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MTBF practice in Italy

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Outline

- What is and what is for?
- The Italian story
- The Implementation challenges
- No conclusions, only some thoughts and questions

What is and what is for?

- Systems, rules and procedures that ensure multi-annual perspective
 - ✓ A framework for integrating fiscal policy and budgeting over the medium-term by linking a system of aggregate fiscal forecasting to a disciplined budgetary process (IMF, Manual of Fiscal Transparency)
 - ✓ A set of institutional arrangements for prioritizing, presenting, and managing revenue and expenditure in a multiyear perspective (Cangiano et al, 2013)
 - ✓ Different from multi-annual budget
- To help fiscal discipline, allocative efficiency, operational efficiency
 - ✓ To extend the horizon for fiscal policy making beyond the annual budgetary calendar
 - ✓ Ensuring better control over the evolution of the aggregate fiscal position
 - ✓ More effective allocation of expenditure between sectors and priorities

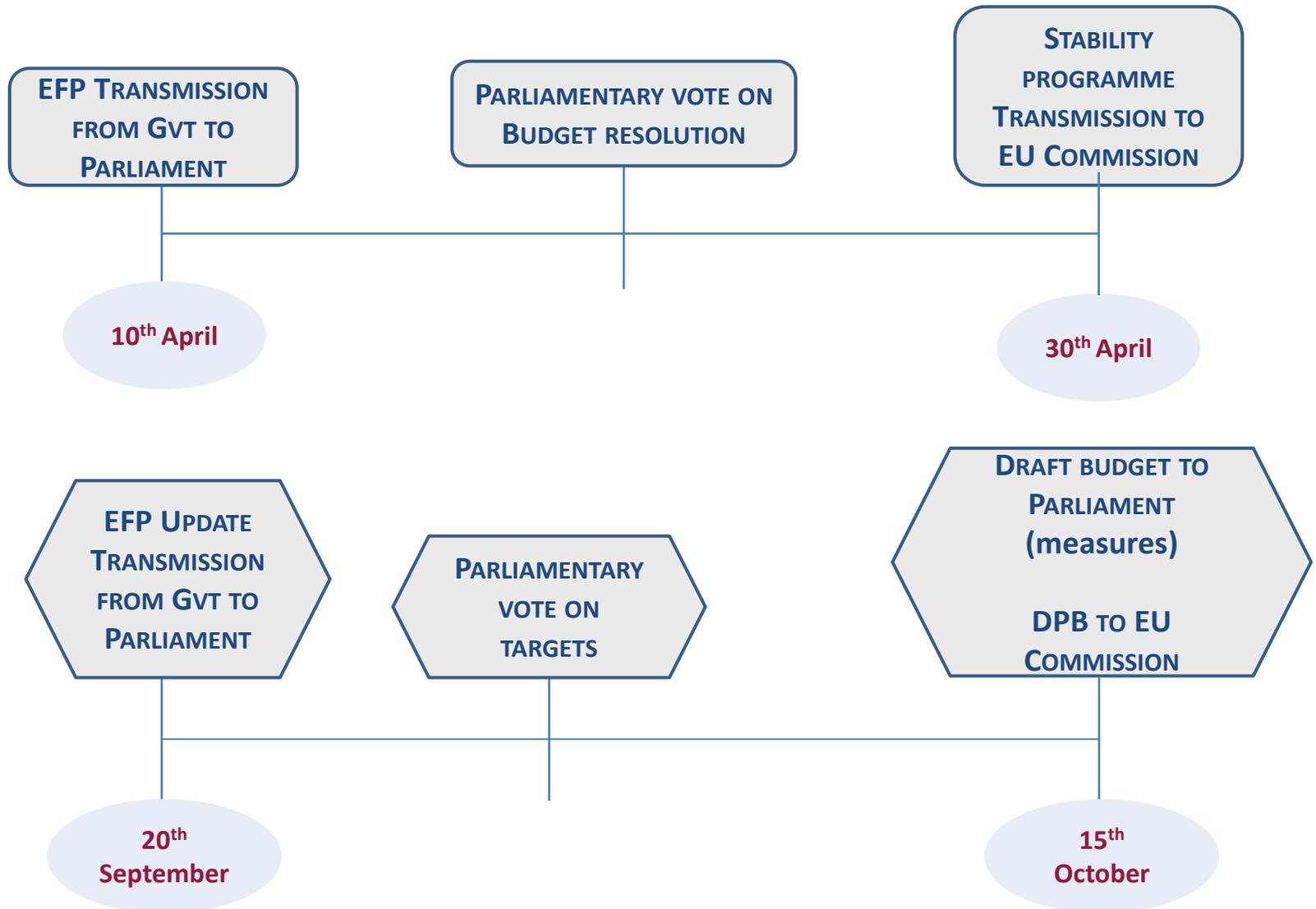
The Italian story

MTBF had existed since 1988

(NB: 3 year State budget since 1978)

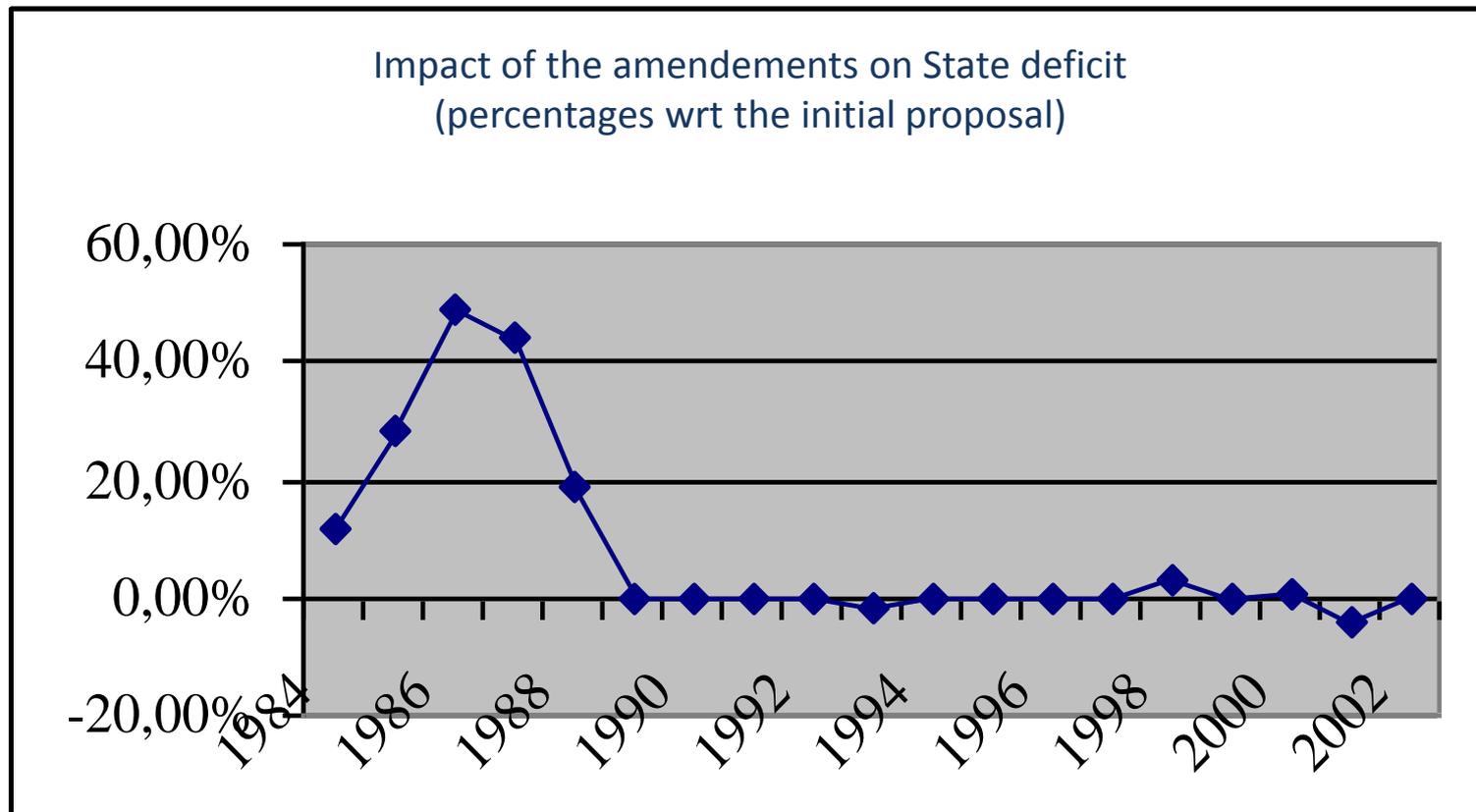
- A document presenting:
 - ✓ Macroeconomic scenario and fiscal targets
 - ✓ Baseline: macroeconomic and fiscal figures
 - ✓ Planned: macroeconomic indicators and fiscal balances
 - ✓ Main planned initiatives (required, but often omitted)
 - ✓ In more recent time: sensitivity analyses, debt sustainability, etc.
- Changes in the budget process:
 - ✓ Document voted on by Parliament with a Budget Resolution
 - ✓ Binding targets for fiscal balances (ex ante....)
 - The Gvt has to prepare the budget proposal to reconcile baselines to targets (according to principal measures indicated by the document)
 - The Parliament commits to maintain the voted balances during its exam of the budget
- Same institutional arrangements today with the Stability Programme

Timeline and budget process



The Italian story (2)

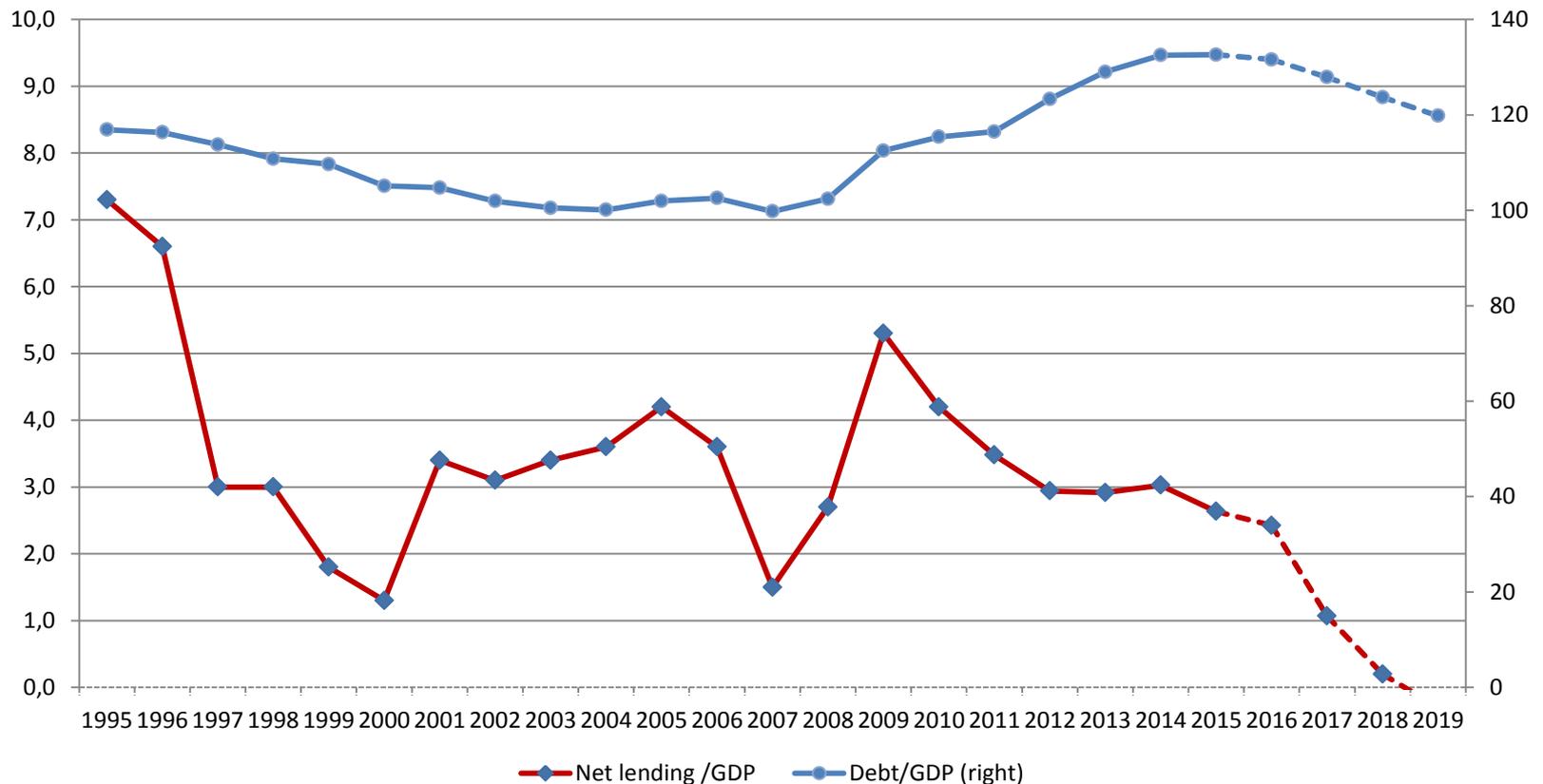
- A Copernican revolution for the budget process and Parliamentary budget exam



The Italian story (3)

So far, so good...

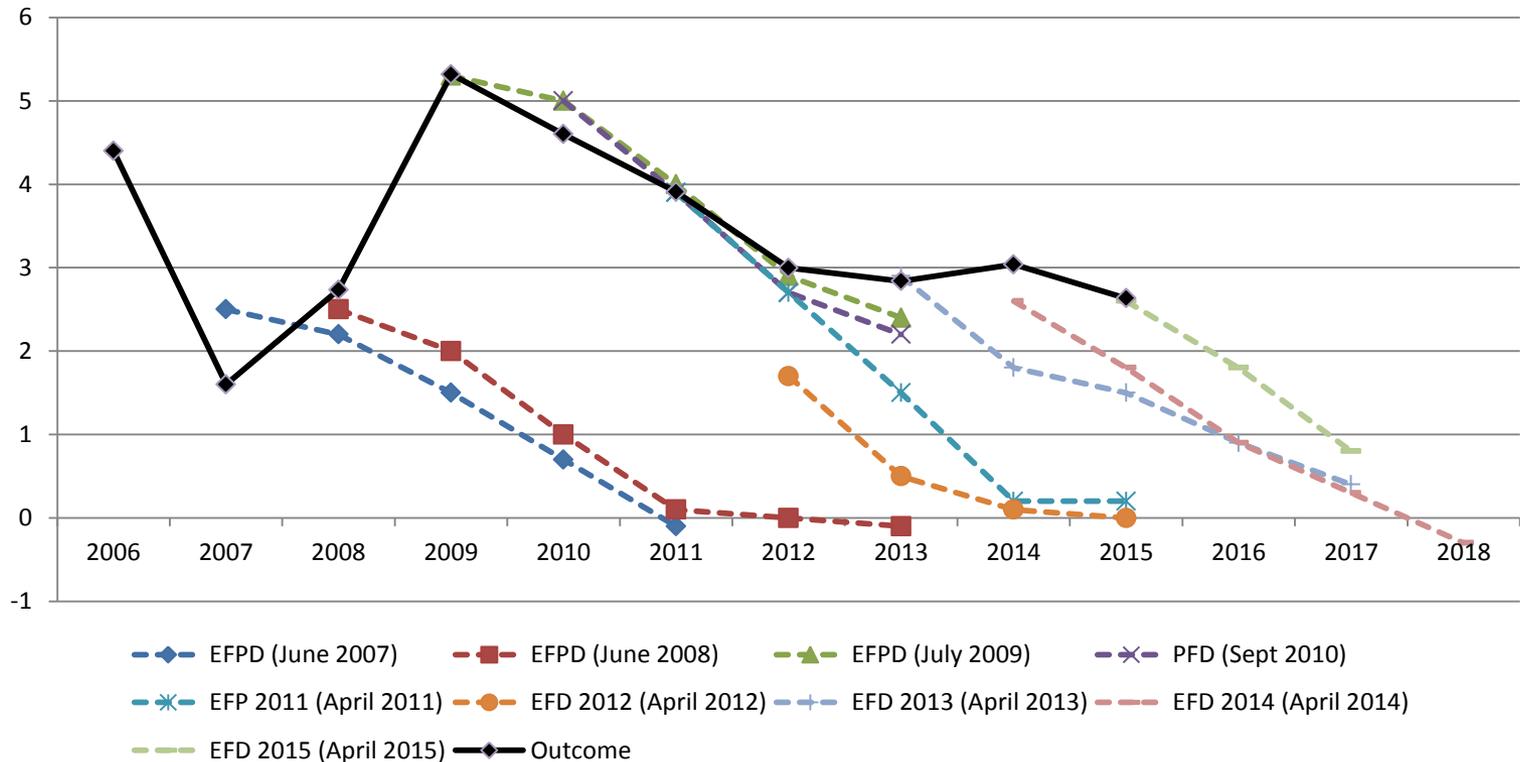
Net lending and debt to GDP ratios



The Italian story (4)

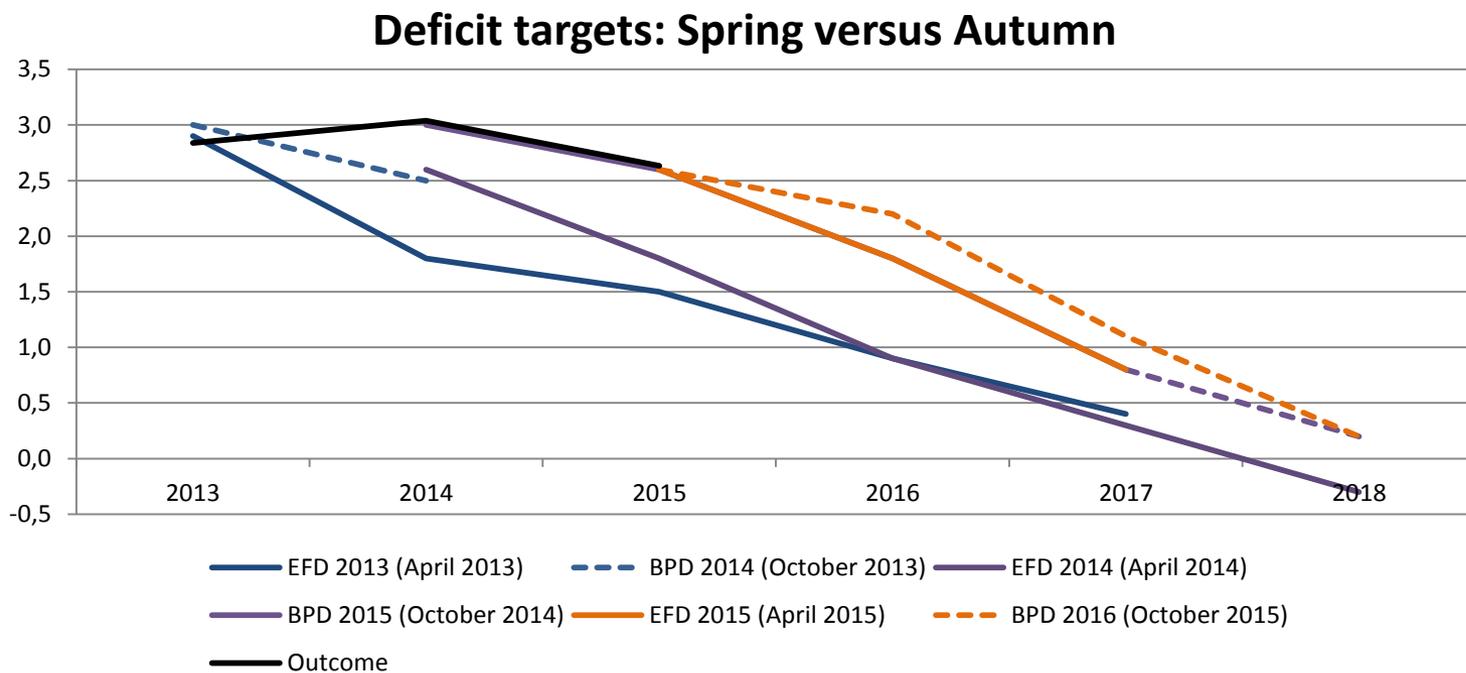
How to stick to the targets....?

Deficit targets set in Spring versus outcomes



In detail (1): a difficult relationship with targets

- Binding targets for fiscal balances, however moving until the last minute (is it an implication of planning in structural terms?)
- Non existing planned estimates (neither indicative) for aggregate expenditure



In detail (2): budget composition is a bottom up result

Top-down process not strong enough

- Budget preparation separate from planning documents
 - ✓ Baseline prepared by Ministries not considering targets (unchanged legislation). Process currently under debate...
- It is necessary to wait until late October to know planned expenditure estimates and its composition
- Budget composition changing during budget execution, mainly for new laws adopted
 - ✓ Pay as you go rule for new laws. No threat on balances, but...
 - ✓ ...Relevant changes in State budget composition, mainly in cash terms

In detail (3): reconciliation issues

Weak reconciliation between fiscal policy and budgeting

- EFD (but also Stability Programme) in ESA 2010 and economic classification, while State Budget adopts functional classification by missions and programmes
- State budget is characterized by:
 - ✓ a complex underground of legislative appropriations, mandatory expenditure, accounting items, and clearing entries
 - ✓ Non transparent evidence of financial relations with subnational entities. It is not a direct threat to fiscal discipline (domestic stability pact and balanced budget), but difficult monitoring
 - ✓ Commitment and cash budgeting
- Single Treasury makes more complex

- Spending ceilings cannot be imposed on subnational levels of gvt, due to their constitutional autonomy

Conclusions

No conclusions... only some thoughts and questions

Technical aspects that can improve Italian MTBF

- Continue work on prudent macroeconomic and fiscal forecasting
- Strengthen the connection with the budget process
 - ✓ reconciliation between GG (Stability Programme) and State budget
 - ✓ Build up a top-down process

How is assured the connection with the budget process in the experience of other countries?

Institutional/political aspects. Changes in policy-making approach

- Deciding in advance is good for better policies (better design of policies, certainty of resources for public entities, ie. subnational budgets, stable expectations of economic actors)

How much in advance in other countries experiences?

The stakeholders. The role of Parliament

- How does the Parliament exert its role in a top-down environment of fiscal targets?

Thank you for your attention!

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