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Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 2003-2006

Testimony of the Governor of the Bank of Italy
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Contents

1. The world economy and Italy

In the United States GDP grew at an annual rate of 6.1 per cent in the first quarter of 2002. The expansion was sustained by exports, restocking and public spending.

In the last few months the risk of new terrorist attacks and the weakness of the stock market, accentuated by episodes regarding the state of the accounts of some companies, have held back the growth in consumption. The dollar has weakened against the euro and the yen. After the surge in the first quarter, the forecasts for growth in the second currently range between 2 and 3 per cent on an annual basis.

The Federal Reserve has left official rates unchanged; the markets do not foresee a rise as imminent.

Orders and business confidence remain consistent with an acceleration of activity in the second half of the year. The growth in GDP in 2002 as a whole is likely to be close to 3 per cent.

In Japan GDP grew at an annual rate of 5.7 per cent in the first quarter, thanks to exports and the good performance of household consumption. Output continued to grow in the second quarter.

In the newly industrialized economies and developing countries of Asia, economic activity has picked up significantly, benefiting from the recovery in international trade in technology products.

In Latin America the situation remains critical. In Brazil, pending the outcome of the presidential election in October, the bond yield differential with respect to dollar-denominated securities has widened to 15 percentage points; the currency has depreciated further and share prices have fallen. In Argentina the negotiations with the International Monetary Fund are making slow headway; economic and social conditions have deteriorated further.

The price of oil had risen to $25.60 a barrel at the end of June. It is expected to remain at the current level in August and then to decrease by about $1 by December.

After stagnating in the second and third quarters of 2001 and contracting in the fourth, euro-area GDP grew at an annual rate of 1.3 per cent in the first quarter of 2002. The expansion was curtailed by the negative performance of domestic demand: private consumption and gross fixed investment were flat and destocking continued. The sole support for activity came from foreign trade; exports rose by 2.1 per cent, while imports declined by 3.3 per cent.

The weakness of demand and the strengthening of the euro have allowed a gradual reduction in inflation, to 2 per cent in May, compared with 2.7 per cent in January. Eurostat’s preliminary estimates for June put the increase in the euro-area consumer price index at 1.7 per cent. There do not appear to be inflationary pressures upstream of consumption.

Industrial production in the area, which had been growing since the end of last year, turned down in April. On the basis of preliminary figures showing a recovery in May, the average level of the index in April and May was unchanged from the two previous months. The main international organizations concur in forecasting an acceleration in the European economy in the course of the year. The expansion is expected to draw strength from the gradual recovery in the United States and the renewed vigour of world trade.

The further strengthening of the effective exchange rate of the euro, which is influenced by the events that have affected the stock market in the United States, is a factor of uncertainty.

The Italian economy, which had contracted in the last three months of 2001, picked up in the first quarter of 2002, in line with the overall trend in the euro area. However, the increase in GDP was modest, amounting to 0.8 per cent on an annual basis, and derived exclusively from the large expansion in stocks. Fixed investment showed the steepest decline since 1993, with a drop of 14 per cent in the capital goods component. Private consumption decreased by 0.8 per cent, exports by 8.3 per cent.

Industrial production, which grew by 0.2 per cent in the first quarter of 2002 compared with the previous quarter, is estimated by the Bank of Italy to have diminished slightly in the second.

Without an acceleration in public works, the rate of GDP growth in the second half of the year will remain lower than that forecast for the euro area as a whole and for the other leading countries. The performance of exports remains unfavourable.

2. The macroeconomic objectives

The uncertainties about the intensity and timing of the recovery in activity appear greater for Italy than for the other main countries of the euro area. The latest qualitative cyclical indicators signal a degree of pessimism regarding the economic outlook. Household confidence was lower in the second quarter than in the period immediately following 11 September; for industrial firms, the improvement under way since last October has come to a halt.

The 1.3 per cent growth indicated for this year in the Planning Document can be achieved with an acceleration in growth in the last two quarters to annual rates of around 4 per cent.

An acceleration is possible with the implementation in the second half of the year of planned infrastructure construction amounting to €5 billion.

The rise in inflation that occurred in the first three months proved temporary. Producer prices have reflected the favourable trend in energy prices, whose effect has been reinforced by the euro’s recovery against the dollar. Inflation has come down in the last few months; in the first half of the year it averaged 2.4 per cent on an annual basis. The target rate for 2002 is 1.7 per cent; to attain this objective, there will have to be a sharp slowdown in prices in the coming months. The inflation target of 1.4 per cent for 2003 appears arduous but is not beyond reach.

The Economic and Financial Planning Document forecasts GDP growth of 2.9 per cent in 2003 and 2004 and 3 per cent in the two subsequent years. According to the Planning Document, gross fixed investment will accelerate considerably in 2003 and 2004 and then grow at rates of more than 5 per cent in the last two years. Household consumption is expected to increase at an annual rate of around 3 per cent in the planning period, with a substantial acceleration in 2003. Both exports and imports are expected to grow at rates close to 8 per cent.

The GDP growth rate can be brought up to the order of magnitude indicated. But it is essential to resolve the institutional issues that obstruct the launch of the programme of major public works recently approved by the Interministerial Committee for Economic Planning. Vigorous economic policy action to remove the factors that limit firms' size and productivity is also necessary.

The tax reform and the measures envisaged in the "Pact for Italy", especially for the labour market, will be fundamental. The reduction of the tax burden and greater flexibility in the utilization of productive factors will allow Italian companies to recoup competitiveness in domestic and international markets, with positive effects on investment and employment.

3. The public finances in 2001 and 2002

The Economic and Financial Planning Document of July 2001 gave baseline projections of between 1.9 and 2.7 per cent of GDP for net borrowing in 2001. These estimates did not take account of the securitization of property sales and future lottery receipts, which were determined subsequently and do not count towards reducing the deficit pursuant to the recent decision by Eurostat.

The Planning Document's indications concerning the deficit took account of the large gap recorded in 2000 between net borrowing on an accrual basis and the borrowing requirement.

The upper limit of the range had been indicated in view of the unfavourable results for the cash balances in the first half of the year and the difficulty of predicting the reconciliation items between these and net borrowing calculated on the basis of the national accounts.

In the second half of 2001 the imbalance in the public finances was contained by the Government’s action to control disbursements and by unexpectedly high non-recurring fiscal receipts.

The final figures for 2001 showed that general government net borrowing, excluding the proceeds of securitizations, amounted to €26.8 billion, or 2.2 per cent of GDP, compared with 1.7 per cent the previous year. The general government net borrowing requirement, calculated by the Bank of Italy, came to €40 billion. The gap between net borrowing and the net borrowing requirement narrowed from 1.5 per cent of GDP in 2000 to 1.1 per cent in 2001.

The ratio of debt to GDP fell by 0.7 percentage points.

For the current year the Government’s Planning Document indicates net borrowing equal to 1.1 per cent of GDP, half the result recorded in 2001.

In the first five months of 2002 the general government net borrowing requirement amounted to €41 billion, €2.5 billion more than in the same period of 2001. In the first six months the state sector net borrowing requirement was equal to €30 billion. Achieving the objective will require a significant curbing of the deficits in the second half of the year.

The Document indicates a reduction of 1.3 percentage points in the ratio of debt to GDP in 2002.

The securitizations planned for the current year, whose features must be such as to allow them to be counted towards reducing the deficit, will help to limit this year’s shortfall. A contribution will come from the securitized lottery receipts and proceeds of property sales that will be collected this year but which were not included in the accounts in 2001.

4. The public finances for 2003-06

In the absence of corrections, the baseline scenario presented by the Planning Document projects a deterioration in the public finances in the next two years and a recovery in the following years.

According to the baseline figures, net borrowing would rise from an estimated 1.1 per cent of GDP this year to 1.6 per cent in 2003 and 2.3 per cent in 2004. The worsening of the deficit in the two years would be mainly due to the reduction of nearly 1 percentage point in the ratio of revenue to GDP, partly as a consequence of the drying up of revenue from the one-off tax measures introduced in the two previous years.

Capital expenditure would increase from 3.4 per cent of GDP in 2002 to 4.1 per cent in 2004. Interest payments would rise from 5.9 to 6 per cent of GDP. Other current expenditure would fall from 38 to 37.5 per cent, even with the fairly modest rate of growth assumed for GDP. This result would be mainly the consequence of the adoption of the “current legislation” criterion for the baseline, which, among other things, does not take account of the costs of the renewal of public employees’ labour contracts but only includes the interim increases established for contractual hiatus.

In 2005 and 2006 baseline net borrowing is projected to decline significantly, falling to 0.9 per cent of GDP at the end of the period. The improvement would be largely due to the decline in primary expenditure in proportion to GDP.

In the fiscal planning scenario, following the budgetary measures net borrowing is forecast to come to 0.8 per cent of GDP in 2003 and 0.3 per cent in 2004. In 2005 and 2006 budget surpluses amounting to 0.1 and 0.2 per cent of GDP are forecast. The ratio of general government debt to GDP is expected to fall from 108.5 in 2002 to 99.8 per cent in 2004 and 94.4 per cent in 2006.

Owing to the slowdown in economic activity and slippage in the outturns for 2001, the timetable of budgetary consolidation is set back by about two years with respect to that indicated in last year's Planning Document.

The planned reduction in the ratio of tax and social security contributions to GDP is 2.6 percentage points, from 42.4 per cent in 2001 to 39.8 per cent in 2006. It is smaller than that of 3.8 percentage points envisaged in the previous Planning Document. In 2002 the overall fiscal burden is forecast to remain broadly unchanged.

The budgetary policy set out by the Government and, in particular, the reduction in the tax burden are essentially based on savings in primary current expenditure, which are expected not only to finance the planned reduction in the tax burden but also to erase the deficit. A limited contribution to the improvement in the public finances is forecast to come from savings on interest payments.

A contribution to reducing the deficit is expected to come from a decline in the deficit on capital account, which is forecast to fall from 3.8 per cent of GDP in

2001 to 2.8 per cent in 2002 and to remain basically unchanged thereafter. In 2002 this would primarily reflect property sales, in the subsequent years the containment of investment expenditure by attributing the construction of new infrastructure to entities outside general government would presumably be a factor.

The Document does not provide an analytical planning scenario of revenue and expenditure. Part of the gap between the baseline projection for general government net borrowing and the planning forecast reflects the differences between the respective macroeconomic frameworks.

The size and composition of the planned budget corrections remain to be defined. Some quantitative indications are supplied for measures regarding purchases of goods and services; the latter are expected to yield increasing savings with respect to the baseline projection, amounting to 0.3 percentage points of GDP in 2003 and 0.5 points in 2005.

5. Appraisal of the plan

The economic policy delineated in the Planning Document aims to strengthen the expansion of employment and accelerate growth by raising the productivity and competitiveness of the economic system.

The instruments are a progressive reduction in the tax burden and an increase in the endowment of public capital, together with measures offering incentives to work and easing the restrictions placed on economic activity.

In order to have an impact on expectations and behaviour, the reduction in the tax burden must be perceived by firms and the market as progressive and permanent. To this end, it must be based on a corresponding structural reduction in the ratio of primary current expenditure to GDP.

Interest payments are forecast to decline by 0.4 percentage points in relation to GDP between 2002 and 2006; the savings deriving from the replacement of maturing securities issued at high interest rates with new issues are petering out.

Containing the rate of growth in primary current expenditure is necessary in order to achieve the objectives indicated. After remaining basically stable between 1995 and 2000, the ratio of this item to GDP increased in 2001 by 0.2 percentage points to 37.6 per cent; the Planning Document estimates it will rise to 38 per cent in 2002. According to the baseline projections, the ratio is set to decrease to 36.7 per cent in 2006, reflecting the effects of the adoption of the “current legislation” criterion. Under the fiscal planning scenario, following adjustment action, the ratio declines more sharply as a consequence both of the corrective measures and of the higher growth in GDP; according to the information contained in the Planning Document, the decline can be estimated at around 3 percentage points.

As mentioned, specific figures are supplied only for the action to curb purchases of goods and services. This needs to involve all levels of government by means of appropriate forms of cooperation.

For the pension and health care sectors, the charts published in the Planning Document indicate declining expenditure in relation to GDP. Although these results benefit from the faster growth hypothesized in the fiscal planning scenario, they require the implementation of specific corrective measures.

If the structural measures limit the average annual increase in primary current expenditure to less than 1 per cent in real terms, it will be possible to achieve the necessary reduction in the ratio of primary current expenditure to GDP. The correction to current expenditure will have to be larger if it proves impossible to reduce the deficit on capital account to the extent planned.

Action in the pension sector must be based on a gradual increase in the average effective age of retirement and the development of supplementary pensions. The enabling bill regarding pensions mainly accelerates the development of supplementary pensions. In a longer-term perspective, the increase in public spending on pensions has to be curbed.

The drive to raise efficiency in the utilization of resources in the health care sector must continue. As indicated in the Planning Document, it may be appropriate to reconsider the respective roles of the public and private sectors in the production and financing of services, safeguarding the right of all citizens to health services.

The number of public employees fell during the 1990s. It has risen slightly in the last two years. The staffing of public bodies must be rationalized.

The new methods that are envisaged for managing public assets will make resource utilization more efficient. The involvement of private capital can contribute to infrastructure development. The profile of the deficit on capital account indicated in the fiscal planning scenario assumes ample recourse to such financing. The risk of this giving rise to off-budget debt must be avoided.

After the pause recorded in 2001, it is essential that the process of convergence towards budget balance resume and achieve the objectives on schedule. The resources raised during an economic downturn by temporary revenue measures must be replaced with measures having permanent effects.

The Planning Document aims at a reduction in the ratio of debt to GDP on the order of 15 percentage points between 2001 and 2006; the process requires the continuation of privatization policies, as indicated in the Document. But it is necessary above all to close the gap, mentioned several times earlier, between the borrowing requirement and net borrowing, since the growth in the debt is connected with the cash balance and not the accrual balance.

Achieving the objectives for general government requires the cooperation of all the levels of government. The greater autonomy of the regions with regard to revenue and expenditure, ordained by the recent amendment of the Constitution, must be accompanied by close coordination between the action of the central government and the regions, the introduction of stricter budgetary rules and timely, homogeneous and transparent systems of financial reporting. The parliamentary initiatives under way go in this direction.

Decentralization constitutes an opportunity to raise the efficiency of general government and respond better to the needs of the population. The assignment of responsibility to administrators in spending and tax decisions and the possibility for the community to scrutinize their performance are necessary conditions if these benefits are to be reaped.

6. Fiscal reform

The tax reform is essential to ensure the conditions for sustained growth. It is aimed at reducing the tax burden, will amplify the effects of the incentives enacted last year to stimulate economic activity and will strengthen the effectiveness of the measures to bring the underground economy into the open.

The reform measures concern the tax burden on households and firms and the taxation of financial assets. The enabling bill provides for them to be implemented gradually, according to the resources that will become available year by year. For 2003 tax cuts amounting to an estimated €7.5 billion are envisaged.

When fully phased in, the provisions will reduce the number of personal income tax brackets from five to two. The tax rate will be 23 per cent up to €100,000 and 33 per cent on income in excess of that amount. The first rate will apply to the great majority of taxpayers. There is to be an exempt minimum level of personal income, to be determined in relation to the threshold of poverty. The tax will be made progressive by means of a new system of deductions from taxable income that will be concentrated on the lowest income levels. Both the deductions and the exempt income threshold will vary with household composition.

The role of deductions in determining the final tax liability is fundamental. Knowing their future configuration as soon as possible will enable economic agents to make a complete assessment of the draft reform. The Planning Document envisages an initial change in personal income tax in 2003 amounting to €5.5 billion. The reform will have a positive impact on the labour supply.

The picture is more definite as regards corporate taxation. When fully phased in, the reform will eliminate the dual income tax, repeal the regional tax on productive activities (Irap) and reduce the ordinary corporate income tax rate from the current level of 36 per cent to 33 per cent. It simplifies the tax treatment of intra-group transactions, introduces the option for groups to be taxed on a consolidated basis and repeals the tax credit on dividends.

Setting a single corporate income tax rate will make the system more transparent. The new regime will result in tax increases or reductions for individual firms, depending on the level of the average tax rate applied under the dual income tax. As to the incentives implicit in the system of taxation, the return to a single tax rate restores the favourable tax regime for debt financing, subject to limitations for specific cases.

The reduction in the corporate income tax rate to 34 per cent starting next year will result in revenue losses estimated at €1.5 billion.

The level of corporate taxation will be affected primarily by the repeal of Irap. According to the enabling bill, repeal will be implemented gradually, with priority given to the component imposed on labour costs. For 2003 the Planning Document earmarks €500 million for an initial reduction in Irap, receipts of which amounted to €30.6 billion in 2001. In Italy this tax is the leading source of autonomous financing for local government; its abolition requires that adequate alternative sources of financing be found.

The increase in local government responsibility for expenditure must not be accompanied by an increase in central government transfers or revenue sharing. The repeal of Irap reinforces the need to redesign the instruments of local authorities' tax-raising autonomy. The division of tax revenue among the different levels of government will have to be carefully evaluated. Under the new arrangements the general objective of reducing the overall tax burden must be kept in mind.

7. Infrastructure and the administration of public assets

In order to finance major public works and exploit the value of state assets, the Government has established two companies named Infrastrutture S.p.A. and Patrimonio dello Stato S.p.A. The former will assist the increase in infrastructure endowment. The two companies can contribute to the improvement in the public finances even in the short term.

Infrastrutture S.p.A. proposes to increase the involvement of private investors in the construction of the major public works necessary for economic growth, according to models already tested in other European countries. The company, wholly owned by Cassa Depositi e Prestiti, will raise funds in the market by issuing securities and contracting loans which may be guaranteed by the government. It is intended that the company be supervised by the Bank of Italy.

The State Audit Office has noted that the government guarantee could raise problems in relation to European legislation on competition and, in particular, on state aid. The effects on the public finances will depend on the methods of operation adopted by the company in order to finance projects. The investments financed will have to provide a reasonable return. The contribution of private capital must not be turned into a loan to the public sector; it must correspond to an effective assumption of risk.

The task of Patrimonio dello Stato S.p.A. is to manage and make the best use of public assets. The company will be able to dispose of assets in the market by means of direct sale or securitization, with the exception of assets belonging to the cultural heritage and other assets whose transfer is not permitted.

The transfer of state assets to the company will not have an impact on net borrowing; Eurostat has excluded this possibility in a similar case regarding Austria.

8. Conclusion

In the 1990s Italy's economy grew more slowly than those of the other European countries. Recent trends do not show a recovery of dynamism. The performance of exports signals a lack of competitiveness.

Factors of uncertainty regarding the content and the start of the reforms have acted as a brake on growth up to now. The acceleration of public investment did not result in a significant stimulus to domestic demand in the first half of the year. Consumption and market expectations are influenced by the vicissitudes of the financial markets.

It must be said that Italian legislation and practice for the preparation of annual accounts are stringent, particularly for banks supervised by the Bank of Italy and, more generally, for listed companies supervised by the market oversight bodies.

The overall ratio of share prices to gross profits for listed companies, which in the past months had risen to historically high levels, is now just above 15 per cent, lower than the average for the second half of the 1990s and in line with the longer-term values.

It is necessary to boost the pace of growth by removing the factors that are limiting firms' productivity, obstructing the full utilization of resources and slowing down capital formation. The role of our economy in the most advanced sectors must be strengthened.

The growth objectives set by the Planning Document are compatible with Italy's labour and saving capacity. The economic policy action is based on reduction of the tax burden, the execution of important public works and labour market reform.

The planned easing of the tax burden is an instrument likely to accelerate growth; it must be based on the structural containment of expenditure. The objectives of GDP growth of close to 3 per cent a year indicated in the Planning Document may in the course of time require more vigorous action to curb spending and the tax burden.

The growth in primary current expenditure must be smaller than that in GDP; the measures must be set out in the budget for the coming year.

It is necessary to start carrying out the plan of public works as soon as possible and overcome the institutional obstacles that could slow it down. The gap between the South and North of Italy in public capital endowment must be reduced; in the more developed areas, infrastructure must be adjusted to the needs of the productive system.

It is necessary for firms to respond with increased investment to the structural overhaul of public expenditure, the lowering of the tax burden and the greater flexibility in the labour market.

The process of consolidating the public finances must be completed. Decentralization must contribute to greater governmental efficiency.

It will be possible to safeguard the living standards of the elderly and to ensure stable and dignified employment for the younger generations.

TABLES AND FIGURES

Table 1

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

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Italy	11.7	10.7	10.3	9.3	7.6	7.1	2.7	2.8	1.8	1.7	2.2 (2)
Belgium	6.3	7.1	7.3	4.9	4.3	3.8	2.0	0.8	0.6	-0.1	0.0
Denmark	2.5	2.3	2.9	2.7	2.3	1.0	-0.4	-1.1	-3.1	-2.5	-2.9
Germany	3.3	2.8	3.5	2.6	3.5	3.4	2.7	2.2	1.6	1.3	2.7
Greece	11.5	12.8	13.8	10.0	10.2	7.8	4.7	2.4	1.7	0.8	0.4
Spain	4.4	4.0	6.8	6.2	6.6	5.0	3.2	2.6	1.1	0.4	0.1
France	2.1	3.9	5.8	5.8	5.5	4.1	3.0	2.7	1.6	1.3	1.5
Ireland	2.3	2.4	2.3	1.5	2.2	0.2	-1.2	-2.3	-2.3	-4.5	-1.7
Luxembourg	-1.9	-0.7	-1.6	-2.7	-3.3	-2.6	-2.8	-3.2	-3.8	-5.8	-5.0
Netherlands	2.9	3.9	3.2	3.8	4.2	1.8	1.1	0.8	-0.4	-1.5	-0.2
Austria	3.0	2.0	4.3	5.0	5.2	3.8	2.0	2.4	2.2	1.9	-0.1
Portugal	6.0	3.0	6.1	6.0	4.6	4.0	2.6	2.3	2.2	1.8	2.7 (3)
Finland	1.1	5.7	7.3	6.0	3.7	3.2	1.5	-1.3	-1.9	-7.0	-4.9
Sweden	1.1	7.7	12.2	10.3	7.7	3.1	1.6	-1.9	-1.5	-3.7	-4.8
United Kingdom	2.9	6.7	8.2	6.9	5.8	4.4	2.2	-0.4	-1.1	-1.7	-0.9
Averages excluding Italy											
EU	3.1	4.3	5.6	4.9	4.8	3.7	2.4	1.4	0.6	-0.1	0.5
Euro area (4)	4.7	4.9	5.7	5.1	5.1	4.3	2.6	2.0	1.2	0.6	1.3
France, Germany and the UK	2.8	4.1	5.3	4.5	4.6	3.8	2.7	1.6	0.8	0.4	1.2

Sources: Based on Istat and European Commission data.

(1) For every country except Italy there is a break in the series between 1994 and 1995 following the switch to ESA95. The data do not included the proceeds of sales of UMTS licences but include the effects of swap transactions.

(2) The figure takes account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July regarding the securitization of real estate and lottery receipts.

(3) The estimate of the European Commission differs from the figure in the March notification (2.2 per cent of GDP) owing to the inclusion of the effects of recapitalizations of public enterprises and transactions by local authorities.

(4) For the sake of comparability, Greece is included in the euro area for all the years considered.

Table 2

GENERAL GOVERNMENT NET BORROWING (+) OR NET LENDING (-) EXCLUDING INTEREST PAYMENTS (1)

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Italy	-0.2	-2.0	-2.8	-2.1	-3.9	-4.4	-6.7	-5.2	-5.0	-4.7	-4.1 (2)
Belgium	-3.9	-3.8	-3.6	-5.3	-5.0	-5.1	-6.0	-6.7	-6.4	-6.9	-6.5
Denmark	-5.0	-4.6	-4.6	-4.3	-4.2	-5.1	-6.1	-6.5	-7.8	-6.7	-7.0
Germany	0.6	-0.4	0.2	-0.7	-0.2	-0.3	-0.9	-1.4	-1.9	-2.1	-0.5
Greece	2.1	1.1	1.0	-4.1	-1.0	-2.8	-3.6	-5.4	-5.6	-6.2	-5.8
Spain	0.6	-0.3	1.7	1.5	1.4	-0.4	-1.6	-1.7	-2.4	-2.9	-3.0
France	-0.9	0.7	2.4	2.2	1.8	0.1	-0.7	-0.9	-1.7	-1.9	-1.7
Ireland	-5.0	-4.3	-4.0	-4.0	-3.2	-4.4	-5.4	-5.7	-4.7	-6.6	-3.2
Luxembourg	-2.2	-1.1	-2.0	-3.1	-3.6	-2.9	-3.1	-3.5	-4.1	-6.1	-5.3
Netherlands	-3.3	-2.4	-3.0	-2.1	-1.7	-3.8	-4.1	-4.0	-4.9	-5.4	-3.6
Austria	-1.2	-2.3	-0.1	0.9	0.8	-0.4	-2.0	-1.4	-1.3	-1.6	-3.5
Portugal	-1.8	-4.3	-0.1	-0.2	-1.7	-1.4	-1.6	-1.1	-1.0	-1.3	-0.4
Finland	-0.9	3.0	2.7	0.9	-0.3	-1.1	-2.7	-4.9	-5.0	-9.8	-7.6
Sweden	-4.0	2.4	6.1	3.5	0.8	-3.7	-4.9	-7.7	-6.3	-7.9	-8.1
United Kingdom	-0.4	3.5	5.0	3.5	2.1	0.7	-1.4	-3.9	-4.0	-4.5	-3.3
Averages excluding Italy											
EU	-0.7	0.2	1.3	0.5	0.3	-0.8	-1.8	-2.6	-3.1	-3.5	-2.6
Euro area (3)	-0.4	-0.7	0.0	-0.3	-0.6	-1.4	-1.6	-2.0	-2.5	-2.9	-2.1
France, Germany and the UK	-0.1	0.9	2.0	1.1	0.9	0.1	-1.0	-2.0	-2.5	-2.8	-1.7

Sources: Based on Istat and European Commission data.

(1) For every country except Italy there is a break in the series between 1994 and 1995 following the switch to ESA95. The data do not included the proceeds of sales of UMTS licences but include the effects of swap transactions.
(2) The figure takes account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July regarding the securitization of real estate and lottery receipts.
(3) For the sake of comparability, Greece is included in the euro area for all the years considered.

Table 3

GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE (1)

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Italy	40.5	43.0	44.0	41.8	42.2	42.5	44.5	42.9	43.0	42.5	42.4
Belgium	46.7	47.1	48.2	49.1	46.0	46.4	46.8	47.3	47.1	47.0	46.5
Denmark	49.4	49.9	51.5	52.9	50.2	50.7	50.6	51.0	52.0	49.6	49.7
Germany	41.6	42.4	43.0	43.5	41.4	42.4	42.4	42.5	43.4	43.4	41.8
Greece	….	….	….	….	33.9	34.3	35.7	37.7	38.8	39.8	39.0
Spain	35.6	37.4	36.6	36.2	33.6	34.0	34.4	34.7	35.3	35.9	35.8
France	45.7	45.6	46.0	46.1	44.6	45.9	46.1	46.0	46.8	46.4	46.2
Ireland	34.4	34.5	34.5	35.2	34.0	34.2	33.6	32.9	32.9	32.5	30.9
Luxembourg	….	….	….	….	42.7	42.8	41.5	40.7	41.4	42.0	41.7
Netherlands	47.6	47.6	48.7	46.5	40.6	41.0	40.8	40.5	41.9	41.8	40.4
Austria	44.0	45.3	46.3	45.1	43.7	45.1	45.8	45.9	45.7	45.3	47.2
Portugal	33.5	35.9	34.8	34.7	34.5	35.2	35.1	35.5	36.5	37.0	37.0
Finland	47.8	47.6	46.9	48.8	46.1	46.9	46.3	46.2	46.3	47.1	45.6
Sweden	53.0	51.5	50.7	50.5	48.3	51.2	51.5	52.9	52.6	52.6	54.3
United Kingdom	38.5	37.4	36.2	36.6	35.7	35.4	36.1	37.4	37.7	38.3	38.3
Averages excluding Italy											
EU	42.5	42.7	42.9	43.1	41.0	41.8	41.7	42.0	42.6	42.6	42.0
Euro area (2)	42.6	43.2	43.7	43.9	41.5	42.3	42.4	42.5	43.2	43.1	42.3
France, Germany and the UK	42.1	42.2	42.3	42.7	41.1	41.9	41.8	42.1	42.7	42.7	42.0

Sources: Based on Istat and European Commission data.

(1) For every country except Italy there is a break in the series between 1994 and 1995 following the switch to ESA95.
(2) For the sake of comparability, Greece is included in the euro area for all the years considered.

Table 4

GENERAL GOVERNMENT INVESTMENT (1)

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Italy	3.2	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5 (2)
Belgium	1.4	1.5	1.6	1.7	1.8	1.6	1.6	1.6	1.8	1.8	1.6
Denmark	1.5	2.0	1.9	1.8	1.8	1.9	1.9	1.7	1.7	1.7	1.7
Germany	2.6	2.8	2.7	2.6	2.3	2.1	1.9	1.8	1.9	1.9	1.7
Greece	3.1	3.5	3.3	3.1	3.2	3.2	3.4	3.6	3.7	3.7	3.8
Spain	4.8	4.0	4.2	4.0	3.7	3.1	3.1	3.3	3.4	3.2	3.4
France	3.5	3.5	3.2	3.2	3.3	3.2	3.0	2.9	2.9	3.0	3.0
Ireland	2.1	2.0	2.1	2.3	2.3	2.4	2.5	2.7	3.1	3.6	4.1
Luxembourg	4.7	5.2	5.2	4.3	4.5	4.7	4.2	4.5	4.6	4.3	4.6
Netherlands	2.2	2.1	2.1	2.1	3.0	3.1	2.9	2.9	3.0	3.2	3.3
Austria	3.3	3.3	3.3	3.3	3.1	2.8	2.0	1.9	1.7	1.5	1.3
Portugal	3.4	3.8	4.0	3.6	3.7	4.2	4.3	3.9	4.1	3.7	4.1
Finland	4.1	3.8	3.1	3.2	2.8	2.9	3.2	2.9	2.9	2.5	2.7
Sweden	2.3	2.7	1.1	3.0	3.4	3.0	2.7	2.7	2.7	2.5	2.6
United Kingdom	2.4	2.3	2.1	2.0	2.0	1.5	1.2	1.2	1.1	1.1	1.3
Averages excluding Italy											
EU	2.9	2.9	2.8	2.7	2.7	2.5	2.2	2.2	2.2	2.2	2.3
Euro area (3)	3.0	3.0	2.7	2.6	2.6	2.4	2.5	2.5	2.5	2.5	2.5
France, Germany and the UK	2.8	2.9	2.7	2.6	2.5	2.3	2.0	2.0	2.0	2.0	2.0

Sources: Based on Istat and European Commission data.

(1) For every country except Italy there is a break in the series between 1994 and 1995 following the switch to ESA95.
(2) Following the decision taken by Eurostat, the figure does not include the proceeds of the securitization of real estate (0.3 per cent of GDP), which had previously been included as a reduction in investment expenditure.
(3) For the sake of comparability, Greece is included in the euro area for all the years considered.

Table 5

GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE IN ITALY (1)

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998 (2)	1999	2000	2001
Direct taxes	14.3	14.6	16.0	14.9	14.7	15.3	16.0	14.4	15.0	14.6	15.1
Indirect taxes	11.1	11.3	12.0	11.8	12.1	11.8	12.4	15.3	15.1	15.0	14.6
Current taxes	**25.4**	**25.9**	**28.0**	**26.7**	**26.8**	**27.1**	**28.5**	**29.7**	**30.1**	**29.7**	**29.6**
Social security contributions	14.8	15.1	15.3	15.0	14.8	15.0	15.3	12.8	12.7	12.7	12.7
Current taxes and social security contributions	**40.3**	**41.0**	**43.3**	**41.7**	**41.6**	**42.2**	**43.8**	**42.5**	**42.8**	**42.4**	**42.3**
Capital taxes	0.2	2.0	0.7	0.1	0.6	0.3	0.7	0.4	0.1	0.1	0.1
Total taxes and social security contributions	**40.5**	**43.0**	**44.0**	**41.8**	**42.2**	**42.5**	**44.5**	**42.9**	**43.0**	**42.5**	**42.4**

Source: Based on Istat data.

(1) Rounding may cause discrepancies.
(2) The changes with respect to the previous year reflect the introduction of the regional tax on productive activities (Irap) and the simultaneous abolition of local income tax (Ilor), health contributions and other minor taxes.

Table 6

GENERAL GOVERNMENT EXPENDITURE IN ITALY (1)

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Compensation of employees	12.6	12.4	12.3	11.9	11.2	11.5	11.6	10.7	10.6	10.5	10.6
Intermediate consumption	5.0	5.1	5.2	5.2	4.8	4.8	4.7	4.8	5.0	5.1	5.1
Social services in kind	2.6	2.5	2.4	2.2	2.0	2.0	2.1	2.1	2.1	2.2	2.4
Social services in cash	15.6	16.5	17.0	17.3	16.7	16.9	17.3	17.0	17.1	16.8	16.7
Interest payments	11.9	12.6	13.0	11.4	11.5	11.5	9.4	8.0	6.8	6.5	6.3
Other current expenditure	3.0	2.8	3.3	2.7	2.3	2.5	2.2	2.9	2.8	2.8	2.8
Total current expenditure	**50.6**	**52.1**	**53.3**	**50.6**	**48.5**	**49.1**	**47.2**	**45.4**	**44.4**	**43.9**	**43.9**
Excluding interest payments	*38.7*	*39.5*	*40.3*	*39.2*	*37.0*	*37.6*	*37.8*	*37.4*	*37.6*	*37.4*	*37.6*
Investment (2)	3.2	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5
Other capital expenditure (3)	1.7	1.5	1.7	1.5	2.5	1.6	1.3	1.5	1.6	1.3	1.5
Total capital expenditure (2) (3)	**4.9**	**4.6**	**4.3**	**3.7**	**4.6**	**3.8**	**3.5**	**3.9**	**4.0**	**3.7**	**4.1**
Total expenditure (2) (3)	**55.5**	**56.6**	**57.6**	**54.3**	**53.2**	**52.9**	**50.7**	**49.3**	**48.4**	**47.6**	**48.0**
Excluding interest payments (2) (3)	*43.7*	*44.0*	*44.6*	*42.9*	*41.6*	*41.4*	*41.4*	*41.3*	*41.7*	*41.2*	*41.6*

Source: Based on Istat data.

(1) Rounding may cause discrepancies.

(2) Following the decision taken by Eurostat, the figure does not include the receipts of the securitization of real estate (0.3 per cent of GDP), which had previously been included as a reduction in investment expenditure.

(3) The figure for 2000 does not include the proceeds of the sale of UMTS licences (1.2 per cent of GDP). In the national accounts this amount is accounted for as a reduction in "Other capital expenditure". Following the decision taken by Eurostat, the figure for 2001 does not include the proceeds of the securitization of lottery receipts (0.25 per cent of GDP), which had previously been included as a reduction in "Other capital expenditure".

Table 7

MAIN INDICATORS OF LOCAL GOVERNMENT FINANCES IN ITALY

(as a percentage of GDP)

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Total revenue	14.5	14.0	13.5	13.2	12.9	12.7	13.2	13.2	13.1	13.8	14.8
Total expenditure	14.8	14.3	14.1	13.8	12.8	13.1	13.4	13.4	13.7	13.8	14.4
Net borrowing	0.4	0.3	0.6	0.5	-0.1	0.4	0.2	0.2	0.6	0.0	-0.4
Primay balance	-0.3	-0.3	0.0	-0.1	-0.6	-0.1	-0.3	-0.2	0.2	-0.4	-0.8
Borrowing requirement (1)	0.8	0.1	0.4	-0.8	0.0	0.0	0.3	0.1	0.5	0.5	0.1
Debt (1)	3.4	3.3	3.6	2.6	2.4	2.3	2.5	2.5	3.0	3.4	3.4

Source: Based on Istat data for the consolidated local government accounts items.

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

Table 8

STATE SECTOR BORROWING REQUIREMENT IN ITALY

(millions of euros)

	Year		First 6 months		
	2000	2001	2000	2001	2002(1)
Borrowing requirement net of settlements of past debts and privatization receipts(*)	**25,472**	**34,548**	**16,234**	**26,602**	**30,040**
Settlements of past debts	4,599	10,290	3,424	5,828	696
- in securities	*2,662*	*563*	*2,588*	*345*	-
-in cash	*1,937*	*9,727*	*836*	*5,483*	*696*
Privatization receipts (2)	-15,450	-4,330	-62	-4,320	-178
Total borrowing requirement	**14,621**	**40,508**	**19,596**	**28,110**	**30,558**
FINANCING					
Medium and long-term securities	18,638	12,339	29,938	27,932	24,197
Treasury bills	-17,550	11,717	-7,750	18,418	21,719
Current accounts with the Bank of Italy	9,708	-2,118	-5,218	-25,620	-20,981
Other liabilities to BI/UIC	-1,515	-1,930	-1,410	-601	2,350
Post Office deposits	4,660	10,919	2,226	3,373	2,276
Other domestic liabilities(3)	-9,370	1,830	-8,957	-243	-758
Foreign loans(4)	10,050	7,751	10,767	4,851	1,755

(*) Borrowing requirement including tax refunds paid via the Post Office	25,472	37,650	16,234	28,569	30,086

(1) Provisional. The figures do not take account of the decision taken by Eurostat at the beginning of July regarding the securitization of real estate and lottery receipts.

(2) Includes the part of proceeds of the sale of UMTS licences received in 2000 and used to reduce the public debt (20,736 billion lire). The remainig proceeds received in that year (2,304 billion lire) were included among revenues.

(3) Mainly lending by banks (including repayments of loans contracted by local authorities). The figures for 2001 include the financing provided in connection with the securitization of lottery receipts and the proceeds of the sale of real-estate assets and property rigths.

(4) Includes commercial paper.

Table 9

CURRENT LEGISLATION PROJECTIONS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2002-06 AND 2003-06

(as a percentage of GDP)

	2001 (1)	2002		2003		2004		2005		2006	
	Outturn	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006
Net borrowing	2.2	1.7	1.1	1.7	1.6	1.4	2.3	0.9	1.5	0.4	0.9
of which: current	*-1.6*	*-1.5*	*-1.7*	*-1.6*	*-1.6*	*-1.6*	*-1.5*	*-2.1*	*-2.0*	*-2.4*	*-2.5*
capital	*3.8*	*3.2*	*2.8*	*3.2*	*3.2*	*3.0*	*3.8*	*2.9*	*3.5*	*2.8*	*3.4*
Primary surplus	4.1	4.4	4.7	4.3	4.3	4.6	3.7	5.0	4.5	5.4	5.0
Total revenue	45.8	45.2	46.2	44.8	45.7	44.9	45.3	44.9	45.5	44.9	45.5
of which: taxes and social security contributions	*42.4*	*41.7*	*42.3*	*41.4*	*42.1*	*41.3*	*42.0*	*41.4*	*42.1*	*41.4*	*42.1*
Primary expenditure	41.6	40.8	41.4	40.5	41.3	40.3	41.6	39.9	41.0	39.5	40.5
of which: current	*37.6*	*37.1*	*38.0*	*36.8*	*37.7*	*36.7*	*37.5*	*36.3*	*37.0*	*36.1*	*36.7*
capital	*4.1*	*3.7*	*3.4*	*3.7*	*3.6*	*3.6*	*4.1*	*3.5*	*3.9*	*3.4*	*3.8*
Interest payments	6.3	6.1	5.9	6.0	6.0	6.0	6.0	5.9	6.0	5.7	6.0
Debt	109.8	n.d.	109.3	n.d.	108.7	n.d.	109.2	n.d.	109.3	n.d.	108.7

(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 regarding the securitization of real estate and lottery receipts.

FISCAL PLANNING SCENARIOS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2002-06 AND 2003-06

(as a percentage of GDP)

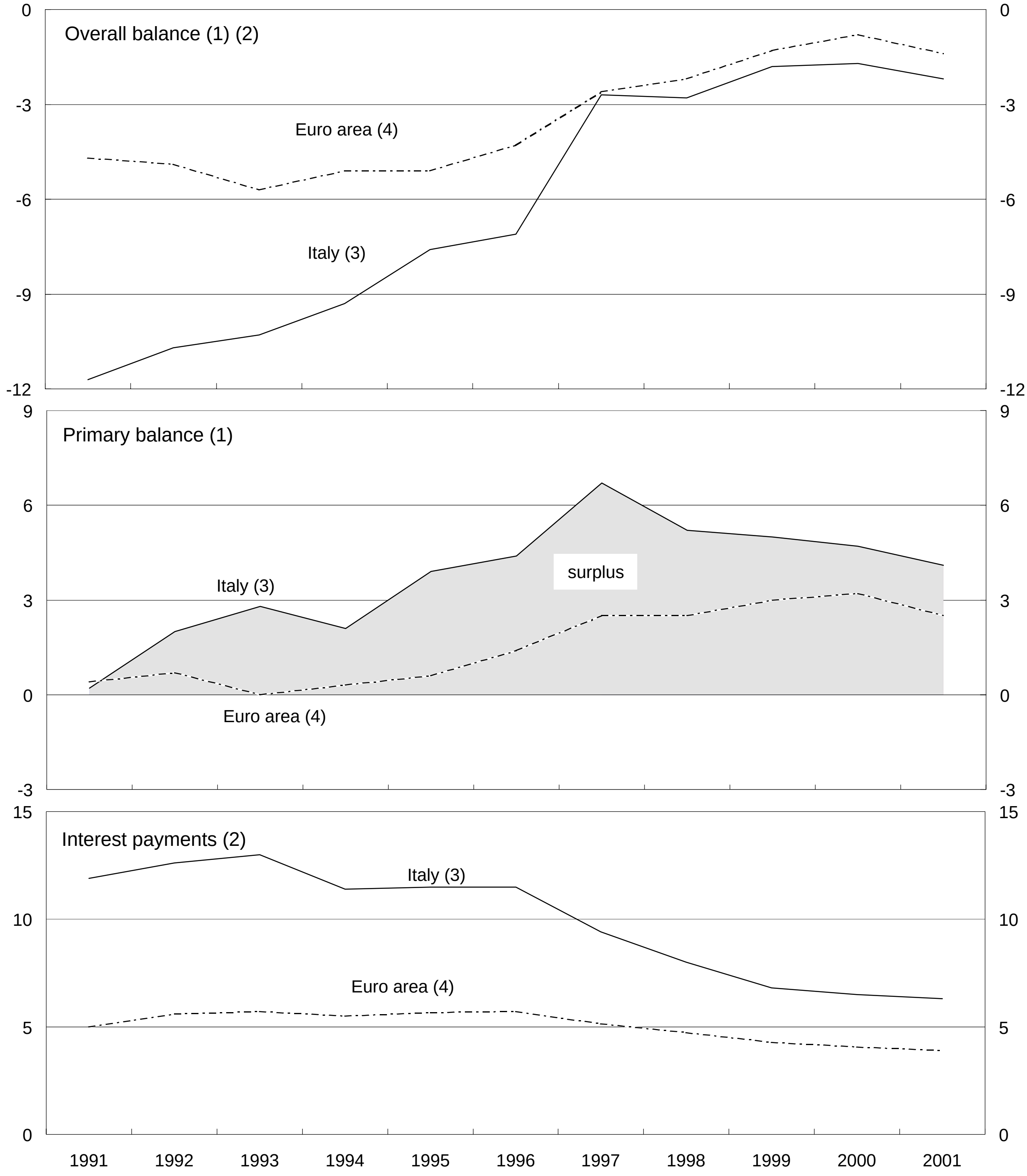
	2001 (1)	2002		2003		2004		2005		2006	
	Outturn	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006	EFPD 2002-2006	EFPD 2003-2006
Net borrowing	2.2	0.5	1.1	0.0	0.8	0.0	0.3	0.0	-0.1	0.0	-0.2
of which: current	*-1.6*	*-2.6*	*-1.7*	*-3.5*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

(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 regarding the securitization of real estate and lottery receipts.

Figure 1

GENERAL GOVERNMENT OVERALL BALANCE, PRIMARY BALANCE AND INTEREST PAYMENTS

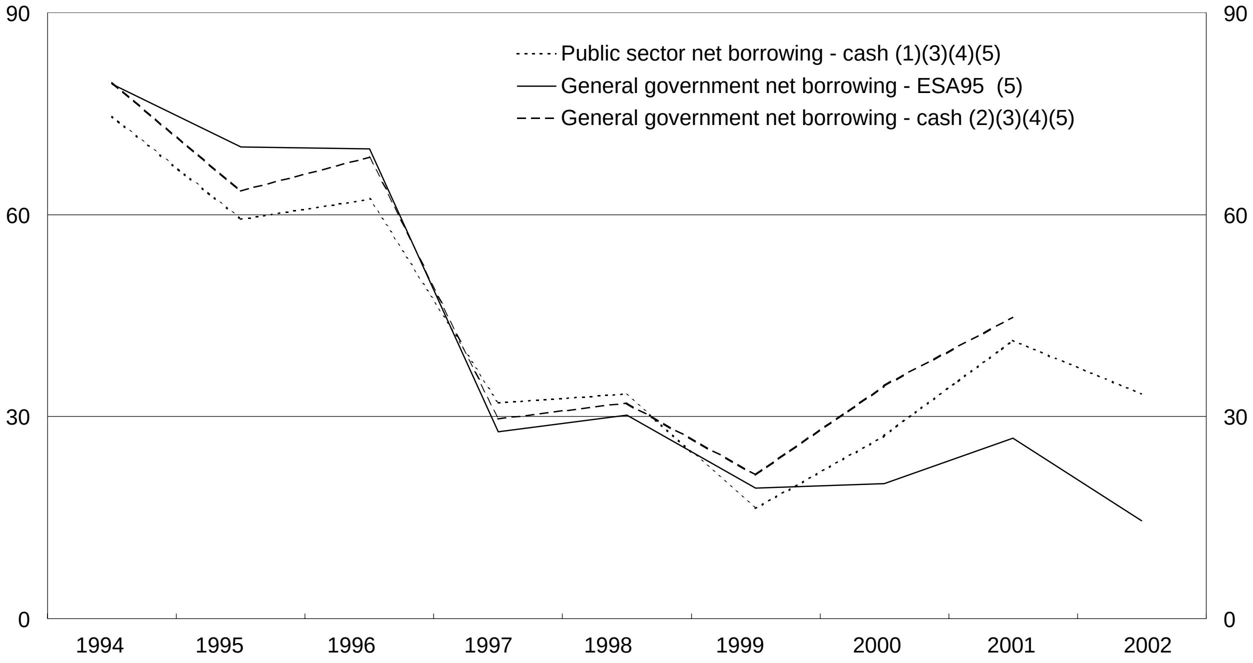
(as a percentage of GDP)



Source: Based on Istat data.
(1) The figures do not include the proceeds of sales of UMTS licences.
(2) The figures include the effects of swap transactions.
(3) The figures for 2001 take account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July regarding the securitization of real estate and lottery receipts.
(4) For the sake of comparability, Greece is included in the euro area for all the years considered. Following the switch to ESA95, there is a break in the series between 1994 and 1995.

Figure 2

NET BORROWING IN ITALY:
ON AN ESA95 AND A CASH BASIS
(billions of euros)

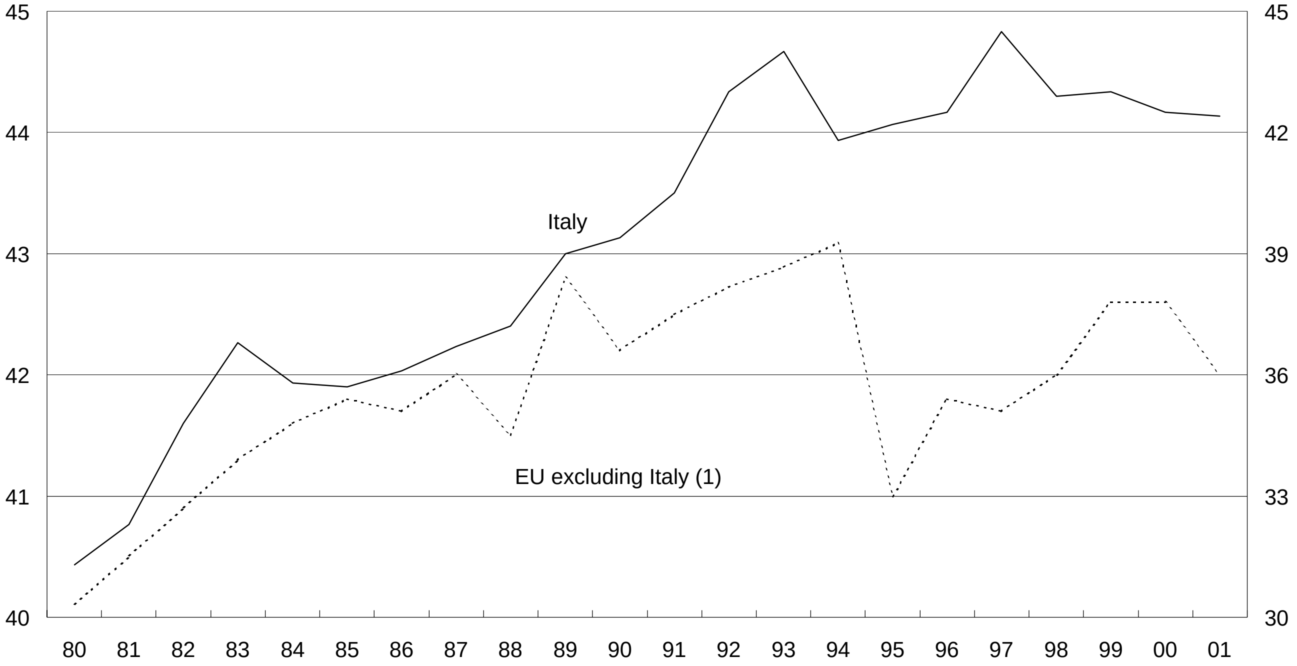


Sources: Based on Bank of Italy, Istat and Ministry for the Economy and Finance data.
(1) Public sector deficit: borrowing requirement net of privatization receipts and the balance of financial items (Quarterly Report on the Borrowing Requirement). - (2) Estimate obtained by subtracting the balance of financial items (Quarterly Report on the Borrowing Requirement) from the general government borrowing requirement net of privatization receipts calculated on the formation side by the Bank of Italy. - (3) For the period 1997-2001 (for which the data are available), account has been taken of the correction made by Istat (in conformity with ESA95) to the items classified as financial items by the Ministry for the Economy and Finance. - (4) For 2002 reference has been made to the forecasts contained in the April Quarterly Report on the Borrowing Requirement for the public sector and to those in the Planning Document for general government. - (5) The figure for 2001 takes account of the decision taken by Eurostat at the beginning of July regarding the securization of real estate and lottery receipts.

Figure 3

TAX REVENUE AND SOCIAL SECURITY CONTRIBUTIONS

(as a percentage of GDP)

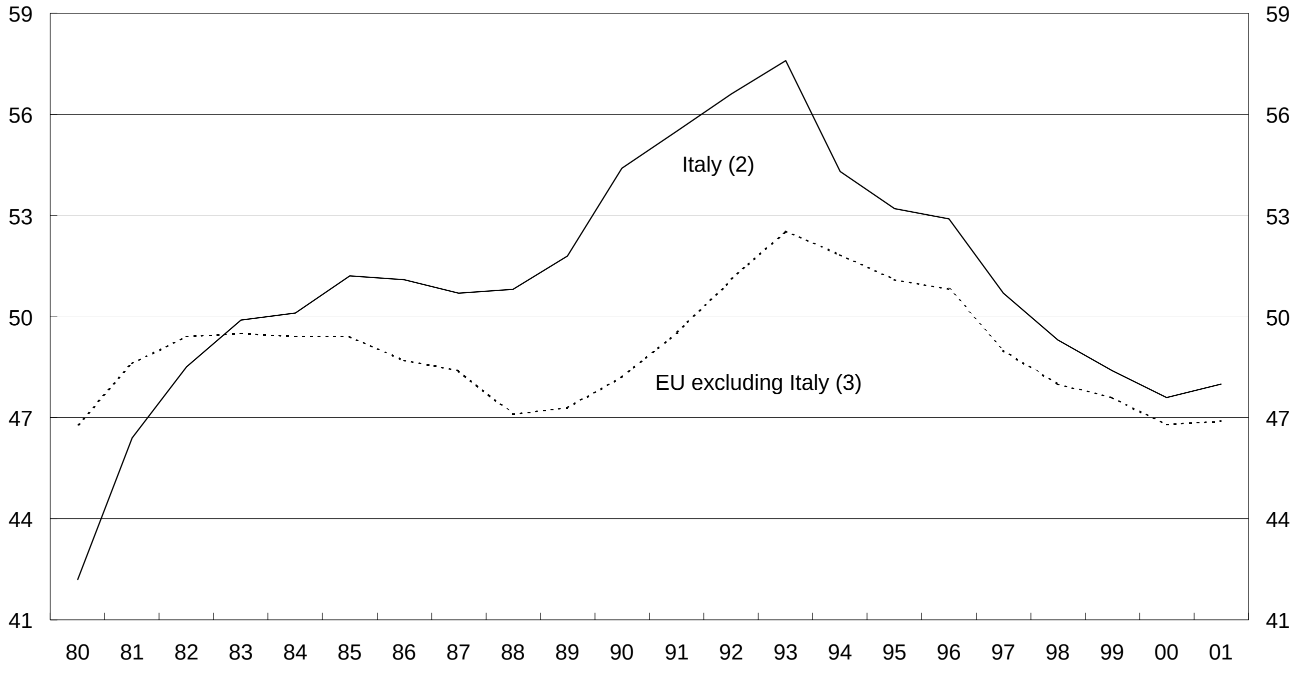


Sources: Based on Istat and European Commission data.
(1) Weighted on the basis of GDP. Following the switch to ESA95, there is a break in the series between 1994 and 1995.

Figure 4

GENERAL GOVERNMENT EXPENDITURE (1)

(as a percentage of GDP)

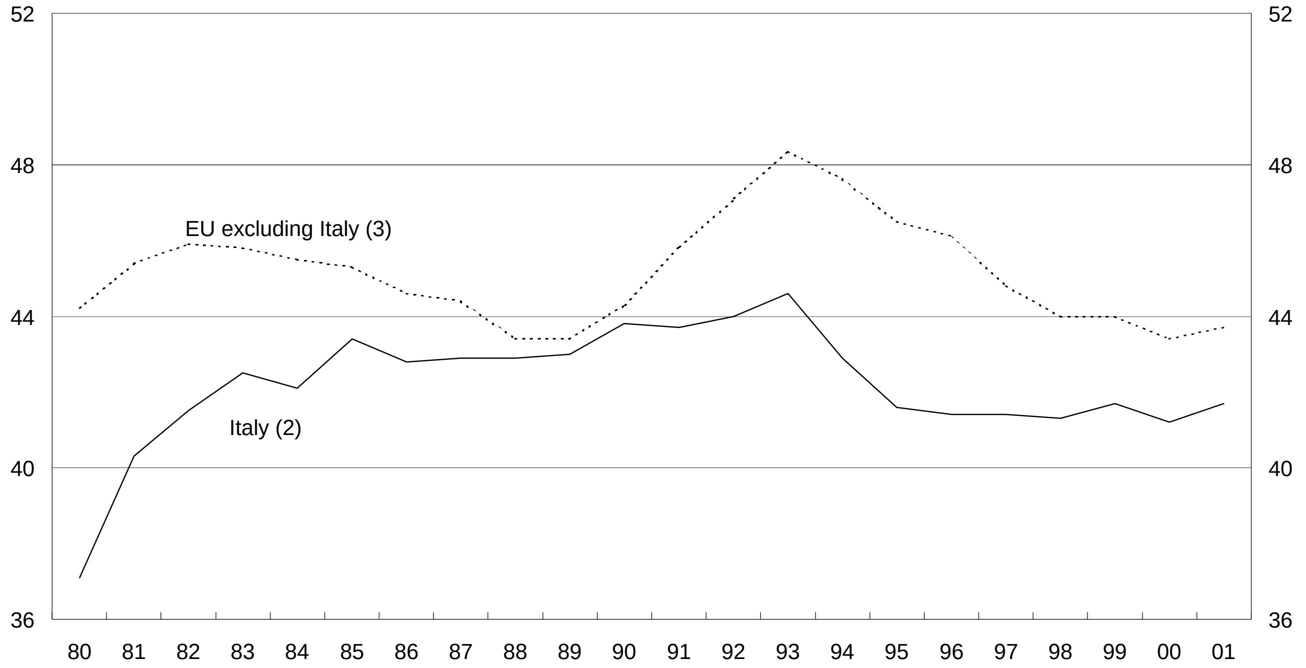


Sources: Based on Istat and European Commission data.
(1) The data do not include the proceeds of sales of UMTS licences.
(2) The figure for 2001 takes account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July regarding the securitization of real estate and lottery receipts.
(3) Weighted on the basis of GDP. Following the switch to ESA95, there is a break in the series between 1994 and 1995.

Figure 5

GENERAL GOVERNMENT EXPENDITURE EXCLUDING INTEREST PAYMENTS (1)

(as a percentage of GDP)

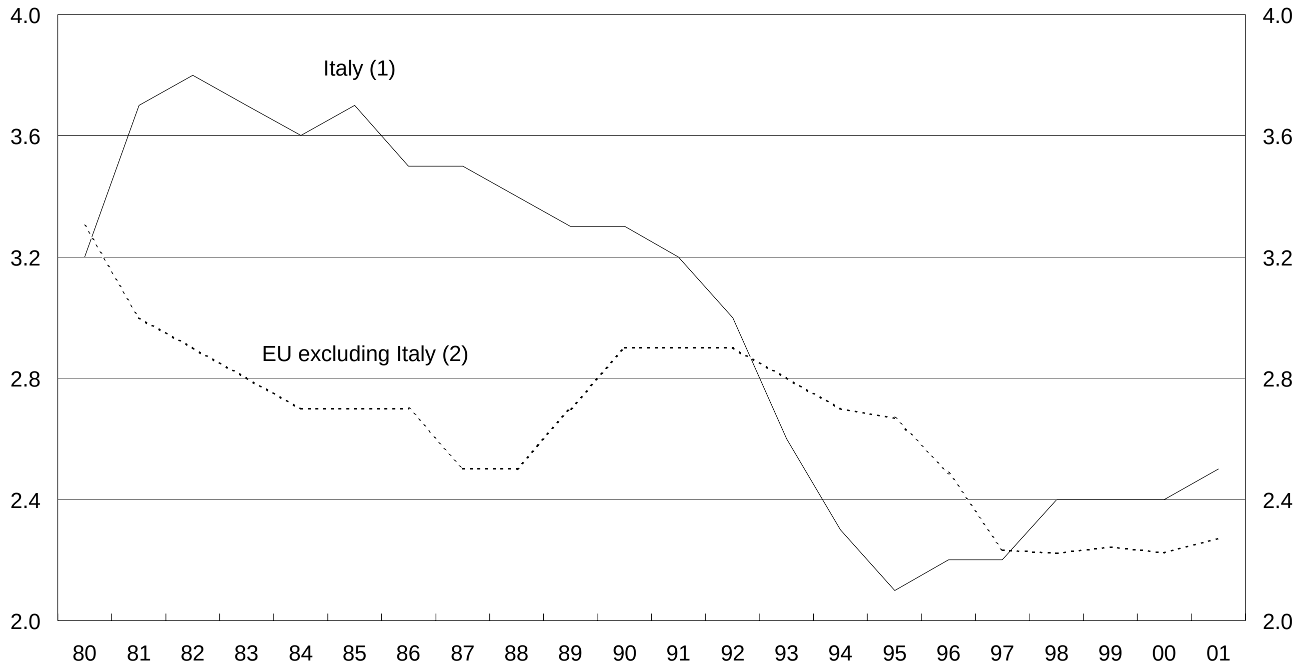


Sources: Based on Istat and European Commission data.
(1) The data do not include the proceeds of sales of UMTS licences.
(2) The figure for 2001 takes account of the revision carried out by Istat in June and of the decision taken by Eurostat at the beginning of July regarding the securitization of real estate and lottery receipts.
(3) Weighted on the basis of GDP. Following the switch to ESA95, there is a break in the series between 1994 and 1995.

Figure 6

GENERAL GOVERNMENT INVESTMENT

(as a percentage of GDP)



Sources: Based on Istat and European Commission data.
(1) Following the decision taken by Eurostat, the figure for 2001 does not include the proceeds of the securitization of real estate (0.3 per cent of GDP), which had previously been included as a reduction in investment expenditure.
(2) Weighted on the basis of GDP. Following the switch to ESA95, there is a break in the series between 1994 and 1995.

Figure 7

AVERAGE COST OF THE DEBT, AVERAGE GROSS RATE ON BOTs AND GROSS YIELD ON 10-YEAR BTPs

(percentages)

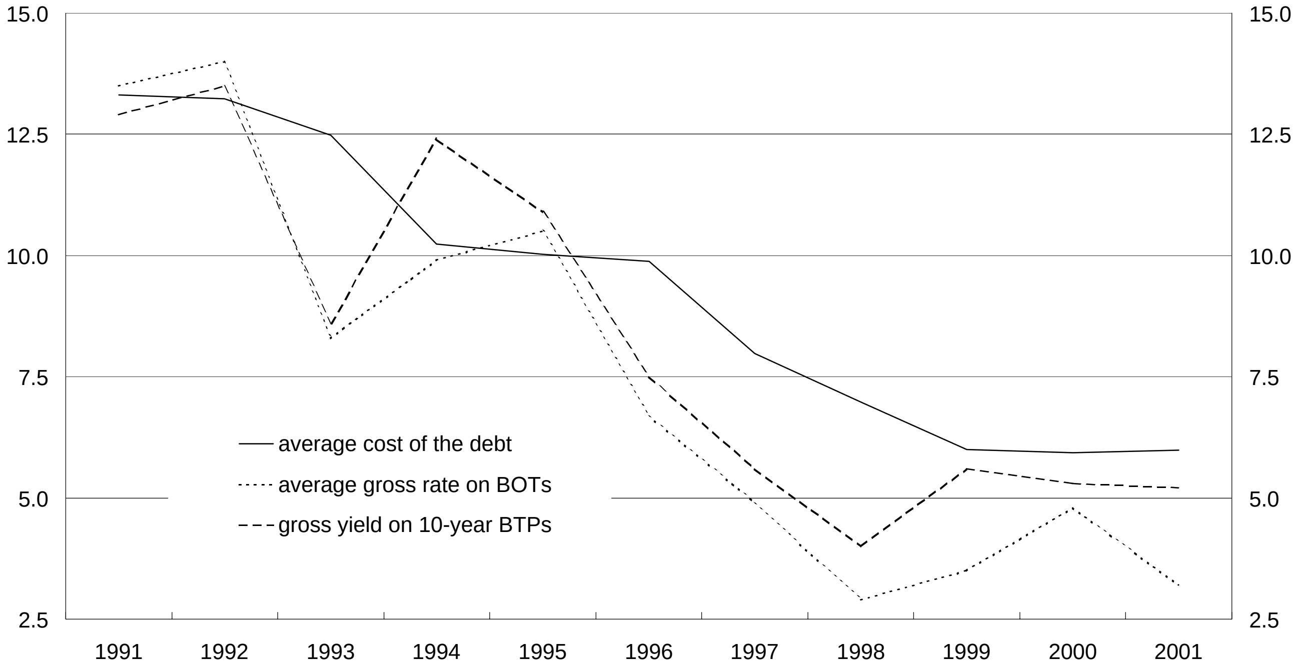
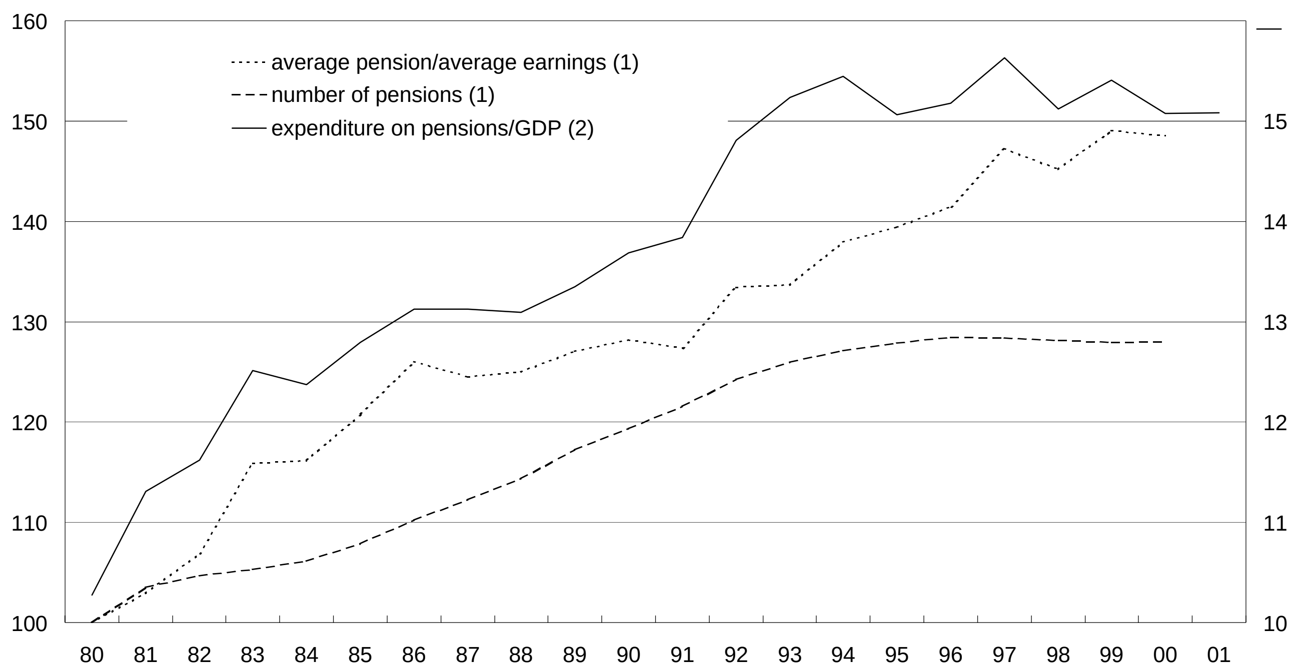


Figure 8

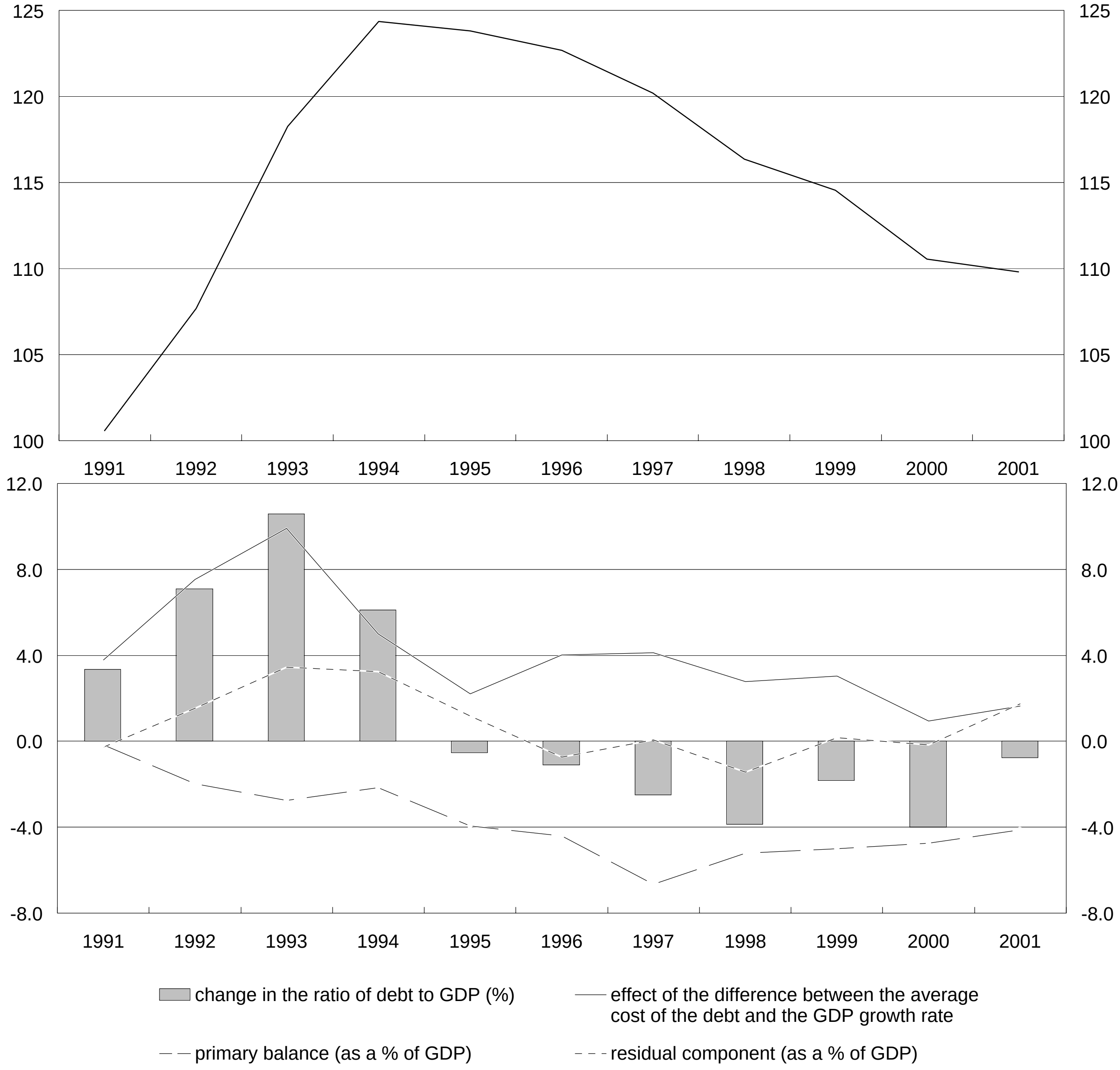
EXPENDITURE ON PENSIONS



Source: Based on Istat data.
(1) Index: 1980=100. Left-hand scale. - (2) Percentages. Right-hand scale.

Figure 9

GENERAL GOVERNMENT DEBT IN ITALY:
LEVEL AND COMPONENTS OF THE CHANGES (1)
(as a percentage of GDP)



(1) The change in the debt-to-GDP ratio (*d*) can be decomposed into three components on the basis of the following identity: $d_t = pr_t + (r_t - g_t)[d_{t-l}/(1+g_t)] + re_t$, where *pr* is the ratio of the primary balance to GDP, $(r_t - g_t)[d_{t-l}/(1+g_t)]$ is the effect of the difference between the average cost of the debt (*r*), defined as the ratio of interest payments for the year to the debt at the end of the previous year) and the rate of increase in nominal GDP (*g*), and *re* is the ratio to GDP of the difference between net borrowing and the change in the debt. The primary balance for 2000 excludes the proceeds of the sale of UMTS licences (26,750 billion lire, equal to 1.2 per cent of GDP); the part of the proceeds received in that year (23,040 billion lire, equal to 1 per cent of GDP) is included in the residual component. The figures for 2001 take account of the decision taken by Eurostat at the beginning of July regarding the securization of real estate and lottery receipts.