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Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 2004-2007

Testimony of the Governor of the Bank of Italy
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1. Cyclical developments

The world economy continues to be marked by slow growth. The conditions exist for a return to higher rates of expansion in the second half of this year, but it is uncertain how strong the recovery will be.

In the United States economic activity expanded at an annual rate of 1.4 per cent in the first quarter of 2003.

Private consumption grew at an annual rate of 2 per cent, with the deterioration in labour market conditions continuing to have an adverse effect; purchases of durable goods declined further. The increased uncertainty stemming from the international political tensions discouraged corporate investment; by contrast, investment in housing continued to benefit from the exceptionally favourable financing conditions.

Once the war with Iraq had ended, the climate of confidence among households improved markedly; the financial markets recovered. In May industrial production stopped falling; households’ consumption continued to expand. In June there was a further rise in economic activity.

In the second quarter the growth in the US economy was of the order of 2 per cent.

On 25 June the Federal Reserve cut the reference rate by 0.25 percentage points, to 1 per cent, with the aim of warding off any possible risk of deflation.

The high rates of productivity growth, the low rate of inflation and the expansionary stance of monetary and fiscal policy should foster an acceleration in GDP growth in the second half of this year and especially in 2004. The level of orders for capital goods is not yet consistent with a revival of investment. The recovery is still at risk, primarily owing to the recent rise in energy prices and the weakness of world demand. The growth in the budget deficit provides a powerful boost for domestic demand but in the future it could have negative implications for private-sector investment.

In Japan GDP grew in the first quarter at an annual rate of 0.6 per cent. In May industrial production, which had been declining since February, returned to its level at the beginning of the year; it is thought to have risen further in June. The latest survey by the Japanese central bank points to a slight improvement in the climate of confidence among large firms, especially in manufacturing.

In the euro area economic activity stagnated in the early months of this year, as in the last part of 2002. Weak consumption was accompanied by a fall in investment. Economic activity expanded slightly in France and to a greater extent in Spain; in Italy and Germany GDP contracted.

After rising modestly in April, industrial production dropped back in May. In Italy the fall was pronounced; according to Bank of Italy estimates, the index recovered somewhat in June and will record a further small rise in July. Overall, industrial production in the second quarter is expected to have fallen again, by about 0.5 per cent compared with the first quarter.

As measured by the harmonized consumer price index, inflation in the euro area was equal to 2 per cent in June. In Italy it was 2.9 per cent; according to the national index of consumer prices, it was 2.6 per cent.

GDP growth in the euro area in 2003 is expected to be around 0.7 per cent, against 0.8 per cent in 2002; the recovery appears shakier than in the United States. In 2004 GDP is forecast to grow by 1.6 per cent.

2. The macroeconomic objectives

The Economic and Financial Planning Document estimates that the Italian economy will grow by 0.8 per cent in 2003; this is based on the assumption of an increase in the annual growth rate from 0.4 per cent in the first half of the year to 1.2 per cent in the second.

As measured by the harmonized consumer price index, inflation is expected to decline in the coming months and to fall below 2 per cent at the beginning of 2004. The average annual rate is expected to be 2.4 per cent in 2003 and 1.7 per cent in 2004.

According to the planning scenario, GDP will increase by 2 per cent in 2004 and 2.3 per cent in 2005. The acceleration is expected to come from structural reforms, an increase in public investment and support for private investment, in the context of further consolidation of the public finances. As the structural measures come to produce their full effects, the growth rate is expected to rise to around 2.6 per cent in 2006, about half a percentage point higher than the forecast on a current programmes basis.

The expansion is seen as being fueled by domestic demand, with an upturn in investment and a recovery in households' consumption.

Increases in output in line with those indicated in the Planning Document for the coming years are possible in view of the resources available, but they will require prompt and concrete economic policy action.

Over the four-year time horizon of the Planning Document, it is essential that progress be made in implementing the vast programme of public works indicated by the Government. Those contemplated in a European context can make a contribution provided they are defined rapidly and a start is made on their implementation. It is necessary to remove the factors that limit the size and productivity of firms. The efforts under way to improve secondary schooling and higher education must be accompanied by an increase in the resources devoted to research and innovation and a more efficient utilization of the same.

Above all it is necessary to arrive at a lasting reduction in the tax burden, especially that borne by firms.

3. The public finances in 2001-03

The performance of the public finances in the three years 2001-03 fell short of that contemplated in the Planning Document of July 2001. Partly owing to the difficulties encountered by the international economy, GDP grew less than had been expected. The baseline increase in the deficit was also underestimated.

In 2000 fiscal policy brought an increase in the deficit after a long period of reductions in the borrowing requirement and slower growth in the debt. In 2001 fiscal policy remained expansionary in the first half, but from the middle of the year onwards action to curb the growth in net borrowing was renewed.

Substantial recourse was made to one-off measures, partly to avoid putting a brake on economic activity, which was already beginning to slow down markedly; no structural action to reduce expenditure was taken. Net borrowing was kept below the threshold of 3 per cent of GDP.

In 1997 the primary surplus had amounted to 6.7 per cent of GDP. When Italy joined the Monetary Union, it undertook to keep this aggregate at 5.5 per cent of GDP. In 2000 the ratio fell to 4.6 per cent, in 2003 it is expected to fall to 3 per cent. Primary current expenditure in 2003 is expected to be nearly one percentage point higher in relation to GDP than in 2000; taxes and social security contributions are expected to be 0.6 percentage points higher.

The gap between the overall borrowing requirement and net borrowing remained large in 2001 and 2002. The fall in the debt ratio slowed down. The dynamic of the debt mainly reflects that of the gross borrowing requirement on a cash basis.

Thanks to the fall in interest rates, the overshoots with respect to the objectives were limited. Interest payments fell from 6.5 per cent of GDP in 2000 to 5.7 per cent in 2002; the Planning Document foresees a further fall in 2003, to 5.3 per cent.

The objective for net borrowing in 2001 was 0.8 per cent of GDP; the outturn is now estimated by Istat to have been 2.6 per cent, in line with the Bank of Italy's forecasts at the time.

Net borrowing recorded an overshoot again in 2002. In July of that year the objective was still 1.1 per cent of GDP. The monthly balances during the year tended to exceed the levels consistent with achieving the objective. Additional adjustment measures were adopted amounting to about 0.5 per cent of GDP, nearly all of which was of a temporary nature.

According to the Istat estimate issued in March 2003, net borrowing in 2002 amounted to 2.3 per cent of GDP. One third of the divergence with respect to the forecast issued in July 2002 was due to the slower-than-expected growth in GDP.

The objective for the deficit in 2003 has been revised several times and now stands at 2.3 per cent of GDP. As in 2002, the public finances will benefit from a series of one-off measures. In the light of the revenue from the various tax regularization schemes, the objective appears achievable. It will be necessary to monitor the accounts carefully.

For the year as a whole the April Report on the Borrowing Requirement projected a net public sector borrowing requirement of €46.5 billion, compared with €28.9 billion in 2002. The Report expected the gap between the borrowing requirement and net borrowing to remain large.

The Report also forecast that the public sector borrowing requirement, including the settlement of past debts, would amount to €57 billion in 2003, or 4.3 per cent of GDP.

The Economic and Financial Planning Document expects the debt to fall from 106.7 per cent of GDP in 2002 to 105.6 per cent. In view of the official forecasts of the borrowing requirement, the achievement of this objective may require the adoption of additional financial measures.

4. The public finances in the Planning Document for 2004-07

4.1 The baseline scenario

The Economic and Financial Planning Document foresees a temporary deterioration in the baseline scenario for the public finances in 2004-05. The improvement in the following years reflects the switch to a current legislation basis, whereby investment expenditure includes only that approved in earlier Finance Laws and wages and salaries the indemnities assigned to employees for the late renewal of labour contracts but not future contractual increases.

The forecasts assume the exclusion of the National Road Agency (ANAS) from the general government accounts.

According to the estimates on a current legislation basis, net borrowing will rise from 2.3 per cent of GDP in 2003 to 3.1 per cent in 2004 and 3.2 per cent in 2005, after which it will fall gradually to 2.4 per cent in 2007. The worsening of the balance in 2004-05 reflects the reduction in the ratio of taxes and social security contributions to GDP, by 0.9 percentage points in 2004 and 0.2 points in 2005, largely as a consequence of the drying up of the revenue from tax regularization schemes.

The determination of the baseline on a current legislation basis leads to an underestimation of the real trend of expenditure and the related deficits.

The Planning Document also shows a sizable increase in the gap between the net state sector borrowing requirement and general government net borrowing, from 1 per cent of GDP in 2003 to 1.6 per cent in 2004 and 2.1 per cent in 2007. The path of the borrowing requirement does not reflect the reduction in the deficit. Investigation of the reasons for this divergence is essential.

4.2 The planning scenario

In the planning scenario net borrowing is forecast to decline gradually, from 2.3 per cent of GDP in 2003 to 1.8 per cent in 2004 and 1.2 per cent in 2005, and turn into a small surplus in 2007.

The improvement will be the result of an increase in the primary surplus from 3 per cent of GDP in 2003 to 3.1 per cent in 2004 and 5.2 per cent in 2007; interest payments are expected to fall to 4.9 per cent of GDP in 2004 and then remain virtually unchanged.

The ratio of general government debt to GDP will continue to diminish, from a forecast of 104.2 per cent in 2004 to less than 100 per cent from 2006 onwards.

The Planning Document does not give figures for revenue and expenditure.

No course of action is outlined for reducing the tax burden.

The gap between the baseline projection for general government net borrowing and the planning forecast is due to a small degree to the differences between the respective macroeconomic frameworks.

To achieve the objective for net borrowing in 2004 the Document contemplates a budgetary correction of the order of €16 billion, consisting of €5.5 billion of structural measures and over €10 billion of temporary measures. On the revenue side, the structural measures should include steps to eliminate tax evasion and irregular work, and on the expenditure side, the application of the Domestic Stability Pact, the rationalization of purchases of goods and services, the phasing in of the European Action Plan for growth, and the limitation of schemes granting favourable treatment. The temporary measures would apply to the property market.

Adjusted for cyclical effects, net borrowing is expected to fall to 1.8 per cent of GDP in 2003, that is, between 0.3 and 0.4 points less than in 2002. Afterwards the ratio is forecast to decrease by 0.5 percentage points a year until it becomes a surplus of 0.3 per cent in 2006. According to this plan the agreement reached within the Eurogroup last October will be largely respected.

The Document states that it is intended to replace temporary measures with others of structural nature by 2006.

5. Appraisal of the plan

Although the economic policy delineated in the Planning Document is not set out in concrete form, its aim is to promote growth and raise the productivity and competitiveness of the economy. Other objectives include reducing geographical disparities and increasing employment.

The gradual reduction of the deficit is intended to reconcile the satisfaction of short-term needs associated with the economic cycle with the potential medium-term benefits of balanced public finances.

The objectives can only be achieved by bringing about a reversal of the trends that have marked the public finances in recent years.

As mentioned, since 1998 the primary surplus has fallen continuously and considerably in relation to GDP. Net borrowing has decreased owing to the decline in interest payments; the present level of interest rates is extremely low; the attendant savings are gradually coming to an end. In 2002-03 the task of easing the burden of the debt has been entrusted to temporary measures. If the targets are to be met steps must be taken, as indicated in the Planning Document, to bring about a structural increase in the primary surplus to the level to which we committed ourselves in 1998.

Between 1995 and 2001 primary current expenditure fluctuated around 37.5 per cent of GDP, rising to 38.2 in 2002; in 2003 it is forecast to be 38.4 per cent. According to the baseline projections, the ratio is set to decrease by 1.2 percentage points between 2003 and 2007 following the adoption of the “current legislation” criterion.

To achieve the primary surpluses of the planning scenario, especially if combined with a reduction in the tax burden, large savings on expenditure will be necessary. Reducing the tax burden by as little as the 1.4 points indicated in the baseline projections means that between 2003 and 2007 the corrective measures must produce a reduction of up to 4 percentage points in the ratio of primary current expenditure to GDP.

The Planning Document aims at a decrease of 8.5 points in the ratio of debt to GDP between 2003 and 2007. To achieve this, it will be necessary to cut the public sector borrowing requirement and close the gap with respect to net borrowing.

The Government has indicated that the structural measures will be decided, in agreement with management and labour, in the budget to be announced in September.

From 1970 to 2002 the increase of 14.6 percentage points in the tax burden financed more than half the additional expenditure on pensions and welfare benefits. More than 40 per cent of the accumulated public debt can be ascribed to the imbalances in pension schemes alone. This expenditure is bound to increase in the years to come with the ageing of the population.

A thorough overhaul of the 1995 pension reform can gradually reduce the ratio of expenditure to GDP. It is possible to curb expenditure and safeguard the standard of living of the elderly at the same time. The new system will have to be based on a gradual raising of the average effective age of retirement; benefits must be calculated in such a way as to protect entitlements accrued during periods of work already completed. The development of supplementary pensions is a necessity.

The drive to raise efficiency in the utilization of resources in the health care sector must continue.

It is hoped to make savings by changing general government procedures for the purchase of goods and services.

The greater autonomy of the regions offers an opportunity to improve the efficiency of general government and better meet the needs of the population. The decentralization of spending and tax decisions must be coordinated with the financial action of the central government. It is essential to adopt a unitary view of the country’s interests and economy.

Stricter budgetary rules and homogenous and transparent methods of financial reporting are required. A coherent framework for the public finances at national level is needed.

The Bank of Italy, via its Treasury payment service, is working with the Ministry for the Economy and Finance to develop a computerized system able to record day-to-day movements in the finances of local authorities.

If governmental action is to help raise the country's productive potential the long-delayed reforms of the main expenditure items must be accomplished.

Support for research and innovation and action to point the economy towards technologically advanced sectors are needed to increase productivity and restore competitiveness.

Public investment in infrastructure must be stepped up.

Social consensus for the objectives of growth and increased employment, and for the necessary reforms, can be achieved if economic policy is able to convince economic agents that there is the will and the way to reduce the tax burden and restore balance in the public finances.

When specific measures are decided in the coming autumn it will be possible to put economic policy action on a concrete footing. Sure and gradual progress, however slow, will give households and firms confidence and, with the cost of money as low as it is at present, encourage a revival of private investment.

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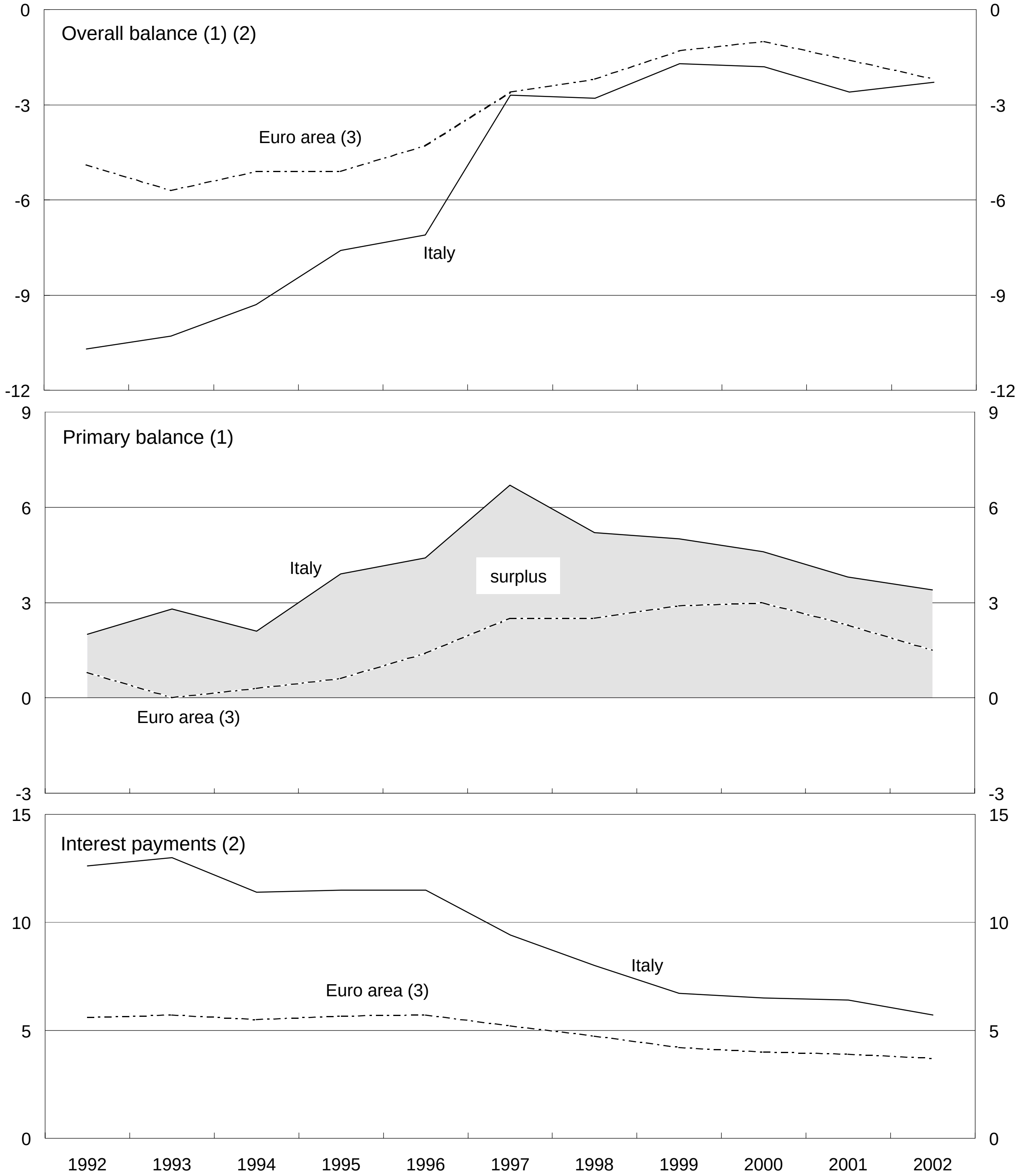
Figure 1

GENERAL GOVERNMENT OVERALL BALANCE, PRIMARY BALANCE AND INTEREST PAYMENTS

(as a percentage of GDP)



Sources: Based on Istat and European Commission data.

(1) The figures do not include the proceeds of sales of UMTS licences.
(2) The figures include the effects of swaps and forward rate agreements.
(3) 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

PRIMARY SURPLUS: OBJECTIVES AND OUTTURN

(as a percentage of GDP)

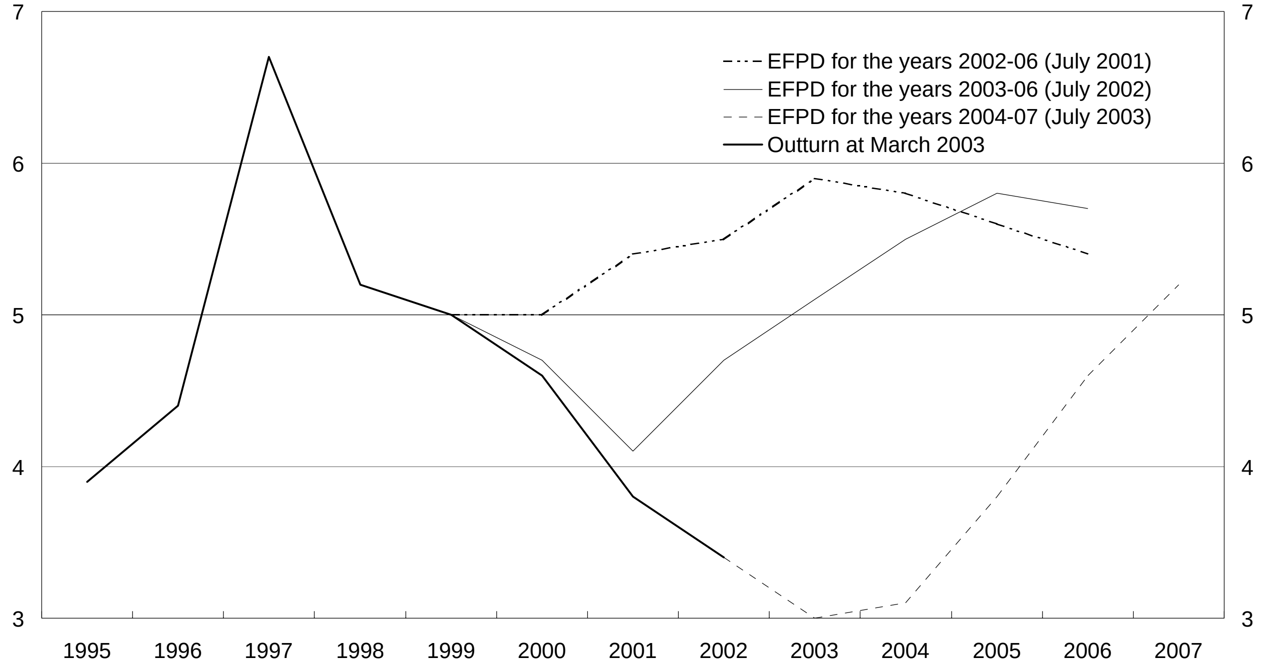
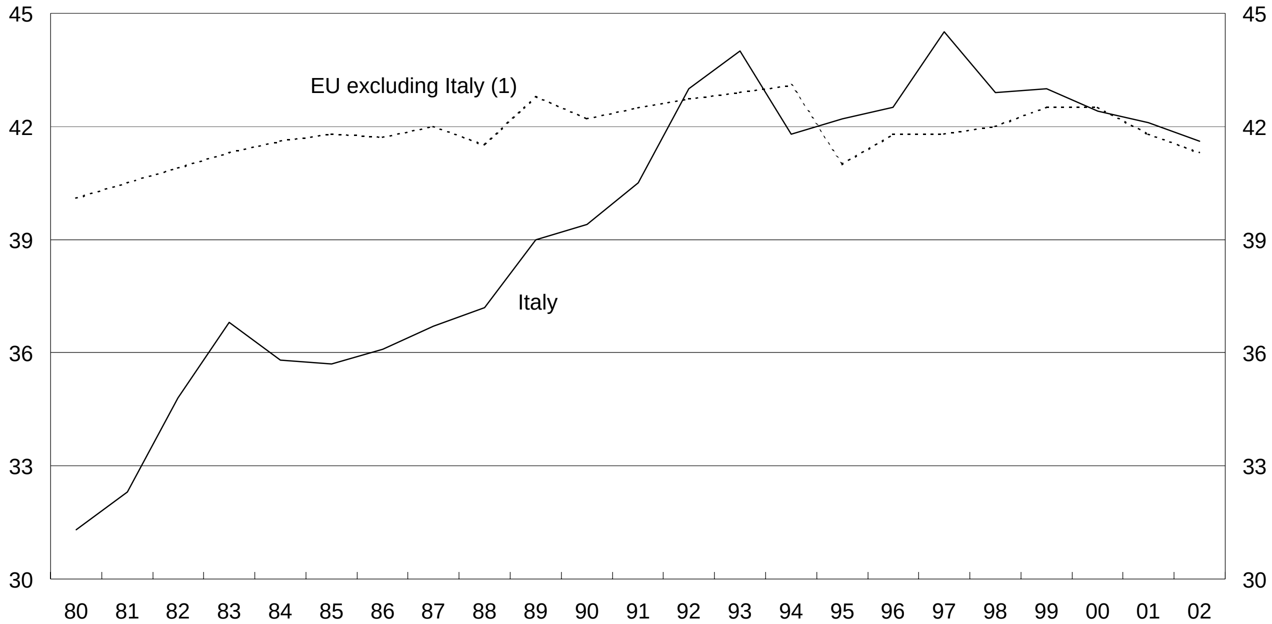


Figure 3

TAX AND SOCIAL SECURITY REVENUE

(as a percentage of GDP)

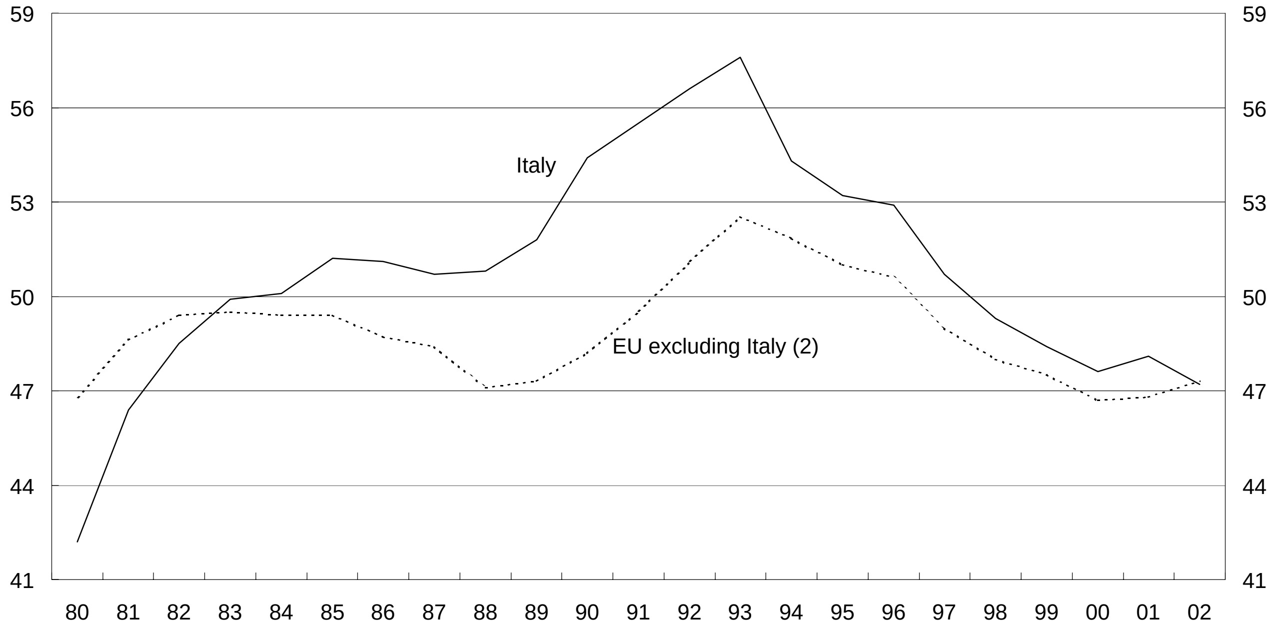


Sources: Based on Istat and European Commission data.

(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)

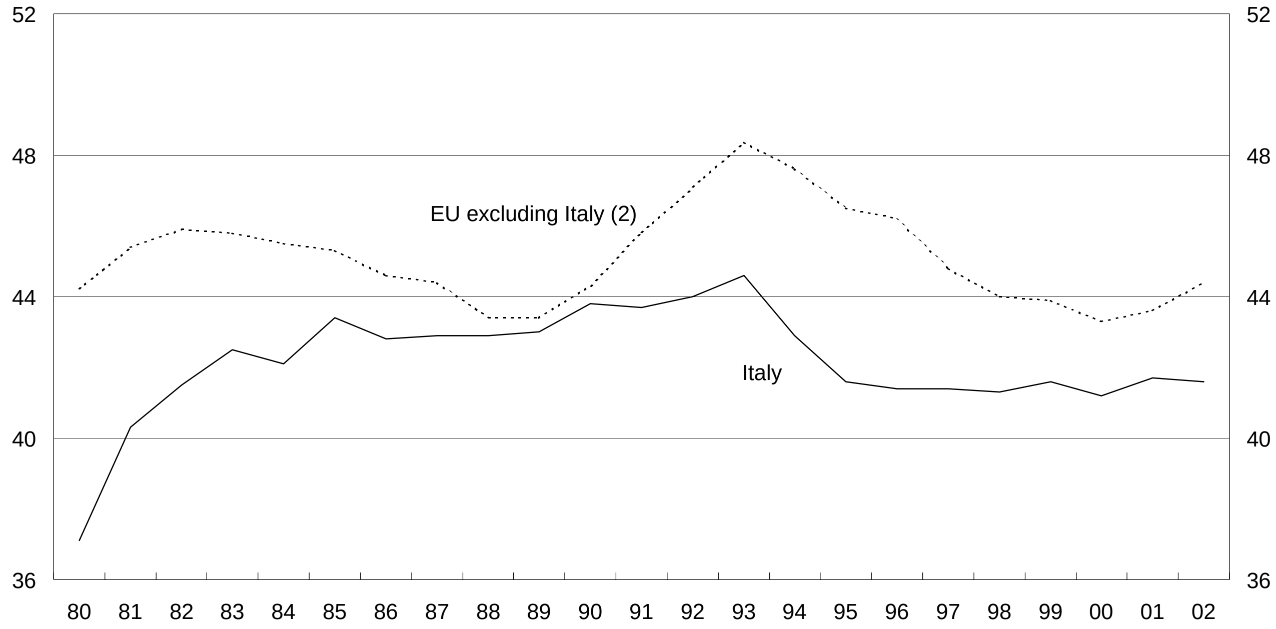


Sources: Based on Istat and European Commission data.

(1) This item includes the proceeds of sales of public property with a negative sign; it does not include the proceeds of sales of UMTS licences, which are also accounted for as a reduction in expenditure in the national accounts.
(2) 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)

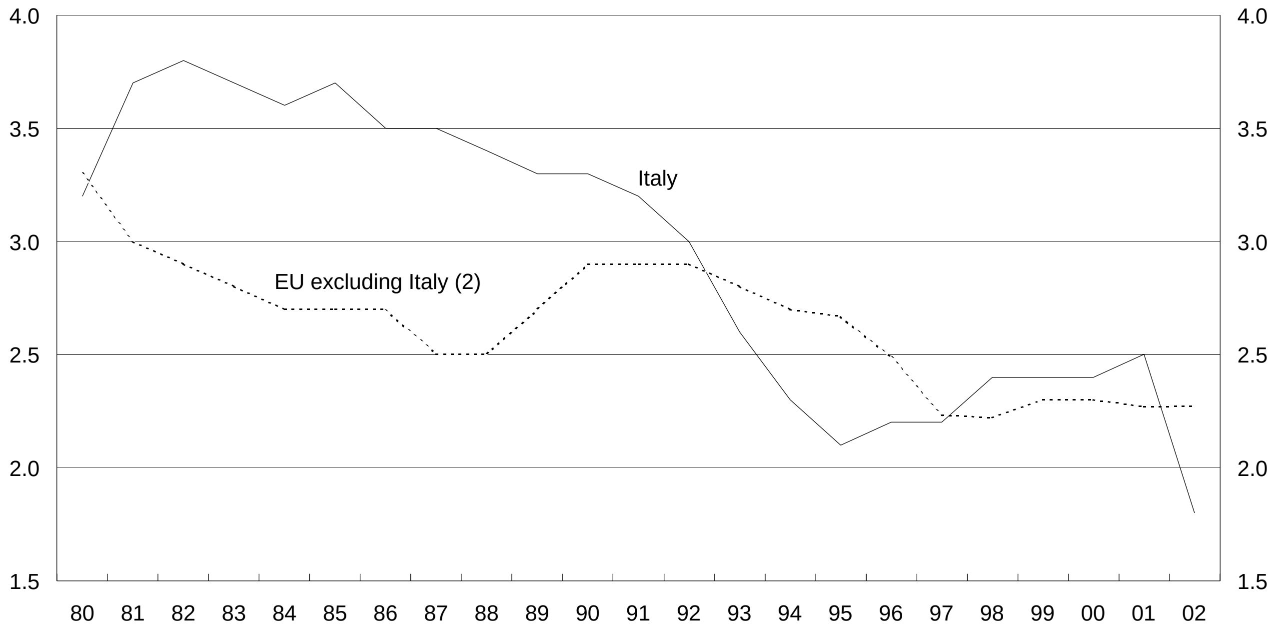


Sources: Based on Istat and European Commission data.

(1) This item includes the proceeds of sales of public property with a negative sign; it does not include the proceeds of sales of UMTS licences, which are also accounted for as a reduction in expenditure in the national accounts.
(2) 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 (1)
(as a percentage of GDP)

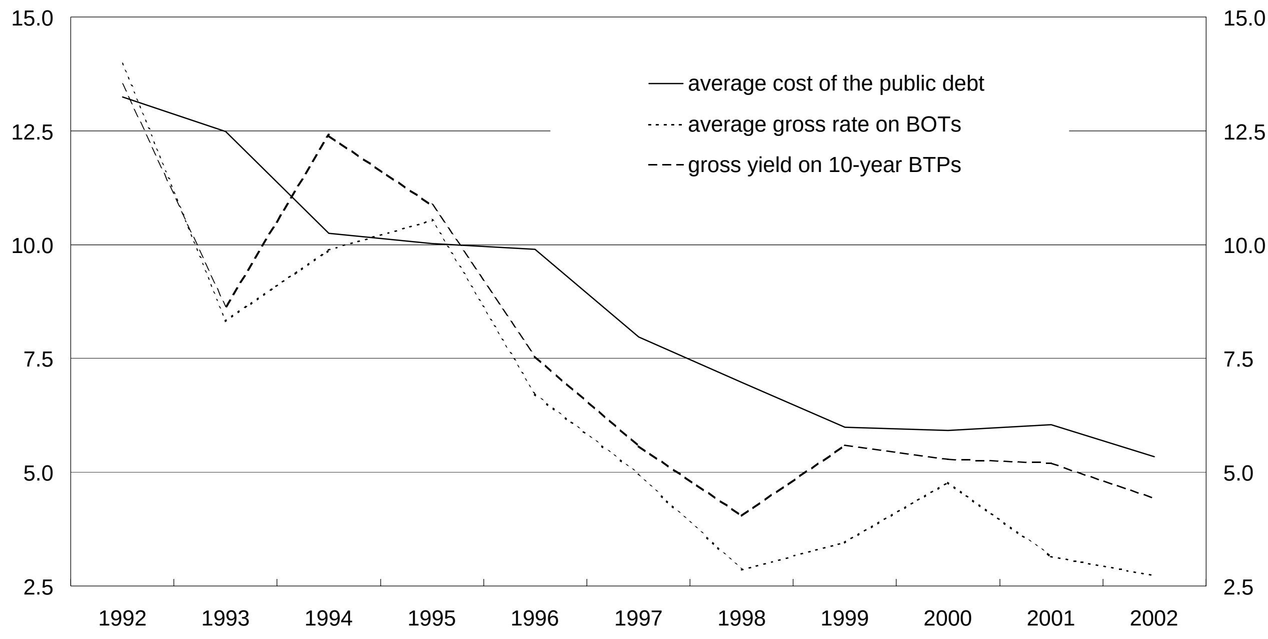


Sources: Based on Istat and European Commission data.

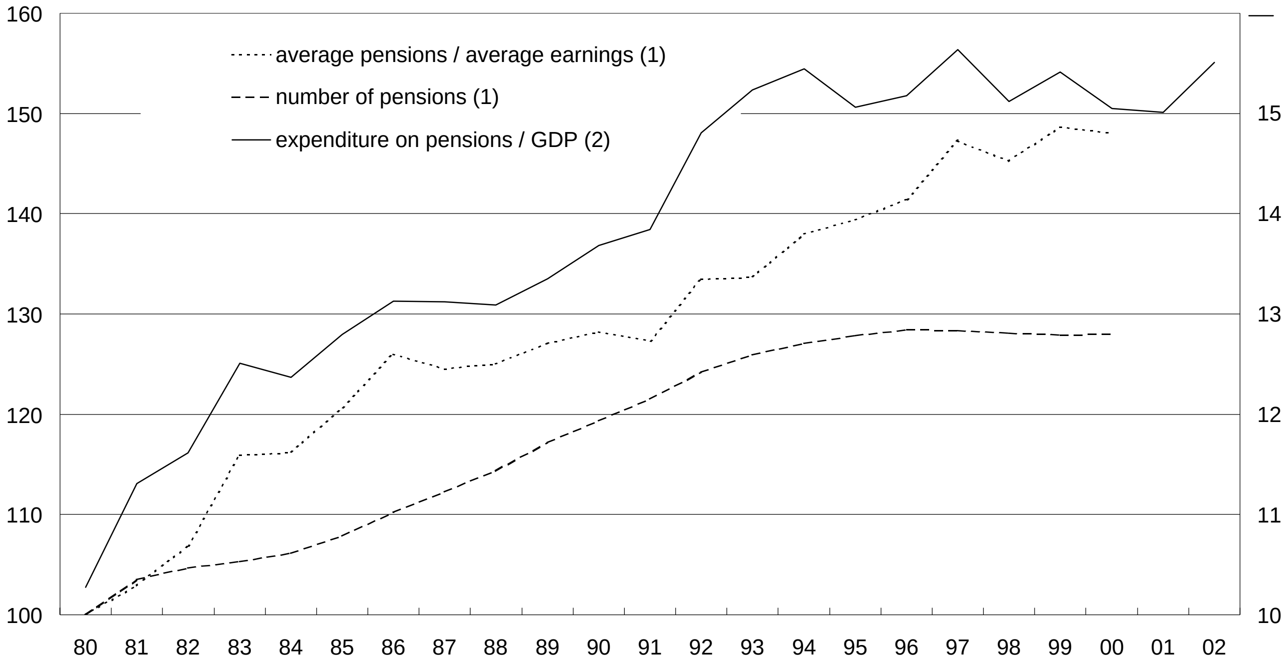
(1) This item includes the proceeds of sales of public property with a negative sign.
(2) Weighted on the basis of GDP. Following the switch to ESA95, there is a break in the series between 1994 and 1995.

Figure 7

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



EXPENDITURE ON PENSIONS



Source: Based on Istat data.

(1) Index: 1980=100. Left-hand scale. - (2) Percentages. Right-hand scale.

GENERAL GOVERNMENT DEBT IN ITALY:
LEVEL AND DETERMINANTS OF THE CHANGES
(as a percentage of GDP and percentage points)

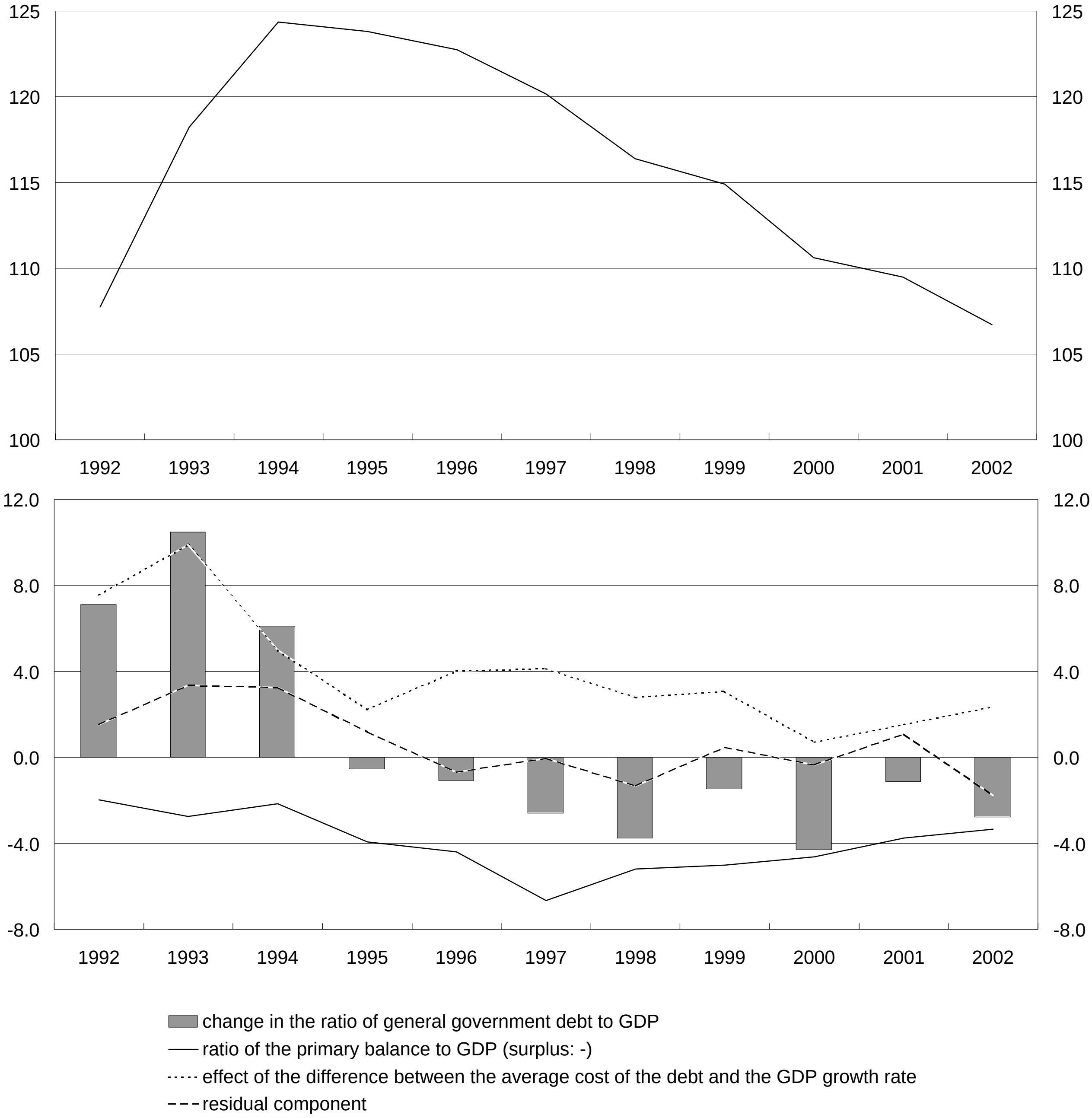


Table 1

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

(as a percentage of GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Italy	10.7	10.3	9.3	7.6	7.1	2.7	2.8	1.7	1.8	2.6	2.3
Belgium	7.1	7.3	4.9	4.3	3.8	2.0	0.8	0.5	-0.1	-0.3	-0.1
Denmark	2.3	2.9	2.7	2.3	1.0	-0.4	-1.1	-3.3	-2.6	-2.8	-2.0
Germany	2.8	3.5	2.6	3.5	3.4	2.7	2.2	1.5	1.4	2.8	3.6
Greece	12.8	13.8	10.0	10.2	7.8	4.7	2.4	1.8	1.9	1.9	1.2
Spain	4.0	6.8	6.2	6.6	5.0	3.2	2.6	1.2	0.9	0.1	0.1
France	3.9	5.8	5.8	5.5	4.1	3.0	2.7	1.8	1.4	1.6	3.1
Ireland	2.4	2.3	1.5	2.2	0.2	-1.2	-2.3	-2.3	-4.3	-1.2	0.3
Luxembourg	-0.7	-1.6	-2.7	-3.3	-2.6	-2.8	-3.2	-3.5	-6.1	-6.4	-2.6
Netherlands	3.9	3.2	3.8	4.2	1.8	1.1	0.8	-0.7	-1.5	-0.1	1.1
Austria	2.0	4.3	5.0	5.2	3.8	2.0	2.4	2.3	1.9	-0.3	0.6
Portugal	3.0	6.1	6.0	4.6	4.0	2.6	2.3	2.8	3.1	4.2	2.7
Finland	5.7	7.3	6.0	3.7	3.2	1.5	-1.3	-2.0	-6.9	-5.1	-4.7
Sweden	7.7	12.2	10.3	7.7	3.1	1.6	-1.9	-1.5	-3.4	-4.5	-1.3
United Kingdom	6.7	8.2	6.9	5.8	4.4	2.2	-0.4	-1.1	-1.6	-0.8	1.3
Averages excluding Italy											
EU	4.3	5.6	4.9	4.8	3.7	2.4	1.4	0.6	0.1	0.7	1.8
Euro area (2)	4.9	5.7	5.1	5.1	4.3	2.6	2.0	1.2	0.8	1.4	2.2
France, Germany and the UK	4.1	5.3	4.5	4.6	3.8	2.7	1.6	0.8	0.5	1.3	2.7

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 include the proceeds of sales of UMTS licences but include the effects of swaps and forward rate agreements.
(2) For the sake of comparability, Greece is included in the euro area for all the years considered.

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

Table 2

(as a percentage of GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Italy	-2.0	-2.8	-2.1	-3.9	-4.4	-6.7	-5.2	-5.0	-4.6	-3.8	-3.4
Belgium	-3.8	-3.6	-5.3	-5.0	-5.1	-6.0	-6.7	-6.5	-6.9	-6.8	-6.1
Denmark	-4.6	-4.6	-4.3	-4.2	-5.1	-6.1	-6.5	-8.0	-6.8	-6.8	-5.6
Germany	-0.4	0.2	-0.7	-0.2	-0.3	-0.9	-1.4	-2.0	-2.0	-0.5	0.4
Greece	1.1	1.0	-4.1	-1.0	-2.8	-3.6	-5.4	-5.4	-5.1	-4.4	-4.3
Spain	-0.3	1.7	1.5	1.4	-0.4	-1.6	-1.7	-2.4	-2.4	-3.0	-2.8
France	0.7	2.4	2.2	1.8	0.1	-0.7	-0.9	-1.5	-1.7	-1.5	-0,0
Ireland	-4.3	-4.0	-4.0	-3.2	-4.4	-5.4	-5.7	-4.8	-6.5	-2.7	-1.1
Luxembourg	-1.1	-2.0	-3.1	-3.6	-2.9	-3.1	-3.5	-3.8	-6.4	-6.7	-3.0
Netherlands	-2.4	-3.0	-2.1	-1.7	-3.8	-4.1	-4.0	-5.1	-5.4	-3.4	-2.1
Austria	-2.3	-0.1	0.9	0.8	-0.4	-2.0	-1.4	-1.3	-1.8	-3.8	-3.0
Portugal	-4.3	-0.1	-0.2	-1.7	-1.4	-1.6	-1.1	-0.4	-0.1	1.1	-0.3
Finland	3.0	2.7	0.9	-0.3	-1.1	-2.7	-4.9	-5.1	-9.8	-7.9	-7.0
Sweden	2.4	6.1	3.5	0.8	-3.7	-4.9	-7.7	-6.1	-7.5	-7.7	-4.2
United Kingdom	3.5	5.0	3.5	2.1	0.7	-1.4	-3.9	-4.0	-4.3	-3.2	-0.8
Averages excluding Italy											
EU	0.2	1.3	0.5	0.3	-0.8	-1.8	-2.6	-3.0	-3.3	-2.5	-1.2
Euro area (2)	-0.7	0.0	-0.3	-0.6	-1.4	-1.6	-2.0	-2.5	-2.7	-2.0	-1.0
France, Germany and the UK	0.9	2.0	1.1	0.9	0.1	-1.0	-2.0	-2.4	-2.6	-1.6	-0.1

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 include the proceeds of sales of UMTS licences.
(2) For the sake of comparability, Greece is included in the euro area for all the years considered.

GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE (1)

(as a percentage of GDP)

Table 3

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Italy	43.0	44.0	41.8	42.2	42.5	44.5	42.9	43.0	42.4	42.1	41.6
Belgium	47.1	48.2	49.1	46.0	46.4	46.8	47.3	47.1	47.0	47.0	47.4
Denmark	49.9	51.5	52.9	50.2	50.7	50.6	51.0	52.3	50.3	50.6	50.0
Germany	42.4	43.0	43.5	41.4	42.4	42.4	42.5	43.3	43.3	41.7	41.2
Greece	….	….	….	33.9	34.3	35.7	37.7	38.9	40.3	38.6	38.1
Spain	37.4	36.6	36.2	33.6	34.0	34.4	34.7	35.4	35.9	35.8	36.5
France	45.6	46.0	46.1	44.6	45.9	46.1	46.0	46.7	46.2	45.9	45.4
Ireland	34.5	34.5	35.2	34.0	34.2	33.6	32.9	32.5	32.7	31.1	30.4
Luxembourg	….	….	….	42.7	42.8	41.5	40.7	41.0	41.7	42.2	43.9
Netherlands	47.6	48.7	46.5	40.6	41.0	40.8	40.5	41.8	41.6	40.2	39.5
Austria	45.3	46.3	45.1	43.7	45.1	45.8	45.9	45.6	44.8	46.9	46.4
Portugal	35.9	34.8	34.7	34.5	35.2	35.1	35.5	36.1	36.7	36.2	37.0
Finland	47.6	46.9	48.8	46.1	46.9	46.3	46.2	46.5	47.5	45.5	45.5
Sweden	51.5	50.7	50.5	48.3	51.2	51.5	52.9	52.9	52.5	54.2	52.1
United Kingdom	37.4	36.2	36.6	35.7	35.4	36.1	37.4	37.4	38.1	38.1	36.9
Averages excluding Italy											
EU	42.7	42.9	43.1	41.0	41.8	41.7	42.0	42.5	42.5	41.8	41.3
Euro area (2)	43.2	43.7	43.9	41.5	42.3	42.4	42.5	43.1	43.0	42.1	41.8
France, Germany and the UK	42.2	42.3	42.7	41.1	41.9	41.8	42.1	42.6	42.5	41.8	41.0

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.

GENERAL GOVERNMENT INVESTMENT (1)

(as a percentage of GDP)

Table 4

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Italy	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5	1.8
Belgium	1.5	1.6	1.7	1.8	1.6	1.6	1.6	1.8	1.8	1.5	1.6
Denmark	2.0	1.9	1.8	1.8	1.9	1.9	1.7	1.7	1.7	1.9	1.7
Germany	2.8	2.7	2.6	2.3	2.1	1.9	1.8	1.9	1.8	1.7	1.6
Greece	3.5	3.3	3.1	3.2	3.2	3.4	3.6	3.5	4.1	3.9	3.8
Spain	4.0	4.2	4.0	3.7	3.1	3.1	3.3	3.4	3.1	3.2	3.3
France	3.5	3.2	3.2	3.3	3.2	3.0	2.9	3.0	3.2	3.2	3.1
Ireland	2.0	2.1	2.3	2.3	2.4	2.5	2.7	3.2	3.7	4.6	4.4
Luxembourg	5.2	5.2	4.3	4.5	4.7	4.2	4.5	4.6	4.1	4.3	4.7
Netherlands	2.1	2.1	2.1	3.0	3.1	2.9	2.9	3.0	3.2	3.4	3.5
Austria	3.3	3.3	3.3	3.1	2.8	2.0	1.9	1.7	1.5	1.2	1.2
Portugal	3.8	4.0	3.6	3.7	4.2	4.3	3.9	4.2	3.9	4.1	3.6
Finland	3.8	3.1	3.2	2.8	2.9	3.2	2.9	2.8	2.6	2.7	2.8
Sweden	2.7	1.1	3.0	3.4	3.0	2.7	2.7	3.2	2.9	3.0	3.3
United Kingdom	2.3	2.1	2.0	2.0	1.5	1.2	1.2	1.1	1.1	1.2	1.3
Averages excluding Italy											
EU	2.9	2.8	2.7	2.7	2.5	2.2	2.2	2.3	2.3	2.3	2.3
Euro area (2)	3.0	2.7	2.6	2.6	2.4	2.5	2.5	2.6	2.6	2.6	2.5
France, Germany and the UK	2.9	2.7	2.6	2.5	2.3	2.0	2.0	2.0	2.0	2.0	1.9

Sources: Based on Istat and European Commission data.

(1) This item includes the proceeds of sales of public property with a negative sign. 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 5

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

(as a percentage of GDP)

	1992	1993	1994	1995	1996	1997	1998 (2)	1999	2000	2001	2002
Direct taxes	14.6	16.0	14.9	14.7	15.3	16.0	14.4	15.0	14.6	15.0	14.1
Indirect taxes	11.3	12.0	11.8	12.1	11.8	12.4	15.3	15.1	15.0	14.5	14.6
Current taxes	**25.9**	**28.0**	**26.7**	**26.8**	**27.1**	**28.5**	**29.7**	**30.1**	**29.6**	**29.4**	**28.7**
Social security contributions	15.1	15.3	15.0	14.8	15.0	15.3	12.8	12.7	12.7	12.6	12.7
Current taxes and social security contributions	**41.0**	**43.3**	**41.7**	**41.6**	**42.2**	**43.8**	**42.5**	**42.9**	**42.3**	**42.1**	**41.3**
Capital taxes	2.0	0.7	0.1	0.6	0.3	0.7	0.4	0.1	0.1	0.1	0.2
Total taxes and social security contributions	**43.0**	**44.0**	**41.8**	**42.2**	**42.5**	**44.5**	**42.9**	**43.0**	**42.4**	**42.1**	**41.6**

Sources: 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 al GDP)

	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Compensation of employees	12.4	12.3	11.9	11.2	11.5	11.6	10.7	10.6	10.6	10.7	10.7
Intermediate consumption	5.1	5.2	5.2	4.8	4.8	4.7	4.8	4.9	5.0	5.1	5.0
Social services in kind	2.5	2.4	2.2	2.0	2.0	2.1	2.1	2.1	2.4	2.6	2.6
Social services in cash	16.5	17.0	17.3	16.7	16.9	17.3	17.0	17.1	16.8	16.6	17.1
Interest payments	12.6	13.0	11.4	11.5	11.5	9.4	8.0	6.7	6.5	6.4	5.7
Other current expenditure	2.8	3.3	2.7	2.3	2.5	2.2	2.9	2.8	2.8	2.8	2.8
Total current expenditure	**52.1**	**53.3**	**50.6**	**48.5**	**49.1**	**47.2**	**45.4**	**44.4**	**43.9**	**44.2**	**43.8**
Excluding interest payments	*39.5*	*40.3*	*39.2*	*37.0*	*37.6*	*37.8*	*37.4*	*37.7*	*37.5*	*37.8*	*38.2*
Investment (2)	3.0	2.6	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5	1.8
Other capital expenditure (3)	1.5	1.7	1.5	2.5	1.6	1.3	1.5	1.6	1.3	1.4	1.6
Total capital expenditure (2) (3)	**4.6**	**4.3**	**3.7**	**4.6**	**3.8**	**3.5**	**3.9**	**4.0**	**3.7**	**3.9**	**3.4**
Total expenditure (2) (3)	**56.6**	**57.6**	**54.3**	**53.2**	**52.9**	**50.7**	**49.3**	**48.4**	**47.6**	**48.1**	**47.2**
Excluding interest payments (2) (3)	*44.0*	*44.6*	*42.9*	*41.6*	*41.4*	*41.4*	*41.3*	*41.6*	*41.2*	*41.7*	*41.6*

Sources: Based on Istat data.

(1) Rounding may cause discrepancies.
(2) This item includes the proceeds of sales of public property with a negative sign.
(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".

Table 7

GENERAL GOVERNMENT BORROWING REQUIREMENT IN ITALY

(millions of euros)

	Year		First 5 months		
	2001	2002	2001	2002	2003 (1)
Borrowing requirement net of settlements of past debts and privatization receipts	**37,301**	**33,516**	**38,228**	**38,344**	**36,557**
Settlements of past debts	10,291	5,929	5,078	607	2,558
- in securities	*563*	*1*	*345*	*1*	*516*
- in cash	*9,728*	*5,928*	*4,733*	*606*	*2,042*
Privatization receipts	-4,329	-2,031	-4,263	-178	1,449
Total borrowing requirement	**43,262**	**37,415**	**39,042**	**38,774**	**40,564**
FINANCING					
Medium and long-term securities	13,579	22,189	21,487	22,880	18,115
Short-term securities	11,293	274	17,064	21,027	22,471
Current accounts with the Bank of Italy	-2,119	212	-10,367	-9,500	-15,836
Other liabilities to the Bank of Italy	-1,930	2,045	145	2,037	65
Post Office deposits	10,919	7,287	3,175	2,535	3,068
Other domestic liabilities (2)	2,320	-2,285	-2,726	-2,837	468
Foreign loans (3)	9,199	7,692	10,263	2,632	12,214

(1) Provisional.

(2) Mainly lending by banks.

(3) Includes commercial paper.

Table 8

CURRENT LEGISLATIONS PROJECTIONS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2004-07 AND 2003-06

(as a percentage of GDP)

	2002	2003		2004		2005		2006		2007
	outturn	EFPD 2003-2006	EFPD 2004-2007	EFPD 2003-2006	EFPD 2004-2007	EFPD 2003-2006	EFPD 2004-2007	EFPD 2003-2006	EFPD 2004-2007	EFPD 2004-2007
Net borrowing	2.3	1.6	2.3	2.3	3.1	1.5	3.2	0.9	2.8	2.4
of which: current	*-0.7*	*-1.6*	*-0.1*	*-1.5*	*-0.1*	*-2.0*	*-0.5*	*-2.5*	*-0.8*	*-1.0*
capital	*3.0*	*3.2*	*2.4*	*3.8*	*3.2*	*3.5*	*3.8*	*3.4*	*3.6*	*3.4*
Primary surplus	3.4	4.3	3.0	3.7	1.9	4.5	1.8	5.0	2.2	2.7
Total revenue	44.9	45.7	45.2	45.3	44.1	45.5	43.8	45.5	43.7	43.5
of which: taxes and social security contributions	*41.6*	*42.1*	*41.8*	*42.0*	*40.9*	*42.1*	*40.7*	*42.1*	*40.6*	*40.4*
Primary expenditure	41.6	41.3	42.2	41.6	42.2	41.0	41.9	40.5	41.4	40.8
of which: current	*38.2*	*37.7*	*38.4*	*37.5*	*38.4*	*37.0*	*37.9*	*36.7*	*37.6*	*37.2*
capital	*3.4*	*3.6*	*3.8*	*4.1*	*3.8*	*3.9*	*4.0*	*3.8*	*3.9*	*3.6*
Interest payments	5.7	6.0	5.3	6.0	5.0	6.0	5.1	6.0	5.1	5.1

Table 9

FISCAL PLANNING SCENARIOS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2004-07 AND 2003-06

(as a percentage of GDP)

	2002	2003		2004		2005		2006		2007
	outturn	EFPD 2003-2006	EFPD 2004-2007	EFPD 2003-2006	EFPD 2004-2007	EFPD 2003-2006	EFPD 2004-2007	EFPD 2003-2006	EFPD 2004-2007	EFPD 2004-2007
Net borrowing	2.3	0.8	2.3	0.3	1.8	-0.1	1.2	-0.2	0.5	-0.1
Primary surplus	3.4	5.1	3.0	5.5	3.1	5.8	3.8	5.7	4.6	5.2
Interest payments	5.7	5.9	5.3	5.8	4.9	5.7	5.0	5.5	5.0	5.1
Debt	106.7	104.5	105.6	99.8	104.2	97.1	101.7	94.4	99.4	97.1