



MINISTERO DELL'ECONOMIA E DELLE FINANZE

Combined Report on the Economy and Public Finance *for 2010*

COMBINED REPORT ON THE ECONOMY AND PUBLIC FINANCE FOR 2010

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COMBINED REPORT ON THE ECONOMY
AND PUBLIC FINANCE

Presented by the Minister of Economy and Finance

Giulio Tremonti

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1. SUMMARY

The global economic recovery appears more robust and dynamic, also thanks to the exceptional fiscal and monetary stimulus packages implemented internationally. However, the fall in GDP has been significant, employment has decreased noticeably and public finances have been under pressure in almost all developed countries.

In this scenario the Italian Government decided to limit the social and economic damage caused by the crisis and maintain the stability of public finances, as the latter is a prerequisite for a healthy and sustainable economic recovery. In Italy, as in other countries, the challenge of the next few years will be how to implement strategies to increase growth through an effective reform programme and to meet the new debt-to-GDP-ratio targets.

In 2009 global GDP contracted and world trade declined (by -1.2 per cent and -12.3 per cent respectively). Italy's economy was affected by the international crisis, recording a drop in GDP (-5.0 per cent) similar to that suffered by other major advanced countries and especially export-led economies, such as Germany and Japan. GDP performance in 2009 was slightly worse than had been forecast in the Stability Programme (-4.8 per cent) last January, due to the unexpected drop in output in the fourth quarter (-0.3 per cent over the previous quarter).

TABLE 1.1: PUBLIC FINANCE INDICATORS AT UNCHANGED LEGISLATION AND OBJECTIVES (AS A % OF GDP)

	2006	2007	2008	2009	2010	2011	2012
NEW FORECAST SCENARIO AT UNCHANGED LEGISLATION							
Net borrowing	-3.3	-1.5	-2.7	-5.3	-5.0	-4.7	-4.3
Net fiscal adjustment 2011-2012 (as a % of GDP)						0.8	1.6
POLICY FRAMEWORK							
Net borrowing	-3.3	-1.5	-2.7	-5.3	-5.0	-3.9	-2.7
Structural net borrowing (1)	-4.0	-3.0	-3.4	-3.8	-3.3	-2.5	-2.0
Structural change	-1.1	-1.0	0.4	0.4	-0.5	-0.8	-0.5
Public debt (2)	106.5	103.5	106.1	115.8	118.4	118.7	117.2
<i>Memo item: 2010-2012 NOTE POLICY FRAMEWORK</i>							
Net borrowing	-3.3	-1.5	-2.7	-5.3	-5.0	-3.9	-2.7
Structural net borrowing (1)	-3.9	-2.9	-3.3	-3.6	-3.1	-2.5	-2.0
Structural change	-1.3	-1.0	0.4	0.2	-0.5	-0.6	-0.6
Public debt	106.5	103.5	105.8	115.1	116.9	116.5	114.6

1) Structural: net of one-off measures and adjusted for the economic cycle.
2) Estimates do not include any financial support to Greece.

Since the start of the year data have shown stronger signs of recovery. The growth of the Italian economy has been estimated at 1.0 per cent in 2010, at 1.5 per cent in 2011 and at 2.0 per cent in 2012. The recovery of the Italian economy, albeit gradual, seems sounder and more sustainable thanks to the lack of major structural imbalances in the real-estate, financial and external sectors and the comparatively better financial situation of Italy's households and firms compared to other industrialised countries.

General Government net borrowing in 2009 amounted to €80.8 billion, equal to 5.3 per cent of GDP, as had been forecast in the Stability Programme. This performance, which is by and large satisfactory, given the strong contraction in economic growth, is the result of the right approach to fiscal policy adopted since the onset of the first symptoms of the economic and financial crisis, which was aimed at maintaining the resilience of public accounts and at carefully considering action to support the economy. The widening of the *deficit*, which rose by 2.6 percentage points relative to 2008, was less serious than the average of the euro-area countries. The tax burden is a figure based on a ratio. More specifically, on a ratio of total revenues to GDP. If the denominator decreases, (and GDP decreases), the ratio could increase. Revenues have decreased less rapidly than GDP and they have also benefited from the positive change in two items of voluntary revenues: revenues from voluntary disclosure on repatriated capital and lottery revenues. In addition, revenues from the fight against tax evasion have also increased strongly. Net of these effects, the tax burden – which is formally 43.2 per cent of GDP – actually fell from 42.8 per cent in 2008 to 42.4 per cent in 2009.

Projections for 2010 confirm the level of net borrowing at 5.0 per cent of GDP. The tax burden is forecast to decrease to 42.8 per cent, thus going back to below its 2008 level.

In the 2011-2012 period, the net borrowing trends at unchanged legislation are burdened by growing debt servicing, whose incidence on GDP is expected to increase from 4.6 per cent in 2010 to 4.9 per cent in 2011 and to 5.2 per cent in 2012. With a primary balance at unchanged legislation increasing from -0.4 per cent of GDP in 2010 to 0.2 per cent in 2011 and to 0.9 per cent in 2012, net borrowing at unchanged legislation is estimated to go down to 4.7 per cent of GDP (-0.3 percentage points compared to 2010) and reach 4.3 per cent in 2012.

In 2009 other European countries recorded primary deficits as a proportion of GDP that were by and large higher than Italy's¹. Moreover, these balances are estimated to remain in negative territory also in the 2010-2011 period, contrary to forecasts for Italy in this document which predict a surplus balance as of 2010 (starting from 2011 according to the European Commission). Actually, the European Commission has estimated a deterioration in the primary balance for Germany, from -0.6 per cent of GDP in 2009 to -1.7 per cent in 2011, and has predicted an improvement in the other European countries which would leave the very high levels of primary balance as a proportion of GDP unchanged. In the case of France, the primary balance is forecast to go down from -5.5 per cent in 2009 to -4.7 per cent of GDP in 2011, while in the UK from -10.2 to -8.1 per cent of GDP, and in Spain from -9.4 to -6.3 per cent of GDP.

The Government intends to honour its commitments to the EU and to continue on its fiscal consolidation path: the net borrowing target is still forecast at 3.9 per cent of GDP in 2011 and at 2.7 per cent in 2012. Bearing in mind the estimates at unchanged

¹ According to European Commission estimates for the 2009-2011 period (*Autumn Forecast*, November 2009).

legislation, leaving the targets unchanged requires a corrective adjustment on the primary balance of 1.6 per cent of GDP in cumulative terms over the 2011-2012 period.

Public debt as a proportion of GDP is forecast to start on a downward path as of 2012, reaching 117.2 per cent in that year. In this context, it should be noted that in one definition of aggregate debt, which considers the various economic sectors (General Government, households and non-financial firms), Italy is one of the least indebted countries in Europe (see Box on Performance of Aggregate Debt in European Countries).

The fiscal consolidation effort will start again this year. After reaching -3.8 per cent of GDP in 2009, the cyclically adjusted and net-of-one-off measures budget balance is expected to decrease to -3.3 per cent in 2010, to -2.5 per cent in 2011, to -2.0 per cent in 2012, with an annual improvement of 0.5 percentage points in 2010, 0.8 percentage points in 2011 and 0.5 percentage points in 2012, fully in line with the recommendations of the European Council within the excessive deficit procedure for Italy.

2. THE ECONOMY

2.1 THE INTERNATIONAL CYCLE

From the second quarter of 2009 there have been clear signs of recovery in the world economy. Despite this, in 2009, both GDP and world trade contracted (by -1.2 per cent and -12.3 per cent respectively). The drop in business activity levels caused the dollar prices of raw materials to decline significantly (-36.3 per cent in the case of oil and -21.1 per cent for non-energy products). Inflation moved into negative territory in many industrialised areas and then rose again above zero except in Japan. The exceptional fiscal and monetary stimulus packages adopted in many countries to respond to the crisis have been instrumental in the recovery.

In 2009, the United States recorded a contraction of gross domestic product (-2.4 per cent). In the first quarter of 2010, GDP growth was 0.8 per cent over the previous quarter (1.4 per cent in the last quarter of 2009) thanks to consumer spending and the rebuilding of stocks. The labour market deteriorated significantly. Last October the unemployment rate peaked at 10.1 per cent and then declined to 9.7 per cent in the first three months of 2010 (equivalent to 15 million unemployed). Employment suffered its strongest contraction in the early months of 2009, while in later months there were some positive signs with net job creation, especially in March. To counter the crisis and sustain the financial and real estate market, the Federal Reserve purchased \$1,725 billion of securities¹. The Fed left its policy rate unchanged (0.0-0.25 per cent), thereby maintaining an easy monetary policy. The dollar/euro exchange rate was 1.39 on average, with wide oscillations ranging between 1.26 and 1.50.

In 2009, the euro area recorded a GDP contraction (-4.1 per cent). According to the latest estimates, in the fourth quarter of 2009, GDP did not increase compared to the third quarter. Net exports and stocks made a positive contribution (0.2 percentage points and 0.1 percentage points respectively), offset by an equal negative contribution of gross fixed investment. The labour market is still weak. In March, the unemployment rate remained unchanged at 10.0 per cent (15.8 million unemployed) compared to a 7.2 per cent low which was hit at the beginning of 2008. The crisis also had an impact on prices. In 2009, consumer price inflation was 0.3 per cent (3.3 per cent in 2008). Since last May, the European Central Bank has kept its reference interest rate at the all-time low of 1.0 per cent. The ECB provided liquidity to the market through unprecedented non-conventional operational measures, that are already being withdrawn.

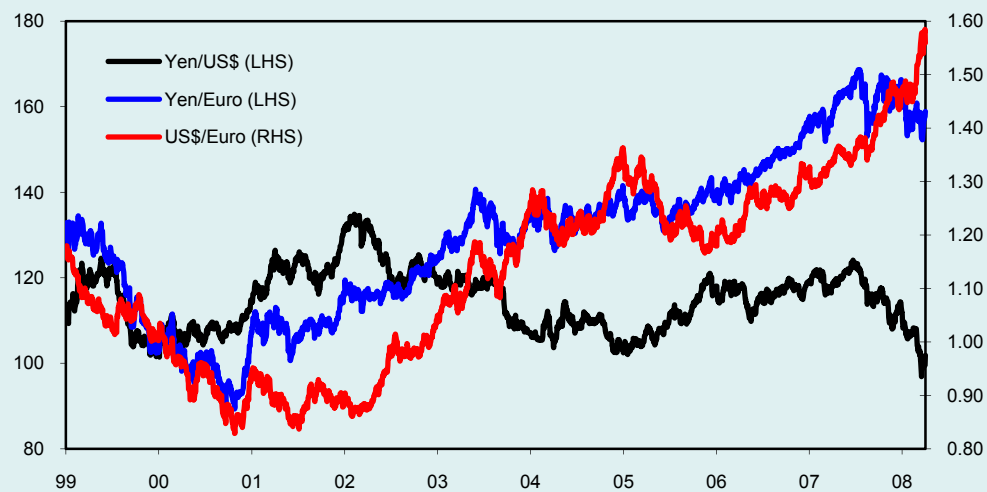
¹ Speech by Ben S. Bernanke, 25 March 2010.

Japan's GDP contracted by -5.2 per cent in 2009. In the last quarter of last year, it grew by 0.9 per cent, mainly thanks to the contributions of net exports (0.5 percentage points) and private consumption (0.4 percentage points). As to the labour market, the unemployment rate continued to increase until last July, when it hit 5.6 per cent. There has been a progressive improvement since then: in February the unemployment rate was 4.9 per cent, equivalent to 3.2 million unemployed. In 2009 deflation appeared again. In the first ten months of the year consumer prices contracted continuously decreasing -2.5 per cent on a yearly basis in October. As of November there has been an improvement which caused a -1.1 per cent change to be registered in February. The Government continued to take action to support the economy, while the Bank of Japan left its policy rates unchanged at 0.1 per cent and continued to pursue its policy to stabilise financial markets and facilitate business refinancing.

The leading emerging countries, though affected by the global crisis, had positive growth rates and are now an important engine of global growth. In 2009, the Chinese economy grew by 8.7 per cent (9.6 per cent in 2008). In the first quarter of 2010, Chinese GDP grew by 11.9 per cent over the same period of the previous year, thus returning to pre-crisis growth rates. The components that made a positive contribution to GDP growth in 2009 include final consumption (4.6 percentage points) and investment (8.0 percentage points). Positive signs are also coming from India. In 2009 the Indian economy grew by 5.6 per cent (7.3 per cent in 2008), and growth has accelerated in the last few months.

Following positive developments during the crisis, estimates for 2010 have been revised upwards compared to January, both for global growth, which is now estimated at 3.6 per cent (3.1 per cent was the Stability Programme estimate), and for world trade (5.8 per cent up from 3.5 per cent). The industrialised countries are expected to record GDP growth of 1.8 per cent in 2010. The US economy is expected to grow by 2.7 per cent, while euro area growth is forecast at 1.0 per cent and Japan's at 1.7 per cent. The recovery is expected to grow stronger in 2011, when worldwide growth is expected to stand at 3.9 per cent and international trade to grow by 6.3 per cent. Next year GDP growth is forecast to reach 2.4 per cent in the United States, 1.6 per cent in the euro area and 2.2 per cent in Japan. In 2012 world growth is expected to be slightly above 4.0 per cent and international trade is expected to grow by 6.5 per cent. GDP growth is estimated at 2.5 per cent in the United States, at 2.0 per cent in the euro area, at 1.5 per cent in Japan. Oil prices are projected to hover around \$79 a barrel on average in the 2011-2012 period.

In the next few years, the risks for the world economy are mainly associated with an excessively rapid exit from the exceptional fiscal and monetary policies adopted internationally. Reconciling the stability of public finances, financial markets and prices with the need not to stifle economic recovery continues to be a major challenge for the economies throughout the world in the next two-three years, while uncertainty on the permanent effects of the crisis on potential growth rates and potential GDP levels persists.

CHART 2.1: BILATERAL EXCHANGE RATES

TABLE 2.1: INTERNATIONAL MACROECONOMIC SCENARIO (% change)

	2006	2007	2008	2009	2010	2011	2012
GDP							
Industrialised countries	3.0	2.7	0.4	-3.6	1.8	2.1	2.4
United States	2.7	2.1	0.4	-2.4	2.7	2.4	2.5
Japan	2.0	2.4	-1.2	-5.2	1.7	2.2	1.5
EMU	3.0	2.8	0.6	-4.1	1.0	1.6	2.0
France	2.2	2.3	0.4	-2.2	1.3	1.7	1.9
Germany	3.2	2.5	1.3	-5.0	1.3	1.9	1.9
United Kingdom	2.9	2.6	0.5	-5.0	0.7	1.9	2.0
Spain	4.0	3.6	0.9	-3.6	-0.6	1.0	2.2
World excluding EU	5.7	5.8	3.5	-0.1	4.4	4.6	4.7
World	5.1	5.2	2.8	-1.2	3.6	3.9	4.1
World trade	9.1	7.3	2.8	-12.3	5.8	6.3	6.5

Source: Our calculations on OECD, EU and IMF data.

TABLE 2.2: INTERNATIONAL PRICES (% change unless otherwise specified)

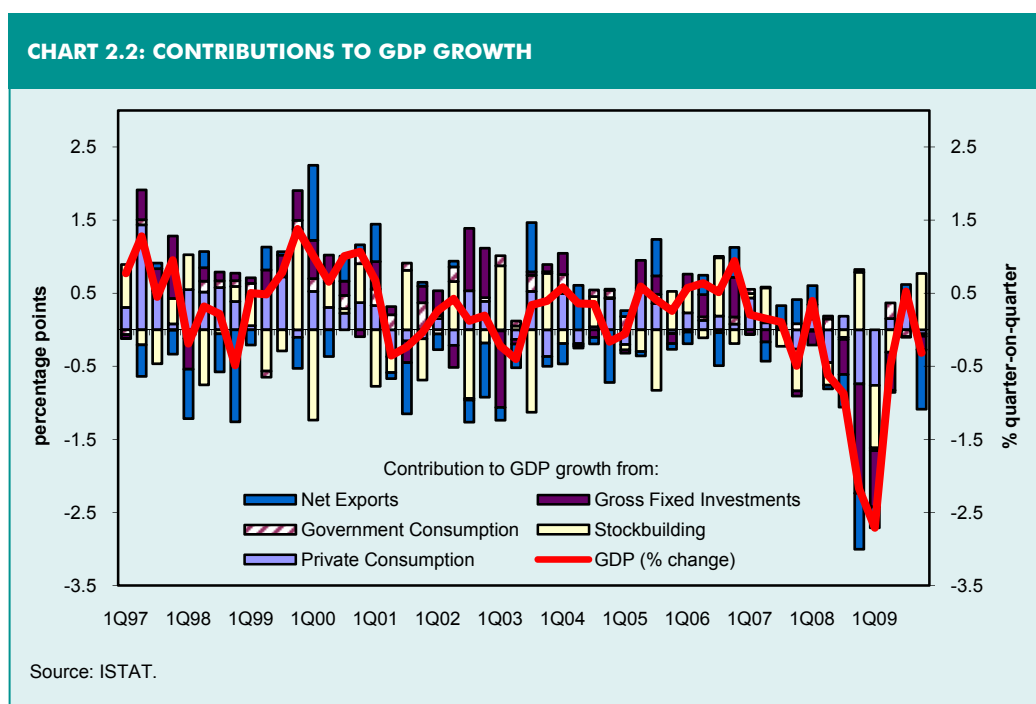
	2006	2007	2008	2009	2010	2011	2012
FOB oil (dollar/barrel)	65.2	72.2	96.9	61.7	78.4	79.2	79.2
Non-energy raw materials	15.7	27.1	25.2	-21.2	6.9	1.3	0.0
Manufactured goods	5.0	7.0	8.7	-9.2	3.9	1.1	1.0

Note: Prices are in US dollars.

2.2 THE ITALIAN ECONOMY

2.2.1 Domestic demand

In 2009, the Italian economy was also affected by the economic and financial crisis, with GDP decreasing by 5.0 per cent, in line with the other major export-led economies such as Germany and Japan. Last year's result is slightly worse than the Stability Programme forecast (-4.8 per cent), due to the unexpected drop in the fourth quarter (-0.3 per cent over the previous quarter). A look at contributions to growth shows that the 2009 performance was adversely affected by fixed investment (-2.5 percentage points), which was penalised by the drop in domestic and foreign demand, credit tightening and worsening expectations (see box on Italy's economic performance during the crisis). Net exports, conditioned by declining international trade made negative contribution of 1.2 percentage points to growth, along with private consumption (-1.0 points) and stocks (-0.3 points).



Fixed investment, penalized by the above mentioned factors, declined (-12.1 per cent); more specifically, investment in machinery (-18.4 per cent) and in vehicles (-15.2 per cent). Also investment in construction decreased (-7.9 per cent) and the production in construction shrank (by -11 per cent approximately). However, home prices did not fall as in other countries, which shows that real estate was less overvalued in Italy.

In the face of a strong drop in world trade (-12.3 per cent), Italy's exports and imports declined by 19.1 per cent and 14.5 per cent respectively. For the first time since 1986, export prices have declined (-0.4 per cent), thus reversing the trend of the last few years, when export firms have increased prices significantly, even though these increases were partly justified by improvements in the quality of exported goods. Despite this, there was an improvement in the terms of trade, as import prices declined more significantly,

due to cheaper raw materials. The CIF/FOB trade deficit declined (-0.3 per cent of GDP compared to -0.8 in 2008).

In the early months of the year households' spending decisions were negatively affected by a weak labour market, and by dwindling financial wealth. The purchase of vehicles increased (5.2 per cent) thanks to government incentives. Expenditure by residents while abroad declined less than expenditure by non-residents on the domestic territory (-3.9 per cent and -7.4 per cent respectively). The differential between these two components made a slightly negative contribution to growth (-0.1 percentage points).

Industry excluding construction is the sector which was hit hardest: value added contracted (-15.1 per cent). The drop was less marked in construction (-6.7 per cent), and moderate in private-sector services (-2.6 per cent).

Despite the slowdown of wages, unit labour costs (measured on GDP) accelerated somewhat compared to 2008 (4.7 per cent compared to 4.6 per cent), as a result of the drop in productivity (-2.5 per cent). With a reduction in business profit margins, the GDP deflator grew by 2.1 per cent (2.8 per cent in 2008). The deflator of household consumption was slightly negative (-0.2 per cent), reflecting the drop in import prices.

Prospects for the Italian economy

Prospects for the year in most advanced economies show that after exiting from the crisis there will be an expansion in world GDP, although with different intensities among the main economic areas.

Recovery within the European Union appears non homogenous, as was the case with the recessive phase². France and Germany reached the lowest point in the first quarter of 2009, with Italy reaching it in the second and the United Kingdom in the third. In Spain GDP continued to contract also in the fourth quarter. In Germany, the United Kingdom and France, exports are the most dynamic component, while in Italy they recovered more moderately compared to world trade; the growth in fixed investment was more buoyant in Italy³.

Against a backdrop of international recovery and the marginally negative carry-over effect, Italy's GDP is estimated to grow by 1.0 per cent in 2010, 0.1 percentage points less than the estimate made in the Stability Programme last January. In the 2011-2012 period, GDP growth is forecast at 1.7 per cent approximately.

After the positive performance in the fourth quarter (1.0 per cent more over the previous quarter), industrial production continued to grow in January (1.9 per cent over the previous month) and was stable in February, as in most countries of the euro area. A number of elements suggest there will likely be a further period of expansion in the next few months, more specifically: i) in capital and intermediate goods, which are usually the harbingers of the coming cycle, production growth was above the average in the last few months; ii) in April, the index, which can be inferred from surveys of purchasing

² In all the above-mentioned countries the peak before the crisis is in the first quarter of 2008 (in the case of Italy it is a relative peak). Recalculating on 100 the value of the individual components at peak value, it can be inferred that disinvestment occurred mainly in the United Kingdom, where there was surplus capacity. Italy and Germany suffered especially from the drop in exports, while the UK was less affected, as it benefited from the devaluation of the pound. Household deleveraging along with a drop in consumption was particularly evident in Spain; household expenditure remained more or less unchanged in France.

³ The country-specific lowest point has been considered for each country; subsequently the value of each individual component at the time of the lowest point has been recalculated on 100.

managers (*Purchasing Managers Index*) (up to 54.3 from 51.6 in February), was above the expansion threshold for the last six months; iii) in April the ISAE manufacturing firms confidence index continued to grow and went back to June 2008 levels. Stocks are still below what are considered normal levels, which means that stockpiling could continue in the next few months.

Bank lending to firms declined in the last six months⁴. Lending to small- and medium-sized enterprises (SMEs), however, appears to be less pro-cyclical compared to lending to bigger firms (with at least 20 employees), as it contracted to a lesser extent. In order to ensure that the banking system would continue to function and lending would continue to flow to businesses, the Government took both direct and especially indirect action, starting to adopt measures to support enterprises, notably, small- and medium-sized ones. These include: collateral by SACE to guarantee loans by banks to companies with receivables from General Government; a moratorium on principal repayment of SMEs' payables to banks⁵; the establishment of an Italian private-capital investment fund to foster the medium-term development of the most promising Italian firms; and speeding up General Government settlement of invoices to ensure prompt payment for businesses.

Investment in equipment and machinery is forecast to start growing again in the first part of the year thanks to tax breaks whose impact was felt only in the second part of 2009. In the second two-year period, given the renewed buoyancy in exports and international trade, investment in machinery is expected to increase on average by less than 3 per cent.

In 2010 investment in construction is forecast to continue to be affected by the end of the negative cycle which hit the industry. However, the correction has started to ease. In the fourth quarter of 2009, activity in construction and transactions in the housing sector⁶ decreased (by -0.9 per cent and -3.2 per cent respectively over the previous quarter); in both cases, however, contractions were smaller than in the third quarter. House prices also decreased (-0.2 per cent in the second half compared to the first half), but at lower rates compared to the first half of the year. Figures on bank credit stocks show a progressive increase in mortgage loans to households⁷. The measures taken by the Government may have a positive impact on the sector⁸. After the 2009 decline, investment in construction is projected to drop in 2010 (-1.2 per cent) and to grow by 2.1 per cent on average in the following two-year period.

In the current year private consumption is forecast to grow moderately. Despite the phase out of Government incentives, in the first three months of the year vehicle registration experienced sustained growth, partly due to the time lag between vehicle

⁴ In February it declined by 2.9 per cent over the same month of the previous year. In particular, medium-term lending suffered a stronger contraction (-11.2 per cent), as against a more moderate tightening of short-term lending standards (-7.4 per cent), whereas growth in long-term loans slowed down (+5.1 per cent) (raw data).

⁵ 153,000 applications were received by 28 February, 114,000 have already been accepted, equal to €9 billion approximately of deferred capital.

⁶ Source: 'Agenzia del Territorio', <http://www.agenziaterritorio.it/?id=home>.

⁷ In February 2010 the increase was 8.1 per cent compared to the same period of the previous year (raw data).

⁸ Decree Law No. 40/2010, Law No. 133/2008.

purchase and registration. In the following months consumption could benefit from the new incentives for the purchase of other types of durable goods⁹. Household disposable income is expected to be affected by the positive wealth effects linked to the recovery of financial activities and the growth, albeit modest, of per-capita nominal wages. Also the decreased volatility of stock exchanges is expected to help increase durable goods expenditure. Consumption is expected to recover gradually. In April the ISAE consumer survey showed an improvement in confidence compared to the weakness showed in the first three months of the year. This improvement mainly affected i) the overall economic situation, especially expectations about the labour market; and ii) intentions to buy durable goods. In the following two-year period, according to projections, there will be an average increase in consumption of approximately 1.6 per cent. Labour market conditions represent a risk for private consumption development.

Exports are expected to be favoured by a recovery in foreign demand as well as by the recent depreciation of the single currency. Net foreign demand is forecast to make a nil contribution to GDP growth in 2010 and a positive contribution in the following year. After two consecutive years of destocking, stocks are expected to make a positive contribution to growth. Stockpiling already started in the fourth quarter of last year.

The current account deficit of the balance of payment is expected to stand at 3.2 per cent of GDP, remaining stable compared to 2009. The merchandise balance is expected to be in positive territory as a proportion of GDP (0.1 per cent).

The labour market is forecast to remain weak in 2010, even though it will improve compared to 2009. In the current year employment measured in full-time units is forecast to decrease (-0,4 per cent). At the sectoral level, employment is forecast to move into positive territory in construction and in private-sector services, while it is projected to remain in negative territory in industry excluding construction. In 2010, the unemployment rate is forecast to stand at 8.7 per cent and to gradually decrease to 8.2 per cent in 2012.

In 2010 compensation per employee is expected to rise by 1.6 per cent, thus slowing down compared with 2009. Contracts in force at the end of February account for 52.5 per cent of the total. In the first two months of the year, a total of 3.7 per cent was renewed. As a result of a recovery in productivity, unit labour costs (ULC) are forecast to slow down notably (0.3 per cent), in particular in industry excluding construction, a sector which is more exposed to international competition; in the following years ULC growth rates are forecast to remain moderate.

⁹ Decree Law No. 40/2010.

TABLE 2.3: MACROECONOMIC SCENARIO (% change)

	2008	2009	2010	2011	2012
INTERNATIONAL EXOGENOUS VARIABLES					
International trade	2.8	-12.3	5.8	6.3	6.5
Oil price (FOB Brent dollars/barrel)	96.9	61.7	78.4	79.2	79.2
Dollar/euro Exchange rate	1.471	1.393	1.370	1.364	1.364
ITALY – MACRO VARIABLES (VOLUMES)					
GDP	-1.3	-5.0	1.0	1.5	2.0
Imports	-4.3	-14.5	2.7	2.9	4.0
Final Domestic consumption	-0.4	-1.2	0.7	1.0	1.6
- Resident household expenditure	-0.8	-1.8	0.9	1.3	1.9
- General Government and NPISH expenditure	0.8	0.6	0.0	0.0	0.8
Gross fixed investment	-4.0	-12.1	0.2	2.0	2.8
- Equipment, machinery and other items	-4.7	-16.6	2.0	2.3	3.0
- Construction	-3.4	-7.9	-1.2	1.7	2.5
Exports	-3.9	-19.1	2.9	4.3	4.4
<i>p.m. Current balance of payments balance as a % of GDP</i>	-3.5	-3.2	-3.2	-2.9	-2.9
CONTRIBUTIONS TO GDP GROWTH (*)					
Net exports	0.1	-1.2	0.0	0.3	0.1
Stocks	-0.3	-0.3	0.4	0.0	0.0
Domestic demand net of exports	-1.2	-3.5	0.6	1.2	1.9
PRICES					
Import deflator	6.8	-6.1	2.5	1.5	1.6
Export deflator	5.1	-0.4	1.9	2.0	2.0
GDP deflator	2.8	2.1	1.2	1.8	1.9
Nominal GDP	1.4	-3.0	2.2	3.3	3.9
Consumption deflator	3.2	-0.2	1.4	1.8	1.9
(Forecast) inflation	1.7	0.7	1.5	1.5	1.5
Harmonised consumer price index net of imported energy products (**)	3.2	1.5	1.8	2.2	1.9
LABOUR					
Labour cost	3.7	2.1	1.6	1.8	1.9
Productivity (measured on GDP)	-0.9	-2.5	1.4	0.7	0.9
ULC (measured on GDP)	4.6	4.7	0.3	1.1	1.0
Employment (FTE)	-0.4	-2.6	-0.4	0.8	1.1
Unemployment rate	6.7	7.8	8.7	8.5	8.2
Employment rate (15-64 years)	58.7	57.5	57.0	57.4	58.2
<i>p.m. Nominal GDP (absolute values million €)</i>	<i>1,567,851</i>	<i>1,520,870</i>	<i>1,554,347</i>	<i>1,606,014</i>	<i>1,669,371</i>

(*) Any inaccuracy is due to rounding.

(**) Source: ISAE.

Note: The macroeconomic scenario has been developed on the basis of information available by March 2010. Assumptions on oil prices and the dollar/euro Exchange rate are based on an average of the last 10 working days from March 10 to 23 2010.

GDP and components (chain-linked volumes with reference year 2000), data not adjusted for working days.

NATIONAL ACCOUNTS REVIEWS

On March 1st along with the publication of the estimate for the 2009 annual accounts, ISTAT (Italy's statistical office) published the ordinary reviews of current price data for the 2007-2008 period. The reviews take into account updates of the statistical sources used. Estimates become more accurate in time because baseline data have been consolidated. The ordinary review process usually ends four years after the baseline year. In the current ordinary review for 2007 the final data have been acquired from the survey of the business accounts system ('sistema dei conti delle imprese' - SCI) and from the survey of small- and medium-size enterprises SMEs and the data from the statistical archive of active businesses ('Archivio statistico delle imprese attive' - ASIA). For the 2008 estimates, the provisional results of surveys of firms and balance sheets data of companies have been used. In addition, the final results of the survey of household consumption are now available, as well as the reviews of the statistics of the balance of payments and the foreign trade balance, and finally, for the first time, an initial version of the ASIA Archive.

The table shows the differences between the two series for the main components of the use and supply of goods and services (volumes), prices and employment. The new estimates assumed a downward revision of the real GDP estimate, more significant for 2008. Fixed investment, especially in construction, is the component that was revised most heavily.

In 2011 the National accounts series will undergo an extraordinary revision (the latest dates back to 2008) owing to the shift from the NACE Rev. 1 classification to the NACE Rev. 2 classification¹⁰.

Comparison between the old and the new ISTAT series

	2007		2008		2009
	NS	OS	NS	OS	NS
ITALY'S MACRO VARIABLES (VOLUMES)					
GDP	1.5	1.6	-1.3	-1.0	-5.0
Imports	3.8	3.8	-4.3	-4.5	-14.5
Final domestic consumption	1.0	1.1	-0.4	-0.5	-1.2
Household consumption	1.1	1.2	-0.8	-0.9	-1.8
General Government expenditure and NPISH	0.9	1.0	0.8	0.6	0.6
Investment	1.7	2.0	-4.0	-3.0	-12.1
- machinery, equipment and other items	3.1	3.1	-4.7	-4.2	-16.6
- construction	0.3	1.0	-3.4	-1.8	-7.9
Exports	4.6	4.6	-3.9	-3.7	-19.1
PRICES					
GDP deflator	2.6	2.4	2.8	2.8	2.1
Import deflator	2.6	2.6	6.8	6.9	-6.1
Final domestic consumption deflator	1.9	1.8	3.2	3.4	0.6
Household consumption deflator	2.3	2.2	3.2	3.2	-0.2
General government and NPISH expenditure deflator	0.7	0.7	3.4	3.8	2.7
Gross fixed investment deflator	2.9	2.5	3.2	3.2	0.8
- machinery, equipment and other items	2.1	1.6	3.0	2.9	0.5
- construction	3.7	3.5	3.4	3.6	1.0
Exports deflator	4.1	4.0	5.1	5.0	-0.4
LABOUR					
Employment (FTE)	1.0	1.0	-0.4	-0.1	-2.6
Dependent employment (FTE)	1.5	1.5	0.1	0.5	-2.7

Note: NS= new series; OS= old series.

¹⁰ Cp. ISTAT 2009, http://www.istat.it/dati/pubbsci/contributi/Contributi/contr_2009/07_2009.pdf.

2.2.2 Foreign trade

In 2009, Italy's trade was seriously affected by the drop in world trade, despite the recovery in the second half of the year¹¹.

Overall, the trade balance had a deficit of approximately €4.1 billion in 2009, an improvement over last year's deficit (€13 billion). This recovery is to be attributed to a stronger contraction in imports (-23.0 per cent) over exports (-21.4 per cent) and especially to a stronger decline in imports from non-EU countries (-26.9 per cent) compared to European countries (-19.7 per cent). Actually, compared with 2008, the partial balance with non-EU countries went from -€21.5 billion to -2.3 billion (improving the total balance by about €19.1 billion), whereas the balance with European countries went from +€8.4 billion to -1.8 billion (thereby worsening the total balance by €10.2 billion).

The balance with non-EU countries benefitted from the contraction in imports (-26.9 per cent) largely attributable to the drop in the prices of energy products, and especially oil. The trade balance, net of energy products (crude oil and natural gas), showed a €36.7 billion surplus, even though it was €12 billion less than the 2008 surplus (€48.7 billion). More specifically, this surplus net of energy imports, was mainly with non-EU countries (€36.2 billion) and to a lesser extent with European countries (€460 million).

Conversely, compared to 2008, exports recorded a more marked drop with European countries (-23.7 per cent) and a smaller one with non-EU countries (-18.1 per cent).

In terms of volume, overall exports showed a 19.8 per cent contraction compared with 2008. Especially exports to Russia (-39.9 per cent) and the United States (-27.6 per cent) declined. Exports to China suffered a smaller contraction (-3.5 per cent). In the 2005-2008 period, the overall volume of exports on average increased by 1.6 per cent a year, especially to BRIC and OPEC countries.

In 2009, the industries whose volume of exports showed a smaller-than-average drop were food products, beverages, tobacco, pharmaceuticals and oil products. In the 2005-2008 period there was an expansion in most sectors.

In 2009, the performance of Italy's trade compared to the previous year was weaker than that of other EU countries. Imports and exports of EU countries contracted by 23.0 and 16.0 per cent respectively and the trade balance was -€105.3 billion, improving compared to 2008 (-€258.5 billion).

Despite the difficult international situation, in the period between January and October 2009 Italy's market share of total worldwide exports edged down (to 3.3 per cent) compared to the same period of 2008 (3.4 per cent).

¹¹ Data on trade value – both overall figures and numbers relating to the EU and non-EU area in 2009 are based on the ISTAT note of March 18, 2010. Export indices in terms of volume by area and by industry for 2009 commented in this paragraph have been developed with the NACE Rev. 2 classification.

CHART 2.3: EXPORT VOLUMES BY GEOGRAPHICAL AREA (% values)

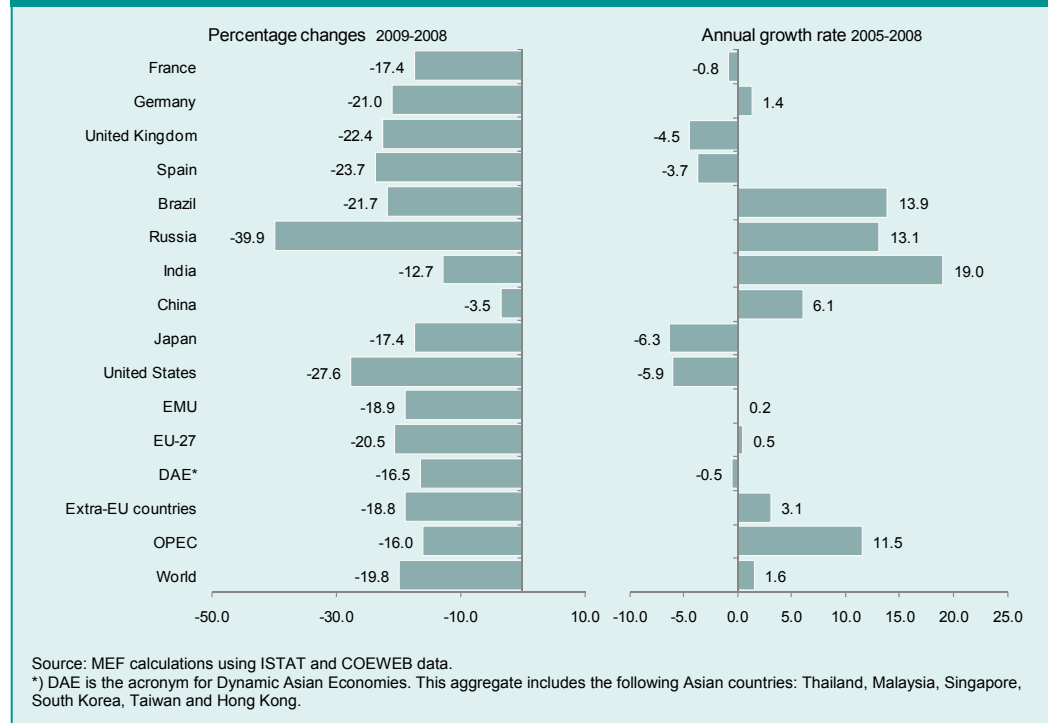


CHART 2.4: EXPORTS VOLUMES BY SECTORS - NACE 2007 (% values)

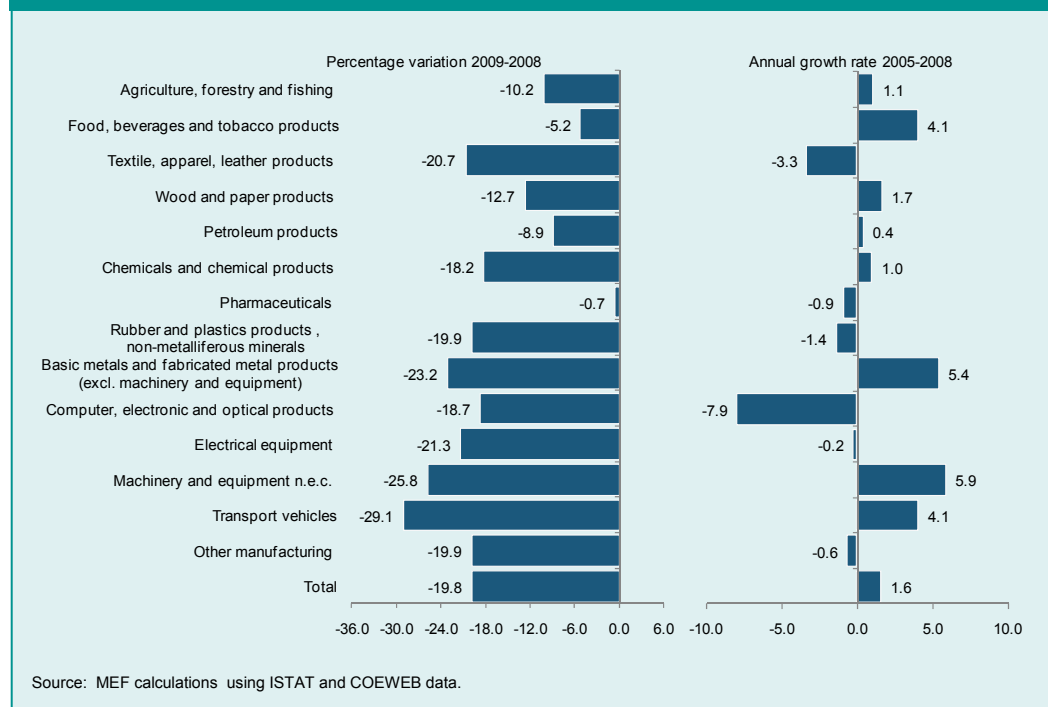
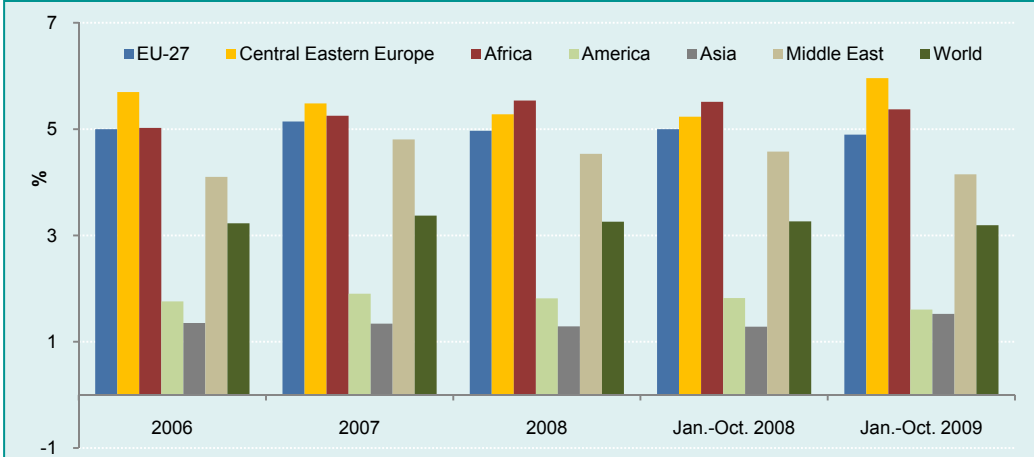
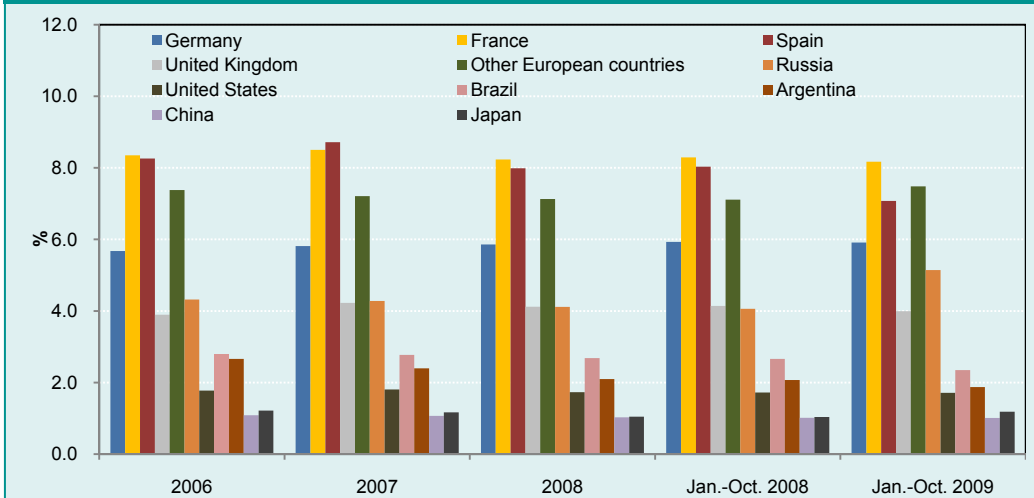


CHART 2.5: ITALY'S MARKET SHARE BY AREAS (on imports of countries at current prices, % values)



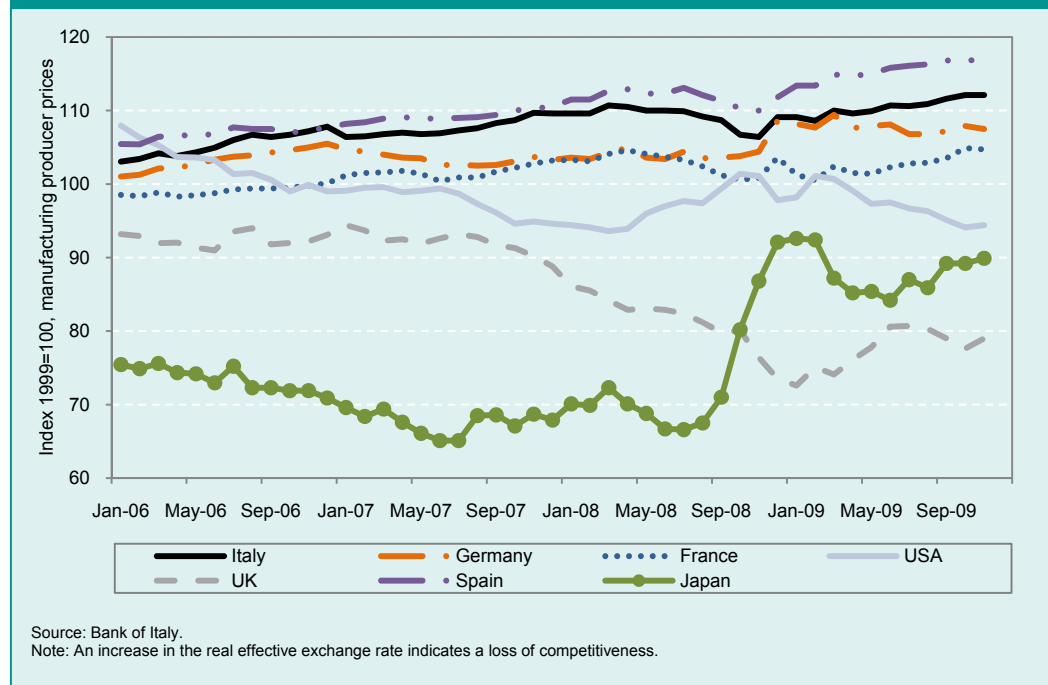
Source: ICE, Ministry of Economic Development.
 Note: America and Asia means the average of market shares in respectively North, Central and South America and Central and East Asia.

CHART 2.6: ITALY'S MARKET SHARE BY COUNTRY (imports of countries at current prices % values)



Source: ICE, Ministry of Economic Development.

CHART 2.7: REAL EFFECTIVE EXCHANGE RATE: INTERNATIONAL COMPARISON (1999=100 indices on prices of manufactured goods)



ITALY'S ECONOMIC PERFORMANCE DURING THE CRISIS

Italy's exposure to some specific crisis factors, such as the overvaluation of the real estate market, financial innovation in the banking sector and private sector indebtedness, was more limited. It was also thanks to these stability factors that the drop in Italy's GDP, however severe, was in line with the losses suffered by other G7 economies (Germany, Japan). Italy's economic cycle was weak also before the effects of the crisis began to unfold. The manufacturing industry was facing a restructuring process. Private consumption was affected by the slight weakening of real disposable income, also due to the rapid increase in the prices of energy and non-energy raw materials. Since the second half of 2008 there has been the impact of the global crisis resulting from the drop in world trade, which so far has been the main conduit through which the crisis has affected the real economy. On the basis of a counterfactual simulation exercise¹² conducted using the macroeconomic model of the Treasury Department (ITEM), it can be inferred that a large part of the GDP drop in 2009 can be attributed to exports, which were affected both by reduced foreign demand (trade shrunk by over 12 percentage points) and the drop in competitiveness caused by the lower prices of foreign manufactured goods. Overall, these two factors account for over half the drop in exports in 2009 and over two percentage points of the drop in GDP¹³. More specifically, Italian exports declined at

¹² In this exercise an alternative scenario to the current one has been assumed according to which the main international exogenous variables and the confidence indices have been projected in line with the 2008 performance to assess the impact of exogenous factors on the size of Italy's GDP drop in 2009.

¹³ The strong impact of international factors on the Italian crisis has been noted – over a longer period of time than the one considered here – also in a recent analysis of the Research Department of the Bank of Italy (see M. Caivano, L. Rodano e S. Siviero “La trasmissione della crisi finanziaria globale all'economia

a faster pace compared with countries, such as Germany, whose economic structure is similar.¹⁴ This could be explained on grounds of the relative geographic specialization of Italian exports. According to EUROSTAT data on trade, a large share of Germany and Italy's exports (in values) is with EU countries. However, unlike Germany, Italy has a more modest share of exports to the most dynamic areas, such as China and Poland, the latter being the only European country whose GDP grew in 2009. As far as merchandise composition is concerned, the incidence of capital goods on total exports is high for both countries; however, Italian export firms captured demand for capital goods from the newly industrialised countries only to a very limited extent. In 2009 Italy exported 1 per cent of its machinery and means of transportation to China. The figure for Germany is 7 per cent approximately (5 per cent in 2008).

In times of recession, as income decreases consumption of lower-quality goods tends to increase, thereby penalising 'Made in Italy' products. According to a recent ISAE study¹⁵, for some consumer goods of the Italian manufacturing sector – such as textiles, clothing, leather goods and shoes, computers and precision devices – exports to EU-15 are mainly made up of high-quality goods¹⁶. Percentages are very high also in the case of furniture (73.5 per cent). In the same study, ISAE confirms that, among consumer goods, the hardest hit are high-quality goods, whose exports to EU-15 in the January-July 2009 period decreased by 20.1 per cent compared with the January-July 2008 period, twice as fast as the medium-quality goods (-10.8 per cent) and three times as fast compared to low-quality goods (-6.9 per cent). That high-quality goods have been penalised was especially evident in the paper and publishing industry (-50.3 per cent), as well as in rubber and plastic (-35.7 per cent), machinery and equipment (-27.0 per cent) and furniture (-22.1 per cent). In addition, the study showed that, over the same period, the contraction of exports of intermediate and capital goods was stronger for medium- and low-quality goods.

Another element that can explain the specificities of Italy's recession is the high incidence of capital goods on the total of business activities: in the five years before the crisis (2003-2007), in Italy the incidence of investment in machinery on GDP was 7.6 per cent, higher than in Germany (6.2 per cent), Spain (5.5 per cent) and France (5.0 per cent). Also the euro-area average (6.1 per cent) is below the Italian figure. Investment is the aggregate demand component that has been hit hardest by the crisis, after exports¹⁷. The above-mentioned counterfactual analysis shows that in 2009 capital accumulation in Italy was adversely affected by both tighter bank lending and worsening business expectations, accounting for about a third of the drop in investment.

Broadly speaking, therefore, last year's drop in GDP seems to be ascribable to a shock in external demand and expectations rather than to the domestic business structure. So far, there seems to be no evidence of a deterioration of the supply structure in Italy's economy, which should allow the economy to return to the growth levels registered before the crisis once external conditions improve, given that confidence in the private sector has already increased. In the last few months the external

italiana. Un'indagine controfattuale, 2008-2010", in "Questioni di Economia e Finanza", Bank of Italy, April 2010).

¹⁴ In 2009, according to national accounting data, exports have declined in Italy and Germany (-19.1 per cent and -14.7 per cent respectively). From the peak (first quarter of 2008) to the trough (second quarter of 2009) of their respective cycles, Italian exports have declined by 24.6 per cent and German exports by 18 per cent approximately.

¹⁵ See ISAE Report, "Le Previsioni per l'Economia Italiana" (Forecast for the Italian Economy), February 2010; A. Bertou e C. Elinger (2009), published on the following website: <http://www.voxeu.org/index.php?q=node/4152>.

¹⁶ The period considered is January 2008 to July 2009.

¹⁷ From the first quarter of 2008 to the second quarter of 2009, investment in Italy contracted by 19.8 per cent, a percentage similar to that of Germany (20.2 per cent).

cycle has improved significantly. After the trough reached last January, international trade¹⁸ recovered most of the loss it had suffered (and in December 2009 it exceeded the level registered in November 2008). On the basis of the most recent qualitative indicators, a notable recovery in capital accumulation can be assumed, also thanks to the tax incentives adopted by the Government and the expected buoyancy of exports.

2.2.3 LABOUR MARKET

In 2009 the crisis had a significant impact on the labour market. According to national accounts annual estimates, employment in terms of standard labour units recorded a 2.6 per cent contraction in all major economic sectors, although to different degrees. The worst drop occurred in industry excluding construction (-8.1 per cent) whereas other sectors recorded more moderate declines (-0.7 per cent in construction, -1.8 per cent in farming, -2.6 per cent in private sector services, -0.2 per cent in public sector services).

Domestic employment decreased less significantly according to national accounts data (-1.7 per cent), and to an extent similar to that recorded in the Labour Force Survey (-1.6 per cent). The gap between the various employment figures mainly depends on the extensive use of the temporary lay-off fund by firms.¹⁹ In 2009 INPS authorised about 915 million hours of the temporary lay-off fund, 577 million of which were ordinary, while 338 million were extraordinary temporary-lay-off-fund hours or benefits extended to those normally not entitled to income support. After the peak in August 2009, the year-on-year growth in ordinary temporary lay-off benefits is now slowing down. Based on the number of hours used, the so-called *'tiraggio'* (number of hours of temporary lay-off benefit actually received) in 2009 was 60.4 per cent.

In 2009 the unemployment rate rose by about 1 percentage point to 7.8 per cent and continued to increase in the first three months of 2010, although more moderately.

According to the Labour Force Survey, the deterioration in the labour market had a different impact depending on age and gender groups. The hardest hit was the 15-24 age group, whose unemployment rate increased by 4.2 percentage points in 2009, and now stands at 25.4 per cent. The decline in the number of employed people mainly affected male workers (-2.0 per cent), whose unemployment rate rose to 6.8 per cent, one percentage point more than in 2008.

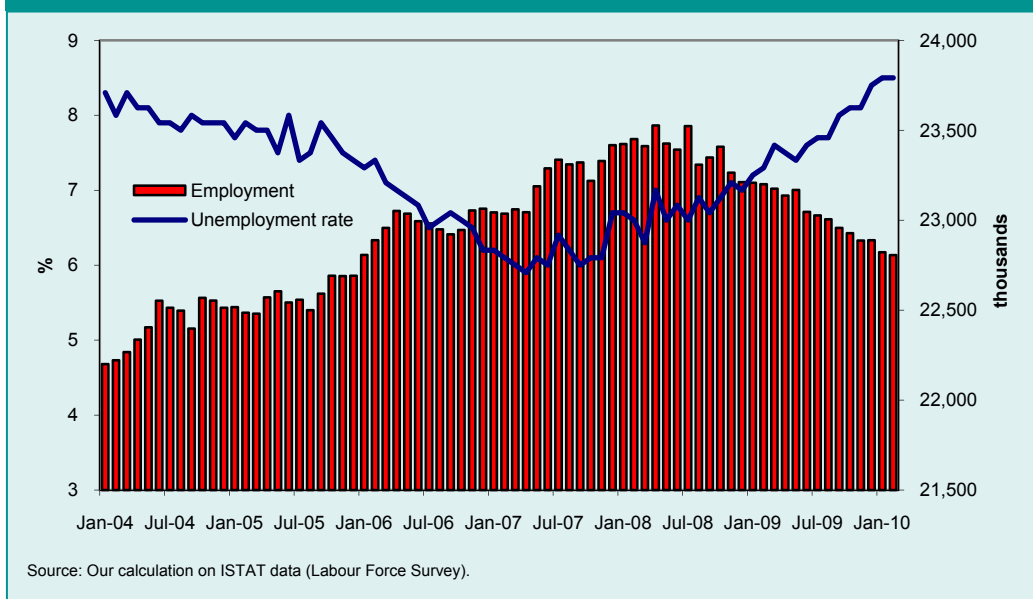
With regard to compensation, in 2009 the national accounts data show a slowdown in wage increases: wages per capita increased by 2.1 per cent throughout the whole economy, with the strongest increase in industry (2.8 per cent), while that in private-sector services (1.5 per cent) as well as public-sector services (1.8 per cent) was more moderate.

¹⁸ Source: CPB *Netherlands Bureau for Economic Policy Analysis*.

¹⁹ Unlike labour-force employees and domestic employees, standard labour units do not include employee equivalents on temporary lay-off benefit (the wage supplementation scheme, CIG - Cassa Integrazione Guadagni) and, as is the case for people in employment at national level, they include the contribution of conscripts, irregular workers, unreported employees and non-resident foreigners who are not included in the labour force. For further details visit http://www.dt.tesoro.it/it/analisi_programmazione_economico_finanziaria/_info/glos_merc_lavoro.html#mno

Contractual wages per hour worked increased by 3.0 per cent. The bargaining season was characterised by the renewal of 23 agreements, six of which (in the food, olive oil and derivatives, paper and paper-mill, chemical, metal and telecommunications industries) were renewed according to a new bargaining model, introduced in January 2009, whereby agreements have a three-year duration both in terms of pay and conditions. At the end of December 2009 collective bargaining agreements in force (in terms of pay) accounted for 88.0 per cent of total compensations surveyed by ISTAT.

CHART 2.8: EMPLOYMENT LEVELS AND UNEMPLOYMENT RATE (seasonally adjusted figures)



AGGREGATE DEBT PERFORMANCE OF EUROPEAN COUNTRIES

In order to assess the financial sustainability of European countries, this box contains an update of the aggregate debt estimate of European countries²⁰ which was already included in the 2010-2013 DPEF (see Table II.3), taking into account 2008 final figures.

Aggregate debt (as a proportion of GDP) is the sum of private-sector debt²¹ (households and non-financial firms) and public-sector debt (general government)²². According to this definition, Italy appears to be one of the least indebted European countries in 2008: aggregate debt was 225.0 per cent (compared to an average of 249.0 per cent), as a result of lower indebtedness in the private sector (especially among households) and prudent fiscal policy pursued by the Italian Government during the crisis. In 2008, the other less indebted European countries were Germany, Austria, Finland, Greece and France with an overall debt ranging between values just below 200 and 225

²⁰ All EU-15 countries have been considered, except Luxembourg.

²¹ For the private sector (households, NPISH institutions, non-financial businesses) non-consolidated data have been used. The notion of private sector debt includes loans and securities, except stocks and shares. The household and NPISH institutions' debt of Germany does not include securities other than shares as the relevant data were not available.

²² The public sector uses consolidated data. The definition of debt is the same as the one used in the excessive deficit procedure (gross debt).

per cent of GDP. Conversely, the countries that appear to be more indebted on average are Portugal, Belgium and Ireland with an aggregate debt close to 300 per cent of GDP or more. In EU countries, the private sector appears to be more indebted (with an average of 187.8 per cent of GDP) whereas public sector debt is smaller (61.2 per cent of GDP on average). In the private sector, non-financial businesses are more indebted than households, with an average debt of 111.5 and 76.4 per cent of GDP respectively. In the period from 1995 to 2008 the share of debt of non-financial businesses in the countries considered accounts for 42 per cent on average of the overall debt, while that of general government is 30 per cent and that of households 28 per cent. In Italy, in 2008 the debt of businesses accounted for 79.9 per cent of GDP and that of households for 39.3 per cent of GDP.

In 2008 few countries recorded a reduction in the level of private sector indebtedness compared to 2007. Household debt declined only in Germany and Austria by 2.4 percentage points of GDP (from 63.4 per cent of GDP in 2007 to 61.0 per cent in 2008) and of 1.1 percentage points (from 53.4 per cent of GDP in 2007 to 52.3 per cent) respectively. Other countries, such as the United Kingdom and Spain recorded only a marginal household debt reduction (of 0.1-0.3 percentage points of GDP). The most heavily indebted households are Denmark's, with a debt accounting for 136.8 per cent of GDP, followed by Dutch households with 119.8 per cent of GDP, Ireland with 104.6 per cent of GDP, Britain with 100.1 per cent of GDP, Portugal with 96.0 per cent of GDP and Spain with 83.5 per cent of GDP. As to non-financial businesses, only Belgium and the Netherlands recorded a decrease in the level of indebtedness compared with 2007 of 2.9 and 1.0 percentage points respectively. However, with a debt of 158.0 per cent of GDP in 2007, businesses in Belgium stood about 1/3 above the average of the countries considered, while companies in the Netherlands with a debt of 92.0 per cent of GDP were slightly below (the average figure was 103.7 per cent). The most heavily indebted non-financial companies are those of Portugal (with 157.3 per cent of GDP, +14.7 percentage points over 2007), Belgium (with 155.1 per cent), Sweden (with 152.7 per cent, +17.2 percentage points compared to 2007), Ireland (with 138.4 per cent, +27.2 percentage points compared to 2007), Spain (with 135.0 per cent), Finland (117.2 per cent, +15.9 per cent compared to 2007), and United Kingdom (with 114.1 per cent). The average indebtedness of non-financial businesses in 2008 was 111.5 per cent of GDP, with a 7.7 percentage points increase as a proportion of GDP compared with 2007.

For 2009,²³ an aggregate debt of 233.8 per cent of GDP has been estimated for Italy (compared to an average of 258.2 per cent) while for 2010 aggregate debt is forecast to stand at 235.9 per cent of GDP (compared to an average level of 265.1 per cent). In 2009, the expected deterioration in aggregate debt in Italy is basically in line with the average of European countries, despite the fact that Italy has a comparatively higher public sector debt (as a proportion of GDP). According to last autumn's European Commission forecasts, in 2009, Italy's public debt was estimated to stand at 114.6 per cent of GDP (the average figure of UE-14 countries was 70.4 per cent). According to the final data published by ISTAT in March, Italy's public debt, as a proportion of GDP, stood at 106.1 per cent in 2008, an upward revision of 0.3 percentage points compared to previous estimates, due to a downward revision of nominal GDP, and in 2009 at 115.8 per cent of GDP (115.1 per cent according to the 2009 Stability Programme estimates of last January). According to the Commission, the countries which, in addition to Italy, are expected to post the

²³ Up to 2008 historical data have been used, while for 2009 and 2010, estimates of aggregate debt have been developed assuming the debt of the private sector would remain unchanged compared to final data in 2008 (both for households and NPISH institutions and non-financial businesses). Public debt forecasts are based on the European Commission forecasts published in November 2009 (Autumn Forecast).

highest public sector debt as a proportion of GDP in 2009, are Greece (112.6 per cent) and Belgium (at 97.2 per cent).

Assessing aggregate debt (as a proportion of GDP) of the various institutional sectors of the economy enables a more accurate assessment of a country's ability to maintain its financial sustainability. In past years too much emphasis has been laid on public-sector debt reduction, while the level and performance of private sector debt were overlooked. The risk of insolvency for the financial sector, which emerged during the economic and financial crisis, caused the high private sector debt to be turned into public sector bonds or, at least, into the issuance of collateral by the public sector to secure private-sector debts, with indirect consequences on the credit ratings of sovereign bonds.

Aggregate debt

	Households					Non-financial businesses				
	1995	2007	2008	2009	2010	1995	2007	2008	2009	2010
Austria	42.2	53.4	52.3	52.3	52.3	60.6	82.0	84.2	84.2	84.2
Belgium	36.6	46.9	49.4	49.4	49.4	81.0	158.0	155.1	155.1	155.1
Denmark	82.2	129.1	136.8	136.8	136.8	61.9	93.9	99.8	99.8	99.8
Finland	34.7	49.4	51.8	51.8	51.8	73.6	101.3	117.2	117.2	117.2
France	35.4	48.6	50.7	50.7	50.7	70.0	97.8	104.5	104.5	104.5
Germany	61.5	63.4	61.0	61.0	61.0	51.3	67.0	69.0	69.0	69.0
Greece	5.8	47.0	49.7	49.7	49.7	31.5	57.2	61.8	61.8	61.8
Ireland	na	97.5	104.6	104.6	104.6	na	111.2	138.4	138.4	138.4
Italy	18.2	34.2	39.3	39.3	39.3	53.7	73.8	79.9	79.9	79.9
Netherlands	59.1	118.5	119.8	119.8	119.8	86.2	92.0	91.0	91.0	91.0
Portugal	26.9	94.1	96.0	96.0	96.0	59.2	142.6	157.3	157.3	157.3
United Kingdom	65.9	100.4	100.1	100.1	100.1	62.4	109.1	114.4	114.4	114.4
Spain	31.5	83.6	83.5	83.5	83.5	45.7	130.9	135.0	135.0	135.0
Sweden	45.9	70.8	74.2	74.2	74.2	109.9	135.5	152.7	152.7	152.7
AVERAGE	42.0	74.1	76.4	76.4	76.4	65.1	103.7	111.5	111.5	111.5

	PA					Total				
	1995	2007	2008	2009	2010	1995	2007	2008	2009	2010
Austria	68.3	59.5	62.6	69.1	73.9	171.1	194.9	199.1	205.6	210.4
Belgium	129.9	84.2	89.8	97.2	101.2	247.4	289.1	294.3	301.7	305.7
Denmark	72.5	26.8	33.5	33.7	35.3	216.5	249.8	270.1	270.3	271.9
Finland	56.7	35.2	34.1	41.3	47.4	165.0	186.0	203.0	210.2	216.3
France	55.5	63.8	67.4	76.1	82.5	160.9	210.2	222.6	231.3	237.7
Germany	55.6	65.0	65.9	73.1	76.7	168.4	195.4	196.0	203.2	206.8
Greece	97.0	95.6	99.2	112.6	124.9	134.4	199.9	210.7	224.1	236.4
Ireland	82.1	25.1	44.1	65.8	82.9	na	233.7	287.1	308.8	325.9
Italy	121.5	103.5	105.8	114.6	116.7	193.3	211.5	225.0	233.8	235.9
Netherlands	76.1	45.5	58.2	59.8	65.6	221.4	256.1	269.0	270.6	276.4
Portugal	61.0	63.6	66.3	77.4	84.6	147.1	300.3	319.6	330.7	337.9
United Kingdom	51.2	44.2	52.0	68.6	80.3	179.5	253.8	266.5	283.1	294.8
Spain	63.3	36.1	39.7	54.3	66.3	140.4	250.6	258.2	272.8	284.8
Sweden	72.2	40.5	38.0	42.1	43.6	228.0	246.8	264.9	269.0	270.5
AVERAGE	75.9	56.3	61.2	70.4	77.3	182.6	234.1	249.0	258.2	265.1

Source: Eurostat.

Note: Data on households and NPISH institutions and non-financial businesses are not consolidated to allow a comparison among a larger group of countries. The indebtedness of non-financial businesses and households and NPISH institutions includes loans (F4) and securities except stocks and shares (F3). Public sector liabilities are consolidated and match the Maastricht notion of public debt. In the case of indebtedness of households and NPISH institutions in Germany it should be borne in mind that securities other than shares have not been included because the relevant data were not available. For 2010, forecasts have been made assuming the indebtedness of the private sector (households, NPISH institutions and non-financial firms) would remain unchanged compared to 2008 levels and using the European Commission forecasts for general government entities (*Autumn Forecast*, November 3, 2009). In the case of Italy, if for 2008 and 2009 the ISTAT final data were used for general government debt published in March 2010, aggregate debt should stand at 225.3 and 235.0 per cent of GDP.

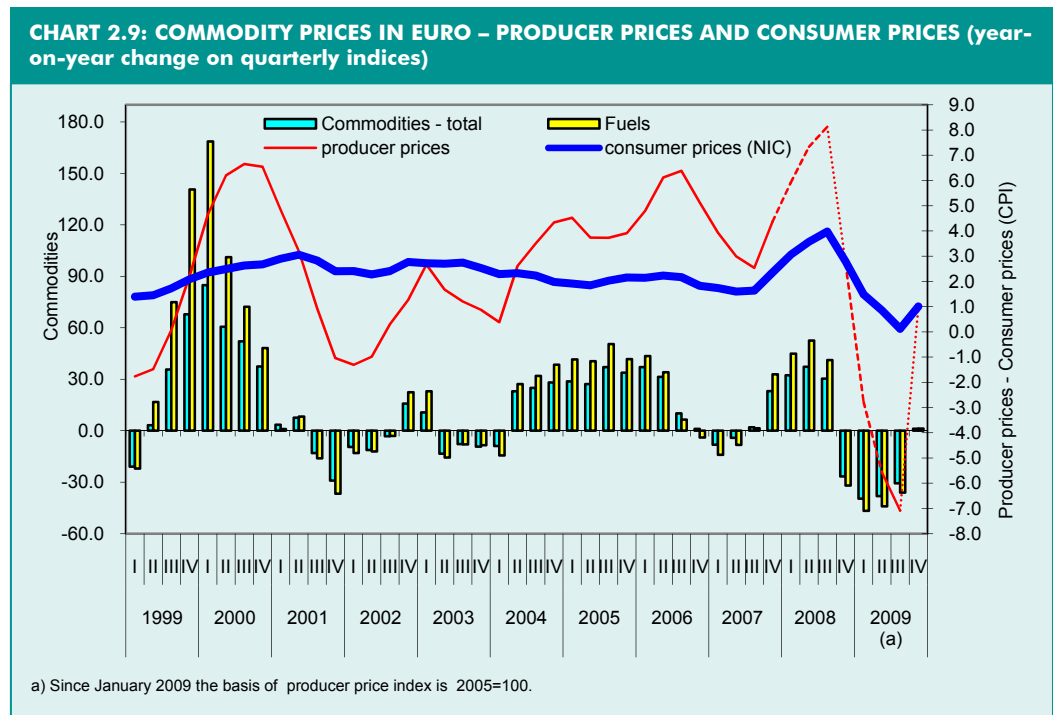
On April 22, 2010, Eurostat published a communiqué on the 2009 deficit and public debt of European countries (http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-22042010-BP/EN/2-22042010-BP-EN.PDF). Compared to the European Commission Autumn forecasts, on average for the countries considered general government debt was about 0.6 percentage points higher. Finland and Greece had comparatively higher increases (of about 2.6 percentage points) while Austria's debt turned out to be smaller than forecast by a similar amount (2.6 percentage points).

2.2.4 Prices

In 2009 annual consumer price inflation (NIC) reached the all-time low of 0.8 per cent, 2.5 percentage points less than in 2008. During the year there was an evident slowdown in the first six months – then consumer price inflation reached a rate over the 12 months which was nil in July, compared to 1.6 per cent in January – with a successive rise which brought inflation to 1.0 per cent in December.

Both phases reflect trends in the energy and food components, which were influenced by international prices. In particular with regard to energy prices, the deflation reflects contrasting tendencies: on the one hand, fuel prices, which in 2009 recorded annual drops until the summer (with a maximum of 21 per cent), which gradually became smaller as prices increased in later months; on the other, the prices of the regulated component started to decrease on an annual basis starting from the summer months, due to the time lag with which tariffs are adjusted to international fuel prices.

The prices of raw materials imported by Italy (the index was developed by Confindustria), decreased in 2009 (-31.5 per cent in dollars; -27.3 per cent in euros). However, after the lows reached at the beginning of 2009, raw material prices were on the increase and this trend has become particularly strong since October. In the fourth quarter of 2009, the general index in dollars recorded a year-on-year increase of 31.0 per cent (-35.7 per cent in the third). This trend was affected by fuels (+37.4 per cent, compared to -41.3 per cent in the third quarter of 2009), food (+24.3 per cent as against -6.1 in the third quarter) and metals (+23.5 per cent as against -21.4 in the third quarter).



In 2009 producer prices also recorded a -4.7 per cent decrease (in 2008 the index grew by 5.1 per cent), as a result of particularly strong drops in oil and oil products (-23.9 per cent) and food prices (-3.5 per cent). Considering the economic destination, this trend

is basically the result of reductions in the prices of intermediate products (-3.7 per cent) and consumer goods (-0.5 per cent).

Core inflation, calculated net of unprocessed foods and energy products, increased by 1.6 per cent on average in 2009, one percentage point less than in 2008. The trend over the year has been characterised by a decrease in the annual growth rate from 2.3 per cent in January to 1.3 per cent in August, a value that remained unchanged in the following months of the year and which has been the lowest level since 1997. This also reflects the underlying conditions of the economy following the economic crisis: goods prices, net of energy products, on a yearly average showed a slowdown in inflation, which went from 2.5 per cent of 2008 to 1.8 per cent in 2009. The slowdown in inflation was more marked in services, going down from 3.0 per cent in 2008 to 1.9 per cent in 2009. In both aggregates, the slowdown occurred in every month of the year, even though some components of the aggregates showed opposing trends. In particular, the reduction in household expenditure caused a slowdown in the consumer prices of semi-durable goods and, partly, of durable goods. As far as services are concerned, there was a strong slowdown in the prices of private services, from 3.6 per cent in 2008 to 1.8 per cent in 2009. Conversely, tariffs, net of regulated energy prices, increased more rapidly, especially as a result of local tariffs increasing more rapidly, including water prices (+5.9 per cent on a yearly average, due to pipeline maintenance and upgrading) and waste disposal charges (+4.5 per cent on a yearly average as a result of increased coverage of service costs).

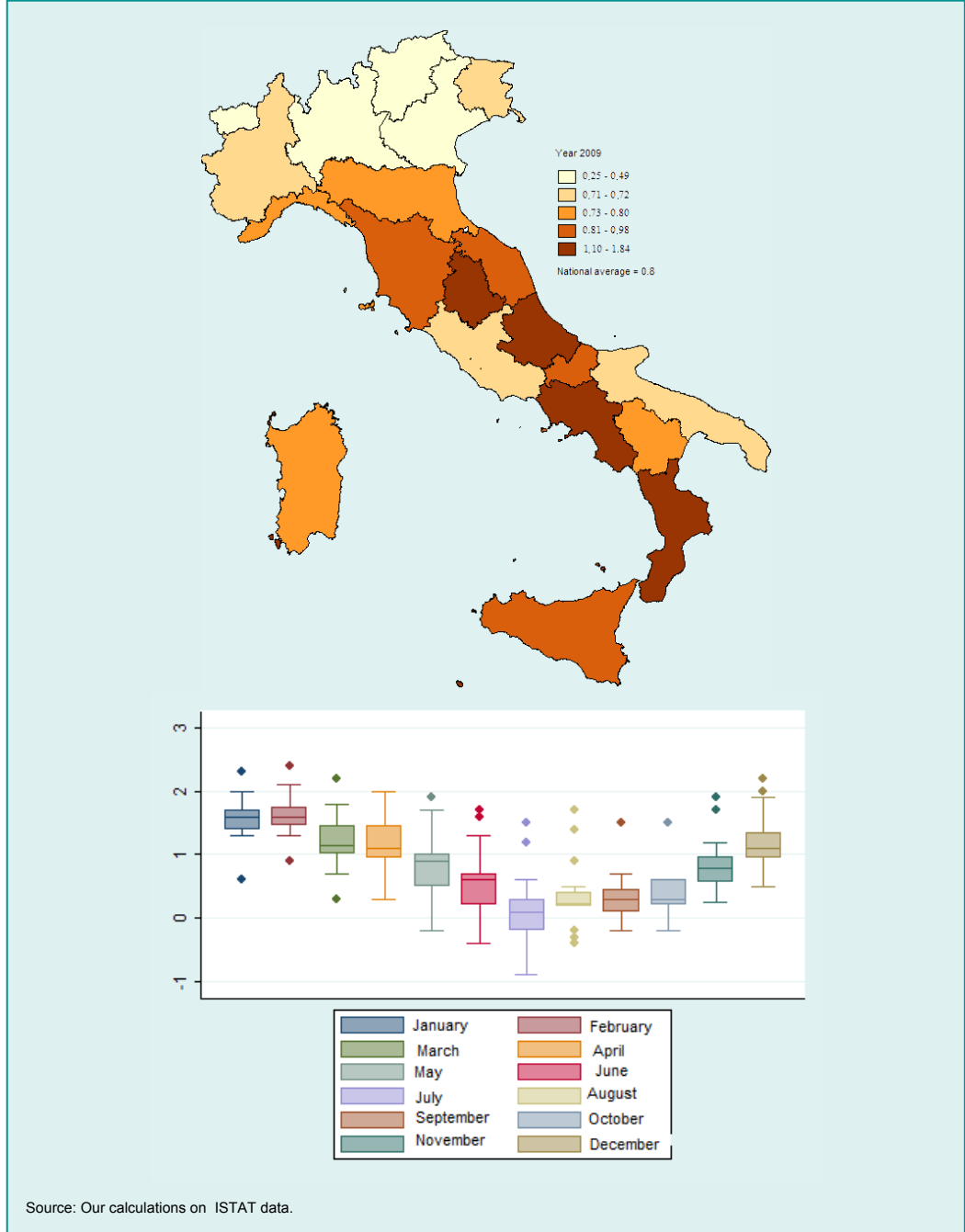
TABLE 2.4: TARIFFS AND SERVICES IN THE NIC BASKET (% change on a yearly average)

	2006	2007	2008	2009	2010 (feb)
SERVICES	2.2	2.2	2.1	1.9	1.8
TARIFFS	4.5	2.6	4.9	1.3	-2.1
including: Tariffs set by the Government	-1.4	-2.3	2.0	1.9	4.1
Tariffs set by Authorities	7.3	1.2	7.4	-1.1	-9.8
Tariffs set by Local Authorities	3.4	4.8	3.5	3.7	4.0
PRIVATE SERVICES	2.8	2.5	3.6	1.8	1.5
DEREGULATED GOODS AND SERVICES	2.9	2.1	5.9	-3.7	3.3
Including: Oil products	6.1	0.6	10.7	-14.3	11.3
Insurance on means of transport	2.3	1.5	2.3	2.9	7.1
CONSUMER PRICES - NIC	2.1	1.8	3.3	0.8	1.2

Note: Our calculations on ISTAT data.

At a regional level, the inflation rate was lower than the Italian average in nine regions, including two in the South (Apulia and Basilicata), one in Central Italy (Latium), while the others are all in Northern Italy. In seven regions inflation readings were higher than average with both Le Marche and Sicily registering around 0.9 per cent and Calabria with a reading of 1.8 per cent (this group does not include the Northern regions). Only in four regions (Sardinia, Emilia-Romagna, Liguria and Toscana), inflation readings are in line with the Italian inflation rate. In 2009 the territorial dispersion of inflation as against the national average showed an increasing trend, which started at the end of the first four months and then culminated in the second four-month period. Conversely, in the third four-month period, there was a decline in the dispersion of regional readings around the national average, but without a return to the readings of the beginning of the year.

CHART 2.10: CONSUMER PRICES IN ITALIAN REGIONS (NIC)



While the main causes of inflation trends are common to all European countries, a comparison with the euro area based on the harmonised consumer price index shows that inflation affected domestic prices at different times.

During the year Italy's inflation differential as against the euro area first widened until the summer and then shrunk back to what it was at the beginning of the year; in December it closed at two tenths of a percentage point. On a yearly average, the differential appeared to be wider than in past years (0.5 percentage points as against 0.2 points in 2008). Food²⁴ and furniture²⁵ had a positive impact. Education (+1.8 percentage points of differential in 2009), communications (+0.8 percentage points)²⁶ and health-care services (+1.9 percentage points) had a negative impact, causing a widening of the gap with inflation in the euro area. If one considers the aggregation of the consumer prices basket according to the economic destination, industrial goods excluding energy record a rather high average yearly differential (0.7 percentage points in 2009), as a result of much higher price increases in Italy compared to the euro-area average of durable and non-durable goods²⁷. However, the average differential in services, which shows a trend reversal compared to 2008 (when it was -0.5 percentage points in favour of Italy) is only a tenth of a percentage point.

With regard to trends in the coming months, consumer price inflation will continue on a path of gradual increase, due to both basic effects compared to last year's growth rates and to the dwindling favourable impact resulting from energy costs and other commodity prices, especially metals. In terms of yearly average for 2010, inflation is forecast at 1.3 per cent (main national index - NIC) and at 1.5 per cent (harmonised index of consumer prices HICP).

ALTERNATIVE INDICATORS TO GDP

The Gross Domestic Product is a synthetic indicator, based on National accounting systems, used to measure income and the overall value of goods and services produced in a year in a given country. To this day it is still the most widely used measure to assess a nation's growth and economic performance. The first measures of national production were taken in the US in the 1930s, but the definition of national accounts came after World War II. From that time onwards GDP has been identified as the measure of a nation's welfare and/or development. However, many economists, including Kutznets, one of the fathers of national accounting, stressed that the welfare of a nation can hardly be defined through measures of national income and that it is necessary to make a distinction between quantitative and qualitative growth. In time a great deal of additional criticism has been levelled at GDP by several economists. Indeed, GDP is not a measure of welfare nor was it developed for this purpose. Rather, it is an indicator that meets the needs for which it was developed, namely to measure national income that can be distributed and output levels. GDP has some solid strong points: it is easier to calculate and can be used extensively from a macroeconomic viewpoint, both for monetary and fiscal policies. For example, it provides accurate measures of

²⁴ For the first time since 1996, this aggregate recorded a differential favourable to Italy (-4.4 percentage points) on a yearly average.

²⁵ In 2009 furniture showed a widening of the differential, which has always been favourable to Italy since 1996.

²⁶ However, in the 1996-2009 period communications recorded more moderate increases compared to the euro-area average.

²⁷ The differentials in 2009 were +1.9 and +1.0 percentage points respectively, both widening since 2004.

productivity, output gap, tax revenues and inflation. In addition, the use of data contained in the national accounting systems has enabled the development over the years of a number of GDP adjustments. For example, in order to identify the maximum consumption a nation can sustain without undermining future consumption, Net Domestic Product is calculated by subtracting from GDP the value of investment made in productive capital, not for the purpose of increasing the invested capital stock, but countering depreciation. Other adjustments have been proposed for the national accounting system, namely: i) that it should take into account inflation, ii) that both GDP and Net Domestic Product should be calculated at constant prices, and iii) in order to take into account also the relative level of prices among countries, GDP should also be estimated at purchasing power parity.

Despite these adjustments, GDP and the standard national accounting systems do not envisage similar calculations for a number of aspects which can be grouped into three macro areas: economic welfare (leisure, non-market activities, wealth, unemployment etc.), living conditions (environment, health, education, inequality, etc.) and happiness (activities with family and friends, personal and professional satisfaction, etc.). GDP is mainly criticized for the way in which the environment is accounted for and especially the reduction in the stock of natural capital, the deterioration of natural resources and pollution. For example a) mining natural resources generates an increase in GDP which is not offset by a corresponding reduction in the stock of capital and b) expenditure incurred to clean up the environment after damage has been caused by pollution is computed as a GDP increase. Investment in human capital, whether in education or health, is considered as consumption and not as investment.

In the last few years a great deal of effort has gone into developing appropriate indicators and synthetic indices to monitor aspects that are not taken into account in GDP, but their outcomes are inconclusive, as they are far from faultless and still being improved. The many attempts to go “beyond GDP” mainly differ depending on the goals and theoretical assumptions that underlie the various reform proposals. Depending on the type of theoretical approach adopted and on what one wants to measure – sustainable development, progress or welfare – one can develop different indicators or indices. The limits of GDP have led to the search for new measures that are essentially based on three different types of methods:

- improving GDP by correcting some aspects of the existing national accounting systems (such as: Net Economic Welfare, Index of Sustainable Economic Welfare (ISEW), Genuine Progress Indicator (GPI), Green GDP, Adjusted net savings (ANS));
- replacing GDP by developing new indicators or indices with innovative assumptions (such as: Human Development Index (HDI), Ecological Footprint (EF), Environmental Sustainability Index (ESI), Happy Planet Index (HPI));
- integrating GDP by adding to the national accounts new information of a social or environmental nature (such as: the System of Economic Environmental Accounts (SEEA) NAMEA, Environmental Accounts (EA), Sustainable Development Indicators (SDIs)).

Among the various synthetic indicators, four have been considered here which belong to the first two types of improved indicators: HDI, ESI, ANS and EF. These indices focus on different aspects and sizes of development, some mainly focus on social and economic aspects, while others focus more on environmental aspects. In particular, the last three belong to the large group of sustainable development indicators. The choice of these four indicators is warranted by the following: they have been developed or adopted by authoritative international institutions; they are calculated using reliable data with wide geographical coverage.

HDI is based on Amartya Sen's idea and was developed in 1990 by Mahbbub ul Haq and Richard Jolly. The goal of the index, later adopted at UNEP (United Nations Environment Programme), is to monitor the social and economic development of a nation. HDI consists of three indicators: life expectancy at birth (LEI), education (EI) and per capita GDP at purchasing power parity. The three indicators have been aggregated giving each one of them the same weight, which is one of the main criticisms of the index, in addition to the difficulty of extrapolating measures of country-specific policies from the results achieved by the various countries.

ESI is the result of a cooperative effort between the Global Leaders for Tomorrow Environment Task Force, Yale University and Columbia University. ESI like HDI is a composite index made up of 21 indicators intended to measure the performance of countries in the three pillars which make up sustainable development: the economy, the environment and society. The 21 indicators can be grouped into five macro areas: environmental systems, the reduction of environmental pressure, the reduction of human vulnerability, social and institutional capacity, and global governance. As with HDI, all indicators have the same weight. Moreover, the choice of indicators making up the ESI has been criticised on grounds of the discretion in selecting the indicators.

ANS, also known as Genuine Savings, is a sustainability indicator developed and adopted by the World Bank on the basis of the notions of green national accounting. ANS measures the real savings rate of an economy after calculating the investment in human capital, the depreciation of natural resources and the damage caused by pollution. ANS is calculated on the basis of standard national accounts by adjusting gross domestic savings through four steps. To this end the following amounts are deducted: the depreciation of physical capital so as to obtain net domestic savings, the depreciation of some types of natural capital and the damage caused by certain types of pollution; finally, current expenditure in education – which in standard statistics is considered as consumption – is added. One of the main criticisms levelled at this indicator is that it assumes that the rate of replacement of the various types of capital is 1, so that it is always possible to substitute man-made physical capital for natural or human capital. In practice, it is not always possible to make this substitution, as in the case of some types of natural capital that are necessary to sustain life on earth.

EF was developed in 1994 to assess the relationship between consumption, growth and pressure on natural resources. Since 2000 it has been one of the indices used by WWF for its Living Planet Report and is praised in many European Commission documents. The ecological footprint of a given population corresponds to the biologically productive area, whether land or marine, necessary to produce the resources that are consumed and absorb the waste that is generated. EF uses a physical and non-monetary number transforming consumption into biologically productive areas. In addition, the EF of a given population may be compared to the production and absorption capacity of the area where it is based. In this way it is possible to assess if the consumption track the country is on is consistent with the flow of services provided by the natural resources available. Among the various criticisms levelled at EF, two are particularly important: EF does not consider positive technological shocks that could overcome current biological limits; and it adopts an approach that is detrimental to international trade. In fact, comparing EF with the biological capacity available in a country implicitly states that self-sufficiency or autarchy is desirable.

Future official planning documents will integrate traditional statistics with new measures that go beyond GDP.

3. PUBLIC FINANCE

3.1 GENERAL GOVERNMENT

3.1.1 Results for 2009

According to data published by ISTAT with its press release of 1 March 2010, the general government's net borrowing in 2009 amounted to €80.8 billion (5.3 per cent of GDP). The estimate indicated in the Combined Report on the Economy and Public Finance (RUEF) for 2009 was revised upward with the 2010-2013 Economic and Financial Planning Document (DPEF) as a result of the continuation of the economic crisis and its adverse effects on growth prospects. The crisis prompted the ratification of a package of measures aimed at supporting consumption and relaunching the economy, while having only a neutral impact on budget balances. Subsequently, the net borrowing estimate was confirmed in September with the Update to the 2010-2013 DPEF and, in January, with the presentation of the Stability Programme for 2009.

The projected borrowing figure in nominal terms is essentially confirmed by the figure published in the March press release, with a slight upward revision of €0.3 billion due to the combination of €2.5 billion of lower total revenues and €2.2 billion of lower total expenditure. The deficit-to-GDP ratio remained unchanged despite the 0.5-percentage point downward revision of the estimate of nominal GDP growth (the final figure for the year is a 3.0 per cent contraction compared with 2008). The final figure for interest expenditure was 4.7 per cent of GDP. The primary deficit grew by €2.1 billion to 0.6 per cent of GDP, a deterioration of 0.1 percentage points compared with the previous estimate.

The detailed analysis indicates a change in the mix of revenue and expenditure aggregates compared with the previous estimates, resulting from different dynamics for the largest components¹.

The lower total expenditure is mainly attributable to the €3.7 billion decrease in capital expenditure, which more than offset a €1.5 billion increase in current expenditure. The lower capital expenditure is due to the decreases in gross fixed investment (-€3.6 billion) and capital subsidies (-€2.5 billion) that were partially offset by a more limited increase in other transfers (+€2.5 billion). The growth of current expenditure mainly comes from the increases in intermediate consumption (+€4.0 billion) and other current expenditures (+€2.9 billion), which were partly offset by decreases in expenditure on employee compensation (-€3.6 billion) and interest (-€1.8 billion).

¹ In order to provide the same basis for comparison, the results are compared with the forecasts indicated in the 2010-2012 Note, and not with the estimates contained in the General Government's account included in the 2009 Update to the Stability Programme. The difference, which is neutral in terms of budget balance, is equal to 0.5 points of GDP against the total of revenues and expenditures, and regards several items within other current revenues and other current expenditures. The discrepancy comes from the application of the accounting rules established by Regulation no. 1500/2000, on the basis of which several items in the national accounts have been excluded (e.g. net operating result, interest-rate swaps, depreciation and amortisation, and revenues from sale of goods and services).

TABLE 3.1: GENERAL GOVERNMENT ACCOUNT AT UNCHANGED LEGISLATION – DIFFERENCE VS FORECAST (€ mn)

	2009			2010			2011			2012		
	2010-2012 NOTE	RUEF	DIFF.	2010-2012 NOTE	RUEF	DIFF.	2010-2012 NOTE	RUEF	DIFF.	2010-2012 NOTE	RUEF	DIFF.
EXPENDITURES												
Employee compensation	175,225	171,578	-3,647	176,445	175,524	-921	177,705	176,013	-1,692	180,082	177,459	-2,623
Intermediate consumption	133,173	137,199	4,026	133,924	138,855	4,931	135,095	140,313	5,218	138,161	144,437	6,276
Social benefits	291,280	291,335	55	297,900	298,030	130	306,330	306,330	0	315,990	315,990	0
Other current expenditures, net of interest	58,830	61,684	2,854	62,450	62,379	-71	60,714	61,815	1,101	60,350	61,395	1,045
Total current expenditures, net of interest	658,508	661,796	3,288	670,719	674,788	4,069	679,844	684,471	4,627	694,583	699,281	4,698
(% of GDP)	43.0	43.5	0.6	42.7	43.4	0.8	41.7	42.6	1.0	41.0	41.9	0.9
Interest	73,101	71,288	-1,813	76,317	71,363	-4,954	84,981	78,834	-6,147	92,725	87,053	-5,672
(% of GDP)	4.8	4.7	-0.1	4.9	4.6	-0.3	5.2	4.9	-0.3	5.5	5.2	-0.3
Total current expenditures	731,609	733,084	1,475	747,036	746,151	-885	764,825	763,305	-1,520	787,308	786,334	-974
Total capital expenditures	69,446	65,770	-3,676	61,800	59,577	-2,223	57,353	57,128	-225	60,409	57,273	-3,136
incl.: Gross fixed capital formation	40,635	37,040	-3,595	35,129	33,247	-1,882	32,302	32,894	592	36,029	32,627	-3,402
Capital account contributions	26,988	24,445	-2,543	24,175	24,016	-159	23,122	22,161	-961	22,956	22,460	-496
Other transfers	1,823	4,285	2,462	2,496	2,314	-182	1,929	2,073	144	1,424	2,186	762
Total expenditures, net of interest	727,954	727,566	-388	732,519	734,365	1,846	737,197	741,599	4,402	754,992	756,554	1,562
Total expenditures	801,055	798,854	-2,201	808,836	805,728	-3,108	822,178	820,433	-1,745	847,717	843,607	-4,110
REVENUES												
Total tax revenues	444,125	441,858	-2,267	451,300	446,981	-4,319	462,534	455,993	-6,541	482,004	473,996	-8,008
incl.: Direct taxes	233,975	222,655	-11,320	240,475	233,511	-6,964	246,572	236,845	-9,727	260,446	246,687	-13,759
Indirect taxes	205,856	206,956	1,100	210,347	211,827	1,480	215,484	218,412	2,928	221,080	226,656	5,576
Capital account taxes	4,294	12,247	7,953	478	1,643	1,165	478	736	258	478	653	175
Social contributions	213,210	215,003	1,793	216,880	217,954	1,074	224,908	224,238	-670	232,032	231,588	-444
incl.: Cash contributions	209,300	210,917	1,617	212,911	213,803	892	220,875	220,019	-856	227,932	227,302	-630
Non-cash contributions	3,910	4,086	176	3,969	4,151	182	4,033	4,219	186	4,100	4,286	186
Other current revenues	56,967	57,341	374	57,430	57,472	42	58,140	58,500	360	60,684	59,954	-730
Total current revenues	710,008	701,955	-8,053	725,132	720,764	-4,368	745,104	737,995	-7,109	774,242	764,885	-9,357
Non-tax capital account revenues	6,216	3,852	-2,364	5,280	5,205	-75	5,920	5,924	4	6,157	5,937	-220
Total revenues	720,518	718,054	-2,464	730,890	727,612	-3,278	751,502	744,655	-6,847	780,877	771,475	-9,402
Memo item: tax burden	42.9	43.2	0.3	42.5	42.8	0.3	42.1	42.4	0.2	42.1	42.3	0.1
BALANCES												
Primary balance	-7,436	-9,512	-2,076	-1,629	-6,753	-5,124	14,305	3,056	-11,249	25,885	14,921	-10,964
(% of GDP)	-0.5	-0.6	-0.1	-0.1	-0.4	-0.3	0.9	0.2	-0.7	1.5	0.9	-0.6
Current account balance	-21,601	-31,129	-9,528	-21,904	-25,387	-3,483	-19,721	-25,310	-5,589	-13,066	-21,449	-8,383
(% of GDP)	-1.4	-2.0	-0.6	-1.4	-1.6	-0.2	-1.2	-1.6	-0.4	-0.8	-1.3	-0.5
Net borrowing	-80,537	-80,800	-263	-77,946	-78,116	-170	-70,676	-75,778	-5,102	-66,840	-72,132	-5,292
(% of GDP)	-5.3	-5.3	-0.1	-5.0	-5.0	-0.1	-4.3	-4.7	-0.4	-3.9	-4.3	-0.4
Nominal GDP	1,533,156	1,520,870	-12,286	1,572,388	1,554,347	-18,041	1,631,554	1,606,014	-25,540	1,694,382	1,669,371	-25,011

The lower total revenues are essentially attributable to the decrease in tax revenues (€2.3 billion) resulting from the decrease in direct taxes (€11.3 billion) that was not fully offset by increases in other components: capital account taxes (+€8.0 billion), social contributions (+€1.8 billion) and indirect taxes (+€1.1 billion). The differences within the tax-revenue aggregate are mainly due to the different means for recording income when book values were realigned with IAS principles (around €6.6 billion). Such taxes, initially booked as direct taxes, were later considered one-off taxes and as such, booked as capital account revenues. In the absence of such reclassification, the lower revenues from direct taxes are much less.

Compared with the results for 2008, net borrowing rose by 2.6 percentage points, thus reflecting the ongoing deterioration of the macroeconomic scenario starting in mid-2008.

The budget balance benefited from the increase of one-off deficit-reduction measures which were equivalent to 0.6 per cent of GDP² in 2009. Taking into account the effect of the negative trend of the output gap (-4.3 per cent) related to the contraction of the economy, the impact of the cyclical component caused more limited deterioration of the structural budget balance versus the actual budget balance for 2009, from -3.4 to -3.8 per cent of GDP (see box on 'Trend in structural net borrowing').

The primary deficit was 0.6 per cent of GDP, with the aggregate deteriorating by around 3.1 percentage points compared with the 2.5 per cent primary surplus reported for 2008. The current account balance was a deficit equal to -2.0 per cent of GDP for the combined effect of the decrease in current revenues (around €26.4 billion) and the growth of current expenditure (around €16.8 billion).

Total expenditure for 2009 was thus equal to 52.5 per cent of GDP, an increase of 3.1 percentage points compared with the previous year. The increase was mainly due to higher capital expenditure (+12.7 per cent), which went from 7.5 per cent of total expenditure to 8.2 per cent, including for the effect of the repurchase (on the part of social security funds) of certain real estate properties that had previously been securitized.

All components of capital expenditure were higher. Gross fixed capital formation rose by 7.0 per cent, while capital account contributions were 10.3 per cent higher. Other transfers more than doubled, mainly due to the extraordinary refund to businesses of excess payments of personal (IRPEF) and corporate (IRES) income taxes. This resulted from the deductibility (as a lump sum) of 10 per cent of the regional tax on productive activity (IRAP) with respect to interest and the cost of labour for the tax periods before 2008³.

Current expenditure rose in absolute terms by 2.3 per cent, climbing to 48.2 per cent of GDP from 45.7 per cent in 2008. Primary current expenditure was up by 4.2 per cent, amounting to 43.5 per cent of GDP (an increase of 3.0 percentage points compared with the previous year). The interest burden with respect to GDP decreased by 0.5 percentage points (-€9.9 billion), going from 5.2 per cent in 2008 to 4.7 per cent in 2009. The change indicated is a confirmation of a downward trend in interest expenditure in recent years, partly as a result of a general decline in short-term interest rates.

The components of current expenditure showing the greatest increases compared with 2008 are intermediate consumption (6.3 per cent) and cash welfare benefits (5.1 per cent).

The growth of expenditure for intermediate consumption is mostly due to higher deliveries to the Ministry of Defence, which went from €3.8 billion to €6.4 billion. Such expenditure also reflects an increase in the cost of financial intermediation as indirectly measured (due to the expansion of spreads between the reference rate and interest rates applied to loans granted by the banking system to the public administrations).

² One-off revenues essentially come from realigning book values to IAS principles (€6.6 billion) and from amounts related to the so called 'tax shield' for the repatriation/regularisation of capital held abroad (€5.0 billion) – see Table 3.1.

³ See Decree-Law no.185/2008, Article 6.

TABLE 3.2: GENERAL GOVERNMENT ACCOUNT AT UNCHANGED LEGISLATION (% of GDP)

	OVERTURN				RUEF Estimates		
	2006	2007	2008	2009	2010	2011	2012
EXPENDITURES							
Employee compensation	11.0	10.6	10.8	11.3	11.3	11.0	10.6
<i>Gross salaries and wages</i>	<i>7.8</i>	<i>7.5</i>	<i>7.7</i>	<i>8.0</i>	<i>8.0</i>	<i>7.7</i>	<i>7.4</i>
<i>Employer's social-welfare contributions</i>	<i>3.2</i>	<i>3.1</i>	<i>3.1</i>	<i>3.3</i>	<i>3.3</i>	<i>3.3</i>	<i>3.2</i>
Intermediate consumption	8.0	7.9	8.2	9.0	8.9	8.7	8.7
Social benefits	17.0	17.1	17.7	19.2	19.2	19.1	18.9
<i>Pensions</i>	<i>13.9</i>	<i>13.9</i>	<i>14.2</i>	<i>15.3</i>	<i>15.4</i>	<i>15.4</i>	<i>15.3</i>
<i>Other social benefits</i>	<i>3.1</i>	<i>3.2</i>	<i>3.5</i>	<i>3.9</i>	<i>3.8</i>	<i>3.7</i>	<i>3.6</i>
Production subsidies	0.9	1.0	1.0	1.0	1.0	0.9	0.9
Direct and indirect taxes	1.1	1.2	1.2	1.2	1.2	1.2	1.2
Transfers to EU: fourth resource	0.7	0.7	0.7	0.8	0.8	0.8	0.8
Other current expenditures, net of interest	0.8	0.9	1.0	1.1	1.0	0.9	0.8
Total current expenditures, net of interest	39.5	39.3	40.5	43.5	43.4	42.6	41.9
Interest	4.6	5.0	5.2	4.7	4.6	4.9	5.2
Total current expenditures	44.2	44.3	45.7	48.2	48.0	47.5	47.1
<i>Memo item: healthcare expenditures</i>	<i>6.8</i>	<i>6.6</i>	<i>6.9</i>	<i>7.3</i>	<i>7.4</i>	<i>7.3</i>	<i>7.2</i>
Total capital expenditures	5.0	4.0	3.7	4.3	3.8	3.6	3.4
incl.: Gross fixed capital formation	2.3	2.3	2.2	2.4	2.1	2.0	2.0
Capital account contributions	1.5	1.6	1.4	1.6	1.5	1.4	1.3
Other transfers	1.2	0.1	0.1	0.3	0.1	0.1	0.1
Total expenditures, net of interest	44.6	43.4	44.2	47.8	47.2	46.2	45.3
Total expenditures	49.2	48.4	49.4	52.5	51.8	51.1	50.5
REVENUES							
Total tax revenues	29.2	29.8	29.1	29.1	28.8	28.4	28.4
incl.: Direct taxes	14.4	15.1	15.3	14.6	15.0	14.7	14.8
Indirect taxes	14.8	14.7	13.8	13.6	13.6	13.6	13.6
Capital account taxes	0.0	0.0	0.0	0.8	0.1	0.0	0.0
Social-welfare contributions	12.8	13.3	13.8	14.1	14.0	14.0	13.9
incl.: Cash contributions	12.5	13.0	13.5	13.9	13.8	13.7	13.6
Non-cash contributions	0.2	0.3	0.2	0.3	0.3	0.3	0.3
Other current revenues	3.6	3.5	3.6	3.8	3.7	3.6	3.6
Total current revenues	45.6	46.6	46.5	46.2	46.4	46.0	45.8
Non-tax capital account revenues	0.3	0.3	0.2	0.3	0.3	0.4	0.4
Total revenues	45.8	46.9	46.7	47.2	46.8	46.4	46.2
<i>Memo item: tax burden</i>	<i>42.0</i>	<i>43.1</i>	<i>42.9</i>	<i>43.2</i>	<i>42.8</i>	<i>42.4</i>	<i>42.3</i>
BALANCES							
Primary balance	1.3	3.5	2.5	-0.6	-0.4	0.2	0.9
Current account balance	1.4	2.3	0.8	-2.0	-1.6	-1.6	-1.3
Net borrowing	-3,3	-1,5	-2,7	-5,3	-5,0	-4,7	-4,3
Nominal GDP	1.485.377	1.546.177	1.567.851	1.520.870	1.554.347	1.606.014	1.669.371

Within social benefits, pension expenditure increased by 4.2 per cent, due to the price indexing as of 1 January 2009 (+3.4 per cent), the balance between the new pensions paid and pensions eliminated, and the re-establishment of the amounts of pensions in effect and the amounts in arrears. The mechanism of the so-called 'window' that raised the requisites between 2007 and 2008 for tapping early retirement pensions had the effect of slowing the momentum of pension outlays, regardless of the price indexing done in 2009. This meant an increase of 0.8 percentage points, net of price indexing. The expenditure for other social benefits increased by 8.5 per cent as a result of the significant increase in expenditure on social safety nets (that went from €6,383 million

in 2008 to €9,963 million in 2009 for the effect of particularly significant increases in ordinary social safety nets and exceptional amounts paid when compared with 2008), the disbursement of extraordinary bonuses to families, workers and pensioners, and the increase in expenditure on accident-related annuities (that was affected by the revaluation as of 1 January 2009 of annuities and the payment of the related amounts in arrears for 2008). Other components of expenditure rose only marginally, including the amounts spent on severance compensation due to fewer exit incentives paid to public sector workers.

TABLE 3.3: GENERAL GOVERNMENT ACCOUNT AT UNCHANGED LEGISLATION (€ mn)

	OUTTURN				RUEF Estimates		
	2006	2007	2008	2009	2010	2011	2012
EXPENDITURES							
Employee compensation	163,220	163,989	169,813	171,578	175,524	176,013	177,459
<i>Gross salaries and wages</i>	<i>116,280</i>	<i>116,595</i>	<i>120,703</i>	<i>121,605</i>	<i>123,934</i>	<i>123,622</i>	<i>124,188</i>
<i>Employer's social-welfare contributions</i>	<i>46,940</i>	<i>47,394</i>	<i>49,110</i>	<i>49,973</i>	<i>51,590</i>	<i>52,391</i>	<i>53,271</i>
Intermediate consumption	119,003	122,876	129,009	137,199	138,855	140,313	144,437
Social benefits	252,178	264,387	277,263	291,335	298,030	306,330	315,990
<i>Pensions</i>	<i>206,274</i>	<i>214,230</i>	<i>222,854</i>	<i>232,323</i>	<i>238,670</i>	<i>247,040</i>	<i>255,300</i>
<i>Other social benefits</i>	<i>45,904</i>	<i>50,157</i>	<i>54,409</i>	<i>59,012</i>	<i>59,360</i>	<i>59,290</i>	<i>60,690</i>
Production subsidies	13,070	14,872	15,053	15,103	14,880	14,890	14,392
Direct and indirect taxes	16,970	17,983	18,099	18,715	19,078	19,385	19,780
Transfers to EU: fourth resource	10,477	10,146	10,701	11,628	12,909	13,209	13,509
Other current expenditures, net of interest	12,393	13,712	15,169	16,238	15,512	14,331	13,714
Total current expenditures, net of interest	587,311	607,965	635,107	661,796	674,788	684,471	699,281
Interest	68,578	77,126	81,161	71,288	71,363	78,834	87,053
Total current expenditures	655,889	685,091	716,268	733,084	746,151	763,305	786,334
<i>Memo item: healthcare expenditures</i>	<i>101,379</i>	<i>101,743</i>	<i>108,486</i>	<i>110,588</i>	<i>114,707</i>	<i>117,134</i>	<i>120,786</i>
Total capital expenditures	74,511	62,516	58,368	65,770	59,577	57,128	57,273
incl.: Gross fixed capital formation	34,786	35,796	34,602	37,040	33,247	32,894	32,627
Capital account contributions	22,471	25,133	22,154	24,445	24,016	22,161	22,460
Other transfers	17,254	1,587	1,612	4,285	2,314	2,073	2,186
Total expenditures, net of interest	661,822	670,481	693,475	727,566	734,365	741,599	756,554
Total expenditures	730,400	747,607	774,636	798,854	805,728	820,433	843,607
REVENUES							
Total tax revenues	434,405	460,574	456,237	441,858	446,981	455,993	473,996
incl.: Direct taxes	213,867	233,170	239,740	222,655	233,511	236,845	246,687
Indirect taxes	220,313	227,103	216,009	206,956	211,827	218,412	226,656
Capital account taxes	225	301	488	12,247	1,643	736	653
Social-contributions	189,691	205,259	215,911	215,003	217,954	224,238	231,588
incl.: Cash contributions	186,072	201,339	212,031	210,917	213,803	220,019	227,302
Non-cash contributions	3,619	3,920	3,880	4,086	4,151	4,219	4,286
Other current revenues	52,743	54,350	56,695	57,341	57,472	58,500	59,954
Total current revenues	676,614	719,882	728,355	701,955	720,764	737,995	764,885
Non-tax capital account revenues	4,158	4,233	3,218	3,852	5,205	5,924	5,937
Total revenues	680,997	724,416	732,061	718,054	727,612	744,655	771,475
<i>Memo item: tax burden</i>	<i>42.0</i>	<i>43.1</i>	<i>42.9</i>	<i>43.2</i>	<i>42.8</i>	<i>42.4</i>	<i>42.3</i>
BALANCES							
Primary balance	19,175	53,935	38,586	-9,512	-6,753	3,056	14,921
Current account balance	20,725	34,791	12,087	-31,129	-25,387	-25,310	-21,449
Net borrowing	-49,403	-23,191	-42,575	-80,800	-78,116	-75,778	-72,132
<i>(% of GDP)</i>	<i>-3.3</i>	<i>-1.5</i>	<i>-2.7</i>	<i>-5.3</i>	<i>-5.0</i>	<i>-4.7</i>	<i>-4.3</i>
<i>Debt (% of GDP)</i>	<i>106.5</i>	<i>103.5</i>	<i>106.1</i>	<i>115.8</i>	<i>118.4</i>	<i>119.5</i>	<i>119.6</i>
Nominal GDP	1,485,377	1,546,177	1,567,851	1,520,870	1,554,347	1,606,014	1,669,371

TABLE 3.4: GENERAL GOVERNMENT ACCOUNT AT UNCHANGED LEGISLATION (% change)

	FINAL			RUEF Estimates		
	07/06	08/07	09/08	10/09	11/10	12/11
EXPENDITURES						
Employee compensation	0.5	3.6	1.0	2.3	0.3	0.8
<i>Gross salaries and wages</i>	<i>0.3</i>	<i>3.5</i>	<i>0.7</i>	<i>1.9</i>	<i>-0.3</i>	<i>0.5</i>
<i>Employer's social- contributions</i>	<i>1.0</i>	<i>3.6</i>	<i>1.8</i>	<i>3.2</i>	<i>1.6</i>	<i>1.7</i>
Intermediate consumption	3.3	5.0	6.3	1.2	1.1	2.9
Social benefits	4.8	4.9	5.1	2.3	2.8	3.2
<i>Pensions</i>	<i>3.9</i>	<i>4.0</i>	<i>4.2</i>	<i>2.7</i>	<i>3.5</i>	<i>3.3</i>
<i>Other social benefits</i>	<i>9.3</i>	<i>8.5</i>	<i>8.5</i>	<i>0.6</i>	<i>-0.1</i>	<i>2.4</i>
Production subsidies	13.8	1.2	0.3	-1.5	0.1	-3.3
Direct and indirect taxes	6.0	0.6	3.4	1.9	1.6	2.0
Transfers to EU: fourth resource	-3.2	5.5	8.7	11.0	2.3	2.3
Other current expenditures, net of interest	10.6	10.6	7.0	-4.5	-7.6	-4.3
Total current expenditures, net of interest	3.5	4.5	4.2	2.0	1.4	2.2
Interest	12.5	5.2	-12.2	0.1	10.5	10.4
Total current expenditures	4.5	4.6	2.3	1.8	2.3	3.0
<i>Memo item: healthcare expenditures</i>	<i>0.4</i>	<i>6.6</i>	<i>1.9</i>	<i>3.7</i>	<i>2.1</i>	<i>3.1</i>
Total capital expenditures	-16.1	-6.6	12.7	-9.4	-4.1	0.3
incl.: Gross fixed capital formation	2.9	-3.3	7.0	-10.2	-1.1	-0.8
Capital account contributions	11.8	-11.9	10.3	-1.8	-7.7	1.3
Other transfers	-90.8	1.6	165.8	-46.0	-10.4	5.5
Total expenditures, net of interest	1.3	3.4	4.9	0.9	1.0	2.0
Total expenditures	2.4	3.6	3.1	0.9	1.8	2.8
REVENUES						
Total tax revenues	6.0	-0.9	-3.2	1.2	2.0	3.9
incl.: Direct taxes	9.0	2.8	-7.1	4.9	1.4	4.2
Indirect taxes	3.1	-4.9	-4.2	2.4	3.1	3.8
Capital account taxes	33.8	62.1	2,409.6	-86.6	-55.2	-11.3
Social- contributions	8.2	5.2	-0.4	1.4	2.9	3.3
incl.: Cash contributions	8.2	5.3	-0.5	1.4	2.9	3.3
Non-cash contributions	8.3	-1.0	5.3	1.6	1.6	1.6
Other current revenues	3.0	4.3	1.1	0.2	1.8	2.5
Total current revenues	6.4	1.2	-3.6	2.7	2.4	3.6
Non-tax capital account revenues	1.8	-24.0	19.7	35.1	13.8	0.2
Total revenues	6.4	1.1	-1.9	1.3	2.3	3.6

Healthcare expenditure reached €110.6 billion, increasing by 1.9 per cent compared with 2008. The change incorporates a mixed performance by the individual components. Expenditure for personnel was down by 2.0 per cent, following the strong growth in 2008 (which was affected by contract renewals in the sector, inclusive of most of the amounts in arrears). Net of arrears, the expenditure for personnel in 2009 grew by 2.4 per cent compared with 2008⁴. The slowed momentum with respect to past years is indicative of better governance by the regions, given the instruments made available through various State-Region agreements finalised in recent years for the purpose of guaranteeing full coverage of charges related to contract renewals. Given the obligation of the regions to set aside budget resources suitable for fully covering the charges related to national collective bargaining contract renewal for the personnel within the National Healthcare

⁴ It should be noted in this regard that the expenditure for personnel in 2008 includes charges for renewal of national collective bargaining agreements for all personnel within the National Healthcare Service (managers and healthcare workers) for the 2006-2007 two-year period, with the settlement of amounts in arrears totalling €1,724 million. Instead, for 2009, the settlements of amounts in arrears for the national contract renewal refer to healthcare workers for 2008 only.

Service as a pre-condition for accessing supplemental financing from the State⁵, better estimates of actual costs of the national collective bargaining contract renewals were produced, while the large amounts of non-operating expenses booked in years after the signing of the contract tended to diminish. Within the healthcare expenditure aggregate, intermediate consumption rose by 5.4 per cent compared with 2008; the change reflects the trend in spending on pharmaceuticals in hospitals (up by 9.8 per cent) and different means for delivering healthcare services that were previously supplied under conventions (now supplied through in-house companies especially established for this purpose) and the consequent shift of costs from the purchase of outsourced services to the purchase of services. The services acquired from market producers rose by 3.7 per cent, as the effect of both a reduction of 1.9 per cent in expenditure for pharmaceutical care, and an increase of 14.8 per cent in expenditure for basic medical services due to the payment of amounts in arrears (for the years of 2006, 2007 and 2008) in relation to the renewal of agreements for basic medical services⁶. Finally, the expenditure for other services (hospital, specialist, rehabilitative, supplemental, and other services) rose by 3.5 per cent. The limited growth can also be attributed to a process being implemented within the regional healthcare systems whereby the charges in relation to socio-care services outside of the sphere of healthcare expenditure are to be transferred and financed through the Fund for Non-Self-Sufficient Persons.

Employee compensation rose by 1.0 per cent, a rate below the 3.6 per cent registered in 2008. The limited momentum of the aggregate is due to various factors. First of all, the contract renewals in 2009 mostly concerned the 2008-2009 two-year economic period, which meant fewer outlays for amounts in arrears⁷ and increases, once fully implemented, that will be lower than in the past (e.g. for the 2006-2007 two-year period⁸). In addition, in 2009, it was possible to see the first effects of the efforts to curb expenditure on public-sector personnel, particularly those from measures to increase efficiency of expenditure in the school system⁹. Increases were posted in both gross salaries (0.7 per cent) and employer's social contributions (1.8 per cent). The ratio of employee compensation to GDP rose by 0.5 percentage points (from 10.8 per cent to 11.3 per cent), mostly as a result of the decrease in nominal GDP in 2009.

In 2009, total revenues amounted to 47.2 per cent of GDP, an increase of 0.5 percentage points compared with 2008. In absolute terms, total revenues declined by 1.9 per cent versus growth of 1.1 per cent in 2008. Compared with total revenues, current revenues in nominal terms experienced a more sizeable decrease (-3.6 per cent), and therefore declined in relation to GDP by 0.3 percentage points (from 46.5 to 46.2 per cent).

⁵ See Law no. 311/2004 Article 1, Paragraph 173 and subsequent modifications and amendments thereto.

⁶ Net of the amounts in arrears, the growth of the aggregate is equal to 5.5 per cent.

⁷ It is noted in this regard that Decree-Law no. 185/2008 provided for the payment of contractual vacation pay for the first year of the 2008-2009 two-year economic period for the personnel of the State administrations; such payment was made with the payment of December 2008 wages.

⁸ Once fully implemented, the increase in compensation of a general nature for the 2008-2009 two-year economic period will equal 3.2 per cent, compared with 4.9 per cent for the 2006-2007 two-year period.

⁹ Decree-Law no. 112/2008, converted into Law no. 133/2008.

The better performance of total revenues compared with current revenues can be attributed to the increase in non-recurring items which prompted the weight of capital account revenues to rise by 0.9 percentage points of GDP (from 0.2 per cent to 1.1 per cent). Capital account taxes benefited from the withholding taxes of roughly €5 billion with regard to Italian residents' repatriation/regularisation of capital held abroad under the 'tax shield'¹⁰. The same category includes one-off payments of substitute taxes of more than €6 billion by certain sectors of the economy, and the banking sector, in particular¹¹.

Current revenues were mainly impacted by the 7.1 per cent decrease in direct taxes compared with the previous year. This reduction is mostly due to the fact that the aforementioned substitute taxes paid on the adjustment of book values (pursuant to the IAS accounting principles) were reclassified as capital account items. If that reclassification were not to have occurred, the reduction in direct taxes would have been 4.4 per cent. The annual result also incorporates the deferral to 2010 of the prepayment of 20 per cent of income taxes. On the other hand, tax revenue increased due to a step-up in assessment and collection activity by the tax authorities (see box on 'Results of the fight against tax evasion').

Indirect taxes also declined (by 4.2 per cent in absolute terms), thereby confirming the downward trend already seen in 2008 (-4.9 per cent). Social-welfare contributions decreased by a smaller rate (-0.4 per cent) given the modest overall increase in gross salaries and wages (due to the slight growth of the average amount per capita that partly offset the decrease in employment).

The tax burden is an aggregate based on the ratio between total tax revenues and GDP. If the denominator decreases (and GDP did decrease), the ratio increases. Revenues declined at a rate that was less than the rate of contraction of GDP, and the trend was positive for two voluntary revenues: revenues from the voluntary disclosure of capital repatriated from abroad and revenues from lotteries and other gaming initiatives. In addition, revenues from the fight against tax evasion were also much higher. Therefore, net of these effects, the tax burden, which is formally at 43.2 per cent of GDP, was actually lower, going from 42.8 per cent in 2008 to 42.4 per cent in 2009.

¹⁰ See Law no. 102/2009.

¹¹ See Decree-Law no. 185/2008, Article 15, concerning the realignment and voluntary revaluation of book values.

RESULTS OF THE FIGHT AGAINST TAX EVASION

Taxes collected in 2009 as part of the programme to fight tax evasion were higher than in 2008, and a record when compared with previous years. The positive trend reflects both (i) the efficiency of the organisational structure of the controls as demonstrated in recent years by the tax authorities and (ii) the effectiveness of the policies and strategies adopted starting in 2008 with the adoption of a number of provisions¹² to fight tax evasion.

In 2008-2009, the efforts to fight tax evasion and tax avoidance produced a better revenue performance; this result comes from the measures contemplated by the laws indicated above, and from effective actions aimed at dissuading taxpayers from evading or avoiding taxes based on two key elements: identification of different macro categories of taxpayers and adoption of different types of initiatives. The actions undertaken by the Tax Authority (tutorship, targeted use of sector studies, summary assessments), together with more effective synergistic actions on the part of other tax assessment/collection bodies at a national and international level have proved effective because they are focused and calibrated not only with respect to the taxpayer's profile and particular traits, but also with respect to the economic environment within which the taxpayer operates.

In 2009, the amounts collected from tax audits¹³ and automated settlement of returns¹⁴ – with reference to Central Government tax revenues only – came to €7.043 billion, an increase of 19.8 per cent compared with the previous year.

¹² Decree-Law no. 112/2008, converted by Law no. 133/2008 and the Decree-Law no. 185/2008, converted by Law no. 2/2009, resulted in the following: a new impulse was given to the summary assessment process with respect to physical persons (Article 83, Paragraphs 8-11, Decree-Law no. 112/2008); activities were intensified for cooperation and the exchange of data between the revenue authority, the social security administration and municipalities; measures were implemented to prevent physical persons from transferring their residence abroad to evade taxes (Article 83, Paragraphs 16-17, Decree-Law no. 112/2008); greater coordination was provided between the revenue authority, the customs authority and the tax police in order to prevent VAT-related fraud (Article 83, Paragraphs 5-7, Decree-Law no. 112/2008); and an increase was made in the number of instruments available for reducing tax litigation and allowing taxpayers to participate directly in the report-of-findings process in relation to income tax and value-added tax violations (Article 83, Paragraph 18, Decree-Law no. 133/2008). In addition, the legislation has facilitated compliance with the request to appear before the appropriate officials and to pay the sums due within 15 days before the date of the appearance (Article 27, Paragraphs 1-4 of Law no. 2/2009); an extension was made to the term for the recovery of non-existent credits or credits unduly used for offsetting other liabilities (Article 27, Paragraphs 16-21, Decree-Law no. 112/2008). With respect to audits, the legislation (Article 27, Paragraphs 9-15, of Law no. 2/2009) made audits obligatory for tax returns and value-added tax returns for large businesses (with gross income of no less than €300 million; in 2011, the threshold drops to €100 million). Article 30 of the law also establishes that the applicability of the subsidised fiscal system in favour of associations (association dues, quotas and fees that are not taxable) is subordinate to the transmittal to the tax authority of certain important data and information for tax purposes.

Article 7 of Decree-Law no. 5/2009, converted by Law no. 33/2009, provides for intensification of audits and stiffer sanctions. More specifically, the Tax Authority will set aside additional resources for specific controls designed to prevent the use of non-existent credits for offsetting other liabilities. The same decree-law has provisions to prevent tax avoidance on income arising from financial contracts, so as to prevent the use of practices to avoid taxes on dividends subject to tax.

Decree-Law no. 78/2009, converted by Law no. 102/2009, has other provisions to fight tax evasion Article 10 regards the offsetting of non-existent value-added tax credits, and for the purpose of contending with such abuses, and establishes that the use of VAT credits of more than €10,000 for offsetting liabilities will be subject to the prior presentation of the tax return or of the application requesting the use of the credit. Returns indicating VAT credit of more than €15,000 must be accompanied by a certificate of conformity (Article 35, Paragraph 1, letter a), Decree-Law no. 241/1997) if the taxpayer wishes to use the credit to offset liabilities.

¹³ Article 36-ter of Decree of the President of the Republic no. 600/73.

¹⁴ Article 36-bis of Decree of the President of the Republic no. 600/73 and Article 54-bis of Decree of the President of the Republic no. 633/72.

The tax revenues from the effort to fight tax evasion experienced a strong 28 per cent increase, going from €4.11 billion in 2008 to €5.27 billion in 2009. The latter figure is the by-product of collection from tax rolls (around 50 per cent of the sum) and the application of instruments designed to reduce tax litigation (assessment with taxpayer's assent, acquiescence and judicial settlement).

More specifically, the amounts collected via the instruments designed to reduce tax litigation rose by 60 per cent between 2008 and 2009. The more frequent use of these instruments represents a very positive development because it not only decreases conflict in the tax authority's relationships with taxpayers but it also facilitates immediate collection of the amounts due.

The non-tax revenues are instead in line with the prior-year result, with a slight 0.2 per cent increase.

The results achieved (for both tax and non-tax revenues) are considered very positive, particularly in consideration of the fact that the data in relation to the taxes billed and regularly collected are influenced by the new instalment-payment provisions, which have already produced cash flows and will produce more cash flows in future periods.

State Budget

	2008 (€ mn)	2009 (€ mn)	% Change
Tax revenues	4,111	5,270	28.2
- Collected from tax rolls	2,462	2,631	6.9
- Collected with use of instruments to reduce tax litigation	1,649	2,639	60.0
Non-tax revenues	1,769	1,773	0.2
TOTAL	5,880	7,043	19.8

TREND OF ESTIMATES OF KEY PUBLIC-FINANCE AGGREGATES FOR 2009

The forecast of public-finance balances is more influenced by random factors than in the past, due to the effects of the unfavourable macroeconomic scenario. The various revisions made in 2009 reflected the changing growth prospects for the Italian economy against a highly uncertain international backdrop, and took into account the effects of the anti-crisis measures adopted by the Government¹⁵ which are compatible with the commitment to limit the negative impact thereof on the public accounts.

The Combined Report on the Economy and Public Finance (RUEF) published in April 2009 made an upward revision of the deficit-to-GDP ratio, raising it from 3.7 per cent to 4.6 per cent for the effect of (i) another 2.2-percentage point contraction of GDP in real terms (with GDP growth going from -2.0 per cent to -4.2 per cent) and (ii) new initiatives to support the economy (sector-specific measures and initiatives to stimulate consumption)¹⁶.

In June, with the publication of the 2010-2013 DPEF, the estimated deficit-to-GDP ratio was readjusted to 5.3 per cent in order to take into account the revision of public-finance aggregates at unchanged legislation, given the effect of the prolonged economic recession. The forecast also included the impact of the measures for balancing the budget which contemplated that the net balance would

¹⁵ Decree-Law no. 185/2008 converted by Law no. 2/2009; Decree-Law no. 5/2009 converted by Law no. 33/2009; Decree-Law no. 78/2009 converted by Law no. 102/2009; State-Regions Accord signed on 13 February 2009.

¹⁶ Finally, the forecast considered the Government's commitment to accelerate payment of the Public Administration's liabilities.

be around €37 billion worse than that specified in the budget law, with most of such difference attributable to adjustment of the initial forecasts of revenues. The new estimate also incorporated the effects of both additional crisis-deterrence measures approved in June and urgent measures to aid areas hit by earthquakes.

Considering the expected changes in expenditure and revenue flows, the estimate of net borrowing was confirmed in September with the Forecast and Planning Report (RPP) and the Update to the 2010-2013 DPEF, albeit in the presence of a change in the mix of the components within the macro aggregates that did not affect the balances overall.

In January, with the presentation of the Stability Programme, another update was done with regard to the trend of the public accounts; this led to revisions in certain revenue and expenditure items although the deficit-to-GDP ratio remained unchanged. More specifically, on the expenditure side, interest was estimated to be 0.1 percentage points lower than the figure indicated in September, whereas on the revenue side, the lower amount of direct taxes was essentially offset by higher capital account revenues coming from the repatriation/regularisation of capital held abroad (so called 'tax shield').

Considering the uncertainty about the timing and the strength of the economic recovery, the planned budget objectives for future years have been deferred. Adopting a prudent stance, the Government is operating in line with a strategy agreed at an EU level that calls for gradually scaling back support measures starting in 2010, in relation to the development of the macroeconomic framework. At the same time, as the recovery gains momentum, the Government will continue to pursue the fiscal consolidation measures presented with the 2009 Budget Law and the three-year deficit-reduction programme.

TABLE 3.5: GENERAL GOVERNMENT ACCOUNT AT UNCHANGED LEGISLATION – FORECAST TRENDS (AS % OF GDP)

	GEN. GOV. A/C 2008	2009 RUEF			2010-2013 DPEF				2010 RPP				2010-2012 NOTE			
		2009	2010	2011	2009	2010	2011	2012	2009	2010	2011	2012	2009	2010	2011	2012
TOTAL EXPENDITURES	49.3	52.2	51.8	51.4	52.9	52.0	51.3	51.0	52.4	51.5	50.7	50.3	52.2	51.4	50.4	50.0
Current expenditures	45.6	48.0	48.0	47.9	48.4	48.1	47.7	47.5	47.9	47.6	47.1	46.8	47.7	47.5	46.9	46.5
Employee compensation	10.9	11.4	11.3	11.0	11.5	11.3	11.0	10.7	11.4	11.2	10.9	10.7	11.4	11.2	10.9	10.6
Intermediate consumption	8.2	8.6	8.6	8.5	8.7	8.6	8.4	8.3	8.7	8.5	8.3	8.3	8.7	8.5	8.3	8.2
Social benefits	17.7	19.1	19.2	19.2	19.1	19.2	19.1	19.0	19.0	19.0	18.9	18.7	19.0	18.9	18.8	18.6
Interest	5.2	5.0	5.2	5.5	5.0	5.1	5.5	5.9	4.8	4.9	5.3	5.5	4.8	4.9	5.2	5.5
Other current expenditures	2.4	3.9	3.8	3.7	4.0	3.8	3.7	3.6	3.9	3.9	3.7	3.6	3.8	4.0	3.7	3.6
Capital expenditures	3.8	4.2	3.7	3.5	4.5	3.9	3.5	3.5	4.5	3.9	3.5	3.5	4.5	3.9	3.5	3.6
TOTAL REVENUES	46.7	47.6	47.2	47.0	47.5	47.1	46.9	46.9	47.1	46.6	46.3	46.4	47.0	46.5	46.1	46.1
Current revenues	46.4	47.1	46.8	46.6	47.1	46.7	46.5	46.5	46.7	46.2	46.0	46.0	46.3	46.1	45.7	45.7
Tax revenues	29.1	29.3	29.0	28.9	29.3	28.9	28.9	29.0	29.0	28.6	28.5	28.6	29.0	28.7	28.3	28.4
Social contributions	13.7	14.2	14.2	14.1	14.1	14.1	14.0	13.9	14.0	13.9	13.9	13.8	13.9	13.8	13.8	13.7
Non-tax capital account revenues	0.3	0.4	0.3	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.4	0.4	0.3	0.4	0.4
Primary balance	2.5	0.4	0.6	1.1	-0.4	0.2	1.1	1.7	-0.5	0.0	0.9	1.6	-0.5	-0.1	0.9	1.5
Net borrowing	2.7	4.6	4.6	4.3	5.3	5.0	4.4	4.1	5.3	5.0	4.3	3.9	5.3	5.0	4.3	3.9
Tax burden	42.8	43.5	43.2	43.0	43.4	43.0	42.8	42.9	43.0	42.5	42.4	42.4	42.9	42.5	42.1	42.1

Source: For 2008, see ISTAT, Press release dated 2 March 2009¹, National accounts for 2005, 2006, 2007 and 2008. Ministry of the Economy and Finance (MEF), Combined Report on the Economy and Public Finance (RUEF) for 2009, March 2009. MEF, Economic and Financial Planning Document (DPEF) for 2010-2013, June 2009. MEF, Forecast and Planning Report (RPP) – Italian Economy in 2010, September 2009. MEF, 2010-2012 Notes, January 2010.

1) The data for the general government account are taken from the ISTAT press release dated 2 March 2009. The data contained in the more recent press release of 1 March 2010 have not been considered since the MEF documents presented (RUEF, DPEF, RPP and 2010-2012 NOTE) were prepared starting with data published by ISTAT for 2008. In the case of the public debt, the figure comes from the data released by the Bank of Italy in March 2009.

3.1.2 Trends for 2010 and subsequent years

The public-finance framework for 2010 confirms the level of net borrowing at 5.0 per cent of GDP which incorporates a slight revision in the expected real rate of growth of the Italian economy (from 1.1 per cent in January to the current forecast of 1.0 per cent).

The new projections reflect a more pronounced revision in the rate of growth expected for 2011, with such rate scaled down by 0.5 percentage points to the level of 1.5 per cent (2.0 per cent in 2012). The level of net borrowing at unchanged legislation is expected to range around 4.7 per cent of GDP in 2011 and 4.3 per cent in 2012, with the figures around 0.4 percentage points higher on average than the previous estimates for the 2011-2012 period.

Although the deficit-to-GDP ratio remains unchanged compared with the previous estimates, the new forecasts for 2010 incorporate a change in the mix of revenue and expenditure aggregates which is mostly due to the effect of a carryover of results for 2009.

On the revenue side, it is possible to note lower tax revenue compared with the September estimate (-€4.3 billion). The change is due to a decrease in direct taxes (-€6.9 billion) partially offset by increases in indirect taxes (+€1.5 billion) and capital account taxes (+€1.2 billion), and an increase in social contributions (+€1.0 billion) (see Table 3.1 in Section 3.1.1).

Total expenditure is also lower than the previous estimate (-€3.1 billion). The more limited change in this aggregate is explained by decreases in expenditure for interest (-€5.0 billion) and capital expenditure (-€2.2 billion), while the primary current expenditure reflects an increase (+€4.0 billion).

Compared with the results achieved in 2009, the new estimates for 2010 show a rate of expenditure growth that is less than the rate of growth of revenues (+0.9 per cent and +1.3 per cent, respectively). The projection of expenditure for 2010 excludes certain one-off charges incurred in 2009. Similarly, the more limited momentum of revenues is reflective of the absence of extraordinary taxes collected and booked as capital account revenues in 2009 (tax shield programme and realignment of book values pursuant to IAS)¹⁷. In any event, tax revenues are estimated to climb by 1.2 per cent (the by-product of 4.9 per cent growth in direct taxes, 2.4 per cent growth in indirect taxes, and a pronounced contraction in capital account taxes); social contributions are projected to rise by 1.4 per cent.

The tax burden is forecast to decline to 42.8 per cent, falling to a level below that posted for 2008.

Current expenditure (net of interest) is expected to rise by 2.0 per cent (and thus slowing significantly with respect to the 4.2 per cent growth registered for 2009). Capital expenditure is slated to fall by 9.4 per cent (including for the effect of the absence of certain expenditures that affected 2009). In relation to GDP, current expenditure (net of interest) goes from 43.5 to 43.4 per cent, while capital expenditure goes from 4.3 to 3.8 per cent; expenditure for interest goes from 4.7 to 4.6 per cent (in relation to a revision of the forecasts based on the trend of market interest rates).

¹⁷ See Section 3.1.1, Note 2.

Within current expenditure (net of interest), employee compensation is expected to rise by 2.3 per cent. The expected growth is partially based on the deferral to 2010 of certain contract renewals, with the amounts in arrears estimated at around €1.5 billion. Another part of the increase is related to the payment of contractual vacation pay for around €650 million. An increase is also seen in the additional contribution¹⁸ correlated to the growth of gross salaries for public-sector workers.

Intermediate consumption rose by a limited amount (1.2 per cent), due mostly to charges arising on deliveries for the Ministry of Defence, which are back in line with historical values in 2010 (€4,748 million versus €6,394 million for 2009).

Expenditure for social benefits is projected to increase by 2.3 per cent over the 2009 level. This increase reflects growth of 2.7 per cent in pension expenditure, which takes into account: a higher number of individuals drawing pensions¹⁹; termination rates based on the most recent information; price indexing (0.6 per cent in 2010, inclusive of the recovery of the excess previously allowed)²⁰; and the recalculation of amounts of pensions outstanding. The forecast also takes into account feedback from monitoring and the initial data for 2010. Expenditure for other social benefits incorporates: the continuation of the charges for exceptional social safety nets, in view of the financing as recomputed for the 2009-2010 period, the actual disbursements during the two-year period, the substantial stability between 2009 and 2010 of the expenditure for social safety nets, and the slowdown expected in the second part of 2010 when compared with the same period for 2009 (the refinancing of the exceptional measures as of 2011 is not contemplated by existing legislation); the absence of the one-off charges booked in 2009²¹; an increase in general government expenditure for severance pay (following the reduction in 2009) which also takes into account²² higher exit incentives paid to public sector workers (mostly in the school system)²³; the continuation of the payment of benefits in relation to the 'purchases card'; and, finally, the economies arising from streamlining procedures and monitoring with respect to the disabled.

¹⁸ Law no. 335/1995 (Reform of the mandatory and complementary pension system) established that INPDAP would set up as of 1 January 1996 separate management of the pension accounts of employees of the State and personnel whose pensions are paid by the State (CTPS). The aforementioned law also provided that "the State administrations are required to pay a contribution based on taxable income." Law no. 662/1996 (Article 3, Paragraph 215) specified that, in addition to the ordinary contribution, the State administrations would have to pay, as of 1 January 1996, a percentage contribution of additional financing, as determined by a joint ministerial decree (Ministry of Labour and Ministry of the Economy and Finance) that would also specify the criteria and means for payments.

¹⁹ As shown by monitoring feedback, a significant increase between 2009 and 2010 is expected in the number of people drawing early retirement pensions, particularly in the private sector; this is partially due to the 'freeze' that occurred in 2009 as a result of stricter requisites introduced in 2008 and the so-called 'window' mechanism.

²⁰ The indexing in January 2009 was provisionally allowed on the basis of an inflation estimate of 3.3 per cent for 2008, though the actual figure was equal to 3.2 per cent.

²¹ Specifically, the extraordinary bonus for families, workers and pensioners as introduced by Decree-Law no. 185/2008, converted with Law no. 2/2009, Article 1 (most of which were paid in 2009) and the amounts in arrears for the revaluation of accident-related annuities granted in 2009 with reference to 2008.

²² The aggregate also includes the severance benefits paid from the Treasury Fund with reference to workers at companies with 50 or fewer employees; as planned, such benefits are increasing.

²³ The school system was affected by a 'freeze' in 2008 for effect of the introduction of stricter requisites for retirement during that year (with consequent containment of the expenditure for severance pay in 2009). Taking into account the 6-month delay in the payment of the severance pay in case of early retirement, the impact on expenditure will mostly be seen in 2010.

Healthcare expenditure for 2010 is estimated to reach €114.7 billion²⁴. The new estimates include the measures to contain spending for the 2010-2012 period²⁵, as recomputed following the signing of the 2010-2012 Healthcare Pact²⁶; the economies in relation to expenditure on pharmaceuticals pursuant to special agreements²⁷ (€800 million), as reassigned to financing of the National Healthcare Service on the basis of the provisions of the 2010-2012 Healthcare Pact and ratified by the 2010 Budget Law; the charges incurred by the National Healthcare Service for measures for getting immigrants into the system²⁸; the abolition of the €10 ticket for specialised care for the years of 2010 and 2011²⁹ which entails higher annual expenditure of €400 million, all of which is covered by a special provision³⁰; savings estimated for the years of 2010 and 2011 in relation to measures to streamline and make more efficient the regions' outlays for covering the charges resulting from the abolition of the ticket³¹; and an estimate of the measures to hold down spending for regions operating with deficits, as part of the implementation of spending-reduction programmes already in effect and those coming into effect.

THE HEALTHCARE SPENDING-CUT PLANS

The spending-cut plans for the 2007-2009 three-year period that were established pursuant to the State-Regions Agreement of 28 September 2006 were extended by the State-Regions Agreement of 3 December 2009 to the 2010-2012 three-year period. The latter agreement makes a spending-cut plan obligatory for any region that is operating with a deficit equal to 5 per cent or more of the financing of the regional health service or for any region with a deficit below the 5 per cent threshold that does not have the resources for covering the deficit.

The plans are aimed at re-establishing the economic-financial equilibrium of the regions involved, and on the basis of regional recognition of the factors that are structurally responsible for the significant operating deficits, the plans identify and tackle on a selective basis the various problems arising within the regions involved. The plans are an integral part of the individual agreement between the State and the region, and are considered as a sort of business restructuring programme that affects spending factors escaping the control of the regions, the main factors of which are:

- exceeding the standard for beds and the rate of hospitalisation;*
- pharmaceutical consumption;*
- personnel expenditure;*

²⁴ Prepared on the basis of laws and regulations in effect and the current macroeconomic scenario, the forecasts incorporate ISTAT's official data concerning the Consolidated Healthcare Account for the years of 2007, 2008 and 2009, which was developed after the fourth-quarter of 2009 and 2008 final data became available, and upon adjustments made to the final data for 2007.

²⁵ Decree-Law no.112/2008, converted with Law no. 133/2008.

²⁶ The effects of these interventions have been estimated assuming the hypothesis that measures will have an impact on the expenditure side only. Instead, the regions could take action on the revenue side: for example, the regions could step in with additional regional budget coverage compared with the healthcare sector account.

²⁷ Decree-Law no.78/2009, converted with amendments by Law no.102/2009 Article 22, Paragraph 3.

²⁸ Decree-Law no. 78/2009, converted with Law no. 102/2009.

²⁹ Decree-Law no.112/2008, converted with Law no.133/2008 Article 61, Paragraph 19.

³⁰ Decree-Law no.112/2008, converted with Law no.133/2008 Article 61, Paragraph 20, letter a.

³¹ Decree-Law no.112/2008 converted with Law no.133/2008 Article 61, Paragraph 20, letter b.

- exceeding the number and value of services acquired from private structures (budget) as well as the related remuneration system;
- expenditure for the purchase of goods and services;
- control over the appropriateness of the prescriptions given by doctors.

With regard to each critical expenditure, the plans identify the containment objectives, the individual actions that can be concretely achieved for reaching the objectives and the related financial impact. The coordinated group of objectives delineates the overall spending-reduction plan, the economic-financial repercussions of which will be seen in the regional healthcare sector's accounts in relation to the period in which the plans are implemented.

The governance of the spending-reduction plans was reinforced by the provisions of the agreement signed on 3 December 2009 (and later ratified in the 2010 Finance Budget Law) and provides for the following:

- in general, an increase in tax rates up to the maximum level established by current legislation;
- in the event of non-compliance with the plans, the compulsory administration of the defaulting region;
- in the event of the non-achievement of the intermediate spending-reduction objectives, the increase in the rates for the regional tax on productive activity and additional regional taxes computed in relation to personal income tax to the highest levels allowed by current legislation, the suspension of non-mandatory state transfers, and the dismissal of general managers, administrative managers and healthcare managers within the healthcare agencies.

The regions affected by the spending-reduction plans for the 2007-2009 period were: Abruzzo, Campania, Latium, Liguria, Molise, Sicily and Sardinia. In December 2009, a plan was also drawn up for Calabria.

In the case of Abruzzo, Campania, Latium and Molise, the Council of Ministers has appointed an ad acta commissioner and sub-commissioner for implementation of the respective spending-reduction plans.

In general, the healthcare-related accords between the State and regions since 2000 have established the level of healthcare financing to be provided by the State, the areas of compliance for the regions (with reference to both financial aspects and the supply of essential levels of care), and the system for rewarding (sanctioning) the regions that are in compliance (in default). Full compliance with respect to the targets entails the disbursement of a State financing bonus whereas non-compliance entails not only the non-disbursement of the bonus but also an automatic increase in the regional tax rates to the maximum extent allowed.

The 2010-2012 Healthcare Pact has a structure similar to that of the previous agreements, while also introducing measures to streamline spending with reference to the following:

- hospital expenditure, including through the reduction of the standards for the number of beds, and incentives for reducing or eliminating inpatient stays;
- personnel expenditure, including through reduction of the workforce resulting from restructuring of the hospital network;
- pharmaceutical expenditure, including through the commitment of both the Government and the regions to formulate a direct, shared proposal to introduce measures to hold down the expenditure on pharmaceuticals used during inpatient stays.

The governance system delineated is aimed at making all regions of the nation fully responsible for covering healthcare expenditure that exceeds the level programmed and consistent for allowing the supply of essential levels of care. Indeed, the trend toward efficient use of resources is embedded in the regulations governing the National Healthcare Service, and is being gradually applied as a result of improvements in the quality and quantity of information available (including in terms of the completeness and timeliness of the data processing) and in the technical instrumentation available to the public administrations involved (State, Regions, and healthcare agencies).

All of the governance instruments adopted over time with accords between the State and the regions (including with reference to the different standards, the monitoring process, the process of verifying financial performance and regional actions compared with the commitments assumed, the rewarding and sanctioning system) made it possible to slow down expenditures significantly starting in 2006, and to achieve expenditure in line with the programmed levels as of 2008. More specifically, it is noted that:

- in the 2000-2005 period, the average rate of increase of healthcare expenditure was 7.3 per cent per year;*
- in the 2006-2009 period, the average rate of increase of healthcare expenditure was 2.9 per cent per year.*

Other current expenditure increased by a limited 1.1 per cent (compared with 4.5 per cent for 2009). The slower growth rate is reflective of the special one-off charges in 2009 in relation to vehicle trade-ins³². The aggregate incorporates an increase in the contribution to the EU budget. The estimated decline in capital expenditure is the product of decreases in all components. The trend of direct investment (-10.2 per cent) is impacted by an estimated increase in the level of property sales in 2010, and the 2009 repurchase (for roughly €1.7 billion, including around €900 million accruing in 2009) by social security funds of buildings that had been securitized (through the special-purpose companies, SCIP1 and SCIP2), and had remained unsold. The reduction of capital account contributions (-1.8 per cent) incorporates lower transfers to the Italian State Railways; net of such charges, the contributions increase by 3.3 per cent. Other capital account transfers fall markedly (-46.0 per cent), and this is mostly the result of the abolition in 2010 of the charges for the refund to businesses of higher payments of personal (IRPEF) and corporate (IRES) income taxes as a result of the deductibility of 10 per cent of the regional tax on productive activity (IRAP) in relation to income from full-time employment and interest, booked to the 2009 accounts following the validation of the applications for reimbursement presented by taxpayers. Meanwhile, the amounts in relation to the cancellation of developing countries' debt are higher.

³² Decree-Law no. 5/2009 converted with Law no. 33/2009.

During the 2011-2012 two-year period, the borrowing profile will be conditioned by the expected growth of interest expenditure, which is projected to rise from 4.6 per cent of GDP in 2010 to 4.9 per cent in 2011 and 5.2 per cent in 2012.

Considering a primary balance (at unchanged legislation) that goes from -0.4 per cent in 2010 to 0.2 per cent in 2011 and 0.9 per cent in 2012, the net borrowing (at unchanged legislation) is estimated to fall to 4.7 per cent of GDP (-0.3 percentage points compared with 2010), and then to stand around 4.3 per cent in 2012.

The expected trend of net borrowing is based on revenue growth of 2.3 per cent and 3.6 per cent in 2011 and 2012, respectively, and expenditure growth of 1.8 per cent in 2011 and 2.8 per cent in 2012 (inclusive of a higher debt-servicing cost). Revenues are projected to descend from 46.8 per cent of GDP in 2010 to 46.4 per cent in 2011 and 46.2 per cent in 2012; expenditures should go from 51.8 per cent of GDP in 2010 to 51.1 per cent in 2011 and 50.5 per cent in 2012.

On the revenue side, another decrease can be expected in tax revenues as a result of a decline in direct taxes that is only partially offset by an increase in indirect taxes. In any event, tax revenues can still be expected to regain momentum compared with the most recent trends, with growth rates pegged at 2.0 per cent for 2011 and 3.9 per cent for 2012. Social-welfare contributions should also experience a comparatively stronger increase. The tax burden is estimated to fall from 42.8 per cent in 2010 to 42.3 per cent in 2012.

On the primary expenditure side, limited upward momentum is expected overall: expenditures (net of interest) are projected to edge up by 1.0 per cent and 2.0 per cent in 2011 and 2012, respectively. Expenditure for interest should instead climb by 10.5 per cent in 2011 and 10.4 per cent in 2012 as a result of higher interest rates and growth in the nominal value of the public debt.

Given these projections, the Government intends to maintain the commitments made at an EU level, confirming the path toward fiscal consolidation: the net borrowing targets remain at 3.9 per cent of GDP for 2010 and 2.7 per cent for 2012.

Taking into account the year-on-year trends, the maintenance of the objectives means corrective measures to the primary balance for a total of 1.6 per cent of GDP for the 2011-2012 two-year period.

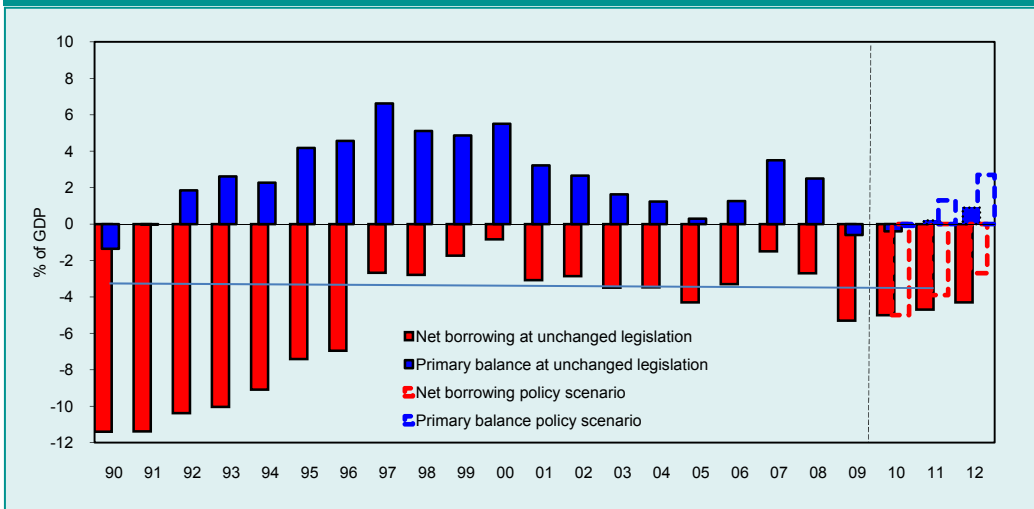
The fiscal structural consolidation process is expected to be back on track in 2010. After having reached -3.8 per cent of GDP in 2009, the cyclically adjusted budget balance, net of one-off items, is forecast to contract to -3.3 per cent in 2010, -2.5 per cent in 2011, and -2.0 per cent in 2012, with annual improvements of 0.5 percentage points for 2010, 0.8 percentage points for 2011 and 0.5 percentage points for 2012, all of which are fully in line with the European Council's recommendations for the excessive deficit procedure opened with respect to Italy (see box on 'Trend in structural net borrowing').

TABLE 3.6: PUBLIC-FINANCE INDICATORS: TRENDS AND OBJECTIVES

	2009	2010	2011	2012
UPDATED POLICY SCENARIO				
Net borrowing	-5.3	-5.0	-3.9	-2.7
Interest	4.7	4.6	4.9	5.2
Primary balance	-0.6	-0.4	1.0	2.5
Structural net borrowing (1)	-3.8	-3.3	-2.5	-2.0
Structural change	0.4	-0.5	-0.8	-0.5
Public debt (2)	115.8	118.4	118.7	117.2
State sector borrowing requirement (2)	-5.7	-5.3	-3.8	-2.6
Public sector borrowing requirement (2)	-5.8	-5.4	-3.8	-2.7
Net correction to primary balance 2011-2012 (% GDP)			0.8	1.6
NEW TREND AT UNCHANGED LEGISLATION				
Net borrowing	-5.3	-5.0	-4.7	-4.3
Interest	4.7	4.6	4.9	5.2
Primary balance	-0.6	-0.4	0.2	0.9
Structural net borrowing (1)	-3.8	-3.3	-3.3	-3.6
Public debt (2)	115.8	118.4	119.5	119.6
State sector borrowing requirement (2)	-5.7	-5.3	-4.6	-4.2
Public sector borrowing requirement (2)	-5.8	-5.4	-4.6	-4.3

1) Structural: net of one-off measures and cyclical component.
 2) The estimates do not include any financial support to Greece.

FIGURE 3.1: PUBLIC-FINANCE BALANCES



TREND IN STRUCTURAL NET BORROWING

The table below presents the estimates of potential GDP, the output gap and structural balances on the basis of the macroeconomic and public-finance framework in the RUEF for 2010.

The growth rate of potential GDP compared with the estimates in the Update of the Stability Programme in January 2010 has been revised downward on average by approximately 0.3 percentage points during the 2008-2010 period, principally for a technical revision to methods for estimation of the contribution of the labour factor. For 2009-2010, potential GDP growth is equal to around 0.2 per cent. In 2011, as the current crisis is gradually overcome, the growth rate of potential GDP should be back to around pre-crisis levels, at around 0.5 per cent. The values of the output gap between 2009 and 2012 are decidedly in negative territory, with 2009 representing the biggest deficit (coinciding with the most acute phase of the crisis).

The cyclically adjusted budget balance, net of one-off measures, is estimated to have been -3.8 per cent of GDP in 2009. In line with the European Council's recommendations for the excessive deficit procedure opened with respect to Italy, the deficit should be reduced by 0.5 percentage points in 2010, 0.8 percentage points in 2011 and 0.5 percentage points in 2012.

Structural balances	2006	2007	2008	2009	2010	2011	2012
GDP growth rates at constant prices	2.0	1.5	-1.3	-5.0	1.0	1.5	2.0
Net borrowing	-3.3	-1.5	-2.7	-5.3	-5.0	-4.7	-4.3
Corrective measures to primary balance (% GDP)						0.8	1.6
Net borrowing - policy scenario	-3.3	-1.5	-2.7	-5.3	-5.0	-3.9	-2.7
Interest	4.6	5.0	5.2	4.7	4.6	4.9	5.2
Potential GDP growth rate	0.6	0.7	0.4	0.2	0.2	0.5	0.7
Contributions of factors to potential growth:							
<i>Labour</i>	0.2	0.4	0.2	0.3	0.1	0.3	0.2
<i>Capital</i>	0.7	0.7	0.5	0.2	0.2	0.2	0.3
<i>Total factor productivity</i>	-0.3	-0.3	-0.3	-0.2	-0.1	0.1	0.2
Output gap	2.0	2.8	1.0	-4.3	-3.6	-2.7	-1.4
Cyclical component of budget balance	1.0	1.4	0.5	-2.2	-1.8	-1.3	-0.7
Cyclically adjusted deficit	-4.3	-2.9	-3.2	-3.2	-3.2	-2.6	-2.0
Cyclically adjusted primary surplus	0.3	2.1	2.0	1.5	1.4	2.3	3.2
One-off measures	-0.3	0.2	0.2	0.6	0.1	-0.1	0.0
Deficit, net of one-off measures	-3.0	-1.7	-2.9	-6.0	-5.1	-3.8	-2.7
Cyclically adjusted deficit, net of one-off measures	-4.0	-3.0	-3.4	-3.8	-3.3	-2.5	-2.0
Cyclically adjusted primary surplus, net of one-off measures	0.6	1.9	1.8	0.9	1.3	2.4	3.2
Change in deficit, net of one-off measures	-1.8	-1.4	1.3	3.0	-0.9	-1.3	-1.1
Change in cyclically adjusted deficit, net of one-off measures	-1.1	-1.0	0.4	0.4	-0.5	-0.8	-0.5

List of one-off measures (€ mn)

	2006	2007	2008	2009	FORECASTS		
					2010	2011	2012
Total one-off measures	-4,539	2,508	3,169	9,873	1,228	-955	-131
% of GDP	-0.3	0.2	0.2	0.6	0.1	-0.1	0.0
- a) Revenues	6,140	1,289	2,083	12,855	1,200	258	175
% of GDP	0.4	0.1	0.1	0.8	0.1	0.0	0.0
Substitute tax on revaluation of business assets	528	23	34	3	3	3	
Other substitute taxes	1,243	631	1,579	693	1,039	175	175
Capital repatriation							
Amnesty for abuse of building regulations: State	168	142	92	65	35	0	
Amnesty for abuse of building regulations: local entities	0	0					
Realignment with IAS principles				6,579	123	80	0
Severance pay, Europe tax, wealth tax							
Tax amnesty programmes							
Financial asset management							
Substitute tax on revaluation of business real-property asset	3,938	284	227	3	0	0	0
Substitute tax on revaluation of land zoned for building	263	209	151	5	0	0	0
EU subsidy for <i>Abruzzo</i> earthquake				494	0		
Tax shield				5,013			
- b) Expenditures	-12,384	-186	-281	-4,059	-1,722	-2,563	-1,506
% of GDP	-0.8	0.0	0.0	-0.3	-0.1	-0.2	-0.1
VAT on company cars		-57	-201	-243	-100	0	
Assumption of ISPA debt for high-speed train programme (TAV) financing	-12,950						
Latium Regional Administrative Court ruling: reimbursement to telecommunications providers of telecommunications subsidy	737						
Bonuses to persons with income below the minimum taxable amount for income tax purposes (so-called ' <i>incipienti</i> ') under DL. 185/08				-1,522	-400	0	
<i>Abruzzo</i> earthquake: DL 39/2009 (converted L.77/2009)				-951	-585	-483	-350
<i>Abruzzo</i> earthquake: charged to Fund for underutilised areas					-637	-2,080	-1,156
Dividends paid				-405			
Repurchase buildings + damages SCIP2	-171	-129	-80	-938	0	0	
- c) Sales of real property	1,705	1,405	1,367	1,077	1,750	1,350	1,200
% of GDP	0.1	0.1	0.1	0.1	0.1	0.1	0.1
State	217	146	91	132	600	450	425
Social security funds	254	147	152	8	25	25	25
Local entities	1,234	1,112	1,124	937	1,125	875	750
GDP	1,485,377	1,546,177	1,567,851	1,520,870	1,554,347	1,606,014	1,669,371

LAW NO. 196/2009 AND NEW DEVELOPMENTS IN THE PLANNING PROCESS

The new accounting and public-finance law (Law no. 196 of 31 December 2009) substantially changes the budgeting and economic-financial planning cycle, while also modifying the contents of the related documents, the deadlines for their presentation, and the parties involved in their preparation. The new planning cycle starts with the Public Finance Decision (DFP), the main planning which substitutes the DPEF (Article 10). The procedure for drawing up the DFP begins on 15 July when the guidelines for the distribution of budget objectives among the different sub-sectors of the public administration are sent to the Permanent Conference for Public-Finance Coordination and the houses of Parliament. With the Conference's opinion on the foregoing to be rendered by 10 September, the draft of the DFP is sent to Parliament (by 15 September) for the consequent Parliamentary resolutions. Shifting the deadline for presentation to September (compared with the previously contemplated date of 30 June) will make it possible to pinpoint more accurately and firmly the forecast framework as the backdrop for the public-finance measures needed.

The DFP has a broader information content than the DPEF (the Economic and Financial Planning Document). It indicates economic-policy objectives and the framework for economic and public-finance forecasts, and it defines detailed objectives for the State administrations, local administrations and social security funds (sub-sectors of the public administrations account).

In particular, the document will report:

- the forecasts at unchanged legislation for the general government account, the cash balance and the debt balance, both in aggregate form and broken down into components for the institutional sub-sectors, the net balance from the State's budget law and the cash balance for the State sector;
- the targets for the public-finance and debt balances, for general government and sub-sectors thereof, excluding and including interest and one-off measures, expressed as percentages of GDP;
- an indication of the public-finance framework for the main areas of expenditure at unchanged policies;
- the budget measures needed in each of the three years in order to achieve the targets.

For disclosure purposes, the document will also contain the forecast value of potential GDP and targeted structural indicators for the general government account.

Should the Government intend to update the budget objectives set out in the DFP or should there be significant differences between the actual trend of public-finance aggregates and the objectives, such as to make corrective measures necessary, the accounting law provides that the Government present an Update to the Public-Finance Decision (Article 10, Paragraph 3). This document, like the DFP, is subject to Parliamentary review that will conclude with the adoption of a special Parliamentary resolution.

On the basis of forecasts at unchanged legislation and the targets indicated in the DFP, a Stability Law Proposal (which substitutes the current Finance Law) and a Budget Law Proposal (DLB) are to be presented to Parliament by 15 October.

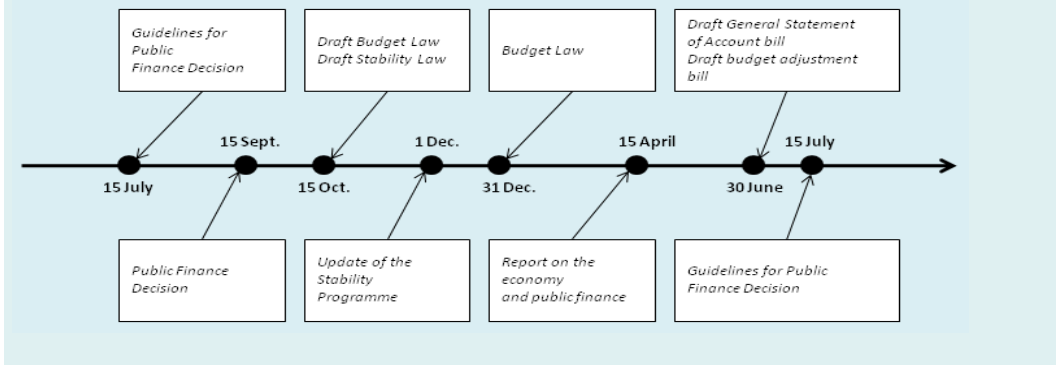
The Stability Law (Article 11) contains the measures needed for achieving the targets set out in the DFP over the three-year period of reference. Compared with the previous Finance Law, the Stability Law will be a more streamlined document, with the exclusion of the measures for economic development - which will be contained in special legislative bills (to be introduced by the month of February) - and those of an organisational or systematic nature. Rules for delegation of power and those related to local or micro-sector initiatives will also be excluded. The Stability Law will be presented to Parliament with a Technical-Illustrative Note that provides a reconciliation between

the Budget Law Proposal and the general government account, the contents of the revenue and spending measures, and the effects thereof on the public-finance balances and the main sectors that are targeted by the initiatives.

Thereafter, as established by the EU calendar, the Government will prepare the Update to the Stability Programme defining the framework for the medium-term prospects for Italy's economic policy with respect to the European Union, with an indication of the guidelines for its implementation at the level of national policies. Departing with past practices, the accounting law provides that the draft of the Update to the Stability Programme (Article 9) be transmitted to the houses of Parliament and the Permanent Conference for Public-Finance Coordination at least 15 days prior to its presentation to the European Commission and European Council.

The planning cycle ends on 15 April with the Report on the Economy and Public Finance (REF) that substitutes the Combined Report on the Economy and Public Finance (RUEF). The new document will contain analyses of economic trends, the general government account, and the general government cash account with respect to the previous year. It will also provide updated macroeconomic and public-finance forecasts for the planning period of reference, based on outturn, economic trends and the public accounts as observed during the first months of the year. In the event of a gap between actual and forecast figures, the document will outline the corrective measures needed to confirm the pre-set targets. The REF will also report the European Council's opinion on the Update to the Stability Programme if that is available. The accounting law (Article 52, Paragraph 3) provides that the REF be presented as from 2011. It will update the estimates according to the new structure provided for the Public-Finance Decision that is to be presented as of September (2010). Therefore, for 2010, the Minister of the Economy and Finance has presented the RUEF to the houses of Parliament to complete the previous planning cycle; the report has been prepared using the same criteria used for the preparation of the report in the previous year.

Planning cycle and instruments



STATE BUDGET RESOURCES ALLOCATED TO THE REGIONS AND AUTONOMOUS PROVINCES

According to Article 12 of the accounting and public-finance law (no. 196/2009), the Report on the Economy and Public Finance is to contain an exhibit showing the State budget resources appropriated to individual regions and autonomous provinces, with a distinction made between current expenditure and capital expenditure, with reference to the most recent data available.

The tables presented below contain the regional breakdown of the State budget payments, net of interest expenditure and of loan reimbursements. The tables thus report the overall flows that go from the State to the different regions and autonomous provinces, with the analysis not being limited to the resources that the State directly assigns, under the form of transfers, to territorial entities and local administrations operating in the different areas.

In the case of expenditures related to the production of services (especially income from employment and the purchase of goods and services) and investments, the territorial allocation is based on the place where the productive activity is carried out, whereas the region of the beneficiary is indicated in the case of transfer expenditure.

The information for the regional breakdown comes from the General Accounting Office's information system, with the use of payment-order data, the analysis of which allows for a good estimation of the amounts disbursed to the individual areas. Additional information has been used in some cases and has been provided directly by the administrations and entities responsible for the expenditure.

The information available does not allow for territorial allocation of all expenditure and this explains the presence of a portion of expenditure not assigned to any region, which is mostly made up of expenditures that are not by their nature attributable to any region (foreign payments and items of a purely accounting nature such as depreciation charges). It is appropriate however to pinpoint one component of expenditure not allocated to the regions, 'Disbursements to entities and funds': this component refers to resources that do not flow directly from the State to the final beneficiaries, but with the intermediation of other central institutions (Presidency of the Council of Ministers, National Road Board, National Research Centre, etc.) or funds whose resources come from the budget (Fund for technological innovation, Fund for research allowances, etc.). In this case, the assignment to the regions should occur with disbursements made by these institutions after the transfer from the budget: it is a process that takes place annually and is handled by the General Accounting Office in the publication Regional Breakdown of State's Expenditure to which reference should be made for more details.

Table 1 shows the territorial distribution of total current and capital expenditures for 2007 and 2008, while the other tables provide an additional breakdown of the payments by economic category for 2008 only (Table 2 for current expenditure and Table 3 for capital expenditure).

Table 1 Analysis of payments of the State budget by economic aggregates, net of interest (in € 000's)

REGIONS	CURRENT EXPENDITURES				CAPITAL EXPENDITURES				TOTALEXPENDITURES			
	2007		2008		2007		2008		2007		2008	
	Value	%	Value	%	Value	%	Value	%	Value	%	Value	%
Abruzzo	4,040,348	2.2	4,303,479	2.2	872,872	3.3	447,717	1.5	4,913,220	2.3	4,751,186	2.1
Basilicata	1,950,531	1.1	2,171,765	1.1	364,786	1.4	330,868	1.1	2,336,537	1.1	2,502,633	1.1
Calabria	6,882,338	3.7	7,088,896	3.6	1,142,068	4.3	1,102,557	3.6	8,024,406	3.8	8,191,453	3.6
Campania	19,354,202	10.5	19,186,581	9.8	3,351,706	12.6	2,930,793	9.6	22,705,908	10.7	22,117,374	9.8
Emilia Romagna	10,165,250	5.5	10,989,921	5.6	1,818,277	6.8	1,384,224	4.5	11,983,527	5.7	12,374,145	5.5
Friuli Venezia Giulia	5,794,740	3.1	5,615,030	2.9	364,183	1.4	297,666	1.0	6,158,923	2.9	5,912,896	2.6
Lazio	21,679,309	11.7	22,016,612	11.2	3,405,083	12.8	8,963,234	29.4	25,084,392	11.8	30,979,846	13.7
Liguria	5,180,368	2.8	5,562,124	2.8	1,042,384	3.9	662,930	2.2	6,222,752	2.9	6,225,054	2.7
Lombardia	19,247,188	10.4	20,858,663	10.6	2,797,801	10.5	2,184,937	7.2	22,044,989	10.4	23,043,600	10.2
Marche	4,039,627	2.2	4,246,272	2.2	597,250	2.2	390,493	1.3	4,636,877	2.2	4,636,765	2.0
Molise	1,086,029	0.6	1,341,500	0.7	574,897	2.2	318,998	1.0	1,660,926	0.8	1,660,498	0.7
Piemonte	10,677,826	5.8	11,223,742	5.7	2,059,505	7.7	1,783,902	5.9	12,737,331	6.0	13,007,644	5.7
Puglia	13,625,720	7.4	13,306,030	6.8	1,380,664	5.2	1,354,912	4.4	15,006,384	7.1	14,660,942	6.5
Sardegna	7,812,965	4.2	8,610,834	4.4	784,807	2.9	665,247	2.2	8,597,772	4.1	9,276,081	4.1
Sicilia	21,122,199	11.4	22,602,740	11.5	1,773,747	6.7	4,223,935	13.9	22,895,946	10.8	26,826,675	11.8
Toscana	10,075,659	5.4	10,556,747	5.4	1,332,266	5.0	1,000,898	3.3	11,407,925	5.4	11,557,645	5.1
Umbria	2,491,579	1.3	2,774,693	1.4	389,346	1.5	271,318	0.9	2,880,925	1.4	3,046,011	1.3
Valle d'Aosta	1,272,318	0.7	1,486,773	0.8	38,607	0.1	23,914	0.1	13,025	0.6	15,0687	0.7
Veneto	11,017,072	6.0	11,563,482	5.9	2,367,882	8.9	1,970,590	6.5	13,384,954	6.3	13,534,072	6.0
Trento	3,880,308	2.1	6,083,697	3.1	127,660	0.5	99,581	0.3	4,007,968	1.9	6,183,278	2.7
Bolzano	3,677,168	2.0	4,371,871	2.2	75,188	0.3	77,825	0.3	3,752,806	1.8	4,449,896	2.0
Regional Breakdown of State's Expenditure	85,073,184	10.0	85,961,452	10.0	26,660,979	10.0	30,486,539	10.0	211,734,173	10.0	226,447,991	10.0
Non-Regional Breakdown of State's Expenditure	176,356,643		187,107,112		19,023,898		30,470,031		185,380,541		217,577,143	
incl. Disbursements to entities and funds	109,963,093		115,185,785		10,459,133		16,610,876		120,422,226		131,796,661	
TOTAL EXPENDITURES	361,429,837		383,068,564		45,684,877		60,956,570		407,114,714		444,025,134	

Table 2 Analysis of payments of the State budget by economic aggregates, current expenditure - 2008 - (in € 000's)

REGIONS	TOTAL	Employee compensation	Intermediate consumption	Production taxes	Current transfer to Public Administration	Current transfer to Households and non-profit organisations	Current transfer to Businesses	Current transfer to Foreign	EU resources	Amounts adjusting and offsetting revenues	Amortisation	Other current expenditures
Abruzzo	4,303,479	1,313,487	226,228	104,611	2,528,447	84,058	42,329					4,719
Basilicata	2,717,655	610,092	90,986	52,044	1,369,879	35,642	10,580					2,542
Calabria	7,088,896	2,233,377	382,226	191,187	4,035,094	14,1622	97,815					7,875
Campania	19,166,581	6,035,034	1,033,708	534,433	11,000,980	25,1955	300,850					29,621
Emilia Romagna	10,989,921	3,012,245	549,398	261,476	6,801,165	184,316	159,924					11,997
Friuli Venezia Giulia	5,615,030	1,455,949	223,763	146,851	3,643,741	75,259	58,366					11,101
Lazio	22,016,612	7,741,641	1,337,721	740,638	11,396,426	386,246	354,212					49,728
Liguria	5,562,124	1,608,167	336,252	148,095	3,244,353	93,950	122,341					8,976
Lombardia	20,858,663	6,302,970	1,608,423	523,836	11,702,218	29,1090	409,607					20,519
Marche	4,246,272	1,299,465	232,513	113,306	2,460,815	88,721	45,977					5,475
Molise	1,341,500	333,911	52,441	28,828	898,750	18,624	7,584					1,362
Piemonte	11,223,742	3,284,032	649,747	281,802	6,680,052	155,670	184,898					7,541
Puglia	13,306,030	4,525,195	741,538	421,245	7,283,436	178,374	141,654					14,588
Sardegna	8,610,834	1,753,425	282,527	168,955	6,101,974	90,157	219,924					9,872
Sicilia	22,602,740	5,299,507	900,149	470,796	15,160,707	315,796	439,730					16,055
Toscana	10,556,747	3,133,909	576,410	277,833	6,226,144	187,691	169,776					14,984
Umbria	2,774,693	719,801	107,692	62,562	1,783,455	65,870	28,674					6,639
Valle d'Aosta	1,486,773	53,877	7,933	5,170	1,382,258	4,328	32,827					380
Veneto	11,563,482	3,176,1204	672,723	338,556	6,401,525	178,603	187,957					22,914
Trento	6,083,697	142,845	38,855	119,43	5,827,845	16,852	39,955					5,402
Bolzano	4,371,871	142,566	28,482	11,991	4,121,847	12,334	54,775					476
Regional Breakdown of State's Expenditure	185,961,452	54,712,689	10,079,515	4,885,558	120,050,811	2,877,158	3,103,755					251,966
Non-Regional Breakdown of State's Expenditure	187,107,112	33,254,210	701,840	47	83,368,535	17,093,387	1676,792	18,800,390	15,499,657	48,616,818	185,870	213,566
incl.: Disbursements to entities and funds	115,185,785	32,720,339	3,229	8,167,2951	33,248	277,600						179,418
TOTAL EXPENDITURES	383,068,564	87,966,899	10,781,355	4,885,605	203,413,346	4,586,545	4,780,547	18,800,390	15,499,657	48,616,818	185,870	485,532

Table 3 Analysis of payments of the State budget by economic aggregates, capital expenditure - 2008 - (in € 000's)

REGIONS	TOTAL	Gross fixed investment and purchases of land	Contributions to the investment	Contributions to the investment to Businesses	Contributions to the investment to Households and non-profit	Contributions to the investment to Foreign	Other capital account transfers	Acquisition of financial assets
Abruzzo	447,717	44,000	312,116	75,446	3,415		12,740	
Basilicata	330,868	26,248	230,056	39,615	2,469		32,480	
Calabria	1,102,557	159,594	708,168	126,597	1,844		96,354	0,000
Campania	2,930,793	303,095	951,056	644,293	2,681		154,995	874,673
Emilia Romagna	1,384,224	82,098	462,460	789,477	6,836		43,353	
Friuli Venezia Giulia	297,666	54,734	139,469	93,026	1,470		8,967	
Lazio	8,963,234	415,331	1,395,373	686,473	16,249		167,194	4,777,862
Liguria	662,930	44,370	323,580	282,453	4,836		6,068	1623
Lombardia	2,184,937	142,545	1,004,748	815,955	16,163		205,514	12
Marche	390,493	34,572	166,666	95,949	1,460		9,182	
Molise	318,998	14,382	165,535	24,271	2,955		14,855	97,000
Piemonte	1,783,902	107,425	802,284	841,237	4,624		23,244	5,088
Puglia	1,354,912	70,006	911,684	323,295	7,535		22,392	20,000
Sardegna	665,247	93,839	365,743	87,415	2,878		10,166	5,206
Sicilia	4,223,935	229,574	871,034	352,879	729		128,914	2,640,805
Toscana	1,000,898	96,926	543,348	326,048	11,349		21,849	1,378
Umbria	271,318	17,334	165,782	65,896	3,795		18,511	
Valle d'Aosta	23,914	3,148	16,861	3,129			776	
Veneto	1,970,590	151,242	973,077	601,270	17,180		227,821	
Trento	99,581	4,012	22,080	69,294	4		4,191	
Bozano	77,825	10,129	37,042	27,197	11		3,446	
Regional Breakdown of State's Expenditure	30,486,539	2,044,604	10,566,182	6,371,215	108,483		2,900,408	8,433,647
Non-Regional Breakdown of State's Expenditure	30,470,031	4,179,129	14,401,879	3,197,073	10,014		7,374,741	392,093
incl.: Disbursements to entities and funds	16,610,876	4,113	13,131,818	626,971			2,514,802	333,172
TOTAL EXPENDITURES	60,956,570	6,283,733	24,970,061	9,568,288	118,497		10,275,149	8,825,740

4. CONSOLIDATED CASH ACCOUNTS

This section of the report illustrates the consolidated public-sector fiscal outturn for 2009, providing comparative data for 2008 and 2007.

The analysis is carried out with reference to the Public Sector with separate disclosure of the data for the Public Sector's various segments (State sector, social security funds, healthcare system, Regions and local governments, and other consolidated public entities).

4.1 PUBLIC SECTOR

4.1.1 Outturn for 2007-2009

The Public Sector's borrowing requirement in 2009 amounted to €87,910 million, an increase of €36,726 million compared with 2008 (€51,184 million).

Compared with 2008, the increase in total outlays (current expenditure, capital-account expenditure and financial items) compared with total revenues was only partially offset by a decrease in interest paid on public debt securities; interest amounted to €72,878 million, and was thus €11,263 million below the 2008 level. The primary balance was a deficit of €15,032 million, a figure reflecting deterioration of €47,989 million compared with 2008.

The 2009 borrowing requirement incorporates measures undertaken to remedy damage caused by the earthquake in Abruzzo; such measures were equivalent to around €1,000 million, with €494 million of such amount funded by the European Union in the form of a solidarity contribution.

Current revenues are inclusive of a €18,370 million reduction in taxes (-4.0 per cent), including €9,077 million of lower direct taxes and €9,293 million of lower indirect taxes. Tax revenues for 2009 also include payments of the extraordinary tax imposed on financial assets and capital held abroad ('tax shield') in the amount of €4,951 million and substitute taxes of €6,579 million arising from the application of IAS principles and the revaluation of real property. Direct tax revenues incorporate a reduction of €3,716 million in prepayments of personal income taxes. Analysing revenues by segment of the Public Sector, a contraction is noted in taxes collected by the State Sector (-€14,782 million) and by Regions and local governments (-€3,614 million).

Revenues in the form of social contributions were down by €2,424 million compared with 2008.

Current payments reflect an increase of €10,544 million (+1.5 per cent): net of interest expenditure, the aggregate grew by €21,807 million (+3.4 per cent), mostly due to the increase in transfers to families in relation to the trend of pension expenditure and the considerable increase in expenditure on social safety nets (for the effect of particularly significant increases for ordinary social safety nets and growth in exceptional social safety nets when compared with 2008); the account also includes payments of extraordinary bonuses to low-income households in the amount of approximately €1,522 million.

The outlays for employee compensation were virtually stable. Instead, the increase of €3,556 million (+2.9 per cent) in payments made for goods and services is related to efforts to accelerate the State's settlement of payables due to businesses to help alleviate the effects of the economic crisis and improve liquidity within the economy.

The increase in capital-account payments compared with 2008 is to be attributed to:

- fixed capital formation, arising from the repurchase by social security funds of real property that had been securitised as part of the ‘SCIP’ transaction;
- higher capital-account transfers to businesses, with €800 million of the increase due to tax-relief measures in the form of auto-purchase incentives that were adopted by the Government to sustain the economy.

The year-on-year growth of the financial items in 2009 is attributable to an increase in mortgages and advances, inclusive of €4,050 million of special bonds issued in favour of the banking system. The increase in outlays of financial items was partly offset by higher receipts of financial items due to a reduction in the bank deposits of Regions and local governments.

TABLE 4.1: PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT (in € mn)

	Otturum		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	718,045	730,202	709,589	720,947	1.7	-2.8	1.6
Tax revenues	467,498	464,140	445,770	450,979	-0.7	-4.0	1.2
- Direct taxes	224,664	234,504	225,427	223,303	4.4	-3.9	-0.9
- Indirect taxes	242,834	229,636	220,343	227,676	-5.4	-4.0	3.3
Own EEC resources	5,211	6,001	4,663	5,315	15.2	-22.3	14.0
Social contributions	195,648	209,801	207,377	210,848	7.2	-1.2	1.7
Sale of goods and services	17,314	17,209	18,119	18,363	-0.6	5.3	1.3
Capital income	8,840	9,065	8,668	8,839	2.5	-4.4	2.0
Transfers from:	16,869	16,633	15,734	18,007	-1.4	-5.4	14.4
- Families	2,703	3,414	3,688	3,689	26.3	8.0	0.0
- Businesses	3,952	3,988	4,326	3,987	0.9	8.5	-7.8
- Abroad	10,214	9,231	7,720	10,331	-9.6	-16.4	33.8
Other current revenues	6,664	7,353	9,258	8,597	10.3	25.9	-7.1
CAPITAL ACCOUNT REVENUES	5,512	5,197	6,580	6,260	-5.7	26.6	-4.9
Transfers Families, businesses & abroad	2,050	1,870	1,777	1,819	-8.8	-5.0	2.3
Amortisation	163	186	350	190	14.1	88.2	-45.7
Other capital account revenues	3,299	3,141	4,453	4,251	-4.8	41.8	-4.5
Final revenues	723,557	735,399	716,169	727,206	1.6	-2.6	1.5
FINANCIAL ITEMS	5,156	3,200	4,569	4,647	-37.9	42.8	1.7
Receivables collected from families, businesses & abroad	2,436	1,919	2,460	1,884	-21.2	28.2	-23.4
Reduction in bank deposits	0	0	1,736	1,786	-	-	2.9
Other financial items: families, businesses & abroad	2,720	1,281	373	976	-52.9	-70.9	161.8
TOTAL REVENUES	728,713	738,599	720,739	731,853	1.4	-2.4	1.5
PAYMENTS							
CURRENT PAYMENTS	678,899	718,751	729,295	742,990	5.9	1.5	1.9
Employee compensation	163,265	172,442	172,787	176,497	5.6	0.2	2.1
Intermediate consumption	114,216	120,686	124,242	124,900	5.7	2.9	0.5
Transfers to:	312,564	326,905	343,909	350,242	4.6	5.2	1.8
- Families	270,713	283,669	300,207	306,987	4.8	5.8	2.3
- Businesses	21,394	21,900	22,142	22,146	2.4	1.1	0.0
- Abroad	16,348	16,828	16,905	16,610	2.9	0.5	-1.7
- Non-consolidated entities	4,109	4,508	4,655	4,500	9.7	3.3	-3.3
Interest	73,661	84,141	72,878	75,866	14.2	-13.4	4.1
Amortisation	163	186	350	500	14.1	88.2	42.9
Other current payments	15,030	14,391	15,129	14,985	-4.3	5.1	-1.0
CAPITAL ACCOUNT PAYMENTS	67,290	63,481	68,517	65,135	-5.7	7.9	-4.9
Fixed capital formation	37,036	35,935	38,279	35,309	-3.0	6.5	-7.8
Transfers	27,911	25,220	27,208	26,542	-9.6	7.9	-2.4
- Families	3,582	3,147	2,992	2,996	-12.1	-4.9	0.1
- Businesses	20,211	17,498	20,221	19,635	-13.4	15.6	-2.9
- Abroad	547	915	484	400	67.3	-47.1	-17.4
- Non-consolidated entities	3,571	3,660	3,511	3,510	2.5	-4.1	0.0
Other capital account payments	2,344	2,326	3,030	3,284	-0.7	30.2	8.4
Final payments	746,189	782,232	797,812	808,125	4.8	2.0	1.3
FINANCIAL ITEMS	14,406	7,551	10,836	7,347	-47.6	43.5	-32.2
Shareholdings and asset transfers:	876	966	982	975	10.3	1.7	-0.7
- Special credit institutions	0	0	0	0	-	-	-
- Businesses & abroad	876	966	982	975	10.3	1.7	-0.7
Mortgages and advances	2,728	3,379	6,949	2,314	23.9	105.7	-66.7
- Special credit institutions	120	36	247	0	-70.0	586.1	-100.0
- Families, businesses & abroad	2,608	3,343	6,702	2,314	28.2	100.5	-65.5
Increase in bank deposits	3,690	635	0	0	-82.8	-100.0	-
Other financial items	7,112	2,571	2,905	4,058	-63.9	13.0	39.7
TOTAL PAYMENTS	760,595	789,783	808,649	815,472	3.8	2.4	0.8
BALANCES (Surplus +)							
1. Current account deficit	39,146	11,451	-19,705	-22,043			
2. Capital account deficit	-61,778	-58,284	-61,937	-58,875			
3. DEFICIT	-22,632	-46,833	-81,643	-80,918			
4. Balance of financial items	-9,250	-4,351	-6,267	-2,701			
5. TOTAL BORROWING REQUIREMENT (1)	-31,883	-51,184	-87,910	-83,619			

1) The estimates do not include any financial measures in support of Greece.

4.1.2 Forecast for 2010

The forecast for 2010 for the various segments of the Public Sector has been adjusted to take into account both the outturn for 2009 and changes made to laws and regulations.

The overall borrowing requirement is pegged at €83,619 million, or around €4,300 million less than in 2009. It is estimated the primary balance will be a deficit of €7,753 million versus the deficit of €15,032 million for 2009.

With regard to current revenues, taxes are forecast to rise by 1.2 per cent and social contributions should grow by 1.7 per cent. It should be noted that the forecast of tax revenue takes into account tax refunds of an estimated €37,400 million for 2010. In 2009 tax refunds came to €40,870 million, inclusive of the reimbursement of tax credits outstanding for more than 10 years¹.

Current expenditure, net of the interest, is projected to increase by 1.6 per cent compared with 2009 due to the following factors:

- a year-on-year increase of 2.1 per cent in expenditure for employee compensation, reflecting the impact of contract renewals and specific regulatory provisions with respect to personnel management;
- a modest increase in payments for intermediate consumption (0.5 per cent), considering the Government's effort in 2009 to accelerate the State's settlement of payables due to businesses to help alleviate the effects of the economic crisis and improve liquidity within the economy;
- an increase of 2.3 per cent in current transfers to families inclusive of payments of disability and pension benefits, and payments under wage supplementation schemes; the account for 2010 also includes reimbursement of those Alitalia bonds for which there is a possibility of substitution with government securities.

The forecast of capital-account payments reflects a reduction of 4.9 per cent, with the following to be noted in this regard:

- the 2009 figures include approximately €1,700 million in relation to the repurchase by social security funds of buildings that had been securitised through special-purpose companies and had not yet been sold;
- the 2010 forecast includes reimbursements in relation to prior years resulting from the fact that approximately 10 per cent of IRAP (the regional tax on productive activity) is deductible from business income.

With reference to the financial items, the net acquisition of financial assets in 2010 is projected to be lower than in 2009 when the accounts included the funding of €4,050 million of special bonds issued in support of the banking system.

¹ Article 9 of Decree-Law no. 185 of 29 November 2008, converted into Law no. 2 of 28 January 2009.

The borrowing requirement does not include financing, if any, to be funded in favour of the Greek government following an agreement of 11 April 2010 outlining a three-year programme to support Greece in order to safeguard the financial stability of the Euro Area.

4.2 STATE SECTOR

4.2.1 Outturn for 2007-2009

The State Sector borrowing requirement for 2009 came to €86,847 million, an increase of €32,557 million compared with 2008. The change was influenced by the pronounced growth of payments, which rose by 5.2 per cent year on year, and a 2.0 per cent contraction in revenues. The primary balance for 2009 was a deficit of €19,633 million, compared with a surplus of €24,123 million for 2008.

The significant deterioration of the State Sector balance was impacted on the revenue side by a contraction of €14,782 million in tax revenue. Such reduction in taxes was only partially offset by resources generated through substitute taxes of €6,579 million paid upon the application of IAS principles and the revaluation of real property² and revenues related to the 'tax shield' (€4,951 million); such resources were earmarked for covering only a part of the lower tax revenue due to a reduction in prepayments of personal income tax.

Revenues in the form of current transfers incorporate a reduction of €1,511 million of funding from abroad, in relation to a lower volume of resources coming from the European Union.

The increase in capital-account revenues of €8,041 million is primarily due to the Regions' payment of €6,060 million of incremental regional tax on productive activity (IRAP) and regional income tax with reference to the 2001-2006 period. However, such account had a neutral effect on the borrowing requirement since it was offset by an increase in current transfers to the Regions.

Other capital-account revenues include *Poste Italiane* (joint stock company) reimbursement of state aid and revenues from the enforcement of the state guarantee for default on UMTS licences.

² Article 15 of Decree-Law no. 185 of 29 November 2008, converted into Law no. 2 of 28 January 2009.

The increase in current payments, net of the reduction of €11,199 million in interest expenditure, can mostly be attributed to transfers to the Regions and local governments³ and to social security funds. The increase in transfers to social security funds was the result of a reduction in contributions and higher expenditure for social-welfare benefits (resulting from the increase in expenditure on social safety nets and the trend of pension expenditure).

Other transfers incorporate an approximately €2,000 million increase of funding to families, inclusive of €1,522 million for extraordinary bonuses paid to low-income households⁴.

The increase of €3,309 million in capital-account payments is mostly attributable to (i) higher transfers to businesses in relation to the increase in funding in favour of the Italian State Railways and (ii) tax-relief measures, including the automobile replacement scheme adopted by the Government to sustain the economy.

The balance of the financial items is a deficit of €13,257 million. The result was impacted by the release of €9,660 million held in restricted treasury accounts in the name of the social security funds as compensation for securitisation transactions; such release is related to the liquidation of the separate assets of the limited liability company, SCIP. The sums were paid into the ordinary State treasury accounts held in the name of the social security funds. As a result, the deterioration of the financial items is offset by lower transfers to social security funds. The other financial items for 2009 also reflect the absence of loans made by the State Sector to the Regions in 2008 (loans to cover debts carried forward in relation to healthcare services)⁵. Instead, in 2009, the mortgages and advances with respect to families, businesses and parties abroad include €4,050 million of special bonds issued in support of the banking system⁶.

The borrowing requirement for 2009 was also impacted by emergency measures related to the earthquake in Abruzzo; such measures were equivalent to around €1,000 million, with €494 million of such amount funded by the European Union in the form of a solidarity contribution.

³ The extension of the mixed treasury system provided by Article 77-quater of Decree-Law no. 112/2008, converted into Law no. 133/2008, has changed the significance and comparability of several aggregates that make up the State Sector balance. This is particularly evident in the case of current transfers with respect to the Regions, and specifically, healthcare expenditure, whose amount falls by 87 per cent from €51,465 million in 2008 to €6,365 million in 2009. As a result of the application of the new system, the resources that were used to finance healthcare have passed through the Regions and flowed into the current bank accounts of local public healthcare units, with consequent reduction of the balances in the State treasury accounts held in the name of those units. See 'Combined Report on the Economy and Public Finance for 2009', page 176.

⁴ Article 1 of Decree-Law no. 185/2008, converted into Law no. 2/2009.

⁵ Pursuant to Article 2, Paragraphs 46 and the paragraphs thereafter, of Law no. 244/2007, the State Sector loaned a total of €8,093 million in 2008 to the Regions of Latium, Campania, Molise and Sicily.

⁶ Article 12 of Decree-Law no. 185/2008, converted into Law no. 2/2009.

TABLE 4.2: STATE SECTOR CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	406,618	409,681	393,545	400,019	0.8	-3.9	1.6
Tax revenues	371,915	373,074	358,292	362,100	0.3	-4.0	1.1
- Direct taxes	208,744	216,810	206,565	204,082	3.9	-4.7	-1.2
- Indirect taxes	163,171	156,264	151,727	158,018	-4.2	-2.9	4.2
Own EEC resources	5,211	6,001	4,663	5,315	15.2	-22.3	14.0
Social contributions	0	0	0	0	-	-	-
Sale of goods and services	4,410	4,513	4,670	4,618	2.3	3.5	-1.1
Capital income	4,293	4,261	4,197	4,215	-0.8	-1.5	0.4
Transfers from:	20,524	20,930	20,455	22,435	2.0	-2.3	9.7
- Social security funds	5,169	5,659	6,425	5,798	9.5	13.5	-9.8
- Regions	49	8	5	150	-83.7	-37.5	2,900.0
- Municipalities & provinces	10	10	2	2	0.0	-80.0	0.0
- Other consolidated public entities	43	53	70	71	23.3	32.1	1.4
- Non-consolidated public entities	29	43	117	69	48.3	172.1	-41.0
- Families	1,315	2,184	2,043	2,292	66.1	-6.5	12.2
- Businesses	3,695	3,742	4,073	3,722	1.3	8.9	-8.6
- Abroad	10,214	9,231	7,720	10,331	-9.6	-16.4	33.8
Other current revenues	265	902	1,268	1,335	240.4	40.6	5.3
CAPITAL ACCOUNT REVENUES	568	479	8,520	1,290	-15.7	1,678.7	-84.9
Transfers from:	23	0	6,060	0	-100.0	-	-100.0
- Social security funds	0	0	0	0	-	-	-
- Regions	0	0	6,060	0	-	-	-100.0
- Municipalities & provinces	0	0	0	0	-	-	-
- Other consolidated public entities	23	0	0	0	-100.0	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
Amortisation	163	186	350	190	14.1	88.2	-45.7
Other capital account revenues	382	293	2,110	1,100	-23.3	620.1	-47.9
Final revenues	407,186	410,160	402,065	401,309	0.7	-2.0	-0.2
FINANCIAL ITEMS	5,761	2,245	2,179	2,100	-61.0	-2.9	-3.6
Receivables collection from:	3,613	1,554	2,179	1,600	-57.0	40.2	-26.6
- Social security funds	0	0	0	0	-	-	-
- Regions	496	501	516	542	1.0	3.0	5.0
- Municipalities & provinces	660	568	588	580	-14.0	3.5	-1.4
- Other consolidated public entities	1,465	77	63	67	-94.7	-18.2	6.4
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	992	408	1,012	411	-58.9	148.0	-59.4
Reduction in bank deposits	0	0	0	0	-	-	-
Other financial items from:	2,148	691	0	500	-67.8	-100.0	-
- Social security funds	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	2,148	691	0	500	-67.8	-100.0	-
TOTAL REVENUES	412,947	412,405	404,244	403,409	-0.1	-2.0	-0.2

TABLE 4.2 (continued): STATE SECTOR CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
PAYMENTS							
CURRENT PAYMENTS	398,241	419,346	435,208	444,316	5.3	3.8	2.1
Employee compensation	89,533	94,170	94,101	97,143	5.2	-0.1	3.2
Intermediate consumption	15,328	13,636	16,917	13,781	-11.0	24.1	-18.5
Transfers to:	217,737	226,078	249,079	256,159	3.8	10.2	2.8
- Social security funds	77,539	73,602	82,738	94,921	-5.1	12.4	14.7
(including: Social Security Administration, INPS)	71,644	70,235	81,363	88,049	-2.0	15.8	8.2
- Regions	79,434	88,565	100,164	97,564	11.5	13.1	-2.6
(including: healthcare expenditure)	52,629	51,465	6,365	5,395	-2.2	-87.6	-15.2
- Municipalities and provinces	11,531	17,053	19,185	18,882	47.9	12.5	-1.6
- Other consolidated public entities (*)	16,091	12,566	11,794	12,071	-21.9	-6.1	2.4
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families	5,466	5,621	7,442	5,687	2.8	32.4	-23.6
- Businesses (**)	11,328	11,842	10,851	10,424	4.5	-8.4	-3.9
- Abroad	16,348	16,828	16,905	16,610	2.9	0.5	-1.8
Interest	67,692	78,413	67,214	69,942	15.8	-14.3	4.1
Amortisation	163	186	350	500	14.1	88.2	42.9
Other current payments	7,788	6,863	7,547	6,791	-11.9	10.0	-10.0
CAPITAL ACCOUNT PAYMENTS	42,273	37,138	40,447	40,517	-12.2	8.9	0.2
Fixed capital formation	6,962	6,496	7,066	7,000	-6.7	8.8	-0.9
Transfers to:	34,364	29,633	31,584	31,587	-13.8	6.6	0.0
- Social security funds	0	0	0	0	-	-	-
- Regions	10,368	8,028	8,302	8,502	-22.6	3.4	2.4
- Municipalities and provinces	4,331	3,424	3,809	3,438	-20.9	11.2	-9.7
- Other consolidated public entities (***)	3,089	3,198	2,375	2,075	3.5	-25.7	-12.6
- Non-consolidated public entities	2,728	2,981	2,895	4,147	9.3	-2.9	43.3
- Families	183	127	143	94	-30.6	12.6	-34.3
- Businesses (****)	13,118	10,960	13,576	12,931	-16.5	23.9	-4.8
- Abroad	547	915	484	400	67.3	-47.1	-17.4
Other capital account payments	948	1,009	1,797	1,930	6.5	78.1	7.4
Final payments	440,514	456,484	475,655	484,833	3.6	4.2	1.9
FINANCIAL ITEMS	1,960	10,211	15,436	833	421.0	51.2	-94.6
Share holdings and asset transfers:	42	45	29	0	7.1	-35.6	-100.0
- Public businesses (*****)	0	0	0	0	-	-	-
- Special credit institutions	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Businesses & abroad	42	45	29	0	7.1	-35.6	-100.0
Mortgages and advances to:	1,710	10,166	5,747	830	494.5	-43.5	-85.6
- Regions	143	8,122	408	0	5,579.7	-95.0	-100.0
- Municipalities and provinces	543	355	334	334	-34.6	-5.9	-0.1
- Consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	166	-	-	-
- Special credit institutions	120	36	247	0	-70.0	586.1	-100.0
- Families, businesses & abroad	904	1,653	4,758	330	82.9	187.8	-93.1
Increase in bank deposits	0	0	0	0	-	-	-
Other financial items to:	208	0	9,660	3	-100.0	-	-100.0
- Social security funds	0	0	9,660	0	-	-	-100.0
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	208	0	0	3	-100.0	-	-
TOTAL PAYMENTS	442,474	466,695	491,091	485,666	5.5	5.2	-1.1
BALANCES (Surplus +)							
1. Current account deficit	8,377	-9,665	-41,663	-44,297			
2. Capital account deficit	-41,705	-36,659	-31,927	-39,227			
3. DEFICIT	-33,328	-46,324	-73,590	-83,524			
4. Balance of financial items	3,801	-7,966	-13,257	1,267			
5. TOTAL BORROWING REQUIREMENT, net of debt carried forward (1)	-29,527	-54,290	-86,847	-82,257			

1) The estimates do not include any financial measures in support of Greece.

TABLE 4.2 (continued): STATE SECTOR CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
<i>Detail of current transfers</i>							
<i>(*) including: Road Board</i>	0	0	0	0	-	-	-
<i>Universities</i>	8,067	8,338	7,809	8,713	3.4	-6.3	11.6
<i>(**) including: Italian State Railways</i>	3,255	2,341	1,762	2,900	-28.1	-24.7	64.6
<i>Poste (joint-stock company)</i>	95	687	19	840	623.2	-97.2	4321.1
<i>Detail of capital account transfers</i>							
<i>(***) including: Road Board</i>	2,624	2,798	1,909	1,600	6.6	-31.8	-16.2
<i>(****) including: Italian State Railways</i>	4,826	3,170	4,288	3,200	-34.3	35.3	-25.4
<i>Poste (joint-stock company)</i>	241	281	211	170	16.6	-24.9	-19.4
<i>Detail of shareholdings and asset transfers</i>							
<i>(*****) including: Italian State Railways</i>	0	0	0	0	-	-	-

4.2.2 Means for covering State Sector borrowing requirement

The State Sector borrowing requirement of €86,847 million was covered by the issuance of medium-/long-term securities (€97,046 million), and short-term funding (€1,985 million). Other aggregates having an impact on the borrowing requirement include: a reduction in the borrowing with the Bank of Italy (€11,486 million), proceeds from privatisations (€681 million), net reimbursements of securities in relation to securitisation transactions (€1,190 million) and repayment of foreign loans (€189 million).

With regard to the issues of medium-/long-term securities, reference should be made to the information disclosed in Appendix B.

The balance of short-term funding incorporates net redemptions of Treasury bills (€7,657 million) versus net issues (€19,451 million) in 2008.

Short-term funding also includes a decrease of €1,407 million in total funding from the postal system versus a more pronounced reduction of €8,980 million in 2008, and an increase in the liquidity of the *Cassa Depositi e Prestiti* (joint-stock company) of €10,712 million versus an inflow of €13,224 million in 2008.

The balances held in the liquidity account with the Bank of Italy rose by €10,613 million in 2009 versus an increase of €9,423 million in 2008.

The net reimbursements of foreign loans came to €189 million in 2009 versus the €9,254 million reimbursed in 2008.

TABLE 4.3: MEANS FOR COVERING STATE SECTOR'S TOTAL BORROWING REQUIREMENT (in € mn)

	2007	2008	2009
Privatisations	3,500	19	681
Securitisations	931	-2,544	-1,190
Medium-/long-term loans, net	26,823	55,108	97,046
Short-term borrowing	-9,160	20,953	1,985
Treasury bills (BOT)	5,522	19,451	-7,657
Postal funding	-2,836	-9,654	-1,851
Postal current accounts	142	673	444
Ministry of Economy & Finance Repurchase Agreement	-25,500		
Current account: Poste Italiane (joint-stock company)	-75	1	20
Current account Italian State Railways: Ordinary account	2,088	-1,085	-543
CASSA DEPOSITI E PRESTITI (joint-stock company)	12,195	13,224	10,712
Change in EU Funds current account	734	670	1,113
Other	-1,430	-2,327	-253
Total Bank of Italy and State circulation	13,368	-9,996	-11,486
Treasury liquidity account	12,623	-9,423	-10,613
Securities amortisation reserve	534	-1	-18
Other	211	-572	-855
Abroad	-5,934	-9,254	-189
Total coverage	29,528	54,286	86,847

4.2.3 Forecast for 2010

The State Sector's account for 2010 was revised in light of the outturn for 2009.

The State Sector's borrowing requirement is estimated to equal €82,257 million, a reduction of €4,590 million compared with 2009.

Tax revenues, net of refunds, are estimated to increase by €3,808 million in 2010: the 2009 figures include non-recurring revenues not included in the 2010 estimate, in relation to the extraordinary tax imposed on financial assets and capital held abroad in the amount of €4,951 million and substitute taxes of €6,579 million arising from the application of IAS principles and the revaluation of real property.

Capital-account revenues in 2010 are projected to remain in line with those for 2009, net of the Regions' payment to the state of incremental regional tax on productive activity (IRAP) and regional income tax with reference to the 2001-2006 period, *Poste Italiane* (joint-stock company) reimbursement of state aid, and revenues from the enforcement of the state guarantee for default on UMTS licences.

Revenues from financial transactions for 2010 can be expected to remain at the 2009 level.

The forecast of current payments for 2010 contemplates higher transfers to Social security funds (+€12,183 million) most of which are reflective of the fact that several agencies financed their borrowing requirements in 2009 through resources coming from the closure of restricted accounts with the State treasury (€9,660 million), following the liquidation of the separate assets of the limited liability company, SCIP.

The reduction in transfers to families reflects the absence of the extraordinary bonuses paid to low-income households⁷ in 2009.

The estimated increase in current transfers to public utility companies is related to the deferral to 2010 of the execution of service contracts.

⁷ Article 1 of Decree-Law no. 185/2008, converted into Law no. 2/2009.

Capital-account payments for 2010 are almost unchanged compared with 2009. Such payments include reimbursements in relation to past years as a result of the deductibility, from business income, of 10 per cent of the regional tax on productive activity.

With reference to financial transactions, the sizeable reduction compared with 2009 can be explained by the absence of:

- €9,660 million of non-recurring transactions regarding the release of sums held in restricted treasury accounts in the name of the social security funds in relation to the liquidation of the separate assets of the limited liability company, SCIP.⁸;
- €4,050 million of special bonds issued to support the banking system⁹.

The borrowing requirement does not include financing, if any, to be funded in favour of the Greek government following the agreement of 11 April 2010 outlining a three-year programme to support Greece in order to safeguard the financial stability of the euro area.

4.3 OTHER PUBLIC AGENCIES

4.3.1 Social security funds

The account for the social security funds as of the last quarter of 2009 shows revenues coming from State Sector transfers in the amount of €82,738 million, which compare with €73,602 million for 2008. The increase of €9,136 million is mainly the by-product of significant deterioration in the borrowing requirement reported by the Social Security Administration (INPS) (€11,130 million) partially offset by a lower borrowing requirement reported by the Social Security Administration for government employees (INPDAP) (-€2,350 million). During 2009¹⁰, certain transactions were undertaken for the liquidation of the separate assets of the limited liability company, SCIP, in relation to two transactions to securitise real property assets of public social security funds (inclusive of IPSEMA and ENPALS) and the repurchase, on the part of the original owners, of the properties held by the limited liability company, SCIP. The segment thus showed improvement of €9,660 million after the release of the sums paid into the individual restricted accounts that had been used for compensation on the securitisation transactions.

The INPS borrowing requirement of €81,363 million reflects an increase of €11,130 million (+15.8 per cent) compared with the 2008 figure of €70,235 million. The conspicuous deterioration of the account is attributable to lower incoming contributions, and an increase in benefits paid. On the revenue side, contributions were down by 2.5 per cent (approximately €3,350 million) due to the economic slowdown that has affected various productive sectors of the nation since late 2008, with negative repercussions on employment. On the expenditure side, an increase was seen in aggregate benefits paid

⁸ This transaction is offset by the corresponding reduction in current transfers to the social security funds indicated previously.

⁹ Article 12 of Decree-Law no. 185/2008, converted into Law no. 2/2009.

¹⁰ Article 43-bis, Law no. 14/2009.

(+5.8 per cent, approximately €11,400 million) due to both (i) growth in expenditure for social safety nets (unemployment benefits, lay-offs, wage supplementation scheme, etc.) as a result of the economic crisis, and (ii) an increase in pension expenditure (inclusive of amounts paid to disabled civilians) partly as a result of annual indexing (+3.4 per cent, inclusive of +0.1 per cent for recovery of indexing not allowed on 1 January 2008).

The Social Security Administration for government employees (INPDAP) had a borrowing requirement of €2,690 million. Part of the amount is represented by the differential between the contributions paid into the system (€57,255 million) and benefits paid out (approximately €62,590 million), while another part relates to other accounts (including the granting of loans and credits).

The improvement of approximately €2,350 million in the borrowing requirement with respect to 2008 is related to the aforementioned non-recurring inflow of funds previously held in a restricted treasury account and to the conversion of government securities into cash (as provided by the sale programme) for approximately €300 million; without these circumstances, the agency would have recorded a deficit in excess of that for 2008. Contributions through the end of the fourth quarter of 2009 grew by a modest 0.2 per cent (equal to €105 million), while current expenditure for benefits paid by the agency experienced a year-on-year increase of approximately €1,565 million (+2.6 per cent). The agency covered its borrowing requirement partly through a budget advance of €5,627 million¹¹.

On the revenue side, contributions totalled €57,255 million versus €57,150 million in 2008. The bulk of the balance for 2009 (€50,240 million) is represented by (i) pension contributions received from the Pension Fund for State Employees (€32,145 million with inclusion of the additional contribution)¹² and (ii) contributions received from former social security funds (€18,095 million). The remainder is represented by contributions received for Retirement Funds (TFS) collected from the former ENPAS (€4,550 million), contributions for Service Bonus Allowance (IPS) collected from the former INADEL (€1,960 million), and mandatory contributions for social and credit benefits (€487 million). Finally, contributions of €13 million were received from the former ENPDEP. Considered altogether, the modest growth of contributions compared with 2008 is essentially related to: i) the contract renewals for the school system which contributed to increase the total amount in the first month of 2008; and ii) the reduced turnover in public sector employment.

Total outlays for benefits (pensions, welfare, etc.) amounted to €62,590 million, with 2.6 per cent growth over 2008. Expenditure for pensions to State employees totalled €35,340 million while the expenditure in favour of local entities amounted to €20,290 million. Overall growth for the year was 5.3 per cent.

¹¹ Article 35, Paragraph 3, Law no. 448/1998.

¹² Article 2, Paragraph 3 of the Law no. 335/1995.

Instead, payments from retirement funds, service bonus allowances and severance pay (TFS, IPS and TFR) amounted to €6,870 million, with a decrease of approximately €1,200 million compared with the previous year. The considerable decline is essentially related to the former ENPAS, the agency funding retirement bonuses for State employees. The related expenditure was lower than that for 2008, when significant retirement bonuses were paid (in the months of March and April) as a result of a significant number of employees retiring from the school system as of September 2007¹³. The expenditure for service bonuses in favour of local government workers amounted to approximately €1,950 million, which was also below the 2008 level.

The special entity for credit activity (i.e. the disbursement of various types of loans and mortgages) had outlays of approximately €1,925 million for new loans, and collected only €860 million from previous lending. The imbalance between inflows and outflows is a continuing phenomenon since the entity is no longer collecting the payments on personal loans made before 2003 (inasmuch as such credits were securitised).

The Italian workers' compensation authority (INAIL) had premium revenues of approximately €9,070 million in 2009 (mostly tapped from industry, commerce and public utilities), with the balance just above the €8,995 million collected for the previous year. Benefits paid by the agency amounted to approximately €6,145 million, and reflect an increase of approximately €825 million, with the figures taking into account the revaluation of accident-related annuities with payment of the related amounts in arrears for 2008. Altogether, the agency increased both its liquidity balance with the treasury (by €3,700 million versus €1,460 million for 2008), and its bank deposits (€71 million). The cash balances were impacted, as indicated above, by the release of sums related to securitised properties.

The Social Security Administration for the postal service employees (IPOST) ended 2009 with a total borrowing requirement of €805 million, compared with €728 million for 2008. In particular, the agency received contributions amounting to approximately €1,535 million (versus €1,485 million for 2008) and paid out benefits equal to €2,305 million (versus approximately €2,200 million for 2008). The limited changes in terms of contributions and benefits essentially explain the deterioration of the borrowing requirement (+77 million) compared with 2008.

The commissioner in charge of paying retirement bonuses¹⁴ for postal system personnel continued to make disbursements in the fourth quarter of 2009, with benefits and related expenditures amounting to €66 million. Considering the agency took in €50 million from the State budget (booked as the payment of retirement bonuses for *Poste* (joint stock company) personnel accrued through February 1998) and received €37 million from INPDAP as a pro-rata contribution, the agency had a surplus of €21 million.

The Social Security Administration for performing arts (ENPALS) received contributions of €1,110 million in 2009 (in relation to workers in the entertainment and professional sports sectors) and paid out benefits of €883 million. Given the positive balance between contributions received and benefits paid and the trend of the other budget accounts, the agency had an increase in liquidity of €340 million.

¹³ See also Note 23, Section 3.1.2.

¹⁴ Set up pursuant to Article 53 of Law no. 449/97.

TABLE 4.4: SOCIAL SECURITY FUNDS CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	276,399	286,689	293,265	308,621	3.7	2.3	5.2
Tax revenues	0	0	0	0	-	-	-
- Direct taxes	0	0	0	0	-	-	-
- Indirect taxes	0	0	0	0	-	-	-
Social contributions	195,561	209,701	207,112	210,584	7.2	-1.2	1.7
Sale of goods and services	129	106	102	104	-18.3	-3.1	1.5
Capital income	1,805	1,994	1,631	1,608	10.5	-18.2	-1.4
Transfers from:	78,262	74,259	83,560	95,538	-5.1	12.5	14.3
- State Sector	77,539	73,602	82,738	94,921	-5.1	12.4	14.7
- Regions	12	4	3	3	-67.5	-10.3	-14.2
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	537	653	640	609	21.5	-2.0	-4.8
- Families	174	0	179	5	-100.0	-	-97.2
- Businesses	0	0	0	0	-	-	-
- Abroad	0	0	0	0	-	-	-
Other current revenues	641	629	860	788	-1.8	36.6	-8.3
CAPITAL ACCOUNT REVENUES	349	395	102	300	13.2	-74.2	194.1
Transfers from:	0	0	0	0	-	-	-
- State Sector	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
Amortisation	0	0	0	0	-	-	-
Other capital account revenues	349	395	102	300	13.2	-74.2	194.1
Final revenues	276,748	287,084	293,367	308,921			
FINANCIAL ITEMS	0	0	9,740	993	-	-	-89.8
Receivables collection from:	0	0	0	0	-	-	-
- State Sector	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
Reduction in bank deposits	0	0	0	124	-	-	-
Other financial items from:	0	0	9,740	869	-	-	-91.1
- State Sector	0	0	9,740	869	-	-	-91.1
- Public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
TOTAL REVENUES	276,748	287,084	303,108	309,914	3.7	5.6	2.3

TABLE 4.4 (continued): SOCIAL SECURITY FUNDS CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
PAYMENTS							
CURRENT PAYMENTS	269,790	283,522	298,634	306,354	5.1	5.3	2.6
Employee compensation	3,456	3,390	3,313	3,383	-1.9	-2.3	2.1
Intermediate consumption	1,615	1,760	1,938	1,967	9.0	10.1	1.5
Transfers to:	263,433	277,194	292,034	299,329	5.2	5.4	2.5
- State Sector	5,169	5,659	6,425	5,798	9.5	13.5	-9.8
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	1,803	1,850	1,810	2,045	2.6	-2.2	13.0
- Families	256,426	269,597	283,800	291,469	5.1	5.3	2.7
- Public utility companies	0	0	0	0	-	-	-
- Businesses	35	87	0	17	148.6	-100.0	-
- Abroad	0	0	0	0	-	-	-
Interest	272	241	193	208	-11.5	-20.0	7.9
Amortisation	0	0	0	0	-	-	-
Other current payments	1,012	937	1,155	1,466	-7.4	23.3	27.0
CAPITAL ACCOUNT PAYMENTS	358	485	2,181	654	35.6	350.0	-70.0
Fixed capital formation	133	341	1,874	241	155.9	449.1	-87.14
Transfers to:	0	0	0	0	-	-	-
- State Sector	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families	0	0	0	0	-	-	-
- Businesses	0	0	0	0	-	-	-
Other capital account payments	224	144	307	413	-36.0	114.3	34.3
Final payments	270,147	284,007	300,815	307,008	5.1	5.9	2.1
FINANCIAL ITEMS	6,601	3,077	2,292	2,906	-53.4	-25.5	26.8
Shareholdings and asset transfers:	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Businesses & abroad	0	0	0	0	-	-	-
Mortgages and advances to:	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
Increase in bank deposits	468	1,025	133	0	118.9	-87.0	-100.0
Other financial items to:	6,132	2,052	2,159	2,906	-66.5	5.3	34.6
- State Sector	181	209	0	0	15.2	-100.0	-
- Public entities	20	0	0	0	-100.0	-	-
- Families, businesses & abroad	5,931	1,843	2,159	2,906	-68.9	17.2	34.6
TOTAL PAYMENTS	276,748	287,084	303,107	309,914	3.7	5.6	2.3
BALANCES (Surplus +)							
1.Current account deficit	6,609	3,166	-5,368	2,267			
2.Capital account deficit	-9	-90	-2,079	-354			
3.DEFICIT	6,601	3,076	-7,448	1,913			
4.Balance of financial items	-6,601	-3,077	7,448	-1,913			
5.TOTAL BORROWING REQUIREMENT	0	0	0	0			

4.3.2 Regions

The aggregate cash flows of the Regions and the Autonomous Provinces of Trento and Bolzano as of 31 December 2009 have been computed on the basis of data transmitted by all of the local governments and information regarding the Regions at the State treasury. With the Regions of Abruzzo, Calabria and Sicily not supplying quarterly cash-flow data as required, the information on their revenues and payments comes from SIOPE (Information System on the Operations of Government Bodies)¹⁵. There are accordingly significant differences (especially for Sicily) with respect to the previous year as a result of the different means for the classification of the data.

The account as of 31 December 2009 shows a borrowing requirement of €554 million versus a surplus of €4,556 million for 2008.

The payments for reimbursing bank loans amounted to €3,871 million, inclusive of €522 million for the repayment of regional securities and €359 million for the repayment of Treasury advances (in 2008, the reimbursements of bank loans amounted to €10,304 million, with €5,151 million of that total regarding the closing of transactions covering the securitisation of healthcare receivables for the Regions of Campania, Latium, Molise and Sicily, considered as financing operations according to the EUROSTAT criteria).

The financing needed in relation to the borrowing requirement and the repayment of loans came from loans from the banking system in the amount of €4,425 million, including €1,327 million of treasury advances (in 2008, the Regions took on a total of €5,747 million of bank loans).

State Sector financing of the Regions (both current and capital accounts) rose by €11,873 million (+12.3 per cent), going from €96,593 million in 2008 to €108,466 million in 2009.

Current revenues other than transfers decreased by 3.8 per cent (from €65,000 million to €62,509 million).

Payments, net of healthcare expenditure (current and investment) and financial items, increased by €9,185 million (+16.0 per cent), most of which was represented by a higher transfer to the State budget of the incremental regional tax on productive activity (IRAP) and regional income tax (inflow, with respect to the amount of taxes due for financing the healthcare borrowing requirement, with reference to the 2001-2006 period). Such regional tax amounts had been held in the name of the Regions in the current accounts with the Treasury.

The payments for the financing of current healthcare expenditure (€105,860 million) come from the financing of local public healthcare units and hospitals (€98,933 million) and healthcare expenditure managed directly by the Regions (€2,927 million).

With reference to liquidity within the banking system, an approximately €2,833 million decrease was seen in bank deposits as a result of the closing of the experimentation for moving beyond the single treasury¹⁶. After the new rules for managing the treasury went into effect¹⁷, the liquidity held in the name of the Regions in the special single treasury accounts (including, as of 1 January 2009, the Regions with a special statute and the Autonomous Provinces of Trento and Bolzano) experienced a

¹⁵ Set up pursuant to Article 28, Paragraphs 3, 4, 5 of Law no. 289/2002, and subsequent amendments.

¹⁶ Article 77-quater Paragraph 9 of Decree-Law no. 112/2008, converted, with amendments, into Law no. 133/2008.

¹⁷ Law no. 133/2008.

sizeable increase of €5,628 million, going from €10,006 million to €15,634 million. The balances of the current accounts held in the name of all Regions in the State Treasury in relation to IRAP for the public administrations, IRAP for other parties and additional personal income taxes (IRPEF) were reduced during 2009 by a significant €78,236 million with most of the decrease due to the new means for paying IRAP and additional regional personal income tax to the Regions and Autonomous Provinces, as provided by Article 77-quater of Law no. 133 of 6 August 2008.

TABLE 4.5: REGIONS CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	146,708	154,227	163,344	161,895	5.1	5.9	-0.9
Tax revenues	64,923	63,153	60,439	61,525	-2.7	-4.3	1.8
- Direct taxes	12,689	13,567	14,765	15,046	6.9	8.8	1.9
- Indirect taxes	52,234	49,586	45,674	46,479	-5.1	-7.9	1.8
Social contributions	0	0	0	0	-	-	-
Sale of goods and services	0	0	0	0	-	-	-
Capital income	760	781	731	748	2.8	-6.4	2.3
Transfers from:	80,089	89,227	100,835	98,254	11.4	13.0	-2.6
- State Sector	79,434	88,565	100,164	97,564	11.5	13.1	-2.6
- Social security funds	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	105	124	132	136	18.1	6.5	2.7
- Other consolidated public entities	21	17	17	18	-19.1	0.0	5.9
- Non-consolidated public entities	162	157	171	176	-3.3	9.2	3.2
- Families	280	278	246	252	-0.7	-11.5	2.4
- Businesses	87	86	105	108	-1.2	22.1	2.9
- Abroad	0	0	0	0	-	-	-
Other current revenues	936	1,066	1,339	1,368	13.9	25.6	2.2
CAPITAL ACCOUNT REVENUES	11,723	9,146	9,509	9,740	-22.0	4.0	2.4
Transfers from:	11,351	9,037	9,326	9,554	-20.4	3.2	2.4
- State Sector	10,368	8,028	8,302	8,502	-22.6	3.4	2.4
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	58	47	60	62	-19.0	27.7	3.3
- Other consolidated public entities	14	26	10	10	85.7	-61.5	0.0
- Non-consolidated public entities	607	737	758	781	21.4	2.9	3.0
- Families, businesses & abroad	304	199	196	199	-34.5	-1.5	1.5
Amortisation	0	0	0	0	-	-	-
Other capital account revenues	372	109	183	186	-70.7	67.9	1.6
Final revenues	158,431	163,373	172,853	171,635	3.1	5.8	-0.7
FINANCIAL ITEMS	778	9,274	3,723	1,881	1,092.0	-59.9	-49.5
Receivables collection from:	288	241	309	316	-16.3	28.2	2.3
- State Sector	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	180	142	170	174	-21.1	19.7	2.4
- Public utility companies	0	0	0	0	-	-	-
- Families, businesses & abroad	108	99	139	142	-8.3	40.4	2.2
Reduction in bank deposits	347	586	2,833	0	68.9	383.5	-100.0
Other financial items from:	143	8,447	581	1,565	5,807.0	-93.1	169.4
- State Sector	143	8,122	408	0	5,579.7	-95.0	-100.0
- Public entities	0	0	0	1,392	-	-	-
- Families, businesses & abroad	0	325	173	173	-	-46.8	0.0
TOTAL REVENUES	159,209	172,647	176,576	173,516	8.4	2.3	-1.7

TABLE 4.5 (continued): REGIONS CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
PAYMENTS							
CURRENT PAYMENTS	134,764	143,533	145,926	148,370	6.5	1.7	1.7
Employee compensation	5,998	6,009	6,417	6,495	0.2	6.8	1.2
Intermediate consumption	3,492	3,441	3,390	3,479	-1.5	-1.5	2.6
Transfers to:	120,132	129,157	131,123	133,283	7.5	1.5	1.7
- State Sector	49	8	5	150	-83.7	-37.5	2,900.0
- Social security funds	12	4	3	3	-67.5	-10.3	-14.2
- Healthcare	96,996	106,867	105,860	106,842	10.2	-0.9	0.9
- Municipalities and provinces	8,267	8,283	9,262	9,421	0.2	11.8	1.7
- Other consolidated public entities	609	599	669	687	-1.6	11.7	2.6
- Non-consolidated public entities	2,344	2,535	2,692	2,670	8.2	6.2	-0.8
- Families	3,595	2,981	3,206	4,029	-17.1	7.6	25.7
- Public utility companies	3,853	3,827	3,753	3,807	-0.7	-1.9	1.4
- Businesses	4,407	4,053	5,673	5,674	-8.0	40.0	0.0
- Abroad	0	0	0	0	-	-	-
Interest	3,028	2,747	2,873	2,934	-9.3	4.6	2.1
Amortisation	0	0	0	0	-	-	-
Other current payments	2,114	2,179	2,123	2,179	3.1	-2.6	2.6
CAPITAL ACCOUNT PAYMENTS	23,430	23,750	29,752	24,215	1.4	25.3	-18.6
Fixed capital formation	3,735	3,759	3,956	4,066	0.6	5.3	2.8
Transfers to:	18,647	18,928	24,979	19,317	1.5	32.0	-22.7
- State Sector	0	0	6,060	0	-	-	-100.0
- Healthcare	2,909	3,106	3,323	3,371	6.8	7.0	1.4
- Municipalities and provinces	5,565	5,781	5,489	5,629	3.9	-5.1	2.6
- Other consolidated public entities	578	611	678	690	5.7	11.0	1.7
- Non-consolidated public entities	1,693	1,669	1,654	1,704	-1.4	-0.9	3.0
- Families	2,187	1,979	1,834	1,914	-9.5	-7.3	4.4
- Public utility companies	707	777	702	710	9.9	-9.7	1.1
- Businesses	5,008	5,005	5,239	5,299	-0.1	4.7	1.2
- Abroad	0	0	0	0	-	-	-
Other capital account payments	1,048	1,063	817	832	1.4	-23.1	1.8
Final payments	158,194	167,283	175,678	172,585	5.7	5.0	-1.8
FINANCIAL ITEMS	2,140	808	1,452	1,500	-62.2	79.7	3.3
Shareholdings and asset transfers:	161	213	237	245	32.3	11.3	3.4
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Businesses & abroad	161	213	237	245	32.3	11.3	3.4
Mortgages and advances to:	176	94	699	713	-46.6	643.6	2.0
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	17	34	14	14	100.0	-58.8	0.0
- Public utility companies	0	4	129	130	-	3,125.0	0.8
- Families, businesses & abroad	159	56	556	569	-64.8	892.9	2.3
Increase in bank deposits	1,083	0	0	0	-100.0	-	-
Other financial items to:	720	501	516	542	-30.4	3.0	5.0
- State Sector	496	501	516	542	1.0	3.0	5.0
- Public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	224	0	0	0	-100.0	-	-
TOTAL PAYMENTS	160,334	168,091	177,130	174,085	4.8	5.4	-1.7
BALANCES (Surplus +)							
1.Current account deficit	11,944	10,694	17,418	13,525			
2.Capital account deficit	-11,707	-14,604	-20,243	-14,475			
3.DEFICIT	237	-3,910	-2,825	-950			
4.Balance of financial items	-1,362	8,466	2,271	381			
5.TOTAL BORROWING REQUIREMENT	-1,125	4,556	-554	-569			

4.3.3 Healthcare

The consolidated account for the healthcare segment was computed on the basis of the quarterly cash flows transmitted by government bodies, or in the absence thereof, by processing the data reported by SIOPE (Information System on the Operations of Government Bodies).

The cash data for 2009 for Recovery and Care Institutions with a Scientific Focus (IRCCS) were developed on the basis of data reported by SIOPE, whereas the data for 2007 and 2008 were estimated on the basis of the information in EU models¹⁸.

The healthcare expenditure directly managed by the Regions and Autonomous Provinces has been estimated in cases of unreliable cash data and is based on information in EU models.

Compared with the previous year, the number of the local public healthcare units making up the healthcare system for monitoring purposes was changed as a result of:

- Resolution 6995/2008 of the Lombardy Region which, in implementing Regional Law no. 32/2007, set up a Regional Healthcare Emergency Unit (AREU) as of 1 January 2009;
- Regional Law no. 12/2008 of the Basilicata Region that set up the local public healthcare unit in Potenza (ASP) and the local public healthcare unit in Matera (ASM) and eliminated the pre-existing units;
- Regional Law no. 16/2008 of the Campania Region which established seven new local public healthcare units and eliminated the pre-existing units;
- Regional Law no. 5/2009 of the Sicily Region covering the reorganization of the healthcare sector starting on 1 September 2009;
- the creation of the Udine-based university hospital, S. Maria della Misericordia.

As of 31 December 2009, the healthcare system was thus made up of 150 local public healthcare units, 108 hospitals and university hospitals, and 18 Recovery and Care Institutions with a Scientific Focus; the total includes 16 local public healthcare units not operating according to standards (six of which are in Sicily) and 12 hospitals and university hospitals not operating according to standard (eight of which are in Sicily).

The account has liquidity of €218 million as of 31 December 2009.

Compared with the previous year, the revenues are slightly higher (0.3 per cent), with the change due to amounts collected on services rendered. At the same time, the transfers from the Regions (both current and capital accounts) decreased by €790 million (-0.7 per cent). In 2008, transfers included a portion of the advance paid by the State to the Regions¹⁹ to be used for extinguishing past debt.

Expenditures edged up by 0.7 per cent, due to an increase in bank deposits (€1,739 million) as a result of the changeover to the 'mixed treasury system'²⁰, while payments for intermediate consumption were down by €1,036 million (-1.4 per cent). In the latter case,

¹⁸ Ministerial Decree dated 16 February 2001, Ministerial Decree dated 28 May 2001 and Ministerial Decree dated 13 November 2007.

¹⁹ Pursuant to Article 2, Paragraph 46 of Law no. 244/2007 (2008 Finance Law).

²⁰ As provided by Article 77-quater of Decree-Law no. 112/2008, converted with amendments into Law no. 133/2008.

the decrease reflects the 2008 expenditure financed by the advance paid by the State and used for extinguishing past debt.

In terms of payments, the amount of healthcare expenditure managed directly by the Regions is valued at approximately €2,927 million.

Alongside the indicated increase in liquidity held within the banking system, the balances in the single treasury account decreased by €845 million (the special accounts used for various purposes went from €3,364 million as of 1 January to €2,518 million as of 31 December 2009).

TABLE 4.6: HEALTHCARE CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	103,182	112,869	113,058	114,252	9.4	0.2	1.1
Tax revenues	0	0	0	0	-	-	-
- Direct taxes	0	0	0	0	-	-	-
- Indirect taxes	0	0	0	0	-	-	-
Social contributions	0	0	0	0	-	-	-
Sale of goods and services	4,034	3,912	5,008	5,168	-3.0	28.0	3.2
Capital income	106	81	111	114	-23.6	37.0	2.7
Transfers from:	97,578	107,341	106,358	107,345	10.0	-0.9	0.9
- State Sector	0	0	0	0	-	-	-
- Social security funds	0	0	0	0	-	-	-
- Regions	96,996	106,867	105,860	106,842	10.2	-0.9	0.9
- Municipalities & provinces	245	279	281	279	13.9	0.7	-0.7
- Other consolidated public entities	0	2	2	2	-	0.0	0.0
- Non-consolidated public entities	337	193	215	222	-42.7	11.4	3.3
- Families	0	0	0	0	-	-	-
- Businesses	0	0	0	0	-	-	-
- Abroad	0	0	0	0	-	-	-
Other current revenues	1,464	1,535	1,581	1,625	4.9	3.0	2.8
CAPITAL ACCOUNT REVENUES	2,909	3,106	3,323	3,371	6.8	7.0	1.4
Transfers from:	2,909	3,106	3,323	3,371	6.8	7.0	1.4
- State Sector	0	0	0	0	-	-	-
- Regions	2,909	3,106	3,323	3,371	6.8	7.0	1.4
- Municipalities & provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
Amortisation	0	0	0	0	-	-	-
Other capital account revenues	0	0	0	0	-	-	-
Final revenues	106,091	115,975	116,381	117,623	9.3	0.4	1.1
FINANCIAL ITEMS	0	84	0	0	-	-100.0	-
Receivables collection from:	0	0	0	0	-	-	-
- State Sector	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Municipalities & provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
Reduction in bank deposits	0	0	0	0	-	-	-
Other financial items from:	0	84	0	0	-	-100.0	-
- State Sector	0	0	0	0	-	-	-
- Public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	0	84	0	0	-	-100.0	-
TOTAL REVENUES	106,091	116,059	116,381	117,623	9.4	0.3	1.1

TABLE 4.6 (continued): HEALTHCARE CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
PAYMENTS							
CURRENT PAYMENTS	103,924	112,925	111,803	115,065	8.7	-1.0	2.9
Employee compensation	35,743	38,332	38,440	38,561	7.2	0.3	0.3
Intermediate consumption	65,205	71,584	70,548	73,543	9.8	-1.4	4.3
Transfers to:	795	793	837	874	-0.3	5.6	4.4
- State Sector	0	0	0	0	-	-	-
- Social security funds	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	15	19	22	-	26.7	15.0
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families	795	778	818	852	-2.1	5.1	4.2
- Public utility companies	0	0	0	0	-	-	-
- Businesses	0	0	0	0	-	-	-
- Abroad	0	0	0	0	-	-	-
Interest	271	255	229	234	-5.9	-10.2	2.2
Amortisation	0	0	0	0	-	-	-
Other current payments	1,910	1,961	1,749	1,853	2.7	-10.8	5.6
CAPITAL ACCOUNT PAYMENTS	2,376	2,480	2,543	2,639	4.4	2.5	3.8
Fixed capital formation	2,376	2,480	2,543	2,639	4.4	2.5	3.8
Transfers to:	0	0	0	0	-	-	-
- State Sector	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Families	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Businesses	0	0	0	0	-	-	-
- Abroad	0	0	0	0	-	-	-
Other capital account payments	0	0	0	0	-	-	-
Final payments	106,300	115,405	114,346	117,704	8.6	-0.9	2.9
FINANCIAL ITEMS	100	0	1,817	0	-100.0	-	-100.0
Shareholdings and asset transfers:	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Businesses & abroad	0	0	0	0	-	-	-
Mortgages and advances to:	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Families, businesses & abroad	0	0	0	0	-	-	-
Increase in bank deposits	0	0	1,739	0	-	-	-100.0
Other financial items to:	100	0	78	0	-100.0	-	-100.0
- State Sector	0	0	0	0	-	-	-
- Public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	100	0	78	0	-100.0	-	-100.0
TOTAL PAYMENTS	106,400	115,405	116,163	117,704	8.5	0.7	1.3
BALANCES (Surplus +)							
1. Current account deficit	-742	-56	1,255	-813			
2. Capital account deficit	533	626	780	732			
3. DEFICIT	-209	570	2,035	-81			
4. Balance of financial items	-100	84	-1,817	0			
5. TOTAL BORROWING REQUIREMENT	-309	654	218	-81			

4.3.4 Municipalities and Provinces

The data on the cash flows of the municipalities and provinces for 2009 were supplied by 104 provincial governments out of a total of 107 (Fermo, Monza and Brianza, Barletta, Andria and Trani did not send data) and 7,906 municipalities (representing 96.7 per cent of the population) out of a total of 8,101 local bodies. As in 2007 and 2008, the data were input into the database using an auto-regressive financial algorithm based on historical information, also in relation to standard bodies as classified by demographic and territorial characteristics.

The analysis of the flows shows a surplus of €8 million in 2009 versus a borrowing requirement of €2,706 million in 2008.

With reference to the long-term borrowing with the State Sector, the net repayment of €254 million in 2009 was essentially in line with the €213 million booked in 2008.

Reimbursements to banking institutions were also very similar over the two years. In 2009, they totalled €8,841 million (including €3,149 million for the reimbursement of treasury advances), whereas in 2008, they amounted to €8,854 million (including €3,196 million for the reimbursement of treasury advances).

The financial needs in relation to the borrowing requirement and the repayment of loans were covered by €8,333 million of new funding tapped through the banking system (including €3,606 million from the *Cassa Depositi e Prestiti* (joint-stock company), €270 million from the proceeds of placing securities on the market and €3,236 million of treasury advances). In 2008, municipalities and provinces had tapped funding totalling €11,344 million (including €3,794 million from the *Cassa Depositi e Prestiti* (joint-stock company), €959 million from the proceeds of placing securities on the market and €3,168 million of treasury advances). The more limited recourse to debt was flanked by a €1,216 million reduction in bank deposits and a reduction in the amounts held in the State treasury. The liquidity held by the municipalities and provinces in the special single treasury accounts decreased by €1,748 million, going from €16,203 million on 1 January 2009 to €14,455 million on 31 December 2009.

Revenues rose by 4.4 per cent (going from €77,659 million to €81,080 million). Growth of transfers from the State Sector was 12.3 per cent (with the balance going from €20,477 million to €22,994 million) and was the result of an increase in current transfers (€2,132 million) and an increase in capital-account transfers (€385 million).

Current transfers from the Regions were also higher, with the increase of €979 million (+11.8 per cent) partly due to the provisions of Article 9-bis, Paragraph 5 of Decree-Law no. 78/2009 that excludes from the Internal Stability Pact the residual current account payments against corresponding residual surpluses of local bodies. In addition, the municipalities and provinces reported a decrease of €900 million (-3.4 per cent) in tax revenues, almost all of which is attributable to indirect taxes, and a sizeable reduction of other capital revenues (-€270 million, -12.5 per cent) due to fewer proceeds from the sale of property, whereas sales of personal property remained almost constant over the two-year period.

On the expenditure side, current payments were up by 2.0 per cent, mostly due to higher expenditures for intermediate consumption (+€1,310 million, +5.0 per cent). Instead, expenditures for employee compensation were down by 3.2 per cent as a result of the effects of contract renewals on the related payments of sums due in arrears. Expenditure for interest was also lower (-7.0 per cent) due to less recourse to debt.

Capital-account payments were down by a modest €141 million (-0.7 per cent), most of which can be attributed to a general decrease in transfers to non-consolidated public bodies (-€108 million, -21.5 per cent) and businesses (-€20 million, -5.9 per cent).

Expenditure for investments was essentially close to the 2008 level (+€16 million, +0.1 per cent).

TABLE 4.7: MUNICIPALITIES & PROVINCES CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	60,222	62,275	64,996	65,567	3.4	4.4	0.9
Tax revenues	29,170	26,400	25,500	25,792	-9.5	-3.4	1.1
- Direct taxes	3,231	4,127	4,097	4,175	27.7	-0.7	1.9
- Indirect taxes	25,939	22,273	21,403	21,617	-14.1	-3.9	1.0
Social contributions	0	0	0	0	-	-	-
Sale of goods and services	5,684	5,459	5,335	5,442	-4.0	-2.3	2.0
Capital income	2,616	2,572	2,525	2,550	-1.7	-1.8	1.0
Transfers from:	20,469	26,227	29,489	29,606	28.1	12.4	0.40
- State Sector	11,531	17,053	19,185	18,882	47.9	12.5	-1.6
- Social security funds	0	0	0	0	-	-	-
- Regions	8,267	8,283	9,262	9,421	0.2	11.8	1.7
- Healthcare	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	559	802	959	1,212	43.5	19.6	26.4
- Families	112	89	83	91	-20.5	-6.7	10.0
- Businesses	0	0	0	0	-	-	-
- Abroad	0	0	0	0	-	-	-
Other current revenues	2,283	1,617	2,147	2,177	-29.2	32.8	1.4
CAPITAL ACCOUNT REVENUES	14,356	13,718	13,346	13,764	-4.4	-2.7	3.1
Transfers from:	12,222	11,552	11,450	11,268	-5.5	-0.9	-1.6
- State Sector	4,331	3,424	3,809	3,438	-20.9	11.2	-9.7
- Regions	5,565	5,781	5,489	5,629	3.9	-5.1	2.6
- Healthcare	0	0	0	0	-	-	-
- Other consolidated public entities	58	59	62	65	1.7	5.1	4.8
- Non-consolidated public entities	616	753	665	682	22.2	-11.7	2.6
- Families, businesses & abroad	1,652	1,535	1,425	1,454	-7.1	-7.2	2.0
Amortisation	0	0	0	0	-	-	-
Other capital account revenues	2,134	2,166	1,896	2,496	1.5	-12.5	31.7
Final revenues	74,578	75,993	78,342	79,330	1.9	3.1	1.3
FINANCIAL ITEMS	2,107	1,666	2,738	2,015	-20.9	64.3	-26.4
Receivables collection from:	1,044	1,095	1,055	1,060	4.9	-3.7	0.5
- State Sector	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	109	121	118	123	11.0	-2.5	4.0
- Public utility companies	362	447	411	411	23.5	-8.1	0.1
- Families, businesses & abroad	573	527	526	526	-8.0	-0.2	0.0
Reduction in bank deposits	0	88	1,216	443	-	1281.8	-63.6
Other financial items from:	1,063	483	467	512	-54.6	-3.3	9.7
-State Sector	543	355	334	334	-34.6	-5.9	-0.1
-Public entities	0	0	0	0	-	-	-
-Families, businesses & abroad	520	128	133	178	-75.4	3.9	34.1
TOTAL REVENUES	76,685	77,659	81,080	81,346	1.3	4.4	0.3

TABLE 4.7 (continued): MUNICIPALITIES & PROVINCES CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
PAYMENTS							
CURRENT PAYMENTS	54,085	57,851	59,012	59,979	7.0	2.0	1.6
Employee compensation	18,364	20,011	19,369	19,582	9.0	-3.2	1.1
Intermediate consumption	24,792	26,185	27,495	28,075	5.6	5.0	2.1
Transfers to:	6,701	7,306	7,756	7,969	9.0	6.2	2.8
- State Sector	10	10	2	2	0.0	-80.0	0.0
- Social security funds	0	0	0	0	-	-	-
- Regions	105	124	132	136	18.1	6.5	2.7
- Healthcare	245	279	281	279	13.9	0.7	-0.7
- Other consolidated public entities	163	159	162	163	-2.5	1.9	0.6
- Non-consolidated public entities	1,654	1,946	2,244	2,044	17.7	15.3	-8.9
- Families	3,401	3,659	3,751	3,826	7.6	2.5	2.0
- Public utility companies	635	630	652	655	-0.8	3.5	0.5
- Businesses	488	499	532	864	2.3	6.6	62.4
- Abroad	0	0	0	0	-	-	-
Interest	3,284	3,354	3,120	3,093	2.1	-7.0	-0.9
Amortisation	0	0	0	0	-	-	-
Other current payments	944	995	1,272	1,259	5.4	27.8	-1.0
CAPITAL ACCOUNT PAYMENTS	21,783	20,162	20,021	18,584	-7.4	-0.7	-7.2
Fixed capital formation	18,977	18,020	18,036	16,636	-5.0	0.1	-7.8
Transfers to:	2,806	2,142	1,985	1,948	-23.7	-7.3	-1.9
- State Sector	0	0	0	0	-	-	-
- Regions	58	47	60	62	-19.0	27.7	3.3
- Healthcare	0	0	0	0	-	-	-
- Other consolidated public entities	51	85	75	75	66.7	-11.8	0.6
- Non-consolidated public entities	411	503	395	382	22.4	-21.5	-3.3
- Families	1,020	862	843	824	-15.5	-2.2	-2.2
- Public utility companies	863	307	294	293	-64.4	-4.2	-0.3
- Businesses	403	338	318	311	-16.1	-5.9	-2.1
- Abroad	0	0	0	0	-	-	-
Other capital account payments	0	0	0	0	-	-	-
Final payments	75,868	78,013	79,033	78,563	2.8	1.3	-0.6
FINANCIAL ITEMS	3,352	2,352	2,039	2,340	-29.8	-13.3	14.8
Shareholdings and asset transfers:	604	646	618	630	7.0	-4.3	2.0
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Businesses & abroad	604	646	618	630	7.0	-4.3	2.0
Mortgages and advances to:	1,117	1,008	832	820	-9.8	-17.5	-1.5
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Other consolidated public entities	0	0	0	0	-	-	-
- Non-consolidated public entities	37	53	56	51	43.2	5.7	-9.4
- Public utility companies	561	569	395	391	1.4	-30.6	-1.0
- Families, businesses & abroad	519	386	381	378	-25.6	-1.3	-0.8
Increase in bank deposits	971	0	0	0	-100.0	-	-
Other financial items to:	660	698	589	890	5.8	-15.6	51.1
- State Sector	660	568	588	580	-13.9	3.5	-1.4
- Public entities	0	0	0	0	-	-	-
- Families, businesses & abroad	0	130	1	310	-	-99.2	30.900.0
TOTAL PAYMENTS	79,220	80,365	81,072	80,903	1.5	0.9	-0.2
BALANCES (Surplus +)							
1.Current account deficit	6,137	4,424	5,984	5,588			
2.Capital account deficit	-7,427	-6,444	-6,675	-4,820			
3.DEFICIT	-1,290	-2,020	-691	768			
4.Balance of financial items	-1,245	-686	699	-325			
5.TOTAL BORROWING REQUIREMENT	-2,535	-2,706	8	443			

4.3.5 Other consolidated public bodies

The account reported in Table 4.8 refers to a group of other public bodies that report their cash flows quarterly and are consolidated as part of the Public Sector account. The respective accounts for these segments are reported below as follows: economic and assistance entities of central government (Tables 4.8.1 and 4.8.2), economic and assistance entities of local government (Tables 4.8.4 and 4.8.5) and research bodies (Table 4.8.3).

The running of these bodies produced a borrowing requirement of €655 million in 2009; the figure is approximately €1,050 million worse than the result for 2008.

The change is mainly the result of the reduction in transfers from the State Sector to the economic bodies of central government (-€698 million) and to assistance bodies of local government (-€562 million).

TABLE 4.8: OTHER PUBLIC BODIES CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	24,658	21,889	21,965	21,491	-11.2	0.4	-2.2
Tax revenues	1,490	1,513	1,539	1,562	1.5	1.7	1.5
- Direct taxes	0	0	0	0	-	-	-
- Indirect taxes	1,490	1,513	1,539	1,562	1.5	1.7	1.5
Social contributions	87	100	265	264	14.9	165.0	-0.4
Sale of goods and services	3,057	3,219	3,004	3,032	5.3	-6.7	0.9
Capital income	290	344	372	369	18.6	8.1	-0.8
Transfers from:	18,659	15,109	14,722	14,961	-19.0	-2.6	1.6
- State Sector	16,091	12,566	11,794	12,071	-21.9	-6.1	2.4
- Social security funds	0	0	0	0	-	-	-
- Regions	609	599	669	687	-1.6	11.7	2.6
- Healthcare	0	15	19	22	-	26.7	15.0
- Municipalities & provinces	163	159	162	163	-2.5	1.9	0.6
- Non-consolidated public entities	804	747	793	813	-7.1	6.2	2.5
- Families	822	863	1,137	1,048	5.0	31.8	-7.8
- Businesses	170	160	148	157	-5.9	-7.5	6.1
- Abroad	0	0	0	0	-	-	-
Other current revenues	1,075	1,604	2,063	1,303	49.2	28.6	-36.8
CAPITAL ACCOUNT REVENUES	3,954	4,303	3,532	3,271	8.8	-17.9	-7.4
Transfers from:	3,892	4,125	3,370	3,102	6.0	-18.3	-8.0
- State Sector	3,089	3,198	2,375	2,075	3.5	-25.7	-12.6
- Regions	578	611	678	690	5.7	11.0	1.7
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	51	85	75	75	66.7	-11.8	0.6
- Non-consolidated public entities	80	95	86	96	18.8	-9.5	11.2
- Families, businesses & abroad	94	136	156	166	44.7	14.7	6.5
Amortisation	0	0	0	0	-	-	-
Other capital account revenues	62	178	162	169	187.1	-9.0	4.5
Final revenues	28,612	26,192	25,497	24,762	-8.5	-2.7	-2.9
FINANCIAL ITEMS	731	737	706	2,078	0.8	-4.2	194.3
Receivables collection from:	546	552	505	526	1.1	-8.5	4.2
- State Sector	0	0	0	0	-	-	-
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities & provinces	0	0	0	0	-	-	-
- Non-consolidated public entities	145	114	133	132	-21.4	16.7	-0.8
- Public utility companies	0	0	0	0	-	-	-
- Families, businesses & abroad	401	438	372	394	9.2	-15.1	5.9
Reduction in bank deposits	0	0	0	1,219	-	-	-
Other financial items from:	185	185	201	333	0.0	8.7	65.7
- State Sector	0	0	0	0	-	-	-
- Public entities	133	132	134	208	-0.8	1.5	55.2
- Families, businesses & abroad	52	53	67	125	1.9	26.4	86.6
TOTAL REVENUES	29,343	26,929	26,203	26,840	-8.2	-2.7	2.4

TABLE 4.8 (continued): OTHER PUBLIC BODIES CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
PAYMENTS							
CURRENT PAYMENTS	17,837	19,001	19,296	19,804	6.5	1.6	2.6
Employee compensation	10,171	10,530	11,147	11,333	3.5	5.9	1.7
Intermediate consumption	3,783	4,079	3,953	4,055	7.8	-3.1	2.6
Transfers to:	2,478	2,837	2,765	2,759	14.5	-2.5	-0.2
- State Sector	43	53	70	71	23.3	32.1	1.4
- Social security funds	0	0	0	0	-	-	-
- Regions	21	17	17	18	-19.1	0.0	5.9
- Healthcare	0	2	2	2	-	0.0	0.0
- Municipalities and provinces	0	0	0	0	-	-	-
- Non-consolidated public entities	736	771	805	841	4.8	4.4	4.5
- Families	1,030	1,032	1,190	1,123	0.2	15.3	-5.6
- Public utility companies	0	0	0	0	-	-	-
- Businesses	648	962	681	704	48.5	-29.2	3.4
- Abroad	0	0	0	0	-	-	-
Interest	143	99	148	221	-30.8	49.5	49.3
Amortisation	0	0	0	0	-	-	-
Other current payments	1,262	1,456	1,283	1,436	15.4	-11.9	11.9
CAPITAL ACCOUNT PAYMENTS	5,762	5,674	5,703	5,642	-1.5	0.5	-1.1
Fixed capital formation	4,853	4,839	4,804	4,727	-0.3	-0.7	-1.6
Transfers to:	785	724	790	806	-7.8	9.1	2.0
- State Sector	23	0	0	0	-100.0	-	-
- Regions	14	26	10	10	85.7	-61.5	0.0
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	58	59	62	65	1.7	5.1	4.8
- Non-consolidated public entities	386	349	454	476	-9.6	30.1	4.9
- Families	192	179	172	164	-6.8	-3.9	-4.7
- Public utility companies	0	0	0	0	-	-	-
- Businesses	112	111	92	91	-0.9	-17.1	-1.1
- Abroad	0	0	0	0	-	-	-
Other capital account payments	124	111	109	109	-10.5	-1.8	0.0
Final payments	23,599	24,675	24,999	25,446	4.6	1.3	1.8
FINANCIAL ITEMS	4,312	1,861	1,859	1,680	-56.8	-0.1	-9.6
Shareholdings and asset transfers:	69	62	98	100	-10.1	58.1	2.0
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Non-consolidated public entities	0	0	0	0	-	-	-
- Public utility companies	0	0	0	0	-	-	-
- Businesses & abroad	69	62	98	100	-10.1	58.1	2.0
Mortgages and advances to:	612	838	588	616	36.9	-29.8	4.8
- Regions	0	0	0	0	-	-	-
- Healthcare	0	0	0	0	-	-	-
- Municipalities and provinces	0	0	0	0	-	-	-
- Non-consolidated public entities	147	163	105	100	10.9	-35.6	-4.8
- Public utility companies	0	0	0	0	-	-	-
- Families, businesses & abroad	465	675	483	516	45.2	-28.4	6.8
Increase in bank deposits	1,515	284	441	0	-81.3	55.3	-100.0
Other financial items to:	2,116	677	732	964	-68.0	8.1	31.7
- State Sector	1,465	77	63	67	-94.7	-18.2	6.4
- Public entities	2	2	2	58	0.0	0.0	2,800.0
- Families, businesses & abroad	649	598	667	839	-7.9	11.5	25.8
TOTAL PAYMENTS	27,911	26,536	26,858	27,126	-4.9	1.2	1.0
BALANCES (Surplus +)							
1.Current account deficit	6,821	2,888	2,669	1,687			
2.Capital account deficit	-1,808	-1,371	-2,171	-2,371			
3.DEFICIT	5,013	1,517	498	-684			
4.Balance of financial items	-3,581	-1,124	-1,153	398			
5.TOTAL BORROWING REQUIREMENT	1,432	393	-655	-286			

TABLE 4.8.1: CENTRAL GOVERNMENT ECONOMIC BODIES CONSOLIDATED CASH ACCOUNT
(in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	6,041	2,092	3,147	2,086	-65.4	50.4	-33.7
Tax revenues	0	0	0	0			
- Direct taxes	0	0	0	0			
- Indirect taxes	0	0	0	0			
Social contributions	0	0	0	0			
Sale of goods and services	605	714	609	610	18.0	-14.7	0.2
Capital income	35	35	88	80	0.0	151.4	-9.1
Transfers from:	5,256	1,193	1,646	1,382	-77.3	38.0	-16.0
- State Sector	4,574	496	701	427	-89.2	41.3	-39.1
- Regions	0	3	5	6		66.7	20.0
- Municipalities & provinces	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families	664	675	920	930	1.7	36.3	1.1
- Businesses	18	19	20	19	5.6	5.3	-5.0
Other current revenues	145	150	804	14	3.5	436.0	-98.3
CAPITAL ACCOUNT REVENUES	2,666	2,821	1,918	1,612	5.8	-32.0	-16.0
Transfers from:	2,666	2,821	1,918	1,612	5.8	-32.0	-16.0
- State Sector	2,666	2,821	1,918	1,612	5.8	-32.0	-16.0
- Regions	0	0	0	0			
- Municipalities & provinces	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families and businesses	0	0	0	0			
Amortisation	0	0	0	0			
Other capital account revenues	0	0	0	0			
Final revenues	8,707	4,913	5,065	3,698	-43.6	3.1	-27.0
FINANCIAL ACCOUNTS	32	44	42	843	37.5	-4.6	1,907.1
Receivables collection from:	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Other	0	0	0	0			
Reduction in bank deposits	0	0	0	800			
Other financial accounts	32	44	42	43	37.5	-4.6	2.4
TOTAL REVENUES	8,739	4,957	5,107	4,541	-43.3	3.0	-11.1
PAYMENTS							
CURRENT PAYMENTS	1,638	1,653	1,893	1,930	0.9	14.5	2.0
Employee compensation	803	842	925	945	4.9	9.9	2.2
Intermediate consumption	549	573	709	689	4.4	23.7	-2.8
Transfers to:	33	31	29	26	-6.1	-6.5	-10.3
- State Sector	0	0	0	0			
- Regions	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families	30	28	29	26	-6.7	3.6	-10.3
- Businesses	3	3	0	0	0.0	-100.0	
Interest	60	0	38	68	-100.0		
Amortisation	0	0	0	0			
Other current payments	193	207	192	202	7.3	-7.3	5.2
CAPITAL ACCOUNT PAYMENTS	2,914	2,821	2,861	2,737	-3.2	1.4	-4.3
Fixed capital formation	2,880	2,819	2,860	2,736	-2.1	1.5	-4.3
Transfers to:	32	0	0	0	-100.0		
- State Sector	22	0	0	0	-100.0		
- Regions	0	0	0	0			
- Municipalities and provinces	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families	0	0	0	0			
- Businesses	10	0	0	0	-100.0		
Other capital account payments	2	2	1	1	0.0	-50.0	0.0
Current and capital account payments	4,552	4,474	4,754	4,667	-1.7	6.3	-1.8
FINANCIAL ITEMS	2,531	54	940	55	-97.9	1,640.7	-94.2
Investments in businesses	0	0	0	0			
Business mortgages	40	15	14	14	-62.5	-6.7	0.0
Increase in bank deposits	1,191	0	886	0	-100.0		
Other financial items	1,300	39	40	41	-97.0	2.6	2.5
TOTAL PAYMENTS	7,083	4,528	5,694	4,722	-36.1	25.8	-17.1
BALANCES (Surplus +)							
TOTAL BORROWING REQUIREMENT	1,656	429	-587	-181			

TABLE 4.8.2: CENTRAL GOVERNMENT ASSISTANCE BODIES CONSOLIDATED CASH ACCOUNT
(in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	668	692	729	687	3.6	5.4	-5.8
Tax revenues	0	0	0	0			
- Direct taxes	0	0	0	0			
- Indirect taxes	0	0	0	0			
Social contributions	12	30	191	181	150.0	536.7	-5.2
Sale of goods and services	425	391	307	298	-8.0	-21.5	-2.9
Capital income	4	1	3	3	-75.0	200.0	0.0
Transfers from:	209	221	152	144	5.7	-31.2	-5.3
- State Sector	208	219	150	142	5.3	-31.5	-5.3
- Regions	0	0	1	1			
- Municipalities & provinces	1	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families	0	2	1	1			
- Businesses	0	0	0	0			
Other current revenues	18	49	76	61	172.2	55.1	-19.7
CAPITAL ACCOUNT REVENUES	7	2	0	0			
Transfers from:	0	0	0	0			
- State Sector	0	0	0	0			
- Regions	0	0	0	0			
- Municipalities & provinces	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families and businesses	0	0	0	0			
Amortisation	0	0	0	0			
Other capital account revenues	7	2	0	0			
Final revenues	675	694	729	687	2.8	5.0	-5.8
FINANCIAL ITEMS	322	382	557	585	18.6	45.8	5.0
Receivables collection from:	2	2	3	3	0.0	50.0	0.0
- Non-consolidated public entities	0	0	0	0			
- Other	2	2	3	3	0.0	50.0	0.0
Reduction in bank deposits	0	0	0	0			
Other financial items	320	380	554	582	18.8	45.8	5.1
TOTAL REVENUES	997	1,076	1,286	1,272	7.9	19.5	-1.1
PAYMENTS							
CURRENT PAYMENTS	696	649	675	666	-6.8	4.0	-1.3
Employee compensation	170	163	151	153	-4.1	-7.4	1.3
Intermediate consumption	61	75	61	63	23.0	-18.7	3.3
Transfers to:	389	344	381	358	-11.6	10.8	-6.0
- State Sector	8	15	15	17	87.5	0.0	13.3
- Regions	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families	381	329	366	341	-13.7	11.3	-6.8
- Businesses	0	0	0	0			
Interest	8	12	6	7	50.0	-50.0	16.7
Amortisation	0	0	0	0			
Other current payments	68	55	76	85	-19.1	38.2	11.8
CAPITAL ACCOUNT PAYMENTS	13	15	20	22	15.4	33.3	10.0
Fixed capital formation	3	3	6	7	0.0	100.0	16.7
Transfers to:	0	0	1	1			
- State Sector	0	0	0	0			
- Regions	0	0	0	0			
- Municipalities and provinces	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families	0	0	1	1			
- Businesses	0	0	0	0			
Other capital account payments	10	12	13	14	20.0	8.3	7.7
Current and capital account payments	709	664	695	688	-6.4	4.7	-1.0
FINANCIAL ITEMS	310	420	609	590	35.5	45.0	-3.1
Investments in businesses	0	0	0	0			
Business mortgages	1	1	0	0			
Increase in bank deposits	0	0	0	0			
Other financial items	309	419	609	590	35.6	45.4	-3.1
TOTAL PAYMENTS	1,019	1,084	1,304	1,278	6.4	20.3	-2.0
BALANCES (Surplus +)							
TOTAL BORROWING REQUIREMENT	-22	-8	-18	-6			

TABLE 4.8.3: CENTRAL GOVERNMENT RESEARCH BODIES CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		2008	% Change Y/Y	
	2007	2008	2009	2010		2009	2010
REVENUES							
CURRENT REVENUES	2,666	2,885	2,776	2,648	8.2	-3.8	-4.6
Tax revenues	0	0	0	0			
- Direct taxes	0	0	0	0			
- Indirect taxes	0	0	0	0			
Social contributions	0	0	4	3			
Sale of goods and services	162	131	118	103	-19.1	-9.9	-12.7
Capital income	12	26	12	14	116.7	-53.9	16.7
Transfers from:	2,409	2,608	2,523	2,411	8.3	-3.3	-4.4
- State Sector	2,224	2,443	2,297	2,280	9.9	-6.0	-0.7
- Regions	29	30	35	37	3.5	16.7	5.7
- Municipalities & provinces	0	4	0	0		-100.0	
- Non-consolidated public entities	70	26	44	40	-62.9	69.2	-9.1
- Families	86	105	147	54	22.1	40.0	-63.3
- Businesses	0	0	0	0			
Other current revenues	83	120	119	117	44.6	-0.8	-1.7
CAPITAL ACCOUNT REVENUES	8	34	13	17	325.0	-61.8	30.8
Transfers from:	2	1	3	4	-50.0	200.0	33.3
- State Sector	2	1	3	4	-50.0	200.0	33.3
- Regions	0	0	0	0			
- Municipalities & provinces	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families and businesses	0	0	0	0			
Amortisation	0	0	0	0			
Other capital account revenues	6	33	10	13	450.0	-69.7	30.0
Final revenues	2,674	2,919	2,789	2,665	9.2	-4.5	-4.5
FINANCIAL ITEMS	372	489	462	434	31.5	-5.5	-6.1
Receivables collection from:	5	14	48	50	180.0	242.9	4.2
- Non-consolidated public entities	0	0	28	25			
- Other	5	14	20	25	180.0	42.9	25.0
Reduction in bank deposits	18	21	26	26	16.7	23.8	0.0
Other financial items	349	454	388	358	30.1	-14.5	-7.7
TOTAL REVENUES	3,046	3,408	3,251	3,099	11.9	-4.6	-4.7
PAYMENTS							
CURRENT PAYMENTS	2,373	2,522	2,398	2,350	6.3	-4.9	-2.0
Employee compensation	1,082	1,030	1,127	1,130	-4.8	9.4	0.3
Intermediate consumption	447	388	343	323	-13.2	-11.6	-5.8
Transfers to:	754	1031	844	822	36.7	-18.1	-2.6
- State Sector	32	35	45	43	9.4	28.6	-4.4
- Regions	0	1	1	1		0.0	0.0
- Non-consolidated public entities	31	23	19	10	-25.8	-17.4	-47.4
- Families	477	491	621	628	2.9	26.5	1.1
- Businesses	214	481	158	140	124.8	-67.2	-11.4
Interest	5	5	3	2	0.0	-40.0	-33.3
Amortisation	0	0	0	0			
Other current payments	85	68	81	73	-20.0	19.1	-9.9
CAPITAL ACCOUNT PAYMENTS	235	221	222	224	-6.0	0.5	0.9
Fixed capital formation	143	147	146	144	2.8	-0.7	-1.4
Transfers to:	0	0	0	0			
- State Sector	0	0	0	0			
- Regions	0	0	0	0			
- Municipalities and provinces	0	0	0	0			
- Non-consolidated public entities	0	0	0	0			
- Families	0	0	0	0			
- Businesses	0	0	0	0			
Other capital account payments	92	74	76	80	-19.6	2.7	5.3
Current and capital account payments	2,608	2,743	2,620	2,574	5.2	-4.5	-1.7
FINANCIAL ITEMS	396	662	622	575	67.2	-6.0	-7.6
Investments in businesses	2	2	1	1	0.0	-50.0	0.0
Business mortgages	5	13	21	24	160.0	61.5	14.3
Increase in bank deposits	9	21	23	23	133.3	9.5	0.0
Other financial items	380	626	577	527	64.7	-7.8	-8.7
TOTAL PAYMENTS	3,004	3,405	3,242	3,149	13.4	-4.8	-2.9
BALANCES (Surplus +)							
TOTAL BORROWING REQUIREMENT	42	3	9	-50			

TABLE 4.8.4: LOCAL GOVERNMENT ECONOMIC BODIES CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	2,863	3,164	3,037	3,101	10.5	-4.0	2.1
Tax revenues	0	0	0	0			
- Direct taxes	0	0	0	0			
- Indirect taxes	0	0	0	0			
Social contributions	15	14	14	15	-6.7	0.0	7.1
Sale of goods and services	1,325	1,452	1,441	1,464	9.6	-0.8	1.6
Capital income	159	179	177	180	12.6	-1.1	1.8
Transfers from:	1,094	1,159	1,126	1,153	5.9	-2.9	2.4
- State Sector	477	535	499	512	12.2	-6.7	2.7
- Regions	400	392	387	394	-2.0	-1.3	1.9
- Municipalities & provinces	133	136	136	135	2.3	0.0	-0.7
- Non-consolidated public entities	78	90	97	104	15.4	7.8	6.8
- Families	3	3	6	2	0.0	100.0	-63.3
- Businesses	3	3	1	5	0.0	-66.7	400.0
Other current revenues	270	360	279	289	33.3	-22.5	3.8
CAPITAL ACCOUNT REVENUES	794	810	799	807.33	2.0	-1.4	1.0
Transfers from:	777	791	787	795.03	1.8	-0.5	1.0
- State Sector	187	181	206	209	-3.2	13.8	1.5
- Regions	505	519	487	493	2.8	-6.2	1.2
- Municipalities & provinces	33	38	31	29	15.2	-18.4	-5.0
- Non-consolidated public entities	25	24	17	17	-4.0	-29.2	-2.0
- Families and businesses	27	29	46	47	7.4	58.6	2.3
Amortisation	0	0	0	0			
Other capital account revenues	17	19	12	12	11.8	-36.8	2.5
Final revenues	3,657	3,974	3,836	3,908	8.7	-3.5	1.9
FINANCIAL ITEMS	684	888	995	1,009	29.8	12.1	1.4
Receivables collection from:	122	60	79	80	-50.8	31.7	1.3
- Non-consolidated public entities	0	0	0	0			
- Other	122	60	79	80	-50.8	31.7	1.3
Reduction in bank deposits	20	12	0	0	-40.0	-100.0	
Other financial items	542	816	916	929	50.6	12.3	1.4
TOTAL REVENUES	4,341	4,862	4,831	4,917	12.0	-0.6	1.8
PAYMENTS							
CURRENT PAYMENTS	2,131	2,309	2,368	2,412	8.4	2.6	1.9
Employee compensation	754	803	835	845	6.5	4.0	1.2
Intermediate consumption	757	775	759	772	2.4	-2.1	1.7
Transfers to:	550	614	656	636	11.6	6.8	-3.1
- State Sector	0	1	1	1		0.0	0.0
- Regions	2	4	3	3	100.0	-25.0	0.0
- Non-consolidated public entities	44	43	44	45	-2.3	2.3	2.3
- Families	86	101	107	65	17.4	5.9	-39.3
- Businesses	418	465	501	522	11.2	7.7	4.2
Interest	18	19	19	55	5.6	0.0	189.5
Amortisation	0	0	0	0			
Other current payments	52	98	99	104	88.5	1.0	5.1
CAPITAL ACCOUNT PAYMENTS	1,186	1,235	1,159	1,153	4.1	-6.2	-0.5
Fixed capital formation	810	856	823	824	5.7	-3.9	0.1
Transfers to:	372	373	331	324	0.3	-11.3	-2.1
- State Sector	0	0	0	0			
- Regions	14	26	10	10	85.7	-61.5	0.0
- Municipalities and provinces	58	59	62	65	1.7	5.1	4.8
- Non-consolidated public entities	10	7	8	8	-30.0	14.3	0.0
- Families	192	176	168	160	-8.3	-4.6	-4.8
- Businesses	98	105	83	81	7.1	-21.0	-2.4
Other capital account payments	4	6	5	5	50.0	-16.7	0.0
Current and capital account payments	3,317	3,544	3,527	3,565	6.8	-0.5	1.1
FINANCIAL ITEMS	1,081	1,374	1,362	1,366	27.1	-0.9	0.3
Investments in businesses	61	47	90	92	-23.0	91.5	2.2
Business mortgages	34	113	33	34	232.4	-70.8	3.0
Increase in bank deposits	101	372	242	234	268.3	-35.0	-3.3
Other financial items	885	842	997	1,006	-4.9	18.4	0.9
TOTAL PAYMENTS	4,398	4,918	4,889	4,931	11.8	-0.6	0.9
BALANCES (Surplus +)							
TOTAL BORROWING REQUIREMENT	-57	-56	-58	-14			

TABLE 4.8.5: LOCAL GOVERNMENT ASSISTANCE BODIES CONSOLIDATED CASH ACCOUNT (in € mn)

	Outturn		Estimates		% Change Y/Y		
	2007	2008	2009	2010	2008	2009	2010
REVENUES							
CURRENT REVENUES	11,673	12,262	11,627	12,252	5.1	-5.2	5,4
Tax revenues	1490	1513	1539	1562	1.5	1.7	1,5
- Direct taxes	0	0	0	0			
- Indirect taxes	1,490	1,513	1,539	1,562	1.5	1.7	1,5
Social contributions	0	0	0	0			
Sale of goods and services	146	152	143	147	4.1	-5.9	2,8
Capital income	47	64	77	79	36.2	20.3	2,6
Transfers from:	9,484	9,658	9,205	9,781	1.8	-4.7	6,3
- State Sector	8,474	8,671	8,113	8,651	2.3	-6.4	6,6
- Regions	173	185	239	251	6.9	29.2	5,0
- Municipalities & provinces	27	18	24	26	-33.3	33.3	8,3
- Non-consolidated public entities	648	616	649	662	-4.9	5.4	2,0
- Families	55	69	53	58	25.5	-23.2	9,4
- Businesses	107	99	127	133	-7.5	28.3	4,7
Other current revenues	506	875	663	683	72.9	-24.2	3,0
CAPITAL ACCOUNT REVENUES	375	532	631	668	41.9	18.6	5,9
Transfers from:	346	423	501	531	22.3	18.4	6,0
- State Sector	133	109	105	108	-18.1	-3.7	2,9
- Regions	73	89	173	179	21.9	94.4	3,5
- Municipalities & provinces	18	47	44	46	161.1	-6.4	4,6
- Non-consolidated public entities	55	71	69	79	29.1	-2.8	14,5
- Families and businesses	67	107	110	119	59.7	2.8	8,2
Amortisation	0	0	0	0			
Other capital account revenues	29	109	130	137	275.9	19.3	5,4
Final revenues	12,048	12,794	12,258	12,920	6.2	-4.2	5,4
FINANCIAL ITEMS	4,667	4,587	4,414	4,517	-1.7	-3.8	2,3
Receivables collection from:	385	446	358	384	15.8	-19.7	7,3
- Non-consolidated public entities	124	97	98	103	-21.8	1.0	5,1
- Other	261	349	260	281	33.7	-25.5	8,1
Reduction in bank deposits	0	76	684	650		800.0	-5,0
Other financial items	4,282	4,065	3,372	3,483	-5.1	-17.1	3,3
TOTAL REVENUES	16,715	17,381	16,672	17,437	4.0	-4.1	4,6
PAYMENTS							
CURRENT PAYMENTS	10,320	11,244	11,333	11,786	9.0	0.8	4,0
Employee compensation	7,062	7,410	7,814	7,970	4.9	5.5	2,0
Intermediate consumption	1,716	2,019	1,831	1,940	17.7	-9.3	6,0
Transfers to:	744	803	837	880	7.9	4.2	5,1
- State Sector	3	2	9	10	-33.3	350.0	11,1
- Regions	19	14	15	16	-26.3	7.1	6,7
- Non-consolidated public entities	661	705	732	767	6.7	3.8	4,8
- Families	50	71	59	63	42.0	-16.9	6,8
- Businesses	11	11	22	24	0.0	100.0	9,1
Interest	51	61	81	88	19.6	32.8	8,6
Amortisation	0	0	0	0			
Other current payments	747	951	770	908	27.3	-19.0	17,9
CAPITAL ACCOUNT PAYMENTS	1,390	1,354	1,404	1,473	-2.6	3.7	4,9
Fixed capital formation	1,008	1,002	944	990	-0.6	-5.8	4,9
Transfers to:	381	351	458	481	-7.9	30.5	5,0
- State Sector	1	0	0	0	-100.0		
- Regions	0	0	0	0			
- Municipalities and provinces	0	0	0	0			
- Non-consolidated public entities	376	342	446	468	-9.0	30.4	4,9
- Families	0	3	3	3		0.0	0,0
- Businesses	4	6	9	10	50.0	50.0	11,1
Other capital account payments	1	1	2	2	0.0	100.0	0,0
Current and capital account payments	11,710	12,598	12,737	13,259	7.6	1.1	4,1
FINANCIAL ITEMS	5,178	4,773	3,934	4,176	-7.8	-17.6	6,2
Business investments	0	0	0	0			
Business mortgages	404	485	346	373	20.1	-28.7	7,8
Increase in bank deposits	252	0	0	0	-100.0		
Other financial items	4,522	4,288	3,588	3,803	-5.2	-16.3	6,0
TOTAL PAYMENTS	16,888	17,371	16,671	17,435	2.9	-4.0	4,6
BALANCES (Surplus +)							
TOTAL BORROWING REQUIREMENT	-173	10	1	2			

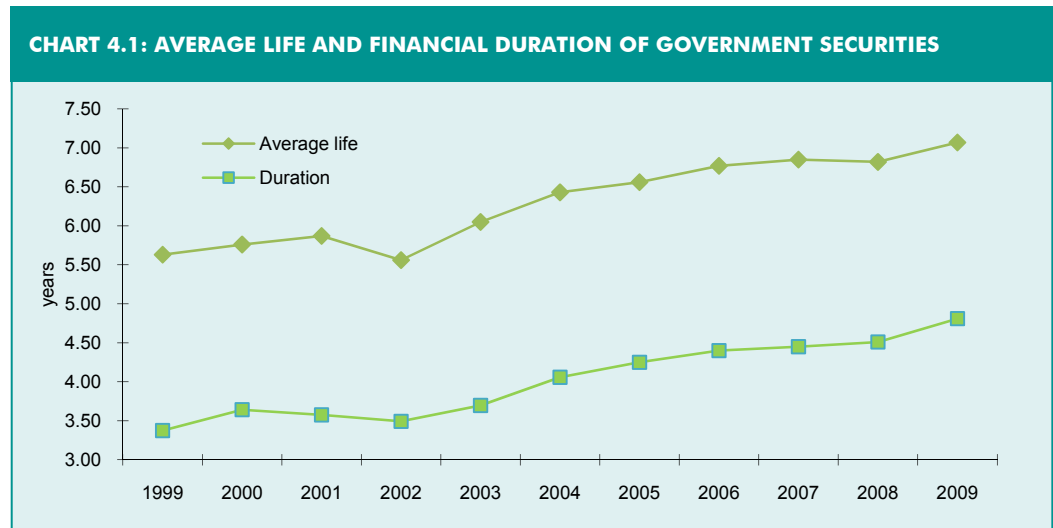
4.4 GENERAL GOVERNMENT

4.4.1 Issuing policy and trend of debt stock

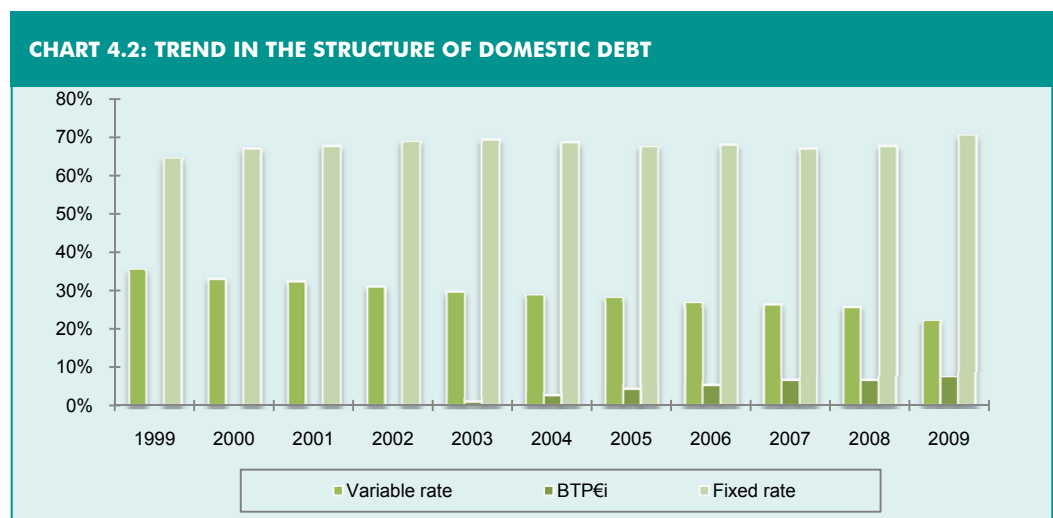
Public debt management in 2009 took into account the different phases of the financial markets during the year. After a first quarter strongly conditioned by the consequences of the international financial crisis, with volatility at historically high levels and the government securities markets for most of the countries of the Euro Area in a critical state, the situation improved in the second and third quarters thanks to an ongoing, albeit very gradual, normalisation of the European interbank and money markets. During this latter phase, the market for government securities witnessed a recovery in trading which was helped by, and in turn, stimulated, the liquidity of the securities, thereby reducing average transaction costs for securities dealers vis-à-vis the very high levels reached in the final months of 2008 and the first months of 2009. Normally guaranteeing one of the highest standards in Europe in terms of negotiability, Italian government securities performed very well against this backdrop, with the yield differential vis-à-vis German government securities continuing to decrease compared with the first months of the year (with the exception of the late May-early July period). In the final months of the year, the market witnessed a consolidation of the results obtained in the preceding two quarters; this trend was interrupted in December when it seems dealers significantly slowed their activity (versus what normally occurs at year end) in order to book the results achieved over a very tough year.

Despite difficulties in the financial markets, the tactics employed in managing the public debt made it possible to guarantee full coverage of a State Sector borrowing requirement that was significantly higher than in previous years. Such tactics combined flexibility and consistency within a framework that emphasises transparency and regularity of debt issues, as in past years. The Department of the Treasury thus managed to achieve significant results in terms of reduction of the exposure to interest-rate and refinancing risk, at a time when a significant decrease in the cost of financing was made possible by a very pronounced drop in market interest rates.

At the end of 2009, the average life of the debt had increased by approximately 0.25 years with respect to the end of 2008 and an increase in financial duration of approximately 0.30 years over the same period. With reference to securities in the domestic market, the fixed-rate issues went from 67.71 per cent of the total to 70.54 per cent, and the issues indexed to the Euro Area inflation rate went from 6.59 per cent at the end of 2008 to 7.40 per cent at the end of 2009. The results achieved in terms of average life and financial duration are also due to a more pronounced presence in the long-term segment, thanks to the launch of new issues with 15- and 30-year maturities and 30-year issues tied to inflation and to the frequent reopening during auctions of both on-the-run and off-the-run securities with a residual life of more than 10 years. At the same time, the positions in short-term maturities and variable-rate issues have been further streamlined, mainly through the decision not to renew a sizeable portion of CCTs coming due. While the efficiency of secondary market trading in CCTs was back to acceptable levels, and thus favoured renewed interest in the segment, the Department of the Treasury continued to pursue its stated objective of reducing the stock of CCTs in circulation, while complying with the trend of demand.



With reference to the cost of the debt, the Department of the Treasury has implemented a strategy with particularly attractive conditions for the purpose of further limiting exposure to market risks. During the year, the yield curve moved in line with the general reduction of interest rates resulting from the ECB’s expansionary policy (which not only entailed the lowering of the reference rate, but also the continuing injection of massive amounts of liquidity on the markets, including through non-conventional means). Between January and June, the rate on 2-year maturities came down by approximately 150 basis points, while rates on maturities of 10 years or more were virtually unchanged and at historically low levels. During the second half of the year, the decrease in interest rates was shifted to longer term maturities (10 years or more) with rates falling between 40 and 20 basis points, partly for the effect of a worsening of expectations about the timing of a recovery from the economic crisis. The sharp decline in the inflation rate made it possible to achieve important savings on securities indexed to inflation, whose issues in 2009 were again back to the pre-2008 levels.



Considered together, the trend in interest rates and the issuing policy pursued by the Department of the Treasury produced a significant reduction in the cost of the debt compared with 2008. The weighted average cost of the issues decreased from 4.09 per cent for 2008 to 2.18 per cent for 2009. In addition, the general government interest expenditure (in accrual terms) as a percentage of GDP decreased from 5.2 per cent in 2008 to 4.7 per cent in 2009, falling by around €10 billion in absolute terms, thanks to the substantial contribution of the central government²¹. The largest decrease in interest expenditure on government securities was seen with respect to BOTs and CCTs, with both obviously benefiting from the sharp reduction in rates on short-term maturities and the consequent increase in the slope of the yield curve occurring in the first half of the year. The BTP segment did not benefit from reductions in interest expenditure since the increase in the cost of BTPs (nominal terms) partly due to an increase in the issues of longer term maturities (whose yields remained virtually stable over the year and in line with 2008) was almost completely offset by issues indexed to the Euro Area inflation rate (BTP€i), which benefited from the significant decline in inflation in Europe. The postal certificates under the management of the Ministry of the Economy and Finance and the treasury balances of the bodies which are not part of general government also contributed, albeit to a much lesser extent, to reducing the central government's interest burden.

Turning to local government, when the increase in financial intermediation costs are considered²², the gross interest expenditure remained essentially in line with that for 2008. This trend can be explained on the one hand by modest growth of local government debt and on the other hand, by the fact that the exposure to interest rate changes was gradually decreased with respect to the previous year.

The debt-to-GDP ratio at the end of 2009 was 115.8 per cent. Compared with 2008, the ratio grew by approximately 9.7 percentage points²³, due to the decrease in nominal GDP from year to year and to the increase in the debt stock prompted by the trend of the Public Sector borrowing requirement. While GDP contracted by 3 per cent in nominal terms, the Public Sector's borrowing requirement rose to 5.8 per cent of GDP in 2009 compared with 3.3 per cent for 2008. Two other factors contributed to the trend of debt, albeit to a much more limited extent: the year-on-year increase in the balances held in the Department of the Treasury's liquidity account which was equivalent to 0.8 percentage points of GDP (caused by very dynamic borrowing activity sustained during the year, including for precautionary purposes) and the purchase of special bonds issued in favour of the banking system (hybrid capitalisation securities)²⁴ equivalent to 0.3 percentage points of GDP.

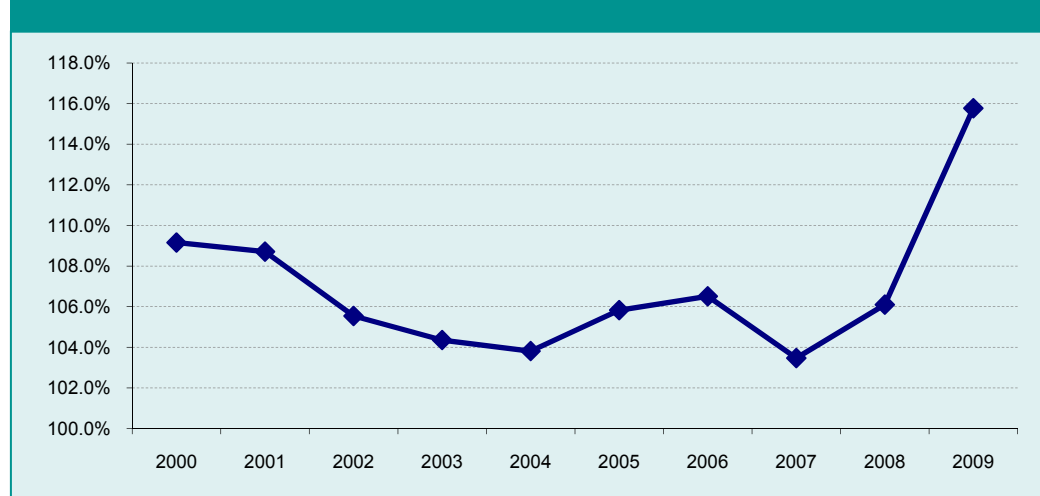
²¹ It should nonetheless be noted that financial intermediation costs in 2009 were significantly higher for the effect of the credit crisis. Since this component is no longer included as part of interest expenditure, a part of the reduction in the central government's expenditure on interest (approximately 9 per cent) is linked to this situation.

²² Net of such costs, local government expenditure on interest was down by approximately 0.1 per cent of GDP when compared with 2008.

²³ In March 2010, ISTAT published an update of the National Economic Accounts in which it revised the GDP series, with significant changes to 2008 and 2009 data. As a result, it is not possible to compare the estimates of the debt-to-GDP ratio published in the *2009 Update of the Stability Programme* with the final results illustrated here.

²⁴ Pursuant to Article 12 of Decree-Law no. 185/2008, converted into Law no. 2/2009.

CHART 4.3: TREND OF DEBT-TO-GDP RATIO



In 2010, the issuing policy will continue along the lines of that for 2009, and the results achieved in 2009 in terms of risk containment will make it possible for the Department of the Treasury to do a better job of adapting the instruments offered to demand conditions. All issues will be done in a manner so as to guarantee the liquidity of the securities on the secondary market and to maximise the presence of national and international institutional investors on the primary market. Using the auction mechanism, the issuing policy will be implemented in full respect of the principles of regularity, transparency and predictability, although the policy also envisions flexibility, the use of placement syndicates and the reopening of off-the-run issues so as to continue to guarantee a debt placement process with high efficiency standards in line with the trend of demand and more general conditions for the functioning of the financial markets.

DERIVATIVES TRANSACTIONS ON DEBT OF LOCAL ENTITIES

In view of the significant declining trend of interest rates, in the first years of the current decade, many local governments provided for the possibility of reducing their interest burden by carrying out interest-rate swaps for transforming fixed-rate debt into variable-rate debt, so as to be able to benefit promptly from rate reductions. Indeed, much of the debt of local entities in the early years of this decade was represented by fixed-rate obligations, undertaken in prior years when the general level of interest rates was much higher. At the same time, market conditions had favoured (partly due to the products offered by leading investment banks abroad) demand for bullet bonds (i.e. reimbursement with a single payment at maturity, or a formula not available for the long-term secured loans of local entities) issued by municipalities, with the creation of a market segment that was already developed in other countries.

While the objectives of this activity were certainly acceptable from a general standpoint of debt management, the transactions were initially carried without a regulatory framework of reference and the outcome was a proliferation of derivative transactions difficult to quantify and to catalogue. It was thus considered useful to proceed with regulation of a phenomenon that developed spontaneously, defining the types of transactions acceptable for proper debt management.

From this perspective, Article 41 of Law no. 448/2001 provided for the possibility of issuing bullet bonds and the issuance of subsequent regulations (through a decree jointly issued by the Ministry of the Economy and the Ministry of the Interior) to establish the means for the periodic sending of data in relation to the issuing entity's financial position, with a specification of derivatives transactions allowed.

Very briefly, in addition to the contracts already provided for swaps, amortisation and management of a sinking fund for the bullet payments at maturity and the cross-currency swaps for the management of exchange-rate risk on liabilities not denominated in euros, the main types of derivatives allowed for local entities were limited to:

- interest-rate swaps: a contract between two parties that take on commitments to exchange regularly interest flows, linked to key financial market parameters, according to means, terms and conditions set out in the contracts;*
- purchase of interest-rate caps: a contract setting a threshold for the variable rate, over which the buyer of the cap pays a pre-set fixed rate;*
- purchase of interest-rate collars: a contract in which the buyer is guaranteed of a level of interest rate to be paid, with the pre-setting of maximum and minimum levels;*
- purchase of forward-rate agreements: contracts in which two parties agree on the interest rate that the buyer of the forward agrees to pay against a principal amount at a specific future date.*

Such transactions are understood to be those in the simplest form (so-called 'plain vanilla') without any optional characteristics. Derivatives containing formulas such as levers or multipliers of financial parameters were considered not admissible.

Regions that decided to adopt specific regulations on the subject could however make exceptions to the above.

Even though the transactions had to be reported to the Department of the Treasury (including by virtue of the aforementioned regulations), the flow of reports in relation to the derivatives transactions carried out by local and regional governments continued to be rather limited. It was not until the approval of the 2007 Finance Law that the situation changed; Article 1, Paragraph 737 of such law reaffirmed a provision (Paragraph 2-bis of Article 41 of Law no. 448/2001) that requires the contracting entities to provide to the Department of the Treasury the final contractual documentation for each transaction in advance of the closing of individual transactions and prior to the signing of the contracts; if such documentation is not provided in advance, the contracts will be deemed non-enforceable.

Finally, Decree-Law no. 112/2008, in the modified version approved with the 2009 Finance Law, prohibited, until the date on which subsequent regulation was to go into effect, contracts in relation to financial instruments, thereby automatically freezing such activity that is currently limited to the possible closing out of existing transactions in advance.

Additional limitations on the activity in derivatives were included in the same law with regard to municipalities, provinces and regions. Namely, issuers were given the option of issuing bonds that would be paid out through amortisation plans only; the option of bullet securities was thus effectively eliminated along with the consequent obligation for setting up a swap for the amortisation or establishment of a sinking fund for the reimbursement of the debt at maturity - activity that generated potential credit risks reflected in the probability of counterparty insolvency or insolvency of the securities acquired as guarantees. A similar, important limitation comes from the provision for considering the sums collected upfront by the entities at the outset of the swap as debt, with the related consequences in terms of their possible use for the entities' investment expenditures only.

As to the stock of derivatives recorded as still outstanding for the regions and local entities, the summary data from periodic monitoring with regard to the initial nominal value of the transactions (which do not take into account any amortisation of notional amounts as provided by the contracts) indicate that approximately 1,000 contracts were outstanding with around 700 entities at the end of 2009 entailing a total notional value of just over €35.5 billion.

In recent months, it has been possible to observe a trend toward early extinction of these transactions. In the final four half-year periods in relation to 2008 and 2009 (with the freeze established by Decree-Law no. 112/2008 not in effect during the first period), swap contracts with a total notional value of approximately €1.8 billion were extinguished.

APPENDICES

A. STATE BUDGET

A.1 KEY RESULTS

With reference to final revenues and expenditures, the State budget's cash receipts and payments for 2009 amounted to €454,938 million and €522,452 million, respectively. The budget thus had a deficit of -€67,514 million versus the -€68,811 million booked for 2008 using the same standards for comparison (Table A.1).

It should be noted that the consolidated figures include expenditures related to the following entities: Presidency of the Council of Ministers, Tax Authorities, Regional Administrative Courts, and the State Audit Court, the details of which are reported in Exhibit 2.

With reference to receipts, it is noted that those related to EU value-added taxes, and to fines and penalties, etc. are booked to the 'Other' account.

The next two sections provide details about the trend of receipts and payments for 2008 and 2009.

TABLE A.1: KEY RESULTS (in € mn)					
	2007	2008	2009	Changes 2009/2008	
				Amount	Percentage
REVENUES					
- Tax	414,923	418,839	411,568	-7,271	-1.7
- Other	31,833	36,371	43,370	6,999	19.2
TOTAL REVENUES	446,756	455,210	454,938	-272	-0.1
PAYMENTS					
- Current	425,736	463,065	469,044	5,713	1.2
- Capital account	50,225	60,956	53,408	-7,282	-11.9
TOTAL PAYMENTS	475,961	524,021	522,452	-1,569	-0.3
BALANCES					
Borrowing requirement (+ Surplus)	-29,205	-68,811	-67,514	1,297	-1.9

A.2 ANALYSIS OF RECEIPTS

Revenues collected through December 2009 (as shown in Table A.2) amounted to €454,938 million, with a decrease of €272 million (-0.1 per cent) resulting from the trend of tax revenues (-€7,271 million) and other revenues (+€6,999 million).

The amounts reported for 2008 are final, whereas those through December 2009 are still provisional considering the year of 2009 has not yet been officially closed.

In order to provide a more meaningful comparison, the receipts were adjusted to eliminate or add certain amounts as a result of the following factors:

- accounting settlements for portions of tax revenues collected by the regions of Sicily, Sardinia and Friuli Venezia Giulia: €12,732 million for 2009 and €10,492 million for 2008;
- accounting settlements in relation to lotteries in the amount of €6,215 million for 2009 and €3,825 million for 2008;

- receipts booked in 2009 (€1,393 million) and in 2008 (€1,360 million) but applicable to prior years;
- supplemental amounts for the Tax operating structure's balances (€1,570 million for 2009 and €1,393 million for 2008) not booked by 31 December;
- estimate for 2009 of the portion of a tax amnesty accruing to the tax authority and still to be allocated, equal to €46 million (inclusive of €37 million in relation to direct taxes and €9 million in relation to indirect taxes).

The results of the aforementioned adjustments are reported in Table A.3.

A.3 TAX REVENUES

Taxation produced receipts of €391,990 million in 2009, versus €404,762 million in 2008. The overall decrease of €12,772 million (-3.2 per cent) refers to both direct taxes (-€5,837 million) and indirect taxes (-€6,935 million) (Table A.3).

Direct taxes

Table A.4 provides detail on the trend of the main types of direct taxes. The decrease in income tax (-€4,911 million) is mainly due to the negative trend seen with respect to: taxes withheld on the income of workers in the private sector (-€3,489 million); taxes withheld on the income of freelance professionals (-€452 million); and payments by taxpayers of the final balance of taxes due (-€1,630 million). Instead, the taxes withheld on the income of workers in the public sector were higher overall (+€2,505 million).

Corporate income taxes (IRES) reflect a reduction of €9,597 million with respect to 2008, related to lower payments by taxpayers of the final balances of taxes due (-€2,235 million) and a decrease in estimated tax payments (-€8,077 million).

Taxes withheld from capital income were €4 million higher, mostly as a result of the increase in amounts withheld from bank deposits (+€1,486 million), while substitute taxes on interest, premiums and other income from certain bonds were lower (-€1,212 million).

Indirect taxes

Indirect taxes (Table A.6) decreased by €6,935 million (-3.9 per cent) as a result of the decreases in all types of indirect taxes except for taxes on production (+€1,455 million) and monopolies (+€167 million).

The reduction of tax revenue in the 'Business' category (-€7,801 million) refers to value-added taxes (-€6,665 million, Table A.5), as well as to registration taxes, stamp duties, and substitute tax (-440 million) and mortgage taxes (-€269 million). Instead, increases were reported for taxes on insurance (+€489 million) and inheritance and donations (+86 million).

Taxes on production, consumption and customs transactions rose by €1,455 million (+5.6 per cent), mostly due to the trend of tax on natural gas consumption (+€2,146 million), while excise tax revenues on mineral oils were lower (-€259 million).

The increase recorded in the case of monopolies is attributable to the taxes collected on purchases of tobacco products (+€167 million), whereas the tax revenues from Lotto and other lotteries were lower by €756 million, mostly due to the decrease in the proceeds from other games (-€1,804 million).

A.4 NON-TAX REVENUES

Considered net of daily interest and other inflows connected with debt management (which went from €3,796 million in 2008 to €3,238 million in 2009), non-tax revenues increased by €9,034 million (+27.8 per cent), mainly due to current transfers (+489 million), the sale of goods and services (+959 million) and capital account transfers (+€7,994 million), inclusive of the payments by Regions with an ordinary statute of incremental regional tax revenues (regional tax on productivity and regional income taxes) (+€6,060 million) (Table A.3).

TABLE A.2: RECEIPTS (in € mn)

	2007	2008	2009	Changes 2009/2008	
				Amount	Percentage
DIRECT TAXES	223,797	232,371	227,715	-4,656	-2.0
- Income tax (IRE)	153,828	163,761	159,827	-3,934	-2.4
- Corporate income taxes (IRES)	51,111	48,169	38,731	-9,438	-19.6
- Substitute taxes	10,938	12,347	12,335	-12	-0.1
- Taxes withheld on dividends	539	685	432	-253	-36.9
- Revaluation of corporate assets	378	234	16	-218	-93.2
- Other	7,003	7,175	16,374	9,199	128.2
INDIRECT TAXES	191,126	186,468	183,853	-2,615	-1.4
- BUSINESS	141,551	138,799	132,646	-6,153	-4.4
- Value-added taxes	118,330	115,719	110,021	-5,698	-4.9
- Registration, stamp duties, substitute tax	11,888	11,492	10,925	-567	-4.9
- PRODUCTION	27,727	26,178	28,148	1,970	7.5
- Mineral oils	20,337	20,291	20,826	535	2.6
- MONOPOLIES	10,048	10,176	10,349	173	1.7
- Tobacco	10,043	10,171	10,344	173	1.7
- LOTTERIES	11,800	11,315	12,710	1,395	12.3
TOTAL TAX REVENUES (1)	414,923	418,839	411,568	-7,271	-1.7
OTHER REVENUES	31,833	36,371	43,370	6,999	19.2
- National Healthcare System contributions & Auto-liability insurance contributions	2,372	2,183	1,935	-248	-11.4
- Current transfers	11,199	12,206	12,695	489	4.0
- Own EU resources	5,212	6,001	4,663	-1,338	-22.3
- Sale of goods and services	3,985	3,993	4,952	959	24.0
- Transfers in current accounts	1	1	7,995	7,994	
- Bank of Italy earnings and dividends	2,823	2,452	1,935	-517	-21.1
TOTAL REVENUES (2)	446,756	455,210	454,938	-272	-0.1
Borrowing requirement (+ Surplus)					

1) Net of €2,920 million (2007), €3,800 million (2008) and €2,666 million (2009), as own resources booked as other revenues.

2) Net of duplications (€139 million (2007), €58 million (2008) and €50 million (2009)), net of government securities amortisation reserve (€3,500 million (2007), €19 million (2008) and € 682 million (2009)).

TABLE A.3: ADJUSTED RECEIPTS (in € mn)

	2007	2008	2009	Change 2009/2008	
				Amount	Percentage
DIRECT TAXES (1)	219,215	225,957	220,120	-5,837	-2.6
- Income tax (IRE)	150,278	158,405	153,494	-4,911	-3.1
- Corporate income taxes (IRES)	50,530	47,441	37,844	-9,597	-20.2
- Substitute taxes	10,626	12,083	12,087	4	0.0
- Taxes withheld on dividends	529	676	432	-244	-36.1
- Revaluation of corporate assets	313	233	16	-217	-93.1
- Other	6,939	7,119	16,247	9,128	128.2
INDIRECT TAXES (1)	184,629	178,805	171,870	-6,935	-3.9
- BUSINESS	138,636	135,263	127,462	-7,801	-5.8
- Value-added taxes	116,633	113,505	105,990	-7,515	-6.6
- Registration, stamp duties, substitute tax	11,394	10,859	10,419	-440	-4.1
- PRODUCTION	28,453	26,141	27,596	1,455	5.6
- Mineral oils	21,082	20,311	20,052	-259	-1.3
- MONOPOLIES	9,791	9,909	10,076	167	1.7
- Tobacco	9,786	9,904	10,071	167	1.7
- LOTTERIES (2)	7,749	7,492	6,736	-756	-10.1
TOTAL TAX REVENUES	403,844	404,762	391,990	-12,772	-3.2
OTHER REVENUES(3)	28,327	32,490	41,524	9,034	27.8
- National Healthcare System contributions & Auto-liability insurance contributions	2,372	2,183	1,935	-248	-11.4
- Current transfers	11,199	12,206	12,695	489	4.0
- Own EU resources	5,212	6,001	4,663	-1,338	-22.3
- Sale of goods and services	3,985	3,993	4,952	959	24.0
- Transfers in current accounts	1	1	7,995	7,994	
- Bank of Italy earnings and dividends	2,823	2,452	1,935	-517	-21.1
TOTAL (4) (5) (6)	432,171	437,252	433,514	-3,738	-0.9

1) Includes portion of tax amnesty proceeds due to the tax authority and still to be allocated, estimated at €46 million (including €37 million for direct taxes and €9 million for indirect taxes).

2) Net of accounting settlements in relation to lotteries (€4,048 million (2007), €3,825 million (2008) and €6,215 million (2009)).

3) Net of issuing discounts and daily interest (Section 3240) of €3,368 million (2007) and €3,796 million (2008) and €3,238 million (2009).

4) Includes Tax operating structure's balances paid in January of the next year (€1,360 million (2007), €1,393 million (2008) and €1,570 million (2009)), while it is net of the quota paid by the Tax operating structure in relation to previous years (€100 million (2007), €1,360 million (2008) and €1,393 million (2009)).

5) Net of accounting settlements for Sicily, Sardinia, F.V. Giulia (€8,475 million (2007), €10,492 million (2008) and €12,732 million (2009)).

6) Includes the distribution of the release of the prepayment of value-added taxes, equal to €835 million in 2009.

TABLE A.4: ANALYSIS OF MAIN DIRECT TAXES (in € mn)

	2007	2008	2009	Change 2009/2008	
				Amount	%
Income tax (IRE)	150,278	158,405	153,494	-4,911	-3.1
- Tax rolls	1,064	918	1,055	137	14.9
- Taxes withheld: workers in public sector	10,153	54,428	56,933	2,505	4.6
- Taxes withheld: workers in private sector	99,289	63,658	60,169	-3,489	-5.5
- Taxes withheld: freelance professionals	12,783	13,277	12,825	-452	-3.4
- Payments of balance between estimated taxes paid and total tax due	7,035	7,072	5,442	-1,630	-23.0
- Estimated tax payments	18,922	8,892	15,734	6,842	76.9
- Other	1,032	10,160	1,336	-8,824	-86.9
Corporate income tax (IRES)	50,530	47,441	37,844	-9,597	-20.2
- Tax rolls	227	280	418	138	49.3
- Payments of balance between estimated taxes paid and total tax due	13,122	12,078	9,843	-2,235	-18.5
- Estimated tax payments	36,840	34,737	26,660	-8,077	-23.3
- Assessments with taxpayer participation	341	346	923	-577	166.7
Taxes withheld on capital income	10,626	12,083	12,087	4	0.0
- Taxes withheld on interest, premiums and other income from credit institutions					
- Taxes withheld on bonds	126	147	121	-26	-17.7
- Taxes withheld on bank deposits	4,280	4,950	6,436	1,486	30.0
- Substitute taxes (1)	5,129	5,986	4,774	-1,212	-20.2
- Other withholding	1,091	1,000	756	-244	-24.4

1) Taxes calculated on interest, premiums and other income from certain bonds as provided by Decree-Law no. 239 of 01-04-1996.

TABLE A.5: ANALYSIS OF RECEIPTS - VALUE-ADDED TAXES (in € mn)

	2007	2008	2009	Change 2009/2008	
				Amount	Percentage
Value-added taxes booked to account (1)	121,250	119,519	112,687	-6,832	-5.7
- Domestic transactions	105,279	102,566	100,152	-2,414	-2.4
- Imports	14,530	15,535	11,111	-4,424	-28.5
- Tax rolls	1,273	1,186	1,167	-19	-1.6
- Assessments with taxpayer participation	168	231	256	25	10.8
ADJUSTMENTS					
- Portion of 2006 taxes booked to 2007 account	-26				
- Portion of 2007 taxes booked to 2008 account		-257			
- Portion of 2008 taxes booked to 2009 account			-117		
- Accounting settlements: Sicily and Sardinia	-1,928	-2,074	-2,996		
- Adjustment of prepayments of value-added taxes		-850	-967		
- Allocated in months after December	257	117	49		
TOTAL GROSS VALUE-ADDED TAX, ADJUSTED	119,553	116,455	108,656	-7,799	-6.7
- Value-added taxes, European Union	-2,920	-3,800	-2,666		
TOTAL NET VALUE-ADDED TAX (2)	116,633	112,655	105,990	-6,665	-5.9

1) Inclusive of value-added taxes, European Union.

2) Net of value-added taxes, European Union.

TABLE A.6: ANALYSIS OF RECEIPTS - OTHER INDIRECT TAXES (in € mn)

	2007	2008	2009	Change 2009/2008	
				Absolute Value	Percentage
INDIRECT TAXES	184,629	178,805	171,870	-6,935	-3.9
BUSINESS	138,636	135,263	127,462	-7,801	-5.8
-Value-added taxes	116,633	112,655	105,990	-6,665	-5.9
-Registration, stamp duties, substitute tax	11,394	10,859	10,419	-440	-4.1
-Insurance	2,928	3,113	3,602	489	15.7
-Mortgages	2,305	2,178	1,909	-269	-12.4
-Television (RAI) tax	1,607	1,644	1,660	16	1.0
-Government concessions	1,492	1,546	1,541	-5	-0.3
-Inheritance and donations	123	346	432	86	24.9
PRODUCTION	28,453	26,141	27,596	1,455	5.6
-Mineral oils	21,082	20,311	20,052	-259	-1.3
-Natural gas	3,693	2,211	4,357	2,146	97.1
-Spirits	580	554	545	-9	-1.6
-Non-condensable gas and oil refinery	412	454	489	35	7.7
-Electricity	1,302	1,386	1,286	-100	-7.2
-Border surtax	66	70	55	-15	-21.4
MONOPOLIES	9,791	9,909	10,076	167	1.7
-Tobacco	9,786	9,904	10,071	167	1.7
LOTTO AND OTHER LOTTERIES	7,749	7,492	6,736	-756	-10.1
-Proceeds from lotteries & superenalotto	3,225	3,256	4,304	1,048	32.2
-Other	4,524	4,236	2,432	-1,804	-42.6

A.5 ANALYSIS OF PAYMENTS

The payments recorded in the State budget in relation to the financial year of 2009 are reported in Table A.7 and compared with those for the preceding year.

Net of the accounting settlements indicated after the breakdown of expenditure, the payments amounted to €522,452 million and include €469,044 million of current expenditures and €53,408 million of capital expenditures. When compared with 2008, total expenditures decreased by €1,569 million, with the change attributable to capital expenditures which were lower by €8,081 million (reflecting the absence of an advance of €9,100 million for 2008, in favour of the Regions in relation to the healthcare spending reduction plans)¹.

On the other hand, current expenditure rose by €6,512 million.

Expenditure having a direct impact on the general government's net borrowing

Current expenditure

Disbursements for payrolls came to €90,993 million, remaining essentially in line with the amount incurred for 2008.

Expenditures for intermediate consumption came to €15,445 million, and reflected an increase of €2,701 million compared with 2008; in general, the change was driven by expenditures for running the public administrations, expenditures for school administration and instruction, and expenditures related to the Bank of Italy for commissions on securities. The increase is also related to higher appropriations from the fund for debt carried forward, as well as the adjustments provided upon balancing the budget (approximately +€600 million).

In particular, the aforementioned increases arise from the measures put into effect with Article 6, Paragraph 1-bis, of Decree-Law no. 5/2009, in relation to the settlement of ministries' past debts accrued through the end of 2008. It is also noted that payments were accelerated with respect to outstanding amounts due for services, supplies, and contracts; such payments were booked as part of the residual expenditures account for the State budget for 2009, and were made eligible for cash payment to the extent of the additional resources written into the law governing the balancing of the State budget 2009². Amongst other things, this law provided for the reassignment of the funds for the re-registration of annulled residual current and capital-account expenditures and the adjustment of the reserve for cash authorisations.

Current transfers to businesses came to €3,975 million, and decreased by €1,213 million with respect to the €5,188 million posted for the previous year. The change is due to fewer transfers to the Italian State Railways in relation to both the decrease in resources for 2009 and the fund for current transfers to public-sector firms referenced in Paragraph 904 of Law no. 296/2006, and the deferral of the signing of service contracts to 2010.

¹ Pursuant to Article 2, Paragraph 46, of Law no. 244/2007.

² Law no. 121/2009.

Compared with 2008, transfers to households and NPISH rose by €2,072 million (+44.7 per cent). Such increase is closely correlated to the disbursements from a fund set up by the Ministry of Economy and Finance (MEF) for 2009 only, as provided by Decree-Law no. 185/2008 converted, with amendments, into Law no. 2/2009 (Article 1, Paragraph 22) in relation to the extraordinary bonuses paid to households and to persons who are not self-sufficient (€1,800 million). The increase in the transfers is also reflective of the fund set aside for meeting food and energy needs of low-income citizens ('purchase card') as provided by Article 81, Paragraph 32, of Decree-Law no. 112/2008, converted, with amendments, into Law no. 133/2008 (+€319 million).

Payments for interest expense came to €72,110 million, and reflected a decrease of €7,872 million, much of which refers to the interest paid on postal savings certificates and current accounts with the post office. Instead, the interest paid on current accounts with the treasury was higher.

Finally, an increase of €329 million was booked with reference to payments of own EU resources as a result of greater appropriations to the GNP quota.

Capital account expenditure

Gross fixed investment for 2009 entailed payments of €6,896 million, with an increase of €141 million compared with the prior year.

Contributions to business investments amounted to €12,199 million, and rose by €2,444 million; the increase is mainly reflective of:

- the transfers in favour of the Italian State Railways (roughly €900 million) related contributions made toward the high-speed train systems and equipment, as provided by Table F of the Finance Law, and increased pursuant to Article 25 of Decree-Law no. 185/2008;
- tax credits and fund for the competitiveness and development.

Transfers to the public administrations and other payments

Current expenditures not having a direct impact on the net borrowing of the public administrations include payments to the public administrations which rose by €5,584 million. Such increase is attributable to transfers to social security funds (+€8,147 million, +10.4 per cent), in relation to the higher payments made in favour of the Social Security Administration for private sector workers (INPS), with particular reference to disability pensions (+€2,450 million) and to transfers to the Social Security Administration for government workers (INPDAP) in the form of an advance against the financial requirement of the operational entities (+€5,627 million).

Instead, the transfers to local governments decreased by approximately €3,000 million and in particular, those in favour of the Regions, whose decrease is mostly attributable to the transfers to the fund for the Regions with special statute (equal to €18,050 million in 2008 and €11,226 million in 2009). Such decline is partly offset by the higher sums needed for the accounting settlement of the portions of tax revenues (including in relation to prior years) collected by the Region of *Friuli Venezia Giulia* (+€3,200 million).

The entries for the offsetting and correcting of revenues amounted to €53,415 million, an increase of €4,779 million compared with 2008. Such increase is related to the incremental payments made to special accounts held in the name of the Tax operating structure, which arranges for the accounting settlement of the lower incoming payments arising from the offsetting done by taxpayers.

With reference to capital-account payments, the mentioned decrease is the result of:

- lower acquisitions of financial assets attributable (as already indicated above) to the circumstance that an advance was made in 2008 only to the Regions, in relation to the healthcare spending reduction plans as provided by Article 2, Paragraph 46 of the Law no. 244/2007;
- lower contributions to the central government (-€3,299 million), for the effect of lower appropriations in favour of the revolving fund for EU policies;
- decreases in other capital-account transfers, with particular reference to the reimbursements of amounts carried forward for more than 10 years (-€3,854 million); Article 9 of Decree-Law no. 185 of 2008, converted into Law no. 2/2009, allocated specific resources (through the use of available funding coming from the spending authorisation referenced in Article 1 of Decree-Law 15 September 2006, no. 258, converted, with amendments, into Law no. 278/ 2006 - ruling on value-added taxes on vehicles) that were to be used for covering charges arising from the liquidation of such reimbursements; the resources were paid for this purpose into the special account no. 1778.

The aforementioned decrease was partly offset by higher transfers in favour of:

1. A special-purpose company for the securitisation of public buildings (SCIP2) pursuant to Article 43 bis of Decree-Law no. 207/2008, converted, with amendments, by Law no. 14/2009, which called for liquidation of the separate assets in relation to the first securitisation transaction done by the first special-purpose for the securitisation of public buildings (SCIP1) and the separate assets in relation to the second securitisation transaction done by SCIP2 (+€1,460 million in total);
 2. The fund to be used for strategic works.
- higher contributions to local government (+€1,008 million) with particular reference to sums to be transferred to the Municipalities of Rome and Catania pursuant to Article 5, Paragraph 3, of Decree-Law no. 154/2008 (€500 million), as well as higher assignments to the Regions for the planning and completion of initiatives included in institutional programme agreements.

TABLE A.7: ANALYSIS OF PAYMENTS (in € mn)

	2007	2008	2009	Change 2009/2008	
				Amount	Percentage
CURRENT PAYMENTS					
Payrolls	85,310	91,010	90,993	-17	0.0
Intermediate consumption	13,253	12,744	15,445	2,701	21.2
Regional tax on productive activities (IRAP)	4,786	5,087	5,014	-73	-1.4
Current transfers to public administrations:	184,020	197,185	202,769	5,584	2.8
- central government	4,235	4,290	4,710	420	9.8
- local government	102,596	114,496	111,513	-2,983	-2.6
- regions	80,605	88,803	84,864	-3,939	-4.4
- municipalities	13,377	16,726	17,657	931	5.6
- other	8,614	8,967	8,992	25	0.3
- social security funds	77,189	78,399	86,546	8,147	10.4
Current transfers to households and NPISH	6,188	4,637	6,709	2,072	44.7
Current transfers to businesses	5,651	5,188	3,975	-1,213	-23.4
Current transfers abroad	2,503	1,881	1,579	-302	-16.1
Own EEC resources	14,410	15,500	15,829	329	2.1
Interest payments and capital income	68,698	79,982	72,110	-7,872	-9.8
Offsetting and correcting entries	39,282	48,636	53,415	4,779	9.8
Amortisation	163	186	350	164	88.2
Other current payments	331	496	856	360	72.6
TOTAL CURRENT PAYMENTS	424,595	462,532	469,044	6,512	1.4
CAPITAL PAYMENTS					
Gross fixed investment and land purchases	6,840	6,755	6,896	141	2.1
Contributions: public administrations investments	22,604	25,022	23,269	-1,753	-7.0
- central government	9,637	13,477	10,178	-3,299	-24.5
- local government	12,444	10,682	11,690	1,008	9.4
- regions	7,461	6,658	7,203	545	8.2
- municipalities	4,203	3,383	3,834	451	13.3
- other	780	641	653	12	1.9
- social security funds	523	863	1,401	538	62.3
Contributions to business investments	15,182	9,755	12,199	2,444	25.1
Contributions to investments by households and NPISH	167	127	143	16	12.6
Contributions to investments abroad	547	919	484	-435	-47.3
Other capital account transfers	5,325	10,085	7,995	-2,090	-20.7
Acquisition of financial assets	701	8,826	2,422	-6,404	-72.6
TOTAL CAPITAL PAYMENTS	51,366	61,489	53,408	-8,081	-13.1
TOTAL PAYMENTS	475,961	524,021	522,452	-1,569	-0.3

A.6 COMPARISON BETWEEN RESULTS AND ESTIMATES

Receipts

The performance of receipts (Table A.8) are compared with the corresponding estimates formulated in September 2009 for the Forecast and Planning Report (RPP) for 2010.

Such comparison evidences a positive differential of €3,060 million, as a result of lower tax revenues (€6,169 million below the forecast, net of the proceeds from tax amnesty programmes), against an increase, compared with the estimate, of €8,781 million in revenues other than tax revenues.

The lower tax revenues refer to both direct taxes (-€5,280 million) and indirect taxes (-€889 million). In direct taxes, the shortfall compared with the forecast was caused by income tax (IRE) (-€7,837 million) and corporate income tax (IRES) (-€6,247 million), whereas the other taxes were higher than the forecast (+€9,123 million), due to the amounts collected from the 'tax shield' initiative (+€3,816 million).

In indirect taxes, the actual figure was €889 million below the estimate.

Taxes on businesses were below the forecast, especially in the case of registration taxes, stamp duties, and substitute tax (-€3,230 million) and value-added taxes (-€2,344 million).

In taxes on production, positive differentials were noted in the cases of excise taxes on natural gas (+€1,263 million) and on mineral oils (+760 million).

With regard to monopolies, the revenues were lower than the estimates by €24 million, whereas with regard to Lotto, lotteries and other gaming initiatives, the amounts collected, net of accounting settlements, were €684 million less than the forecast.

Better-than-forecast results were seen in non-tax revenues, with a positive differential of €8,781 million mainly attributable to the payments by Regions with an ordinary statute of incremental regional tax revenues (regional tax on productive activity and regional income taxes) (+€6,060 million).

Payments

As shown by Table A.8, the payments made in 2009 amounted to €522,932 million, a sum that was €17,993 million less than the forecast.

The difference between the actual and forecast figures is the result of the trend of both current and capital-account expenditures. For current expenditures, the difference of €8,140 million compared with the estimates is mainly due to:

- payrolls (-€1,658 million) as a result of the deferral to 2010 of certain contract renewals (-€1,300 million);
- current transfers to businesses (-€1,132 million), most of which regards the Italian postal system (the joint-stock company, *Poste*) and the Italian State Railways, and the deferral to 2010 of the signing of service contracts;
- transfers to the public administrations (-€10,380 million), whose difference is mostly attributable to the payments in relation to local government and more specifically, a lower-than-forecast level of disbursements to the fund for the Regions with special statute and Fund for Fiscal Federalism; such decrease reflected a lower funding requirement, including in relation to the time lag connected with the definitive calculation of the tax revenue data;
- interest expenditure (-€3,849 million), whose better-than-forecast result is mostly due to the decrease in interest on debt securities as a result of market trends;
- EU budget financing (-€1,171 million), for the effect of lower contributions disbursed on the basis of GNP;
- payments for offsetting and correcting entries (+€8,401 million); the forecast called for lower payments than those actually made to the special account held in the name of the Tax operating structure for ‘budget funds’ (+€7,793 million), since such treasury account had significant balances that were not used in 2009;
- higher disbursements with regard to intermediate consumption (+€2,703 million); as indicated, such difference is essentially concentrated in the expenditures for running the public administration, following the settlement of payables from the past and the acceleration of the payment of residual amounts.

With reference to capital-account expenditure, the lower payments were mainly due to:

- lower contributions to the public administrations (-€2,000 million); such difference is mainly attributable to lower disbursements in favour of the revolving fund for EU policies (-€1,200 million) and ANAS (approximately -€700 million); other negative shifts compared with the estimates are seen with respect to the local governments for administrative federalism (-€300 million);
- lower contributions for investments by businesses (€1,072 million below the estimate), with such difference primarily due to tax credits;
- lower disbursements for other capital-account transfers (-€2,876 million), with such difference due to lower past deficits of local public healthcare units (-€700 million) and lower usage of the Fund for Re-Registration of Expired Residual Liabilities (around €2,200 million), also taking into account the limitations resulting from the provisions of Article 9-bis of Decree-Law no. 78/2009.

TABLE A.8: COMPARISON BETWEEN OUTTURN AND ESTIMATES - CASH ACCOUNT (in € mn)

	Outturn	Estimates RPP 2010	Differences
A. FINAL RECEIPTS	433,514	430,454	3,060
- Tax revenues, net of amounts received on tax amnesties	391,542	397,711	-6,169
- Direct taxes:	219,706	224,986	-5,280
- Income tax (IRE)	153,494	161,331	-7,837
- Corporate income tax (IRES)	37,844	44,091	-6,247
- Withholding on capital income	12,087	12,050	37
- Substitute tax on revaluation of business assets	16	9	7
- Substitute tax pursuant to Law no. 662/1996	604	967	-363
- Other	15,661	6,538	9,123
including: Tax shield	3,816	0	3,816
- Indirect taxes:	171,836	172,725	-889
- Value-added taxes (1)	105,990	108,334	-2,344
- Registration, stamp duties, substitute tax	10,419	13,649	-3,230
- Other businesses	11,019	7,661	3,358
- Natural gas	4,357	3,094	1,263
- Mineral oils	20,052	19,292	760
- Other taxes on production	3,187	3,175	12
- Monopolies	10,076	10,100	-24
- Lotto and lotteries, net	6,736	7,420	-684
- Tax amnesty programmes	448	0	448
- Other receipts	41,524	32,743	8,781
B. PAYMENTS (2)	522,932	540,925	-17,993
- Current	469,119	477,259	-8,140
- Payrolls	91,412	93,070	-1,658
- Intermediate consumption	15,342	12,639	2,703
- Transfers to businesses	3,975	5,107	-1,132
- Transfers to public administrations	202,528	212,908	-10,380
- Contributions to EU budget	15,829	17,000	-1,171
- Interest	72,110	75,959	-3,849
- Offsetting and correcting entries	53,415	45,014	8,401
- Capital account	53,813	63,666	-9,853
- Contributions to investments of businesses	12,199	13,271	-1,072
- Contributions to investments to public administrations	24,183	26,203	-2,020
- Fixed investments	6,469	6,900	-431
- Other capital-account transfers	7,913	10,789	-2,876
BALANCES	-89,418	-110,471	-21,053
Receipts, net of:			
- Accounting settlements: Sicily, Sardinia and F.V. Giulia	12,732	13,688	-956
- Lottery settlements	6,215	4,400	1,815
1) The 'value-added taxes are net of €2,666 million and €3,800 million as payments not due to the tax authority and included in the estimates in the 2010 Forecast and Planning Report (RPP).			
2) The outturn and estimates also include treasury entries as a result of transactions for consolidating the Presidency of the Council of Ministers, State Audit Court, Regional Administrative Court and Tax Authorities.			

A.7 STATE BUDGET FOR 2010: APPROPRIATED AMOUNTS

The forecast of the cash- and accrual-based accounts for the current year (consistent with the 2010 Budget Law) requires changes and supplements in order to construct (on the basis of information presently available) a suitable support for formulating reliable estimates of the cash requirements of the budget and State sector for the current year.

Such changes and supplements regard both components of the appropriated budget amounts and more specifically:

- the presumed balance of residual amounts at the start of 2010, which is currently configured in terms significantly different from the Budget Law's terms, which essentially incorporated the estimates of the initial residual amounts computed for the presentation of the proposed budget to Parliament in September 2009;
- the amounts accruing for 2010, which are to be adjusted in order to take into account certain transactions that will be incorporated into the budget during the year, as part of the implementation of specific legislative provisions.

In addition, a reclassification of several budget items is needed in order to allow for an easier reconciliation between the State budget and the detailed State sector consolidated cash account.

The changes and supplements to be introduced with respect to the appropriated amounts for 2010 referenced immediately hereinabove respectively modify the forecast framework indicated by the Budget Law.

Accordingly, a recomputation is made of the estimates of aggregates listed below:

- the presumed balances of residual revenues and residual expenditures at the start of the year 2010, without prejudice to the definitive balances that will be acknowledged by the budget through the legislative measures for balancing the budget;
- the accrual- and cash-based authorisations at the start of the year, thereby integrating the authorisations from the Budget Law with the transactions referenced above;
- the correlative estimates of the State budget receipts and payments, computed by taking into account the effects of the aforementioned recomputation of the initial balance of residual amounts, the expected trend of the most significant macroeconomic variables, and the acquisition of the cash-basis results for 2009.

The new estimate of the presumed residual balances at the start of 2010 (formulated on the basis of the accrual- and cash-based results for the State budget for 2009) is set out in the summary data in Table A.9 and compared with the estimate considered in the 2010 Budget Law:

- The computation of the residual revenues considers the provisional nature of the assessments of the past year and the non-definitive breakdown of the total receipts for such year between tax revenues and other revenues and between certain important sources of revenues, especially taxes;
- The computation of the residual expenditures considers the less-than-complete nature of the information about actual 2009 commitments, and the 'limitation'

and 'administrative expiration', including for the effect of the provisions of Article 3, Paragraph 36 of Law no. 244/2007, which reduced the term for the conservation of residual capital-account amounts from seven to three years.

TABLE A.9: RESIDUAL REVENUES AND EXPENDITURES AT START OF 2010 (in € mn)

	Initial Residual Amounts (2008 outturn)	Provisional Commitments & Assessments 2009	Provisional Receipts & Payments 2009	Expired	Residual amounts at 01/01/2010		
					Provisional Balance for 2009	2010 Budget Law	Differences
	1	2	3	4	5=1+2-3+4	6	7=5-6
REVENUES							
- Tax	76,574	437,994	411,568	0	103,000	97,702	5,298
- Other	87,278	68,704	43,370	0	112,612	93,873	18,739
TOT. REVENUES	163,852	506,698	454,938	0	215,612	191,575	24,037
EXPENDITURE							
- Current	42,894	479,687	468,778	1,808	51,995	52,059	-64
- Capital	46,442	55,105	53,674	3,713	44,160	46,955	-2,795
TOT. EXPENDIT.	89,336	534,792	522,452	5,521	96,155	99,014	-2,859

Despite such elements of uncertainty, it is still possible to affirm that the residual balances at the start of 2010 that can be computed presently are less than those that were estimated at the end of September in the original budget proposal and reconfirmed in the 2010 Budget Law.

The residual expenditures are recomputed to a presumed balance of €96,155 million with a reduction of €2,859 million compared with those considered in the Budget Law; the reduction reflects lower residual capital-account amounts (€2,795 million) and current amounts (€64 million).

Table A.10 shows in summary form the formulation of the 2010 accrual-based forecast (which is currently definitive), taking into account:

- the 2010 Budget Law, inclusive of the adjustments made to the original budget proposal (for ratification of the public finance measures) and the reclassifications referenced above;
- the main revenue reassignments, pursuant to Decree of the President of the Republic (D.P.R.) no. 469/1999, as well as other budget changes to be introduced in application of specific provisions, that will presumably be ratified for 2010; in particular, the application of the effects of the respective Decree Laws no. 194/2009, no. 195/2009 and no. 1/2010. Moreover, additional factors were considered with reference to the application of Article 2, Paragraph 250 of Law no. 191/2009 and the related Exhibit n. 1 list.

TABLE A.10: SUMMARY OF INITIAL ACCRUAL FORECASTS AND RELATED APPROPRIATED AMOUNTS FOR 2010 (in € mn)

	Provisional Residual Amounts	2010 Draft Budget Law (1)	Public Finance Measures	2010 Budget Law	Other Changes Considered	2010 Accrual Integrated Forecasts	2010 Budget Appropriated Amounts
	1	2	3	4=2+3	5	6=4+5	7=1+6
Tax revenues	97,702	405,440	3,302	408,742	5	408,747	506,449
Other revenues	93,873	31,319	3,350	34,669	309	34,978	128,851
TOTAL REVENUES (A)	191,575	436,759	6,652	443,411	314	443,725	635,300
Current expenditure (net of interest)	51,795	375,234	5,599	380,833	-7	380,826	432,621
Interest	264	79,347	1	79,348		79,348	79,612
Capital account expenditure	46,955	43,296	2,353	45,649	-158	45,491	92,446
TOTAL EXPENDITURE (B)	99,014	497,877	7,953	505,830	-165	505,665	604,679
NET BALANCE TO FINANCE (B-A)	-92,561	61,118	1,301	62,419	-479	61,940	-30,621

The essential aspects of the 2010 Budget Law are analysed below with distinct reference to revenue and expenditures.

Table A.11 reports the list of debt and accounting settlements.

TABLE A.11: DEBT AND ACCOUNTING SETTLEMENTS (in € mn)

	Balanced or amended amounts for 2009		Initial amounts for 2010	
	Accrual	Cash	Accrual	Cash
REVENUES	33,715	33,715	32,696	32,696
- Value-added tax reimbursements	33,715	33,715	32,696	32,696
- Concessionaires advance				
- Title III- Gov. securities amortisation reserve				
CURRENT EXPENDITURE	37,085	37,085	36,326	36,326
- Value-added tax reimbursements (incl. from past)	33,715	33,715	32,696	32,696
- Court expenses				
- <i>Mint</i> debts carried forward	200	200	110	110
- Concessionaires advance				
- National Health care fund – regional tax on productive activities (IRAP)	20	20		
- Reimbursement of direct taxes carried forward	3,150	3,150	3,520	3,520
- Tax revenues for Sicily and Sardinia regions				
CAPITAL ACCOUNT EXPENDITURE	3,700	4,791	0	0
- Deficits of local public healthcare units		1,091		
- Global fund				
- Value-added tax reimbursements on vehicles	3,700	3,700		
TOTAL EXPENDITURE	40,785	41,876	36,326	36,326
FINANCE LAW				
- Table C - National Healthcare fund - IRAP 2003			1,054	1,054
TOTAL EXPENDITURE WITH FINANCE LAW	40,785	41,876	37,380	37,380

A.8 REVENUES

The final amount of accrued revenues, net of accounting settlements, is reported in Table A.10 and amounts to €443,725 million.

The public-finance measures to be adopted for 2010 are reported in Table A.12 in terms of incremental net revenues.

TABLE A.12: EFFECTS ON REVENUES OF PUBLIC FINANCE MEASURES FOR 2010 (in € mn)

	Amount
TAX REVENUES	
2010 Finance Law	
Tax on Aquila rents	-1.5
Reduction of biodiesel quota	88.7
Southern Italy credit - subsidised tax rate of 5%	-9.2
Tax relief on productivity contracts	-800.0
Tax relief on additional allowances to law enforcement personnel	-60.0
Deferral for payments for Abruzzo earthquake for municipalities outside the epicentre	26.6
Deferral for payments for Abruzzo earthquake	-77.8
Recovery of lower amounts of prepayments of personal income tax (tax shield)	3,716.0
Revaluation of land	350.0
Bioethanol excise tax	69.2
Victims of actions of terrorism	-0.2
TOTAL TAX REVENUES	3,301.8
OTHER REVENUES	
2010 Finance Law	
Sale of state assets	250.0
Receipts from Employee severance indemnities (TFR)	3,100.0
TOTAL NON-TAX REVENUES	3,350.0
TOTAL OTHER REVENUES	
TOTAL REVENUES	6,651.8

A.9 EXPENDITURE

The final amount of accrued expenditures, net of debt and accounting settlements, is computed for 2010 on the basis of the cash estimates prepared for this report and is equal to €505,665 million (Table A.10).

The figure takes into account the package of public finance measures for 2010, which is aimed at both creating a situation of stability and certainty for the public accounts and respecting European parameters, while also facilitating an economic recovery.

With regard to spending measures for 2010, the State budget is focused on achieving cost containment of €10,640 million, whereas spending initiatives to favour development are equal to €18,593 million (net of accounting settlements). Table A.13 reports the most significant measures that affected the State budget, including:

Containment measures

- use of resources flowing into the fund for financing urgent measures (-€8,634 million);
- reduction of the transfers to the autonomous provinces of Trento and Bolzano (-€1,000 million);
- reductions of the transfers for welfare (-€379 million), in relation to the national statistical institute (ISTAT) adjustment of the Social Security Administration (INPS) pensions;
- reductions in the strategic fund for the nation in support of the real economy (-€120 million).

Initiatives

- fund for financing urgent measures (€8,734 million);
- initiatives provided by the listed attached to Article 2, Paragraph 250 of the 2010 Finance Law (€2,214 million);
- reimbursement to local entities for the loss of proceeds from property tax (ICI) (€1,676 million);
- refinancing of national healthcare fund (€584 million);
- initiatives planned for persons who are not self-sufficient (€400 million);
- national statistical institute (ISTAT) adjustment of certain social-welfare benefits (€379 million).

TABLE A.13: PUBLIC FINANCE MEASURES FOR 2010 (in € mn)

	Amount
1. CONTAINMENT MEASURES (A)	10,640
Lower expenditure as outlined in the 2010 Finance Law	10,640
<i>Current expenditure</i>	10,340
- Reduction of the fund for financing urgent measures	8,634
- Trento and Bolzano	1,000
- Social-welfare management (ISTAT adjustment)	379
- Strategic fund for the nation for support of the real economy	120
- Public finance stabilisation	100
- Other	107
<i>Capital account expenditure</i>	300
2. MEASURES (B)	18,593
Incremental expenditures outlined	16,665
<i>Current expenditure</i>	15,364
- Fund for financing urgent measures	8,734
- Resources under Article 2 Paragraph 250 to be assigned to measures in Exhibit 1 to 2010 Finance Law	2,214
- Property tax (ICI) reimbursement to local governments for non-collection	1,676
- Refinancing of national healthcare fund	584
- Fund for persons who are not self-sufficient	400
- Fund for settlement of outstanding items - Bank of Italy	689
- Social-welfare management (ISTAT adjustment)	379
- Other	688
<i>Capital account expenditure</i>	1,301
- deduction of portion of resources referenced in Article 2 Paragraph 250 to be assigned to measures in Exhibit 1 to 2010 Finance Law via reassignment in 2010	-270
Tables in 2010 Finance Law	2,198
Total measures, net (B-A)	7,953

A.10 STATE BUDGET CASH AUTHORISATIONS FOR 2010 AND RELATED ESTIMATES

The budgeted amounts of potential receipts and disbursements are needed in order to prepare estimates of the operating transactions for the cash budget for 2010.

More specifically, the development of the cash estimates has taken into account the authorisations for receipts and payments (Table A.14) coming from the Budget Law (inclusive of the effects of the Finance Law) and has rounded out such data with the same transactions considered on an accrual basis, as analytically illustrated above.

The final forecast of receipts is equal to €451,334 million (including €408,760 million of taxes), and the final forecast of payments is equal to €520,855 million (including current expenditure of €472,358 million).

The estimates of the receipts shown in Table A.14 have taken into account, considering the respective authorisations, the items indicated in Table A.16.

The estimates of the payments are based on the criteria for constructing the State sector borrowing requirement.

Such estimates have been formulated, as a rule, on the premise of the continuing limitation in relation to containment of cash authorisations, including in the case of the ascertainment of higher residual expenditures compared with those considered by the Budget Law.

TABLE A.14: SUMMARY OF AUTHORISATIONS AND ESTIMATES FOR RECEIPTS AND PAYMENTS IN 2010 (in € mn)

	Provisional residual amounts	2010 Draft Budget Law (*)	Public Finance Measures	2010 Budget Law	Other Changes Considered	Accounting settlements (1)	2010 Cash Integrated Author.	Estimates
	1	2	3	4=2+3	5	6	7=4+5+6	8
Tax revenues	97,702	380,392	3,302	383,694	5	32,696	416,395	408,760
Other revenues	93,873	23,263	3,350	26,613	309	0	26,922	42,574
TOTAL REVENUES (A)	191,575	403,655	6,652	410,307	314	32,696	443,317	451,334
Current expenditure (*)	51,795	389,986	5,599	395,585	-7	37,380	432,958	401,190
Interest	264	79,347	1	79,348		0	79,348	71,168
Capital account expenditure	46,955	49,714	2,353	52,067	-158	0	51,909	48,497
TOTAL EXPENDITURE (B)	99,014	519,047	7,953	527,000	-165	37,380	564,215	520,855
NET BALANCE TO BE FINANCED (B-A)	-92,561	115,392	1,301	116,693	-479	4,684	120,898	83,869

1) The amounts in the column make the aggregates that can be procured and spent consistent with the detailed State sector consolidated account.
*) Current expenditure net of interest

TABLE A.15: SUMMARY OF CASH FLOW FOR 2009 (OUTTURN) AND 2010 (ESTIMATES) (in € mn)

	2009	2010	Change 2010/2009	
			Amount	Percentage
RECEIPTS				
Taxes	411,568	408,760	-2,808	-0.7
Other	43,370	42,574	-796	-1.8
Total receipts	454,938	451,334	-3,604	-0.8
PAYMENTS				
Current	469,044	472,358	3,314	0.7
Capital account	53,408	48,497	-4,911	-9.2
Total payments	522,452	520,855	-1,597	-0.3
SURPLUS (+)/ REQUIREMENT (-)	-67,514	-69,521	-2,007	2.9

A.11 ESTIMATED RECEIPTS FOR 2010

The final revenues (net of accounting settlements for Sicily and Sardinia, the direct transfer of taxes to the Region of Friuli Venezia Giulia, the accounting settlements for the lotteries, and issuing discounts and daily interest) are projected to total €434.584 million and represent an increase of €1,070 million (+0.2 per cent) compared with the 2009 results. The difference reflects the estimate of incremental tax revenue (+218 million, net of tax-amnesty programmes) and an increase in other receipts (+€1,050 million).

The changes in relation to the principal sources of revenues are shown in Table A.16.

When considering tax revenues net of the proceeds from tax-amnesty programmes, the better results expected for 2010 are the by-product of a projected reduction of €3,919 million (-1.8 per cent) in direct taxes and a projected increase of €4,137 million (+2.4 per cent) in indirect taxes.

Within the category of direct taxes, the decrease is based on lower withholding on capital income (-€5,332 million) and a reduction in other taxes (-€9,329 million due to the absence of the effects of the 'tax shield' programme), whereas an increase is forecast with regard to income tax (IRE) (+€8,678 million) and corporate income tax (IRES) (+€2,064 million).

The positive change in indirect taxes in the business category is essentially based on value-added taxes (+€1,355 million, +1.3 per cent) and registration taxes, stamp duties, and insurance taxes (+€3,255 million, +31.2 per cent).

Taxes on production are expected to rise in the case of excise taxes on mineral oils (+€180 million), whereas the amount of taxes from natural gas consumption are forecast to decline (-€357 million).

A positive trend is expected in 2010 for the 'Monopolies' category (+€135 million) and Lotto and other lotteries category (+€2,530 million, net of accounting settlements).

The increase assumed for other receipts (+€1,050 million) is based on exogenous factors that influence the year-on-year trend as well as the effects of the public-finance package for 2010.

TABLE A.16: ANALYSIS OF RECEIPTS IN 2009 AND ESTIMATED RECEIPTS FOR 2010 (in € mn)

	Outturn 2009	Estimates 2010	Change 2010/2009	
			Absolute Value	Percentage
A. RECEIPTS (1)	<i>433,514</i>	<i>434,584</i>	<i>1,070</i>	0.2
-Taxes net of tax amnesties	391,542	391,760	218	0.1
-Direct taxes:	219,706	215,787	-3,919	-1.8
-Income tax (IRE)	153,494	162,172	8,678	5.7
-Corporate income taxes (IRES)	37,844	39,908	2,064	5.5
-Taxes withheld on capital income	12,087	6,755	-5,332	-44.1
-Other	16,281	6,952	-9,329	-57.3
-Indirect taxes:	171,836	175,973	4,137	2.4
-Value-added taxes (*)	105,990	107,345	1,355	1.3
- Registration, stamp duties, and insurance	10,419	13,674	3,255	31.2
-Other businesses	11,019	8,076	-2,943	-26.7
-Natural gas	4,357	4,000	-357	-8.2
-Mineral oils	20,052	20,232	180	0.9
-Other taxes on production	3,187	3,169	-18	-0.6
-Monopolies	10,076	10,211	135	1.3
-Lotto and lotteries, net	6,736	9,266	2,530	37.6
-Tax amnesties and agreements	448	250	-198	
-Other receipts	41,524	42,574	1,050	2.5
(1) Receipts net of:				
Accounting settlements: Sicily, Sardinia and F.V.Giulia	12,732	12,750	18	0.1
Lottery settlements	6,215	4,000	-2,215	-55.4

*) The amount is net of EU VAT resources, booked among 'Other receipts', equal to €2,666 million for 2009 and estimated at €2,600 million for 2010.

A.12 ESTIMATED PAYMENTS FOR 2010

The consolidated estimates for 2010 outlined immediately above have been compared with the corresponding cash-based results for 2009 (Table A.17) using the same standards for comparison.

The 2010 estimates include the effects of the decree-laws cited above as well as the expenditures of: Presidency of the Council of Ministers, Tax Authorities, the State Audit Court, Regional Administrative Courts and the Council of State.

The forecasts of the above mentioned payments for 2010 amount to €520,855 million, whereas the payments made in 2009 totalled €522,452 million. The difference between the 2010 estimates and the 2009 outturn (-€1,597 million) is related to capital-account items for which a decrease of €4,911 million is projected. At the same time, current expenditure is projected to rise by €3,314 million.

TABLE A.17: ANALYSIS OF PAYMENTS IN 2009 AND ESTIMATED PAYMENTS FOR 2010 (in € mn)

	Outturn 2009	Estimates 2010	Change 2010/2009	
			Absolute Value	Percentage
PAYMENTS CURRENT				
Payrolls	90,993	93,100	2,107	2.3
Intermediate consumption	15,445	13,281	-2,164	-14.0
Regional tax on productive activities (IRAP)	5,014	5,163	149	3.0
Current transfers to public administrations:	202,769	212,792	10,023	4.9
- central government	4,710	3,770	-940	-20.0
- local government	111,513	119,599	8,086	7.3
- regions	84,864	93,648	8,784	10.4
- municipalities	17,657	17,001	-656	-3.7
- other	8,992	8,950	-42	-0.5
- social security funds	86,546	89,423	2,877	3.3
Current transfers to households and NPISH	6,709	4,867	-1,842	-27.5
Current transfers to businesses	3,975	5,602	1,627	40.9
Current transfers abroad	1,579	1,610	31	2.0
Own EEC resources	15,829	16,600	771	4.9
Interest payments and capital income	72,110	71,168	-942	-1.3
Offsetting and correcting entries	53,415	46,619	-6,796	-12.7
Amortisation	350	500	150	42.9
Other current payments	856	1,056	200	23.4
TOTAL CURRENT PAYMENTS	469,044	472,358	3,314	0.7
CAPITAL PAYMENTS				
Gross fixed investment and land purchases	6,896	7,000	104	1.5
Contributions: public administrations investments	23,269	20,470	-2,799	-12.0
- central government	10,178	8,600	-1,578	-15.5
- local government	11,690	11,370	-320	-2.7
- regions	7,203	8,392	1,189	16.5
- municipalities	3,834	2,489	-1,345	-35.1
- other	653	489	-164	-25.1
- social security funds	1,401	500	-901	-64.3
Contributions to business investments	12,199	11,831	-368	-3.0
Contributions to investments by households and NPISH	143	94	-49	-34.3
Contributions to investments abroad	484	550	66	13.6
Other capital account transfers	7,995	4,919	-3,076	-38.5
Acquisition of financial assets	2,422	3,633	1,211	50.0
TOTAL CAPITAL PAYMENTS	53,408	48,497	-4,911	-9.2
TOTAL PAYMENTS	522,452	520,855	-1,597	-0.3

With reference to current expenditures, the comparison between the 2010 estimates and the 2009 outturn evidences the following:

- higher expenditure for payrolls (+€2,107 million, excluding the regional tax on productive activities, IRAP) in relation to the increases (approximately €2,400 million) for the renewal of the 2006-2007 and 2008-2009 national collective bargaining agreements and the reinstatement of the turnover limit for the armed forces and law enforcement personnel, net of the staffing economies arising from the reorganisation of the central government in application of Decree-Law no. 112/2008.
- the decrease in intermediate consumption (-€2,164 million) mainly due to the absence of past payables which were settled in 2009 as a result of the measures placed into effect with Article 6, Paragraph 1-bis of Decree-Law no. 5 of 10 February 2009, converted into Law no. 33/2009, in relation to the settlement of ministries' past debts accrued through the end of 2008 (approximately €2,200 million), and the conclusion of the effects of Article 9 of Decree-Law no. 78/2009 and the correlated spending increases booked in 2009.

- the increase of €10,023 million in current transfers to the public administrations, mostly due to:
 - higher transfers to the Regions (+€8,784 million), in relation to the increase in the sharing of value-added taxes in order to cover healthcare spending (+€6,300 million), the transfer of past tax revenues booked to the fund for the Regions with special statute (+€2,400 million);
 - higher transfers to social security funds (+€2,877 million), with €600 million referring to transfers to the Social Security Administration for the Public Sector Workers (INPDAP) for budget advances (in this regard, it is noted that the State's contribution to INPDAP since 2008, on the basis of Law no. 244/2007, Article 2, Paragraph 499, has been frozen in order to allow for proper application of Law no. 448/1998, Article 35, Paragraph 3, "advance against the financial requirement of social security administrations as a whole"), and €2,500 million referring to higher payments to the Social Security Administration for the Private Sector Workers (INPS);
- the decrease of transfers to households and NPISH (-€1,842 million) is correlated to the conclusion of disbursements from the fund set up at the Ministry of the Economy and Finance for 2009 only pursuant to Decree-Law no. 185/2008 converted, with amendments, into Law no. 2 of 28 January 2009 (Article 1, Paragraph 22), in relation to the extraordinary bonuses allocated to low-income households and persons who are not self-sufficient (€1,800 million), and the fund for meeting food and energy needs of low-income citizens ('purchase card') as provided by Article 81, Paragraph 32, of Decree-Law no. 112/2008, converted, with amendments, into Law no. 133/2008 (-€219 million).
- the increase in transfers to businesses (+€1,600 million), most of which regards the Italian postal system and the Italian State Railways, and the deferral to 2010 of the signing of service contracts.
- interest expenditure is estimated at €71,168 million, a decrease of more than €940 million with respect to the 2009 outturn; such difference is due to the projected lower payments of interest on public debt securities, offset in part by higher payments of interest on postal savings certificates.
- With regard to entries for the offsetting and correcting of revenues, the expected payments are projected to be lower by €6,800 million; such decrease is related to lower payment to the special account held in the name of the 'Tax operating structure for 'budget funds'', since such treasury account had significant balances that were not used in 2009.

With regard to capital-account expenditures, the comparison between the 2010 estimates and 2009 outturn (-€4,911 million) shows the following:

- the decrease in transfers to the public administrations (-€2,799 million) is the result of lower sums to be disbursed respectively to:
 - i. the central government, in relation to lower amounts appropriated for the Road Board (ANAS) and the revolving fund for EU policies;
 - ii. municipalities, with reference in particular to residential building projects and the fund for financing local governments, as well as the higher resources provided for the Regions (+€1,189 million);
- the decrease related to other capital-account transfers (-€3,076 million) is essentially due to:
 - i. lower sums provided for the absence of the payment of the amount due by the social security funds in 2009 for the repurchase of properties held by SCIP (-€1,460 million);
 - ii. the payment for reimbursements of amounts carried forward for more than 10 years (-€823 million) in 2009, in relation to specific resources assigned under Article 9 of Decree-Law no. 185/2008, converted into Law no. 2/2009, through the use of available funding coming from the spending authorisation referenced in Article 1 of Decree-Law 15 September 2006, no. 258, converted, with amendments, into Law no. 278/2006 (ruling on value-added taxes on vehicles), that were to be used for covering charges arising from the liquidation of such reimbursements; the resources were paid for this purpose into the special account n. 1778;
 - iii. a lower sum provided for the deficits of local public healthcare units (-€1,074 million).
- the increase in the acquisitions of financial assets (+€1,211 million) is related to the planned advances to the Regions for extinguishing healthcare debt, as provided by the 2008 Finance Law (€1,000 million), pursuant to Article 2, Paragraph 98, of the 2010 Finance Law.

B. STATE SECTOR DEBT

1.1 STATE SECTOR DEBT STOCK

As of 31 December 2009, the State Sector debt amounted to €1,620,521 million, with a year-on-year increase of €85,964 million (+5.6 per cent). The increase with respect to 30 September 2009 is equal to €13,625 million (+0.8 per cent).

The sizeable financing needed through the end of the third quarter of 2009 meant the balance in the liquidity account had to be kept at a high level in order to cover both borrowing and funding needs. Though significantly decreasing during the final quarter of the year, the balance in the liquidity account at the end of December 2009 was nonetheless still higher than the comparable balance at the end of 2008 in order to facilitate management of maturities and issues at the start of 2010.

Maturities of government securities

During the fourth quarter of 2009, a total of €111,522 million of Italian government securities came due, compared with €85,095 million during the same period of 2008, with an increase of 31.06 per cent.

TABLE B.1: GOVERNMENT SECURITIES COMING DUE, NET OF REPURCHASE TRANSACTIONS (in € mn)

	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009
Short-term securities	70,785	69,557	71,548	73,413	66,647
BOTs	67,625	69,557	69,246	70,950	65,450
Commercial paper	3,160	-	2,302	2,463	1,017
	14,310	17,090	80,739	22,873	45,055
CTZs, CCTs e BTPs	14,310	16,370	78,504	22,169	45,055
Foreign securities	-	719	2,235	704	-
	85,095	86,646	86,646	96,286	111,522

In the short-term segment, maturities amounted to €66,647 million, inclusive of €65,450 million of BOTs and €1,017 million of commercial paper. During the same period of 2008, short-term maturities amounted to €70,785 million, inclusive of €67,625 million of BOTs and €3,160 million of commercial paper.

In the medium-/long-term segment, reimbursements of securities totalled €45,055 million, all of which referred to domestic issues. In the fourth quarter of 2008, the reimbursements amounted to €14,310 million, with the entire balance also consisting of domestic issues.

Issues and balances of government securities

In pursuing the objective of guaranteeing coverage of the State sector borrowing requirement, the Department of the Treasury continued to place medium-/long-term fixed-rate issues (BTPs) and medium-/long-term floating-rate issues (CCTs) through the marginal auction system with discretionary determination of the adjudication price and quantity within an issue range communicated in advance.

In addition, the potential re-opening of off-the-run issues has been confirmed within the sphere of normal sessions for the auction of medium- and long-term securities.

The Department of the Treasury thus maintained its commitment to respect the annual issuance calendar, while also using the elements of flexibility needed for dealing with a market still affected by volatility and uncertainty.

A total of €77,556 million of government securities was issued on the domestic market in the fourth quarter of 2009, with a decrease of 20 per cent compared with the €97,249 million issued during the same quarter of 2008.

TABLE B.2: GROSS ISSUES OF GOVERNMENT SECURITIES NOT INCLUDING REPURCHASE TRANSACTIONS (in € mn)

	4Q 2008	1Q 2009	2Q 2009	3Q 2009	4Q 2009
BOTs	56,696	92,000	74,100	63,876	37,570
CTZs	4,400	12,662	11,600	12,150	6,050
BTPs	32,748	46,303	54,055	49,013	25,547
BTPCī	1,476	4,926	5,491	3,413	3,500
CCTs	2,109	3,512	8,175	9,236	4,889
TOTAL	97,429	159,403	153,421	137,687	77,556

During the fourth quarter of 2009, BOT issues amounted to €37,570 million (inclusive of €17,325 million of 1-year maturities and €20,245 million of 6-month maturities). The total reflects a decrease of more than 33 per cent compared with the same period of the previous year, with the difference mainly indicative of the non-issuance of quarterly and flexible securities (instruments typically used for treasury management and issued on the basis of specific funding needs).

The 1-year BOTs were offered on a regular basis at mid-month, with the amount thereof determined on the basis of demand and market conditions; the balance of the issues for the fourth quarter reflects a decrease of €1,175 million. The 6-month BOTs were also regularly issued, usually at month end, with the quantity of the offer calibrated so as to support the CCT segment on the secondary market. The amount of net issues for the fourth quarter reflects a decrease of €11,205 million, and was influenced, as is customary, by delayed settlement for the end-December issues (to 2 January 2010).

Altogether, the stock of the BOTs contracted by €27,880 million compared with the balance as of the prior quarter, while the reduction versus 31 December 2008 was a less pronounced €7,657 million. As of the end of 2009, BOTs outstanding amounted to 8.63 per cent of total government debt outstanding, compared with 9.63 per cent for the previous year.

In the fourth quarter of 2009, two transactions were carried out for the purpose of daily liquidity management, both of which entailed overnight funding (next-day settlement versus the day of the transaction) for an average amount of roughly €635 million. Given the term of these transactions, the balance at the end of the quarter was zero.

In the fourth quarter of 2009, a total of €6,050 million of CTZs was issued, for an increase of 37.50 per cent compared with the same quarter of 2008. On a net basis, the issues decreased by €5,651 million due to the reimbursement of €11,701 million. The figures over the latest 12 months confirm the trend taking shape in previous quarters, namely, an overall increase in CTZs due to a higher number of securities issued in response to the continuing interest on the part of both international investors and retail investors in the current market scenario. The stock of CTZs rose by €17,976 million compared with December 2008, thus representing 4.00 per cent of the total debt stock at the end of 2009, compared with 3.05 per cent for the previous year. The issues of the CTZs 30/09/2009-30/09/2011 inaugurated in the third quarter of 2009 were continued in the fourth quarter.

The fourth quarter was also marked by the placement of BTPs across all maturities; however, given the reduced needs for funding in the final months of the year, it was possible to reduce the quantities issued. Indeed, at the end of November, there were no 3-year securities issued, whereas at mid-December, the placements excluded 5-year BTPs.

The total issues of BTPs in the fourth quarter of 2009 amounted to €25,547 million, with a decrease of approximately 22 per cent compared with the €32,748 million issued during the fourth quarter of 2008. When also considering off-the-run securities, the aggregate for the fourth quarter of 2009 includes €4,977 million of 3-year securities, €3,000 million of 5-year securities, €12,070 million of issues with maturities of up to 10 years, €4,000 million of securities with maturities between 11 and 15 years, and €1,500 million of securities with maturities between 16 and 30 years.

At the short end of the curve, further placements were made of the BTPs 01/07/2009-01/07/2012, with coupon of 2.50 per cent; in the 5-year segment, additional issues of BTPs 01/06/2009-01/06/2014 were placed, with a coupon of 3.50 per cent.

In the 10-year segment, the new BTPs 01/09/2009-01/03/2020 were inaugurated at the end-September auction (settlement at the beginning of October); the total amount offered was equal to €6,250 million, inclusive of the subsequent reopening for specialists. At the long end of the curve, the issuance of 15-year BTPs 01/03/2009-01/03/2025 that was inaugurated in the third quarter was continued in October; in November, the off-the-run BTPs 01/02/2006-01/08/2021 were offered, with placement amounting to €2,000 million. Finally, a second tranche of the 30-year BTPs 01/09/2009-01/09/2040 also inaugurated in the third quarter was placed for a nominal amount of €1,500 million.

The balance of BTPs outstanding was slightly higher than in the previous quarter, whereas the increase year on year was much more pronounced, reflecting a trend in the borrowing requirement that was much more accentuated during the first nine months of the year. The increase in the stock compared with September 2009 (+€3,933 million) is the result of net issues (€3,538 million), and the effect of the repurchase transaction in November (€395 million). The year-on-year increase amounted to €82,596 million. In percentage terms, BTPs accounted for 55.93 per cent of the total debt stock at the end of

December, rising by more than two percentage points compared with 31 December 2008.

In the fourth quarter of 2009, the Department of the Treasury successfully placed €3,500 million of the new inflation-indexed BTP€i 30-year 15/09/2009-15/09/2041, with annual coupon of 2.55 per cent.

The sound and prudent debt management policy pursued during the continuation of the financial crisis was thus visibly confirmed by the market's positive response.

More than 100 investors participated for total demand of approximately €5 billion. Banks were adjudicated around 56 per cent of the issues, while insurance companies and pension funds underwrote another 15 per cent. Investment funds took 22 per cent of the securities offered, and central banks took around 1 per cent. The quantities allotted to hedge funds were just above 2 per cent.

In addition to the participation of Italian investors (approximately 11 per cent of the total offered), the placements attracted a large group of non-resident investors from Europe and outside of Europe, with a very diversified geographic distribution. Significant quantities were underwritten by investors resident in the UK (44 per cent), while participation was also strong from other European nations: France (15 per cent), Benelux (11 per cent), Germany and Austria (5 per cent) and Scandinavia (2 per cent). The participation of investors resident in Asia and the USA totalled 4 per cent and 7 per cent, respectively.

Considering the higher degree of discretion that characterises the issuance of inflation-indexed securities vis-à-vis other types of securities, no other issues were placed. Taking into account revaluation for inflation and the effects of the 18 November repurchase transaction, the overall increase in the balance outstanding was €3,543 million quarter on quarter, and €17,138 million year on year. Inflation-indexed BTPs accounted for 6.28 per cent of the total debt stock at the end of 2009, versus 5.52 per cent at the end of the previous year.

Turning to floating-rate issues, CCTs were offered at the month-end auctions, thereby guaranteeing the liquidity needed on the secondary market; the securities and the amounts were appropriately calibrated on the basis of market demand. Given limited funding needs, no auction was held at the end of November. As indicated in the document containing the guidelines for public-debt management, the issues during 2009 were steadily above those in 2008, but tended to be less than the maturities; the balance of CCTs outstanding is thus decreasing. Indeed, in the fourth quarter, net issues contracted by €6,456 million, due to maturities of approximately €11 billion; instead, net issues were €19,134 million lower year on year. CCTs accounted for 10.10 per cent of the total debt stock at the end of 2009, compared with 11.88 per cent at the end of the previous year. Issues of the CCTs 01/07/2009-01/09/2016 were continued.

A repurchase transaction was also carried out during the fourth quarter of 2009, with the offer of €2,002 million of BTPs 01/02/2004 - 01/08/2014 with coupon of 4.25 per cent, the main purpose of which was to facilitate secondary market liquidity. Dealers had the possibility of presenting the following securities for repurchase: two BTPs with maturities of 15/06/2010 and 01/11/2010, respectively, and BTP€i with maturity of 15/09/2010.

TABLE B.3: RESULTS OF REPURCHASE TRANSACTION DATED 18 NOVEMBER 2009

Auction date	18/11/2009		
Settlement date	23/11/2009		
Security issue	BTPs 01/02/04-01/08/14		
Amount allotted (in € mn)	2002,00		
Adjudication price	106.94		
Coupon	4.25%		
Daily interest	114		
Securities repurchased	BTPs 15/06/2010	BTP€i 15/09/2010	BTPs 01/11/2010
Coupon	2.75%	0.95% (1)	5.50%
Repurchase price	101,18	101,10	104,36
Amount repurchased (in € mn)	882,532	486,568	724,48

1) Instalment coupon.

The transaction took place on 18 November via marginal auction with marginal determination of the price, and participation limited to the specialists in government securities.

Altogether, the total BTPs-BTP€i-CCTs issued on the domestic market, excluding the repurchase transaction, came to €33,936 million, versus the €36,333 million issued during the same period of the previous year.

Issues on foreign markets

During the fourth quarter of 2009, the Department of the Treasury issued medium-/long-term securities on international financial markets, while there was no activity in the money market with regard to maturities of less than one year.

A new USD-denominated security in a global format was issued at the end of September (settlement on 5 October) with investors showing a positive response similar to that seen in the domestic market with the issue of the 30-year BTP€i. The new security was issued in the amount of \$2,500 million, with a coupon of 2.125 per cent and a 3-year maturity (5 October 2012). A cross-currency swap was effected with the new issue in order to cover foreign-exchange risk.

In view of the qualified investors involved, the amount offered was increased to \$2,500 million, compared with the initially established amount of \$2,000 million. The Department of the Treasury decided to issue again at the short end of the curve in order to satisfy the huge demand concentrated within that segment, thereby achieving significant arbitrage in terms of financing costs vis-à-vis domestic securities with the same duration.

The breakdown of demand by type of investor indicates important participation by central banks (43 per cent), asset managers (32 per cent) and banks (20 per cent); the security was also uniformly distributed across Asia, the U.S., Europe and the Middle East.

With regard to reimbursements, total maturities during the period amounted to €1,017 million, and regarded commercial paper issued in prior quarters.

Trend in yields

Although central banks have not changed the posture taken during the financial crisis, continuing to guarantee interbank liquidity, the market witnessed high volatility and limited liquidity in the fourth quarter of 2009, part of which can be ascribed to year-end transactions on the part of dealers - a situation that produces distortions even when market conditions are less problematic.

Against this backdrop, the financial troubles of the government institutions in Dubai caused spreads on sovereign issues to widen, while also significantly affecting the spreads on credit default swaps, renewing concerns about issuer solidity. This situation only marginally influenced Italy's position, thanks to the country's credibility with investors and its limited funding needs in the final part of the year. Furthermore, in the previous quarters, the Department of the Treasury had successfully managed to finance itself at prime conditions, thereby accumulating a good level of liquidity reserves capable of ensuring less complicated management of future funding needs.

The yield curve for Italian government securities shifted upward between the end of the third and fourth quarters for 1- and 10-year maturities, with substantially no change across all other maturities. The yield on 1-year BOTs rose by 20 basis points, while that on 10-year BTPs was 13 basis points higher. The yield on the 5-year security was instead down by 5 basis points, while that for the 30-year security remained unchanged. Particularly sensitive to central-bank policies, the short-term segment was impacted by the statements of the ECB regarding the gradual removal of the exceptional measures to sustain market liquidity in recent quarters. The change in the macroeconomic scenario is evident with respect to the prior year, with the yield on 1-year BOTs declining by 115 basis points and that on 5-year BTPs falling by 85 basis points; the reductions at the long end of the curve were less pronounced, with a 25-basis-point decrease for the 10-year BTPs and a 28-basis-point reduction for 30-year securities.

The differentials between the yields on Italian government securities and the German benchmarks continued to shrink steadily, reaching 75 basis points for 10-year BTPs and 70 basis points for 30-year BTPs at year end; such levels compare with 80 basis points and 90 basis points, respectively, at the end of September. Such spreads had reached highs of more than 170 basis points (for both the 10- and 30-year securities) in January, at the time when the ratings of several European countries (Spain, Greece and Portugal) were lowered and a risk-averse climate prevailed. In the quarters thereafter, spreads against the benchmark contracted for all sovereign issues, with the exception of Greek debt, which was impacted in the fourth quarter by the deterioration of several revised public finance indicators in relation to prior years, as well as the estimates for 2009. As a result of that situation, the European Commission failed to ratify Greece's EDP notification report of statistics for the first half, produced as part of the oversight of public accounts.

The asset-swap differentials with respect to Italian government securities have evidenced less perceived risk, contracting at the medium-/long-term end of the curve during the fourth quarter. While the differential for the 3-year security slightly worsened (going to -1 basis point compared with -6 basis points at the end of September), the spreads on the long part of the curve for the 10- and 30-year issues were +50 basis points

and +84 basis points, respectively, compared with +58 basis points and +90 basis points for the previous quarter.

The weighted average life of the government securities increased markedly quarter on quarter, hitting an historic high of 84.90 months.

State Sector's other liabilities

Starting with this report, the currency and a smaller account regarding third-party deposits to guarantee the management of special accounts have been classified in a special account entitled 'Currency'. The balance of the account as of 31 December 2009 was €3,851 million.

The current accounts with the State's central treasury which are credits claimed by parties outside of the public administration are represented among the State sector's liabilities. The aggregate balance of such accounts was €10,188 million.

The largest component of the account is that related to the amounts held in current accounts with the Treasury in the name of *Cassa Depositi e Prestiti* (joint-stock company), totalling €113,330 million.

The current accounts with the Treasury totalled €123,519 million as of 31 December 2009, increasing both year on year (€10,594 million) and quarter on quarter (€7,494 million).

With reference to current postal accounts held in the name of individuals that recorded a significant declining trend in the balance since March 2007 (based on Paragraph 1099 of Article 1 of Law no. 296/2006) which continued during 2009, the balance as of 31 December 2009 was €1,261 million, and reflected growth of €293 million compared with 31 December 2008.

The balance of postal savings certificates was €28,743 million as of 31 December 2009, declining over the 12 months by €1,781 million.

The Department of the Treasury's net assets with the Bank of Italy as of 31 December 2009 amounted to €29,710 million, thus reflecting a considerable reduction of €39,536 million during the fourth quarter. The change is indicative of the normal drawdown in the liquidity account during the final quarter of the year; the balance of the liquidity account was €29,709 million at year end. In any case, such balance reflects an increase of €10,638 million over the balance of €19,095 million at the end of 2008, and thus a larger sum of liquidity available for more appropriately managing the maturities and issues in 2010.

The balances in the fund for amortisation of government securities remained unchanged quarter on quarter, amounting to around €37 million.

The total credit balance is stated net of several minor payables with reference to the relationship between the Department of the Treasury and the Bank of Italy, equal to roughly €36 million as of 31 December 2009.

Loans reflect the registration of long-term secured contracts between banks and the central government or local government and/or other entities whose reimbursement is handled by the State. Such contracts include long-term secured loans taken out by the Department of the Treasury for covering the deficits of public healthcare units, the Rome Jubilee in 2000, businesses operating in depressed areas, consortiums involved in

irrigation and environmental clean-up, construction of healthcare facilities, port authorities, and the financing of various types of programmes (such as Mose, Eurofighter and FREMM). Other long-term loan contracts have been finalised pursuant to Article 1, Paragraphs 511 and 512 of Law no. 296/2006 (2007 Finance Law) on the use and discounting of subsidies regarding two or more years.

Starting with this report, the loans account has been entitled ‘domestic loans’ since the counterparties are credit institutions resident in Italy. Accordingly, the total amount of domestic loans as of 31 December 2009 was €44,780 million, and reflects a decrease both year on year (-€2,252 million) and quarter on quarter (-€1,205 million). The declines are mainly attributable to the instalment payments made in the final quarter, and partly to the refining of the available database.

The largest component of the account is represented by long-term loans disbursed by *Cassa Depositi e Prestiti* (thus, credits claimed by the new CDP S.p.A., which was set up in December 2003 as a joint-stock company outside of the sphere of the public administration). Local entities are the debtors on the loans from a legal perspective, but the burden for repayment is vested entirely with the central government. The balance for the final quarter of 2009 was €29,966 million.

Another component of loans is represented by long-term secured loans contracted by *Infrastrutture* (joint-stock company, ISPA).¹ Starting with the quarterly cash report dated September 2009, those loans were reclassified on the basis of the counterparty’s residence: €500 million for domestic loans and €1,000 million of loans contracted with foreign counterparties. As of 31 December 2009, the ISPA loans totalled €1,500 million.

Following a decision taken by EUROSTAT in May 2005, the debt originally issued by ISPA for financing the *Alta Velocità Alta Capacità (AV/AC)* high-speed train project were recognised directly as part of the State sector’ debt. As a result, the ISPA bonds are reported separately in the government securities category, whereas the long-term loans are part of the loans account². The bonds are divided into eight series, three of which are fixed-rate, one of which is variable-rate and one of which is indexed to the Italian inflation rate computed by ISTAT according to the national index of consumer prices for households of manual labourers and clerical workers, net of tobacco products. In the computation of the debt stock, the nominal amount of the indexed bonds has been appropriately revalued. As of 31 December 2009, the bonds had a total value of €9,534 million.

Finally, the foreign loans include both long-term loans contracted by ISPA, all liabilities contracted with non-domestic counterparties (e.g. EIB), and loans in favour of the former Italian State Railways. Such loans represent a liability for the State sector (amount equal to €111 million at the end of 2009). In the prior edition of this report, the amounts were subdivided into ‘other foreign loans’ and ‘Italian State Railways foreign loans’. The ‘foreign loans’ account had a balance of €1,944 million as of 31 December 2009.

¹ A company that is now part of *Cassa Depositi e Prestiti* (joint-stock company).

² Until the edition of this report in relation to December 2007, both types of liabilities were considered as part of ISPA payables.

TABLE B.4: COMPONENTS OF STATE SECTOR DEBT (in € mn)

	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008	30 Sept 2009	31 Dec 2009
CCTs (1)	191,544	184,884	189,739	182,348	170,054	163,599
CTZs	43,184	43,669	43,063	46,772	70,399	64,748
CCTs tax credits	7,119	5,939	786	385	0	0
TOTAL CREDIT						
CERTIFICATES	241,847	234,493	233,588	229,504	240,453	228,347
BTPs	716,708	753,300	768,065	823,706	902,369	906,302
BTP€i	48,033	60,933	79,133	84,659	98,254	101,797
BOTs	117,806	122,780	128,302	147,753	167,976	140,096
Bonds of Italian State						
Railways - foreign						
issues (2)	838	751	672	710	0	0
Treasury - Foreign						
securities (2)	87,799	75,200	69,314	60,342	59,323	60,058
ISPA securities (3)	9,476	9,489	9,505	9,533	9,532	9,534
TOTAL GOVERNMENT						
SECURITIES	1,222,507	1,256,946	1,288,578	1,356,207	1,477,907	1,446,133
Currency	3,029	3,258	3,490	3,773	3,829	3,851
Current accounts with						
the Treasury (5)	76,148	88,289	102,456	112,925	116,025	123,519
Postal current						
accounts held in the						
name of individuals						
(4)	24,628	25,973	344	968	1,230	1,261
Postal certificates (4)	45,950	39,648	36,831	30,524	29,136	28,743
Treasury-Bank of Italy						
relationship	-14,535	-22,778	-9,671	-19,072	-69,246	-29,710
Domestic loans (3)	36,273	49,694	46,611	47,032	45,985	44,780
Foreign loans	5,101	5,300	4,453	2,199	2,030	1,944
TOTAL	1,399,101	1,446,330	1,473,091	1,534,557	1,606,896	1,620,521

1) In addition to the CCTs offered at auction, includes several issues effected for specific purposes, other than reimbursement of tax credits.

2) The value of the debt issued on the foreign market is calculated by considering the effects of repurchase transactions, on a basis consistent with the rules adopted by the EU.

3) ISPA bonds are reported separately, while ISPA long-term secured loans are included in 'Domestic loans' for the portion related to domestic counterparties, and in 'Foreign loans' for foreign counterparties. Foreign loans also include foreign loans of the former Italian State Railways. Pursuant to the 2007 Finance Law, Article 1 Paragraphs 966-969, debts contracted by ISPA have been directly assumed by the State sector.

4) After *Cassa Depositi e Prestiti* was converted into a joint-stock company, starting in December 2003, postal funding was subdivided into components in order to provide a precise breakdown of all payables when were transferred directly to the State.

5) The account includes the current accounts managed by *Cassa Depositi e Prestiti* (joint-stock company) and the Treasury accounts held in the name of companies outside of the State sector, and held in the names of special-purpose companies that carried out securitisation transactions.

TABLE B.5: DIFFERENCES IN COMPONENTS OF STATE SECTOR DEBT (in € mn)

	31-Dec-08 31-Dec-09	30-set-09 31-dic-09
CCTs	-18,749	-6,456
CTZs	17,976	-5,651
CCTs tax credits	-385	0
TOTAL CREDIT CERTIFICATES	-1,158	-12,107
BTPs	82,596	3,933
BTP€i	17,138	3,544
BOTs	-7,657	-27,880
Bonds of Italian State Railways - foreign issues	-710	0
Treasury -Foreign securities	-284	735
ISPA securities	1	2
TOTAL GOVERNMENT SECURITIES	89,926	-31,774
Currency	78	22
Current accounts with the Treasury	10,594	7,494
Postal current accounts held in the name of individuals	293	31
Postal certificates	-1,781	-393
Treasury-Bank of Italy relationship	-10,638	39,536
Domestic loans	-2,252	-1,205
Foreign loans	-256	-86
TOTAL	85,964	13,625

TABLE B.6: COMPONENTS OF STATE SECTOR DEBT (in %)

	31 Dec 2005	31 Dec 2006	31 Dec 2007	31 Dec 2008	30 Sep. 2009	31 Dec 2009
CCTs	13.7	12.8	12.9	11.9	10.6	10.1
CTZs	3.1	3.0	2.9	3.1	4.4	4.0
CCTs tax credits	0.5	0.4	0.1	0.0	0.0	0.0
TOTAL CREDIT CERTIFICATES	17.3	16.2	15.9	15.0	15.0	14.1
BTPs	51.2	52.1	52.1	53.7	56.2	55.9
BTP€i	3.4	4.2	5.4	5.5	6.1	6.3
BOTs	8.4	8.5	8.7	9.6	10.5	8.7
Bonds of Italian State Railways - foreign issues	0.1	0.1	0.1	0.1	0.0	0.0
Treasury - foreign securities	6.3	5.2	4.7	3.9	3.7	3.7
ISPA securities	0.7	0.7	0.7	0.6	0.6	0.6
TOTAL GOVERNMENT SECURITIES	87.4	86.9	87.5	88.4	92.0	89.2
Currency	0.2	0.2	0.2	0.3	0.2	0.2
Current accounts with the Treasury	5.4	6.1	7.0	7.4	7.2	7.6
Postal current accounts held in the name of individuals	1.8	1.8	0.0	0.1	0.1	0.1
Postal certificates	3.3	2.7	2.5	2.0	1.8	1.8
Treasury-Bank of Italy relationship	-1.0	-1.6	-0.7	-1.2	-4.3	-1.8
Domestic loans	2.6	3.4	3.2	3.1	2.9	2.8
Foreign loans	0.4	0.4	0.3	0.1	0.1	0.1
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0

EXHIBITS

1. DETAILED PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT: RESULTS FOR 2007-2009 AND FORECAST FOR 2010

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2007 (in € mn)									
	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non-consolidated Public Entities	Duplicate Items	Public Sector
REVENUES									
CURRENT REVENUES	406,618	276,399	146,708	103,182	60,222	24,658	6,537	-306,279	718,045
TAXES	371,915	0	64,923	0	29,170	1,490	0	0	467,498
Direct taxes	208,744	0	12,689	0	3,231	0	0	0	224,664
Indirect taxes	163,171	0	52,234	0	25,939	1,490	0	0	242,834
EU RESOURCES	5,211	0	0	0	0	0	0	0	5,211
SOCIAL CONTRIBUTIONS	0	195,561	0	0	0	87	0	0	195,648
SALE OF GOODS AND SERVICES	4,410	129	0	4,034	5,684	3,057	0	0	17,314
CAPITAL INCOME	4,293	1,805	760	106	2,616	290	0	-1,030	8,840
TRANSFERS	20,524	78,262	80,089	97,578	20,469	18,659	6,537	-305,250	16,869
-from State Sector	0	77,539	79,434	0	11,531	16,091	0	-184,595	0
-from Social security funds	5,169	0	0	0	0	0	1,803	-6,972	0
-from Regions	49	12	0	96,996	8,267	609	2,344	-108,277	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	10	0	105	245	0	163	1,654	-2,177	0
-from Other Consolidated Public Entities	43	0	21	0	0	0	736	-800	0
-from Non-consolidated Public Entities	29	537	162	337	559	804	0	-2,428	0
-from Households	1,315	174	280	0	112	822	0	0	2,703
-from Businesses	3,695	0	87	0	0	170	0	0	3,952
-from Abroad	10,214	0	0	0	0	0	0	0	10,214
OTHER CURRENT REVENUES	265	641	936	1,464	2,283	1,075	0	0	6,664
CAPITAL ACCOUNT REVENUES	568	349	11,723	2,909	14,356	3,954	5,218	-33,565	5,512
TRANSFERS	23	0	11,351	2,909	12,222	3,892	5,218	-33,565	2,050
-from State Sector	0	0	10,368	0	4,331	3,089	2,728	-20,516	0
-from Social security funds	0	0	0	0	0	0	0	0	0
-from Regions	0	0	0	2,909	5,565	578	1,693	-10,745	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	0	0	58	0	0	51	411	-520	0
-from Other Consolidated Public Entities	23	0	14	0	58	0	386	-481	0
-from Non-consolidated Public Entities	0	0	607	0	616	80	0	-1,303	0
-from Households, Businesses, Abroad	0	0	304	0	1,652	94	0	0	2,050
AMORTISATION	163	0	0	0	0	0	0	0	163
OTHER CAPITAL ACCOUNT REVENUES	382	349	372	0	2,134	62	0	0	3,299
FINAL ITEMS	407,186	276,748	158,431	106,091	74,578	28,612	11,755	-339,844	723,557
FINANCIAL ITEMS	5,761	0	778	0	2,107	731	223	-4,444	5,156
RECEIVABLES COLLECTION	3,613	0	288	0	1,044	546	0	-3,055	2,436
-from Regions	496	0	0	0	0	0	0	-496	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	660	0	0	0	0	0	0	-660	0
-from Other Consolidated Public Entities	1,465	0	0	0	0	0	0	-1,465	0
-from Non-consolidated Public Entities	0	0	180	0	109	145	0	-434	0
-from Households, Businesses, Abroad	992	0	108	0	935	401	0	0	2,436
REDUCTION IN BANK DEPOSITS	0	0	347	0	0	0	0	-347	0
OTHER FINANCIAL ITEMS	2,148	0	143	0	1,063	185	223	-1,042	2,720
-from State Sector	0	0	143	0	543	0	0	-686	0
-from Other Public Entities	0	0	0	0	0	133	223	-356	0
-from Households, Businesses, Abroad	2,148	0	0	0	520	52	0	0	2,720
TOTAL REVENUES	412,947	276,748	159,209	106,091	76,685	29,343	11,978	-344,288	728,713

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2007 (continued) (in € mn)

	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non - consolidated Public Entities	Duplicate Items	Public Sector
PAYMENTS									
CURRENT PAYMENTS	398,241	269,790	134,764	103,924	54,085	17,837	6,537	-306,279	678,899
PAYROLLS	89,533	3,456	5,998	35,743	18,364	10,171	0	0	163,265
INTERMEDIATE CONSUMPTION	15,328	1,615	3,492	65,205	24,792	3,783	0	0	114,216
TRANSFERS	217,737	263,433	120,132	795	6,701	2,478	6,537	-305,250	312,564
-to State Sector	0	5,169	49	0	10	43	29	-5,300	0
-to Social security funds	77,539	0	12	0	0	0	537	-78,088	0
-to Regions	79,434	0	0	0	105	21	162	-79,722	0
-to Healthcare	0	0	96,996	0	245	0	337	-97,578	0
-to Municipalities and Provinces	11,531	0	8,267	0	0	0	559	-20,357	0
-to Other Consolidated Public Entities	16,091	0	609	0	163	0	804	-17,667	0
-to Non-consolidated Public Entities	0	1,803	2,344	0	1,654	736	4,109	-6,537	4,109
-to Households	5,466	256,426	3,595	795	3,401	1,030	0	0	270,713
-to Businesses	11,328	35	8,260	0	1,123	648	0	0	21,394
-to Abroad	16,348	0	0	0	0	0	0	0	16,348
INTEREST	67,692	272	3,028	271	3,284	143	0	-1,030	73,661
AMORTISATION	163	0	0	0	0	0	0	0	163
OTHER CURRENT PAYMENTS	7,788	1,012	2,114	1,910	944	1,262	0	0	15,030
CAPITAL PAYMENTS	42,273	358	23,430	2,376	21,783	5,762	4,874	-33,565	67,290
GROSS FIXED INVESTMENT	6,962	133	3,735	2,376	18,977	4,853	0	0	37,036
TRANSFERS	34,364	0	18,647	0	2,806	785	4,874	-33,565	27,911
-to State Sector	0	0	0	0	0	23	0	-23	0
-to Regions	10,368	0	0	0	58	14	607	-11,047	0
-to Healthcare	0	0	2,909	0	0	0	0	-2,909	0
-to Municipalities and Provinces	4,331	0	5,565	0	0	58	616	-10,570	0
-to Other Consolidated Public Entities	3,089	0	578	0	51	0	80	-3,798	0
-to Non-consolidated Public Entities	2,728	0	1,693	0	411	386	3,571	-5,218	3,571
-to Households	183	0	2,187	0	1,020	192	0	0	3,582
-to Businesses	13,118	0	5,715	0	1,266	112	0	0	20,211
-to Abroad	547	0	0	0	0	0	0	0	547
OTHER CAPITAL PAYMENTS	948	224	1,048	0	0	124	0	0	2,344
FINAL PAYMENTS	440,514	270,147	158,194	106,300	75,868	23,599	11,411	-339,844	746,189
FINANCIAL ITEMS	1,960	6,601	2,140	100	3,352	4,312	567	-4,625	14,406
SHAREHOLDINGS&ASSET TRANSFERS	42	0	161	0	604	69	0	0	876
-to Special Credit Entities	0	0	0	0	0	0	0	0	0
-to Businesses and Abroad	42	0	161	0	604	69	0	0	876
MORTGAGES AND ADVANCES	1,710	0	176	0	1,117	612	0	-887	2,728
-to Regions	143	0	0	0	0	0	0	-143	0
-to Healthcare	0	0	0	0	0	0	0	0	0
-to Municipalities and Provinces	543	0	0	0	0	0	0	-543	0
-to Consolidated Public Entities	0	0	0	0	0	0	0	0	0
-to Non-consolidated Public Entities	0	0	17	0	37	147	0	-201	0
-to Special Credit Entities	120	0	0	0	0	0	0	0	120
-to Households, Businesses, Abroad	904	0	159	0	1,080	465	0	0	2,608
INCREASE IN BANK DEPOSITS	0	468	1,083	0	971	1,515	0	-347	3,690
OTHER FINANCIAL ITEMS	208	6,132	720	100	660	2,116	567	-3,391	7,112
-to State Sector	0	181	496	0	660	1,465	0	-2,802	0
-to Other Public Entities	0	20	0	0	0	2	567	-589	0
-to Households, Businesses, Abroad	208	5,931	224	100	0	649	0	0	7,112
TOTAL PAYMENTS	442,474	276,748	160,334	106,400	79,220	27,911	11,978	-344,470	760,595
PRIMARY BALANCE NET OF FINANCIAL ITEMS	34,364	6,873	3,265	62	1,994	5,156	344	-1,030	51,028
BALANCE NET OF FINANCIAL ITEMS	-33,328	6,601	237	-209	-1,290	5,013	344	0	-22,632
PRIMARY BALANCE	38,165	272	1,903	-38	749	1,575	0	-849	41,778
TOTAL BORROWING REQUIREMENT	-29,527	0	-1,125	-309	-2,535	1,432	0	181	-31,883

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2008 (in € mn)

	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non-consolidated Public Entities	Duplicate Items	Public Sector
REVENUES									
CURRENT REVENUES	409,681	286,689	154,227	112,869	62,275	21,889	7,103	-324,530	730,202
TAXES	373,074	0	63,153	0	26,400	1,513	0	0	464,140
Direct taxes	216,810	0	13,567	0	4,127	0	0	0	234,504
Indirect taxes	156,264	0	49,586	0	22,273	1,513	0	0	229,636
EU RESOURCES	6,001	0	0	0	0	0	0	0	6,001
SOCIAL CONTRIBUTIONS	0	209,701	0	0	0	100	0	0	209,801
SALE OF GOODS AND SERVICES	4,513	106	0	3,912	5,459	3,219	0	0	17,209
CAPITAL INCOME	4,261	1,994	781	81	2,572	344	0	-968	9,065
TRANSFERS	20,930	74,259	89,227	107,341	26,227	15,109	7,103	-323,562	16,633
-from State Sector	0	73,602	88,565	0	17,053	12,566	0	-191,787	0
-from Social security funds	5,659	0	0	0	0	0	1,850	-7,509	0
-from Regions	8	4	0	106,867	8,283	599	2,535	-118,296	0
-from Healthcare	0	0	0	0	0	15	0	-15	0
-from Municipalities and Provinces	10	0	124	279	0	159	1,946	-2,518	0
-from Other Consolidated Public Entities	53	0	17	2	0	0	771	-843	0
-from Non-consolidated Public Entities	43	653	157	193	802	747	0	-2,594	0
-from Households	2,184	0	278	0	89	863	0	0	3,414
-from Businesses	3,742	0	86	0	0	160	0	0	3,988
-from Abroad	9,231	0	0	0	0	0	0	0	9,231
OTHER CURRENT REVENUES	902	629	1,066	1,535	1,617	1,604	0	0	7,353
CAPITAL ACCOUNT REVENUES	479	395	9,146	3,106	13,718	4,303	5,502	-31,452	5,197
TRANSFERS	0	0	9,037	3,106	11,552	4,125	5,502	-31,452	1,870
-from State Sector	0	0	8,028	0	3,424	3,198	2,981	-17,631	0
-from Social security funds	0	0	0	0	0	0	0	0	0
-from Regions	0	0	0	3,106	5,781	611	1,669	-11,167	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	0	0	47	0	0	85	503	-635	0
-from Other Consolidated Public Entities	0	0	26	0	59	0	349	-434	0
-from Non-consolidated Public Entities	0	0	737	0	753	95	0	-1,585	0
-from Households, Businesses, Abroad	0	0	199	0	1,535	136	0	0	1,870
AMORTISATION	186	0	0	0	0	0	0	0	186
OTHER CAPITAL ACCOUNT REVENUES	293	395	109	0	2,166	178	0	0	3,141
FINAL REVENUES	410,160	287,084	163,373	115,975	75,993	26,192	12,605	-355,982	735,399
FINANCIAL ITEMS	2,245	0	9,274	84	1,666	737	252	-11,058	3,200
RECEIVABLES COLLECTION	1,554	0	241	0	1,095	552	0	-1,523	1,919
-from Regions	501	0	0	0	0	0	0	-501	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	568	0	0	0	0	0	0	-568	0
-from Other Consolidated Public Entities	77	0	0	0	0	0	0	-77	0
-from Non-consolidated Public Entities	0	0	142	0	121	114	0	-377	0
-from Households, Businesses, Abroad	408	0	99	0	974	438	0	0	1,919
REDUCTION IN BANK DEPOSITS	0	0	586	0	88	0	0	-674	0
OTHER FINANCIAL ITEMS	691	0	8,447	84	483	185	252	-8,861	1,281
-from State Sector	0	0	8,122	0	355	0	0	-8,477	0
-from Other Public Entities	0	0	0	0	0	132	252	-384	0
-from Households, Businesses, Abroad	691	0	325	84	128	53	0	0	1,281
TOTAL REVENUES	412,405	287,084	172,647	116,059	77,659	26,929	12,857	-367,040	738,599

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2008 (continued) (in € mn)

	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non - consolidated Public Entities	Duplicate Items	Public Sector
PAYMENTS									
CURRENT PAYMENTS	419,346	283,522	143,533	112,925	57,851	19,001	7,103	-324,530	718,751
PAYROLLS	94,170	3,390	6,009	38,332	20,011	10,530	0	0	172,442
INTERMEDIATE CONSUMPTION	13,636	1,760	3,441	71,584	26,185	4,079	0	0	120,686
TRANSFERS	226,078	277,194	129,157	793	7,306	2,837	7,103	-323,562	326,905
-to State Sector	0	5,659	8	0	10	53	43	-5,773	0
-to Social security funds	73,602	0	4	0	0	0	653	-74,259	0
-to Regions	88,565	0	0	0	124	17	157	-88,863	0
-to Healthcare	0	0	106,867	0	279	2	193	-107,341	0
-to Municipalities and Provinces	17,053	0	8,283	0	0	0	802	-26,138	0
-to Other Consolidated Public Entities	12,566	0	599	15	159	0	747	-14,086	0
- to Non-consolidated Public Entities	0	1,850	2,535	0	1,946	771	4,508	-7,103	4,508
-to Households	5,621	269,597	2,981	778	3,659	1,032	0	0	283,669
-to Businesses	11,842	87	7,880	0	1,129	962	0	0	21,900
-to Abroad	16,828	0	0	0	0	0	0	0	16,828
INTEREST	78,413	241	2,747	255	3,354	99	0	-968	84,141
AMORTISATION	186	0	0	0	0	0	0	0	186
OTHER CURRENT PAYMENTS	6,863	937	2,179	1,961	995	1,456	0	0	14,391
CAPITAL PAYMENTS	37,138	485	23,750	2,480	20,162	5,674	5,245	-31,452	63,481
GROSS FIXED INVESTMENT	6,496	341	3,759	2,480	18,020	4,839	0	0	35,935
TRANSFERS	29,633	0	18,928	0	2,142	724	5,245	-31,452	25,220
-to State Sector	0	0	0	0	0	0	0	0	0
-to Regions	8,028	0	0	0	47	26	737	-8,838	0
-to Healthcare	0	0	3,106	0	0	0	0	-3,106	0
-to Municipalities and Provinces	3,424	0	5,781	0	0	59	753	-10,017	0
-to Other Consolidated Public Entities	3,198	0	611	0	85	0	95	-3,989	0
-to Non-consolidated Public Entities	2,981	0	1,669	0	503	349	3,660	-5,502	3,660
-to Households	127	0	1,979	0	862	179	0	0	3,147
-to Businesses	10,960	0	5,782	0	645	111	0	0	17,498
-to Abroad	915	0	0	0	0	0	0	0	915
OTHER CAPITAL PAYMENTS	1,009	144	1,063	0	0	111	0	0	2,326
FINAL PAYMENTS	456,484	284,007	167,283	115,405	78,013	24,675	12,348	-355,982	782,232
FINANCIAL ITEMS	10,211	3,077	808	0	2,352	1,861	509	-11,267	7,551
SHAREHOLDINGS&ASSET TRANSFERS	45	0	213	0	646	62	0	0	966
-to Special Credit Entities	0	0	0	0	0	0	0	0	0
-to Businesses and Abroad	45	0	213	0	646	62	0	0	966
MORTGAGES AND ADVANCES	10,166	0	94	0	1,008	838	0	-8,727	3,379
-to Regions	8,122	0	0	0	0	0	0	-8,122	0
-to Healthcare	0	0	0	0	0	0	0	0	0
-to Municipalities and Provinces	355	0	0	0	0	0	0	-355	0
-to Consolidated Public Entities	0	0	0	0	0	0	0	0	0
-to Non-consolidated Public Entities	0	0	34	0	53	163	0	-250	0
-to Special Credit Entities	36	0	0	0	0	0	0	0	36
-to Households, Businesses, Abroad	1,653	0	60	0	955	675	0	0	3,343
INCREASE IN BANK DEPOSITS	0	1,025	0	0	0	284	0	-674	635
OTHER FINANCIAL ITEMS	0	2,052	501	0	698	677	509	-1,866	2,571
-to State Sector	0	209	501	0	568	77	0	-1,355	0
-to Other Public Entities	0	0	0	0	0	2	509	-511	0
-to Households, Businesses, Abroad	0	1,843	0	0	130	598	0	0	2,571
TOTAL PAYMENTS	466,695	287,084	168,091	115,405	80,365	26,536	12,857	-367,249	789,783
PRIMARY BALANCE NET OF FINANCIAL ITEMS	32,089	3,317	-1,163	825	1,334	1,616	257	-968	37,308
BALANCE NET OF FINANCIAL ITEMS	-46,324	3,076	-3,910	570	-2,020	1,517	257	0	-46,833
PRIMARY BALANCE	24,123	241	7,303	909	648	492	0	-759	32,957
TOTAL BORROWING REQUIREMENT	-54,290	0	4,556	654	-2,706	393	0	209	-51,184

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2009 (in € mn)

	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non - consolidated Public Entities	Duplicate Items	Public Sector
REVENUES									
CURRENT REVENUES	393,545	293,265	163,344	113,058	64,996	21,965	7,550	-348,134	709,589
TAXES	358,292	0	60,439	0	25,500	1,539	0	0	445,770
Direct taxes	206,565	0	14,765	0	4,097	0	0	0	225,427
Indirect taxes	151,727	0	45,674	0	21,403	1,539	0	0	220,343
EU RESOURCES	4,663	0	0	0	0	0	0	0	4,663
SOCIAL CONTRIBUTIONS	0	207,112	0	0	0	265	0	0	207,377
SALE OF GOODS AND SERVICES	4,670	102	0	5,008	5,335	3,004	0	0	18,119
CAPITAL INCOME	4,197	1,631	731	111	2,525	372	0	-898	8,668
TRANSFERS	20,455	83,560	100,835	106,358	29,489	14,722	7,550	-347,235	15,734
-from State Sector	0	82,738	100,164	0	19,185	11,794	0	-213,881	0
-from Social security funds	6,425	0	0	0	0	0	1,810	-8,235	0
-from Regions	5	3	0	105,860	9,262	669	2,692	-118,491	0
-from Healthcare	0	0	0	0	0	19	0	-19	0
-from Municipalities and Provinces	2	0	132	281	0	162	2,244	-2,821	0
-from Other Consolidated Public Entities	70	0	17	2	0	0	805	-894	0
-from Non-consolidated Public Entities	117	640	171	215	959	793	0	-2,895	0
-from Households	2,043	179	246	0	83	1,137	0	0	3,688
-from Businesses	4,073	0	105	0	0	148	0	0	4,326
-from Abroad	7,720	0	0	0	0	0	0	0	7,720
OTHER CURRENT REVENUES	1,268	860	1,339	1,581	2,147	2,063	0	0	9,258
CAPITAL ACCOUNT REVENUES	8,520	102	9,509	3,323	13,346	3,532	5,398	-37,150	6,580
TRANSFERS	6,060	0	9,326	3,323	11,450	3,370	5,398	-37,150	1,777
-from State Sector	0	0	8,302	0	3,809	2,375	2,895	-17,381	0
-from Social security funds	0	0	0	0	0	0	0	0	0
-from Regions	6,060	0	0	3,323	5,489	678	1,654	-17,204	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	0	0	60	0	0	75	395	-530	0
-from Other Consolidated Public Entities	0	0	10	0	62	0	454	-526	0
-from Non-consolidated Public Entities	0	0	758	0	665	86	0	-1,509	0
-from Households, Businesses, Abroad	0	0	196	0	1,425	156	0	0	1,777
AMORTISATION	350	0	0	0	0	0	0	0	350
OTHER CAPITAL ACCOUNT REVENUES	2,110	102	183	0	1,896	162	0	0	4,453
FINAL REVENUES	402,065	293,367	172,853	116,381	78,342	25,497	12,948	-385,284	716,169
FINANCIAL ITEMS	2,179	9,740	3,723	0	2,738	706	177	-14,694	4,569
RECEIVABLES COLLECTION	2,179	0	309	0	1,055	505	0	-1,588	2,460
-from Regions	516	0	0	0	0	0	0	-516	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	588	0	0	0	0	0	0	-588	0
-from Other Consolidated Public Entities	63	0	0	0	0	0	0	-63	0
-from Non-consolidated Public Entities	0	0	170	0	118	133	0	-421	0
-from Households, Businesses, Abroad	1,012	0	139	0	937	372	0	0	2,460
REDUCTION IN BANK DEPOSITS	0	0	2,833	0	1,216	0	0	-2,313	1,736
OTHER FINANCIAL ITEMS	0	9,740	581	0	467	201	177	-10,793	373
-from State Sector	0	9,740	408	0	334	0	0	-10,482	0
-from Other Public Entities	0	0	0	0	0	134	177	-311	0
-from Households, Businesses, Abroad	0	0	173	0	133	67	0	0	373
TOTAL REVENUES	404,244	303,108	176,576	116,381	81,080	26,203	13,125	-399,978	720,739

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2009 (continued) (in € mn)

	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non - consolidated Public Entities	Duplicate Items	Public Sector
PAYMENTS									
CURRENT PAYMENTS	435,208	298,634	145,926	111,803	59,012	19,296	7,550	-348,134	729,295
PAYROLLS	94,101	3,313	6,417	38,440	19,369	11,147	0	0	172,787
INTERMEDIATE CONSUMPTION	16,917	1,938	3,390	70,548	27,495	3,953	0	0	124,242
TRANSFERS	249,079	292,034	131,123	837	7,756	2,765	7,550	-347,235	343,909
-to State Sector	0	6,425	5	0	2	70	117	-6,619	0
-to Social security funds	82,738	0	3	0	0	0	640	-83,381	0
-to Regions	100,164	0	0	0	132	17	171	-100,484	0
-to Healthcare	0	0	105,860	0	281	2	215	-106,358	0
-to Municipalities and Provinces	19,185	0	9,262	0	0	0	959	-29,406	0
-to Other Consolidated Public Entities	11,794	0	669	19	162	0	793	-13,437	0
- to Non-consolidated Public Entities	0	1,810	2,692	0	2,244	805	4,655	-7,550	4,655
-to Households	7,442	283,800	3,206	818	3,751	1,190	0	0	300,207
-to Businesses	10,851	0	9,426	0	1,184	681	0	0	22,142
-to Abroad	16,905	0	0	0	0	0	0	0	16,905
INTEREST	67,214	193	2,873	229	3,120	148	0	-898	72,878
AMORTISATION	350	0	0	0	0	0	0	0	350
OTHER CURRENT PAYMENTS	7,547	1,155	2,123	1,749	1,272	1,283	0	0	15,129
CAPITAL PAYMENTS	40,447	2,181	29,752	2,543	20,021	5,703	5,020	-37,150	68,517
GROSS FIXED INVESTMENT	7,066	1,874	3,956	2,543	18,036	4,804	0	0	38,279
TRANSFERS	31,584	0	24,979	0	1,985	790	5,020	-37,150	27,208
-to State Sector	0	0	6,060	0	0	0	0	-6,060	0
-to Regions	8,302	0	0	0	60	10	758	-9,130	0
-to Healthcare	0	0	3,323	0	0	0	0	-3,323	0
-to Municipalities and Provinces	3,809	0	5,489	0	0	62	665	-10,025	0
-to Other Consolidated Public Entities	2,375	0	678	0	75	0	86	-3,214	0
-to Non-consolidated Public Entities	2,895	0	1,654	0	395	454	3,511	-5,398	3,511
-to Households	143	0	1,834	0	843	172	0	0	2,992
-to Businesses	13,576	0	5,941	0	612	92	0	0	20,221
-to Abroad	484	0	0	0	0	0	0	0	484
OTHER CAPITAL PAYMENTS	1,797	307	817	0	0	109	0	0	3,030
FINAL PAYMENTS	475,655	300,815	175,678	114,346	79,033	24,999	12,570	-385,284	797,812
FINANCIAL ITEMS	15,436	2,292	1,452	1,817	2,039	1,859	555	-14,614	10,836
SHAREHOLDINGS&ASSET TRANSFERS	29	0	237	0	618	98	0	0	982
-to Special Credit Entities	0	0	0	0	0	0	0	0	0
-to Businesses and Abroad	29	0	237	0	618	98	0	0	982
MORTGAGES AND ADVANCES	5,747	0	699	0	832	588	0	-917	6,949
-to Regions	408	0	0	0	0	0	0	-408	0
-to Healthcare	0	0	0	0	0	0	0	0	0
-to Municipalities and Provinces	334	0	0	0	0	0	0	-334	0
-to Consolidated Public Entities	0	0	0	0	0	0	0	0	0
-to Non-consolidated Public Entities	0	0	14	0	56	105	0	-175	0
-to Special Credit Entities	247	0	0	0	0	0	0	0	247
-to Households, Businesses, Abroad	4,758	0	685	0	776	483	0	0	6,702
INCREASE IN BANK DEPOSITS	0	133	0	1,739	0	441	0	-2,313	0
OTHER FINANCIAL ITEMS	9,660	2,159	516	78	589	732	555	-11,384	2,905
-to State Sector	0	0	516	0	588	63	0	-1,167	0
-to Other Public Entities	9,660	0	0	0	0	2	555	-10,217	0
-to Households, Businesses, Abroad	0	2,159	0	78	1	667	0	0	2,905
TOTAL PAYMENTS	491,091	303,107	177,130	116,163	81,072	26,858	13,125	-399,898	808,649
PRIMARY BALANCE NET OF FINANCIAL ITEMS	-6,376	-7,255	48	2,264	2,429	646	378	-898	-8,764
BALANCE NET OF FINANCIAL ITEMS	-73,590	-7,448	-2,825	2,035	-691	498	378	0	-81,643
PRIMARY BALANCE	-19,633	193	2,319	447	3,128	-507	0	-979	-15,032
TOTAL BORROWING REQUIREMENT	-86,847	0	-554	218	8	-655	0	-80	-87,910

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2010 (PROJECTIONS) (in € mn)

	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non - consolidated Public Entities	Duplicate Items	Public Sector
REVENUES									
CURRENT REVENUES	400,019	308,621	161,895	114,252	65,567	21,491	7,601	-358,499	720,947
TAXES	362,100	0	61,525	0	25,792	1,562	0	0	450,979
Direct taxes	204,082	0	15,046	0	4,175	0	0	0	223,303
Indirect taxes	158,018	0	46,479	0	21,617	1,562	0	0	227,676
EU RESOURCES	5,315	0	0	0	0	0	0	0	5,315
SOCIAL CONTRIBUTIONS	0	210,584	0	0	0	264	0	0	210,848
SALE OF GOODS AND SERVICES	4,618	104	0	5,168	5,442	3,032	0	0	18,363
CAPITAL INCOME	4,215	1,608	748	114	2,550	369	0	-766	8,839
TRANSFERS	22,435	95,538	98,254	107,345	29,606	14,961	7,601	-357,733	18,007
-from State Sector	0	94,921	97,564	0	18,882	12,071	0	-223,438	0
-from Social security funds	5,798	0	0	0	0	0	2,045	-7,843	0
-from Regions	150	3	0	106,842	9,421	687	2,670	-119,773	0
-from Healthcare	0	0	0	0	0	22	0	-22	0
-from Municipalities and Provinces	2	0	136	279	0	163	2,044	-2,624	0
-from Other Consolidated Public Entities	71	0	18	2	0	0	841	-932	0
-from Non-consolidated Public Entities	69	609	176	222	1,212	813	0	-3,101	0
-from Households	2,292	5	252	0	91	1,048	0	0	3,689
-from Businesses	3,722	0	108	0	0	157	0	0	3,987
-from Abroad	10,331	0	0	0	0	0	0	0	10,331
OTHER CURRENT REVENUES	1,335	788	1,368	1,625	2,177	1,303	0	0	8,597
CAPITAL ACCOUNT REVENUES	1,290	300	9,740	3,371	13,764	3,271	6,709	-32,185	6,260
TRANSFERS	0	0	9,554	3,371	11,268	3,102	6,709	-32,185	1,819
-from State Sector	0	0	8,502	0	3,438	2,075	4,147	-18,162	0
-from Social security funds	0	0	0	0	0	0	0	0	0
-from Regions	0	0	0	3,371	5,629	690	1,704	-11,394	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	0	0	62	0	0	75	382	-519	0
-from Other Consolidated Public Entities	0	0	10	0	65	0	476	-551	0
-from Non-consolidated Public Entities	0	0	781	0	682	96	0	-1,559	0
-from Households, Businesses, Abroad	0	0	199	0	1,454	166	0	0	1,819
AMORTISATION	190	0	0	0	0	0	0	0	190
OTHER CAPITAL ACCOUNT REVENUES	1,100	300	186	0	2,496	169	0	0	4,251
FINAL REVENUES	401,309	308,921	171,635	117,623	79,330	24,762	14,310	-390,684	727,206
FINANCIAL ITEMS	2,100	993	1,881	0	2,015	2,078	389	-4,810	4,647
RECEIVABLES COLLECTION	1,600	0	316	0	1,060	526	0	-1,618	1,884
-from Regions	542	0	0	0	0	0	0	-542	0
-from Healthcare	0	0	0	0	0	0	0	0	0
-from Municipalities and Provinces	580	0	0	0	0	0	0	-580	0
-from Other Consolidated Public Entities	67	0	0	0	0	0	0	-67	0
-from Non-consolidated Public Entities	0	0	174	0	123	132	0	-429	0
-from Households, Businesses, Abroad	411	0	142	0	937	394	0	0	1,884
REDUCTION IN BANK DEPOSITS	0	124	0	0	443	1,219	0	0	1,786
OTHER FINANCIAL ITEMS	500	869	1,565	0	512	333	389	-3,192	976
-from State Sector	0	869	0	0	334	0	166	-1,369	0
-from Other Public Entities	0	0	1,392	0	0	208	223	-1,823	0
-from Households, Businesses, Abroad	500	0	173	0	178	125	0	0	976
TOTAL REVENUES	403,409	309,914	173,516	117,623	81,346	26,840	14,699	-395,494	731,853

PUBLIC SECTOR CONSOLIDATED CASH ACCOUNT FOR 2010 (PROJECTIONS) (continued) (in € mn)

	State Sector	Social security funds	Regions	Healthcare	Municip. & Provinces	Other Cons. Public Entities	Non - consolidated Public Entities	Duplicate Items	Public Sector
PAYMENTS									
CURRENT PAYMENTS	444,316	306,354	148,370	115,065	59,979	19,804	7,601	-358,499	742,990
PAYROLLS	97,143	3,383	6,495	38,561	19,582	11,333	0	0	176,497
INTERMEDIATE CONSUMPTION	13,781	1,967	3,479	73,543	28,075	4,055	0	0	124,900
TRANSFERS	256,159	299,329	133,283	874	7,969	2,759	7,601	-357,733	350,242
-to State Sector	0	5,798	150	0	2	71	69	-6,090	0
-to Social security funds	94,921	0	3	0	0	0	609	-95,533	0
-to Regions	97,564	0	0	0	136	18	176	-97,894	0
-to Healthcare	0	0	106,842	0	279	2	222	-107,345	0
-to Municipalities and Provinces	18,882	0	9,421	0	0	0	1,212	-29,515	0
-to Other Consolidated Public Entities	12,071	0	687	22	163	0	813	-13,755	0
-to Non-consolidated Public Entities	0	2,045	2,670	0	2,044	841	4,500	-7,601	4,500
-to Households	5,687	291,469	4,029	852	3,826	1,123	0	0	306,987
-to Businesses	10,424	17	9,481	0	1,519	704	0	0	22,146
-to Abroad	16,610	0	0	0	0	0	0	0	16,610
INTEREST	69,942	208	2,934	234	3,093	221	0	-766	75,866
AMORTISATION	500	0	0	0	0	0	0	0	500
OTHER CURRENT PAYMENTS	6,791	1,466	2,179	1,853	1,259	1,436	0	0	14,985
CAPITAL PAYMENTS	40,517	654	24,215	2,639	18,584	5,642	5,069	-32,185	65,135
GROSS FIXED INVESTMENT	7,000	241	4,066	2,639	16,636	4,727	0	0	35,309
TRANSFERS	31,587	0	19,317	0	1,948	806	5,069	-32,185	26,542
-to State Sector	0	0	0	0	0	0	0	0	0
-to Regions	8,502	0	0	0	62	10	781	-9,355	0
-to Healthcare	0	0	3,371	0	0	0	0	-3,371	0
-to Municipalities and Provinces	3,438	0	5,629	0	0	65	682	-9,814	0
-to Other Consolidated Public Entities	2,075	0	690	0	75	0	96	-2,936	0
-to Non-consolidated Public Entities	4,147	0	1,704	0	382	476	3,510	-6,709	3,510
-to Households	94	0	1,914	0	824	164	0	0	2,996
-to Businesses	12,931	0	6,009	0	604	91	0	0	19,635
-to Abroad	400	0	0	0	0	0	0	0	400
OTHER CAPITAL PAYMENTS	1,930	413	832	0	0	109	0	0	3,284
FINAL PAYMENTS	484,833	307,008	172,585	117,704	78,563	25,446	12,670	-390,684	808,125
FINANCIAL ITEMS	833	2,906	1,500	0	2,340	1,680	2,029	-3,940	7,347
SHAREHOLDINGS&ASSET TRANSFERS	0	0	245	0	630	100	0	0	975
-to Special Credit Entities	0	0	0	0	0	0	0	0	0
-to Businesses and Abroad	0	0	245	0	630	100	0	0	975
MORTGAGES AND ADVANCES	830	0	713	0	820	616	0	-665	2,314
-to Regions	0	0	0	0	0	0	0	0	0
-to Healthcare	0	0	0	0	0	0	0	0	0
-to Municipalities and Provinces	334	0	0	0	0	0	0	-334	0
-to Consolidated Public Entities	0	0	0	0	0	0	0	0	0
-to Non-consolidated Public Entities	166	0	14	0	51	100	0	-331	0
-to Special Credit Entities	0	0	0	0	0	0	0	0	0
-to Households, Businesses, Abroad	330	0	699	0	769	516	0	0	2,314
INCREASE IN BANK DEPOSITS	0	0	0	0	0	0	0	0	0
OTHER FINANCIAL ITEMS	3	2,906	542	0	890	964	2,029	-3,276	4,058
-to State Sector	0	0	542	0	580	67	0	-1,189	0
-to Other Public Entities	0	0	0	0	0	58	2,029	-2,087	0
-to Households, Businesses, Abroad	3	2,906	0	0	310	839	0	0	4,058
TOTAL PAYMENTS	485,666	309,914	174,085	117,704	80,903	27,126	14,699	-394,624	815,472
PRIMARY BALANCE NET OF FINANCIAL ITEMS	-13,582	2,121	1,984	153	3,861	-463	1,640	-766	-5,052
BALANCE NET OF FINANCIAL ITEMS	-83,524	1,913	-950	-81	768	-684	1,640	0	-80,918
PRIMARY BALANCE	-12,315	208	2,365	153	3,536	-65	0	-1,635	-7,753
TOTAL BORROWING REQUIREMENT	-82,257	0	-569	-81	443	-286	0	-869	-83,619

2. ECONOMIC ANALYSIS OF STATE BUDGET PAYMENTS FOR 2007-2009

PUBLIC SECTOR PAYROLLS (in € mn)			
	2007	2008	2009
Economy and Finance	21,699	21,411	22,523
including: additional contribution	(8,567)	(8,361)	(8,900)
Regional Admin. Court and Council of State	135	137	153
Presidency of the Council of Ministers	135	216	310
State Audit Court	205	221	223
Fiscal Agencies	2,307	2,467	2,233
Justice	5,074	5,200	5,318
Foreign Affairs	764	800	797
Education, Universities and R&D	38,739	42,936	41,264
Interior	7,629	7,908	8,435
Infrastructure and Transport	794	806	866
Defence	14,482	15,369	15,729
Forestry and Farming Policies	434	444	510
Economic Development & International Trade	185	173	176
Labour, Health & Social Policies	462	477	495
Arts and Culture	774	749	798
Environment	59	57	63
TOTAL	85,310	91,010	90,993

INTERMEDIATE CONSUMPTION (in € mn)			
	2007	2008	2009
Economy and Finance	2,607	2,930	3,813
Regional Admin. Court and Council of State	40	43	36
Presidency of the Council of Ministers	150	280	370
State Audit Court	29	37	38
Fiscal Agencies	1,465	1,575	1,506
Justice	1,404	1,116	1,501
Foreign Affairs	220	249	252
Education, Universities and R&D	1,452	813	1,166
Interior	1,475	1,659	2,634
Infrastructure and Transport	389	366	316
Defence	3,189	2,944	2,995
Forestry and Farming Policies	83	95	95
Economic Development & International Trade	111	74	93
Labour, Health & Social Policies	314	271	331
Arts and Culture	128	138	163
Environment	197	154	136
TOTAL	13,253	12,744	15,445

REGIONAL TAX ON PRODUCTION (IRAP) (in € mn)

	2007	2008	2009
Economy and Finance	255	244	243
Regional Admin. Court and Council of State	9	8	10
Presidency of the Council of Ministers	7	11	13
State Audit Court	12	13	15
Fiscal Agencies	184	169	173
Justice	327	341	340
Foreign Affairs	14	16	15
Education, Universities and R&D	2,408	2,644	2,532
Interior	521	547	576
Infrastructure and Transport	50	52	42
Defence	881	923	927
Forestry and Farming Policies	28	27	30
Economic Development & International Trade	11	11	11
Labour, Health & Social Policies	29	30	30
Arts and Culture	46	48	52
Environment	4	3	5
TOTAL	4,786	5,087	5,014

CURRENT TRANSFERS (in € mn)

	2007	2008	2009
Central administrations	4,235	4,290	4,710
Local administrations	102,596	114,496	111,513
- regions	80,605	88,803	84,864
- municipalities	13,377	16,726	17,657
- other	8,614	8,967	8,992
Social-welfare entities	77,189	78,399	86,546
Households and NPISH	6,188	4,637	6,709
Businesses	5,651	5,188	3,975
Abroad	2,503	1,881	1,579
TOTAL CURRENT TRANSFERS	198,362	208,891	215,032

CURRENT TRANSFERS TO CENTRAL ADMINISTRATIONS (in € mn)

	2007	2008	2009
Constitutional bodies	1,801	1,831	1,865
National Environmental Protection Agency (ANPA)	66	71	71
Agency for Farm Disbursements (AGEA)	255	329	224
Authorities	99	75	70
National Civil Aviation Entity (ENAC)	118	62	107
National Road Board (ANAS)	390	349	579
Research entities	589	540	570
Foreign Trade Institute	156	169	138
Italian National Olympic Committee (CONI)	443	466	449
Italian Red Cross	39	41	41
Italian National Tourism Entity (ENIT)	0	0	40
Amount to be allocated to UNIRE	0	0	150
Other central entities	223	210	259
TOTAL	4,179	4,143	4,563
Presidency of Council of Ministers (*)	0	50	128
Regional Admin. Court and Council of State (*)	19	22	4
State Audit Court (*)	37	75	15
Fiscal Agencies (*)	0	0	0
TOTAL BUDGET PAYMENTS	4,235	4,290	4,710

(*) Sums warehoused with the Treasury.

CURRENT TRANSFERS TO LOCAL ADMINISTRATIONS (in € mn)

	2007	2008	2009
REGIONS:	80,605	88,803	84,864
including:			
Fund for honors loans	167	152	195
Fund for rent support	469	310	234
Fund for persons who are not self-sufficient	99	299	400
Assignment of VAT collected in regional territory - Sardinia	225	0	0
National Healthcare Fund	7,840	4,865	5,920
Accounting settlements with Regions of Sicily and Sardinia	8,475	10,492	9,532
Accounting settlements with Region of Friuli Venezia Giulia	0	0	3,200
Assignment of quotas of tax revenues fro implementation of special-statute regions	14,642	18,050	11,226
Public transport companies	101	101	101
Sum to be disbursed to the regions for long-term loan amortisation for incremental healthcare spending in 1990	216	180	34
Residential building	772	737	703
Administrative federalism	2,096	1,441	1,450
Fiscal federalism	43,520	48,111	48,152
Social policies fund	931	656	518
Education support	155	155	152
Sharing of the receipts of the excise tax on diesel for haulage	0	1,748	1,732
Presidency of the Council of Ministers - Regions	0	667	662
Assignment of revenues to Trento and Bolzano	434	533	0
MUNICIPALITIES AND PROVINCES	13,377	16,726	17,657
including:			
Sharing participation in personal income tax (IRPEF)	1,251	1,325	1,487
Consolidated fund for the financing of local entity budgets	2,349	2,263	2,447
Ordinary fund for local finance	7,757	8,369	8,874
Equalizing funds for local finance	969	903	970
Judicial offices	277	165	340
Administrative federalism	125	130	125
Fund to be subdivided in relation to VAT for services	189	241	290
Local public transport	366	318	76
Lower compensation from real estate tax on first houses	0	2,861	2,618
UNIVERSITIES	7,943	8,146	8,392
OTHER LOCAL ENTITIES:	671	821	600
Entities providing healthcare services	244	326	163
Park entity	53	76	85
Entities producing economic services	19	15	0
Single performing arts fund for lyric and other entities	355	404	352
TOTAL	102,596	114,496	111,513

TRANSFERS TO SOCIAL SECURITY FUNDS (in € mn)

	2007	2008	2009
Social security administration (INPS):	74,586	77,261	79,589
TRANSFERS FOR PENSIONS	48,130	49,589	52,769
Monthly pensions to be financed by the State	15,491	15,906	16,655
Social security, social allowances and life allowances	2,770	2,821	2,817
Minimum pensions	1,140	1,140	1,140
Increases in social pensions for cases of hardship	1,375	1,375	1,375
Disability pensions	4,114	4,217	4,403
State participation in funding annual pensions	2,098	2,098	2,098
Revaluation of pensions and other pension-related charges	2,956	2,999	3,044
Sum to be transferred to customs/shippers fund	31	32	32
Pension charges in favour of cases of particular hardship		0	900
Provisions on the subject of income and pension accumulation	121	121	131
Disabled persons	13,050	13,054	15,504
Charges for pensions to farmers, sharecroppers, and colonies	2,862	2,862	2,862
Charges arising from early retirement	2,122	1,808	1,808
Charges for social services entirely borne by State			
TRANSFERS FOR FAMILY ALLOWANCES	3,319	2,771	2,823
Charges related to family allowances	0	0	0
Charges related to families of farmers, sharecroppers, and colonies	41	41	41
Charges to support maternity and paternity leave	1,925	1,966	1,943
Charges in favour of disabled persons	7	220	299
Payment of maternity benefits	548	229	230
Family allowances (Law 109)	798	315	310
TRANSFERS FOR SALARY MAINTENANCE CHARGES	1,568	1,583	1,200
Charges related to unemployment benefits	10	10	10
Charges for income supports	0	0	4
Charges for worker layoffs	1,558	809	1,186
Charges for unemployment	0	764	0
TRANSFERS FOR REDUCTION OF SOCIAL CONTRIBUTIONS	691	800	652
Sum to INPS for insurance against tuberculosis	237	237	237
Charges for mandatory protection for maternity	454	563	415
TRANSFERS FOR RELIEF AND ALLOWANCES: SOCIAL CONTRIBUTIONS	13,837	13,744	13,039
Contributions allowances and exemptions	12,487	12,172	11,793
Relief in favour of businesses operating in southern Italy	879	1,142	653
Relief measures in relation to accruing pensions during period of university studies			234
Relief in favour of businesses in maritime sectors	0	237	215
Subsidies to social-welfare institutions for services to persons entitled	144	0	144
Relief in favour of shipping businesses	157	193	0
Allowances to parents and family members of handicapped persons	170	0	0
Advance against amounts needed for managing social-welfare services	19	959	1,167
OTHER TRANSFERS TO INPS	7,022	8,971	7,939
Fund for social-welfare services for executives of private-sector companies	1,107	1,127	1,147
Severance indemnities (TFR)	361	916	1,007
Fund pensions for Italian State Railways	3,675	3,745	3,900
Other social-welfare initiatives	1,009	738	695
Sums to be transferred to INPS for running GIAS	320	322	320
Former military service personnel	285	357	480
Relief measures in relation to accruing pensions during period of university studies	0	267	0
Re-establishment of insurance for postal and telecommunications personnel	100	100	101
Former employees of Genoa and Trieste port authorities	57	62	65
State property agency for rent payments	27	27	1
Reassignment for residual expired liabilities	0	0	78
Sums to be transferred to social-welfare entities for pension charges with respect to specific beneficiaries	0	1,156	0
Social safety nets	52	52	0
OTHER INPS	29	102	145
National pension fund for public-sector workers (INPDAP):	1,477	53	5,727
- including: State contributions	1,400	0	5,627
Italian workers' compensation authority (INAIL) and other social-welfare entities:	1,126	1,085	1,230
- including: Social security funds for performing arts (ENPALS)	104	91	139
- including: Social security funds for postal service (IPOST)	810	810	810
TOTAL SOCIAL SECURITY FUNDS	77,189	78,399	86,546

CURRENT TRANSFERS TO HOUSEHOLDS AND NPISH (in € mn)

	2007	2008	2009
Naval personnel: healthcare	27	26	24
Expenditures for prison inmates	442	375	194
Contributions to political parties	203	291	268
Sums set aside for persons suffering damages due to complications from transfusions and mandatory vaccinations	144	155	163
War pensions	1,035	909	852
Financing of institutions sponsored by the State and social assistance	380	376	432
Italian Episcopal Conference allowance	991	1,003	968
Newborn allowances	67	2	0
Other religious communities	15	16	17
Assistance to refugees	96	178	192
Pension fund for Finance Department personnel	165	79	175
Reimbursement of healthcare expenditures sustained by Italians abroad	103	147	116
Life allowances to victims of political or racial persecution	60	54	56
Compensation on judicial errors	29	34	40
Bonus for low-income households	1,900	0	0
Extraordinary bonus to households and persons not self-sufficient	0	0	1,800
Social card	0	168	487
Disabled persons			
Special donation to persons dying or suffering serious disability at work	5	114	113
.005 of taxes to be assigned to non-profit organisations	0	184	240
Other transfers to households	526	526	572
TOTAL (*)	6,188	4,637	6,709

*) including Presidency of the Council of Ministers €51 million for the year of 2008 and €87 million for the year of 2009.

CURRENT TRANSFERS TO BUSINESSES (in € mn)

	2007	2008	2009
Tax credits	50	55	33
Maritime sector fund	31	116	90
Interest subsidies	235	193	193
Subsidies to shipping businesses for reduction of financial charges	69	64	46
Fund for prevention of usury and rackets	9	153	62
Private schools, elementary schools and preschools	607	402	460
Universities and non-state schools	109	112	93
Railway services under concession	180	93	93
IGED: long-term loans in maritime sector	37	110	0
CONSOB	10	9	18
Fund for financing public services for travellers and goods over medium/long distances	0	86	18
Subsidies to local broadcasters	90	115	131
Other businesses	161	539	263
TRANSFERS TO PUBLIC SERVICE COMPANIES	4,063	3,141	2,475
Italian public television (RAI)	63	27	2
TELECOM	13	25	25
Italian State Railways	3,098	1,951	1,573
ENAV	0	0	182
Postal Service: publishing allowance	297	228	214
Postal Service	95	687	91
Lake navigation services	50	30	17
FINMARE	290	157	357
Transport companies under State's direct management or State concession	141	36	0
Monopolies	16	0	14
TOTAL CURRENT TRANSFERS TO BUSINESSES	5,651	5,188	3,975

CURRENT TRANSFERS ABROAD (in € mn)

	2007	2008	2009
Aid grants to developing countries	156	202	135
Accords with A.C.P. countries	363	366	381
Contributions to international organisations	522	489	435
Contribution to Italian Fund to fight AIDS-tuberculosis and malaria	390	0	0
International defence accords	151	177	195
Voluntary contributions to international organisations	625	385	211
Other current transfers abroad	296	262	222
TOTAL	2,503	1,881	1,579

EU RESOURCES (in € mn)

	2007	2008	2009
Traditional resources	2,264	2,210	2,014
Financing as complementary resource based on GDP	9,226	9,490	11,149
Value-added tax resources	2,920	3,800	2,666
TOTAL	14,410	15,500	15,829

INTEREST AND CAPITAL INCOME (in € mn)

	2007	2008	2009
Interest on AV/AC	636	621	0
Interest on current account with Treasury	3,655	4,100	5,326
Interest on interest-bearing certificates	4,655	12,794	6,927
Interest on current accounts with post office	1,516	1,012	359
Cassa Depositi e Prestiti s.p.a	1,790	1,355	1,232
CREDIOP and EIB	12	7	4
Italian State Railways	88	72	69
Depressed areas	45	33	28
Interest on past-due amounts	755	980	935
Other long-term mortgages	165	96	61
Public-debt securities	55,339	58,902	56,522
Other interest	42	10	647
TOTAL	68,698	79,982	72,110

AMOUNTS ADJUSTING AND OFFSETTING REVENUES (in € mn)

	2007	2008	2009
Reimbursements of direct taxes	2,636	2,844	2,516
Reimbursements of indirect taxes	561	572	527
Lottery winnings	4,354	3,828	4,133
RAI-TV subscription	1,565	1,625	1,647
Special budget funds	29,916	39,620	43,593
Other	250	147	999
TOTAL	39,282	48,636	53,415

AMORTISATION (in € mn)

	2007	2008	2009
Amortisation of real property			
Amortisation of personal property	163	186	350
TOTAL	163	186	350

GROSS FIXED INVESTMENT AND PURCHASES OF LAND (in € mn)

	2007	2008	2009
Service building	292	174	183
Information systems	389	453	470
Upgrading and enhancing national defence	3,213	3,191	2,331
Depressed areas	126	158	245
Purchases of logistics means	343	114	320
Other fixed investments(a)	2,477	2,665	3,347
TOTAL	6,840	6,755	6,896
(a) including:			
Presidency	106	219	904
State Audit Court	5	12	9
Regional Admin. Court and Council of State	2	3	7
Fiscal Agencies	179	152	124

CAPITAL ACCOUNT TRANSFERS (in € mn)

	2007	2008	2009
Contributions to investments to:			
Public administrations:	22,604	25,022	23,269
- central	9,637	13,477	10,178
- local	12,444	10,682	11,690
- social-welfare institutions	523	863	1,401
Businesses	15,182	9,755	12,199
Households and NPISH	167	127	143
Abroad	547	919	484
Other capital account transfers	5,325	10,085	7,995
TOTAL CAPITAL ACCOUNT TRANSFERS	43,825	45,908	44,090

CONTRIBUTIONS TO THE INVESTMENT OF THE CENTRAL PUBLIC ADMINISTRATIONS (in € mn)

	2007	2008	2009
Fiscal Agencies	37	0	0
Technological Innovation Fund	0	0	0
EC policies revolving fund:	4,357	8,660	5,776
Major research entities	1,825	1,883	1,833
Small research entities	87	381	285
National Road Board (ANAS)	2,605	1,905	1,808
National Civil Aviation Entity (ENAC)	51	59	
Revolving fund for professional training	318	305	42
Agency for farm disbursements (AGEA) Bovine spongiform encephalopathy	73	53	0
Other investment	284	231	434
TOTAL	9,637	13,477	10,178

CONTRIBUTIONS TO THE INVESTMENT OF LOCAL PUBLIC ADMINISTRATIONS (in € mn)

	2007	2008	2009
Regions	7,461	6,658	7,203
including:			
Public transport contract	55	200	217
Long-term loans for national solidarity: Sicily	141	132	268
Extraordinary contributions: Sicily, Campania and Calabria	129	144	132
5-year contribution Sicily taxes on auto liability insurance	50	86	86
Local public transport	0	89	100
School building plan	0	100	77
Safeguarding Venice	126	133	184
Employment fund (quota)	83	121	275
Healthcare buildings	1,059	840	841
National Healthcare Fund (Infrastructure)	24	0	0
Environmental clean-up plan and hydro geological risk	457	522	147
Ordinary- and special-statute regions: depressed areas	2,372	1,860	2,017
including: Institutional programme accords	1,658	1,600	1,977
Administrative federalism	1,932	1,902	1,905
Upgrade of healthcare structures	103	70	88
Free-of-charge textbooks	51	0	67
Initiatives in the farming and forestry sectors	88	57	51
Purchase / substitution of public buses	239	239	238
Regions: Civil protection Presidency of the Council of Ministers	69	5	0
Provinces and municipalities	4,203	3,383	3,834
including:			
Naples cooperatives	80	88	100
Rapid mass transit	305	199	195
Rome, Naples and Milan metro systems	800	0	0
Sums to be transferred to Cities of Catania and Rome (D.L. 154/2008)	0	0	550
Contributions to City of Rome for reimbursement to Cassa Depositi & Prestiti of sums disbursed for financial co-participation	0	488	0
Financing of local entities (investments fund)	1,223	1,034	982
Free-of-charge textbooks	31	91	103
Public residential housing	0	30	515
Roma Capitale	241	126	293
Depressed areas	27	15	18
Administrative federalism	455	387	370
Contributions to Venice	266	163	158
Public transportation contract - local entities	107	109	126
Environmental protection and cleanup and safeguarding of arts and culture	128	86	0
Employment fund (quota)	74	73	75
Local entities: Civil protection Presidency of the Council of Ministers	42	49	101
Universities:	120	90	94
Other local entities:	660	551	559
Entities producing economic services	578	499	535
Entities producing cultural and recreation services	82	52	24
TOTAL INVESTMENT: LOCAL PUBLIC ADMINISTRATIONS	12,444	10,682	11,690

CONTRIBUTIONS TO INVESTMENTS OF SOCIAL SECURITY FUNDS (in € mn)

	2007	2008	2009
Employment fund (quota)	523	863	1,401
TOTAL	523	863	1,401

CONTRIBUTIONS TO INVESTMENT TO BUSINESSES (in € mn)

	2007	2008	2009
Concessionaire reimbursement	4,533	0	0
Toll-highway system works (ANAS)	210	191	240
Initiatives in depressed areas	28	53	36
Artigiancassa	7	20	7
Naval-mechanical and shipping industry	368	176	190
Farm sector	164	155	143
European, multi-mission frigate (FREMM) programme	64	99	361
Employment fund (quota)	51	30	52
Mortgages to transport sector	68	62	47
Light-rail systems	208	217	144
Single performing-arts funds - cinema and circuses (FUS)	42	61	74
Entrepreneurial initiatives by young people	195	300	0
Safeguarding Venice	185	145	133
Relief to industrial businesses	1,212	1,632	1,665
including: aeronautic sector	573	414	295
Fund for competitiveness and development	320	310	1,705
Contribution to cargo transport	101	54	62
Research funding: Fund to be split	364	255	207
Contributions for lowering rates on subsidised rate mortgages	25	16	13
National interport network	0	15	28
Venice MOSE system	0	80	59
Road security	0	20	20
Insurance incentives-farm solidarity fund	311	258	191
Tax credits for investment in employment	0	0	347
Tax credits	395	716	914
Tax credits for scrapping (old vehicles and other equipment)	471	441	61
Presidency of the Council of Ministers	46	184	41
Other contributions to businesses	428	368	594
Public service companies	5,386	3,897	4,865
Railways operated under concession	316	444	363
Italian State Railways	4,826	3,170	4,288
Postal system	241	281	211
FINMARE and lake navigations services	3	2	3
TOTAL CONTRIBUTION TO BUSINESSES	15,182	9,755	12,199

CONTRIBUTIONS TO INVESTMENT ABROAD (in € mn)

	2007	2008	2009
Italy's participation in European Molecular Biology Conference	11	15	13
Contributions to international organisation - developing country aid	330	678	237
EUMETSAT	20	24	28
European Organisation for Nuclear Research CERN-AIEA	81	101	107
International agreements	32	25	17
Financing of Trieste Theoretical Physics Centre	18	19	18
Brussels Agreement	4	4	4
Italy's participation in G8: cancellation of poor nations' debt	29	4	50
Other investment abroad	22	49	10
TOTAL	547	919	484

OTHER CAPITAL ACCOUNT TRANSFERS (in € mn)

	2007	2008	2009
To businesses	232	5,188	2,994
SIMEST	30	181	69
Mediocredito	9	19	9
Cassa Depositi & Prestiti Spa	125	115	69
Reimbursement to telephony operators	0	31	4
Reimbursement of value-added taxes on automobiles	0	119	249
Second securitisation of public buildings (SCIP 2)	0	0	1,460
G8	0	0	310
Reimbursements carried over past 10 years	0	4,677	823
Other businesses	68	46	1
To public administrations	4,185	3,975	3,470
Deficits for local healthcare units (ASL)	3,046	1,449	1,074
Social-welfare institutions: real estate securitisation	0	0	0
Regions	15	65	47
Regions: Civil protection	1,061	1,972	1,917
including: long-term bank mortgages	(247)	(604)	(604)
Municipalities	18	18	27
Municipalities: Civil protection	13	26	115
Initiatives: Civil protection	0	0	0
Sport initiatives - Presidency of the Council of Ministers	0	178	190
Umberto I University for settlement of carried over debts	0	250	0
Other public administrations	32	17	94
Households and NPISH	0	0	0
Funds	908	921	1,531
TOTAL OTHER CAPITAL ACCOUNT TRANSFERS	5,325	10,084	7,995

PURCHASE OF FINANCIAL ASSETS (in € mn)

	2007	2008	2009
Advances to regions for healthcare spending reduction plans	0	8,378	0
Capital injection to A.N.A.S.	427	0	0
Recapitalisation of FINCANTIERI	18	18	18
Transfers to banks and international organisations	28	7	0
Sums for subscribing financial instruments issued by Italian banks	0	0	1,950
Italian mint (Poligrafico e Zecca dello Stato)	33	33	33
Revolving fund for businesses	159	334	186
Revolving fund for reducing gas emissions	0	0	200
Charges arising from foreign-exchange guarantees	2	5	30
Mediocredito: credit to developing nations	0	0	1
Lyric and symphonic foundations	0	20	0
Capital increase for FF.SS. Calabria and Southeast Railways	0	30	0
Other financial items	34	1	4
TOTAL FINANCIAL ASSETS	701	8,826	2,422