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Statement by the Governor of the Bank of Italy
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The international economy

The world economic recovery has steadily gained momentum in the United States since the spring of 2003 and has been sustained by the growth of the Asian economies; during 2004 it spread to several other regions. World economic activity expanded rapidly in the first quarter of this year, but slowed in the second, partly as a reaction to the rise in oil prices.

In the United States GDP growth fell from 4.5 per cent on an annual basis in the first quarter to 3.3 per cent in the second. Higher energy costs weighed heavily on the growth in household expenditure, which slowed sharply from 4.1 to 1.6 per cent. On the other hand, investment picked up strongly in the second quarter, rising by nearly 14 per cent.

In the United States payroll employment edged up in June and July, then rose by 128,000 units in August and 96,000 in September. Private consumption is expected to resume growing at around 4 per cent in the third quarter. However, the recent performance of the leading indicators of the business cycle casts doubt on the strength of the recovery in the last part of the year, though not on its continuation.

The rise in the prices of energy products has had no effect so far on core inflation or on inflation expectations. The Federal Reserve intends to bring the federal funds rate back to what it deems to be equilibrium levels at a measured pace.

The International Monetary Fund estimates that GDP growth in the United States will reach 4.3 per cent this year, compared with 3 per cent in 2003, and will amount to 3.5 per cent in 2005, in line with the expansion of potential output. The continued recovery will be sustained by the good balance-sheet situation and profitability of firms and banks and by favourable financing conditions. With the phasing out of the earlier fiscal stimulus, consumption will depend crucially on labour market performance.

According to the latest forecasts by the Congressional Budget Office the federal deficit for the 2004 financial year will amount to 3.6 per cent of GDP; this represents an improvement of around 0.5 percentage points on the estimate issued in the spring that can be

ascribed to the more favourable performance of the economy. Even when the tax cuts approved this month are taken into account, the deficit could fall to around 3 per cent of GDP in 2005.

In Japan economic activity slowed in the second quarter, partly owing to the fall in public investment. The slowdown was temporary, as in the third quarter output is already showing signs of an upturn. According to the International Monetary Fund, GDP is expected to grow by 4.4 per cent in 2004 but by only 2.3 per cent in 2005.

In the emerging Asian economies GDP growth will continue at a rate of about 7 per cent in both 2004 and 2005.

In all the main Latin American countries economic activity, which had stagnated for three years, has begun to expand rapidly again. IMF estimates set GDP growth at 4.6 per cent in 2004 and 3.6 per cent in 2005.

The sharpening of international tensions and the jump in oil prices cast a shadow over the progress of the world economic recovery. Nonetheless, the main international centres and institutions still show an underlying optimism. Growth of 5 per cent is forecast for 2004, a higher value than at any other time in the past twenty-five years; in 2005 it is again expected to top 4 per cent.

Cyclical developments in the euro area and Italy

In the first half of 2004 euro-area GDP grew by 2.2 per cent on an annual basis, indicating that the recovery remains weak compared with the world economic cycle. France recorded the highest growth rate among the main countries.

Except in Germany, output growth was driven mainly by consumption; investment again expanded at a moderate pace, rising by 0.5 per cent on an annual basis. In Germany GDP growth was sustained by exports, while final domestic demand contracted, a trend under way since the second half of 2001.

As the upturn in world trade gained strength, in the first half of 2004 euro-area exports rose by 7 per cent on an annual basis, the largest increase since the end of 2000. Despite the significant expansion in imports, foreign trade contributed 0.7 percentage points to the growth of GDP.

In Italy economic activity accelerated slightly in the first half of the year, although still considerably less than in the rest of the area.

The performance of the economy continued to be adversely affected by the weakness of exports. These declined further in volume in the first half of the year despite the recovery of activity both at world level and in the euro area; the upturn in the second quarter, however, suggests that there is hope for a better result in the second half of the year. Imports, on the other hand, increased in the first half of 2004. Overall GDP growth was reduced by 0.5 percentage points, equal to 0.9 points on an annual basis.

Italy’s oft-mentioned loss of world market shares has accelerated since 2002.

Calculated on the basis of unit labour costs, the price competitiveness of Italian exports fell by 16 per cent between 2002 and 2003; this is 13 and 8 percentage points more than the figures for German and French exports respectively. The gap can be attributed mostly to the trend in productivity, which declined in Italy.

Domestic demand was buoyed by the upturn in investment thanks to low interest rates and the availability of credit. Household spending expanded in line with the average for the other European countries.

In the euro area consumer price inflation rose to 2.3 per cent in the second quarter in response to tensions on the market for energy products. In Italy the increase in harmonized consumer prices was close to the average for the other countries from the second quarter onwards.

The professional forecasters surveyed by *Consensus Forecasts* in September expect annual inflation in 2004 to be 2.3 per cent in Italy and 2.1 per cent in the euro area as a whole.

In the service sector Italian unit labour costs rose in the first half of the year by over 2 percentage points more than the average for the main euro-area countries. In industry

excluding construction the gap was more than 4 percentage points on an annual basis, once again due to Italy's less satisfactory productivity performance.

Employment, which had virtually stagnated in the last half of 2003, picked up in the following six months, rising more sharply than in the other euro-area countries. The unemployment rate, calculated according to the new labour force survey, continued to fall, reaching 8.1 per cent on a seasonally adjusted basis in the second quarter of 2004; in the other European countries it remained stationary.

With tensions on the oil market becoming sharper there are as yet no signs of output in Italy accelerating in the second half of the year.

Overall, GDP is expected to grow in 2004 by 1.2 per cent, compared with 2 per cent in the euro area. The recovery will probably gain strength in the coming year. Economic policy measures are needed to boost growth in Italy to around 2 per cent, which would be in line with the forecast average for the other euro-area countries.

The difficulty of controlling the public finances in recent years

In the past three years repeated recourse to temporary measures made it possible to contain the budget deficit and avoid restrictive effects on economic activity. Nonetheless, some charges were deferred to future years. The tax regularization schemes and other one-off measures distracted attention from the underlying performance of the public finances; the structural adjustment of the deficit and spending was postponed.

In the past five years primary current expenditure increased by an average of 5 per cent per annum, rising from 37.4 per cent of GDP in 1998 to 37.9 per cent in 2001 and 39.4 per cent in 2003. Including the further increase forecast for this year, the ratio will return close to the levels of the early 1990s and only just below the peak recorded in 1993.

The public finances can only be corrected on a lasting basis by means of structural expenditure reforms, rationalization measures and adequate budget constraints for local authorities.

Between 1998 and 2003 the ratio to GDP of tax and social security receipts, including the revenue from tax amnesties, remained virtually constant at just under 43 per cent.

The primary surplus progressively contracted from 5.2 per cent of GDP in 1998 to 3.9 per cent in 2001 and 2.9 per cent in 2003. In the past year, excluding one-off measures, it fell below 1 per cent, far less than is needed to achieve a substantial reduction in the ratio of public debt to GDP. In the last two years temporary measures, financial operations and sales of assets were used for the purpose.

The reduction in interest expenditure from 8 per cent of GDP in 1998 to 5.3 per cent in 2003 helped to curb the deficit. The improvement can be ascribed in part to the worldwide decrease in interest rates.

Finally, it should be recalled that between 1999 and 2003 the general government borrowing requirement, net of privatization receipts, exceeded net borrowing on average by about 1.6 percentage points of GDP, a figure out of line with the results for previous years. The large borrowing requirement was reflected in the growth of the debt.

The difficulty of controlling deficits has become evident during the course of this year.

The Economic and Financial Planning Document of July 2003 set a general government net borrowing target of 1.8 per cent of GDP for 2004. The economy was forecast to grow by 2 per cent.

The target was later revised several times.

In the spring of this year the risk of overshooting the limit of 3 per cent of GDP became apparent. The Quarterly Report on the Borrowing Requirement still indicated that net borrowing would amount to 2.9 per cent of GDP; meeting the target depended on the occurrence of a series of contingencies.

In May the Government acknowledged at European level that there was the risk of overshooting the 3 per cent limit and proposed the adoption of additional measures to keep the 2004 deficit below the limit.

On 31 May we indicated that an overshoot of up to 3.5 per cent of GDP was probable in the absence of immediate corrective measures.

On 5 July the European Council took note of the Government's commitment to take the necessary corrective measures; it underscored the need for Italy's public finances to be carefully monitored in the subsequent months. Deficit-reduction measures officially estimated at €7.6 billion, or 0.6 per cent of GDP, were accordingly approved.

The Economic and Financial Planning Document published at the end of July 2004 set out the actual situation of the public finances, which showed a marked imbalance for 2005 as well. Taking account of the measures that had just been approved, the Document confirmed the estimate of 2.9 per cent of GDP for net borrowing in 2004.

The primary surplus was estimated at 2.4 per cent of GDP, half a percentage point less than in the previous year owing to smaller receipts from tax amnesties. According to the estimates, the ratio of tax and social security contributions to GDP would decline by 1 percentage point, to 41.8 per cent; primary current expenditure would rise by 0.3 points, to 39.7 per cent of GDP.

For the current year the overall impact of temporary measures on the primary balance can be estimated at about 1 percentage point of GDP, about half as large as in 2003.

For the state sector alone, in the first nine months of the year the borrowing requirement, net of settlements of past debts and privatization receipts, amounted to €51.1 billion, more than €7 billion higher than in the corresponding period of 2003. The growth in the borrowing requirement would have been greater in the absence of the measures taken in July.

The Economic and Financial Planning Document indicates a reduction of 0.2 percentage points in the ratio of the debt to GDP in 2004, to 106 per cent. The contribution of privatizations is estimated at €19.5 billion, or 1.4 per cent of GDP.

The public finance objectives for 2005 and the subsequent years

In the absence of corrective measures, the Economic and Financial Planning Document shows net borrowing as rising in 2005 to 4.4 per cent of GDP, much higher than the figures indicated in the previous planning documents. For the subsequent years a slight improvement in the balances is expected; as usual, however, the baseline forecast is formulated on a current legislation basis, which does not include outlays for contract renewals or new investment projects.

In the baseline scenario, the 2005 state sector borrowing requirement on a cash basis is projected to be almost 6 percentage points of GDP; this would bring the process of reducing the debt ratio to a halt.

A rethinking of fiscal policy appeared necessary.

The budget correction for 2005 was set at €24 billion, 1.7 percentage points of GDP, of which €17 billion attributable to measures of a permanent nature.

The objective for 2005 net borrowing, previously set at 1.5 per cent of GDP, was raised to 2.7 per cent; the primary balance targeted at 2.6 per cent.

In order to curb the expansion of the debt, a total of €100 billion in receipts were planned to come in the four years 2005-08 from privatizations, securitizations and property sales.

In September, the Planning Document Update and the Forecasting and Planning Report confirmed the objective for net borrowing in 2005 and reduced the objective for the primary balance to 2.4 per cent. The ratio of the debt to GDP was now forecast to decline

from an expected l06 per cent in 2004 to 104.1 per cent, benefiting from the effects of substantial asset sales as early as next year.

Net borrowing would gradually diminish in the three subsequent years to 0.9 per cent of GDP in 2008.

The planned figures for total revenue and expenditure for 2005 were announced at the time the budget was presented. Including the effects of the Finance Bill, which does not contain the tax relief measures connected with the next step of the tax reform, which are to be entrusted to separate legislation, total revenue is set to grow by 2.8 per cent in nominal terms. Tax receipts are forecast to rise by 3.5 per cent, as against the figure of 1.6 per cent implicit in the Planning Document's baseline scenario. Primary expenditure is set to rise by 2.6 per cent, compared with 3.7 per cent in the baseline scenario, and capital expenditure, excluding privatization receipts, by 2.7 per cent.

The budget for 2005

The budget presented on 29 September is intended to reduce net borrowing in 2005 by €24 billion. On the basis of the technical report, the effects deriving from the Finance Bill amount to €22.6 billion; the further correction in the balance would come from changes incorporated in the tables remodulating budget allocations annexed to the bill.

The measures provide for a net increase in revenue of €5.6 billion, expenditure savings of around €8.4 billion and receipts from transactions in respect of assets totaling €7.1 billion; of the latter receipts, €4.1 billion is to come from the exploitation and sale of public property and €3 billion from the transfer of part of the highway network to companies under state control. Savings of €1.5 billion are expected to come from measures that affect interest payments.

The Government has announced that it will present measures supplementing the budget for 2005 with a view to strengthening economic growth. These are likely to include reductions in the regional tax on productive activities and personal income tax and incentives for innovation and competitiveness. As indicated in the Economic and Financial Planning

Document of last July, funding these measures will require additional resources with respect to those provided for in the Finance Bill.

a) Tax revenue

The €5.6 billion adjustment in tax revenue consists of €7.1 billion of increases and €1.5 billion of decreases.

Around €5.1 billion of the planned increase in revenue can be attributed to a set of measures designed to enlarge tax bases.

Provisions will be introduced to modify the rules governing sector studies and strengthen their use for tax assessment; these are expected to generate an additional €3.8 billion.

More specifically, a revision of sector studies is to be carried out every four years, in agreement with professional and trade associations, and the studies are to be updated automatically each year on the basis of the aggregates shown in the national accounts. The possibility will be introduced for taxpayers to amend their tax returns so that they are in line with the results of the studies, without incurring sanctions or penalties.

The results of the sector studies will provide the basis for the three-year ex-ante tax agreement, which will be progressively applied starting next year. This measure will have no effect on revenue in 2005.

A further €1.3 billion will come mainly from measures to broaden the tax bases for buildings and cooperative societies and from provisions regarding VAT for specific sectors.

A series of other measures are expected to generate €2 billion of additional receipts: €1 billion from the increase in the taxation of tobacco products and lotteries and provisions

regarding the Enalotto pool and video games, and about €1 billion from other, largely temporary measures.

Revenue will be decreased by around €1.5 billion by the renewal of some sectoral indirect tax reliefs.

b) Expenditure

The net savings with respect to the baseline projection of expenditure growth are estimated at €8.4 billion.

They are mainly connected with the introduction of a 2 per cent cap on the nominal increase in general government primary expenditure with respect to the provisional figures for the current year. Social benefits in cash, Italy's contributions to the European Community budget and expenditure for the Constitutional organs are excluded; for the first of these items, the Government estimates that expenditure will grow by 3.9 per cent. For primary expenditure as a whole, the Economic and Financial Planning Document indicates a baseline growth rate of the order of 5 per cent in 2005.

According to the official estimates, the cap on expenditure growth would reduce central government disbursements by €3.3 billion; this includes €2.1 billion of capital expenditure. The reduction in local government spending would amount to €1.3 billion.

Savings of around €4.3 billion are expected to be achieved in the health care sector. The Finance Bill fixes the level of expenditure by the National Health Service in 2005 at €88.3 billion, compared with the baseline figure of €92.5 billion indicated in the Economic and Financial Planning Document last July. The expenditure ceiling established for 2005 is €1.4 billion lower than the amount indicated for 2004 in the July Document.

Lastly, provision is made for spending increases totaling €0.9 billion for education, public employment and other items on current and capital account.

c) Local finances

For local authorities as a whole, observance of the 2 per cent ceiling on the nominal increase in expenditure is pursued by means of a revision of the Domestic Stability Pact. For municipal and provincial governments, the constraint on the deficit is replaced by a ceiling on spending growth, in the same way as for regional governments.

According to the Finance Bill, investment expenditure can exceed the ceiling only when financed by additional revenue deriving from higher tax rates and public service and utility charges. Starting in 2005 local authorities' power to increase the surcharges levied on personal income tax and the regional tax on productive activities will be restored.

For each authority, the rule is that current and capital expenditures may not increase by more than 4.8 per cent with respect to 2003. The reference aggregate excludes staff costs, expenses deriving from financial transactions, and payments to other public authorities. For the regions, health care expenditure, which is subject to specific restrictions, is also excluded from the general ceiling.

To sum up, the estimated €5.6 billion in additional tax revenues is to come primarily from measures for the permanent enlargement of the tax base. The most important one is the revision of sector studies, which is expected to boost revenue by €3.8 billion.

Net expenditure savings of €8.4 billion depend largely on the possibility of applying the 2 per cent ceiling on expenditure increases. Excluding the health care sector, the spending cap is expected to generate savings of about €4.6 billion. Forecast savings on health care amount to €4.3 billion. Other measures will entail additional outlays of €0.5 billion.

Savings of €1.5 billion will come from a decrease in net interest payments. Additional spending cuts worth €1.4 billion should come from the remodulation of budgeted appropriations, on the basis of the tables annexed to the Finance Bill.

Finally, asset disposals amounting to €7.1 billion are planned.

Evaluation of the budget

The aim of the Government's economic policy is to combine containment of the deficit and the debt with action to enhance competitiveness and safeguard households' purchasing power.

The measures approved at the end of September outline only the corrective action intended to hold the deficit under 3 per cent of GDP in 2005.

The action to boost economic growth, including tax reductions, is to be included in special measures not yet drafted, which are to be approved before the end of the year.

The setting of a limit to growth in spending creates a point of reference for budgetary policy. It can become an effective tool in pursuing the adjustment of the public finances. The 2 per cent ceiling is tantamount to keeping the total services and transfer payments citizens receive unchanged in real terms.

For the measure to be effective, however, it is necessary to ensure the regulatory and procedural conditions for the limit to be applied to all the relevant spending items. A review of expenditure needs, item-by-item, is indispensable. In a number of cases existing legislation will have to be modified.

Application of the ceiling for four years to all non-interest outlays, without exception, would reduce their ratio to GDP by 3.9 percentage points in the macroeconomic scenario set out in the update of the Economic and Financial Planning Document.

In the medium term, in order for the ceiling not to hinder the efficient utilization of public resources, it is necessary for different budget components to grow at different rates, depending on the priorities of public policy action.

Special attention must be paid to investment expenditure, in view of its impact on economic activity.

As regards local finances, with a view to making authorities responsible for the administration of their financial resources, the spending caps should be gradually replaced by constraints on their budget balances. The granting of sufficient scope for fiscal autonomy and the definition of central government transfers must be accompanied by the obligation to fund

spending increases out of additional revenues, avoiding the accumulation of liabilities that the central government later has to cover.

Two thirds of the primary current expenditure savings involve health care. The creation of new concealed debt must be avoided. Only intervention to increase the efficiency of the services and rationalize health care can bring lasting savings that will be maintained in future years.

On the revenue side, the measures are aimed at reducing tax evasion and avoidance and distributing the tax burden more fairly. Gradual, steady action in this regard is not only desirable *per se* but necessary to ensure the cogency of tax rules. Recurrent tax amnesties affect future revenues; they may undermine compliance with the rules.

Inevitably, estimates of the effects of tax measures are subject to a degree of uncertainty. The effectiveness of the rules on sector studies, from which a significant contribution is expected as early as 2005, requires their rapid revision and updating, and hence full, active cooperation between the revenue service and the business organizations involved. An increase in disputes must be avoided.

In the absence of new tax reductions there would be a slight decrease in 2005 in the ratio of tax revenues, including those from amnesties, to GDP. The decline could be annulled if local authorities were to increase their revenues.

In recent years there has been substantial recourse to real estate disposals involving properties used by private parties. These sales are justified by considerations of efficiency in the allocation of resources.

A different matter is the sale of buildings used in the operation of government agencies and departments, now being defined by the Public Building Fund, and the proposed transfer of parts of the state road network to an institution outside the perimeter of general government although still under state control. In both cases the state would undertake to lease the facilities back. Such operations impose additional budgetary outlays in future years.

The measures necessary to boost economic growth require the procurement of additional resources beyond those provided for in the Finance Bill.

Conclusions

The state of the Italian public finances that emerged in the middle of this year is highly serious.

In the absence of corrective measures, the state sector borrowing requirement would rise to 6 per cent of GDP in the next few years. The balance net of interest payments would be negative. Public debt would rise in relation to GDP.

In July the Economic and Financial Planning Document clarified the state of the accounts. For 2005 it projected net borrowing equal to 4.4 per cent of GDP on a current legislation basis.

The readjustment plan set out is demanding and, given the scale of the effort required, necessarily gradual.

In the medium term, adjustment of the public finances is crucial to growth; it fosters investment; it creates scope for improving the infrastructural endowment.

The planned action to curb spending is designed to break the upward trend stretching back several years. Countering the erosion of tax bases could permit a future reduction in tax rates.

The gap between the borrowing requirement and net borrowing remains wide; it needs to be analyzed further.

There remain areas of uncertainty and risks that must be defused in order not to jeopardize the projected budget balance. Some of the measures could weigh on future budgets.

In the medium term, maintaining the expenditure limits will require structural reform in the main areas of the public sector. No reduction in tax revenue not based on a slowdown in the growth of spending is sustainable.

In a broader perspective, the adjustment of the public finances must also address the ongoing process of decentralization of powers and functions. Administrative costs must not be increased, while the adjustment process must conform to the principles of cohesion and solidarity.

The Ministry for the Economy, local governments and the Bank of Italy are developing an information system for the real-time, distance registration of the accounting data of all public bodies through their treasury managers. This will make the accounting data of individual bodies more accurate and available sooner. The banking system is cooperating fully in the project.

For effective implementation of the measures adopted, developments in the public finances and compliance with the 2 per cent ceiling should be monitored, preferably on a monthly basis. This task could be assigned to a High Commission or to some other institutional body at a sufficiently high level.

Successfully fostering economic growth requires an immediate start on action to improve productivity and enhance competitiveness.

Tables and Figures

Table 1. *Unconsolidated central government borrowing requirement*

Table 2. *General government borrowing requirement*

Table 3. *Estimated effects of the budget on the general government consolidated accounts*

Table 4. *Budget forecasts in the Economic and Financial Planning Documents for 2004-07 and 2005-08 and Updates*

Figure 1. *General government overall balance, primary balance and debt*

Figure 2. *Monthly profile of the state sector borrowing requirement in 2003 and 2004*

Figure 3. *General government revenue, social services expenditure and gross investment*

Table 1

UNCONSOLIDATED CENTRAL GOVERNMENT BORROWING REQUIREMENT

(millions of euros)

	Year			First 8 months		
	2001	2002	2003	2002	2003	2004 (1)
Net borrowing requirement (net of debt settlements and privatization receipts)	**43,385**	**31,473**	**18,894**	**31,240**	**33,098**	**48,360**
Debt settlements	9,310	5,328	8,537	1,262	4,437	211
- in securities	*563*	*1*	*575*	*1*	*573*	*2*
-in cash	*8,747*	*5,326*	*7,961*	*1,260*	*3,865*	*209*
Privatization receipts	(4,603)	(1,929)	(16,855)	(178)	(1)	(15)
Total borrowing requirement	**48,092**	**34,871**	**10,575**	**32,324**	**37,535**	**48,556**
FINANCING						
Medium and long-term securities	11,931	21,350	13,656	30,526	19,481	35,721
Short-term securities	11,691	-97	6,083	16,761	22,924	24,389
Treasury current accounts with BI	-2,119	212	8,013	-16,348	-19,259	-34,553
Other Bank of Italy net financing	42	111	136	95	48	-99
Post Office funds	16,410	11,496	-64,806	3,226	5,122	298
MFI loans	-2,375	-1,419	-3,002	-3,788	-2,311	-157
Other domestic financing	4,761	-280	46,316	-273	1,779	17,347
Foreign loans (2)	7,750	3,499	4,179	2,126	9,751	5,611

Memorandum item:						
Net borrowing requirement of the state sector (3)	40,017	30,849	42,681	34,378	33,188	42,533

(1) Provisional data.
(2) Includes commercial paper.
(3) Source: *Relazione Trimestrale di Cassa* and Ministry for the Economy and Finance press releases.

Table 2

GENERAL GOVERNMENT BORROWING REQUIREMENT

(millions of euros)

	Year			*First 8 months*		
	2001	2002	2003	2002	2003	2004 (1)
Net borrowing requirement (net of debt settlements and privatization receipts)	**45,621**	**37,046**	**44,712**	**33,453**	**34,676**	**51,785**
Debt settlements	9,310	5,328	8,537	1,262	4,437	211
- in securities	*563*	*1*	*575*	*1*	*573*	*2*
-in cash	*8,747*	*5,326*	*7,961*	*1,260*	*3,865*	*209*
Privatization receipts	(4,603)	(1,929)	(16,855)	(178)	(1)	(15)
Total borrowing requirement	**50,328**	**40,445**	**36,393**	**34,537**	**39,113**	**51,981**
FINANCING						
Medium and long-term securities	12,984	22,729	15,063	31,079	18,835	36,088
Short-term securities	11,573	-40	6,057	16,813	22,970	24,315
Treasury current accounts with BI	-2,119	212	8,013	-16,348	-19,259	-34,553
Other Bank of Italy net financing	42	111	136	95	48	-99
Post Office funds	16,410	11,496	-64,806	3,226	5,122	298
MFI loans	-2,442	-1,406	-4,066	-3,780	-3,140	1,829
Other domestic financing	4,761	-397	68,757	-273	3,686	18,274
Foreign loans (2)	9,116	7,739	7,241	3,726	10,851	5,829

(1) Provisional data.
(2) Includes commercial paper.

Table 3

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

(millions of euros)

REVENUE	
Increase in revenue	**14,190**
Sales of assets	7,000
Sales of state property and property rights	100
Measures concerning tax bases	5,060
Strengthening of sectoral studies	*3,810*
Taxation of the income of cooperative companies	*470*
Taxation of income from property apart from first homes	*310*
Rerating of property	*120*
Measures to counter VAT evasion	*190*
Tax on urban waste	*160*
Increase in the tobacco basic rate	500
Video games and betting	480
Substitute tax on firms	270
Other	780
Decrease in revenue	**-1,460**
Extension of agricultural tax reliefs	-740
Extension of partial VAT deductibility for company cars	-180
Extension to 2005 of excise duty reliefs	-240
Extension to 2004 of reliefs for road hauliers	-120
Other	-180
NET CHANGE IN REVENUE	**12,730**
EXPENDITURE	
Reduction in expenditure	**-9,230**
2% limit on increase in government departments' current expenditure	-1,200
2% limit on increase in government departments' capital expenditure	-2,060
Health care	-4,250
Limit on increase in local government other expenditure (4.8% over 2003)	-1,270
Other	-450
Increase in expenditure	**900**
Education	110
Pubblic employment	80
Other current expenditure	610
Other capital expenditure	100
NET CHANGE IN EXPENDITURE	**-8,330**
TOTAL REDUCTION IN THE PRIMARY BALANCE	**21,060**
Interest payments	-1,520
TOTAL REDUCTION IN NET BORROWING (1)	**22,580**

(1) Based on official estimates.
The table does not include the effects of the measures contained in the tables attached to the Finance Bill.

Table 4

BUDGET FORECASTS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2004-07 AND 2005-08 AND UPDATES (1)

(as a percentage of GDP)

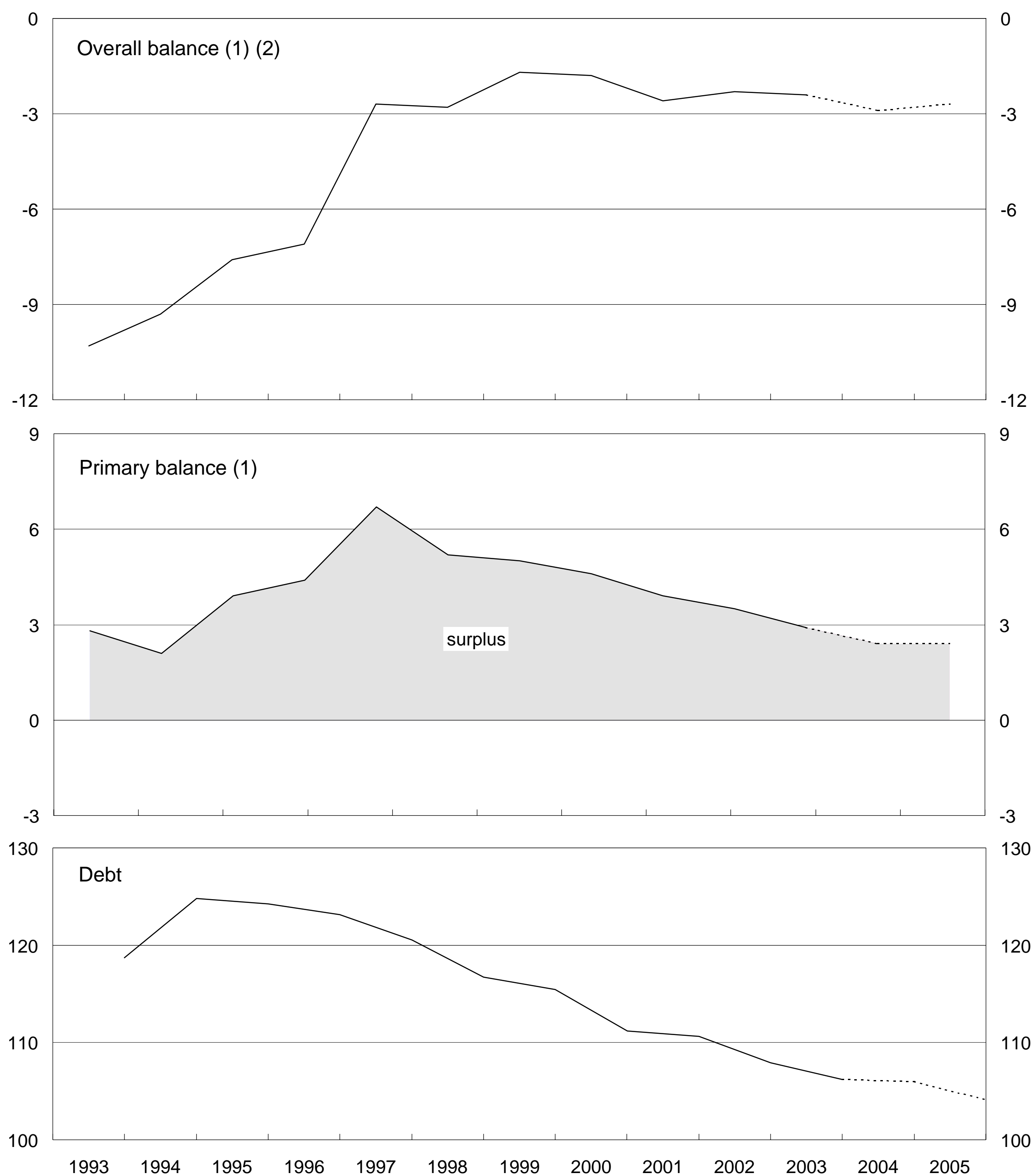
	2003	2004				2005			2006			2007			2008	
	Outturn	EFPD 2004-07		EFPD 2005-08		EFPD 2004-07	EFPD 2005-08		EFPD 2004-07	EFPD 2005-08		EFPD 2004-07	EFPD 2005-08		EFPD 2005-08	
		July	Sept. (2)	July	Sept. (2)		July	Sept. (2)		July	Sept. (2)		July	Sept. (2)	July	Sept. (2)
Net borrowing	2.4	1.8	2.2	2.9	na	1.2	2.7	2.7	0.5	2.2	2.0	-0.1	1.7	1.4	1.2	0.9
of which: current	*0.2*	*na*	*-0.5*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
capital	*2.2*	*na*	*2.8*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Primary surplus	2.9	3.1	2.9	2.4	na	3.8	2.6	2.4	4.6	3.3	3.3	5.2	4.0	4.0	4.8	4.7
Total revenue	46.3	na	44.7	na	na	na	na	na	na	na	na	na	na	na	na	na
of which: taxes and social security contributions	*42.8*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Primary expenditure	43.5	na	41.8	na	na	na	na	na	na	na	na	na	na	na	na	na
of which: current	*39.4*	*na*	*38.3*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
capital	*4.1*	*na*	*3.5*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*	*na*
Interest payments	5.3	4.9	5.1	5.3	na	5.0	5.3	5.1	5.0	5.5	5.3	5.1	5.7	5.4	6.0	5.6
Debt	106.2	104.2	105.0	106.0	na	101.7	104.1	104.1	99.4	101.9	101.9	97.1	99.3	99.2	98.1	98.0

(1) Rounding may cause discrepancies in totals.
(2) Update of the Economic and Forecasting Planning Document for2004-07 and 2005-08, presented by the Prime Minister and the Minister for the Economy and Finance on 30 September 2003 and 30 September 2004.

Figure 1

GENERAL GOVERNMENT OVERALL BALANCE,
PRIMARY BALANCE AND DEBT

(as a percentage of GDP)



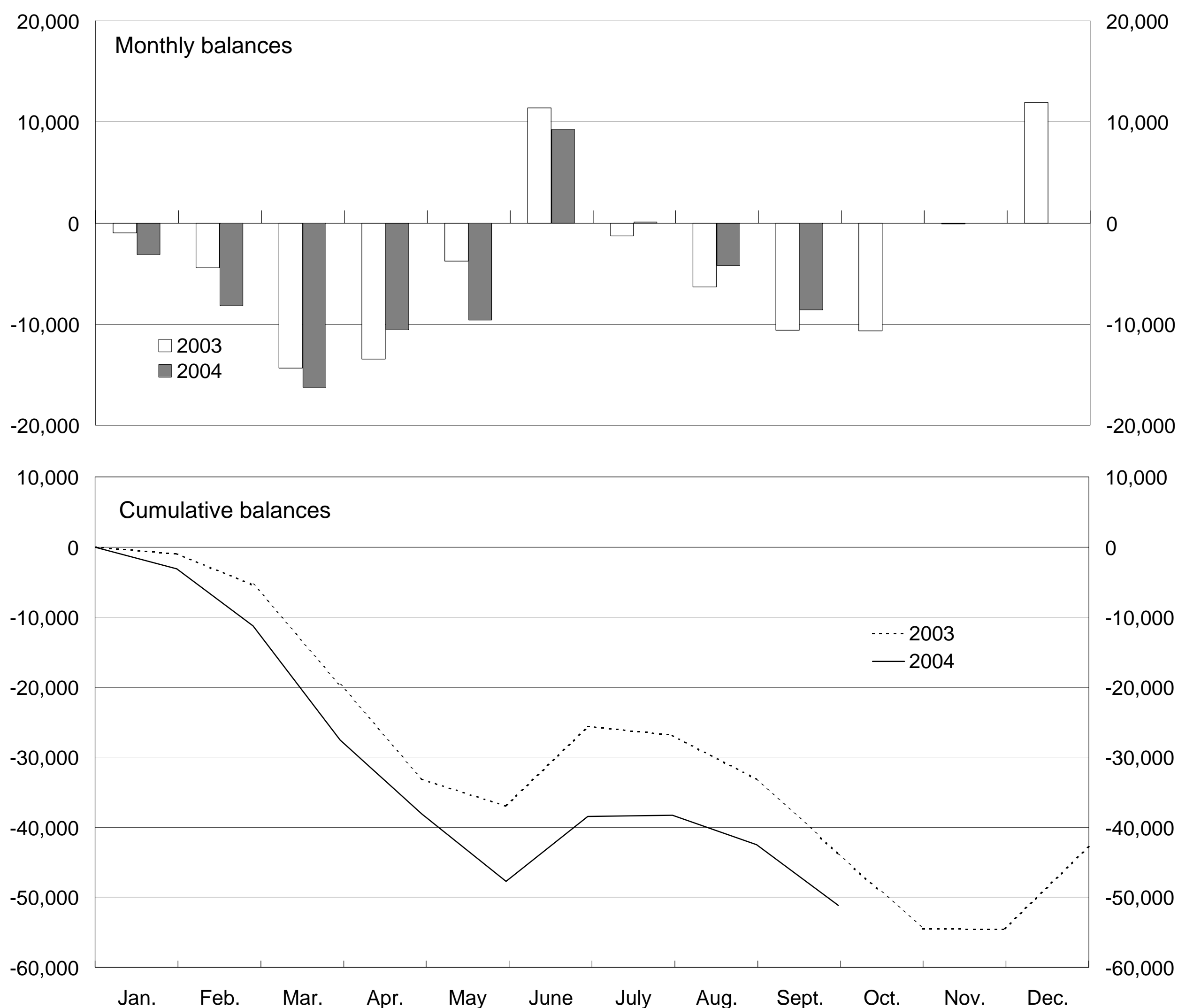
Sources: Based on Istat data and Bank of Italy for the debt. For the years 2004 and 2005, Update of the Economic and Financial Planning Document for 2005-08.

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

Figure 2

MONTHLY PROFILE OF THE STATE SECTOR BORROWING REQUIREMENT IN 2003 AND 2004 (1)

(millions of euros)



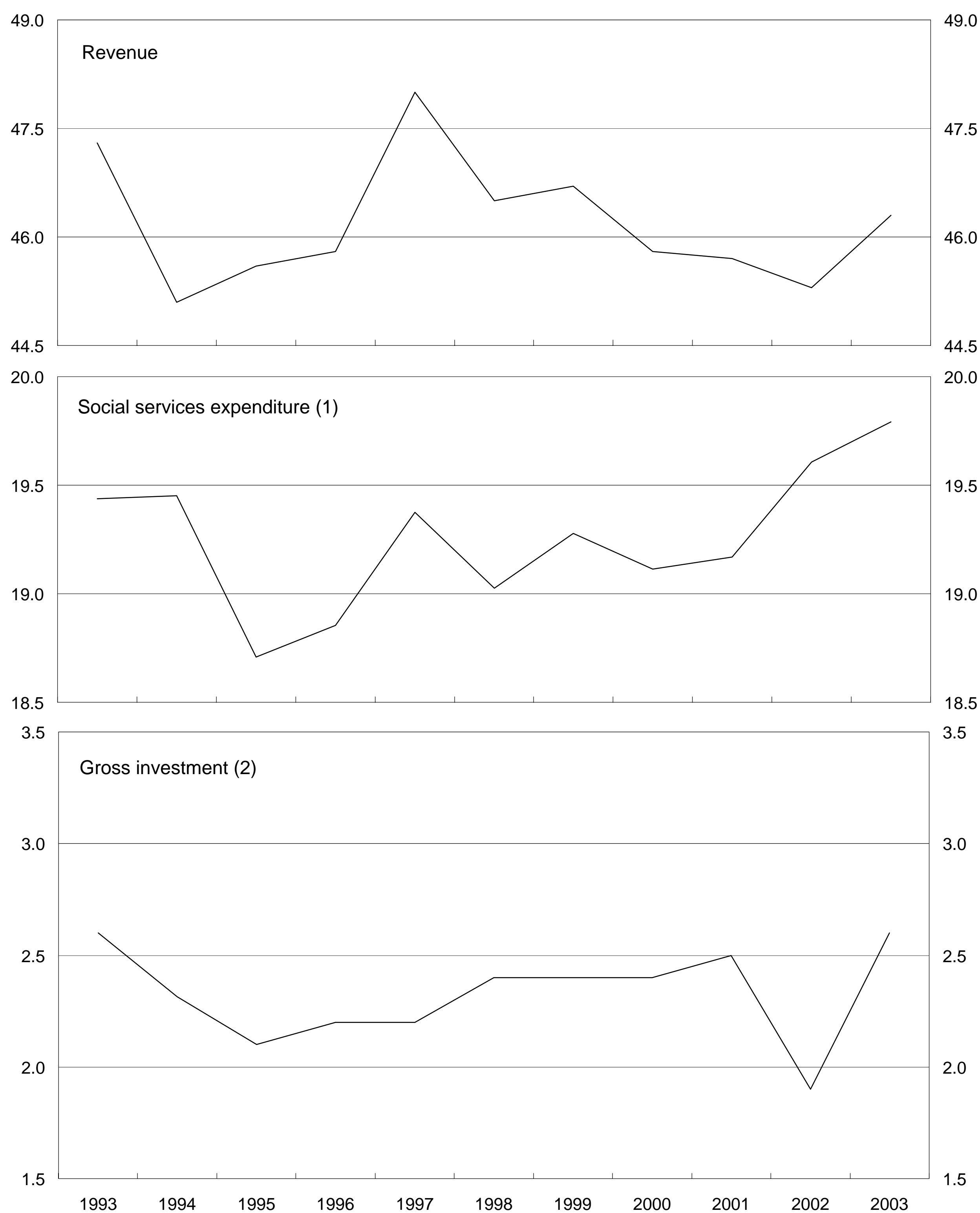
Source: *Relazione Trimestrale di Cassa* and Ministry for the Economy and Finance press releases.

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

Figure 3

GENERAL GOVERNMENT REVENUE, SOCIAL SERVICES EXPENDITURE AND GROSS INVESTMENT

(as a percentage of GDP)



Source: Based on Istat data.

(1) Includes social services in money and in kind.
(2) This item includes the proceeds of sales of public property with a negative sign.