ANNEX 1 - MACROECONOMIC IMPLICATIONS FOR ITALY OF ACHIEVING COMPLIANCE WITH THE DEBT RULE UNDER TWO DIFFERENT SCENARIOS

The aim of this note is first to illustrate the impact of a fiscal adjustment aimed at achieving compliance with the debt rule under two different baseline scenarios. These scenarios are built using the Italian Treasury econometric model (ITEM).

The first baseline scenario can be thought of as a baseline in which the evolution of the main macroeconomic aggregates over the 2014-2017 is only slightly different from that of the policy scenario envisaged in the 2014 Draft Budget Plan (see table 2a). This divergence is almost entirely due to an update of the values of exogenous international variables (see table 1a) with respect to the values projected in autumn 2014. For the subsequent years, from 2018 to 2024, the values of the growth rates of output are set broadly in line with the growth rates of potential output as estimated by the output gap working group, according to the commonly agreed methodology for projecting potential output up to year T+10. In this scenario the rate of inflation moves above 1.5% in the medium term. Compliance with the MTO is - in the short term - broadly achieved and, by and large, the structural budget hoovers around zero afterwards. Public debt is decreasing but does not decline according to the path required by the so called debt benchmark envisaged by the SGP.

The second baseline scenario has been updated assuming deflationary tensions, more severe and prolonged than those associated with the macroeconomic framework in the 2014 Draft Budget Plan. In particular, the international economic framework envisages a deterioration of world demand, slower dynamics in international prices, lower oil prices (set at 50 dollars per barrel in 2015) throughout the 10-year horizon and a further depreciation of the Euro beyond that occurred in the final part of the year 2014 (see table 1b). Over the 2014-2017, the evolution of the main macroeconomic aggregates is significantly different from that of the policy-scenario envisaged in the 2014 Draft Budget Plan[1] (see table 2b). Output is almost unchanged in 2015 and grows only slightly in 2016 and in 2017. From 2018 onwards the pace of growth is slightly above one per cent. Consumption prices show a decline (-0,6 per cent in 2015) and grow afterwards at very moderate rates. This divergence is due to changes in both the values of exogenous international variables and the evolution of domestic prices. As for the evolution of domestic prices, a lowering in price expectations is assumed. Since price expectations are not explicitly modelled in ITEM, their effects are simulated by an exogenous variation in the intercept terms of both price and wage equations.

Overall, the first baseline scenario is a more likely outcome after the ECB decision to expand its asset purchase programme; however recent price trends show that in the short run inflation might move below the path foreseen in it.

A fiscal correction is introduced in both scenarios so as to assure immediate compliance of Italy with the public debt criterion in 2015. The amount of the fiscal correction is in line with the Minimum Linear Structural Adjustment (MLSA) identified in each scenario.

Therefore, as of 2015, an ex-ante permanent consolidation of public finances amounting to 1.7 per cent of GDP is introduced in the first baseline scenario whereas a fiscal correction equal to 3.8 per cent of nominal GDP has been introduced in the second scenario.

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[1] The values of the 2014 DBP are mostly consistent with the 2014 Update of the Economic and Financial Document (EFD) submitted to the Italian Parliament. However following the first submission of the DPB the Italian government committed to undertake some additional tightening.

In both scenarios, the burden of fiscal correction is equally distributed on the expenditure and revenue side.[2] The new simulations deliver a negative effect on economic activity with the fiscal multiplier being 0.9 in the first year (i.e in 2015). [3] The ITEM model would normally prompt a value approximately half of this size, however the negative impact on GDP is amplified[4] assuming that the strong fiscal contraction prompts a deterioration of agents' expectations with respect to the baseline scenario. This is well justified since, as argued in section 1.3, during a protracted slump of the economic activity fiscal multipliers tend to be larger than usual.

Fiscal adjustment in the standard baseline scenario

In this baseline, in the years 2015-2017 the values of the deficit-to-GDP ratio are similar to those reported in the 2014 Draft Budget Plan. In the final years of the simulation a slight deterioration of the primary balance is recorded which, however, remains always above 3.5 per cent of GDP. [5] The structural budget balance is close to zero and it reaches again the negative threshold of -0.4 per cent of GDP only at the end of the simulation horizon. In the baseline scenario the public finance conditions do not ensure compliance with the debt rule.

In order to ensure compliance with the debt rule in 2015, the fiscal adjustment in structural terms (the so-called Minimum Linear Structural Adjustment) should be 2.2 percentage points of GDP implying a permanent fiscal correction of the primary surplus of the baseline scenario equal to 1.7 per cent of GDP.

Accordingly a permanent fiscal correction of 1.7 per cent of GDP, is enacted in 2015. Results are displayed in table 3a. The adjustment is costly for the economy and its unfavourable impact persists in the medium term. In the year 2015 Italy falls back into recession and recovers only gradually, and the economy end up on the brink of deflation. Potential output declines with respect to the baseline by 0.2 pp in 2015 and by 0.5 pp cumulatively until the end of the simulation horizon.

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[2] The expenditure items which have been cut are government purchases, public investment, employment in the public sector and social security transfers (the incidence of each of these cuts reflects the size of the corresponding item in the public finance account). On the revenue side the permanent ex-ante increase of tax revenues is obtained by increasing the implicit average tax rates of household income and of corporate income as well as of the value added tax. It is important to recall that, in general, expenditure cuts yield a more pronounced contractionary effect on output in the short run compared to tax increases. On the other hand, however, the latter generate a negative impact on the level of economic activity which tend to be permanent.

[3] Traditionally fiscal multipliers embodied in econometric models provide a multiplier ranging between 0.3 and 1 per cent (or above) depending also on the composition of the tightening/stimulus. The size of the dynamic multipliers changes through time reaching the highest values in the first three years of the simulations. In the ITEM model the cumulative fiscal multiplier has an hump shaped pattern and it reaches its peak value of 1.2 in the second year. This amplifies the negative impact on output and, referring to figures 1 and 2 below, pushes the fiscal consolidation lines further up with respect to the baseline simulation lines. At any rate, the self-defeating results are always confirmed, this is the case because the 0.9 value for the first year is well above the threshold that implies a self-defeating outcome.

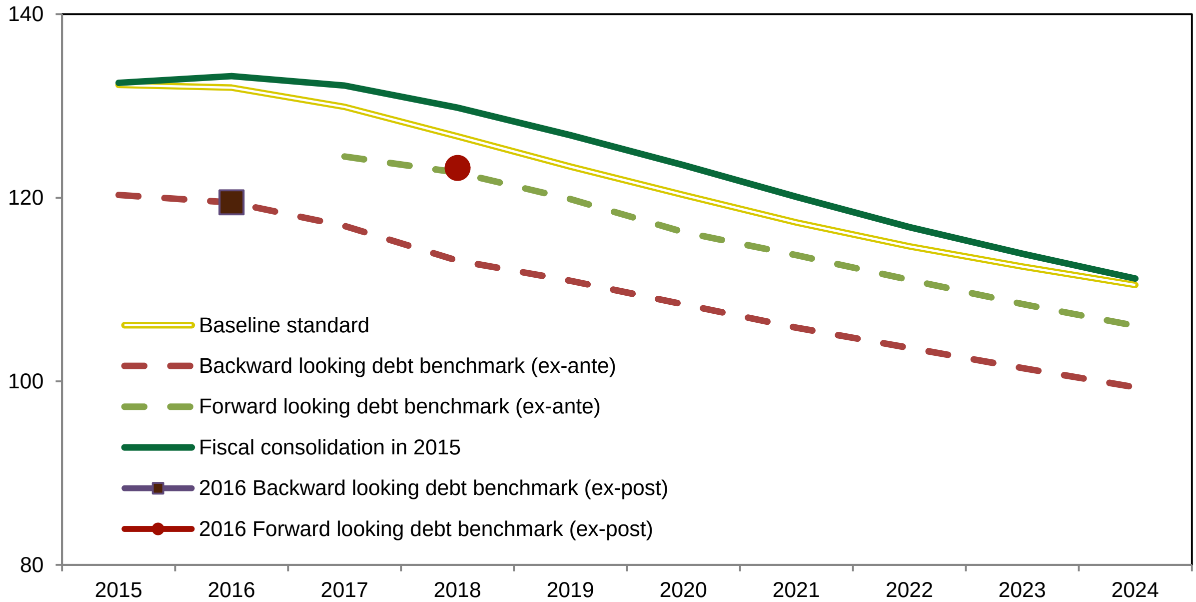
[4] This is achieved by an ad-hoc reduction of the intercept terms in both the consumption and investment equations.

[5] Over the period 2019-2024 the public expenditure variables in nominal terms have been set as invariant over time as a ratio to GDP. There are two exceptions to this, however: a) the evolution of expenditure for pensions, which depends on the number of pensioners and on the revaluation of the benefits based on inflation dynamics; b) the compensation for public employees, for which an evolution in line with that of wages in the private sector has been assumed.

STANDARD BASELINE SCENARIO: FISCAL ADJUSTMENT NEEDED TO COMPLY WITH THE DEBT RULE IN 2015		2013	2014	2015
	Minimum Linear Structural Adjustment (a) in pp	1.1	1.1	1.1
	Structural adjustment from the previous year (b)		0.5	1.6
DEBT RULE	Planned structural adjustment (c)	0.5	0.0	0.4
	Further needed structural adjustment (d)=(a)+(b)-(c)	0.5	1.6	2.2
	Primary balance adjustment to comply with the debt rule (% GDP)			1.7

The MTO is initially achieved and overcome in 2015 as the structural surplus is initially close to one per cent of GDP. Gradually, however, this indicator deteriorates. Structural balance moves quickly away from the surplus position reaching a deficit around 0.3 per cent of GDP as of 2020 and in the subsequent years. This fiscal correction is self-defeating as it causes the debt-to-GDP ratio to be above the baseline series over almost the entire period. Although Italy would fulfil the requirement of undertaking the required MLSA (and so no action would be taken against it in the year 2015), compliance with the debt rule would not be achieved on an ex-post basis (Figure 1). If the exercise had to be repeated for the year 2016 with new benchmarks being estimated (which corresponds to the dots in figure 1) Italy would be asked again to undertake an adjustment so as to fill the gap of the trend debt profile against the new (revised) benchmarks.

FIGURE 1 - DEBT TO GDP RATIO VIS-À-VIS EX-ANTE DEBT BENCHMARKS – STANDARD SCENARIO

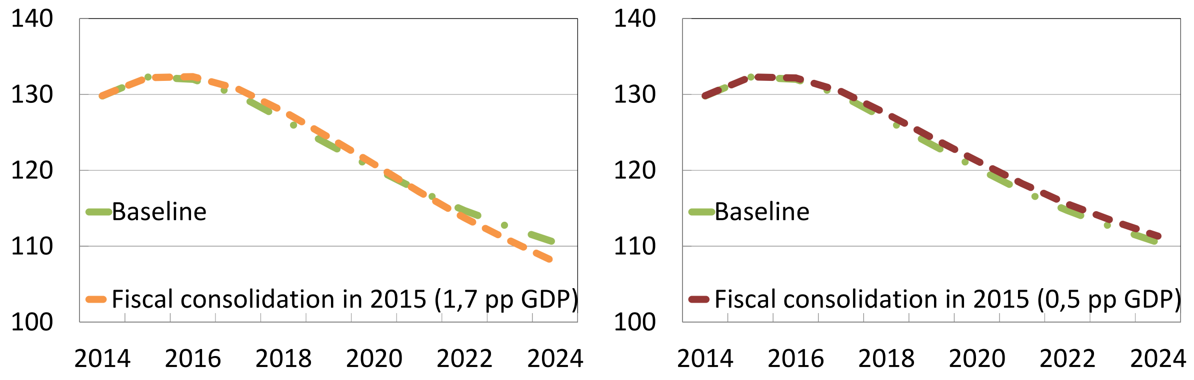


Finally, as a robustness check, the same exercise has also been run lowering the fiscal multiplier intensity, to 0.7 per cent in the first year after the fiscal adjustment.[6] Even in a more favorable environment for fiscal consolidation – ie “standard inflation” and a relatively low multiplier – fiscal adjustment is self-defeating: in fact, a fiscal correction would drive

[6] Its mean in the first three years has been imposed equal to 0.9. See also footnote 3 on the matter.

debt projections above the baseline i) for the first seven years, if equal to 1.7 per cent of GDP; ii) for all the considered sample period, if equal to 0.5 (Figure 2).

FIGURE 2 - DEBT TO GDP RATIO – STANDARD SCENARIO WITH LOWER FISCAL MULTIPLIER



Source: The simulations have been built using the Italian Treasury econometric model (ITEM).

Fiscal adjustment in the lowflation baseline scenario

As far as the lowflation scenario is concerned, the deficit-to-GDP ratio in 2016-2018 would be slightly higher than that reported in the 2014 Draft Budgetary Plan. In 2019 and 2020 the deficit-to-GDP ratio improves but in the final years of the simulation a deterioration of the primary balance is recorded which remains nevertheless always above 3.5 per cent of GDP. The structural budget balance is close to zero as of 2017 but at the end of the simulation horizon it drops into negative territory (-0.8 per cent of GDP). In 2015-2016, public debt as a ratio of GDP increases and then slowly declines afterwards. Due to the lower rate of inflation the debt-to-GDP ratio is much higher than in the standard baseline scenario, in which the rate of inflation moves above 1.5 per cent in the medium term. Its evolution is again (and even more so than in the standard baseline) not in line with the path required by the so-called debt benchmark envisaged by the SGP. In order to ensure compliance with the debt rule in 2015, the fiscal adjustment in structural terms (the MLSA) should be 4.2 percentage points of GDP implying a permanent fiscal correction of the primary surplus of the baseline scenario equal to 3.8 per cent of GDP.

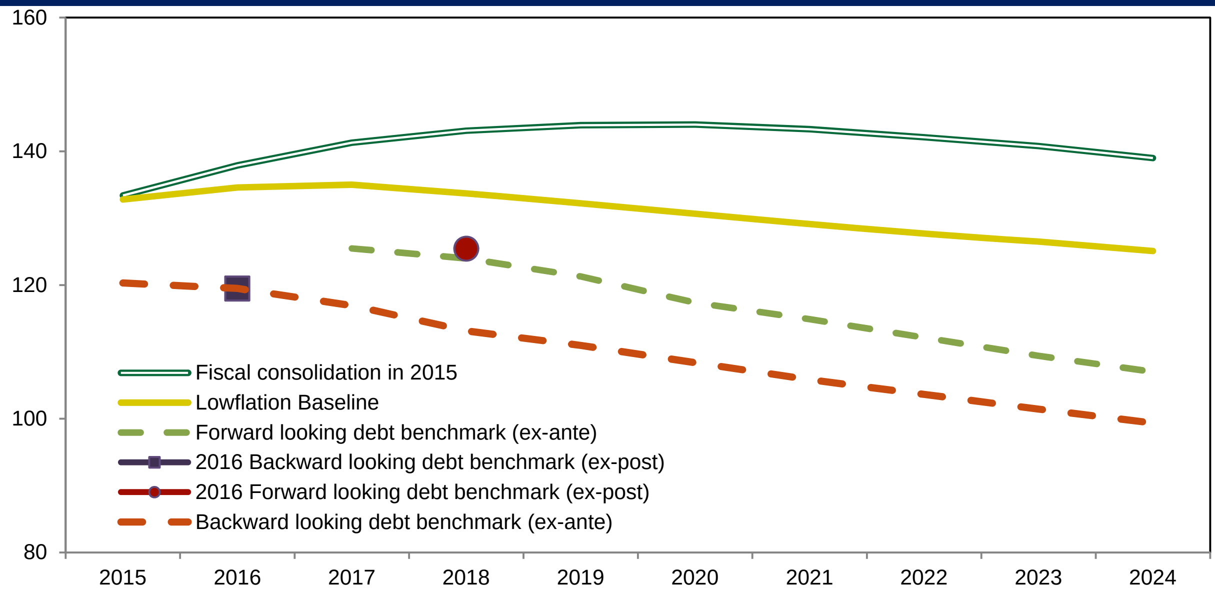
LOWFLATION BASELINE SCENARIO: FISCAL ADJUSTMENT NEEDED TO COMPLY WITH THE DEBT RULE IN 2015

		2013	2014	2015
	Minimum Linear Structural Adjustment (a) in pp	**1.7**	**1.7**	**1.7**
	Structural adjustment from the previous year (b)		1.2	3.0
DEBT RULE	Planned structural adjustment (c)	0.5	-0.1	0.4
	Further needed structural adjustment (d)=(a)+(b)-(c)	**1.2**	**3.0**	**4.2**
	Primary balance adjustment to comply with the debt rule (% GDP)			**3.8**

An ex-ante permanent consolidation of public finances of an amount equal to 3.8 per cent of nominal GDP is introduced starting in 2015. The burden of fiscal correction is also in this case equally distributed on both the expenditure and revenue side.

Under this scenario, in the initial part of the simulation output drops for two years (2015 and 2016) and the economy moves into deflation for five years. The MTO is initially achieved and exceeded in 2015 as, in line with the previous scenario, the structural surplus is largely positive and equal to four per cent of GDP. Gradually, however, this indicator deteriorates. Structural balance moves quickly away from the surplus position reaching a deficit of 0.2 per cent as of 2019 and of 2.1 in 2024. The fiscal correction is self-defeating as it results in the debt-to-GDP ratio to increase up to 2020 and slowly to decline afterwards. Compliance with the debt rule is not achieved over the projection horizon as the distance with the reference benchmark is always positive[7] (Figure 3). All the arguments made concerning the fiscal adjustment applied to the standard baseline remain in place and are aggravated (e.g. a new adjustment would be required in the year 2016).

FIGURE 3 - DEBT TO GDP RATIO VIS-À-VIS EX-ANTE DEBT BENCHMARKS – LOWFLATION SCENARIO



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[7] More specifically, over 2015-2016 the most favourable benchmark to be applied is the backward-looking against the cyclically adjusted debt ratio (not reported in the figure), while as from 2017 the debt to GDP ratio should be compliant with the forward looking benchmark.

TABLE 1A STANDARD BASELINE
THE INTERNATIONAL SCENARIO OF THE MACROECONOMIC FRAMEWORK (percentage change unless indicated differently)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
World demand (weighted for Italy)	3.2	3.0	4.7	4.6	4.2	4.0	3.7	3.5	3.2	3.1	3.1
Prices of foreign manufacturing products (weighted for Italy)	-0.3	1.8	2.2	2.4	2.2	2.0	2.1	2.1	2.1	2.0	2.1
Oil Price (level)	98.6	69.6	79.7	89.8	97.0	102.6	108.1	113.4	118.6	123.9	128.7
Price of non-oil raw materials (in US dollars)	13.8	-2.9	3.7	2.2	2.1	2.1	2.4	2.7	2.9	2.9	2.8
Euro-dollar exchange rate (level)	1.33	1.23	1.21	1.19	1.17	1.17	1.16	1.16	1.16	1.15	1.15
Three-month Euribor interest rate (level)	0.21	0.08	0.07	0.07	0.14	0.64	1.13	1.63	2.13	2.63	3.01
Ten-year Bund interest rate (level)	1.21	0.95	1.28	1.55	1.84	2.12	2.38	2.62	2.86	3.10	3.25

TABLE 1B LOWFLATION BASELINE
THE INTERNATIONAL SCENARIO OF THE MACROECONOMIC FRAMEWORK (percentage change unless indicated differently)

	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
World demand (weighted for Italy)	3.2	2.4	3.0	2.9	3.0	3.0	3.0	3.0	3.0	3.1	3.1
Prices of foreign manufacturing products (weighted for Italy)	-0.3	1.1	1.2	1.4	1.5	1.5	1.6	1.6	1.7	1.7	1.8
Oil Price (level)	98.6	50.1	55.1	61.8	67.3	72.2	77.2	82.5	87.7	93	97.8
Price of non-oil raw materials (in US dollars)	13.8	-3.5	2.6	1.2	1.0	1.1	1.4	1.7	1.8	1.9	1.8
Euro-dollar exchange rate (level)	1.33	1.23	1.21	1.19	1.17	1.17	1.16	1.16	1.16	1.15	1.15
Three-month Euribor interest rate (level)	0.21	0.08	0.07	0.07	0.14	0.51	1.01	1.51	2.01	2.45	2.51
Ten-year Bund interest rate (level)	1.21	0.95	1.28	1.55	1.84	2.12	2.38	2.62	2.86	3.10	3.25

Standard baseline scenario

TABLE 2A - MACROECONOMIC FRAMEWORK

Rate of change unless indicated differently	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real Gross Domestic Product	-0.4	0.3	1.0	1.4	1.4	1.2	1.2	1.1	0.9	0.9	0.9
Real Private Consumption Expenditure	0.0	1.2	1.0	1.1	1.0	0.9	1.0	1.0	0.9	0.9	1.0
Real Public Consumption Expenditure	0.1	-2.2	-0.3	-0.2	-0.1	0.4	0.6	0.7	0.7	0.6	0.7
Real Gross Fixed Investment	-2.0	1.7	2.1	3.0	2.5	1.6	1.1	0.9	0.8	0.7	0.7
Real Exports of goods and services	2.0	1.4	3.2	4.0	4.2	4.0	3.6	3.2	2.9	2.7	2.7
Real Import of goods and services	1.6	3.4	3.1	3.7	3.8	3.8	3.1	2.9	2.9	2.7	2.7
Net Export (contrib. to GDP growth)	0.2	-0.5	0.1	0.2	0.3	0.2	0.3	0.3	0.1	0.1	0.1
Inventories (contrib. to GDP growth)	-0.2	0.3	0.0	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0
Domestic demand (contrib. to GDP growth)	-0.3	0.5	0.9	1.1	1.0	0.9	0.9	0.9	0.8	0.8	0.8
Implicite price deflator, GDP	0.8	0.4	1.5	1.6	1.7	1.9	1.9	1.7	1.7	1.6	1.6
Implicite price deflator, Household	0.3	-0.2	1.9	2.2	1.9	1.7	1.6	1.6	1.6	1.5	1.5
Total Employment (FTE)	-0.7	0.0	0.3	0.6	0.8	0.8	0.8	0.8	0.7	0.7	0.7
Unemployment rate (level)	12.6	12.6	12.4	11.9	11.4	10.8	10.2	9.9	9.5	9.2	8.9
Wages per employee: all economy	0.8	0.9	1.2	1.1	1.3	1.6	1.7	1.7	1.7	1.5	1.5
Output gap	-4.0	-3.5	-2.6	-1.5	-0.6	-0.1	0.2	0.4	0.4	0.4	0.2
Structural balance	-1.1	-0.7	-0.6	-0.2	0.1	0.1	-0.1	-0.1	-0.1	-0.2	-0.4
General Government primary balance (% of GDP)	1.9	2.0	2.6	3.3	3.8	3.9	3.8	3.7	3.6	3.6	3.5
General Government balance (% of GDP)	-3.0	-2.6	-2.1	-1.0	-0.2	0.0	0.0	0.2	0.1	-0.1	-0.2
General Government debt (% of GDP)	129.8	132.3	132.0	129.9	126.7	123.4	120.3	117.3	114.7	112.5	110.5

Lowflation baseline scenario

TABLE 2B - MACROECONOMIC FRAMEWORK											
Rate of change unless indicated differently	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real Gross Domestic Product	-0.4	0.1	0.4	0.7	1.2	1.1	1.1	1.1	1.1	1.1	1.2
Real Private Consumption Expenditure	0.0	1.2	1.2	1.0	1.0	0.8	0.8	0.7	0.6	0.7	0.9
Real Public Consumption Expenditure	0.1	-2.1	0.0	0.1	0.4	0.5	0.5	0.6	0.6	0.6	0.7
Real Gross Fixed Investment	-2.0	1.5	0.6	0.6	1.1	0.5	0.7	1.1	1.3	1.6	2.0
Real Exports of goods and services	2.0	0.3	1.2	2.2	3.4	3.6	3.4	3.1	3.0	3.0	2.8
Real Import of goods and services	1.6	3.7	2.5	2.0	2.9	3.0	2.0	2.1	2.2	2.4	2.5
Net Export (contrib. to GDP growth)	0.2	-0.9	-0.3	0.1	0.2	0.3	0.5	0.4	0.4	0.3	0.2
Inventories (contrib. to GDP growth)	-0.2	0.5	-0.1	-0.2	0.2	0.1	-0.1	0.0	0.0	0.0	0.0
Domestic demand (contrib. to GDP growth)	-0.3	0.5	0.8	0.8	0.8	0.7	0.7	0.7	0.7	0.8	1.0
Implicite price deflator, GDP	0.8	0.3	0.5	0.7	0.6	0.6	0.6	0.5	0.6	0.6	0.8
Implicite price deflator, Household	0.3	-0.6	1.1	1.2	0.6	0.5	0.4	0.4	0.5	0.5	0.7
Total Employment (FTE)	-0.7	0.0	0.1	0.3	0.7	0.8	0.7	0.7	0.7	0.8	0.8
Unemployment rate (level)	12.6	12.6	12.5	12.4	12.0	11.5	11.1	10.9	10.5	10.1	9.5
Wages per employee: all economy	0.8	0.5	0.2	0.0	0.0	0.4	0.5	0.4	0.4	0.3	0.6
Output gap	-3.7	-3.3	-2.8	-2.2	-1.3	-0.8	-0.4	-0.1	0.2	0.3	0.4
Structural balance	-1.3	-0.8	-0.7	-0.1	0.1	0.4	0.1	0.0	-0.2	-0.5	-0.8
General Government primary balance (% of GDP)	1.9	2.0	2.5	3.2	3.7	4.1	4.0	3.9	3.8	3.7	3.7
General Government balance (% of GDP)	-3.0	-2.7	-2.2	-1.3	-0.6	-0.1	-0.1	0.0	-0.1	-0.3	-0.5
General Government debt (% of GDP)	129.8	132.8	134.6	135.0	133.7	132.2	130.7	129.1	127.7	126.5	125.1

Fiscal adjustment under standard baseline scenario

TABLE 3A - MACROECONOMIC FRAMEWORK											
Rate of change unless indicated differently	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real Gross Domestic Product	-0.4	-1.1	0.3	1.4	1.7	1.7	1.7	1.6	1.2	0.9	0.8
Real Private Consumption Expenditure	0.0	0.2	0.0	0.6	1.0	1.1	1.3	1.3	1.2	1.1	1.0
Real Public Consumption Expenditure	0.1	-4.4	-0.2	0.1	0.2	0.7	0.8	0.8	0.6	0.5	0.5
Real Gross Fixed Investment	-2.0	-3.3	-2.0	0.6	1.2	1.7	2.3	2.5	2.4	1.9	1.4
Real Exports of goods and services	2.0	1.3	3.4	4.5	4.7	4.3	3.7	3.2	2.6	2.4	2.4
Real Import of goods and services	1.6	2.2	0.5	2.5	2.9	3.4	3.2	3.3	3.5	3.3	3.1
Net Export (contrib. to GDP growth)	0.2	-0.2	1.0	0.8	0.8	0.5	0.4	0.2	-0.1	-0.1	-0.1
Inventories (contrib. to GDP growth)	-0.2	0.5	-0.3	0.1	0.1	0.1	0.0	0.1	0.0	0.0	0.0
Domestic demand (contrib. to GDP growth)	-0.3	-1.4	-0.4	0.5	0.8	1.1	1.3	1.3	1.2	1.0	0.9
Implicite price deflator, GDP	0.8	0.7	0.9	0.8	0.9	1.3	1.5	1.7	1.9	1.9	2.0
Implicite price deflator, Household	0.3	0.1	1.3	1.3	1.1	1.1	1.2	1.4	1.7	1.8	1.8
Total Employment (FTE)	-0.7	-0.4	-0.2	0.3	0.7	0.9	1.0	1.1	1.0	0.9	0.8
Unemployment rate (level)	12.6	13.0	13.3	13.1	12.7	12.0	11.2	10.5	9.8	9.2	8.7
Wages per employee: all economy	0.8	0.6	0.6	0.3	0.4	0.9	1.4	1.7	1.9	1.8	1.9
Output gap	-3.8	-4.5	-4.1	-2.9	-1.7	-0.6	0.2	0.8	1.0	0.9	0.6
Structural balance	-1.2	1.3	0.9	0.7	0.6	0.1	-0.3	-0.3	-0.3	-0.3	-0.2
General Government primary balance (% of GDP)	1.9	3.5	3.4	3.6	3.8	3.8	3.7	3.7	3.8	3.9	3.9
General Government balance (% of GDP)	-3.0	-1.2	-1.4	-0.9	-0.3	-0.2	-0.2	0.1	0.2	0.2	0.1
General Government debt (% of GDP)	129.8	132.5	133.3	132.2	129.8	126.8	123.6	120.1	116.8	113.9	111.2

Fiscal adjustment under lowflation baseline scenario

TABLE 3B - MACROECONOMIC FRAMEWORK											
Rate of change unless indicated differently	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Real Gross Domestic Product	-0.4	-3.2	-1.2	0.5	1.7	2.0	2.1	2.0	1.7	1.5	1.3
Real Private Consumption Expenditure	0.0	-1.0	-1.2	0.0	0.9	1.4	1.6	1.6	1.3	1.2	1.1
Real Public Consumption Expenditure	0.1	-7.3	0.3	0.7	1.0	1.1	0.9	0.8	0.6	0.5	0.5
Real Gross Fixed Investment	-2.0	-9.8	-8.7	-5.3	-3.3	-1.7	0.8	3.1	4.7	5.4	5.5
Real Exports of goods and services	2.0	0.3	1.8	3.2	4.4	4.3	3.7	3.1	2.7	2.5	2.2
Real Import of goods and services	1.6	1.1	-3.3	-0.5	0.8	1.8	1.6	2.4	3.0	3.5	3.7
Net Export (contrib. to GDP growth)	0.2	-0.2	1.5	1.2	1.3	1.0	0.9	0.5	0.2	0.0	-0.2
Inventories (contrib. to GDP growth)	-0.2	0.8	-0.7	-0.1	0.2	0.2	0.0	0.1	0.0	0.1	0.0
Domestic demand (contrib. to GDP growth)	-0.3	-3.8	-2.0	-0.6	0.3	0.8	1.2	1.5	1.5	1.5	1.5
Implicite price deflator, GDP	0.8	0.9	-0.9	-1.2	-1.3	-0.8	-0.4	0.1	0.6	1.0	1.5
Implicite price deflator, Household	0.3	0.0	-0.3	-0.7	-1.2	-1.0	-0.6	-0.2	0.4	0.9	1.3
Total Employment (FTE)	-0.7	-1.0	-1.1	-0.3	0.4	0.9	1.1	1.2	1.3	1.3	1.2
Unemployment rate (level)	12.6	13.5	14.6	15.1	15.0	14.3	13.5	12.5	11.5	10.5	9.5
Wages per employee: all economy	0.8	0.0	-1.1	-1.9	-1.9	-1.1	-0.5	-0.1	0.5	0.7	1.3
Output gap	-3.8	-6.3	-6.8	-6.2	-4.6	-3.1	-1.6	-0.3	0.6	1.1	1.2
Structural balance	-1.2	4.0	2.9	1.8	0.6	-0.2	-1.1	-1.5	-1.9	-2.1	-2.1
General Government primary balance (% of GDP)	1.9	5.3	4.1	3.2	2.7	2.7	2.6	2.6	2.8	3.0	3.2
General Government balance (% of GDP)	-3.0	0.5	-0.8	-1.5	-1.9	-1.8	-1.9	-1.7	-1.5	-1.5	-1.5
General Government debt (% of GDP)	129.8	133.4	137.9	141.3	143.1	143.9	144.0	143.3	142.1	140.8	139.0

ANNEX 2 – LETTER FROM MINISTER PADOAN TO VICEPRESIDENT V. DOMBROVSKIS AND COMMISSIONER P. MOSCOVICI 6 FEBRUARY 2015