Ministero dell’Economia e delle Finanze

Italy’s Stability Programme

Update November 2004

CONTENTS

1. INTRODUCTION

The Update of Italy's Stability Programme is issued in accordance to Article 4 of the European Council Regulation 1466/97.

This year's Update is based on the Forecasting and Planning Report (RPP) for 2005 and on the Update to the Economic and Financial Planning Document (DPEF) for the period 2005-2008 both issued on September 29, 2004 and on the Finance Bill for 2005 submitted to Parliament on September 30, 2004.

The present Update outlines the macroeconomic framework for the period 2004-2008 and indicates the Government's public finance objectives for those years. It describes the measures envisaged in 2005 Budget and their impact on the deficit and debt to GDP ratios. A preliminary analysis of the General Government's Asset and Liability Balance Sheet is also presented.

This Stability Programme Update includes the sensitivity analysis of public finances according to various macroeconomic scenarios.

In compliance with the Code of Conduct adopted by the European Union's Council on July 10, 2001, and in line with the strategy outlined in the DPEF 2005-2008, the present document describes the broad structural improvements in public finances in the medium term, taking into consideration that the Italian legislation does not include a detailed multi-year Budget.

Finally, the document analyses the impact of the population's ageing on the sustainability of public finances.

2. THE MACROECONOMIC FRAMEWORK

Throughout 2004, the world economy continued to grow at a brisk pace, despite the substantial increase in oil prices. World GDP is estimated to be growing at 5 percent.

The economic recovery in the Euro Area also continued, with GDP forecast to grow by 2 percent this year. External demand has played an important role in supporting the economy of the Area, while domestic demand has remained subdued.

The Italian economy is recovering at a reasonable pace. After the pause seen at the end of last year, GDP grew by 0.7 percent in the first half of 2004 compared to the second half of 2003. This recovery in the economy is attributable to both domestic demand and exports, which have benefited from the growth in world trade. Investments, which had decreased by 2.1 percent in 2003, increased by 3.1 percent in the first half of 2004 compared to the second half of 2003.

The 1.2 percent GDP growth rate for 2004, as forecast in the DPEF and the RPP, is reconfirmed: a slightly lower figure than that forecast by the other main international organisations, namely the IMF and the European Commission.

Inflation in 2004 continues to decelerate. Some of the repercussions of the increase in oil prices have been absorbed, thanks mainly to the strength of the euro.

In 2005, Italy’s economic rate of growth should accelerate. In line with the RPP 2005, submitted to Parliament last September, a 2.1 percent growth rate increase in GDP is expected. This estimate does not take account of the negative effects due to the continuous increase in oil prices over the past months. According to the Italian institutional framework, the updating of the GDP growth forecasts requires parliamentary approval. Hence, in accordance with current legislation, any modification to the growth forecast for 2005 will be presented in the next planning document, which will be submitted to Parliament next spring. However, in order to allow for the effects of any possible over or under estimation of growth, paragraph 4.1 illustrates the results of the sensitivity analysis of the deficit with respect to various growth scenarios.

The 2005 growth forecast takes into account the measures adopted in the 2005 Finance Bill to limit the increase in current expenditure and the measures aimed at relaunching the economy, through fostering consumption and investments, and increasing families’ purchasing power. A further stimulus should derive from the implementation of the tax reform. Apart from stronger domestic demand, growth in 2005 should also benefit from an increase in exports.

There would be a further improvement in the labour market as growth in employment is expected to accelerate from the 0.6 percent of 2004 to 0.9 percent, and the unemployment rate will continue to decline to 7.6 percent in 2005.

The expected economic recovery should not trigger additional inflationary pressures because of a large unexploited capacity utilisation and because of the strong international competition. Hence, Italy's inflation should continue to fall below 2 percent.

TABLE 1 THE MACROECONOMIC FRAMEWORK

	2003	**2004**	**2005**	**2006**	**2007**	**2008**
GDP growth at constant market prices	0.3	1.2	2.1	2.2	2.3	2.3
GDP level at current market prices (billions of euro)	1300	1353	1413	1476	1541	1610
Growth rate of GDP deflator	2.9	2.9	2.3	2.2	2.1	2.1
Inflation rate (1)	2.6	1.7	1.6	1.5	1.4	1.4
Growth rate of employment (2)	0.4	0.6	0.9	1.0	0.9	1.0
Unemployment rate	8.4	8.1	7.6	7.1	6.8	6.6
Growth rate of labour productivity(3)	-0.2	0.6	1.2	1.2	1.4	1.3
Composition of GDP growth (percentage change)						
Private consumption expediture	1.3	1.4	2.0	2.4	2.5	2.4
Government consumption and NPISH expenditure(4)	2.2	0.7	0.6	0.3	0.4	0.6
Gross fixed capital formation	-2.1	2.7	4.0	4.0	4.2	4.0
Exports of goods and services	-3.9	2.8	5.7	6.1	6.1	6.2
Imports of goods and services	-0.6	3.3	6.5	7.0	7.0	6.9
Contribution to GDP growth (percentage of GDP)						
Final domestic demand	0.7	1.5	2.1	2.4	2.5	2.5
Change in inventories	0.5	-0.2	0.2	0.1	0.1	0.1
External balance of goods and services	-0.9	-0.1	-0.2	-0.3	-0.3	-0.3

(1) Target rate of inflation set by government. The harmonised index of consumer prices (HICP) shows a growth rate of 2.8 percent in 2003 and 2.2 percent in 2004. For the other years, it coincides with the figure presented in the table.
(2) National accounts definition.
(3) GDP growth at constant prices per labour unit.
(4) NPISH= non-profit institution serving households

In the period 2006-2008, Italy's GDP growth should remain around 2.3 percent, roughly in line with the rate expected for other European countries.

Economic growth should be driven above all by an increase in private consumption estimated at 2.4 percent. The increase in real wages, the implementation of the tax cuts and the further improvement of the labour market, will lead to an increase in disposable income, and thus to an increase in household expenditure. Investments, stimulated by better prospects for domestic demand, should rise by slightly more than 4 percent in 2006-2008.

Employment should grow by an average of 1 percent, and the unemployment rate should gradually decrease to 6.6 percent by 2008.

Inflation should remain below 2 percent throughout the entire period.

3. NET BORROWING AND THE PUBLIC DEBT

3.1 General Government net borrowing

The slower than expected recovery of the European and Italian economies led to a substantial revision of the forecasts indicated in the 2003 Stability Programme Update.

Already in the Update to the Forecasting and Planning Report (RPP) issued last May, the forecast for growth was reduced from 1.9 to 1.2 percent, and the target for the deficit to GDP ratio was raised to 2.9 percent from 2.2.

These new targets assumed strict compliance to the Internal Stability Pact by the local authorities, the sales of real estate as planned and the rigorous control of public expenditures.

As it became clear that public finances were not evolving in line with expectations because of an increase in some expenditures, the Government, with a Law Decree, adopted further measures aimed at improving public finance balances in order to maintain the deficit below the limit of 3 percent.

In particular, with Law Decree n.156/2004, which partially applies the provisions of Law Decree 269/2003, subsequently converted with some changes to Law 326/2003, the Government adopted some measures to limit drugs expenditures by allocating the costs to pharmaceutical companies pending the establishment of the Italian Pharmaceutical Agency.

In July, additional measures equal to 0.6 percentage points of GDP were introduced with Law Decree n.168/2004; the containment of expenditure was assured by the rationalization of the incentives given to both private and public companies, and by a reduction of government procurements. On the revenue side, there was an increase in tax revenues with the equalisation of tax rates for banks, foundations and insurance companies. In November, the Government adopted further measures including the extension to other sectors of the obligation of an advance payment on taxes due and the postponement to 2005 of the payment of the second and third instalments of tax amnesties for zoning irregularities.

Taking into account the measures adopted, the deficit for 2004 is expected to be 2.9 percent, as indicated in the DPEF 2005-2008 of last July and in the RPP issued in September (Table 2).

The difference between the last year forecast and the current Update reflects several factors, including higher expenditure equal to 1.2 percentage points of GDP, of which 0.2 percent for higher interest payments for the public debt as the privatization plans were implemented only towards the end of the year. There was also a 0.6 percent increase in social transfers in kind, mostly reflecting higher health expenditure and an unexpected 0.2 percent increase in procurements.

Higher revenues partially offset higher expenditure on the deficit: in particular, it should be noted that although economic growth was 0.7 percentage points lower than forecasted last year, tax revenues held up rather well; revenue from tax amnesties was higher than expected; social security contributions were 0.3 percentage points higher also because of a broadening of the contribution base due to the regularization of immigrant workers.

TABLE 2 DIFFERENCES WITH THE PREVIOUS STABILITY PROGRAMME UPDATE

	2003	2004	2005	2006	2007
GDP growth					
Stability Programme 2003	0.5	1.9	2.2	2.5	2.6
Stability Programme 2004	0.3	1.2	2.1	2.2	2.3
Difference	-0.2	-0.7	-0.1	-0.3	-0.3
Net borrowing (% of GDP)					
Stability Programme 2003	-2.5	-2.2	-1.5	-0.7	0.0
Stability Programme 2004	-2.4	-2.9	-2.7	-2.0	-1.4
Difference	-0.1	0.7	1.2	1.3	1.4
Public debt (% of GDP)					
Stability Programme 2003	106.0	105.0	103.0	100.9	98.6
Stability Programme 2004	106.2	106.0	104.1	101.9	99.2
Difference	0.2	1.0	1.1	1.0	0.6

The forecast for 2004 indicates a deficit of 2.9 percent resulting from a total revenue to GDP ratio equal to 45.6 percent and a total expenditure to GDP ratio of 48.5 percent (Table 3).

TABLE 3 GOVERNMENT BUDGET[1]

(percentages of GDP)

	2003	2004	2005	2006	2007	2008
Net lending by sector						
General government	-2.4	-2.9	-2.7	-2.0	-1.4	-0.9
Future measures				1.3	1.6	1.9
Central government	-2.4	-2.9	-3.0	-3.7	-3.5	-3.3
Local government	-0.2	-0.3	0.0	0.0	0.0	0.0
Social security institutions	0.2	0.3	0.4	0.4	0.5	0.5
General government						
Total receipts	46.4	45.6	44.8	44.4	44.1	43.9
Total expenditure	48.9	48.5	47.5	47.6	47.1	46.7
Future measures				1.3	1.6	1.9
Net borrowing	-2.4	-2.9	-2.7	-2.0	-1.4	-0.9
Interest payments	5.3	5.3	5.1	5.3	5.4	5.6
Primary balance [2]	2.9	2.4	2.5	3.3	4.0	4.7
Components of revenues						
Tax revenues	28.2	28.2	28.2	28.1	27.9	27.9
Social security contributions	13.1	13.2	13.0	12.9	12.7	12.6
Interest income	0.2	0.2	0.3	0.2	0.3	0.3
Other receipts	4.8	4.1	3.3	3.2	3.2	3.1
Total receipts	46.4	45.6	44.8	44.4	44.1	43.9
Components of expenditures						
Collective consumption	7.4	7.2	7.0	6.9	6.9	6.9
Social transfers in kind	12.1	12.4	12.0	11.8	11.5	11.3
Social transfers other than in kind	17.2	17.3	17.1	17.1	17.0	17.0
Interest payments	5.3	5.3	5.1	5.3	5.4	5.6
Subsidies	1.1	1.1	1.1	1.0	1.0	0.9
Gross fixed capital formation	2.6	2.3	2.1	2.5	2.4	2.4
Other expenditure	3.1	2.9	3.0	3.0	2.9	2.6
Total expenditure	48.9	48.5	47.5	47.6	47.1	46.7

(1) Details may not add, due to rounding.

(2) Net borrowing less gross interest payments.

Tax amnesties brought about one percentage point less than expected but regular tax receipts were satisfactory. Taking into account the effects of amnesties, a proper comparison with the last year results shows that total receipts as a ratio to GDP are expected to remain stable compared to 2003.

Excluding the effects of real estate sales, primary expenditure as a ratio to GDP is also expected to remain stable compared to 2003.

For 2005, the deficit to GDP target has been raised to 2.7 percent from the 1.5 percent indicated in the previous Stability Programme Update. This revision reflects slower growth expected in 2004-2005; the goal of sustaining the economic recovery in more difficult economic conditions, and the commitment to phase-out the one-off measures as well as to pursue the structural consolidation of public finances. The effects of the tax reform will enhance growth.

The General Government net borrowing is expected to decrease steadily over the 2006-2008 period in line with the acceleration of economic growth. The deficit should be reduced by roughly half a percentage point a year to 0.9 percent in 2008. The new targets, although higher than indicated in the previous Update, should result in a debt to GDP ratio of less than 100 percent in 2007, as indicated last year.

The forecasts for 2006-2008 take in account of the effects of the structural measures contained in the 2005 Budget. The annual targets indicated by the DPEF will be achieved by implementing additional measures, consistent with public accounting norms, as specified by the Budget Laws for the next years (Table 3).

3.2 The cyclically adjusted budget

The cyclically adjusted budget, or structural budget, measures the government accounts consistent with the potential output and net of the cyclical budget component. The cyclical component of the budget measures the effectiveness of the automatic stabilizers, that is to say, the change between tax revenues and expenditures for the social net due to cyclical fluctuations. It is measured by multiplying the output gap and the elasticity of the budget to economic growth. Such elasticity estimated by the European Union for Italy is 0.45.

The output gap and the profile of potential output have been calculated by applying the agreed EU methodology to the medium-term forecasts of the Update to the DPEF 2005-2008 and the RPP published in September.

Table 4 shows the evolution of the cyclically adjusted budget balance and other relevant variables during the period 2003-2008. In 2003, the GDP growth rate slowed down. Instead of rising at 0.5 percent as forecasted in the Update to the Stability Programme 2003, it reached 0.3 percent. In 2004, the GDP growth rate should accelerate to 1.2 percent and to 2.1 percent in 2005. Compared to the forecast of the 2003 Stability Programme Update, the expected growth for the next two years should show a shortfall of 0.7 and 0.1 percentage points. Consequently, there would be a reduction in the potential growth rate, 1.6 percent in both 2003 and 2004, and 1.7 percent in 2005, instead of the average 1.7 percent indicated in the 2003 Update.

The expected deficit for 2004 should be 2.9 percent. Given these profiles, the cyclically adjusted budget should remain at about 2.2 percentage points, an increase of

0.4 percent compared to last year, and 0.6 percent compared to the forecast of last year's Update. In 2005, the deficit should decline to 2.7 percent and the cyclically adjusted net borrowing will remain at 2.2 percent (Table 4).

TABLE 4 CYCLICALLY-ADJUSTED PUBLIC FINANCE (1)
(percentages of GDP)

	2003	2004	2005	2006	2007	2008
GDP growth rate at constant prices	0.3	1.2	2.1	2.2	2.3	2.3
Net borrowing	-2.4	-2.9	-2.7	-2.0	-1.4	-0.9
Interest payments	5.3	5.3	5.1	5.3	5.4	5.6
Potential output growth rate (2)	1.6	1.6	1.7	1.8	1.8	1.9
Output gap(2)	-1.2	-1.6	-1.2	-0.8	-0.3	0.0
Cyclical budgetary component (2)	-0.6	-0.7	-0.5	-0.4	-0.2	0.0
Cyclically adjusted budget balance(2)	-1.8	-2.2	-2.2	-1.6	-1.2	-0.9
Cyclically adjusted primary balance(2)	3.5	3.1	2.9	3.7	4.2	4.7

(1) Decimals may not add, due to rounding.
(2) These figures take into consideration the change in employment and unemployment series due to the new methodology (Continuous Labour Force Survey - RCFL) adopted in the Labour Force Survey by the National Statistics Agency (ISTAT).

For 2004 and 2005, the automatic stabilisers should reach 0.7 and 0.5 percent respectively, with an increase of 0.1 percent compared to the data of the 2003 Update. The cyclically adjusted primary balance should decline by 0.6 percentage points, from 3.5 percent in 2003 to 2.9 percent in 2005. It must be underlined, however, that under current budgetary policy the deficit/GDP ratio will still remain below the 3 percent limit.

In 2006-2008, GDP growth would average 2.3 percent and the potential growth rate would increase from 1.8 percent in 2006 to 1.9 percent in 2008 (Table 4).

By 2006, the one-off measures will be fully replaced by structural measures. There would be a significant reduction in net borrowing, from 2.0 percent in 2006 to 0.9 percent in 2008. Between 2005-2006, the cyclically adjusted budget would decline by 0.4 percentage points and by 0.5 percent the following year. Consequently, the cyclically adjusted primary surplus would increase substantially reaching 4.7 percent in 2008.

3.3 The public debt

In 2003, the debt to GDP ratio declined by 1.7 percent to 106.2 percent, only 0.2 percentage points below what was forecast in the previous Stability Programme Update. This difference is due to the revision of the historical series of the number of accounts held at the Post Office. With regard to the other components, economic growth has been less than expected (3.2 rather than 3.3 percent), whereas there has been an improvement in the primary balance (2.9 instead of 2.8 percent). Interest payments (5.3 percent) were in line with the forecast.

The prolonged period of weak economic growth has once again been an obstacle to a quicker reduction of the debt. This point is clearly shown by a straightforward simulation. If the Italian economy had grown at its potential rate in the period 2001-2003 (as indicated in the economic forecasts of the European Commission in the autumn of 2004), the debt to GDP ratio would have been 0.3, 2.3, and 5.1 percentage points lower than the values recorded respectively in 2001, 2002, and 2003.

These results are obtained from a simulation that assumes that real and potential growth rates are equal, *ceteris paribus* of other conditions, including the assumption that interest rates are equal to real rates and the difference between the deficit and the annual variation of the debt (the so-called *stock flow adjustment*) does not appear to be significant in the medium term. Therefore, given the cyclically adjusted budget balance, it is the growth that is the key factor in the evolution of the debt to GDP ratio because of the direct effect on the ratio's denominator and through the "automatic" variations made on public finances.

In conclusion, after taking into account the fact that growth was lower than the potential, the reduction of the debt to GDP ratio has not decelerated from 2001 onward, but indeed, it accelerated.

The debt to GDP ratio continues to decline in 2004. The reduction will be stronger from 2005 onward, bringing it below the 100 percent level in 2007, as forecast in last year's Update. This will be due to the gradual increase in the primary surplus, and the effect of the implementation of the programmed public assets disposals.

TABLE 5 DEBT/GDP RATIO

	2003	2004	2005	2006	2007	2008
Public debt						
Level	106.2	106.0	104.1	101.9	99.2	98.0
Change	-1.7	-0.2	-1.9	-2.2	-2.7	-1.2
Factors influencing changes in debt/GDP ratio (% of GDP)						
Primary balance	-2.9	-2.4	-2.4	-3.3	-4.0	-4.7
Interest payments	5.3	5.3	5.1	5.3	5.4	5.6
Nominal GDP growth rate	3.2	4.1	4.4	4.5	4.4	4.4
Other factors	0.9	1.0	-0.2	0.3	0.3	2.3
of which: privatization receipts	-1.3	-1.4	-2.1	-2.0	-1.9	-0.6
Implicit interest rate on debt	5.1	5.1	5.0	5.2	5.5	5.8

3.4 Asset management [1]

During the last decades, the attention of western Governments was focused primarily on controlling tax receipts and public expenditure. Less attention was given to the active management of the Government financial and other assets, that represent about a fifth of total public assets, and which have great development potential.

In the context, it is of crucial importance to develop a Public Sector Balance Sheet, with all public assets listed market value. The purpose of doing this is to develop a tool for the strategic management, the valorisation and rationalization of the public assets, in order to reduce the public debt.

In 2002, the Ministry of the Economy and Finance launched a project aiming at developinging a Public Sector Balance Sheet based on internationally accepted accounting standards.

Currently, the Balance Sheet is under development. The goal is to improve further the accuracy of the list and the valuation of the public assets (listing receivables,

[1] The exercise is not completed. Thus, the data included in this paragraph are still preliminary estimates, informal and subjected to revision.

concessions and tangible assets such as real estate and infrastructure), with particular regard to the values relative to 2003.

The accounting standards applied to the Italian Public Sector Balance Sheet are those of the International Financial Reporting Standards adopted by the European Union in June 2002 (EU Regulation n. 1606/2002) as a base to produce consolidated balance sheets in the private sector and to be progressively introduced to member country accounting methods.

Tables 6 and 8 show that, for 2003, the public administration’s assets were estimated to be worth about 1771 billion euros, or 137 percent of GDP, compared to a debt to GDP ratio of 106.2 percent.

TABLE 6 PUBLIC SECTOR BALANCE SHEET IN 2003(1)

(millions of euro)

	Central government		**Local government**		**Social security funds**		**Public sector**	
	Book value	*Estimated value*	*Book value*	*Estimated value*	*Book value*	*Estimated value*	*Book value*	*Estimated value*
Assets								
Liquid funds	165,793	165,793	50,227	50,227	38,732	38,732	254,752	254,752
Receivables	149,367	59,189	232,436	66,238	77,326	77,326	459,129	202,753
Advances	51,919	51,919	-	-			51,919	51,919
Other account receivable	686	686	1,536	1,536	22,204	22,204	24,426	24,426
Equity Investments	64,243	105,075	37,782	78,057	42	42	102,067	183,174
listed companies, unit trust excluded	*14,422*	*34,234*						
unlisted companies, unit trust excluded	*45,032*	*66,052*						
other equity investments	*4,788*	*4,788*						
Intangible fixed assets	1,498	21,095	62,682	62,682	153	153	64,333	83,930
Tangible fixed assets	106,833	573,773	176,800	390,582	6,118	6,118	289,751	970,473
Land	*1,989*	*5,960*	*4,907*	*35,537*				
Natural resources	*76*	*144,898*	*24,522*	*24,522*				
Residential buildings	*3,113*	*5,134*	*56,472*	*65,970*				
Non-residential buildings	*27,164*	*39,062*	*47,917*	*55,017*				
Infrastructures	*2,747*	*285,407*	-	*180,000*				
Total assets	**540,339**	**977,530**	**561,463**	**649,322**	**144,575**	**144,575**	**1,246,376**	**1,771,426**
Liabilities								
Debt	1.310.920	1.354.770	70.411	70.411	63	63	1.381.394	1.381.394
Bonds	*1,152,846*	*1,196,696*	*16,817*	*16,817*				
Due to banks	*24,544*	*24,544*	*53,594*	*53,594*				
Other sums payable	*133,530*	*133,530*						
Provision for future risks and charges	2.816	2.816					2.816	2.816
Provision for exchange and interest rate	*325*	*325*						
Provision for litigations	*200*	*200*						
Provision for charges of artistic and natural	*2,291*	*2,291*						
TOTAL	**1,313,736**	**1,357,586**	**70,411**	**70,411**	**63**	**63**	**1,384,210**	**1,384,210**
Net equity (Deficit)	**(773,398)**	**(380,057)**	**491,051**	**578,911**	**144,512**	**144,512**	**(137,834)**	**387,216**
Total liabilities	**540,339**	**977,530**	**561,463**	**649,322**	**144,575**	**144,575**	**1,246,376**	**1,771,426**

(1) The data included in this table are preliminary estimates and are subject to revision. They are not official.

Table 7 shows the main financial ratios; in particular, the relationship between assets and liabilities of the public sector, currently at 1.28. This ratio is comparable with that of the UK. The other ratios are also broadly in line with those of the countries that have adopted similar accounting criteria (UK, Sweden, US and New Zealand).

TABLE 7 PUBLIC SECTOR RATIOS IN 2003: AN INTERNATIONAL COMPARISON

	ITALY Public Sector	NEW ZEALAND Government	UK General Government	AUSTRALIA Whole of Government	CANADA Total Government	USA Federal Balance Sheet
Total Assets / Total Liabilities	1.28	1.31	1.20	0.87	0.81	0.38
Financial assets / Non Financial Assets	0.74	0.82	0.43	1,18	1.61	0.25
Fixed assets / Total assets	0.59	0.55	0.70	0.48	0.36	0.80
Shareholdings / Total assets	0.11	0.06	0.04	0.003	0.05	0.00
Current assets / Current liabilities	1.53	1.65	0.46	1.12	0.42	n.a.
Total Assets / Net Worth (Total Assets-Total Liabilities)	4.57	4.20	6.04	-6.74	-4.31	-0.60

Table 8 confirms that the distribution for each asset item of the Italian public sector is similar, in relative terms, to that of the other countries, whereas, in absolute terms, Italy has an Asset/GDP ratio that is twice that of the others.

Instead of relying on short-term ad hoc measures, the efficient management of the public assets must be based on a medium and long-term strategy within a coherent and reliable framework. Only then will it be possible to adopt a different management strategy of public assets which will gradually substitute the one-offs policy. To achieve this effect, structural reforms are needed, and a new corporate entity, Patrimonio dello Stato S.p.A., was established in 2002 with the objective of making the management of public assets more efficient.

An efficient management system that takes both assets and liabilities into consideration has to be based on criteria of efficiency and equity, and be compatible with market conditions. Such a system is currently under development. The initial results indicate that assets and liabilities in the short, medium, and long-term are structurally in balance. Further analysis reveals that (according to the potential profitability indicator) around 44 percent of public assets could generate substantial revenues and that (according to the disposability indicator) around 40 percent of the total assets could be easily sold.

The potential profitability indicator shows the proportion of assets that are potentially "profitable" in terms of generating revenue through, for example, leasing and concessions.

TABLE 8 DISTRIBUTION OF PUBLIC SECTOR ACTIVITIES IN 2003: AN INTERNATIONAL COMPARISON

Asset distribution expressed as % of total asset side	**ITALY Public Sector**	**UK General Government**	**NEW ZEALAND Government**	**AUSTRALIA Whole of Government**	**CANADA Total Government**	**USA Federal Balance Sheet**	**Average (*Italy excluded*)**
Financial Assets	40.5	30.1	45.0	51.7	55.2	19.7	40.4
Shareholdings	10.5	2.1	4.7	0.3	7.3	0.0	2.9
Non Financial Assets *of which*	59.5	69.9	55.0	48.3	44.8	80.3	59.7
Infrastructures	26.4	43.1	15.4	14.8	24.1	3.1	24.3
Military equipment	1.3	2.9	3.5	14.9	2.4	21.2	9.0
Heritage	1.3	n.d.	1.4	2.3	n.d.	n.d.	1.8
Other (1)	30.4	23.9	34.7	16.3	18.4	56.0	29.9
Total Assets / GDP	**137.0**	**58.9**	**74.2**	**30.5**	**100.9**	**27.2**	**58.3**
Public Debt / GDP	**106.2**	**38.5**	**27.3**	**17.7**	**80.4**	**62.4**	**45.3**

(1) It includes intangible assets, land, buildings, natural resources, tangible assets and movable assets

As far as the disposability indicator is concerned, this shows the proportion of assets that can potentially be sold. This analysis has, however, been carried out with incomplete data. It must be seen as a preliminary indication of the percentage of disposable assets, subject to further elaboration in order to improve its accuracy and lead to a more precise valuation of the varying degree of liquidity of the assets.

Although considered "disposable", the assets are in fact not readily saleable because of regulations and historical reasons that have kept them in the public domain for a long period of time. The main objectives of the reform programme is to increase their liquidity by revising the regulations regarding public assets and thus rendering the management more flexible and efficient.

The Government intends to continue with its plans to enhance the valorisation of the public assets and to share the management, financing and realization of investments with the private sector, as well as to privatize financial (receivables and participations) and non-financial (real estate and infrastructure) assets.

Finally, as is the case in other countries, the Public Balance Sheet can be an useful tool in distinguishing current expenditure from investment expenditure and, by analysing the evolution of net assets, can ensure a healthy asset structure on behalf of current and future generations.

4. SENSITIVITY ANALYSIS

Meeting the public finance targets for 2005-2008 hinges on the macroeconomic scenario described in chapter 2. Accordingly, the forecast for different targets are exposed to economic (underestimate or overestimate of GDP growth) and financial risks (changes in interest rates).Thus, in order to evaluate the impact of different macroeconomic scenarios on public finances, a number of simulations have been performed based on alternative assumptions concerning growth rates (section 4.1) and interest rates (section 4.2).

4.1 Sensitivity to growth

Two alternative scenarios to the baseline macroeconomic forecast, described in chapter 2, have been considered. In the high-growth scenario, the GDP growth rate is assumed to increase by 0.5 percentage points more per annum for the period 2005-2008 compared to the baseline scenario, whereas in the slow-growth scenario, the GDP growth rate is reduced by 0.5 percentage points.

The higher or lower growth scenarios depend on different assumptions concerning some key international variables. Specifically, the high-growth scenario is based on the assumption that for the 2005-2008 period there will be a significant reduction in oil prices, i.e. about 5 dollars lower than the baseline price. Lower oil prices will have a two-fold effect: 1) higher growth in international trade (about 1 percentage point more than the baseline scenario); 2) a significant acceleration in the U.S. growth, which will reach 4 percent instead of 3.3 percent as indicated in the baseline scenario.

In line with this scenario, the Italian economy will grow by an extra 0.5 percent per annum because of a substantial increase in consumption and in exports. These trends will also lead to higher investments. Furthermore, households spending will be boosted by the positive impact on consumers' "confidence" stemming from a stronger economy. On the supply side, it is expected that the increase in exports will increase industrial production and services, thus leading to higher employment.

The forecast for inflation in 2005 should not change from the baseline scenario because of lower oil prices and higher productivity. It is only from 2006 onward that inflation will accelerate by 0.2 percent as a result of stronger economic growth.

The low-growth scenario assumes that during 2005-2008 oil prices will be 5 dollars more than indicated in the baseline scenario. Growth would be reduced by weaker world trade (more than 1 percentage point lower than forecast in the baseline scenario) and by less buoyant growth in the USA where growth would not be more than 3 percent throughout the forecast period.

In this context, the growth rate of the Italian economy would be reduced by 0.5 percent per annum due to lower consumption and exports, which in turn, would discourage investments. The decline in confidence deriving from the worsening economic climate and higher inflation (on average 0.2 percentage points more than the baseline scenario) would have a negative impact on households expenditures. On the supply side, weaker exports growth would adversely affect industrial production, services and employment.

TABLE 9 SENSITIVITY TO GDP GROWTH (1)
(percentage values)

		2005	2006	2007	2008
GDP growth rate at constant prices	*High-growth scenario*	2.6	2.7	2.8	2.8
	Baseline scenario	2.1	2.2	2.3	2.3
	Low-growth scenario	1.6	1.7	1.8	1.8
Potential output growth rate	*High-growth scenario*	1.9	2.0	2.3	2.4
	Baseline scenario	1.7	1.8	1.8	1.9
	Low-growth scenario	1.4	1.5	1.7	1.7
Output gap	*High-growth scenario*	-1.3	-0.6	-0.2	0.2
	Baseline scenario	-1.2	-0.8	-0.3	0.0
	Low-growth scenario	-0.9	-0.6	-0.4	-0.3
Net borrowing	*High-growth scenario*	-2.4	-1.5	-0.7	0.1
	Baseline scenario	-2.7	-2.0	-1.4	-0.9
	Low-growth scenario	-2.8	-2.4	-2.0	-1.7
Cyclically adjusted budget balance	*High-growth scenario*	-1.9	-1.3	-0.6	0.0
	Baseline scenario	-2.2	-1.6	-1.2	-0.9
	Low-growth scenario	-2.4	-2.1	-1.8	-1.5

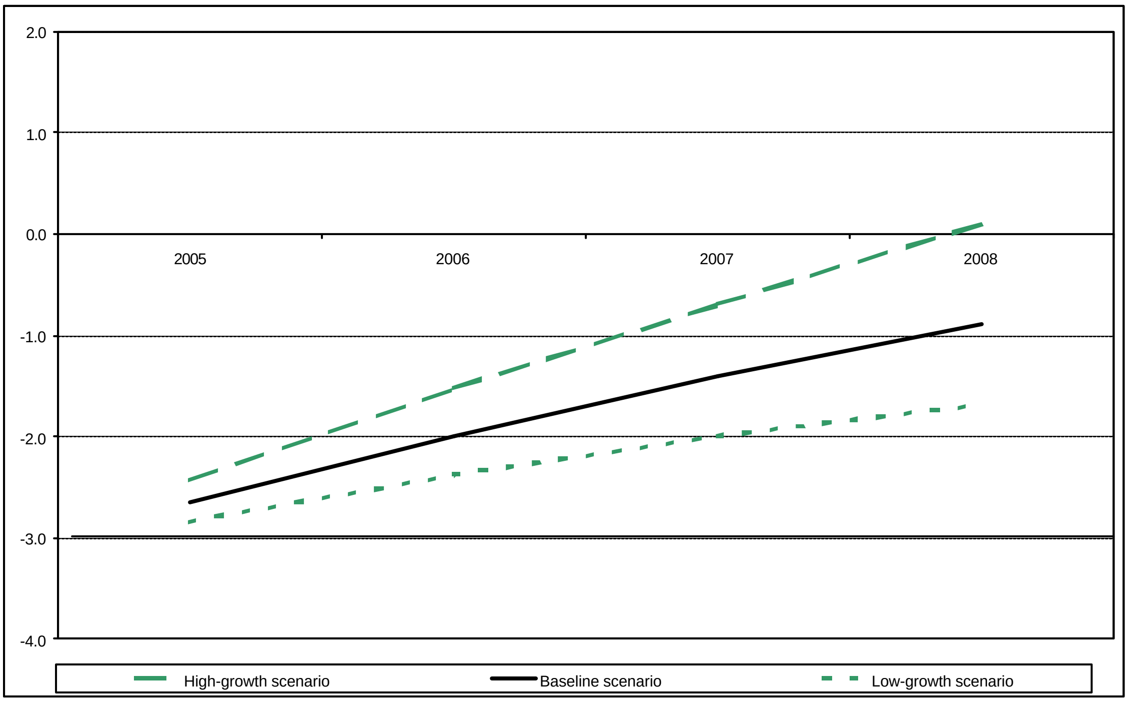
(1) Details may not add, due to rounding

Both scenarios (higher or lower growth) will have an impact on potential growth rates. This means that the two scenarios will have permanent as well as temporary effects. Consequently, the potential output of the two scenarios, calculated by applying the methodology established by the EU, varies compared to that of the baseline scenario. The output gap also changes according to the new profiles of effective and potential GDP.

Changes in GDP growth impact public finances through changes in the structural and cyclical components of the primary surplus[2]. The structural part of the primary surplus is measured by analysing separately structural revenues and expenditures. These revenues react to a change in the GDP growth with an elasticity of 0.9 percent. In both scenarios, structural expenditures are assumed to vary proportionally to changes in the potential GDP. Finally, it is assumed that the entire cyclical component of the primary surplus varies according to the elasticity that the European Union has determined to be 0.45 for Italy.

In the high-growth scenario, the deficit for 2005 improves by 0.3 percentage points compared to the baseline scenario; from 2.7 to 2.4 percent (Table 9). The deficit would continue to decrease by 0.9 percent in 2006 and by 0.8 percent in 2007. A slight surplus would be reached in 2008 (Figure 1).

FIGURE 1 SENSITIVITY OF THE ACTUAL BUDGET BALANCE TO GDP GROWTH
(percentages of GDP)



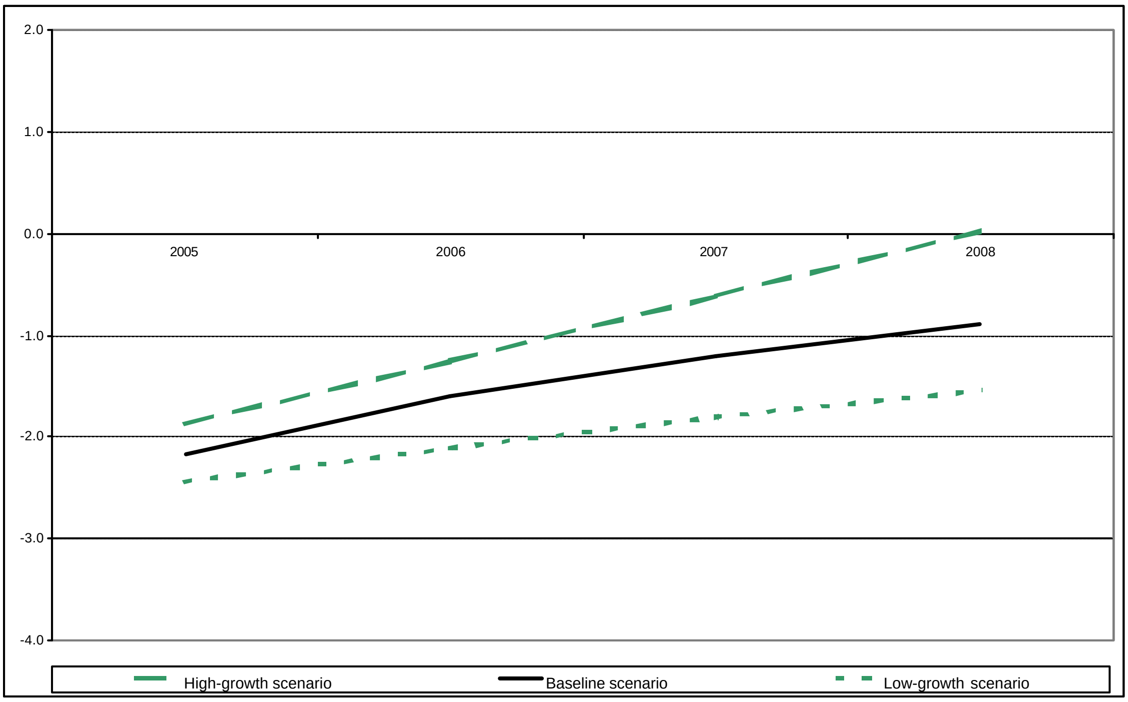
[2] Analogous to the 2003 Stability Programme, the future measures for 2006-2008, which will be defined by future Finance Laws, have been separated into higher revenues and savings relative to their respective share to the contribution to GDP of current revenues and expenditures during the same period.

In the lower-growth scenario, the deficit for 2005 increases by around 0.1 percentage points compared to the baseline scenario. In the following years the deficit would continue to decrease at slower rates than in the baseline scenario; from 2.4 percent in 2006 to 2.0 in 2007, and to 1.7 percent in 2008.

In the high growth scenario, the structural deficit will be 1.9 percent in 2005, 0.3 percentage points lower than in the baseline scenario (Figure 3). In the following years, the structural deficit would continue to decline by an average of 0.6 percent per annum. This would lead to the elimination of the deficit by the end of the projected period.

In the lower-growth scenario, the structural deficit would be 2.4 percent in 2005, an increase of 0.2 percent over the baseline scenario. In the following years, however, the structural deficit would continue to decrease at an average rate of 0.3 percent per annum.

FIGURE 2 SENSITIVITY OF THE CYCLICALLY ADJUSTED BUDGET BALANCE TO GDP GROWTH
(percent of GDP)



Finally, assuming that, in line with the Autumn Forecasts of the European Commission, the GDP growth rate will be 1.8 percent for each year from2005 to 2006, the deficit will be 2.7 and 2.2 percent respectively. The cyclically adjusted deficit will be 2.3 percent in 2005 and 2.0 percent in 2006.

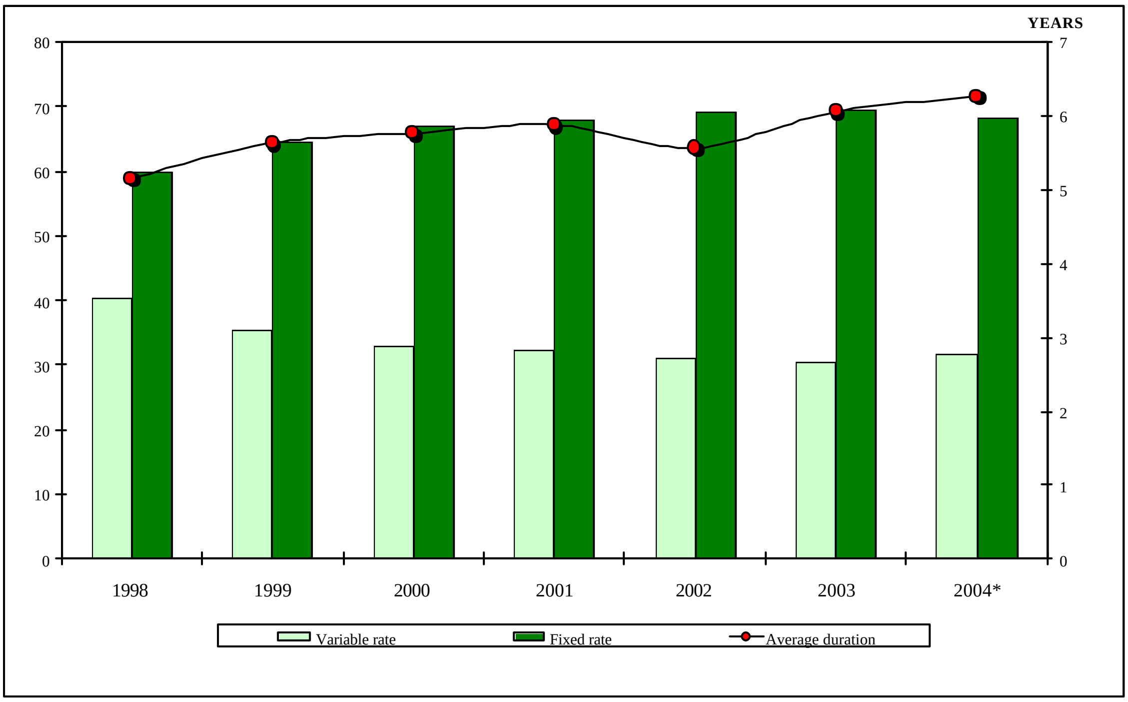
The results of all the simulations confirm that, from 2005 onward, the deficit to GDP ratio should remain under 3 percent in both the higher-growth and lower-growth scenarios. Furthermore, in both scenarios, the deficit and the cyclically adjusted deficit would also decline throughout the forecast period.

4.2 Sensitivity to interest rates

This section examines the effects of alternative interest rate scenarios. The key element of the simulation is the current structure of the public debt and its expected changes.

At the end of September 2004 (Figure 3) Italy's debt consisted mostly of fixed-rate bonds (about 68 percent of the total) with an average maturity of 6.26 years, an increase of about 0.36 years compared to the figure indicated in last year's Update. The duration also increased by the same measure reaching 3.95 years.

FIGURE 3 COMPOSITION OF ITALY'S PUBLIC DEBT(1)
(percentage values)

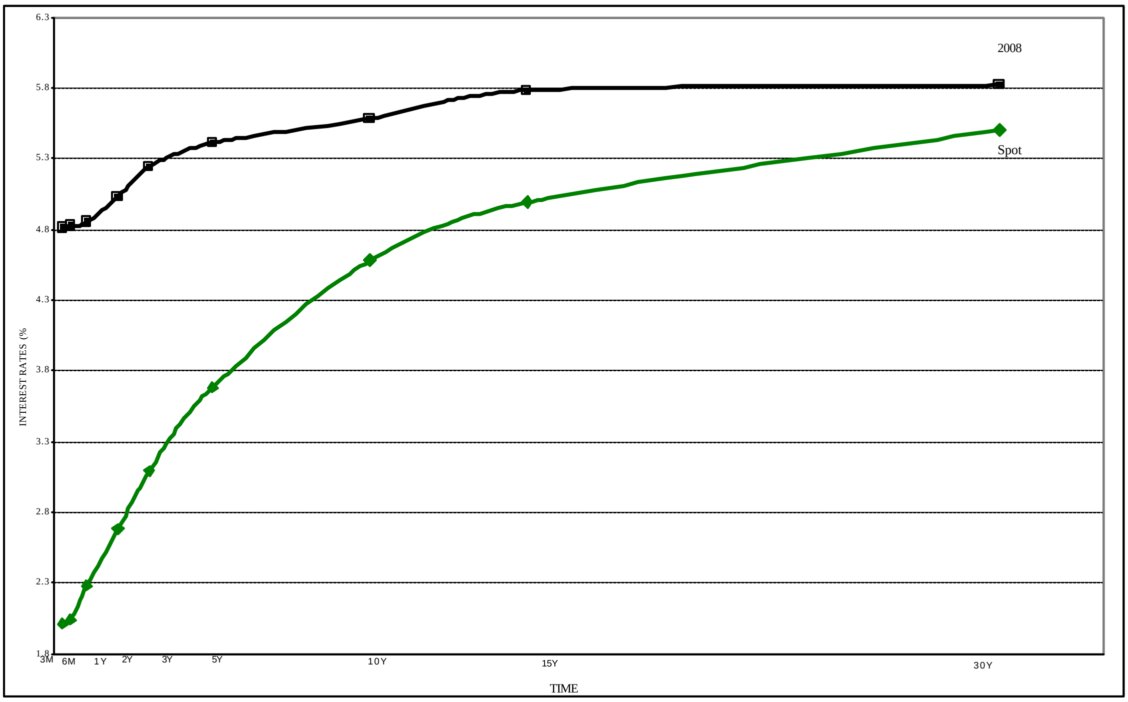


(1) Data up to 30/09/2004. The variable rate includes also the amount of Bot, CCT and CCT€. The left scale refers to interest rates, the right scale refers to average duration.

The debt issuance policy will continue to have the objective of maintaining a ratio of short-term and variable rates bonds between 25 and 30 percent of the total. The use of index-linked bonds (the reference is the Euro Area inflation rate which excludes tobacco) will help in reducing further the interest rate and the refinancing risks, and therefore optimizing the debt structure.

The estimates of interest expenditure shown in this document are based on the implicit rates of the Italian government bonds yield curve used in the DPEF (Figure 4).

FIGURE 4 YIELD CURVE



On the basis of these rates, in the case of a one percentage point increase of all the yield curves underlying the estimates of this Update, the impact on interest expenditure is estimated to be equal to 0.21 percentage points of GDP in 2005, 0.40 percent in 2006, 0.50 percent in 2007, and 0.58 percent in 2008[3], with the full impact of the rate increases being felt after 5.61 years[4].

[3] It should be noted that this exercise focuses on interest spending gross of withholding tax. Specifically, account is not taken of the effects of rate changes either on economic activity or on tax revenues deriving from investment income (the tax on interest income from fixed-rate bonds and bank deposits, which are positively correlated to rate increases). Therefore, it is not possible to immediately assess the sensitivity of the overall budget balance to interest rate changes.

[4] This period does not coincide with the average maturity of the debt owing to the nature of floating-rate Treasury Credit Certificates (CCT), which have a six-month coupon.

5. THE QUALITY OF PUBLIC FINANCES

The Government's economic policy has two key priorities: the structural consolidation of the public finances and the achievement of higher growth.

The 2005 financial manoeuvre is consistent with these objectives, and envisages two distinct phases in the Government policy:

- the Finance Bill for 2005, includes measures aimed at keeping the deficit well below the limit of the Stability and Growth Pact (SGP), and, through an appropriate amendment, will help to re-launch the economy with measures aimed at sustaining household incomes through a reduction in the tax burden;

- to increase competitiveness and stimulate investments, particularly in research. Box 2 describes the role of public investments in the Southern Regions.

This chapter summarizes the 2005 Budget; it explains the new rules which form the basis of the 2005 Finance Bill and the new methodology for managing expenditure in order to control the trend balances in the medium-term. Finally, Box 1 describes the Tax Reform approved by the Council of Ministers at the end of November.

5.1 The 2005 Budget

The 2005 Budget relies on the Financial Law for keeping public finances under control.

Fully in accordance with the commitments undertaken with the European Union and in line with the stated goal of gradually replacing one-off measures with structural measures before 2006, more than two-thirds of the budgetary adjustments for 2005 consist of permanent measures and less than one-third of temporary measures.

The 2005 Budget includes measures amounting to about 24 billion euros, of which about 17 are structural and 7 are for one-off measures (Table 10)

5.1.1 Corrective measures

The corrective measures (1.7 percent of GDP), consist of additional revenues for about 7.2 billion euros and 16.7 billion in lower expenditure.

Regarding tax revenues, the increase in revenue is estimated at 7.2 billion in including the tax breaks of 1.5 billion for 2005. The measures aim at increasing revenue through actions that are designed to enlarge, or rather, make the taxable base emerge. These permanent measures substitute the temporary ones included in the 2004 budget: thus, the adjustment of around 5.7 billion, equal to 0.4 percent of GDP, is structural.

From 2005 onward, measures aiming at "maintaining" tax revenues will be adopted, including the introduction of a pre-defined tax liabilities scheme for company executives, artisans, shopkeepers and professionals who are subjected to tax arrangements based on the sectoral studies. The legislation calls for a regular upgrading of the studies every four year in cooperation with the professional associations to enhance their use for tax assessments. The additional revenue is estimated at 5.1 billion. Additional revenues, of around 1 billion euros, will accrue from taxes on videogames, betting and tobacco.

A certain reduction in revenues will stem from the extension of some tax-breaks concerning indirect taxes. Those will be totally offset by the restructuring of certain financial assets deriving from the transformation of the Cassa Depositi e Prestiti into a purely private stock-company.

On the expenditure side, the 2005 Budget envisages permanent cuts in expenditure for about 9.7 billion, (0.7 percent of GDP), and one-off measures worth 7 billion.

These structural measures are based on the rule that limits the average increase in primary expenditure to 2 percent, with some exceptions concerning social transfers other than in kind, and the contributions to the communitary budget, (cfr. Paragraph 5.2).

The 2 percent limit implies a permanent adjustment on current expenditure amounting to around 7.1 billion, concerning different Government levels.

Savings of about 1.2 billion will stem from the rationalization and tightening of the procedures regarding the procurements of the central government.

At the local administration level, the measures substantiate themselves in a revision of the internal Stability Pact, through the substitution of the current constraint on local bodies regarding the increasing deficit, with a ceiling for expenditure consistent with the one established for Central Government. A saving of 1.3 billion is expected.

Savings amounting to around 4.3 billion are expected in the health sector, and are to be realized by the Pharmaceutical Agency and the Regions through specific covenants with the State that keep spending within the established level.

Within the area of capital expenditure, applying the 2 percent limit to non-legislatively predetermined spending, results in a lower growth of Central Government expenditure of 2.1 billion.

TABLE 10 THE 2005 BUDGET
(millions of euro)

	2005	2006	2007
REVENUE	**7,244**	**4,371**	**4,797**
Higher revenues	***8,705***	***4,558***	***4,876***
- Taxation of income from properties apart from first home	316	432	503
- Measures to counter VAT evasion	190	190	190
- Strengthening of sectoral studies	3,804	1,957	2,166
- Revenues of local authorities	778	736	767
- Taxation of the income of cooperative companies	466	255	262
- Increase in the excise on tobacco	500	500	500
- Video games and betting	485	488	488
- Sales of State property and property rights	105		
- Financial assets management	1,500		
- Other	561		
Lower revenues	***1,461***	***187***	***79***
- Extension of tax reliefs	1,461	187	79
EXPENDITURE	**16,715**	**8,829**	**9,602**
Lower expenditures	***17,707***	***9,279***	***9,992***
- 2% limit on increase in government departments' current expenditure	7,057	7,667	8,719
of which: Central government	1,200	1,000	1,000
Local government	1,270	2,057	3,024
Health care	4,250	4,250	4,250
- 2% limit on increase in government departments' capital expenditure	2,080	1,035	955
- Sales of assets	7,000		
- Other	1,570	577	318
Higher expenditures	***992***	***450***	***390***
Net Impact on primary balance	***23,959***	***13,200***	***14,399***
% of GDP	*1.7*	*0.9*	*0.9*

Additional measures of a temporary nature include the valorisation and sale of public real estate, either directly or through real estate funds or securitization, as well as the sale to State controlled companies of portions of the national road network at market prices. Such operations, according to the national accounting rules, will determine a reduction in capital expenditure leading to savings of around 7 billion in 2005.

5.2 The new Budget Law

The Finance Bill for 2005 adopts new Budgetary rules that are designed to strengthen the control of expenditure.

This new rule consists in setting a ceiling for the growth of current expenditure consistent with the structural fiscal consolidation targets, allowing an adjustment based on a suitable and controlled increase of all budget items.

The new method reverses the traditional approach to the Budget. Now, the initial current expenditure level rather than its trend is taken as basis for the adjustments. A uniform increase is applied to all expenditure items except some social and strategic priorities such as social transfers other than in kind, contributions to the community budget, and the completion of contracts and multi-year programmes.

The Finance Bill for 2005 set a limit of 2 percent for the increase in total expenditure during the 2005-2007 period.

The 2 percent ceiling is in line with the objective of achieving a current surplus as early as 2005. Hence, capital outlays will be financed exclusively by the resultant deficit.

The main benefit of the new rule is its ability to contain expenditure trends on a medium-term horizon. Applying the new rule over the following years will allow:

- a reduction in the current expenditure to GDP ratio;

- a primary surplus that will progressively grow, leading to an acceleration in debt reduction.

Box 1: Implementation of the Tax Reform

With the second phase of the tax reform, the Government has made another step forward toward the goal of progressively reducing the tax burden. These measures are designed to meet the need of reducing the burden of the public sector in order to increase the economic freedom of families and enterprises.
The first part of the tax reform (Primo Modulo) implemented in 2003, has brought a tax relief equal to about 0.4 percent of GDP, benefiting lower incomes and widening the no-tax area.
The second part of the tax reform (Secondo Modulo) includes a reduction of the personal income taxes and some tax relief for enterprises equal to 0.5 percent of GDP.
The Secondo Modulo should help to strengthen the GDP growth rate by around 0.2 percent, as forecast in the DPEF 2005-2008 and in the RPP.
In addition to the overall effect on GDP, the tax relief should have important effects on the composition of demand, leading to an increase in disposable income and consumption.
The tax relief of the Secondo Modulo is entirely financed by cuts in current expenditures and by other measures on the revenue side, amongst which are duty increases to tobacco products and videogames. The measures should not lead to an increase in the deficit, which would have caused negative market reactions, nor to an increase in the propensity to save instead of an increase in consumption.
The Secondo Modulo was introduced with an amendment to the Finance Bill submitted to Parliament. Concerning the personal income taxes, the reform provides:

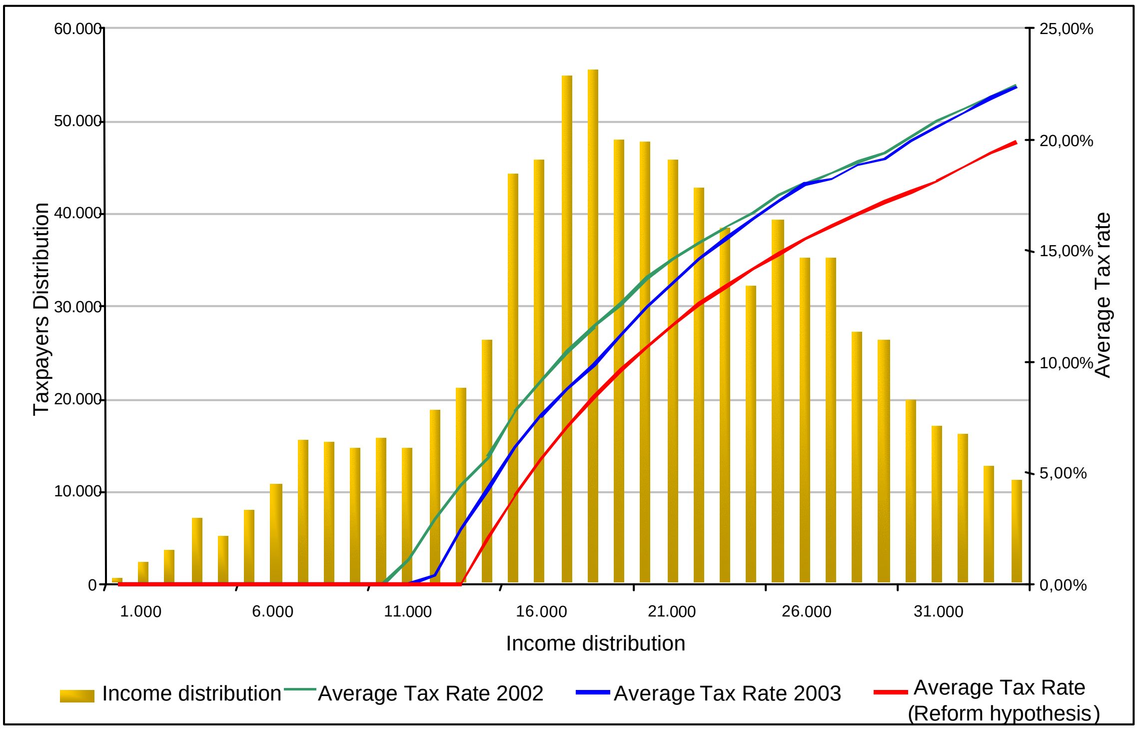
- *The reduction to three tax rates, in relation to the following income brackets; 23 percent for annual incomes up to 26,000 euros, 33 percent from 26,000 to 33,500, and 39 percent from 33,500 to 100,000. In addition to these, there is a "solidarity contribution" of an extra 4 percent for incomes above 100,000;*

- *replacing income tax allowances with deductions that decrease as income rises;*

- *the widening of the current no-tax base for low income families with dependants.*

Regarding the company taxes, a reduction in the IRAP is envisaged. The measure aims at stimulating investment in R&D by providing deductions as well as boosting employment through the granting of a "bonus" for new hired. The amount of this bonus is doubled in the South and in disadvantaged areas in the North.
Figure 5 shows the distribution of tax relief for a family consisting of a worker with a wife and dependant children.

FIGURE 5 AVERAGE TAX RATES AND INCOME DISTRIBUTION FOR MARRIED WORKERS WITH CHILDREN



Box 2: Public investment and infrastructural Gap in the South

The analysis of the infrastructure endowment and the quality of public services confirms that there is a wide gap between the Southern Regions and the rest of Italy (Table 11)[5]. This gap is a major obstacle to a process of growth based on an increase in productivity, as it raises costs and results in a general loss of competitiveness for the entire country.

TABLE 11 INFRASTRUCTURE AND PUBLIC SERVICES: REGIONAL GAP

		Centre-North	South
Transport	Km of motorway per 1000 km^2 (2000)	24.8	16.7
	Km of electrified railway network per 1000 km^2 (2003)	43.9	25.5
	Local Labour Systems (LLS) with high degree of infrastructure endowment as a percentage of the total regional LLS (2004) (1)	79.5	16.4
Energy	Density of national electrical grid per km/km^2 (2001)	85.3	53.4
	Percentage of regional households connected to methane gas mains (2000)	96.4	69.2
Information Technology	Density of the fibre optic network per km^2 (Italy = 100; in 2003)	108*	80**
	Percentage of the population connected to broadband (Italy = 100; in 2003)	102*	94**
Research and Development	Number of R&D centres (pubblic bodies and private firms) per 100.000 inhabitants (2000)	4.9	1.1

Source: Transport: National Transport Survey; Accessibility Index measured by ISFORT; Energy: GRTN spa and ISTAT; Information Technology: Broadband Monitoring Service; Research: data by Sincr-Isrds-Cnr and ISTAT.
(1) Local Labour Systems (LLS) are defined by ISTAT as local areas characterised by a group of municipalities closely connected by daily commuting. LLS are areas in which the workplace and the place of residence of the workers producing goods and services are highly concentrated. The number of LLS areas classified according to the last census are 784 of which 375 are in the Southern Regions.
* The North-East of Italy; ** The Southern Regions.

To reduce the gap in infrastructures the Plan for the Development of the Southern Regions (Progetto di Sviluppo del Mezzogiorno), outlined in the most recent Economic and Financial Planning Documents (DPEF), envisages a substantial and continuous public investments.
Part of Italy's public capital expenditure is linked to the criteria, rules and principles dictated by the European Commission for the utilisation of the Structural Funds, and in particular, to the respect of principle of additionality. According to this principle, EU funds should increment rather than replace national resources for public expenditure. Each Member State undertakes to carry out adequate investment programmes to foster

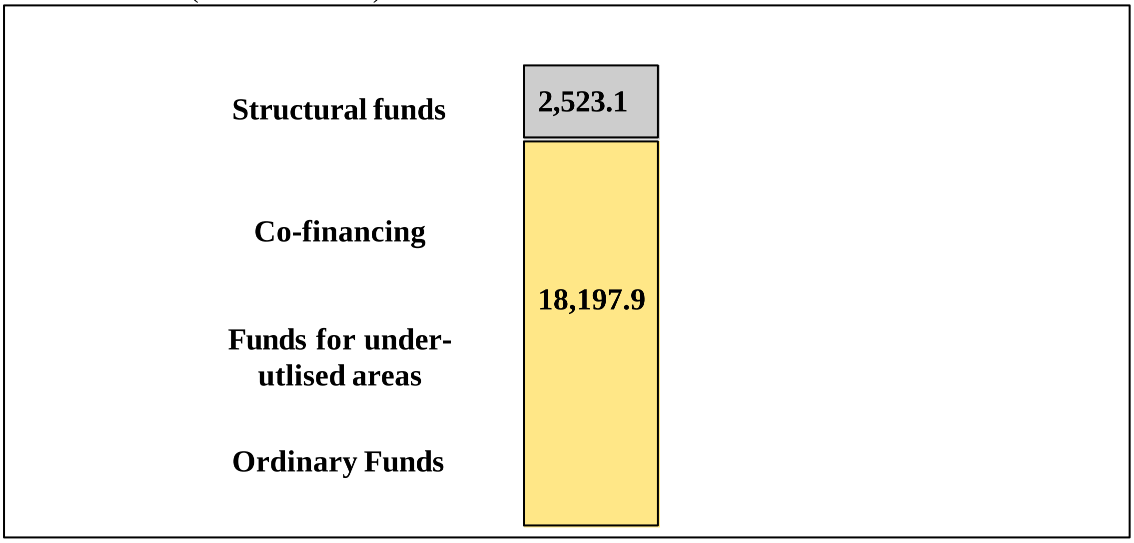
[5] The lag of the South, within a European context is even more serious when one compares the infrastructures of Italy with those of the main EU countries. See for example, Ecoter (1999), *Analysis of the infrastructure endowment in main European countries,* Rome. From this report, which considers four main infrastructure categories (transport, energy, telecommunications, education) on a regional basis, Italy (with a cursory score of 95) is in fourth place behind UK(118), Germany (116) and France (102)

development (Regulation 2082/99 art.11) and to guarantee national co-financing for the projects financed with EU funds.

The EU, together with each Member State, establishes the funds allocated to the objective 1 regions according to the principle of additionality. The European Commission verifies its application. In Italy, these funds amount to about 1.4 percent of GDP that, according to the survey conducted at the interim stage[6], correspond to 18,197.93 million euros (at 1999 prices) of national public expenditure on an average yearly basis for the period 2000-06 (Figure 6).

This sum includes ordinary resources that the central and regional Administrations spend according to specific rules, fund for under-utilised areas that are managed according to the EU rules, and the funds for national co-financing. These last two components represent about 0.7 percent of GDP.

FIGURE 6 FUNDS APPROPRIATED ACCORDING TO THE ADDITIONALITY PRINCIPLE
(Millions of euro)



Source: MEF – Dipartimento Politiche di Sviluppo

[6] Revision at interim stage of the Community Support Framework 2000-06, supplied by the MEF-DPS to the European Commission on October 14, 2004, n.0032302

6. THE SUSTAINABILITY OF PUBLIC FINANCES

The acceleration in the ageing of the Italian population is a serious problem that will put substantial pressure on public finances over the next decades. This chapter will deal first with the long-term trends of the various components of public spending particularly affected by the demographic changes; then it will describe the main features of the pension reform recently approved. Finally, it will analyse the impact of the reform on public expenditure for pensions as a percentage of GDP, and the long-term sustainability of public finances.

6.1 The impact of the ageing population on public spending (2003-2050)

The demographic changes that will take place over the coming years will have significant effects on various components of public expenditure as shown by the projections of public expenditure (as a percent of GDP) for pensions, health, education and unemployment benefits for 2003-2050[7] (Table 12 and Figure 7).

The methodology and assumptions on which the projections are based are those of the Ageing Working Group of the Economic Policy Committee (EPC-WGA). The approach chosen, which assumes that policies are unchanged, is aimed at highlighting the effect of demographic pressure on various components of public expenditures. In addition to the demographic trends (according to the main EUROSTAT scenario, with base 1999), the key assumptions underlying the exercise concern the participation rate, the unemployment rate and the productivity and GDP growth trends (Table 12).[8]

It is expected that, from 2003 to 2050, life expectancy will increase by about five years for men and four years for women and that the old-age dependency ratio (the ratio

[7] As indicated in the previous Update, education expenditure include all education levels (from pre-school to university), but excluding adult education, while the expenditure for unemployment benefits does not include some important labour policies (for example, the active ones).

[8] The macroeconomic assumptions are in line with the established central scenario within EPC-WGA; these assumptions have been adopted for the period 2005-2050, while for 2004 the macroeconomic framework adopts the indications contained in the Forecasting and Planning Report (RPP) for 2005. With respect to the 2003 Update, the participation rates have been reconsidered following not only the modifications contained in the pension reform, but also the substitution of the Quarterly Labour Force Survey (RTFL) with the Continuous Survey (RCFL). Clearly, this latter operation has not altered the overall dynamics of the labour force nor the relative impact on the GDP trend. The changeover to RCFL has also contributed to a revision of the unemployment rate for 2003, which is now expected to be 0.3 percentage points lower (and to keep in line with the established indications within EPC-WGA, the unemployment rate for 2050 has been assumed to converge at 6.7 percent instead of the 7 percent indicated in the previous Update).

between individuals that are over 65 and those between 15 and 64) will increase from 27.9 to 61.3 percent. The overall participation rate is expected to increase by almost 11 percentage points, most of which will be due to the increase in female participation (from 50.9 percent in 2003 to 69.7 percent in 2050), while a more modest increase in male participation is expected. Within the same period, the unemployment rate is expected to decline from 8.4 to 6.7 percent, while productivity growth will remain stable, slightly below 2 percent. According to this macroeconomic framework, real GDP should increase by more than 2 percent per year during the first years of the forecast period, before declining to about 1 percent in the following years.

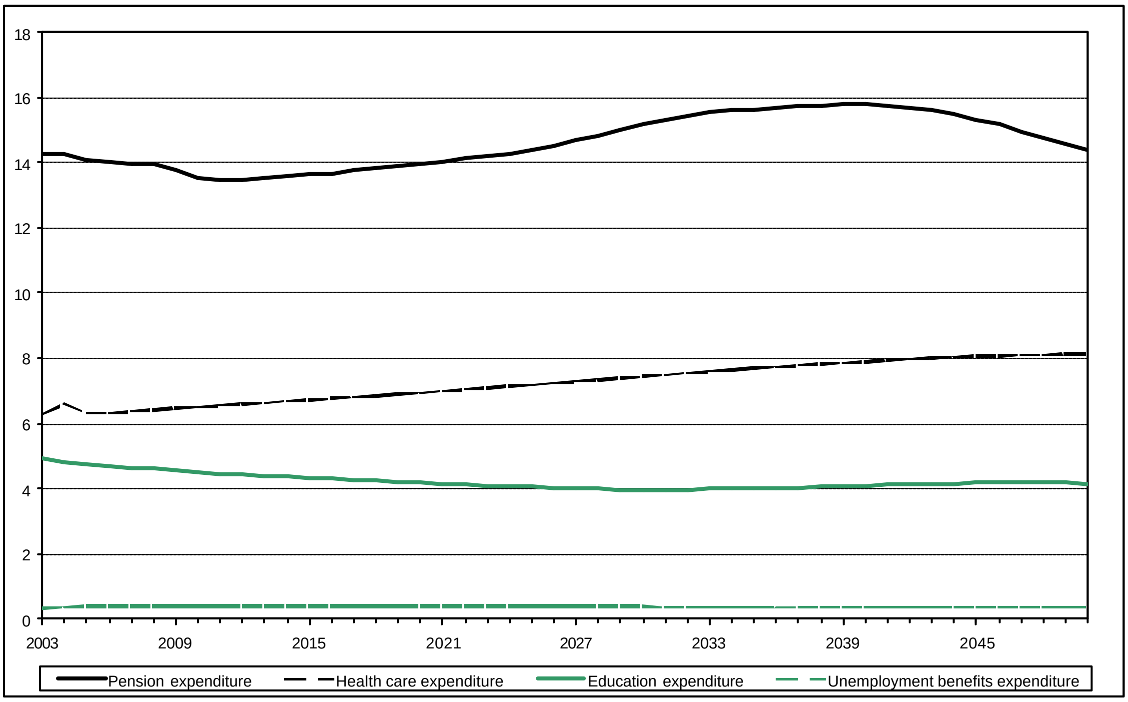
TABLE 12 PUBLIC EXPENDITURE ON HEALTH CARE, EDUCATION, UNEMPLOYMENT AND PENSION (2003-2050) (1)

	2003	**2005**	**2010**	**2020**	**2030**	**2040**	**2050**
Pension expenditure (2)	14.2	14.1	13.5	14.0	15.2	15.8	14.4
Health care expenditure (2) (3) (4)	6.3	6.3	6.5	6.9	7.4	7.9	8.1
Health care expenditure (5)	*6.3*	*6.3*	*6.5*	*6.8*	*7.3*	*7.6*	*7.8*
Education expenditure (2) (6)	4.9	4.7	4.5	4.2	4.0	4.1	4.2
Unemployment benefits expenditure (2)	0.3	0.4	0.4	0.4	0.4	0.4	0.3
Total (2)	25.8	25.5	24.9	25.5	27.0	28.1	27.0
Assumptions							
Labour productivity growth	-0.2	1.9	1.9	1.8	1.8	1.8	1.8
Real GDP growth	0.3	2.6	2.5	1.4	0.8	0.8	1.2
Male participation rate (15-64) (7)	74.9 (74.4)	75.9	77.9	79.3	78.7	78.3	77.6
Female participation rate (15-64) (7)	50.9 (48.3)	52.3	53.9	56.2	60.5	67.0	69.7
Total participation rate (15-64) (7)	62.9 (61.4)	64.1	66.0	67.9	69.7	72.8	73.8
Unemployment rate	8.4	7.9	7.4	7.1	7.1	6.8	6.7

(1) The figures are rounded-off to the first decimal point and therefore the sum of the figures could not add up.
(2) As a percent of GDP.
(3) Includes health spending for assistance of the elderly
(4) It is assumed that the distribution for age and sex for health care expenditure is constant
(5) It is assumed that the distribution for age and sex for health care expenditures changes in line with the so-called, *death related costs*.
(6) Does not include adult education.
(7) The labour market indicators are consistent with RCFL. The RTFL figures for 2003 are in brackets. Unlike the data in the previous Update, the participation rates refer to the 15-64 age group instead of the 20-64 bracket (the rates in the 20-64 age group consistent with the RCFL have not been officially endorsed by ISTAT).

Turning to the analysis of the individual components of public expenditures, it must be pointed out that the projections regarding pension and health-care expenditures shown in Table 12 differ from those forecasted in the previous Stability Programme Update 2003 as they take into account the changes introduced in the current year, and the measures envisaged in the 2005 Budget[9]. In particular, the new regulations arising from the recently approved pension reform have been taken into consideration for the projections of the pension expenditures (see also the following section)[10]. Concerning health-care expenditures, Table 12 shows the trend based on the assumption of constant health-care consumption by age as well as an alternative scenario in which consumption changes according to the so-called *death-related costs* methodology.

FIGURE 7 EXPENDITURE ON PENSIONS, HEALTH CARE, EDUCATION AND UNEMPLOYMENT BENEFITS
(percent of GDP)



Based on the assumptions described above, pension expenditure would decrease by 0.8 percentage points between 2003 and 2012, then will rise afterward, reaching a peak

[9] The projections for health spending include current financial charges and arrears regarding the renewal of conventions and contracts for the two years, 2002 and 2003, whereas those for 2005 refer to the two years, 2004 and 2005. The projection also takes into account, for 2005 and the following years, the effects of the savings of around 3 billion euros forecast in the 2005 Finance Bill, deriving from reduced expenditure (of which 2 billion for pharmaceutical expenditure). The difference of 1.25 billion against the 4.25 billion of overall savings should be realized by the Regions through other measures.

[10] It should be remembered that, based on the provisions of Law n.335/95, there will be a ten-yearly review of the coefficients necessary for the calculation of the pension benefits.

of 15.8 percent in 2040, before decreasing again to 14.4 percent in 2050 (Figure 7). Compared to the previous 2003 Update (which did not take into consideration the effects of the recently approved reform), the current projections of pension expenditure as a percentage of GDP will be significantly lower for about a thirty-year period starting from 2009, with a saving of around 0.7 percentage points from 2012 to 2020 and 0.6 from 2020 to 2035. Then, until the end of the forecast period, the expenditure to GDP ratio will be 0.3 percentage points higher than that presented in the 2003 Stability Programme Update (Figure 8).

The projection for health-care expenditures is based on two different scenarios. In the base scenario, in which the health-care consumption profile is assumed to be constant for age and sex, the expenditure to GDP ratio remains roughly in line with the projections indicated in the previous Update, increasing from 6.3 to 8.1 percent (Figure 7). The alternative scenario is based on the assumption of a variable health-care consumption profile for age and sex, according to the *death-related costs* methodology. This latter scenario is based on the empirical evidence that, on the assumption of no changes in age and sex, the bigger health-care expenditures occurs in their last years of patients; longer life-expectancy raises the percentage of the population in the old age bracket but not the number of deaths that can, in fact, temporarily decrease. Hence, the fact that part of health spending is linked to the number of deaths has a curbing effect on the health consumption profile.

As can be seen in Table 12, the projections based on the *death-related costs* methodology show a lower increase in health-care expenditure of 0.3 percentage points over the period 2010-2050 compared to the base scenario (1.3 instead of 1.6 percentage points)[11].

Regarding the expenditures for unemployment benefits and education, no substantial changes emerge from the previous Update[12]; unemployment benefits expenditures should remain at around 0.3-0.4 percent of GDP, while education expenditures, on account of a reduction in the school-age population, should decrease from 4.9 to 4.2 percent between 2003-2050.

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[11] The methodology of *death-related costs* has been applied starting from 2009 and only for the *acute* component of health spending. The cost differential, between survivors and non-survivors, considered for the purposes of the forecast refers to the last year of life.

[12] In the projections for unemployment benefits are included the costs deriving from the legislative proposal to increase the duration and amount of the ordinary non-agricultural unemployment benefit (AS-848 bis), while that for education takes into account the data notified by the Ministero dell'Istruzione, Università e Ricerca Scientifica in October 2004.

Overall, public expenditure for the four components examined above should increase from 25.8 to 27 percent of GDP from 2003 to 2050. It should be noted, however, that largely as a result of the recent pension reform, the ratio will decline to less than 25 percent by 2010; thereafter it will increase, reaching a peak of more than 28 percent in 2040, whereupon it will once again decline gradually. Compared to the 2003 Update, the resources, as a ratio of GDP, to be allocated to finance the four expenditure components most affected by the demographic evolution appear, therefore, to be less in the first thirty years and slightly higher from 2040 onwards.

6.2 The reform of the pension system

The Pension Reform Act (L. 243/2004) was approved by Parliament on July 28, 2004, becoming effective as of October 6; the Government must issue detailed instructions to implement all aspects of the reform within 12 or 18 months of the reform coming into force.[13]

Among the numerous measures contained in the law, attention must be drawn to the changes concerning the requirements for early retirement, the incentives for postponing retirement as well as the guidelines for the development of private pension schemes.

From 2008 onward, public and private sector employees will be able to take early retirement at 60 (61 for the self-employed) provided that they have contributed at least 35 years to the fund[14]. For the period 2010-2013, the minimum age for early retirement will increase to 61 (62 for the self-employed), whereas after 2014, it will be 62 (63 for the self-employed). A further delay in the effective early retirement stems from the reduction from four to two of the periods during which, in each year, retirement is possible . It will still be possible to retire, regardless of age, if the total contributions

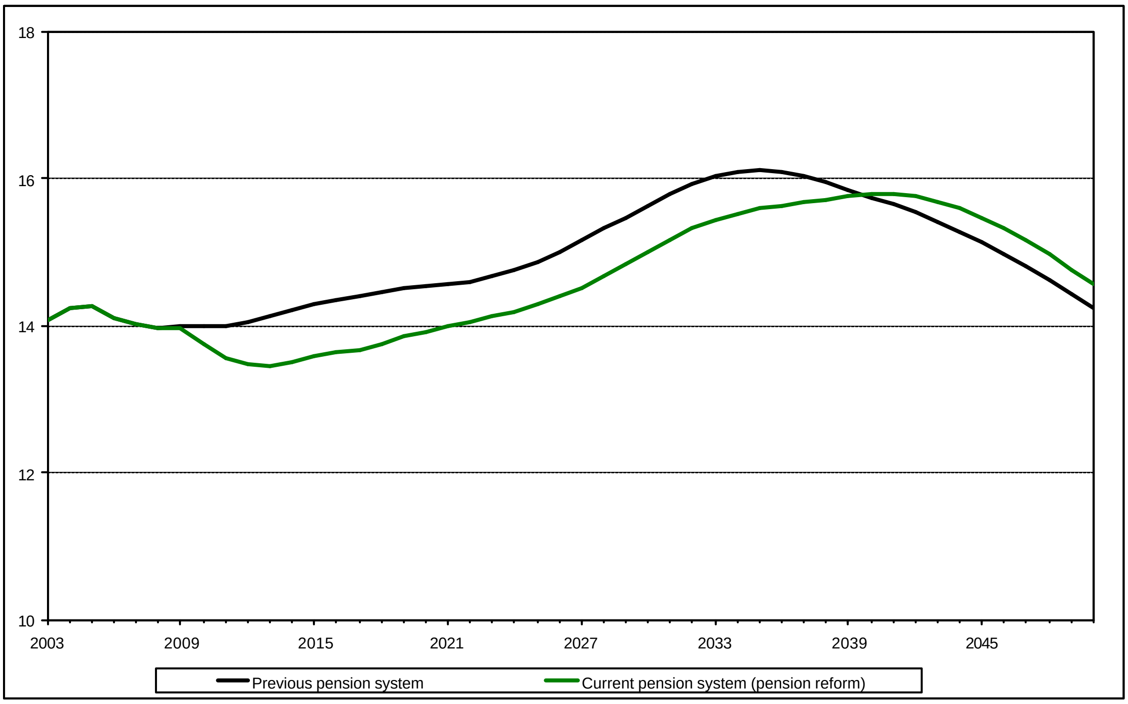
[13] Among the measures included in the reform Law, the provision to raise, from 2008, the retirement age is immediately effective, as are the measures regarding the disbursement of incentives for delaying retirement.

[14] Those who, by 31/12/2007, have the necessary requirements in compliance with the previous law, are still subject to the previous criteria even if they continue to work (in fact, the so-called certificate of acquired rights is applied).

will be at least 40 years, and to retire at 65 for males and 60 for females, with at least 20 years pension contributions[15].

It should also be noted that the reform extends the previously mentioned minimum requirements for retirement as well as the "windows" regime even to workers who opted for the contribution system and who intend to retire before 65, if male, or 60 if female.

FIGURE 8 IMPACT OF REFORM ON PENSION EXPENDITURE
(Percentage of GDP)



It can be seen from Figure 8 that the reform will progressively reduce pension expenditure as percentage of GDP from 2008 onward. Compared to the projections based on the previous law, the reform will generate savings of 0.6-0.7 percentage points of GDP from 2011 to 2033; the improvement will be about 0.3 percentage points in the last part of the forecast period. This is due to the fact that, over time, the savings from the more stringent pension requirements are offset by the greater benefits deriving from the longer working life.

[15] For the period 2008-2015, women can retire according to the requirements that were previously in force, i.e. at 57 (58 if self-employed) with at least 35 years of contributions, on condition that they choose the least favourable benefits method.

The pension reform also provides incentives for delaying retirement in the period 2004-2007. During this period, private sector employees who meet the necessary requirements for early retirement and decide to continue to work will receive a bonus equal to their payment to the social security, which is 32.7 percent of gross pay. This bonus is tax-free, thus the net increase in the salary is more than 40 percent. Upon retirement, the worker will be entitled to the same pension benefits matured at the time of his decision to continue to work, adjusted for inflation.

In order to encourage the development of private schemes, the Reform gives incentives for pension savings, including the deductibility of the contributions and reduced taxation of the pension fund's yields. The Reform will automatically transfer future accruals to the workers' severance payment (TFR) to private, supplementary Pension Funds of various types, i.e. open, contractual or regional, unless the worker explicitly objects to such transfer and prefers to keep his TFR under his employer's management, as per the so-called principle of "assent by default".

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6.3 The sustainability of public finances[16]

The sensitivity of expenditure to demographic changes is fundamental for the analysis of the long-term sustainability of public finances. Accordingly, in order to gauge the sustainability of public finances in the long-term, different simulations were carried out concerning the debt to GDP ratio for the period 2009-2050[17].

The simulations presented in this chapter were made under the assumption that all the objectives of public finance (debt and primary surplus) for 2008 indicated in the current Update will be achieved. It is also assumed that in the period under examination the expenditures arising from the ageing population, as outlined in paragraph 6.1, will not be offset by higher revenues or lower expenditures. In other words, the primary surplus would vary in line with the trend in expenditure on pensions, health care, education and unemployment benefits[18].

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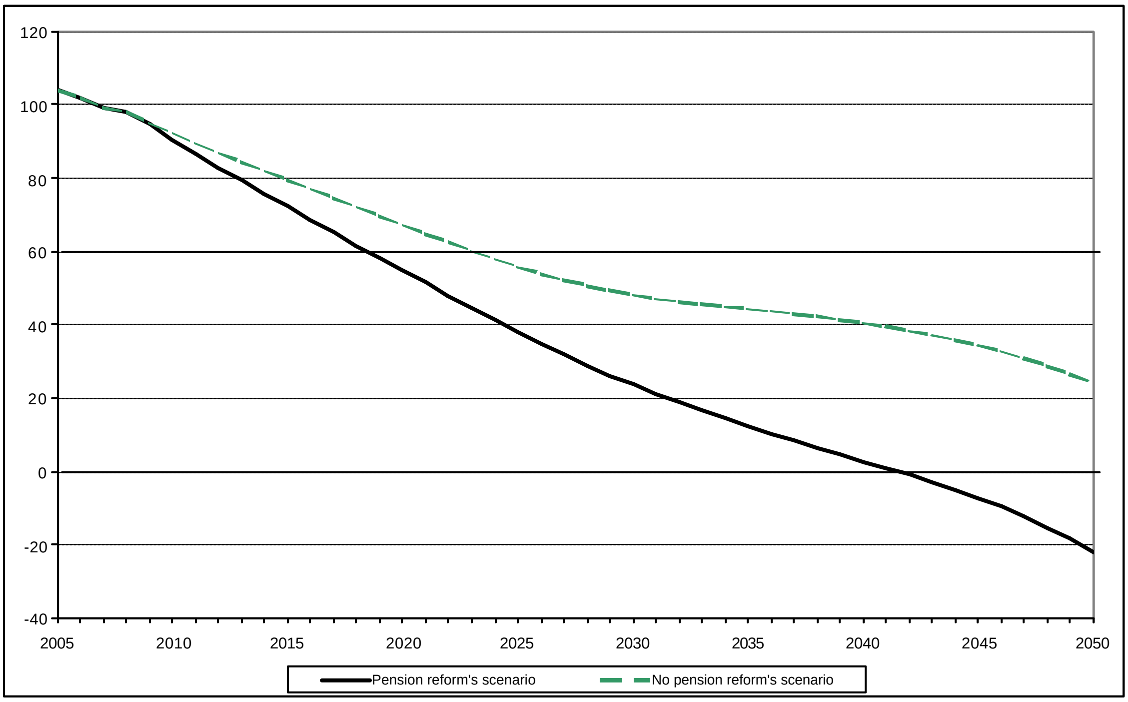
[16] The indicators of sustainability used in this paragraph are slightly different to those in last year's Update, and are not, therefore, entirely comparable.
[17] The assumptions underlying the simulation correspond to the demographic and macroeconomic scenario agreed to within the EPC-WGA and described earlier (Table 12).
[18] It has not been necessary to make a cyclical correction in the simulation for the debt to GDP ratio given that the *output gap* is expected to be eliminated in 2008.

FIGURE 9 PUBLIC DEBT
(Percentage of GDP)



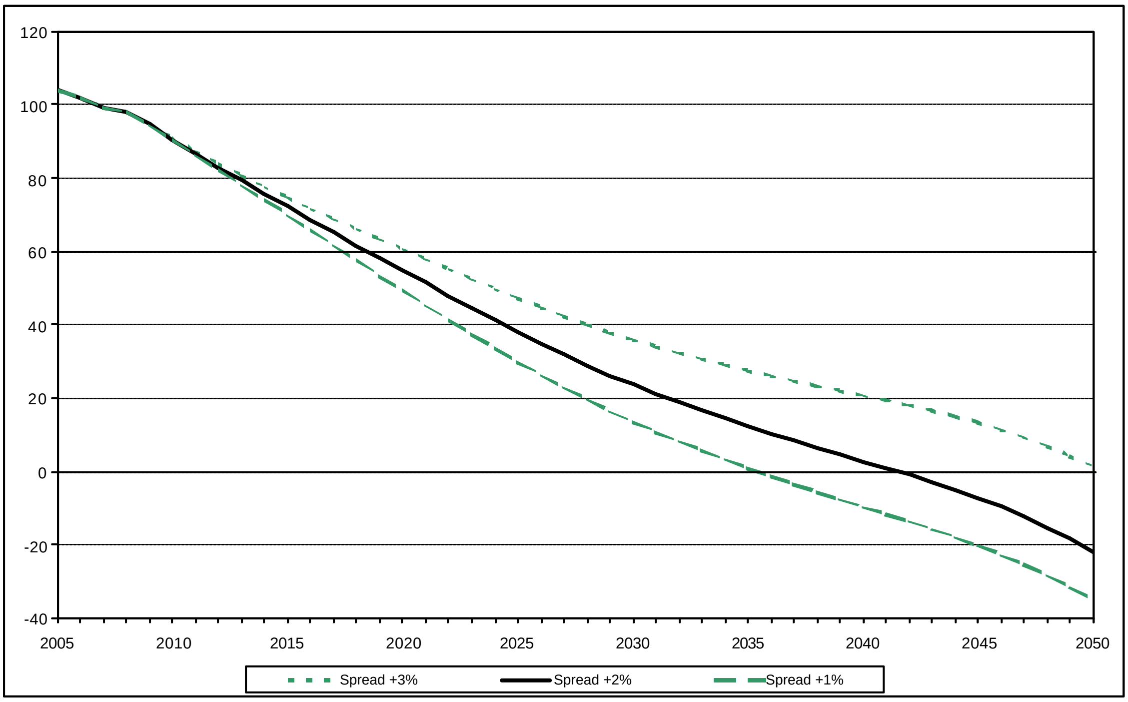
The debt to GDP ratio declines steadily over the whole period analysed, drops to under 60 percent in 2018 and turns into a credit in 2042 (Figure 9). In order to highlight the long-term effects on the sustainability of the recently approved reform of the Pension System, the trend of the debt to GDP ratio is also analysed according to the previous rules. The positive effects of the reform on the public accounts are obvious as, without the reform, the debt to GDP ratio, although always declining steadily, would have dropped 60 percent five years later, in 2023, and would have never dropped below zero over the projection period.

The high level of the debt and its large interest payments, warrant a sensitivity analysis on public debt at various levels of interest rates. This has been carried out as shown in Figure 10[19]. In the previous simulations (Figure 9), it was assumed, in line with the methodology developed by the EU, that the spread between nominal interest rates and the GDP growth rate would be 2 percent per annum. The sensitivity analysis was carried out by considering two other scenarios, one optimistic (in which the spread

[19] The sensitivity analysis at various levels of interest rates is presented only for the scenario that incorporates the effects of the pension reform.

was only one percentage point) and the other, pessimistic (in which the spread between the two rates was three percentage points, and consequently leading to higher interest payments).

FIGURE 10 PUBLIC DEBT SENSITIVITY TO INTEREST RATES
(Percentage of GDP)



In both scenarios, regardless of the assumed interest spread, the debt to GDP ratio declines steadily. With a differential of 3 percent, the 60 percent debt to GDP ratio would be reached in 2020, two years later than in the two alternative scenarios.

In addition, a sensitivity analysis of the debt to the primary surplus in 2009 (Table 13 and Figure 11) was carried out. The results show that by reducing the primary surplus from 4.9 to 4 percent, the debt to GDP ratio decreases to below 60 percent in 2023 instead of 2019. It is also confirmed that if the primary surplus is below 3.6 percent of GDP in 2009, the debt does not converge to the 60 percent level by the end of the period analysed. The exercise also shows that with a primary surplus of less than 3 percent, the trend becomes explosive[20].

TABLE 13 PUBLIC DEBT SENSITIVITY TO THE 2009 PRIMARY SURPLUS
(Percentage of GDP)

	2010	2015	2020	2030	2040	2050
Primary Surplus in 2009			**Public debt**			
4.9	90.6	72.4	54.8	23.6	2.8	-21.8
4.0	92.4	79.1	66.8	48.0	42.2	35.7
3.5	93.4	82.7	73.5	61.5	64.0	67.5
3.0	94.4	86.4	80.1	75.0	85.8	99.3
2.5	95.4	90.1	86.8	88.5	107.6	131.1

To sum up, the sustainability of public finances is guaranteed according to the baseline scenario presented in this Stability Programme Update. In particular, the simulations show the beneficial effects of the pension reform, and highlight the steadily declining trend profile of the debt to GDP ratio over the whole 2009-2050 period assuming realistic spreads between interest rates and growth rates, and assuming that the primary surplus forecasted for 2009 does not deviate too much from the forecast of the present Update (4.7 percent in 2008).

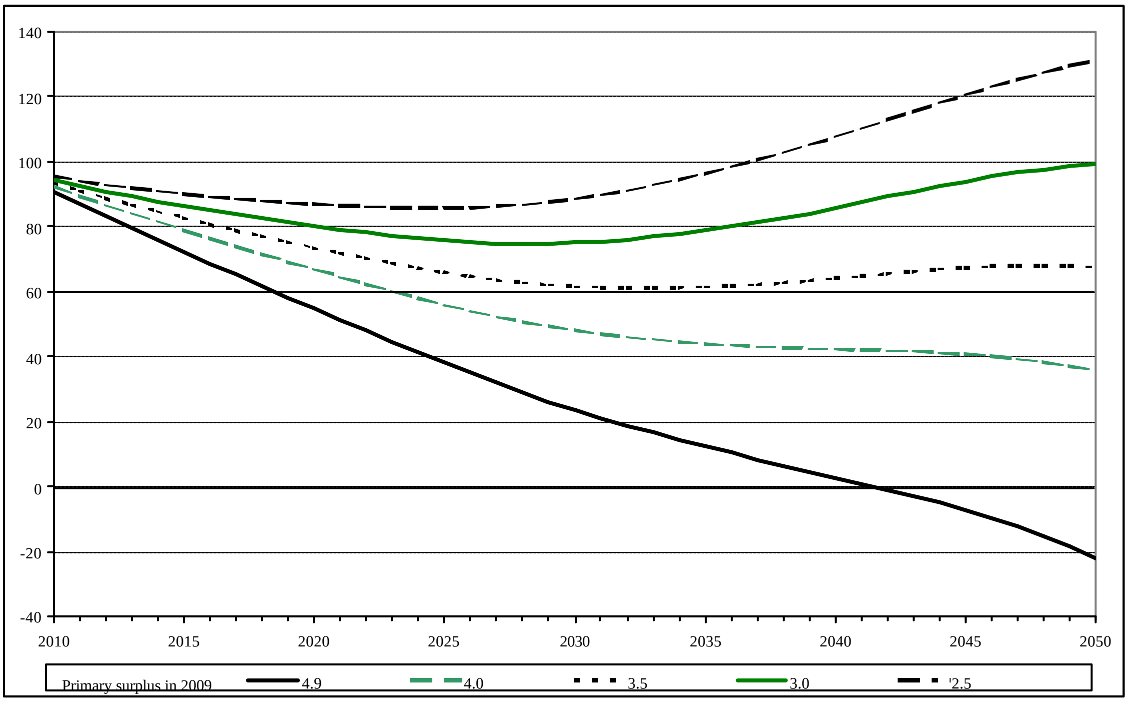
The sustainability of public finances can also be assessed using indicators adopted by the EU (the so-called *sustainability gap*). These indicators provide a synthetic evaluation of the average primary balance, in terms of a reduction in expenditures and or an increase in revenues, needed to reach the debt to GDP target within a certain period.

Given the growing trend of expenditures, arising from the ageing population, the *sustainability gap* indicates the difference between the average primary surplus needed to reach the debt to GDP ratio target for the end of the period under examination and the primary surplus in 2008. A negative value indicates that the public finances are sustainable in the long term (i.e. allowing the target to be reached); the primary balance

[20] Incorporating the methodology of the *death-related costs* into the dynamics of long-term health spending described in Table 12 confirms that the debt converges at a level of under 60 percent of GDP in the case of a primary surplus in 2009 of not less than 3.4 percent of GDP.

needed, would in fact be lower than the existing one and the country could reach the debt target without putting more pressure on public finances.

FIGURE 11 PUBLIC DEBT SENSITIVITY TO THE 2009 PRIMARY SURPLUS



The *sustainability gap* is herein calculated in two different ways; the first (thereinafter referred to as S_{60}), assumes a debt to GDP target of 60 percent in 2050, while the second (thereinafter referred to as S_{8}), assumes that the government intertemporal budget constraint is respected on an infinite horizon.

Both indicators are calculated using three different scenarios (Table 14): without and with the pension reform, and with the pension reform and health expenditures that vary according to the methodology of *death related costs* (cfr. paragraph 6.1).

Table 14 shows that, based on the forecasts of the present Update, the public finances appear to be sustainable in the long term (the two indicators have a negative sign in all the scenarios considered). Accordingly, the targets underlying both versions of the *sustainability gap* (i.e. debt to GDP ratio of 60 percent in 2050 and the fulfilment of the intertemporal budget constraint on an infinite horizon) would be achieved.

TABLE 14 LONG-TERM SUSTAINABILITY INDICATORS

Scenario	Sustainability gap Indicators	
	S_{60}	S_{8}
Pension reform's scenario	-1.30	-1.54
Pension Reform and Death related costs scenario	-1.45	-1.78
No Pension reform and Death related costs scenario	-0.58	-1.12

The indicator S_8 is characterized by levels, in absolute terms, greater than S_{60}, thus confirming that the constraints of reaching the target of 60 percent in 2050 are more stringent than that of an intertemporal balanced budget on an infinite horizon. Finally, the sustainability gap indicators confirm the positive effects of the pension reform on the long-term sustainability of public finances. *Ceteris paribus,* by considering health-care expenditures that take full account of the demographic effects (*death-related costs*), the sustainability of public finances appears to substantially improve.

BOX 3: Labour participation and unemployment rate projections in the long-term

The progressively greater incidence of the structural reforms enacted in recent years, as well as longer-term social-cultural factors, have had a significant impact on the Italian labour market, reducing the unemployment rate and increasing the participation rates.
The participation rate for workers aged 55-64 increased significantly following the pension reforms (Amato and Dini Reforms) that have tightened the requirements needed to retire. This trend also reflects the fact that over the last twenty years people started to work later than previous generations. This makes it more likely that the minimum contribution period for retirement will be achieved later.
The participation rate of female workers shows significant improvement, mainly due to an increasing number of women willing to work, either for social-cultural reasons or, for a higher level of education. At the same time, the portion of female population less inclined to work is gradually shrinking due to the fact that they are gradually approaching the end of their working life.
The unemployment rate continues to improve as a result of the labour market reforms (Treu and Biagi Reforms) which have introduced greater flexibility and new types of labour contracts, allowing for a better balance between supply and demand.
The trends mentioned above are of the utmost importance and must be duly considered when making projections for the main labour market indicators. In fact, forecasts that do not include such indicators are substantially less reliable.
For example, the OECD projections for Italy of the Ageing Working Group of the Economic Policy Committee (EPC-WGA), do not take account of these crucial factors, and therefore show a trend that is not in line with the actual results. The table below compares the spread between the OECD projections and the actual figures.
It is evident that not only are the actual rates clearly better than the forecasts, but that they have been achieved in a shorter period. These results call for particular care when making projections. They must take into account not only the policy changes that have taken place, but also the social-cultural factors that may explain the behaviour of individuals in the labour market. The projections illustrated in chapter 6.1 accurately reflect these factors.

TABLE 15 OECD PROJECTIONS AND ISTAT DATA: A COMPARISON

	OECD projections (2000) change 1995-2005	**ISTAT Historical data**[(1)] change 1995-2003
Participation rates		
Male (20-54)	0.1	2.0
Male (55-64)	-4.3	-2.1
Female (20-54)	4.7	6.4
Female (55-64)	-0.2	5.2
Unemployment rate	-1.7	-2.9

(1) *The actual data comes from ISTAT'S quarterly Labour Force Survey for 2003 and not from thee Continuous Time Labour force Survey. The latter, in fact, does not include a disaggregation for age cohorts that is comparable with the OECD forecasts.*

ANNEX
THE WORLD ECONOMY

The world economy continues to expand at a sustained pace even though the growth rate slowed slightly in the middle part of the year. The deceleration of growth was more evident in Japan and less in the United States. The recovery in the Euro Area is slower though stable compared to the beginning of the year. The main reason for the slow-down in the economy is due to the increase in oil prices and other primary commodities. These increases, however, do not pose a significant risk for the future growth of the economy. World GDP growth rate should reach 4.9 percent this year, and 4.4 percent in 2005.

In the United States there was a slight acceleration in the GDP growth in the third quarter, 0.9 percent (equivalent to 3.7 percent on an annual basis) up from the 0.8 percent of the second quarter. The increase was prompted by higher consumption, partly sustained by incentives to the automotive market, and by the acceleration in investments. The positive evolution of investments, sustained by companies' profitability, should compensate for possible lower consumption in the future. In the United States GDP is forecast to grow by 4.3 percent in 2004, 3.5 percent in 2005, and equal to 3.3 percent for the following years.

After a period of very high growth, where GDP increased by 1.5 percent in the first quarter of 2004, the Japanese economy has slowed sharply. In fact, growth in the third quarter was a modest 0.1 percent as a result of a weakening of investments and external demand. Even if the high rates of growth recorded in the second half of 2003 appear to be unsustainable, it is unlikely that the Japanese economy will relapse into another phase of recession, though still significant uncertainties cloud the prospects for growth. Private consumptions, though still positive in third quarter data, are not sustained by solid economic fundamentals, and in particular, by the situation in the labour market. In addition, there are signs of weakness in exports due to lower demand from China and the United States, although prospects remain generally favourable. Additional factors which sustain the recovery there are the good profitability of Japanese firms thus fostering investment, and the gradual improvement of the banking sector. The GDP growth rate is forecasted to reach 4.4 percent and 2.3 percent in 2004 and 2005 respectively, before declining to about 1 percent thereafter.

The economic activities in the emerging Asian countries have remained buoyant despite the recent slow-down in the US and the oil price increases. Growth is driven mainly by exports whereas consumption is less buoyant. Some deceleration in the Chinese economy is expected, as the growth rate should decline from 9 percent in 2004 to 7.5 percent in 2005. Underlying this deceleration are the restrictive measures imposed by the Central Bank to reduce the expansion of the money supply, which has in recent years reached levels approaching 20 percent.

As regards the European Union, there has been a noticeable improvement compared to the 2001-2003 period. Throughout 2004, most of the stimulus came from net exports, driven by the growth of world trade. Consumption remains weak. Private consumption is hampered by the modest increase in wages and salaries which, in turn, reflects loss of productivity. Investments have been much more dynamic as company balance sheets are strengthening and prospects, as reported by all the confidence indicators, remain relatively favourable. During 2005, private consumption is expected to strengthen fuelled by the gradual improvement of the labour-market. As a result, domestic demand is expected to make a greater contribution to growth. GDP is expected to grow by 2.4 percent in 2004 and by 2.5 in 2005.

World trade is expected to expand at a rate of 8.6 percent in 2004, and by 7.5 percent in 2005.

Although oil prices have increased significantly peaking at $50 per barrel, this should not trigger an inflationary spiral. Substantial wage increases are unlikely and intense international competition will help to contain price rises. This is confirmed by the fact that long-term interest rates have remained stable signalling that market operators do not envisage significant adjustments to expected inflation rates. Short-term interest rates, have already started to increase in the United States reflecting the gradual tightening of monetary policy by the FED. Further increases are expected.

The main risk to the world economy concerns the possibility of further oil- price increases. This will lead to a worsening of the terms of trade for the industrialised countries, lower economic growth and a slowdown in international trade. However, it also possible that oil prices will decline significantly, giving a substantial stimulus to the world economy.

TABLE 16 ASSUMPTIONS ON INTERNATIONAL ECONOMIC VARIABLES

(percentages unless otherwise specified)

	2004	2005	2006	2007	2008
Short-term interest rate, euro area	2.2	2.8	3.6	4.1	4.5
Long-term interest rate, euro area	4.6	4.8	5.1	5.4	5.5
Short-term interest rate, US (3-month money market)	1.5	2.8	4.0	4.7	5.0
Long-term interest rate, US (10-year government bonds)	4.7	5.2	5.6	5.9	6.1
USD/euro exchange rate	1223	1213	1213	1213	1213
World GDP growth rate	4.9	4.4	4.1	4.1	4.1
Industrialized countries GDP growth rate	3.7	3.1	2.8	2.8	2.8
World GDP growth rate excluding EU	5.3	4.6	4.3	4.5	4.5
US GDP growth rate	4.3	3.5	3.3	3.3	3.3
Japan GDP growth rate	4.4	2.3	1.1	0.9	0.9
EU GDP growth rate	2.4	2.5	2.5	2.6	2.6
Growth rate of significant Italian export markets	6.9	6.5	6.2	6.3	6.3
World import volume growth rate (excluding EU)	10.7	8.3	8.1	8.1	8.1
World import price growth rate (goods, in USD)	1.1	2.2	2.3	2.0	1.5
Oil price (Brent USD/barrel)	36.7	37.5	34.5	32.5	31.5
Non-oil commodity price growth rate (in USD)	18.2	-0.3	3.2	3.2	3.2