SUMMARY AND POLICY OBJECTIVES

The gradual improvement in the Euro Area's financial market situation during 2012 has not yet been fully transmitted to the real economy, delaying economic recovery. The recession began in Italy in the second half of 2011 and continued throughout 2012. Average annual GDP has decreased by 2.4% in real terms, confirming estimates published in the September's Updated to the 2012 DEF (Nota di Aggiornamento del DEF).

TABLE I.1 : PUBLIC FINANCE INDICATORS (% OF GDP)

	2011	2012	2013	2014	2015	2016	2017
UPDATED POLICY SCENARIO (1)							
Net borrowing	-3,8	-3,0	-2,9	-1,8	-2,5	-2,1	-1,8
Cumulated change in net borrowing 2015-2017					0,9	1,2	1,4
UPDATED POLICY SCENARIO (2)							
Net borrowing	-3,8	-3,0	-2,9	-1,8	-1,7	-1,3	-1,0
Cumulated change in net borrowing 2015-2017					0,2	0,4	0,6
UPDATED POLICY SCENARIO							
Net borrowing	-3,8	-3,0	-2,9	-1,8	-1,5	-0,9	-0,4
Primary balance	1,2	2,5	2,4	3,8	4,3	5,1	5,7
Interest	5,0	5,5	5,3	5,6	5,8	6,0	6,1
Structural net borrowing (3)	-3,5	-1,2	0,0	0,4	0,0	0,0	0,0
Change in structural balance	-0,2	-2,3	-1,1	-0,4	0,4	0,0	0,0
Public Debt (including aid) (4)	120,8	127,0	130,4	129,0	125,5	121,4	117,3
Public Debt (net of aid) (4)	120,0	124,3	126,9	125,2	121,8	117,8	113,8
MEMO: Report to the Parliament (March 2013)							
Trend net borrowing (5)	-3,8	-3,0	-2,9	-1,8			
MEMO: Updated note on 2012 DEF 2012 (September 2012)							
Net borrowing	-3,9	-2,6	-1,8	-1,5	-1,3		
Primary balance	1,0	2,9	3,8	4,4	4,8		
Interest	4,9	5,5	5,6	5,9	6,1		
Structural net borrowing (3)	-3,6	-0,9	0,0	-0,2	-0,4		
Change in structural balance	0,0	-2,8	-0,9	0,3	0,2		
Public Debt (including aid) (6)	120,7	126,4	126,1	123,1	119,9		
Public Debt (net of aid) (6)	119,9	123,3	122,3	119,3	116,1		
Nominal GDP (absolute values x 1.000) (7)	*1.578,5*	*1.565,9*	*1.573,2*	*1.624,0*	*1.677,7*	*1.731,3*	*1.785,9*

1) In case of non-renewal of the 'experimental IMU' (taxation on real estate property), the increased cadastral values and other minor revenues due to expire in 2015.
2) On the assumption that the tax regime on real estate property (IMU) continues as instituted by Decree Law n. 201 del 2011.
3) Structural means net of one-off measures and the cyclical component.
4) Inclusive or net of Italy's share in EFSF loans to Greece and in the ESM programme. For 2011 and 2012 the total of such loans to EMU State Members (bilateral or through EFSF) amounts to 13.118 and 36.932 billion respectively. Estimates for 2013-2017 include revenues from privatisation of state owned assets for about 1 percentage point of GDP per year.
5) Inclusive of effects on net borrowing stemming from the speeding up of payments of arrears owed by the public administration, valued to be in the order of 0.5 per cent of GDP.
6) Inclusive or net of Italy's share in EFSF loans to Greece (projected aid for recapitalisation of Spanish banking sector not included) and in the ESM programme from 2010 to 2015.
7) Estimates of GDP in the short run take the impact of structural reforms only partly into account.

Government policy actions aimed at maintaining financial stability while enhancing potential growth through major structural reforms. Despite unfavourable economic developments, fiscal consolidation was pursued with determination to achieve a balanced budget in structural terms in 2013. In 2012, the deficit was at 3.0 per cent of GDP in nominal terms, already broadly in line with EU recommendations.

Fiscal consolidation was accompanied by changes to the national fiscal framework, first by introducing the principle of balanced budget through the cycle in the Italian Constitution and then by making it operational. This followed a series of reforms in European governance and commitments by the Italian government as early as March 2011 in the context of the Euro Plus Pact and the more stringent requirements of the Six Pact. These changes have laid the foundation of a durable fiscal adjustment.

The current economic climate, still unfavourable, calls for fiscal consolidation and financial stability to be accompanied by measures to support and enhance growth and employment.

Following EU Council conclusions of June and December 2012, the European Council of 14 March 2013 recognised the need for a differentiated approach to fiscal consolidation, using the space available within the EU's existing fiscal framework for actions in support of growth and employment.

In line with this approach, the Italian Government has recently adopted a Decree Law to inject liquidity in the economic system by unblocking payment in arrears accumulated by the public administration toward its suppliers. This measure is expected to boost demand already in the second half of this year. Spread over a two year period (2013-2014), it is a one-off measure that will not affect the fiscal consolidation process to which Italy remains firmly committed. Taking into consideration that the budget deficit must remain below 3.0 per cent of GDP in all years following the repeal of the excessive deficit procedure and with a sufficient margin, the Government estimates that the fiscal leeway to speed up payment of arrears by the public administration is approximately 0.5 per cent of GDP.

The structural deficit is estimated to decline from 1.2 per cent in 2012 to zero in 2013, and then turn into a slight surplus in 2014. In the following years, assuming continuation of the experimental IMU regime, projected developments in public finances show net borrowing to be sufficiently close to balance. The full achievement of a balanced budget in 2015-2017 would require some additional measures to close the residual gap. Based on current projections, the primary surplus in nominal terms should gradually increase, reaching 5.7 per cent of GDP in 2017, while the debt/GDP ratio should start declining rapidly as early as 2014.