Joint Session
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Fact-finding preliminary to the examination of the Economic and Financial Planning Document for the years 2006-2009

Testimony of the Governor of the Bank of Italy
Antonio Fazio

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Contents

1. Cyclical developments

In the first half of 2005 the world economy continued to expand rapidly, driven by strong demand in the United States and China. The growth differentials between the main areas remained large. In the coming months world economic activity could be adversely affected by the recent heightening of tensions in the market for oil. A further increase in US interest rates is expected.

In the United Kingdom the rate of growth has fallen in the last few months. In the euro area output continues to grow at an unsatisfactory pace; in 2004 it increased by 2 per cent, less than half the figure for the world economy. The expansion in economic activity in Germany and Italy was particularly modest, 1.6 and 1.2 per cent respectively.

After improving temporarily in the first few months of 2005, the growth in euro-area GDP slowed in the second quarter. In the middle of the year there were some signs of a recovery. In June the climate of confidence among industrial firms improved for the first time since the beginning of the year, reflecting more favourable expectations for production in France and Germany.

In Italy the problems besetting the economy are rooted in structural factors that prevent Italian firms from taking advantage of the rapid expansion in world trade. After falling by 0.4 per cent in the fourth quarter of 2004, GDP fell by a further 0.5 per cent in the first quarter of this year. In both periods the negative result was caused by the performance of exports; in the six months ending in March they decreased by more than 4 per cent compared with the preceding six months.

Domestic demand is stagnant. In the first quarter investment in construction continued the decline that had begun in the autumn; investment in machinery, equipment and transport equipment showed signs of picking up, while consumption slowed down.

Households' propensity to save rose further in response to the increased uncertainty about incomes.

The situation with regard to inflation remains satisfactory overall, although the rise in oil prices is a threat. In June consumer prices were virtually unchanged, partly owing to the weakness of demand.

There have been signs in recent months that the cyclical situation is also improving in Italy. In May the fall in the index of production offset only part of the sharp rise recorded in April. Manufacturing activity is estimated to have remained unchanged in June, indicating an increase of one percentage point in the second quarter compared with the first. GDP is also expected to have turned up in the second quarter, albeit very modestly.

The strength of the recovery is still uncertain. Positive growth for the year as a whole will depend on an acceleration in economic activity in the next few months; a stimulus may be provided by a recovery in exports, sustained by the recent depreciation of the euro.

It is necessary to take advantage of the favourable moment and consolidate the signs of recovery. It is to be hoped that the Government will accelerate the programme of public works.

2. The public finances in the years 2001-04

In the last few years the slow growth of the economy and the difficulty in controlling expenditure have had an adverse effect on the performance of the public finances. Net borrowing rose from 1.9 per cent of GDP in 2000 to 3.2 per cent in 2004; the primary surplus, the difference between revenue and expenditure excluding interest payments, contracted from 4.5 to 1.8 per cent of GDP.

Recourse was again made to one-off measures in 2004. If they are not considered, net borrowing would be just under 5 per cent of GDP and the primary surplus virtually nil.

In the last four years and again excluding one-off measures the deterioration in the primary balance of more than 4 percentage points of GDP reflected the reduction in revenue of nearly 2 points and the increase in expenditure of nearly 2.5 points.

About two thirds of the decrease in revenue in the period 2001-04 was due to tax reliefs. As for current expenditure, there were large increases in spending on pensions, health care and compensation of employees. In real terms current primary expenditure grew at an annual rate of 2.4 per cent, compared with 1.2 per cent in the period 1994-2000. Excluding the proceeds of asset sales, public investment increased by 0.4 percentage points of GDP.

The fall in the ratio of debt to GDP that began in 1995 nearly came to a halt in 2004, when the ratio edged down by 0.2 points to 106.6 per cent. The reduction of 4.7 points in the last four years was due to asset sales and restructuring of the Treasury's liabilities.

The process of reducing the debt ratio has been held back by the persistently high level of the general government borrowing requirement. Excluding privatization receipts, in the last four years the borrowing requirement averaged more than 4 per cent and exceeded net borrowing by more than one percentage point. Excluding one-off measures, in the last three years the borrowing requirement averaged about 6 per cent of GDP.

3. Budgetary policy in 2005

In July 2004 the Economic and Financial Planning Document set an objective of 2.7 per cent of GDP for general government net borrowing in 2005. The ratio of debt to GDP was forecast to fall by 1.9 points to 104.1 per cent and the economy to grow by 2.1 per cent.

At the end of last year Parliament approved a budgetary adjustment officially forecast at 1.7 percentage points of GDP. It included measures to reduce net borrowing by €32.5 billion and others to increase it by €8.5 billion. The latter included personal income tax reliefs amounting to €4.3 billion. A 2 per cent cap was imposed on the increase in general government expenditure in nominal terms. A large part of the reduction in the deficit was entrusted to one-off measures.

In its report to the European Commission of 1 March 2005 Istat indicated that net borrowing in 2004 had been equal to 3 per cent of GDP. On the same occasion it released some statistical revisions and accounting reclassifications that raised net borrowing for the three years 2001-03. The increases (to respectively 3, 2.6 and 2.9 per cent of GDP) mainly derived from the inclusion among capital transfers of contributions of capital to Ferrovie S.p.A..

In April 2005 the European Commission estimated that without further corrective measures net borrowing in 2005 would be equal to 3.6 per cent of GDP. The forecast was based on a prudent assessment of the effects of some of the measures included in the budget and an estimate of GDP growth of 1.2 per cent.

The April Quarterly Report on the Borrowing Requirement raised the target for general government net borrowing for 2005 from 2.7 to 2.9 per cent of GDP, mainly as a result of the downward revision of expected growth, from 2.1 to 1.2 per cent. The document also listed a series of uncertain events and indicated that net borrowing could rise to 3.5 per cent of GDP.

The latter figure for the deficit was obtained assuming the occurrence of all the uncertain events listed in the Quarterly Report, including the deferment to 2006 of costs associated with 2004-05 labour contracts, with a favourable effect equal to 0.25 points of GDP. The other uncertain events, which all implied an increase in the deficit, were: confirmation by Eurostat of the accounting standards applied by Istat in classifying contributions of capital to Ferrovie S.p.A. (with an increase in the deficit of about 0.23 points of GDP); the continued classification of Anas within general government in 2005 (with the consequent inclusion of costs amounting to 0.14 percentage points of GDP); operational difficulties in completing the programme of real-estate sales (with a shortfall in revenue estimated at 0.35 points of GDP); an expenditure overshoot with respect to the caps established by the Finance Law (estimated at 0.1 points of GDP).

If the trend of the public finances proved unfavourable, the Government declared that it would take suitable steps to bring net borrowing in 2005 within the limit established by the Maastricht Treaty or at any rate below a level consistent with the new evaluation criteria approved by the European Council.

On 24 May Istat revised the estimates for the public finances in 2000-04 taking account of some decisions taken by Eurostat. Net borrowing is now estimated to have been 1.9 per cent of GDP in 2000, 3.2 per cent in 2001, 2.7 per cent in 2002 and 3.2 per cent in 2003 and 2004.

Eurostat felt unable to validate the data on the Italian public finances submitted by Istat on 1 March and requested additional information on the accounting treatment of specific operations (payments by tax collection agencies; Infrastrutture S.p.A.'s financing of high-speed railway construction works; certain aspects of securitizations of sales of buildings; and the recording of transactions with the EU budget). Eurostat also drew attention to excessive inconsistencies between data on a cash basis and on the accrual basis adopted for the European System of Accounts (ESA95). On 23 May Eurostat announced its decisions concerning the accounting treatment of some of the above operations.

The Economic and Financial Planning Document for 2006-09 raises the estimate of net borrowing in 2005 to 4.3 per cent of GDP and forecasts a primary surplus equal to 0.6 per cent. The new figures take account of: a further downward revision of GDP growth, which is put equal to zero; revisions made by Istat to the preliminary data; and the occurrence of the unfavourable events referred to in the Quarterly Report on the Borrowing Requirement.

In addition, the estimate of the expenditure overshoot with respect to the limits established by the Finance Law has been increased and it is assumed that the renewal of public-sector labour contracts for 2004-05 will be completed by the end of the year.

According to the Economic and Financial Planning Document, current primary expenditure will rise by 4.7 per cent in 2005; the Quarterly Report had indicated an increase of 2.8 per cent. Consequently, current primary expenditure will rise from 39.3 per cent of GDP in 2004 to 40.2 per cent in 2005, thus returning to the peak level recorded in 1993. In particular, health expenditure is expected to increase by 5.2 per cent, despite the corrective measures in the Finance Law.

The effects of one-off measures on the deficit in 2005, taking into account the smaller privatization receipts expected, are estimated in the Planning Document to be equal to 0.4 percentage points of GDP.

The Planning Document also raises the estimate of the state sector borrowing requirement to 4.7 per cent of GDP, as against 3.2 per cent in the Quarterly Report on the Borrowing Requirement.

The ratio of debt to GDP is expected to rise from 106.6 to 108.2 per cent. The Planning Document does not indicate the privatization receipts on which this forecast is based. They are likely to be of the order of 1 per cent of GDP.

The European Commission has initiated the excessive deficit procedure against Italy. On 12 July the Ecofin Council granted the Government six months in which to define corrective measures and two years to bring the deficit below 3 per cent of GDP.

The Council called for: a) the rigorous application of the budgetary measures for 2005 in order to keep the deficit within 4.3 per cent of GDP; b) a total adjustment equal to 1.6 per cent of GDP in 2006-07, of which at least half in the first year; and c) the achievement of an adequate primary surplus in the medium term.

4. The public finances in the Planning Document for 2006-09

The projections on a current programmes basis. In the Economic and Financial Planning Document these projections are based on current trends and legislation and assume the economy will grow at an average rate of 1.5 per cent. They indicate that general government net borrowing in 2006-09 will remain constant at 4.7 per cent of GDP and that the primary surplus will be close to zero. Net of settlements of past debts and privatization receipts, the state sector borrowing requirement is forecast to decline from 4.7 per cent of GDP in 2006 to 4 per cent in 2009.

The Planning Document projections also indicate that the difference between the above-mentioned borrowing requirement and net borrowing will fall from about 0.4 percentage points of GDP in the last two years to zero in 2006 and then become negative. This result is attributed to a reduction in Italy's claims on the European Union and smaller cash outlays for interest payments, health care and tax refunds. The projections contained in last year's Planning Document showed the gap progressively widening to 2 percentage points of GDP in 2008.

According to the projections, staff costs will decrease by about 2 per cent in 2006, with a quarter of the fall due to the planned reduction in manning levels. The remainder of the contraction reflects the assumption that the contractual increases in public-sector wages and salaries for 2004-05 will all be paid in 2005. A part of this expenditure may weigh on the public finances in 2006.

Intermediate consumption expenditure is estimated to grow in 2006-07 at an annual rate of more than 3.5 per cent, despite the caps imposed by the Finance Law for 2005.

The use of the current legislation criterion results, especially from 2007 onwards, in an underestimation of the rate of increase in expenditure since it takes only partial account of the costs arising from the renewal of labour contracts in the public sector.

The planning scenario. The adjustment of the public finances set out in the Planning Document complies with the recommendations of the Ecofin Council. Net borrowing falls to 3.8 per cent of GDP in 2006, to 2.8 per cent in 2007 and then to 1.5 per cent in 2009.

The improvement in net borrowing mainly reflects the planned increase in the primary surplus from 0.9 per cent of GDP in 2006 to 3 per cent in 2009. Interest payments are expected to decrease gradually from 4.7 to 4.5 per cent of GDP.

No indications are provided as to the planned values for revenue and expenditure. More details would permit a better assessment of the economic policy guidelines on which the Planning Document is based.

In order to achieve the objective for net borrowing in 2006, the Planning Document envisages a budgetary adjustment equal to 0.8 per cent of GDP, based exclusively on structural measures, in line with the commitments entered into at European level. It is intended that the measures should mainly reduce current expenditure. Further adjustments, again of a structural nature, are planned for the following years, of the order of 1 percentage point of GDP in 2007, 0.6 points in 2008 and 0.5 points in 2009.

Any increases in expenditure or tax reliefs will have to be suitably compensated for.

From 2006 onwards sales of public-sector assets will be used to reduce the debt or to finance activities of strategic importance for growth.

If the deficit is to be curbed entirely through measures affecting current primary expenditure, this would need to decrease in real terms by more than one percentage point per year.

The ratio of debt to GDP is forecast to fall from 108.2 per cent, the level expected in 2005, to 100.9 per cent in 2009. Achieving this result will require very substantial privatization receipts, of the order of one percentage point per year.

In addition to laying down the course for the consolidation of the public finances, the Planning Document outlines an economic policy to foster economic recovery. The main elements are: an improvement in infrastructure, with an increase in the South of Italy's share of public capital expenditure; further progress in the direction of reducing the tax burden; protection of the purchasing power of households; greater liberalization of the markets for goods and above all services. The measures to be adopted to achieve these goals are to be specified in the Finance Law for 2006.

The reduction in revenue mainly concerns the taxation of companies. In particular, provision is made for a gradual decrease in the regional tax on productive activities by excluding labour costs from the base and a reduction in the tax wedge on labour by acting on some improper levies.

The Government also intends to intensify the fight against tax evasion and to enlarge tax bases. Progress in these areas would allow tax rates to be lowered. In view of the uncertainty with regard to the timing and amount of revenue to be recovered, it would be better if the additional revenue expected were not used to cover the planned tax reliefs.

GDP is expected to grow by 1.5 per cent in each of the first two years, by 1.7 per cent in 2008 and by 1.8 per cent in 2009. The measures to foster growth should more than offset the negative effects of the budgetary adjustment on the expansion in economic activity.

5. The outlook

The stagnation of the economy and Italian firms' loss of competitiveness impose heavy costs on the weaker segments of the population; looking further ahead, they threaten to erode the wellbeing achieved by the entire community.

The Economic and Financial Planning Document lays down guidelines for economic policies to revive growth and progressively adjust the public finances. This is a difficult challenge. Lower-than-planned GDP growth would undermine the accounts of the public sector.

The problems of our economy are of a structural nature and require action to increase the endowment of infrastructure, encourage firms to grow larger, foster their capacity to innovate and improve the efficiency of the public sector.

It is necessary to reduce the burden of taxation, according priority to lowering the tax rates applicable to companies. Such interventions must be covered by cuts in current expenditure.

The interventions must be specified and implemented in the next Finance Law; any delay in enacting these provisions will act as a brake on the recovery.

The Planning Document foresees GDP growth of 1.5 per cent in 2006. Prompt specification of the measures to be taken is needed to sustain business confidence. An acceleration of the infrastructure investment programme is essential. A six-month plan should be drafted to define the objectives for opening sites and progress in carrying out works, if necessary through extraordinary measures.

The adjustment of the public finances cannot be deferred.

The persistence of large budget deficits heightens the uncertainty of households and firms and restricts the scope for stabilization policies.

In the light of the difficulties currently besetting our economy, the Government's goal of deficit and debt reduction is commendable. The adjustment is rightly entrusted to structural interventions. Decreasing current primary expenditure as a percentage of GDP must permit the reduction of the deficits, an easing of the tax burden and an increase in capital expenditure.

Structural reforms in the main areas of expenditure are necessary. All the different levels of government must be involved in the adjustment.

Completion of the information system for the transactions of public entities will permit the measurement of general government activity in real time and accurate monitoring of spending and deficits by the Government and Parliament.

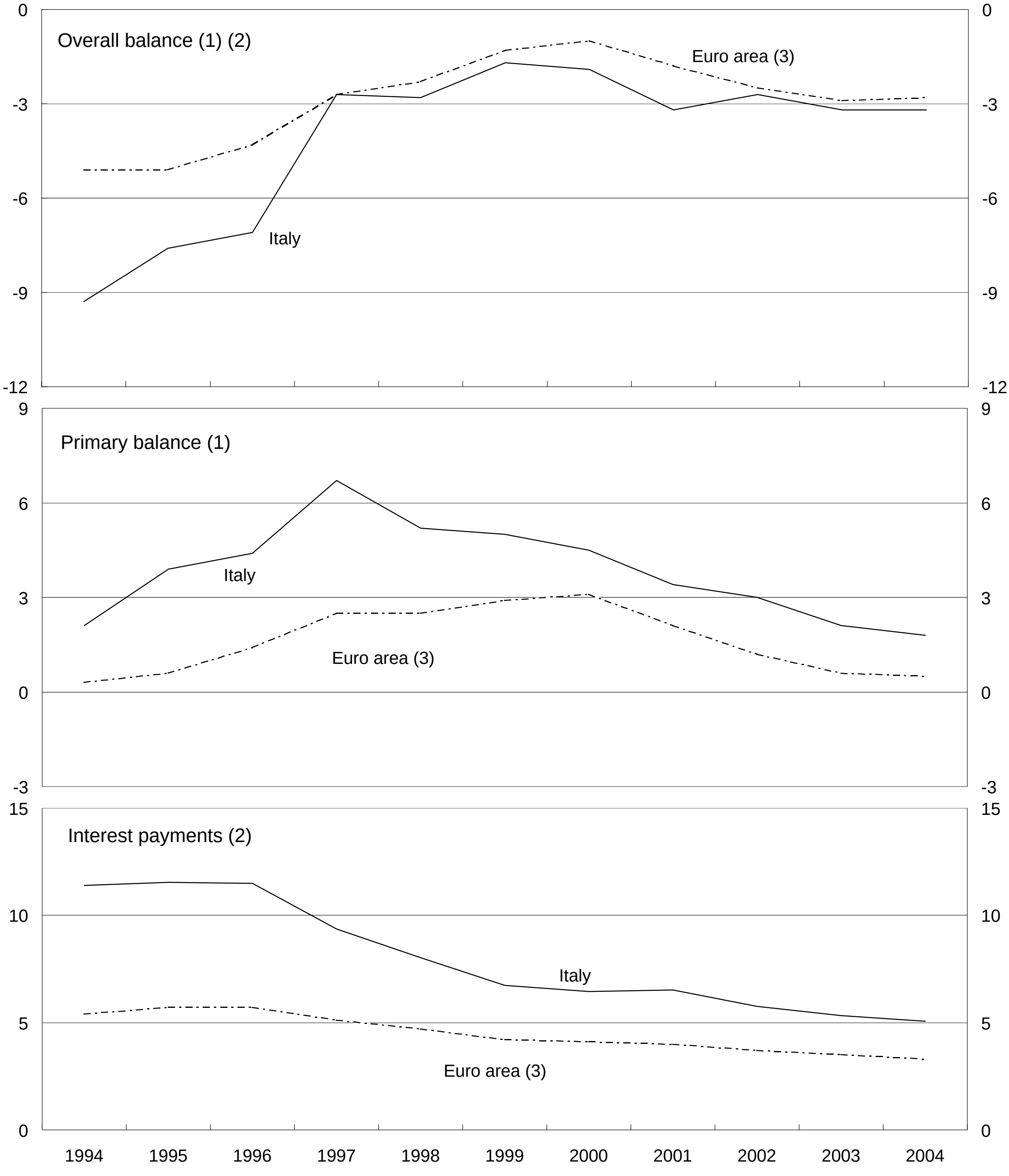
In order to return to a path of growth, it will be necessary to remove the factors that cause uncertainty and weigh on the decisions of firms and households regarding investment and consumption, to create a legal environment more favourable to business, to intensify all the activities capable of improving the country’s external competitiveness. The convinced involvement of firms and the social partners is indispensable.

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 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)

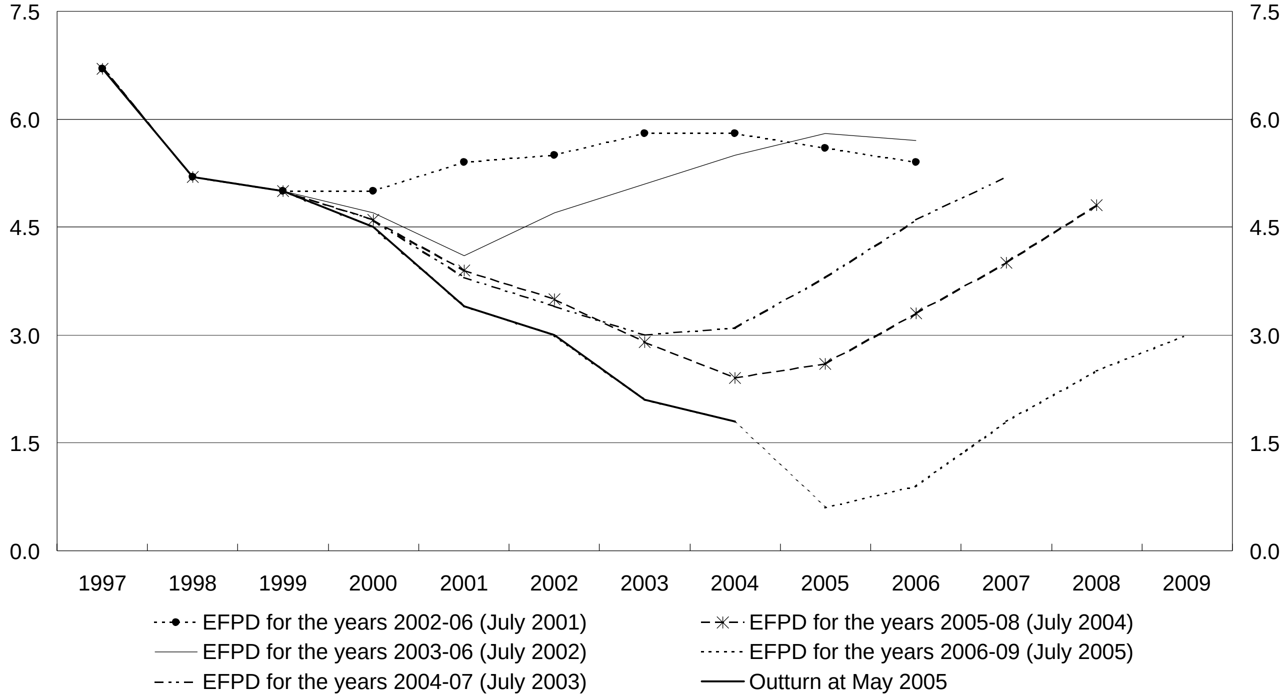
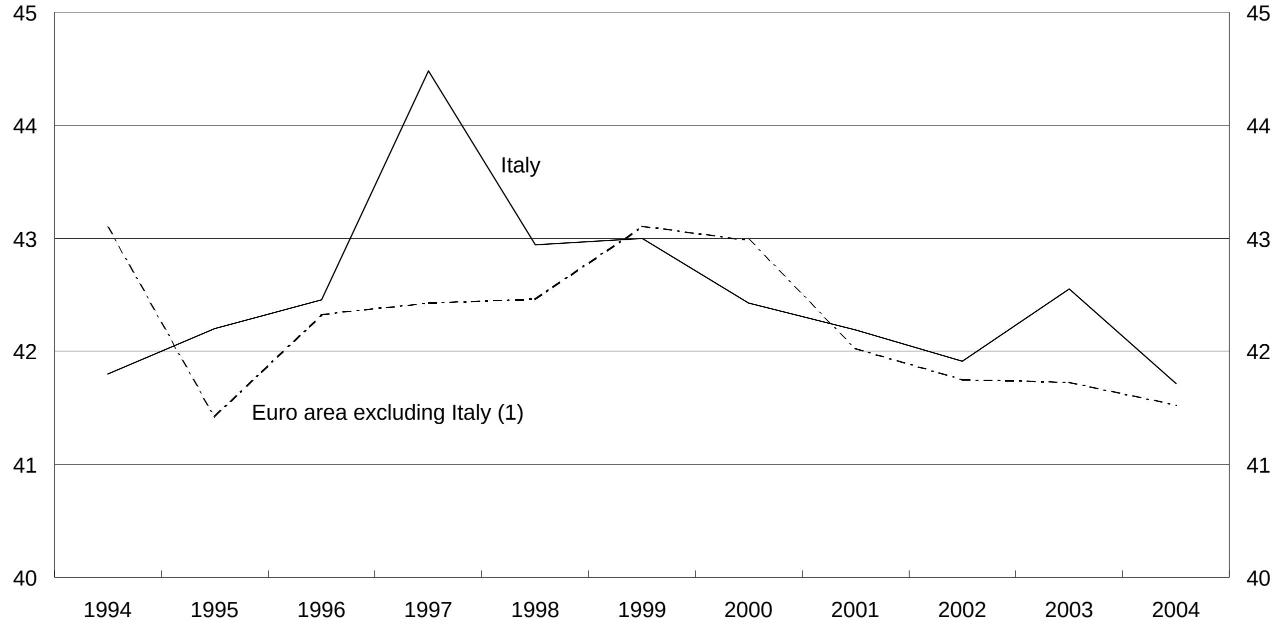


Figure 3

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

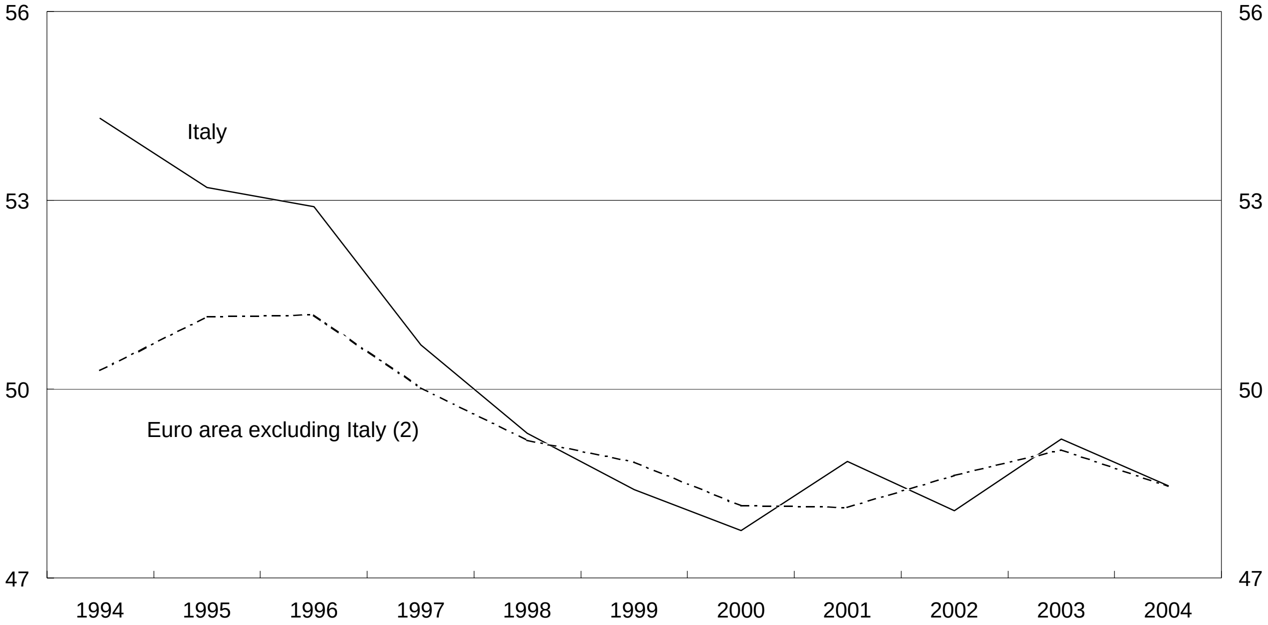


Sources: Based on Istat and European Commission data.

(1) 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 4

GENERAL GOVERNMENT EXPENDITURE (1)
(as a percentage of GDP)

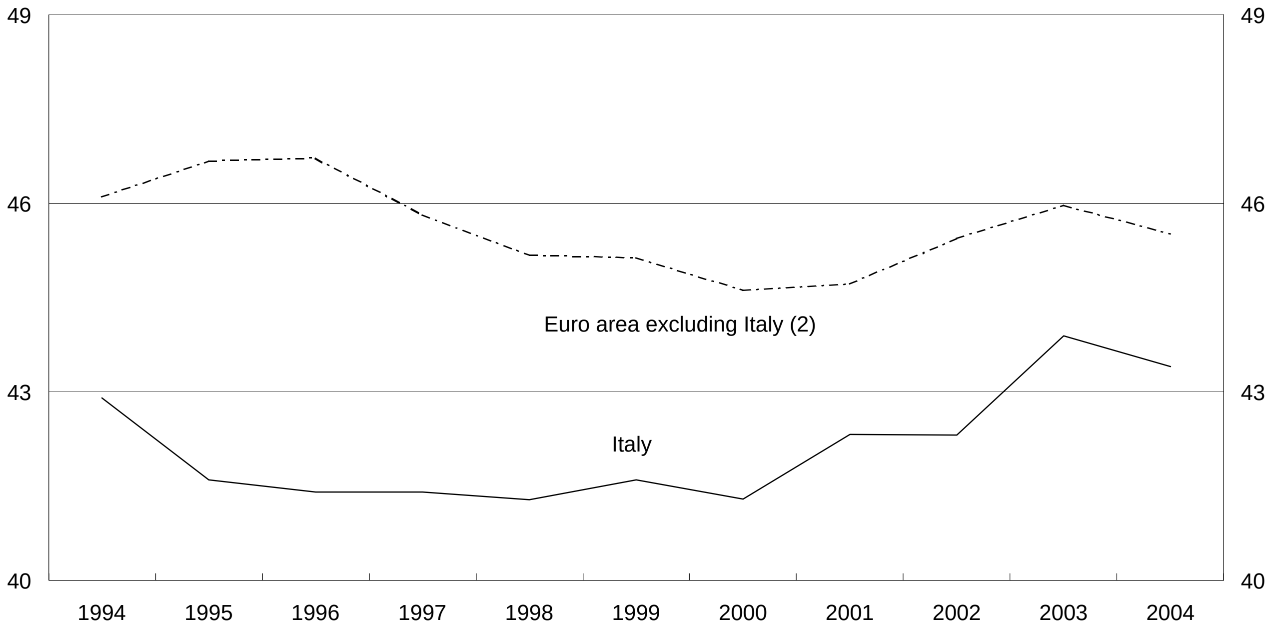


Sources: Based on Istat and European Commission data.

(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) 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 5

GENERAL GOVERNMENT EXPENDITURE EXCLUDING INTEREST PAYMENTS (1)
(as a percentage of GDP)

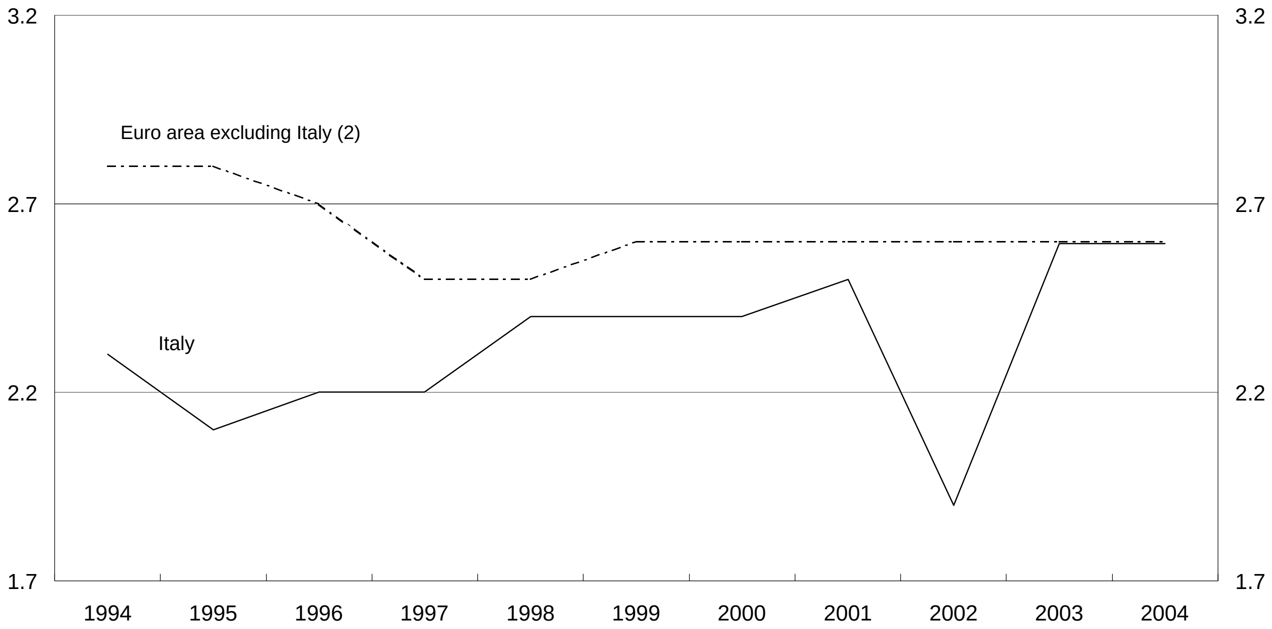


Sources: Based on Istat and European Commission data.

(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) 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 6

GENERAL GOVERNMENT INVESTMENT (1)
(as a percentage of GDP)

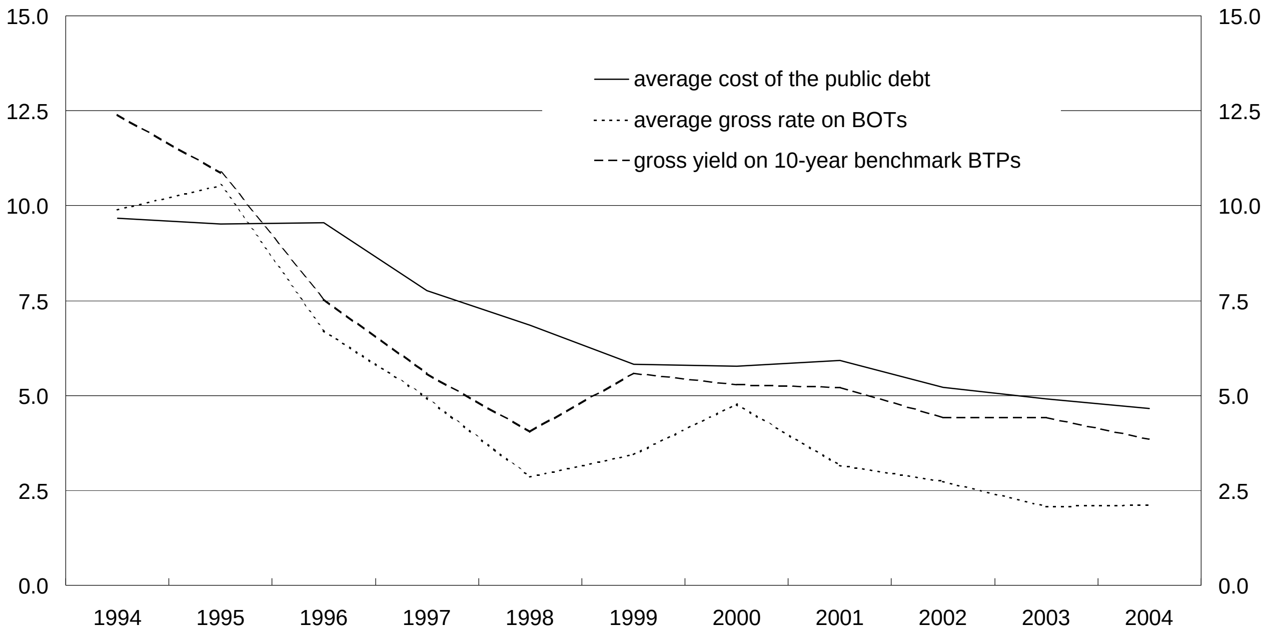


Sources: Based on Istat and European Commission data.

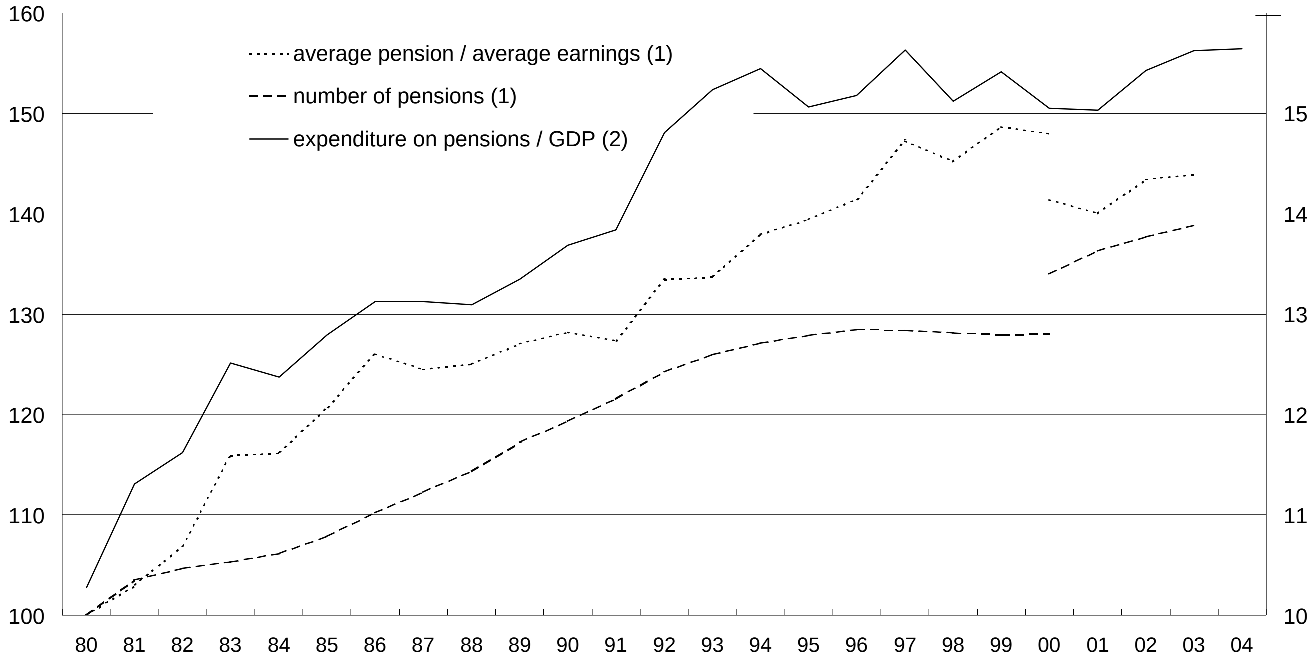
(1) This item includes the proceeds of sales of public property with a negative sign; in 2002 they amounted to about one per cent of GDP in Italy.
(2) For the sake of comparability, Greece is included in the euro area for all the years considered. Following the switch to ESA95, there is a break in the series between 1994 and 1995.

Figure 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. 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
(as a percentage of GDP)

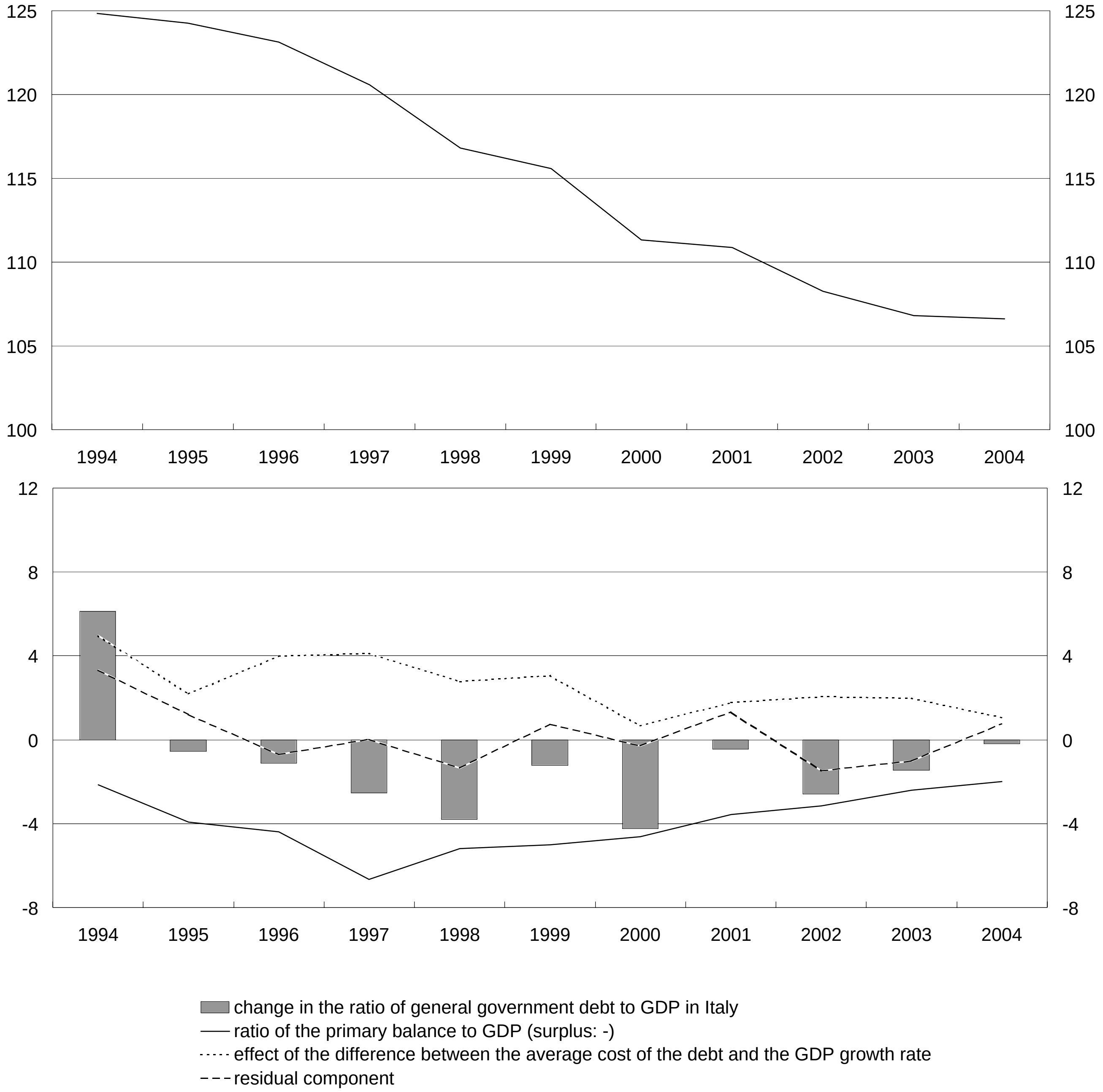


Table 1

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

(as a percentage of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Italy	9.3	7.6	7.1	2.7	2.8	1.7	1.9	3.2	2.7	3.2	3.2
Belgium	4.8	4.4	3.8	2.0	0.6	0.4	-0.2	-0.4	-0.1	-0.4	-0.1
Germany	2.6	3.3	3.4	2.7	2.2	1.5	1.2	2.8	3.7	3.8	3.7
Greece	9.9	10.2	7.4	6.6	4.3	3.4	4.1	4.1	4.1	5.2	6.1
Spain	6.1	6.6	4.9	3.2	3.0	1.2	1.0	0.5	0.3	-0.3	0.3
France	5.7	5.5	4.1	3.0	2.7	1.8	1.4	1.6	3.2	4.2	3.7
Ireland	1.6	2.1	0.1	-1.1	-2.4	-2.6	-4.4	-0.9	0.5	-0.2	-1.3
Luxembourg	-2.7	-2.5	-2.0	-2.9	-3.2	-3.4	-6.2	-6.2	-2.3	-0.5	1.1
Netherlands	3.7	4.2	1.8	1.1	0.8	-0.7	-1.5	0.1	1.9	3.2	2.5
Austria	4.8	5.6	3.9	1.8	2.3	2.2	1.9	-0.3	0.2	1.1	1.3
Portugal	5.9	5.5	4.8	3.6	3.2	2.8	3.2	4.4	2.7	2.9	2.9
Finland	6.0	3.9	2.9	1.3	-1.6	-2.2	-7.1	-5.2	-4.3	-2.5	-2.1
Euro area excluding Italy (2)	4.2	4.6	3.7	2.7	2.1	1.2	0.7	1.5	2.4	2.8	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)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Italy	-2.1	-3.9	-4.4	-6.7	-5.2	-5.0	-4.5	-3.4	-3.0	-2.1	-1.8
Belgium	-5.1	-4.9	-5.1	-6.1	-7.0	-6.6	-6.9	-7.0	-6.1	-5.7	-4.8
Germany	-0.7	-0.3	-0.3	-0.9	-1.4	-2.0	-2.2	-0.4	0.5	0.7	0.6
Greece	-4.0	-2.6	-4.6	-4.0	-5.0	-4.9	-4.0	-3.2	-2.2	-0.6	0.4
Spain	1.4	1.4	-0.4	-1.6	-1.2	-2.4	-2.3	-2.6	-2.6	-2.8	-1.9
France	2.2	1.8	0.3	-0.6	-0.8	-1.4	-1.7	-1.5	0.2	1.3	0.8
Ireland	-4.0	-3.3	-4.5	-5.3	-5.7	-4.9	-6.4	-2.4	-0.8	-1.5	-2.5
Luxembourg	-3.0	-3.0	-2.5	-3.3	-3.7	-3.8	-6.5	-6.5	-2.6	-0.8	0.9
Netherlands	-2.0	-1.7	-3.8	-4.1	-4.1	-5.1	-5.4	-3.3	-1.1	0.3	-0.4
Austria	0.9	1.8	0.1	-1.7	-1.2	-1.2	-1.6	-3.7	-3.1	-2.0	-1.6
Portugal	-0.2	-0.8	-0.6	-0.7	-0.3	-0.4	0.0	1.2	-0.3	0.0	0.1
Finland	1.1	-0.1	-1.3	-3.0	-5.2	-5.3	-10.0	-7.9	-6.5	-4.5	-4.0
Euro area excluding Italy (2)	0.0	0.1	-0.8	-1.6	-1.9	-2.5	-2.8	-1.9	-0.8	-0.2	-0.3

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.

Table 3

GENERAL GOVERNMENT TAX AND SOCIAL SECURITY REVENUE (1)

(as a percentage of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Italy	41.8	42.2	42.5	44.5	42.9	43.0	42.4	42.2	41.9	42.6	41.7
Belgium	47.9	46.0	46.4	46.8	47.6	47.1	47.0	47.2	47.6	46.9	47.1
Germany	42.9	41.4	42.4	42.4	42.5	43.3	43.3	41.6	41.3	41.3	40.5
Greece	….	33.9	34.3	35.7	37.7	38.9	40.3	38.6	39.9	39.1	39.7
Spain	35.7	33.6	34.0	34.4	34.7	35.3	35.8	35.7	36.4	36.6	37.1
France	45.3	44.6	45.9	46.1	46.0	46.7	46.2	45.9	45.1	45.2	45.5
Ireland	35.8	34.1	34.3	33.7	32.7	32.7	32.6	30.8	29.9	31.0	32.0
Luxembourg	….	42.7	42.8	41.8	40.5	40.9	40.8	41.2	41.9	41.9	41.3
Netherlands	44.7	40.6	41.0	40.8	40.5	41.8	41.6	40.2	39.8	39.7	39.6
Austria	43.3	42.6	43.9	45.1	45.3	45.0	44.0	45.8	44.9	44.3	43.9
Portugal	33.8	33.5	34.5	34.6	35.0	36.1	36.7	36.1	37.1	37.7	37.1
Finland	47.0	46.0	47.2	46.5	46.3	46.7	47.7	45.8	45.6	44.6	44.0
Euro area excluding Italy (2)	43.1	41.4	42.3	42.4	42.5	43.1	43.0	42.0	41.7	41.7	41.5

Sources: Based on Istat and European Commission data.

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

Table 4

GENERAL GOVERNMENT INVESTMENT (1)

(as a percentage of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Italy	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5	1.9	2.6	2.6
Belgium	1.6	1.9	1.7	1.7	1.6	1.9	1.9	1.7	1.6	1.6	1.5
Germany	2.6	2.3	2.1	1.9	1.9	1.9	1.8	1.8	1.7	1.5	1.4
Greece	3.1	3.2	3.2	3.4	3.6	3.5	4.1	4.0	3.6	4.0	4.1
Spain	3.9	3.7	3.1	3.1	3.3	3.4	3.1	3.5	3.7	3.6	3.7
France	3.1	3.3	3.2	3.0	2.9	3.0	3.2	3.1	3.1	3.2	3.3
Ireland	2.3	2.3	2.4	2.5	2.7	3.2	3.6	4.3	4.2	3.9	3.6
Luxembourg	4.2	4.6	4.7	4.2	4.6	4.4	3.8	4.4	5.1	4.9	5.0
Netherlands	2.0	3.0	3.1	2.9	2.9	3.0	3.1	3.3	3.6	3.6	3.6
Austria	3.2	3.0	2.8	1.9	1.8	1.7	1.5	1.1	1.3	1.2	1.2
Portugal	3.5	3.7	4.2	4.4	3.9	4.1	3.8	4.0	3.3	3.3	3.3
Finland	2.9	2.8	2.9	3.2	2.9	2.8	2.6	2.8	2.9	3.0	2.9
Euro area excluding Italy (2)	2.8	2.8	2.7	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6

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.

GENERAL GOVERNMENT REVENUE IN ITALY (1)

Table 5

(as percentage of GDP)

	1994	1995	1996	1997	1998 (2)	1999	2000	2001	2002	2003	2004
Direct taxes	14.9	14.7	15.3	16.0	14.4	15.0	14.6	15.0	14.2	13.7	13.6
Indirect taxes	11.8	12.1	11.8	12.4	15.3	15.1	15.0	14.5	14.7	14.4	14.4
Current taxes	**26.7**	**26.8**	**27.1**	**28.5**	**29.7**	**30.1**	**29.6**	**29.5**	**28.9**	**28.1**	**28.1**
Social security contributions	15.0	14.8	15.0	15.3	12.8	12.7	12.7	12.6	12.8	13.0	12.9
Current taxes and social security contributions	**41.7**	**41.6**	**42.2**	**43.8**	**42.5**	**42.9**	**42.3**	**42.1**	**41.7**	**41.1**	**41.0**
Capital taxes	0.1	0.6	0.3	0.7	0.4	0.1	0.1	0.1	0.2	1.5	0.7
Total taxes and social security contributions	**41.8**	**42.2**	**42.5**	**44.5**	**42.9**	**43.0**	**42.4**	**42.2**	**41.9**	**42.6**	**41.7**
Other current revenue	2.9	3.1	3.2	3.2	3.2	3.3	3.0	3.3	3.2	3.1	3.3
Other capital revenue	0.3	0.3	0.1	0.3	0.3	0.4	0.3	0.2	0.2	0.3	0.3
Total revenue	**45.1**	**45.6**	**45.8**	**48.0**	**46.5**	**46.7**	**45.8**	**45.7**	**45.3**	**46.0**	**45.2**

Source: Based on Istat data.

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

Table 6

GENERAL GOVERNMENT EXPENDITURE IN ITALY (1)

(as a percentage of GDP)

	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Compensation of employees	11.9	11.2	11.5	11.6	10.7	10.6	10.6	10.8	10.8	11.1	11.0
Intermediate consumption	5.2	4.8	4.8	4.7	4.8	4.9	5.0	5.1	5.0	5.1	4.9
Social services in kind	2.2	2.0	2.0	2.1	2.1	2.1	2.4	2.6	2.6	2.6	2.7
Social services in cash	17.3	16.7	16.9	17.3	17.0	17.1	16.8	16.6	17.0	17.3	17.3
Interest payments	11.4	11.5	11.5	9.4	8.0	6.7	6.5	6.5	5.8	5.3	5.1
Other current expenditure	2.7	2.3	2.5	2.2	2.9	2.8	2.8	2.9	3.0	3.3	3.4
Total current expenditure	**50.6**	**48.5**	**49.1**	**47.2**	**45.4**	**44.4**	**43.9**	**44.5**	**44.2**	**44.7**	**44.3**
Excluding interest payments	*39.2*	*37.0*	*37.6*	*37.9*	*37.4*	*37.7*	*37.5*	*37.9*	*38.5*	*39.4*	*39.3*
Investment (2)	2.3	2.1	2.2	2.2	2.4	2.4	2.4	2.5	1.9	2.6	2.6
Other capital expenditure (3)	1.5	2.5	1.6	1.3	1.5	1.6	1.4	1.9	2.0	1.9	1.5
Total capital expenditure (2) (3)	**3.7**	**4.6**	**3.8**	**3.5**	**3.9**	**4.0**	**3.8**	**4.4**	**3.9**	**4.5**	**4.1**
Total expenditure (2) (3)	**54.3**	**53.2**	**52.9**	**50.7**	**49.3**	**48.4**	**47.7**	**48.8**	**48.1**	**49.2**	**48.5**
Excluding interest payments (2) (3)	*42.9*	*41.6*	*41.4*	*41.4*	*41.3*	*41.6*	*41.3*	*42.3*	*42.3*	*43.9*	*43.4*

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 figures do not include the proceeds of the sale of UMTS licences (1.2 per cent of GDP in 2000). In the national accounts this amount is accounted for as a reduction in "Other capital expenditure".

GENERAL GOVERNMENT BORROWING REQUIREMENT IN ITALY

Table 7

(millions of euros)

	Year			First 5 months		
	2002	2003	2004	2003	2004	2005 (1)
Borrowing requirement net of settlements of past debts and privatization receipts	**38,469**	**48,013**	**56,453**	**38,723**	**55,850**	**57,218**
Settlements of past debts	5,328	8,537	533	3,024	169	106
- in securities	*1*	*575*	*2*	*516*	*2*	*11*
- in cash	*5,326*	*7,961*	*531*	*2,508*	*167*	*95*
Privatization receipts	(1,929)	(16,855)	(7,673)	(1)	(15)	(4)
Total borrowing requirement	**41,867**	**39,695**	**49,313**	**41,747**	**56,003**	**57,319**
FINANCING						
Currency and deposits (2)	14,497	-38,727	17,265	4,481	10,369	7,131
- of which: Post Office funds	*11,496*	*-64,806*	*-1,688*	*2,706*	*0*	*-2,058*
Short-term securities	-372	6,057	-997	25,889	28,166	20,273
Medium and long-term securities	31,705	23,065	41,181	27,897	37,963	44,972
MFI loans	-2,417	-5,256	-1,318	-1,074	1,186	2,978
Other transactions (3)	-1,544	54,556	-6,818	-15,446	-21,681	-18,035
- of which: deposits with the Bank of Italy	*284*	*8,022*	*-2,578*	*-15,824*	*-22,332*	*-19,693*
Memorandum item: borrowing requirement financing abroad	7,616	6,808	4,798	11,987	4,743	3,769

(1) Provisional.

(2) Post Office funds, notes and coins in circulation, and deposits with the Treasury of entities not included in general government.

(3) Deposits held with the Bank of Italy, securitizations receipts and Cassa Depositi e Prestiti S.p.A. loans.

Table 8

CURRENT LEGISLATION PROJECTIONS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2006-09 AND 2005-08

(as a percentage of GDP)

	2004	2005		2006		2007		2008		2009
	Outturn	EFPD 2005-08	EFPD 2006-09	EFPD 2005-08	EFPD 2006-09	EFPD 2005-08	EFPD 2006-09	EFPD 2005-08	EFPD 2006-09	EFPD 2006-09
Net borrowing	3.2	4.4	4.3	4.3	4.7	4.2	4.7	4.0	4.7	4.7
of which: current	*0.1*	*0.8*	*0.7*	*0.8*	*1.0*	*0.8*	*0.9*	*0.9*	*1.0*	*0.9*
capital	*3.1*	*3.6*	*3.6*	*3.5*	*3.7*	*3.4*	*3.8*	*3.1*	*3.7*	*3.8*
Primary surplus	1.8	0.8	0.6	1.1	0.1	1.5	0.0	1.9	0.1	0.1
Total revenue	45.2	44.3	44.9	44.2	43.7	43.9	43.4	43.8	43.2	43.0
of which: taxes and social security contributions	*41.7*	*40.8*	*41.3*	*40.8*	*40.3*	*40.5*	*40.0*	*40.4*	*39.8*	*39.6*
Primary expenditure	43.4	43.4	44.2	43.1	43.6	42.4	43.4	41.9	43.2	42.9
of which: current	*39.3*	*39.4*	*40.2*	*39.2*	*39.6*	*38.7*	*39.2*	*38.5*	*39.1*	*38.8*
capital	*4.1*	*4.0*	*4.0*	*3.9*	*4.0*	*3.7*	*4.2*	*3.4*	*4.0*	*4.1*
Interest payments	5.1	5.2	4.9	5.4	4.7	5.7	4.7	5.9	4.8	4.8

Table 9

FISCAL PLANNING SCENARIOS IN THE ECONOMIC AND FINANCIAL PLANNING DOCUMENTS FOR 2006-09 AND 2005-08

(as a percentage of GDP)

	2004	2005		2006		2007		2008		2009
	Outturn	EFPD 2005-08	EFPD 2006-09	EFPD 2005-08	EFPD 2006-09	EFPD 2005-08	EFPD 2006-09	EFPD 2005-08	EFPD 2006-09	EFPD 2006-09
Net borrowing	3.2	2.7	4.3	2.2	3.8	1.7	2.8	1.2	2.1	1.5
Primary surplus	1.8	2.6	0.6	3.3	0.9	4.0	1.8	4.8	2.5	3.0
Interest payments	5.1	5.3	4.9	5.5	4.7	5.7	4.6	6.0	4.6	4.5
Debt	106.6	104.1	108.2	101.9	107.4	99.3	105.2	98.1	103.6	100.9