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Fact-finding preliminary to the examination of the budget documents for the period 2004-06

Statement by the Governor of the Bank of Italy
Antonio Fazio

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1.a The international economy

The world economy appears to have shaken off the stagnation that lasted from the autumn of 2002 until this spring. With the end of the conflict in Iraq signs of improvement gradually emerged, first in the financial indicators and then in the real economy. Expectations are for a pick-up in economic activity in the rest of the year, albeit of differing strength in different parts of the world.

In the United States, the slow growth of the fourth quarter of 2002 and the first quarter of this year has given way to faster expansion, with GDP rising at a 3.3 per cent annual pace in the second quarter. Contributory factors included the exceptionally large increase in military spending, an acceleration in household consumption and a recovery in productive investment. Economic activity strengthened further in the third quarter to grow at an annual rate of about 5 per cent. In September the contraction in employment came to a halt.

The International Monetary Fund’s latest forecast is for US growth of 2.6 per cent this year, rising to 3.9 per cent in 2004. The acceleration is the result of the persistence of highly expansionary monetary conditions and the unfolding effects of the budget measures passed last May. Maintaining the rapid pace of US growth requires that the state of the labour market continue to improve. Causes of concern include the steady deterioration of the current account of the balance of payments, which is significantly affecting the exchange rate of the dollar, and the public finances. The latest estimates of the Congressional Budget Office indicate a widening of the overall federal government deficit from 1.5 per cent of GDP in the 2002 fiscal year to 3.7 per cent in 2003 and 4.3 per cent in 2004.

In Japan GDP grew faster than had been expected in the first half of 2003, fueled by a strong expansion of exports to other Asian countries and by accelerating investment. The IMF forecasts output growth of 2 per cent this year, and growth should continue next year as well.

The Chinese economy grew by around 8 per cent in the first half compared with the first half of 2002. In Latin America economic activity is strengthening; in a number of countries, most notably Brazil, financial conditions and the climate of confidence have laid the basis for an upturn in production.

1.b The euro area and Italy

The cyclical weakness that has affected the main euro-area economies for about a year now became more pronounced in the first half of 2003. In France GDP declined in the second quarter at an annual rate of 1.3 per cent, following growth of 0.3 per cent in the first quarter. In Germany economic activity contracted by 0.6 per cent on an annual basis in the first half. Following the temporary upswing of the second half of 2002, Italy returned to stagnation in the first six months of this year.

Italian economic performance was affected by the decline in exports, which fell by nearly 12 per cent on an annual basis in the first half. The export contraction was sharper than in Germany and France (2.7 and 5.5 per cent respectively). World trade is estimated to have expanded by about 1 percentage point.

The loss of world market shares was considerably more severe for Italy than for the rest of the euro area. There was a partial export recovery in the summer months. For the first three quarters as a whole, the downward trend in market shares that began in the mid-nineties continued. Italian exports have suffered a substantial loss in price competitiveness over the past two years, owing partly to the appreciation of the euro. The country continues to specialize in products that are heavily exposed to competition from the emerging economies.

Between the fourth quarter of 2000 and the fourth quarter of 2002, Italy's export competitiveness deteriorated by 7.5 per cent, compared with 5.5 per cent for Germany and 3.7 per cent for France. It declined by another 4 per cent in the first half of 2003.

In the first half of this year Italian domestic demand was sustained mainly by a build-up in stocks, which fueled annualized GDP growth of nearly 2.5 per cent.

Reflecting the modest rise in purchasing power, the growth in households' expenditure slowed to 1.8 per cent from 2.5 per cent in the second half of 2002.

Capital formation diminished at an annual rate of 7.7 per cent.

According to the official indices produced by Istat, the harmonized twelve-month rate of consumer price inflation in Italy dipped to 2.7 per cent in August but then rose to 2.9 per cent in September. The rate for the euro area as a whole has been around 2 per cent since the spring. Service prices are marked by greater stickiness in Italy, which has not yet seen the gradual deceleration in this sector that the other major economies experienced following the temporary rise originating with the changeover to the euro.

According to the Italian national accounts, the number of persons employed increased by 0.9 per cent in the first half and employment was 1.3 per cent higher than in the first half of 2002. The labour force survey conducted in July, however, showed a halt to the growth, with employment remaining at its April level. After a protracted reduction the unemployment rate stabilized at 8.7 per cent; in August it was 9.4 per cent in Germany and France and 11.4 per cent in Spain.

Signs of a cyclical upturn emerged during the summer, despite the persistence of widespread uncertainty over the timing and strength of recovery. On average the climate of confidence in Italian industry has improved in the last two months. However, the index of confidence for households remains low. The September survey indicates a slight improvement, confirmed by the rebound in new car registrations.

Industrial production is expected to expand by about half a percentage point on average in the third quarter, ending the downward trend that set in towards the end of 2002.

The hypothesis of a modest increase of around 0.2 per cent in Italian GDP in the third quarter is reasonable. In the absence of a significant improvement in the last quarter, economic growth for the year as a whole will come to less than half a percentage point.

The achievement of year-on-year growth of 1.9 per cent in 2004 would require a growth rate of more than 3.0 per cent during the year.

2. *The public finances in 2003*

The Economic and Financial Planning Document of July 2002 indicated a net borrowing target of 0.8 per cent of GDP for 2003. The target for the primary surplus was set at 5.1 per cent of GDP. Economic growth was forecast at 2.9 per cent.

In September 2002 the Planning Document Update raised the target for net borrowing to 1.5 per cent of GDP in view of the deterioration in the fiscal balances and the downward revision of forecast growth to 2.3 per cent. The planned primary surplus ratio was lowered to 4.5 per cent. The aim was to reduce the debt ratio by 4.4 percentage points.

To achieve the objectives a budgetary correction on the order of 1 per cent of GDP was approved. The correction consisted largely of temporary measures.

In April 2003 the Quarterly Report on the Borrowing Requirement and the Update of the Forecasting and Planning Report for 2003 cut forecast growth to 1.1 per cent. The estimate for net borrowing was now put at 2.3 per cent of GDP, the same as the outturn for 2002. Both the state sector and the public sector borrowing requirements were expected to increase substantially with respect to 2002, the former from 2.1 to 3.2 per cent of GDP and the latter from 3.2 to 3.6 per cent.

The Economic and Financial Planning Document for 2004-2007 published in July basically confirmed the estimates regarding the public finances. By contrast, the forecast for GDP growth in 2003 was lowered to 0.8 per cent.

The Planning Document Update and the Forecasting and Planning Report of September further reduced the estimate of GDP growth to 0.5 per cent and revised general government net borrowing and the state sector borrowing requirement upwards again, estimating them at 2.5 and 3.5 per cent of GDP respectively. The general government primary surplus is now expected to fall to 2.8 per cent of GDP this year and the debt ratio to decrease by 0.7 percentage points, from 106.7 to 106 per cent.

The present estimate for net borrowing is one percentage point higher than the objective set in the autumn of 2002. The primary surplus is 1.7 points lower; the decrease is partly a consequence of the reduction in expected growth for the current year.

Primary current expenditure is expected to increase by 4.4 per cent, compared with the forecast of 2.9 per cent a year ago; as a ratio to GDP it is expected to rise to 38.5 per cent, 0.3 percentage points higher than in 2002.

Revenue from the tax regularization schemes has been appreciably higher than the initial estimates. The budget revision bill puts the revenue for this year at almost €13 billion; in addition there will be the receipts of the instalment to be paid in 2004, which will be accounted for in 2003 for the purposes of net borrowing. According to the Government's estimates, the ratio of receipts of taxes and social contributions to GDP will increase by 0.6

percentage points; excluding the regularization schemes, it would decrease by about half a point.

The increase in revenue from the tax regularization schemes is partly offset by the postponement to 2004 of the planned securitizations of real-estate.

The impact of the measures with temporary effects, such as regularizations and real-estate sales, amounts to around 1.5 per cent of GDP, similar to the figure of 2002 and about three times that of 2001. These estimates do not consider the temporary expense arising from investment incentives, which is difficult to assess.

Taking account of the adverse effects of the economic cycle on the budget balance and the positive effects of temporary measures, the structural primary surplus can be estimated at just under 2 per cent of GDP.

The general government net borrowing requirement amounted to around €32 billion in the first eight months of 2003, €2 billion less than in the corresponding period of 2002.

The state sector borrowing requirement, net of settlements of past debts and privatization receipts, totaled €44 billion in the first nine months of the year, €3 billion more than in the same period of 2002.

The gap between the borrowing requirement and net borrowing has begun to grow again.

The reduction indicated in the debt ratio implies substantial additional measures.

3. The public finance objectives for 2004

In July the Economic and Financial Planning Document set a net borrowing objective for 2004 of 1.8 per cent of GDP. The projected deficit on a current legislation basis was 3.1 per cent. Economic growth was forecast at 2 per cent.

To achieve the objectives, the Planning Document provided for a budget adjustment of around €16 billion, or 1.2 per cent of GDP; €5.5 billion was to come from structural measures.

The Planning Document Update and the Forecasting and Planning Report for 2004 has raised the objective for net borrowing to 2.2 per cent of GDP. The forecast for interest payments has been increased to 5.1 per cent of GDP, the expected primary surplus reduced to 2.9 per cent. By contrast, the forecasts for GDP growth and net borrowing on a current programmes basis are basically unchanged.

With the revision to 2.2 per cent of the objective for net borrowing, the size of the budget correction has been reduced to €11 billion; the €16 billion of deficit-reduction measures envisaged in the Planning Document in July are now accompanied by €5 billion of measures to support growth.

The forecasts include expenditure savings of between €2 billion and €3 billion as a consequence of the removal of the National Road Agency (Anas) from general government.

The planned state sector borrowing requirement is equal to 3.7 per cent of GDP, compared with 3.4 per cent in the July Planning Document. The gap with respect to net borrowing is wider. The debt ratio is to fall by one percentage point.

The revenue ratio is expected to fall by around one percentage point, mainly as a consequence of the disappearance of the extraordinary revenue from the 2003 regularization schemes. The primary current expenditure ratio is to decrease by two tenths of a point. The expected fall in capital expenditure from 4.2 to 3.5 per cent of GDP reflects the sales of real-estate planned for 2004 and the above-mentioned removal of Anas from the general government accounts.

4. The budget for 2004

The budget is defined by the Finance Bill and by Decree Law 269/2003; it provides for a correction to net borrowing of €11 billion, or 0.8 per cent of GDP.

The measures to reduce the deficit amount to €16 billion, of which €14.3 billion from increases in revenue and €1.7 billion from decreases in expenditure.

Measures totaling around €5 billion are envisaged to support the economy, of which €2.8 billion in the form of increased outlays and €2.2 billion of reductions in revenue.

The one-off component of the package, mainly on the revenue side, amounts to around €10 billion, or less than in 2003.

4.a Revenue

The increases in revenue, amounting to €14.3 billion, are nearly all of a temporary nature; the expected receipts from the measure regarding social security contributions of persons working under coordinated and continuous collaboration contracts and from the revision of the taxation of video games and betting are exceptions.

Regularization schemes are expected to bring in €7.6 billion. In particular, the plans are for a condonation of building offences, an ex-ante agreement with firms regarding income tax liabilities for 2003 and 2004, and the postponement to 2004 of the reopening of the regularization schemes introduced with the Finance Law for 2003.

In addition, there are plans for sales of real estate, to be carried out partly through securitizations, yielding €5 billion.

The €2.2 billion reduction in revenue is temporary. Almost half of the decrease does not correspond to actual relief but is due to the payment of some excise duties on mineral oils having been brought forward to 2003. The other measures consist mainly of extensions of reliefs regarding indirect taxes.

The tax incentives for businesses include a one-year exclusion of a part of firms' research and development costs from taxable income and a two-year reduction to 20 per cent of the corporate income tax rate for companies that become listed on a regulated market in the European Union in 2004. These measures will not have a significant impact on revenue next year.

In 2004 firms will also be affected by the entry into force of the provisions regarding the new corporate income tax, which are not part of the budget. A reduction of the tax rate to 33 per cent is among the proposed provisions.

The net increase in revenue amounts to €12.1 billion.

4.b Expenditure

The planned expenditure reduction measures, amounting to €1.7 billion, mainly concern public employment and the transformation of the Cassa Depositi e Prestiti and SACE into companies limited by shares. For a part of its activities the Cassa would be acting as a credit institution and as such would be subject to all the provisions of the Consolidated Law on Banking. Simply changing the legal form of the Cassa has no implications for the net public debt; the impact on the gross public debt will depend on how the Cassa's assets and liabilities are reallocated and on its financial transactions with the State.

The removal of the Cassa Depositi e Prestiti and SACE from general government is expected to reduce expenditure by €0.9 billion. The freeze on hirings and the restrictions on the use of fixed-term employees are expected to save €0.5 billion. Other minor measures are seen as curbing current expenditure by around €0.3 billion.

The increase in expenditure of €2.8 billion is mainly attributable to public employment, workfare programmes for the unemployed and support for road hauliers.

The increase in expenditure on public employment amounts to €1.1 billion. It includes allocations to cover the renewal of labour contracts and additional health sector staff costs for the two years 2002-03. The spending on workfare programmes in schools is estimated to be €0.4 billion, while that arising from the extension of the support for road hauliers is estimated to be €0.3 billion. International missions and allowances for second and subsequent children are expected to cost an additional €0.3 billion. Other minor measures are expected to increase current expenditure by €0.5 billion and capital expenditure by €0.2 billion.

On a net basis the budget will increase expenditure by €1.1 billion.

5. Evaluation of the budget

The scenario for 2004 set out in the Economic and Financial Planning Document published in July contained some elements that were at risk. The Planning Document Update published at the end of September left the baseline budget estimate of net borrowing unchanged despite new information, such as the inclusion in the accounts for 2003 of instalments of tax regularization schemes payable in 2004 and the upward revision of the estimate of interest payments.

The budget seeks to reconcile curbing the deficit in 2004 with strengthening the policies designed to stimulate public and private investment and support household demand.

The planning framework indicates virtually no change in relation to GDP in general government capital expenditure (excluding sales of real estate and the effects of the transformation of the National Road Agency (Anas) into a company limited by shares). By involving the private sector, the activity of Infrastrutture S.p.A. is intended to permit the implementation of the Government's extensive and multifaceted programme of public works.

The boost for private investment is entrusted to new incentives aimed at fostering expenditure on research and development. The results obtained with the investment incentives introduced in the last few years indicate that they are effective when the economy is expanding; they cannot permanently replace the stimulus to invest deriving from a favourable economic environment; they may influence the timing of projects. As regards research and development, a lasting increase in Italian firms' ability to innovate requires a consistent plan to be drawn up for the modernization of the productive system.

The support for household spending mainly concerns the tax incentives for the renovation of buildings and the allowances for children after the first. It should be noted that the former are extensions of measures introduced in earlier years and which have brought a significant increase in economic activity. The latter's effectiveness would be increased by a comprehensive revision of the whole system of social benefits and services for households.

The measures to curb the deficit are mostly on the revenue side. The net effect of those on the expenditure is to increase the deficit. As in previous years, the bulk of the increase in revenue derives from one-off measures.

The use of temporary measures makes it possible to reduce the repercussions on economic agents' spending decisions in an unfavourable phase of the cycle. However, the bunching of large payments may nonetheless cause households and firms to be subject to liquidity constraints.

Some measures may lead to higher expenditure of revenue losses in future years. The repeated recourse to regularization schemes gives rise to uncertainty regarding the cogency of the law; there may be problems in their application.

The deferred fulfilment of economic agents’ expectations of measures to bring about a structural adjustment of the public finances may have adverse effects on investment and the outlook for growth.

It is necessary to adopt measures to curb primary current expenditure and create the conditions for a lasting return of Italy’s public finances to a position close to balance.

The period of rapidly falling interest payments in relation to GDP is drawing to an end. Primary current expenditure is still a slightly higher percentage of GDP than in the second half of the 1990s; only determined action to limit its growth can make room for a gradual reduction in the tax burden. Excluding the revenue generated by regularization schemes, the ratio of taxes and social security contributions to GDP should be slightly lower in 2004 than this year.

6. Medium-term prospects. Conclusions

In its planning documents the Government sets out an economic policy designed to sustain growth and employment and gradually reduce the deficit.

In a context of cyclical weakness of the economy, the postponement in recent years of measures to restore a balanced budget has put a brake on the decline in the ratio of debt to GDP.

Last July's Economic and Financial Planning Document predicted that budget balance would be achieved in 2007, a year later than indicated in the *Stability Programme* of November 2002. Despite the higher level of net borrowing projected for 2003 and 2004, the Planning Document Update of last September basically confirms the objective to be achieved in 2007 and envisages more ambitious corrective measures in the three years 2005 to 2007.

A balanced budget will rapidly bring down the debt ratio.

Since the baseline projection has been determined on a current legislation basis, which does not take account of the cost of labour contract renewals and new investment projects, the corrective measures will need to be larger than just the difference between that projection and the planning forecast.

The primary surplus has fallen continuously in recent years, decreasing by almost half in relation to GDP, from 6.7 per cent in 1997 to 3.4 per cent in 2002. Current estimates set it even lower in 2003, at 2.8 per cent of GDP, with little change in the following year. In line with the commitments entered into at the start of the monetary union, this balance is expected to rise above 5 per cent of GDP in 2007 as a consequence of the more rigorous measures scheduled for 2005-2007.

On the assumption that no new one-off measures are introduced and that capital expenditure and revenue remain unchanged in relation to GDP, achieving balance in 2007 would require, bearing in mind the forecasts for interest payments, the growth of primary current spending to be curbed sufficiently to bring down its ratio to GDP by almost 3.5 percentage points. A larger adjustment would leave room to continue the policy of reducing the tax burden and to step up general government investment.

Looking ahead, the consolidation of the public finances remains a fundamental prerequisite for creating an economic climate conducive to investment and growth.

The credibility of a strategy to restore balanced public finances on a permanent basis depends on identifying clear lines for the reform of the main expenditure items.

An analytical breakdown of general government revenue and expenditure will make it easier to develop programmes and evaluate the effects of measures. A substantial contribution to achieving this will come from Parliament's work on the reform of the national accounts.

Stronger efforts are needed to raise the productivity of public services. The absence of legislation spelling out the financial relationships between the different levels of government weakens the incentives to make efficient use of resources. Institutional reforms must address the reorganization of the machinery of government to better satisfy the needs of the citizenry.

We must continue to raise the level of public investment in infrastructure, develop strategies to support research and innovation, reverse the tendency to lose competitiveness and make good the delay in the production of high-technology goods.

The ability to convince economic agents that there is a will and a way to adjust the public finances and reduce the tax burden will generate consensus for the necessary reforms and an economic policy aimed at achieving growth and higher employment.

ANNEX: The need to reform the pension system

On the matter of pensions, which are the subject of an amendment to the enabling bill, no decision has yet been reached about the technical link in Parliament with the provisions to be adopted in the budget session.

The need for a reform of the pension system to complete the changes introduced in the 1990s is the consequence of the continuous and pronounced ageing of the population.

The average effective retirement age is usually around 60 today. Life expectancy at that age, which was 17 years for men and 19 for women in 1960, has now reached 20 and 25 years respectively; it is destined to rise further, to 24 and 29 years in 2030. This improvement, combined with the drop in the birth rate and consequent fall in the number of working-age citizens, is inexorably increasing the ratio of old people to the active population. The dependency ratio, which was 14 per cent in 1960, rose to 27 per cent in 2000 and will reach around 46 per cent in 2030.

In 2000 the main pension schemes paid out 88 pensions for every 100 people employed. Despite the recent reforms, the State Accounting Office estimates that the number of pensions per 100 workers will be 94 in 2020 and 110 in 2030.

In this situation, the only way to guarantee workers the same replacement ratio, that is the ratio of pension to income, is a gradual but timely increase in the retirement age. In this way it will be possible to contain expenditure while maintaining the standard of living of older citizens.

Demographic trends and the evolution of the structure of the family put pressure on expenditure in other sectors as well, including health care and long-term assistance. It may even become necessary to increase other social benefits, such as those for unemployment and allowances for the indigent.

A systematic and global review of the legislation will reduce citizens’ uncertainty. It will then be possible to safeguard one of the most important social advances of the twentieth century, for the benefit of future generations as well.

The legislative changes in the field of social security, which it will be possible to analyze in depth as soon as their progress through Parliament begins and their contents are established, can mark a step in the right direction for the reform of the pension system.

Tables and Figures

Table 1

UNCONSOLIDATED CENTRAL GOVERNMENT BORROWING REQUIREMENT

(millions of euros)

	Year			*First 8 months*		
	2000	2001	2002	2001	2002	2003 (2)
Net borrowing requirement (net of debt settlements and privatization receipts) (1)	**29,766**	**34,814**	**27,418**	**20,729**	**32,688**	**32,597**
Debt settlements	4,601	10,291	5,929	6,661	1,832	4,883
- in securities	*2,665*	*563*	*1*	*357*	*1*	*573*
-in cash	*1,937*	*9,728*	*5,928*	*6,304*	*1,831*	*4,310*
Privatization receipts (3)	(15,450)	(4,329)	(2,031)	(4,321)	(178)	(1)
Total borrowing requirement (1)	**18,917**	**40,775**	**31,317**	**23,069**	**34,343**	**37,479**
FINANCING						
Medium and long-term securities	18,691	12,049	21,468	15,451	30,623	19,461
Treasury bills	-17,550	11,717	-70	18,986	16,826	22,855
Treasury current accounts with BI	9,708	-2,119	212	-19,621	-16,348	-19,259
Other Bank of Italy net financing	-1,515	-1,930	2,045	125	2,051	105
Post Office funds	4,660	10,919	7,287	4,659	3,226	4,717
Bank lending (4)	-6,434	-2,375	-1,819	-3,323	-3,788	-1,919
Other domestic financing	1,308	4,761	-480	-390	-373	1,759
Foreign loans (5)	10,050	7,751	2,671	7,181	2,126	9,760

Memorandum item: Net borrowing requirement of the state sector (1)	27,386	33,547	26,040	20,898	33,808	33,400

(1) A plus sign indicates a deficit, a minus sign a surplus.
(2) Provisional data.
(3) Includes the part of the proceeds of the sale of UMTS licenses 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.
(4) Includes redemptions of loans granted to local authorities.
(5) Includes commercial paper.

Table 2

GENERAL GOVERNMENT BORROWING REQUIREMENT

(millions of euros)

	Year			First 8 months		
	2000	2001	2002	2001	2002	2003 (2)
Net borrowing requirement (net of debt settlements and privatization receipts) (1)	**35,959**	**37,314**	**33,442**	**19,603**	**34,090**	**31,964**
Debt settlements	4,601	10,291	5,929	6,661	1,832	4,883
- in securities	*2,665*	*563*	*1*	*357*	*1*	*573*
-in cash	*1,937*	*9,728*	*5,928*	*6,304*	*1,831*	*4,310*
Privatization receipts (3)	(15,450)	(4,329)	(2,031)	(4,321)	(178)	(1)
Total borrowing requirement (1)	**25,110**	**43,275**	**37,341**	**21,942**	**35,744**	**36,846**
FINANCING						
Medium and long-term securities	18,873	13,592	22,114	15,943	30,332	18,700
Treasury bills	-17,466	11,293	274	18,930	17,023	22,865
Treasury current accounts with BI	9,708	-2,119	212	-19,621	-16,348	-19,259
Other Bank of Italy net financing	-1,515	-1,930	2,045	125	2,051	105
Post Office funds	4,660	10,919	7,287	4,659	3,226	4,717
Bank lending (4)	-2,799	-2,442	-1,806	-5,604	-3,780	-2,740
Other domestic financing	1,308	4,761	-480	-390	-373	1,759
Foreign loans (5)	12,342	9,199	7,692	7,901	3,614	10,700

(1) A plus sign indicates a deficit, a minus sign a surplus.
(2) Provisional data.
(3) Includes the part of the proceeds of the sale of UMTS licenses 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.
(4) Includes redemptions of loans granted to local authorities.
(5) Includes commercial paper.

Table 3

ESTIMATED EFFECTS OF THE BUDGET ON THE GENERAL GOVERNMENT CONSOLIDATED ACCOUNTS (1)

(millions of euros)

REVENUE	
Increase in revenue	**14,310**
Sales of real estate (2)	5,000
Ex-ante tax agreement (2)	3,580
Regularization of building offences (2)	3,090
Indemnity for prior occupation of state property (2)	460
Video games and betting (2)	670
Social security contributions (2)	630
Deferred reopening of tax regularization schemes (2) (3)	500
Other (2)	380
Decrease in revenue	**-2,180**
Effect of the early payment of excise duties in 2003 (2)	-980
Extension of agricultural tax reliefs (4)	-750
Extension of partial VAT deductibility for company cars (4)	-160
Extension to 2004 of excise duty reliefs (2	-140
Other (2) (4)	-150
NET CHANGE IN REVENUE	**12,130**
EXPENDITURE	
Reduction in expenditure	**-1,680**
Transformation of Cassa Depositi e Prestiti and SACE (2)	-890
Public employment (4)	-500
Social security (2)	-100
Other current expenditure (2) (4)	-190
Increase in expenditure	**2,770**
Public employment (4)	1,120
Extension of workfare programmes in schools (4)	350
Extension to 2003 of support for road hauliers (2)	320
International peace missions (4)	200
Allowance for second and subsequent children and social policies (2)	130
Other current expenditure (2) (4)	500
Investment (4)	150
NET CHANGE IN EXPENDITURE	**1,090**
TOTAL REDUCTION IN PRIMARY NET BORROWING	**11,040**

(1) Based on official estimates.
(2) Measures included in Decree Law 269/2003.
(3) The amount shown is that indicated in the technical report accompanying the decree law for payments in 2004. The report expects another 370 million euros to be paid in 2005.
(4) Measures contained in the Finance Bill.

Table 4

BUDGET FORECASTS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2003-06 AND 2004-07 AND THE SEPTEMBER 2003 PLANNING DOCUMENT UPDATE (1)

(as a percentage of GDP)

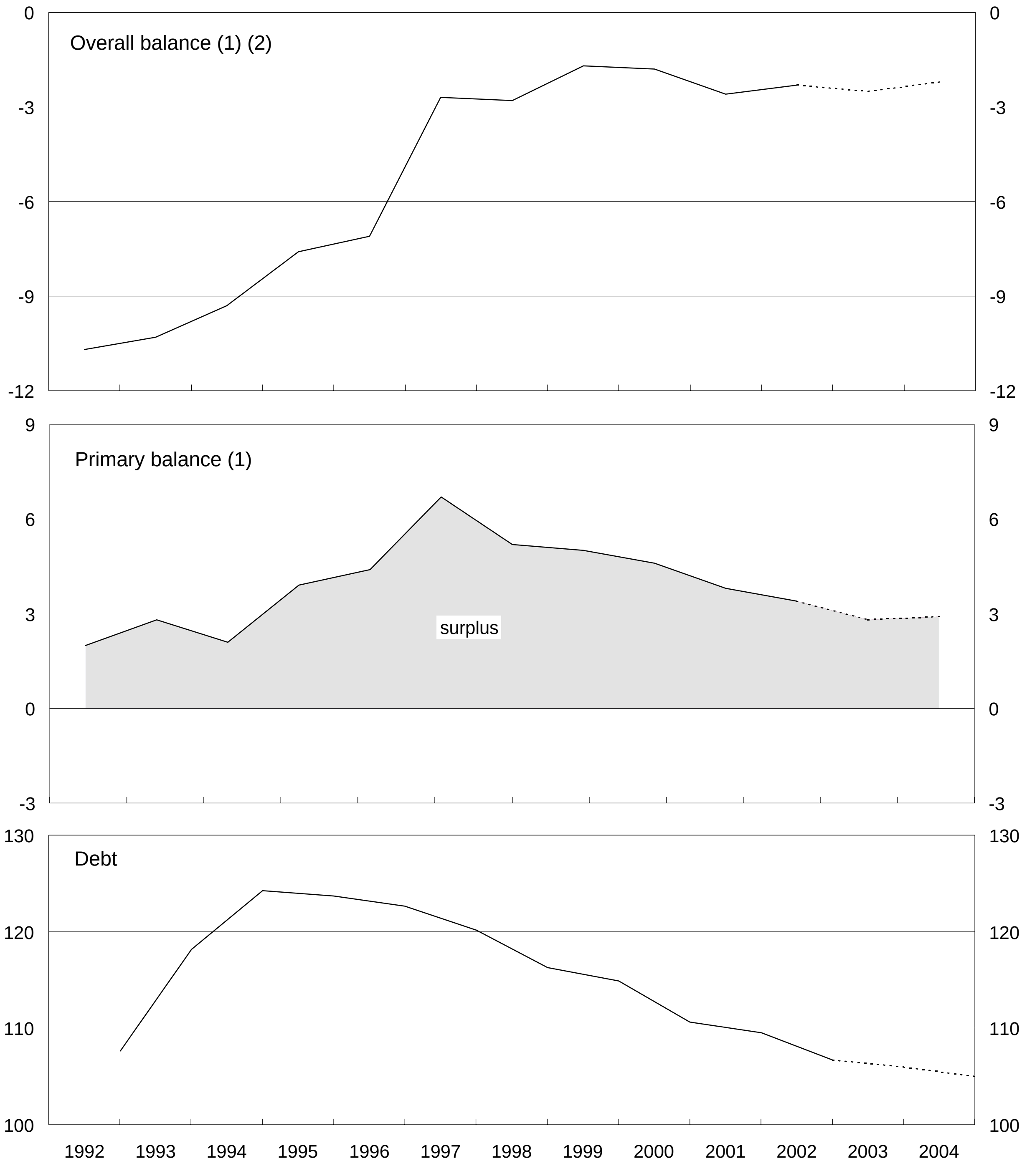
	2002	2003			2004			2005			2006			2007	
	Outturn	EFPD 2003-06	EFPD 2004-07		EFPD 2003-06	EFPD 2004-07		EFPD 2003-06	EFPD 2004-07		EFPD 2003-06	EFPD 2004-07		EFPD 2004-07	
			July	Sept. (2)		July	Sept. (2)		July	Sept. (2)		July	Sept. (2)	July	Sept. (2)
Net borrowing	2.3	0.8	2.3	2.5	0.3	1.8	2.2	-0.1	1.2	1.5	-0.2	0.5	0.7	-0.1	0.0
of which: current	*-0.7*	*-2.2*	*na*	*0.1*	*-2.7*	*na*	*-0.5*	*-2.7*	*na*	*na*	*-3.1*	*na*	*na*	*na*	*na*
capital	*3.0*	*3.0*	*na*	*2.4*	*3.0*	*na*	*2.8*	*2.6*	*na*	*na*	*2.9*	*na*	*na*	*na*	*na*
Primary surplus	3.4	5.1	3.0	2.8	5.5	3.1	2.9	5.8	3.8	3.5	5.7	4.6	4.4	5.2	5.1
Total revenue	44.9	na	na	45.6	na	na	44.7	na	na	na	na	na	na	na	na
of which: taxes and social security contributions	*41.6*	*41.9*	*na*	*42.2*	*41.4*	*na*	*41.1*	*40.4*	*na*	*na*	*39.8*	*na*	*na*	*na*	*na*
Primary expenditure	41.6	na	na	*42.8*	na	na	*41.8*	na	na	na	na	na	na	na	na
of which: current	*38.2*	*na*	*na*	*38.5*	*na*	*na*	*38.3*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
capital	*3.4*	*na*	*na*	*4.2*	*na*	*na*	*3.5*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Interest payments	5.7	5.9	5.3	5.3	5.8	4.9	5.1	5.7	5.0	5.0	5.5	5.0	5.1	5.1	5.1
Debt	106.7	104.5	105.6	106.0	99.8	104.2	105.0	97.1	101.7	103.0	94.4	99.4	100.9	97.1	98.6

(1) Rounding may cause discrepancies in totals.
(2) Update of the Economic and Forecasting Planning Document for 2004-07, presented by the Prime Minister for the Economy and Finance on 30 September 2003, and, for the item taxes and social security contributions, the Forecasting and Planning Report for 2004, presented by the Minister for the Economy and Finance on 29 September 2003.

Figure 1

GENERAL GOVERNMENT OVERALL BALANCE, PRIMARY BALANCE AND DEBT

(as a percentage of GDP)



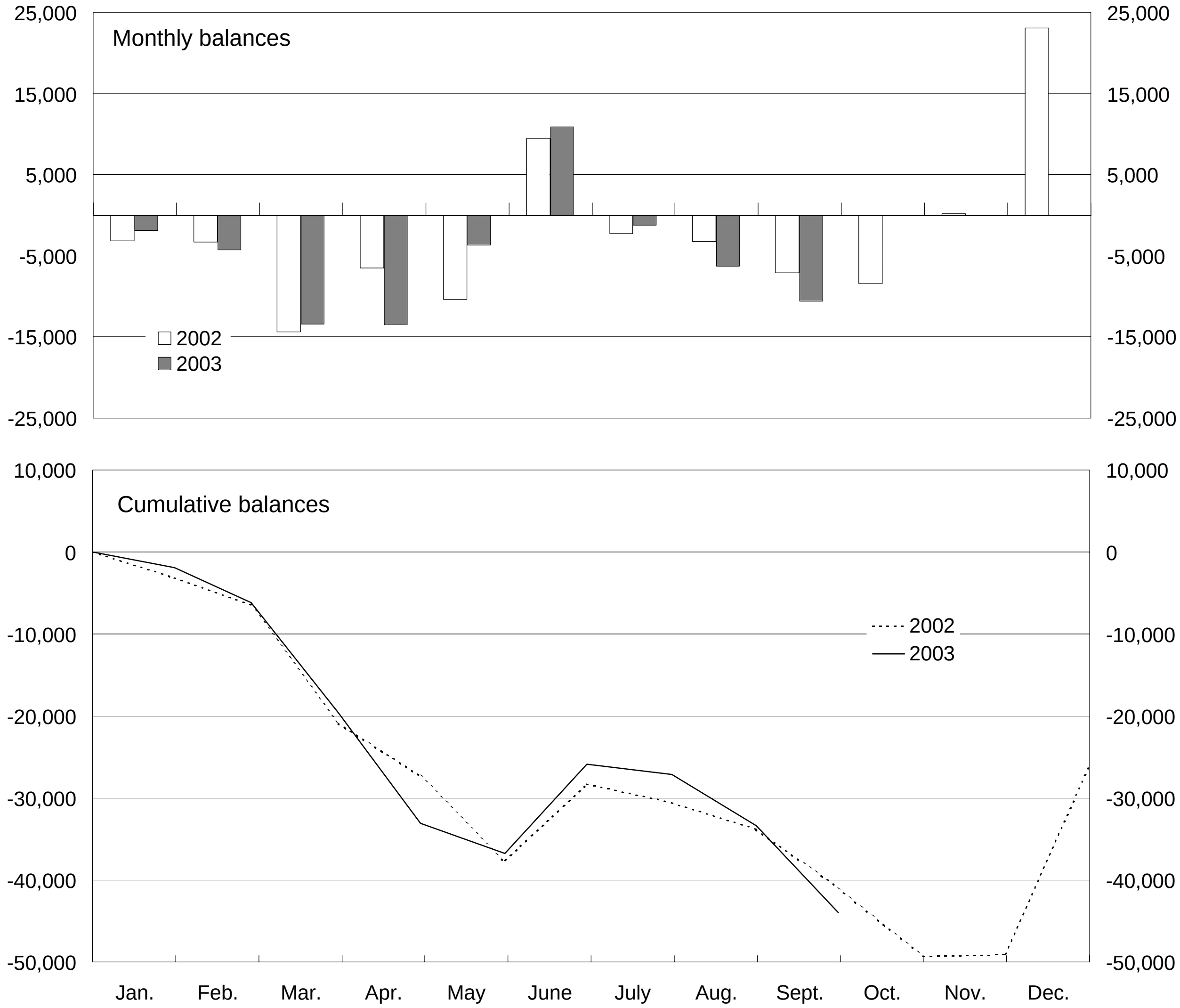
Sources: Based on Istat data and Bank of Italy data for the debt. For the years 2003 and 2004, Update of the Economic and Financial Planning Document for 2004-07.

(1) Excludes the proceeds of UMTS licences.
(2) The figures include the effects of swaps and forward rate agreements.

Figure 2

STATE SECTOR BORROWING REQUIREMENT IN 2002 AND 2003 (1)

(millions of euros)

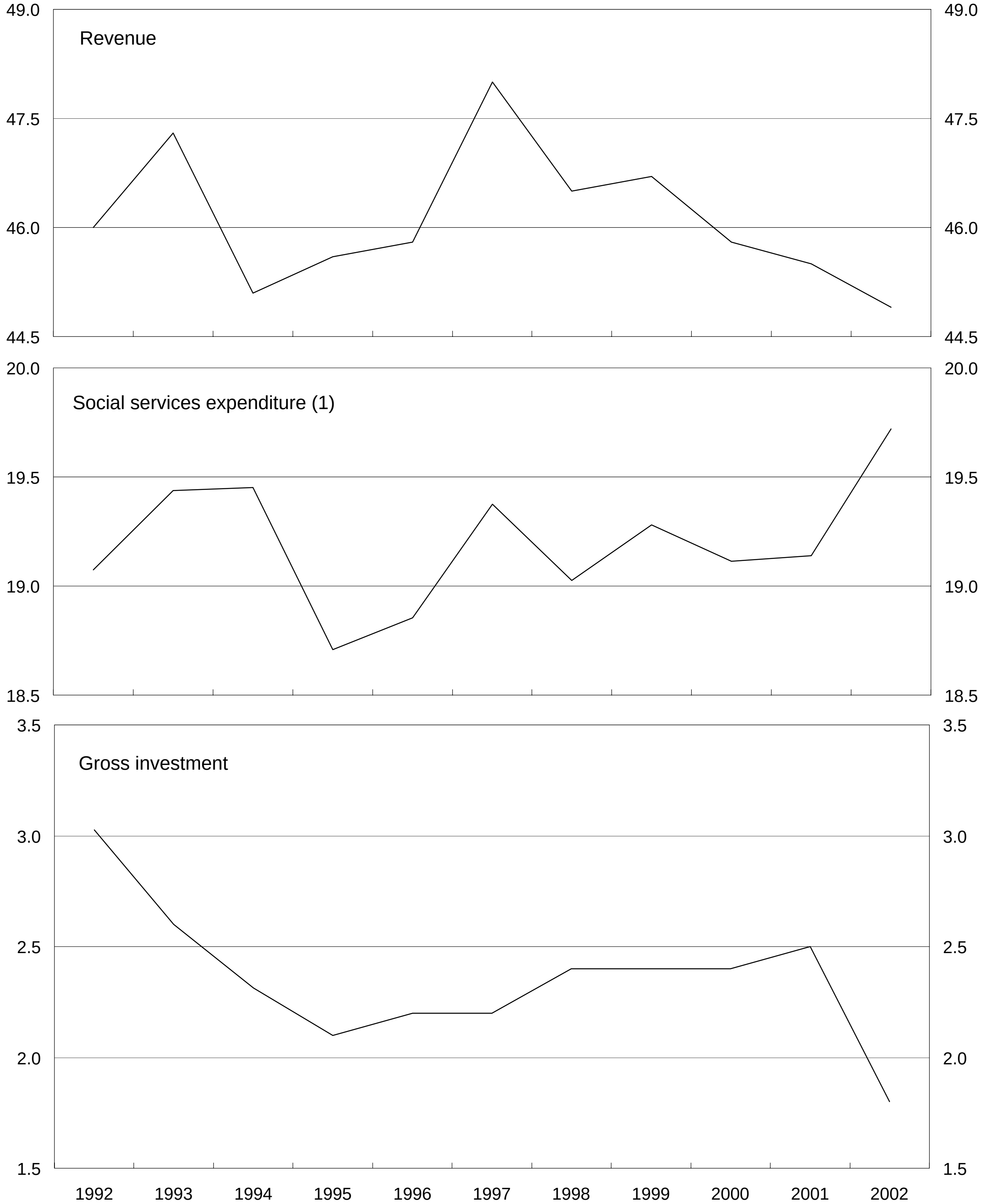


(1) Excludes privatization receipts and settlements of past debts. A plus sign indicates a surplus, a minus sign a deficit.

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.