Joint Session
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Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 2005-2008

Testimony of the Governor of the Bank of Italy
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Contents

1. The international context

In the first half of 2004 economic activity continued to expand rapidly in the United States and the emerging economies of Asia, and it accelerated in Japan. Signs of cyclical strengthening appeared in the countries of the euro area and Latin America.

In the United States, GDP grew in the first quarter by 4.5 per cent on an annual basis. In the second quarter growth slowed to 3 per cent, reflecting the marked weakening of consumption; investment, by contrast, was considerably stronger than in the first quarter and expanded at a rate of 11 per cent.

In the first six months of 2004 the number of persons employed rose by 1.3 million, an increase of 1 per cent with respect to the end of 2003.

Reflecting the economy's robust growth and the rise in oil prices, inflation, measured by the twelve-month change in the consumption deflator, rose from 1.4 per cent in December to 2.5 per cent in May; net of energy and food products, it rose from 0.8 to 1.6 per cent.

The increase in inflation induced the Federal Reserve to raise the federal funds rate by 25 basis points to 1.25 per cent on 30 June. The decision did not have significant effects on markets, which had already discounted the rise.

In the first seven months of the year the exchange rate fluctuated around values not very different from the current rate of $1.20 per euro.

In June industrial production fell by 0.3 per cent with respect to the previous month; the leading indicator of the business cycle turned downwards. The gain in employment of 112,000 units fell short of expectations.

However, June also saw a significant increase in orders of capital goods. In July the index of consumer confidence rose more than had been expected. Taken together, these factors suggest that economic activity will grow rapidly in the second half of the year as well.

Over the year as a whole, America’s GDP will grow by between 4 and 5 per cent.

In Japan, GDP grew in the first quarter by 6.1 per cent on an annual basis, driven by exports to the emerging economies of Asia and especially to China. The domestic components of demand also contributed to growth. In the second quarter industrial production increased by 2.7 per cent with respect to the first. According to Consensus Forecasts, the expansion in GDP could exceed 4 per cent this year.

In the main Latin American countries, signs of an improvement in activity appeared in the early months of the year. In Brazil, economic output rose after contracting in 2003; in Argentina, where output began to expand again at the start of 2003, GDP grew by more than 10 per cent compared with a year earlier.

World economic activity could be affected in the coming months by tensions in the oil market and by terrorism. Crude oil prices have risen above $40 a barrel.

The agreement reached in the World Trade Organization for the liberalization of trade in agricultural products and the reduction of production subsidies in the more advanced regions of the globe offers the hope of a more balanced development of the world economy in the medium term.

2. Cyclical developments in the euro area and Italy

The economy of the euro area is hard put to participate in the world economic upturn. In the first quarter of this year GDP grew by 0.6 per cent with respect to the previous quarter (by 2.5 per cent on an annual basis), thanks in part to foreign trade. In the second quarter output appears to have grown at virtually the same rate. In 2004 the growth in economic activity is expected to be 1.7 per cent, the best result in four years.

In Italy, GDP grew in the first quarter by 0.4 per cent (by 1.8 per cent on an annual basis), driven exclusively by the domestic components of demand. Investment recouped almost all of the sharp fall registered in 2003. Unlike France and Germany, Italy suffered a further fall in exports; despite the reduction in imports, foreign trade reduced the growth of GDP by 0.2 percentage points.

In recent years the impulse imparted to exports by the acceleration of world trade has been more than offset by the effects of the loss of competitiveness; calculated on the basis of unit labour costs, between the end of 2001 and the end of 2003 the loss amounted to 16 per cent, respectively 13 and 8 percentage points more than for Germany and France.

The gap is largely explained by the trend in productivity, which in our country has actually declined.

The negative impact of the loss of competitiveness is seen in the first place in the industrial sector. In the first five months of 2004 industrial production in Italy was virtually flat with respect to the end of last year, while it rose in Germany by 3 per cent and in France by 1 per cent. According to preliminary estimates based on electricity consumption, production in Italy, down slightly in June, rose in July by around half a percentage point.

Employment as measured in the national accounts grew by 0.4 per cent in 2003. On a seasonally adjusted basis, in the first quarter of 2004 the number of fulltime equivalent workers employed was barely 0.1 per cent higher than in the fourth quarter of 2003.

Consumer price inflation rose to 2.8 per cent in 2003. In the first half of this year prices were 2.3 per cent higher than in the same period of 2003. Core inflation, calculated by excluding fresh foods and energy products, also slowed, from 2.7 per cent in 2003 to 2.3 per cent, thanks to the easing of the pressures coming from services.

Inflation remains higher in Italy than in the euro area. The closing of this differential is hindered by Italy's less favourable productivity performance.

According to our estimates, inflation is likely to fall below 2 per cent next year.

GDP should grow in the second quarter at a similar rate to that of the first, on the strength of the favourable trend in the construction and service sectors. Its growth in the first half of 2004 with respect to the previous half-year can be estimated at just over 1 per cent on an annual basis, around 1 point less than in France and half a point less than in Germany.

In 2004 the growth in GDP should not be out of line with the estimate of 1.2 per cent given in the Planning Document. Activity is expected to expand faster in 2005.

3. The public finances in the years 2001-03

General government net borrowing (net of the proceeds of sales of UMTS licences) rose from 1.8 per cent of GDP in 2000 to 2.4 per cent in 2003.

The trend of the deficit was adversely affected by the decline in the economy’s rate of growth. A beneficial effect came from interest payments, which fell from 6.5 per cent of GDP in 2000 to 5.3 per cent in 2003; the decidedly expansionary stance of monetary policy in the United States, Japan and Europe contributed to the decline.

Over the three years there was increasing recourse to temporary measures to curb the deficit. The effects of these measures were of the order of 0.5 percentage points of GDP in 2001, 1.5 points in 2002 and around 2 points in 2003. Excluding one-off measures, the gap between revenue and primary expenditure (that is to say net of interest payments) continued to grow smaller: narrowing from 4.6 per cent of GDP in 2000 to 0.7 per cent in 2003.

The ratio to GDP of primary expenditure increased by 2.4 percentage points; that of revenue decreased by 1.5 points.

Notwithstanding the corrective measures adopted in the 1990s, between 2000 and 2003 social benefits in cash increased from 16.8 to 17.2 per cent of GDP, wages and salaries from 10.6 to 11 per cent, intermediate consumption and social benefits in kind from 7.3 to 7.9 per cent. Excluding property sales, general government investment rose from 2.5 to 2.9 per cent of GDP, investment grants from 1.1 to 1.3 per cent.

Around two thirds of the decline in the ratio of revenue to GDP was due to tax relief, especially in respect of personal income tax, and one third to the sharp reduction in receipts from the tax on managed assets following the fall in share prices.

Notwithstanding the recourse made to extraordinary transactions, the reduction in the ratio of the public debt to GDP amounted to 5 percentage points in the three years 2001-03, compared with that of 9.3 points in the three years 1998-2000.

4. Budgetary policy in 2004

In July 2003 the objective for general government net borrowing in 2004 was set at 1.8 per cent of GDP; the primary surplus was to be 3.1 per cent. The Planning Document envisaged a budget adjustment of the order of €16 billion, or 1.2 per cent of GDP.

In the Forecasting and Planning Report for 2004, the objective for net borrowing was raised to 2.2 per cent of GDP.

The budget presented by the Government accompanied the deficit-reduction measures with provisions to support growth amounting to €5 billion. The reduction in the deficit was officially estimated at €11 billion, around 0.8 per cent of GDP. The amendments introduced by Parliament increased the size of the adjustment to almost €12 billion. As in the previous years, a substantial part of the deficit reduction was entrusted to temporary measures.

At the beginning of May 2004, the Quarterly Report on the Borrowing Requirement raised the estimate for net borrowing this year to 2.9 per cent of GDP; that for the primary surplus was reduced drastically, to 2.2 per cent. The new estimates took account of the downward revision of the forecast for GDP growth from 1.9 to 1.2 per cent.

In addition to close monitoring of current spending, the Quarterly Report on the Borrowing Requirement assumed: strict compliance with the domestic stability pact on the part of communes, provinces and regions, which was made especially difficult by the expenses connected with the renewal of local government employees' labour contract; the exclusion of the National Road Agency from the general government sector, whose expected impact on the budget balance was estimated at around 0.2 percentage points of GDP; the full effectiveness of the measures adopted with the budget, around half of whose impact of 0.8 percentage points was attributable to property sales; and the conclusion of the other planned asset sales amounting to 0.3 points.

The Quarterly Report on the Borrowing Requirement indicated that if the accounts developed less favourably than forecast, the Government would adopt the necessary measures to keep the deficit below the threshold of 3 per cent of GDP.

In April of this year the European Commission estimated Italy’s general government net borrowing for 2004 at 3.2 per cent; on the basis of this estimate, it proposed to the Ecofin Council that Italy be given an early warning, requiring deficit-reduction measures of at least €7 billion, or 0.5 per cent of GDP. On 11 May the Council, taking note of Italy’s undertaking to adopt measures aimed at keeping the deficit below 3 per cent, decided to postpone its decision for two months.

In the Ecofin Council meeting of 5 July the Government outlined a set of corrective measures totaling €7.5 billion. The Council did not give Italy an early warning; however, it indicated the need to keep up careful monitoring of our public finances, particularly as regards the trend of the debt and the budgetary objectives and measures for 2005. Lastly, it recommended that any tax reliefs be financed by means of an adequate reduction in expenditure.

Subsequently, the Government approved the supplementary measures, estimated officially at €7.6 billion. They consist of around €3.6 billion of spending cuts and €2 billion of revenue increases, with an additional €2 billion expected to come from administrative measures.

The Planning Document for 2005-08, taking account of the effects of the supplementary measures, confirms the estimate of 2.9 per cent of GDP for 2004 net borrowing It raises that for the primary surplus from 2.2 to 2.4 per cent. The Document also confirms the estimate of the state sector borrowing requirement at 4.6 per cent of GDP, as indicated in the Quarterly Report.

The ratio of debt to GDP would be reduced by only 0.2 percentage points, to 106 per cent, despite the contribution of €19.5 billion that planned privatizations are forecast to bring.

A high level of debt ties up resources, earmarking them for the payment of interest; it makes the budget more vulnerable to increases in interest rates and less utilizable for the purposes of cyclical stabilization.

The total impact of temporary measures on the public finances for the current year is of the order of 1 percentage point of GDP.

For a thorough analysis of the general government accounts, it is necessary to consider not only net borrowing but also the borrowing requirement, calculated on a cash basis, which underlies the variation in the public debt.

As pointed out on various occasions, since 1999 the borrowing requirement has been systematically much higher than net borrowing; the significant expansion of the borrowing requirement has slowed the reduction in the debt ratio.

On the basis of the indications of the Quarterly Report on the Borrowing Requirement, in 2004 the gap between the public sector borrowing requirement and general government net borrowing is estimated at 2.4 per cent of GDP. In the five years 1999-2003, the gap averaged around 1.6 per cent of GDP.

Between 1994 and 1998 the general government borrowing requirement net of privatization receipts was, on average, higher than net borrowing by around 0.5 per cent of GDP.

The Bank of Italy calculates the general government borrowing requirement on the basis of the financial instruments used for its financing: bond issues, post-office deposits and bank loans. The Ministry for the Economy and Finance and Istat measure, respectively, the borrowing requirement of the public sector (a group of bodies broadly corresponding to general government) and general government net borrowing on the basis of the aggregate's formation (calculated as the difference between expenditure and revenue).

The gap between the general government borrowing requirement and general government net borrowing can be divided into three components: (a) the difference between the general government borrowing requirement (calculated by the Bank of Italy on the financing side) and the public sector borrowing requirement (calculated by the Ministry on the formation side), which reflects, above all, statistical discrepancies connected with the different sources utilized; (b) the balance on the financial account, which, barring reclassifications by Istat, affects the public sector borrowing requirement calculated by the Ministry but not net borrowing; (c) the difference between public sector net borrowing on a cash basis (which the Ministry calculates by subtracting the balance on the financial account from the sector's borrowing requirement) and general government net borrowing, which is calculated on an accrual basis.

Breaking down the gap into the three above-mentioned components, in the period 1999-2003, on average, around half of the gap (0.8 points) was attributable to the balance on the financial account, which was always in deficit; around one third (0.5 points) was attributable to the difference between net borrowing on a cash basis and net borrowing on an accrual basis; the remainder (0.3 points) was due to the difference between the borrowing requirement calculated on the financing side and that calculated on the formation side.

An inquiry into the causes of the gap, of great importance for evaluating the conditions of the public finances, is still being conducted by the Commission established under the Prime Minister's Office with the task of verifying the consistency between the public finance statistics prepared by Istat, the Ministry for the Economy and Finance and the Bank of Italy.

5. The public finances in the Planning Document for 2005-08

The Planning Document under consideration depicts a baseline scenario in which, even after taking account of the effects of the corrective measures adopted in July, net borrowing in 2005 amounts to 4.4 per cent of GDP. The primary surplus is seen as falling to 0.8 per cent of GDP next year and then rising progressively to 1.9 per cent in 2008. It should be remembered, however, that the reference to “current legislation” leads from 2006 onwards to the baseline scenario underestimating expenditure and the deficits because the projections do not take account of expenditure in connection with the renewal of public-sector employees’ labour contracts and new investment.

The Document contains a planning scenario in which net borrowing decreases by 0.5 percentage points of GDP each year, from 2.7 per cent in 2005 to 1.2 per cent in 2008.

The improvement in the balance reflects that in the primary surplus, which is set to rise from 2.6 per cent of GDP in 2005 to 4.8 per cent in 2008, slightly below the level of 5.5 per cent that the Italian authorities undertook to maintain when Italy adopted the euro.

Interest payments in 2005 are set to stay at the level expected in 2004, equal to 5.3 per cent of GDP, and then to rise until they reach 6 per cent in 2008. The planned values of revenue and expenditure are not given.

In order to achieve the objective set for net borrowing in 2005, the Document envisages a budget adjustment of the order of €24 billion, comprising €17 billion of structural measures and €7 billion of one-off measures.

In the subsequent years it is intended that the corrective action should consist entirely of measures producing permanent effects: €13.7 billion in 2006, €7.3 billion in 2007 and €6 billion in 2008.

The Document envisages a reduction in taxation equal to 1 percentage point of GDP to be carried out over the two years 2005-06. It specifies that the reduction will concern income tax and the regional tax on productive activities.

The financing of the planned tax relief will require additional adjustment measures with respect to those outlined above.

According to the plan, the public debt should fall below 100 per cent of GDP in 2007 in connection with the planned disposal of assets amounting to €100 billion in the four years 2005-08.

The capital expenditure in the South of Italy indicated in the Document appears slightly less as a ratio to GDP than planned last year. The rationalization of the system of incentives, intended to ensure better use of the funds, must not reduce the flow of resources for investment in the area, even during the transition period.

The reduction in the burden of the debt in relation to GDP is entrusted to the massive programme of asset sales.

The aim of the budgetary policy announced is to have a significant impact on the structure of supply and make a start on recovering productivity and competitiveness. To this end it is necessary to accelerate the implementation of the extensive programme of public works.

Problems and prospects

On the basis of the figures in the Planning Document, primary current expenditure rose by about 2.2 percentage points of GDP in the four years 2001-04.

When one-off revenue is excluded, taxes and social security contributions declined progressively as a ratio to GDP.

Despite the growing contribution of measures producing temporary effects, the primary surplus contracted from 3.9 per cent of GDP in 2001 to 2.9 per cent in 2003; current estimates indicate that it will contract further in 2004, to 2.4 per cent. Notwithstanding a rapid fall in interest payments, net borrowing has increased.

The sluggishness of the economy has been a major factor in the unsatisfactory performance of the balances.

In practice in the last four years budgetary policy has had recourse to one-off revenues to finance a large part of the increase in primary current expenditure in relation to GDP.

The aim of the programme under consideration is to correct this structure of the budget.

The measures of a permanent nature for 2005 amount to €17 billion or 1.2 per cent of GDP. It is necessary to reduce expenditure with respect to the baseline level, not the current level, by an equal amount, excluding interest payments and investment.

According to the Document, these measures will have to be supplemented by others of a temporary nature amounting to €7 billion.

A structural adjustment of the size envisaged may have an adverse effect on growth. This needs to be avoided, in the short term, by adopting measures to foster growth.

Speeding up the implementation of the programme of public works will undoubtedly give a boost to economic activity.

A lasting reduction in the taxation of firms and households must not cause an increase in the deficit. Such an increase would prejudice growth given the high level of the public debt.

The adjustment of the public finances, undertaken with the clarity of the planning scenario, will face difficulties during its implementation, but it is necessary. It will be beneficial for the stability and growth of the economy in the medium term if it is carried out in conformity with the plans outlined.

The divergence between the current course of the public finances and the objectives for their consolidation cannot be corrected in only one year. The restoration of sound finances will have to continue in the coming years, as indicated in the Document.

The reduction in the public debt is entrusted in large part to a substantial and demanding programme of disposals and privatizations.

The euro-area economy and especially Italy’s are having difficulty in deriving a stimulus from the international recovery under way. In Italy, more than elsewhere, the economy’s ability to expand is limited by structural factors that weaken competitiveness.

Raising the economy’s productivity and potential rate of growth requires action to step up the formation of human capital, technological innovation and investment in research.

It is necessary to remove legislative and administrative constraints on business activity. Policies must be formulated to foster growth in the size of firms, including by means of mergers and amalgamations. The banking system can make an important contribution in this respect.

It is essential that the commitment to stimulating investment in the less developed areas should not weaken. Their large potential for growth is a resource for the whole country.

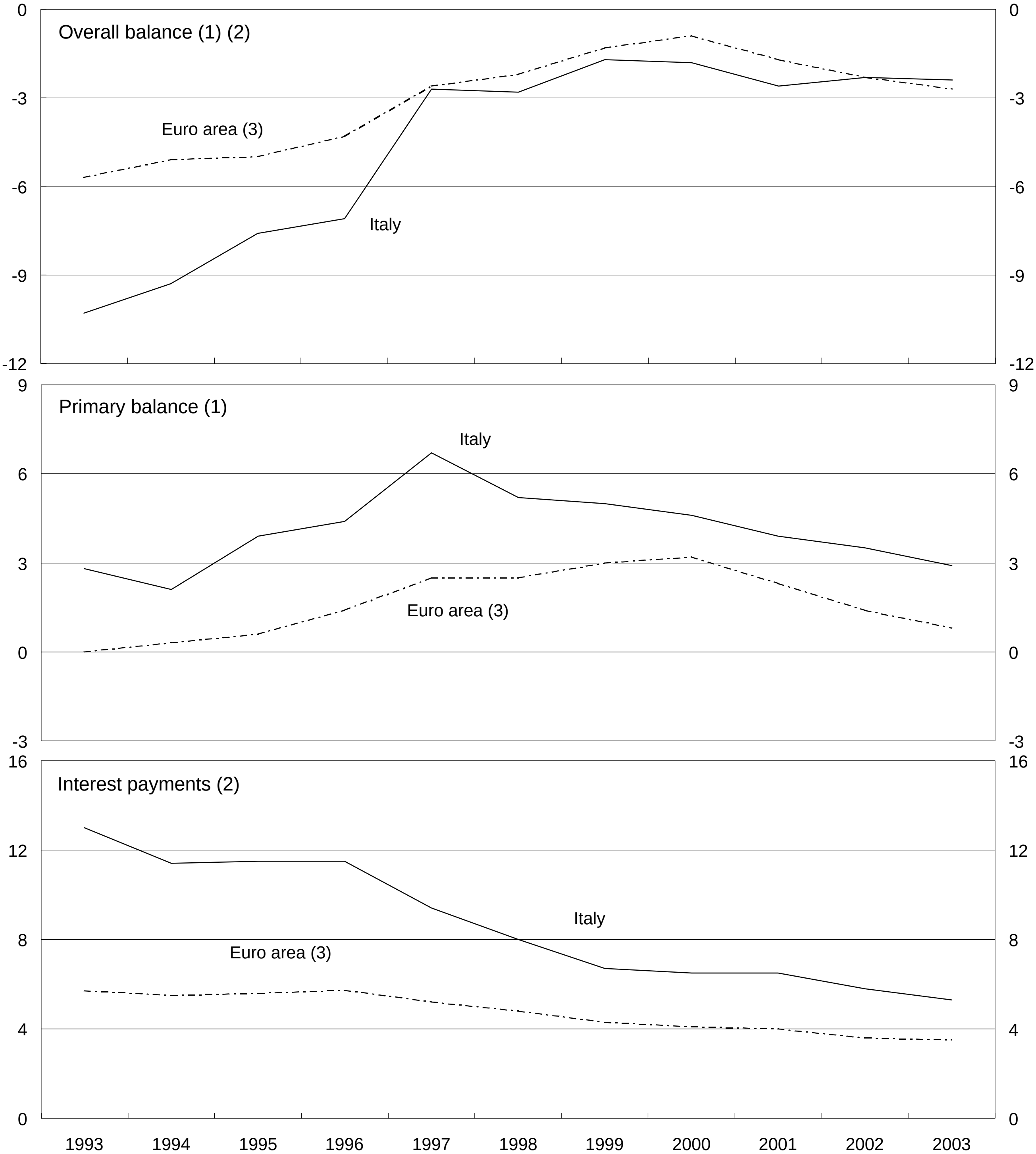
The curbing of the deficit in relation to GDP and the reduction in the debt ratio envisaged in the Government’s plans are necessary conditions for a return to faster economic growth. The consolidation of the public finances is indispensable in order to improve expectations and to indicate a path of growth to Italy’s firms, banks, financial markets and social partners.

FIGURES AND TABLES

Figure 1

ITALY AND THE EURO AREA: 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 licenses.
(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)

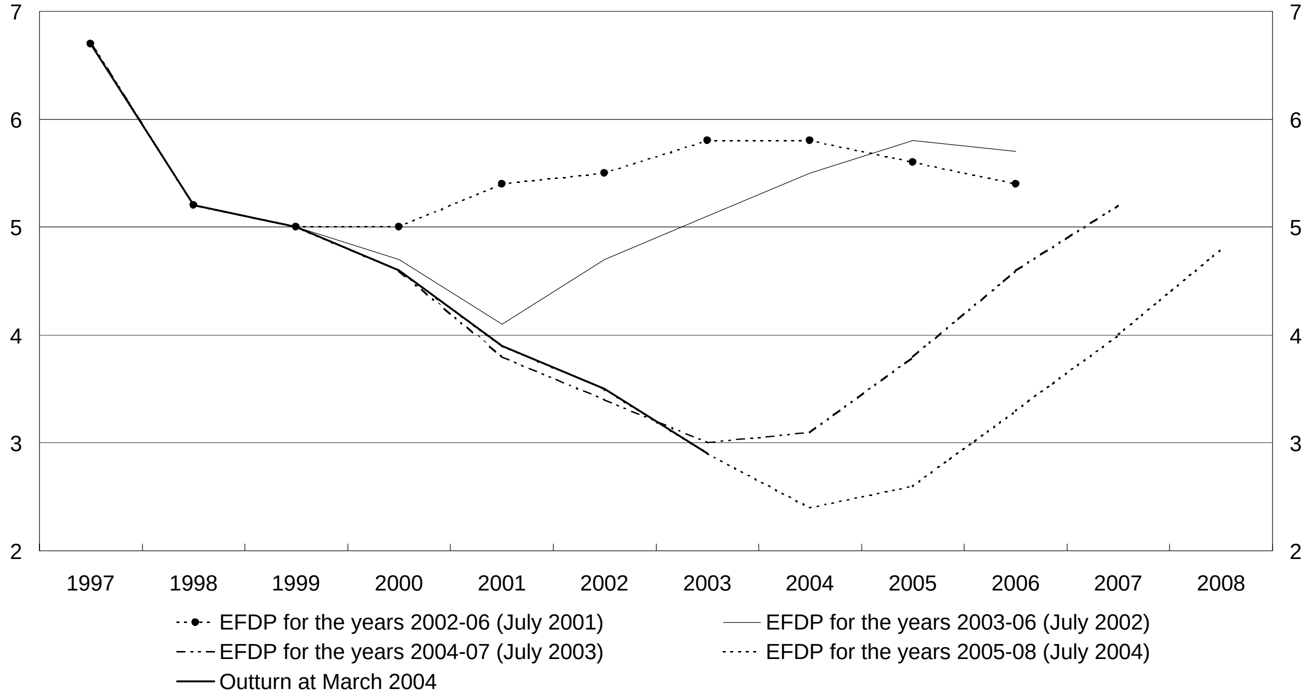
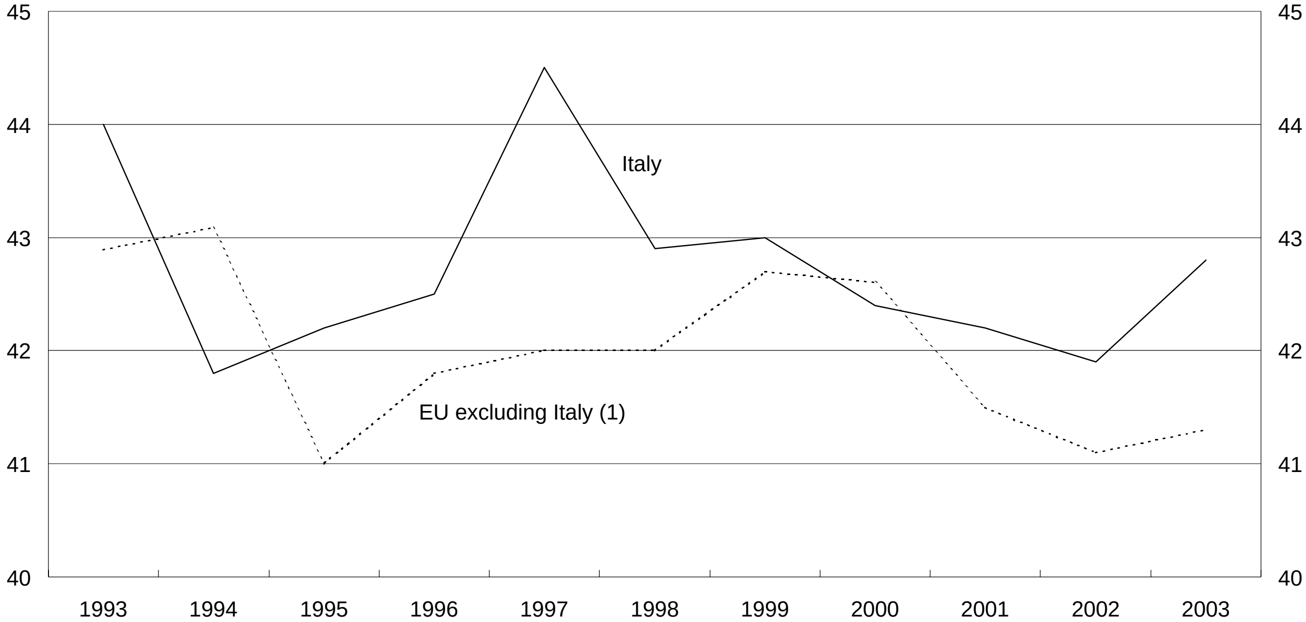


Figure 3

TAX AND SOCIAL SECURITY REVENUE
(as a percentage of GDP)

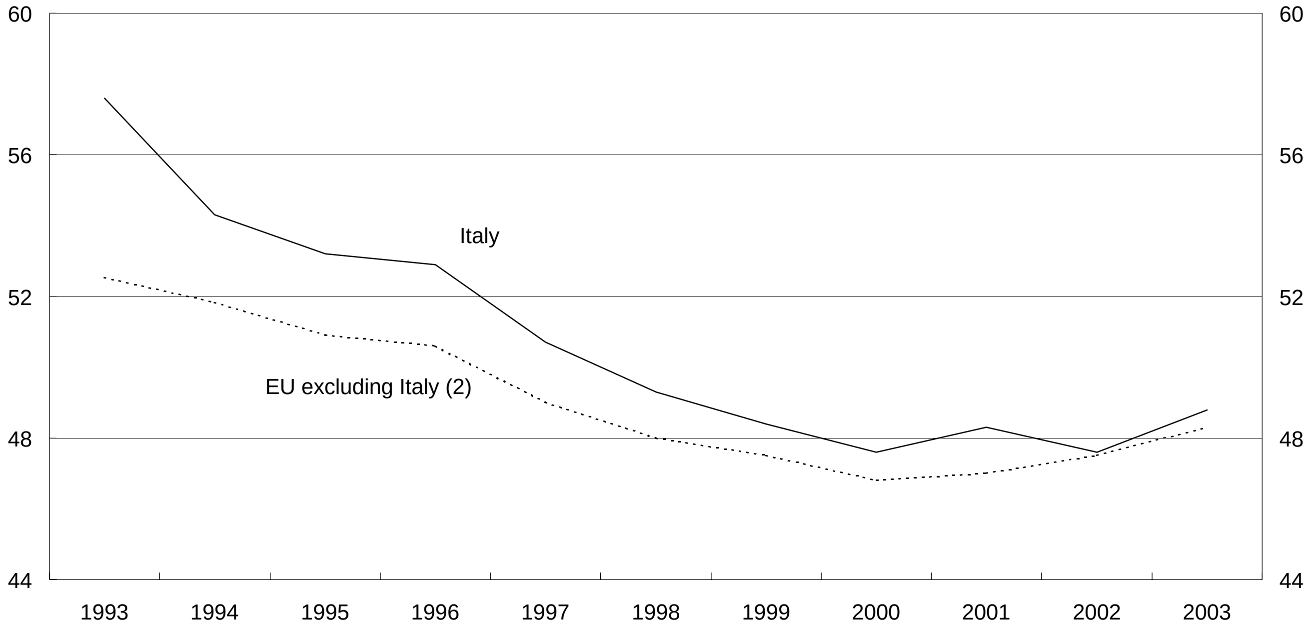


Sources: Based on Istat and European Commission data.

(1) Weighted on the basis of GDP with reference to the countries belonging to the EU in 2003. 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)

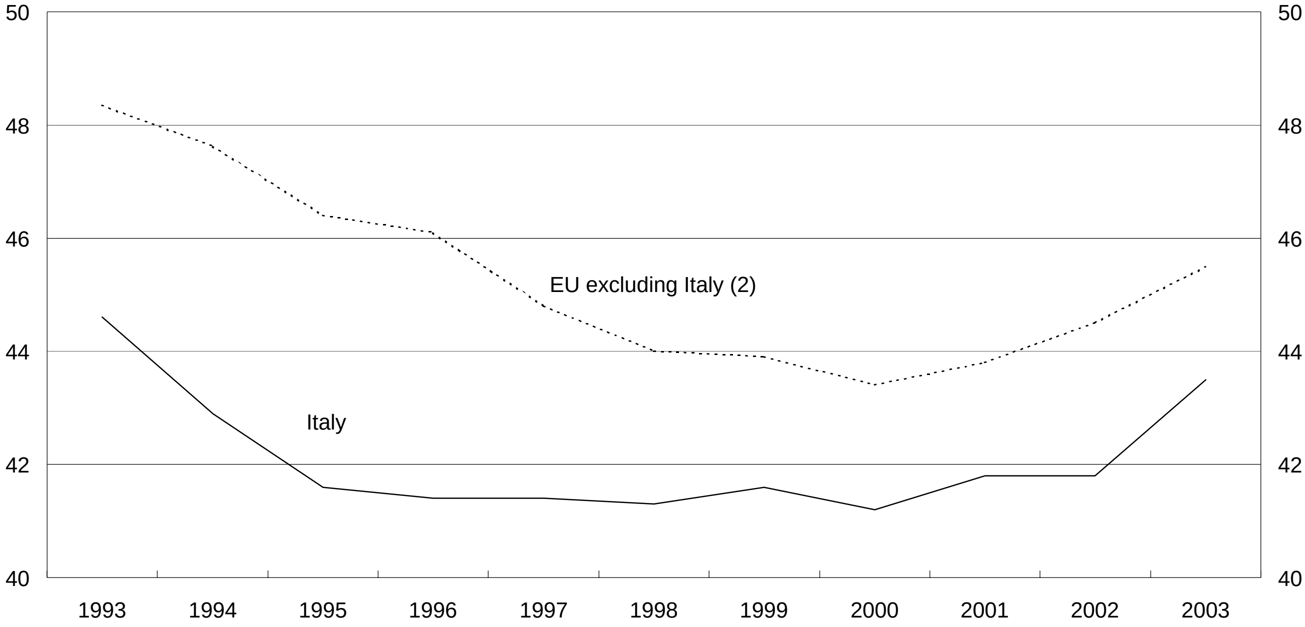


Sources: Based on Istat and European Commission data.

(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 licenses, which are also accounted for as a reduction in expenditure in the national accounts.
(2) Weighted on the basis of GDP with reference to the countries belonging to the EU in 2003. 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)

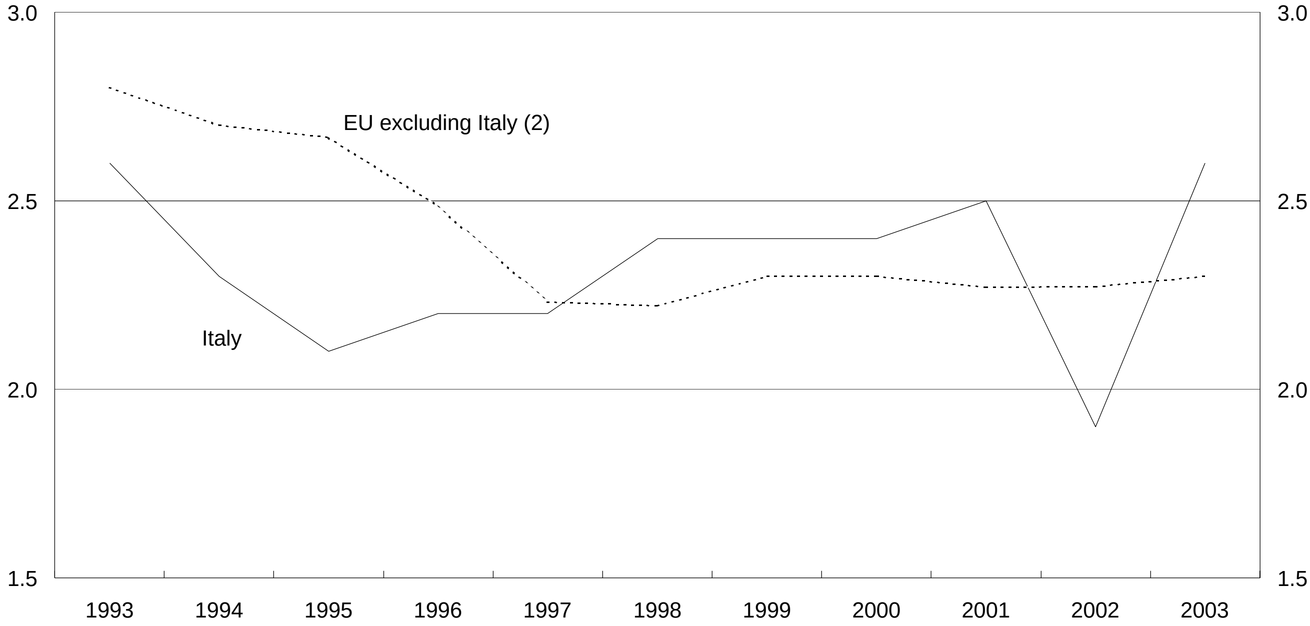


Sources: Based on Istat and European Commission data.

(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 licenses, which are also accounted for as a reduction in expenditure in the national accounts.
(2) Weighted on the basis of GDP with reference to the countries belonging to the EU in 2003. 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; it does not include the proceeds of sales of UMTS licenses, which are also accounted for as a reduction in expenditure in the national accounts.
(2) Weighted on the basis of GDP with reference to the countries belonging to the EU in 2003. 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)

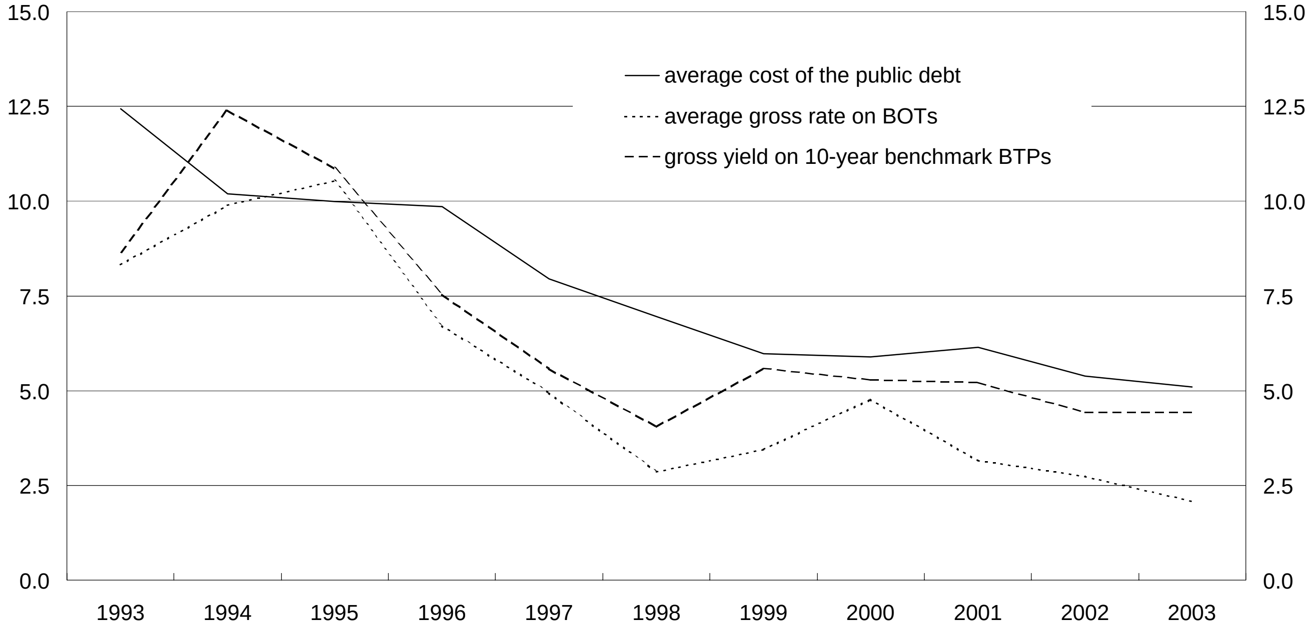
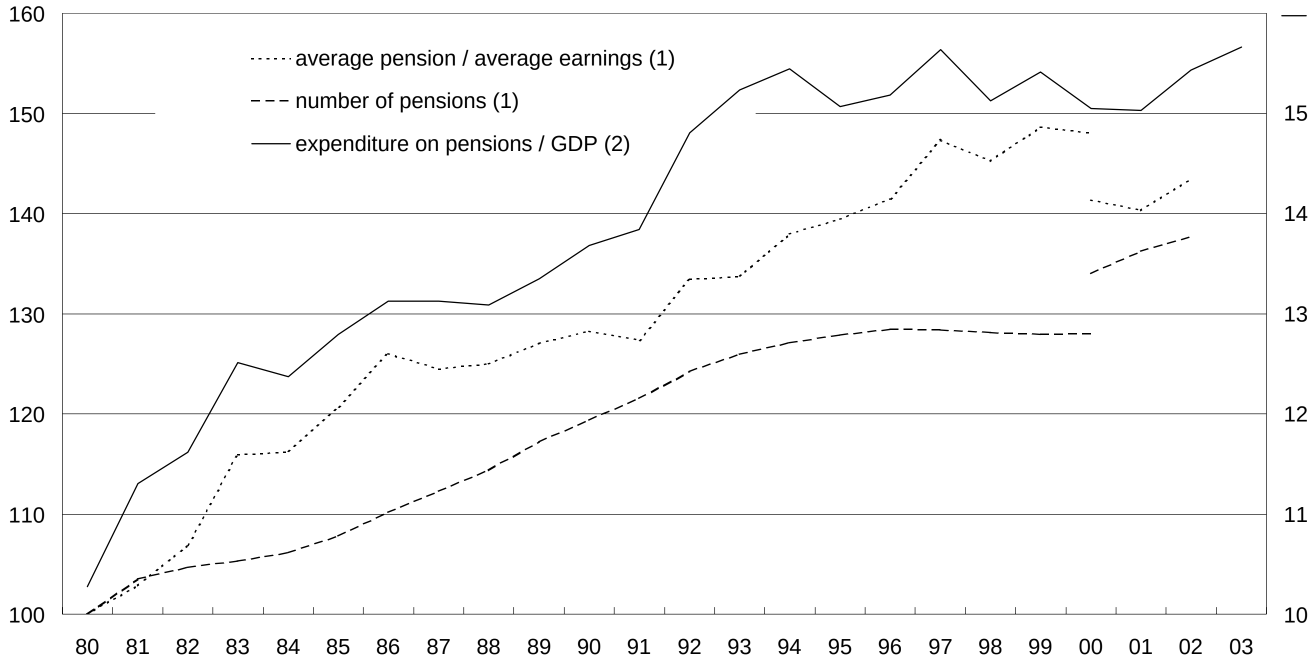


Figure 8

EXPENDITURE ON PENSIONS



Source: Based on Istat data.

(1) Index: 1980=100. Left-hand scale. The number of pensions series shows a break in 2000. As of that year Istat has compiled the series on the basis of the central register of pensioners kept by INPS.
(2) Percentages. Right-hand scale.

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

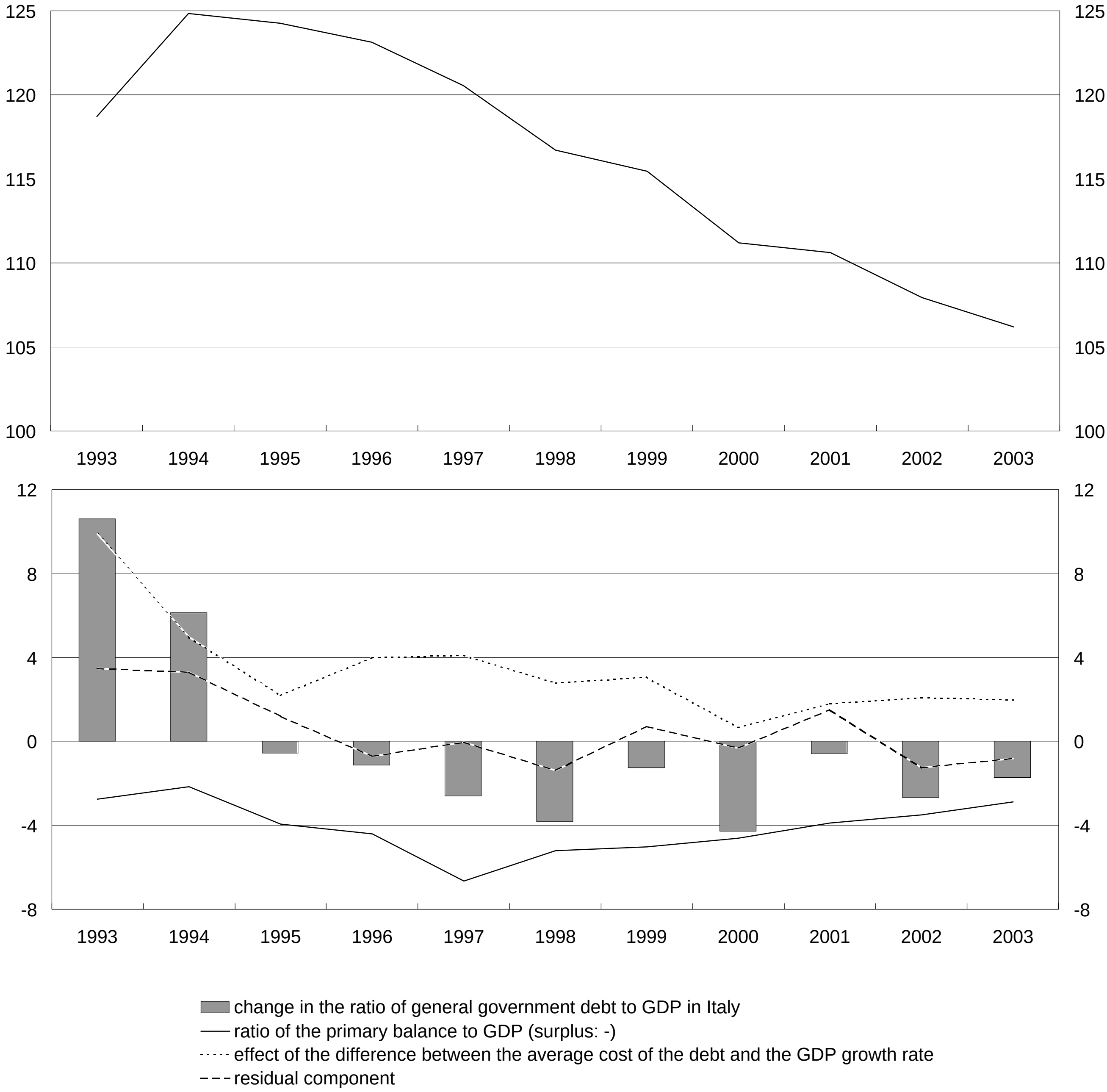


Table 1

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

(as a percentage of GDP)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Italy	10.3	9.3	7.6	7.1	2.7	2.8	1.7	1.8	2.6	2.3	2.4
Belgium	7.3	4.9	4.3	3.8	2.0	0.7	0.4	-0.2	-0.4	-0.1	-0.2
Denmark	2.9	2.7	2.3	1.0	-0.4	-1.1	-3.3	-2.6	-2.9	-1.7	-1.5
Germany	3.5	2.6	3.3	3.4	2.7	2.2	1.5	1.2	2.8	3.5	3.9
Greece	13.8	10.0	10.2	7.4	4.0	2.5	1.8	2.0	1.9	1.4	3.2
Spain	6.8	6.2	6.6	4.9	3.2	3.0	1.2	1.0	0.4	0.0	-0.3
France	5.8	5.8	5.5	4.1	3.0	2.7	1.8	1.4	1.6	3.3	4.1
Ireland	2.3	1.5	2.1	0.1	-1.1	-2.4	-2.4	-4.4	-1.1	0.4	-0.2
Luxembourg	-1.6	-2.7	-2.1	-1.9	-3.2	-3.2	-3.7	-6.3	-6.3	-2.7	0.1
Netherlands	3.2	3.8	4.2	1.8	1.1	0.8	-0.7	-1.5	0.0	1.9	3.2
Austria	4.3	5.0	5.2	3.8	1.9	2.4	2.3	1.9	-0.2	0.2	1.1
Portugal	6.1	6.0	5.5	4.8	3.6	3.2	2.8	3.2	4.4	2.7	2.8
Finland	7.3	6.0	3.9	2.9	1.3	-1.6	-2.2	-7.1	-5.2	-4.3	-2.3
Sweden	12.2	10.3	6.9	2.8	1.0	-1.9	-2.5	-5.1	-2.8	0.0	-0.7
United Kingdom	8.2	6.9	5.8	4.2	2.2	-0.1	-1.1	-1.5	-0.7	1.6	3.2
Averages excluding Italy											
EU (2)	5.6	4.9	4.8	3.7	2.4	1.5	0.5	0.0	0.8	2.0	2.6
Euro area (3)	5.7	5.1	4.5	3.7	2.6	2.1	1.2	0.7	1.5	2.3	2.8
France, Germany and the UK	5.3	4.5	4.5	3.8	2.7	1.7	0.8	0.4	1.4	2.9	3.7

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 licenses but include the effects of swaps and forward rate agreements.
(2) With reference to the countries belonging to the EU in 2003.
(3) 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)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Italy	-2.8	-2.1	-3.9	-4.4	-6.7	-5.2	-5.0	-4.6	-3.9	-3.5	-2.9
Belgium	-3.6	-5.3	-4.9	-5.1	-6.0	-6.8	-6.6	-6.9	-7.0	-6.1	-5.8
Denmark	-4.6	-4.3	-4.1	-5.1	-6.1	-6.5	-8.0	-6.0	-6.1	-4.5	-4.0
Germany	0.2	-0.7	-0.3	-0.3	-0.9	-1.4	-2.0	-2.2	-0.4	0.4	0.7
Greece	1.0	-4.1	-2.6	-4.6	-5.6	-6.5	-6.5	-5.9	-5.3	-4.7	-2.5
Spain	1.7	1.5	1.4	-0.4	-1.6	-1.2	-2.4	-2.3	-2.8	-2.8	-2.9
France	2.4	2.2	1.8	0.1	-0.7	-0.9	-1.6	-1.7	-1.5	0.2	1.0
Ireland	-4.0	-4.0	-3.3	-4.4	-5.3	-5.7	-4.7	-6.4	-2.6	-1.1	-1.6
Luxembourg	-2.0	-3.1	-2.4	-2.3	-3.5	-3.5	-4.0	-6.5	-6.5	-3.0	-0.1
Netherlands	-3.0	-2.1	-1.7	-3.8	-4.1	-4.1	-5.1	-5.4	-3.4	-1.2	0.3
Austria	-0.1	0.9	0.9	-0.4	-2.0	-1.4	-1.3	-1.8	-3.7	-3.1	-2.0
Portugal	-0.1	-0.2	-0.8	-0.6	-0.7	-0.3	-0.4	0.0	1.2	-0.3	-0.1
Finland	2.7	0.9	-0.1	-1.3	-3.0	-5.2	-5.3	-10.0	-7.9	-6.5	-4.1
Sweden	6.1	3.5	0.3	-3.8	-5.3	-7.4	-7.1	-9.2	-6.0	-2.9	-2.9
United Kingdom	5.0	3.5	2.2	0.6	-1.4	-3.6	-4.0	-4.3	-3.1	-0.4	1.2
Averages excluding Italy											
EU (2)	1.3	0.5	0.3	-0.8	-1.8	-2.6	-3.1	-3.4	-2.4	-0.9	-0.2
Euro area (3)	0.0	-0.3	0.0	-0.8	-1.6	-2.0	-2.5	-2.8	-2.0	-0.9	-0.3
France, Germany and the UK	2.0	1.1	0.8	0.1	-1.0	-1.9	-2.4	-2.7	-1.6	0.1	1.0

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. The data do not include the proceeds of sales of UMTS licenses.
(2) With reference to the countries belonging to the EU in 2003.
(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)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Italy	44.0	41.8	42.2	42.5	44.5	42.9	43.0	42.4	42.2	41.9	42.8
Belgium	48.2	49.1	46.0	46.4	46.8	47.5	47.1	47.0	47.2	47.8	47.1
Denmark	51.5	52.9	50.2	50.7	50.6	51.0	52.3	50.4	50.7	49.8	50.2
Germany	43.0	43.5	41.4	42.4	42.4	42.5	43.3	43.3	41.6	41.2	41.4
Greece	….	….	33.9	34.3	35.7	37.7	38.9	40.3	38.6	38.5	38.2
Spain	36.6	36.2	33.6	34.0	34.4	34.7	35.3	35.9	35.7	36.5	36.6
France	46.0	46.1	44.6	45.9	46.1	46.0	46.7	46.2	45.9	45.3	45.4
Ireland	34.5	35.2	34.0	34.2	33.6	32.7	32.7	32.7	31.1	29.5	31.2
Luxembourg	….	….	42.7	42.8	41.8	40.6	41.0	40.9	41.3	42.8	42.8
Netherlands	48.7	46.5	40.6	41.0	40.8	40.5	41.8	41.6	40.2	39.9	39.8
Austria	46.3	45.1	43.7	45.1	45.8	45.7	45.6	44.8	46.5	45.5	45.1
Portugal	34.8	34.7	33.5	34.5	34.6	35.0	36.1	36.7	36.1	36.9	37.7
Finland	46.9	48.8	46.0	47.2	46.5	46.3	46.7	47.7	45.8	45.8	44.5
Sweden	50.7	50.5	49.5	51.9	52.4	53.2	53.9	54.1	52.4	50.3	51.1
United Kingdom	36.2	36.6	35.6	35.7	37.2	37.0	37.9	38.2	36.8	36.3	36.8
Averages excluding Italy											
EU (2)	42.9	43.1	41.0	41.8	42.0	42.0	42.7	42.6	41.5	41.1	41.3
Euro area (3)	43.7	43.9	41.4	42.3	42.4	42.5	43.1	43.0	42.1	41.8	41.8
France, Germany and the UK	42.3	42.7	41.1	41.9	42.1	42.0	42.7	42.5	41.3	40.9	41.2

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.
(2) With reference to the countries belonging to the EU in 2003.
(3) 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)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Italy	2.6	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5	1.9	2.6
Belgium	1.6	1.7	1.8	1.6	1.6	1.6	1.8	1.8	1.6	1.6	1.6
Denmark	1.9	1.8	1.8	2.0	1.9	1.7	1.7	1.7	1.9	1.8	1.6
Germany	2.7	2.6	2.3	2.1	1.9	1.9	1.9	1.8	1.7	1.6	1.5
Greece	3.3	3.1	3.2	3.2	3.4	3.6	3.5	4.1	4.0	3.8	4.2
Spain	4.2	4.0	3.7	3.1	3.1	3.3	3.4	3.1	3.3	3.4	3.5
France	3.2	3.2	3.3	3.2	3.0	2.9	3.0	3.2	3.1	3.1	3.2
Ireland	2.1	2.3	2.3	2.4	2.5	2.7	3.2	3.7	4.5	4.3	3.9
Luxembourg	5.2	4.3	4.6	4.7	4.2	4.6	4.4	3.8	4.2	4.8	4.9
Netherlands	2.1	2.1	3.0	3.1	2.9	2.9	3.0	3.1	3.2	3.3	3.5
Austria	3.3	3.3	3.1	2.8	2.0	1.8	1.7	1.5	1.2	1.3	1.2
Portugal	4.0	3.6	3.7	4.2	4.4	3.9	4.1	3.8	4.0	3.4	3.9
Finland	3.1	3.2	2.8	2.9	3.2	2.9	2.8	2.6	2.8	2.9	3.0
Sweden	1.1	3.0	4.0	3.5	3.1	3.2	3.2	2.9	3.1	3.3	3.1
United Kingdom	2.1	2.0	2.0	1.5	1.2	1.2	1.1	1.1	1.2	1.3	1.5
Averages excluding Italy											
EU (2)	2.8	2.7	2.7	2.5	2.2	2.2	2.3	2.3	2.3	2.3	2.3
Euro area (3)	2.7	2.6	2.8	2.7	2.5	2.5	2.6	2.6	2.6	2.5	2.6
France, Germany and the UK	2.7	2.6	2.5	2.3	2.0	2.0	2.0	2.0	2.0	1.9	2.0

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) With reference to the countries belonging to the EU in 2003.
(3) For the sake of comparability, Greece is included in the euro area for all the years considered.

Table 5

GENERAL GOVERNMENT REVENUE IN ITALY (1)

(as a percentage of GDP)

	1993	1994	1995	1996	1997	1998 (2)	1999	2000	2001	2002	2003
Direct taxes	16.0	14.9	14.7	15.3	16.0	14.4	15.0	14.6	15.0	14.2	13.6
Indirect taxes	12.0	11.8	12.1	11.8	12.4	15.3	15.1	15.0	14.5	14.7	14.5
Current taxes	**28.0**	**26.7**	**26.8**	**27.1**	**28.5**	**29.7**	**30.1**	**29.6**	**29.5**	**28.9**	**28.1**
Social security contributions	15.3	15.0	14.8	15.0	15.3	12.8	12.7	12.7	12.6	12.8	13.1
Current taxes and social security contributions	**43.3**	**41.7**	**41.6**	**42.2**	**43.8**	**42.5**	**42.9**	**42.3**	**42.1**	**41.7**	**41.3**
Capital taxes	0.7	0.1	0.6	0.3	0.7	0.4	0.1	0.1	0.1	0.2	1.6
Total taxes and social security contributions	**44.0**	**41.8**	**42.2**	**42.5**	**44.5**	**42.9**	**43.0**	**42.4**	**42.2**	**41.9**	**42.8**
Other current revenue	3.1	2.9	3.1	3.2	3.2	3.2	3.3	3.0	3.3	3.2	3.2
Other capital revenue	0.2	0.3	0.3	0.1	0.3	0.3	0.4	0.3	0.2	0.2	0.3
Total revenue	**47.3**	**45.1**	**45.6**	**45.8**	**48.0**	**46.5**	**46.7**	**45.8**	**45.7**	**45.3**	**46.3**

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 simoultaneous 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)

	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Compensation of employees	12.3	11.9	11.2	11.5	11.6	10.7	10.6	10.6	10.8	10.8	11.0
Intermediate consumption	5.2	5.2	4.8	4.8	4.7	4.8	4.9	5.0	5.1	5.0	5.3
Social services in kind	2.4	2.2	2.0	2.0	2.1	2.1	2.1	2.4	2.6	2.6	2.6
Social services in cash	17.0	17.3	16.7	16.9	17.3	17.0	17.1	16.8	16.6	17.0	17.2
Interest payments	13.0	11.4	11.5	11.5	9.4	8.0	6.7	6.5	6.5	5.8	5.3
Other current expenditure	3.3	2.7	2.3	2.5	2.2	2.9	2.8	2.8	2.8	2.9	3.2
Total current expenditure	**53.3**	**50.6**	**48.5**	**49.1**	**47.2**	**45.4**	**44.4**	**43.9**	**44.4**	**44.2**	**44.7**
Excluding interest payments	*40.3*	*39.2*	*37.0*	*37.6*	*37.9*	*37.4*	*37.7*	*37.5*	*37.9*	*38.4*	*39.4*
Investment (2)	2.6	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5	1.9	2.6
Other capital expenditure (3)	1.7	1.5	2.5	1.6	1.3	1.5	1.6	1.3	1.4	1.6	1.4
Total capital expenditure (2) (3)	**4.3**	**3.7**	**4.6**	**3.8**	**3.5**	**3.9**	**4.0**	**3.7**	**3.9**	**3.4**	**4.1**
Total expenditure (2) (3)	**57.6**	**54.3**	**53.2**	**52.9**	**50.7**	**49.3**	**48.4**	**47.6**	**48.3**	**47.6**	**48.8**
Excluding interest payments (2) (3)	*44.6*	*42.9*	*41.6*	*41.4*	*41.4*	*41.3*	*41.6*	*41.2*	*41.8*	*41.8*	*43.5*

Source: 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 licenses (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		
	2002	2003	2002	2003	2004 (1)
Borrowing requirement net of settlements of past debts and privatization receipts	**39,010**	**44,667**	**39,075**	**39,108**	**56,565**
settlements of past debts and privatization receipts	5,328	8,537	495	3,024	169
- in securities	*1*	*575*	*1*	*516*	*2*
- in cash	*5,326*	*7,961*	*494*	*2,508*	*167*
Privatization receipts	-1,929	-16,844	-178	-1	-15
Total borrowing requirement	**42,409**	**36,360**	**39,392**	**42,132**	**56,719**
FINANCING					
Medium and long-term securities	22,729	15,028	23,688	19,118	31,101
Short-term securities	-40	6,057	20,803	22,397	24,853
Current accounts with the Bank of Italy	212	8,013	-9,500	-15,836	-22,340
Other liabilities to the Bank of Italy	2,075	136	2,053	29	49
Post Office deposits	11,496	-64,806	2,535	2,706	0
Loans from MFIs	-1,406	-4,065	-1,482	-828	3,914
Other domestic liabilities	-397	68,757	-1,355	2,301	14,273
Foreign loans (2)	7,739	7,241	2,650	12,244	4,868

(1) Provisional.

(2) Includes commercial paper.

Table 8

CURRENT LEGISLATION PROJECTIONS IN
THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2005-08 AND 2004-07
(as a percentage of GDP)

	2003	2004		2005		2006		2007		2008
	Outturn	EFDP 2004-07	EFDP 2005-08	EFDP 2004-07	EFDP 2005-08	EFDP 2004-07	EFDP 2005-08	EFDP 2004-07	EFDP 2005-08	EFDP 2005-08
Net borrowing	2.4	3.1	2.9	3.2	4.4	2.8	4.3	2.4	4.2	4.0
of which: current	*0.2*	*-0.1*	*0.6*	*-0.5*	*0.8*	*-0.8*	*0.8*	*-1.0*	*0.8*	*0.9*
capital	*2.2*	*3.2*	*2.3*	*3.8*	*3.6*	*3.6*	*3.5*	*3.4*	*3.4*	*3.1*
Primary surplus	2.9	1.9	2.4	1.8	0.8	2.2	1.1	2.7	1.5	1.9
Total revenue	46.3	44.1	*45.5*	43.8	*44.3*	43.7	*44.2*	43.5	*43.9*	*43.8*
of which: taxes and social security contributions	*42.8*	*40.9*	*41.8*	*40.7*	*40.8*	*40.6*	*40.8*	*40.4*	*40.5*	*40.4*
Primary expenditure	43.5	42.2	*43.2*	41.9	*43.4*	41.4	*43.1*	40.8	*42.4*	*41.9*
of which: current	*39.4*	*38.4*	*39.7*	*37.9*	*39.4*	*37.6*	*39.2*	*37.2*	*38.7*	*38.5*
capital	*4.1*	*3.8*	*3.5*	*4.0*	*4.0*	*3.9*	*3.9*	*3.6*	*3.7*	*3.4*
Interest payments	5.3	5.0	*5.3*	5.1	*5.2*	5.1	*5.4*	5.1	*5.7*	*5.9*

Table 9

FISCAL PLANNING SCENARIOS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2005-08 AND 2004-07

(as a percentage of GDP)

	2003	2004		2005		2006		2007		2008
	Outturn	EFDP 2004-07	EFDP 2005-08	EFDP 2004-07	EFDP 2005-08	EFDP 2004-07	EFDP 2005-08	EFDP 2004-07	EFDP 2005-08	EFDP 2005-08
Net borrowing	2.4	1.8	2.9	1.2	2.7	0.5	2.2	-0.1	1.7	1.2
Primary surplus	2.9	3.1	2.4	3.8	2.6	4.6	3.3	5.2	4.0	4.8
Interest payments	5.3	4.9	5.3	5.0	5.3	5.0	5.5	5.1	5.7	6.0
Debt	106.2	104.2	106.0	101.7	104.1	99.4	101.9	97.1	99.3	98.1

Table 10

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

(millions of euros)

REVENUE	
Increase in revenue	**1,980**
Insurance companies	830
Banks' IRAP	370
Banking foundations' IRES	220
Withholding tax on medium and long-term loans	410
Other	150
EXPENDITURE	
Decrease in expenditure	**-3,810**
Government departments	-1,730
of which:	
Intermediate consumption	*-870*
Investment	*-160*
Transfers to entities and bodies	*-350*
Multi-year spending laws	*-290*
Incentives for firms and disadvantaged areas	-1,250
of which:	
Incentives under Law 488/1992	*-800*
Other measures	-830
Increase in expenditure	**180**
NET CHANGE IN EXPENDITURE	**-3,630**
Other measures of an administrative nature	**2,000**
TOTAL REDUCTION IN NET BORROWING	**7,610**

(1) Based on official estimates.