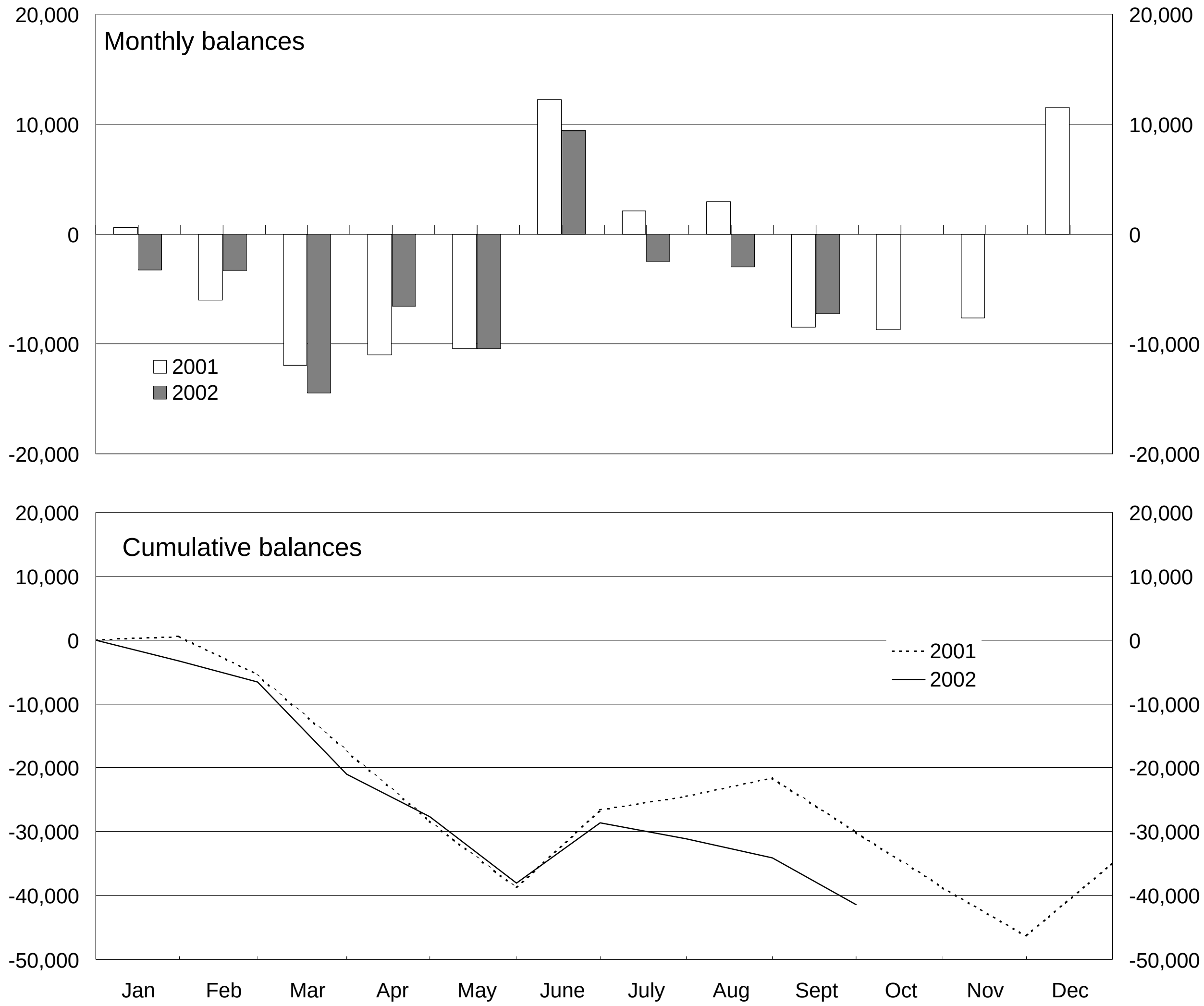
(as a percentage of GDP)



Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2002 and 2003, Update of the Economic and Financial Planning Document for 2003-06.

(1) Excludes the proceeds of the sale of UMTS licences; the figures take account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July with regard to the accounting treatment of the proceeds of securitizations.
(2) The figures include the effects of swaps.

STATE SECTOR BORROWING REQUIREMENT
IN 2001 AND 2002 (1)
(millions of euros)

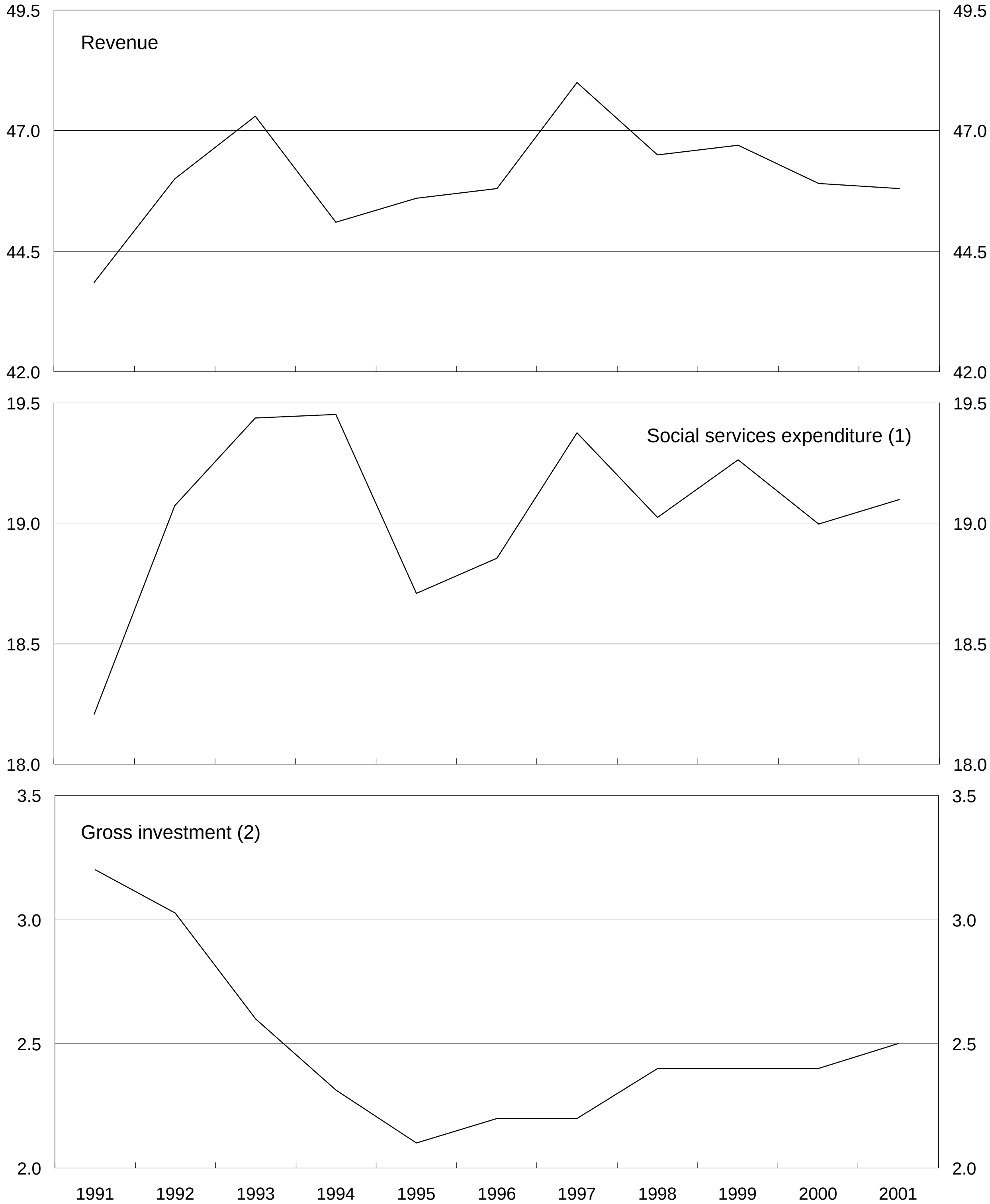


(1) Excludes privatization receipts and settlements of past debts. A plus sign indicates a surplus, a minus sign a deficit.

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.
(2) Following the decision taken by Eurostat on 3 July 2002, the figure for 2001 does not include the proceeds of the securitization of real estate.