



# Expenditure Rules

*Are expenditure rules desirable in Italy?*

Chiara Goretti, Senato della Repubblica, Italy

6° Cese

Budva, 24th September 2010

---

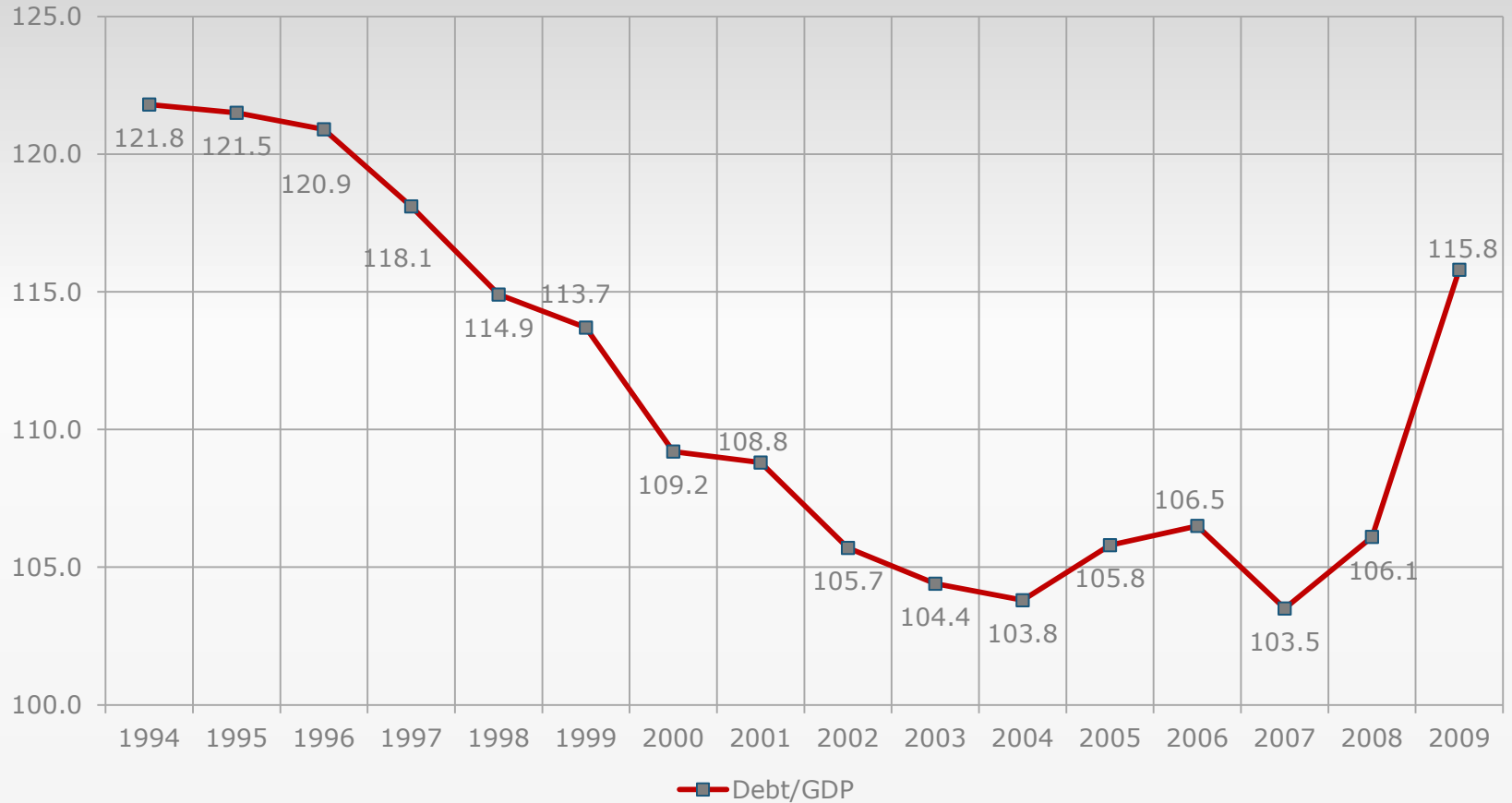
# Outline

---

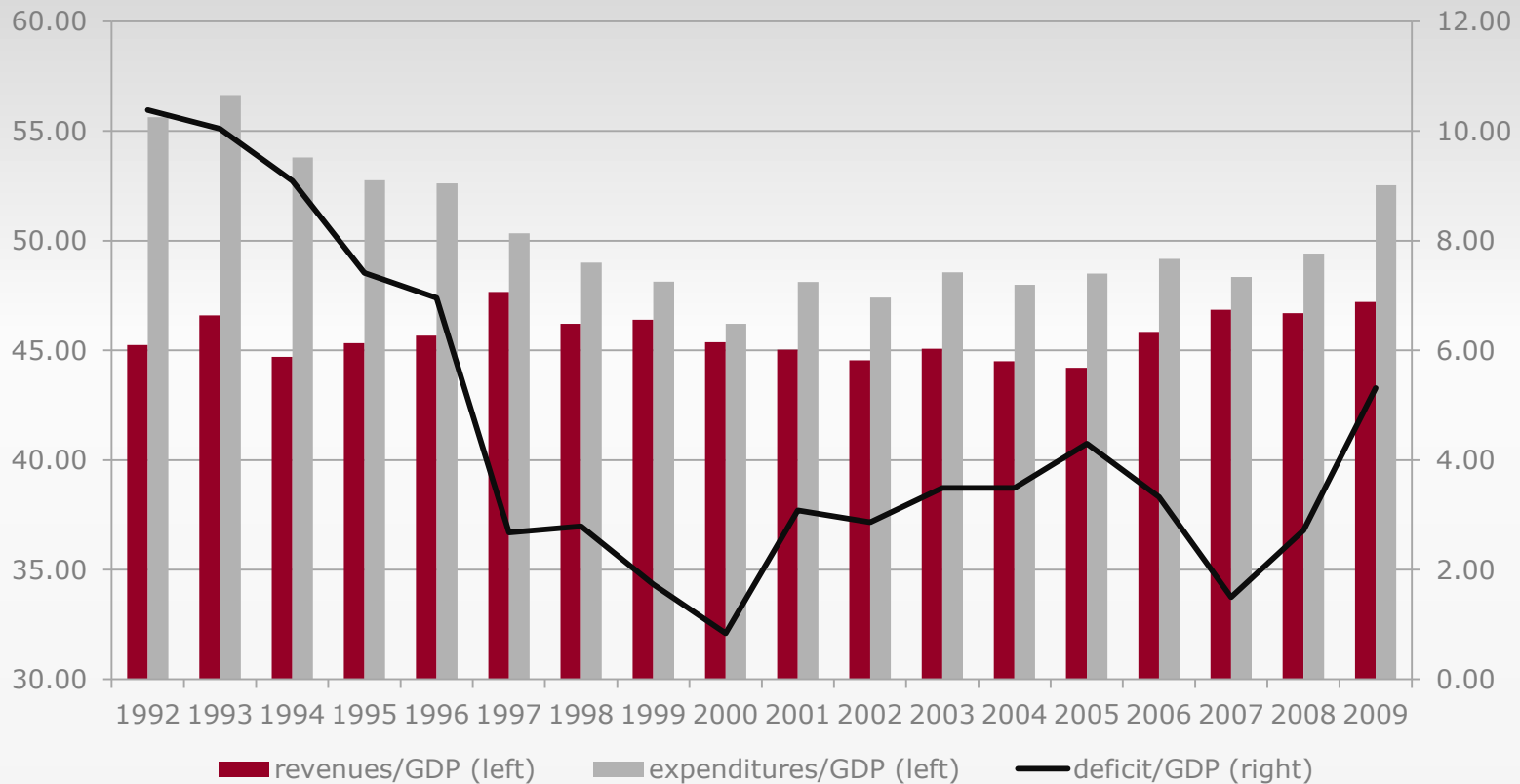


- Italy: some figures
  - The consolidation challenge
  - Why expenditure rules?
  - Difficulties in implementation
  - Conclusions
-

# Italy: debt/GDP trend



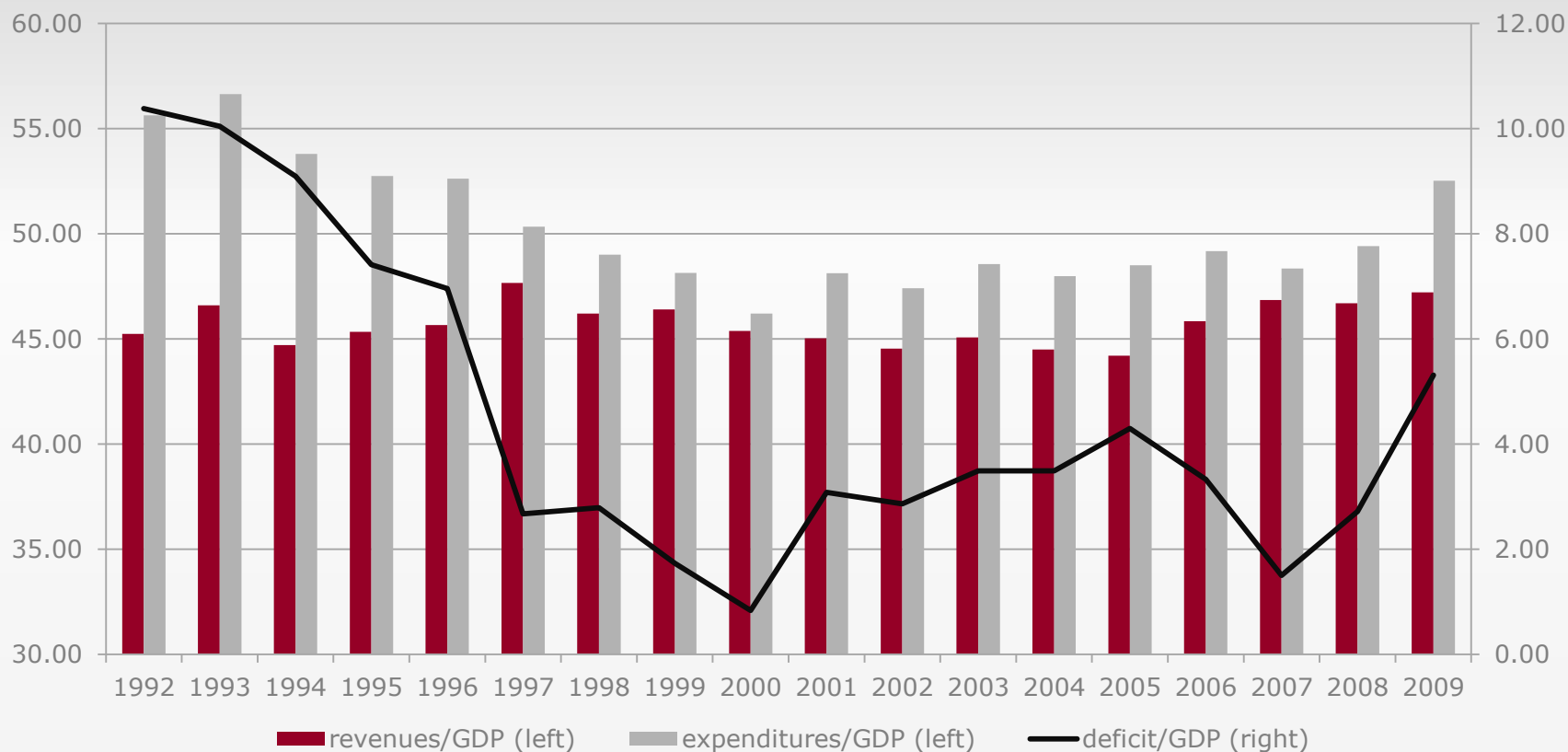
# Italy: deficit, expenditures and revenues





# The consolidation challenge

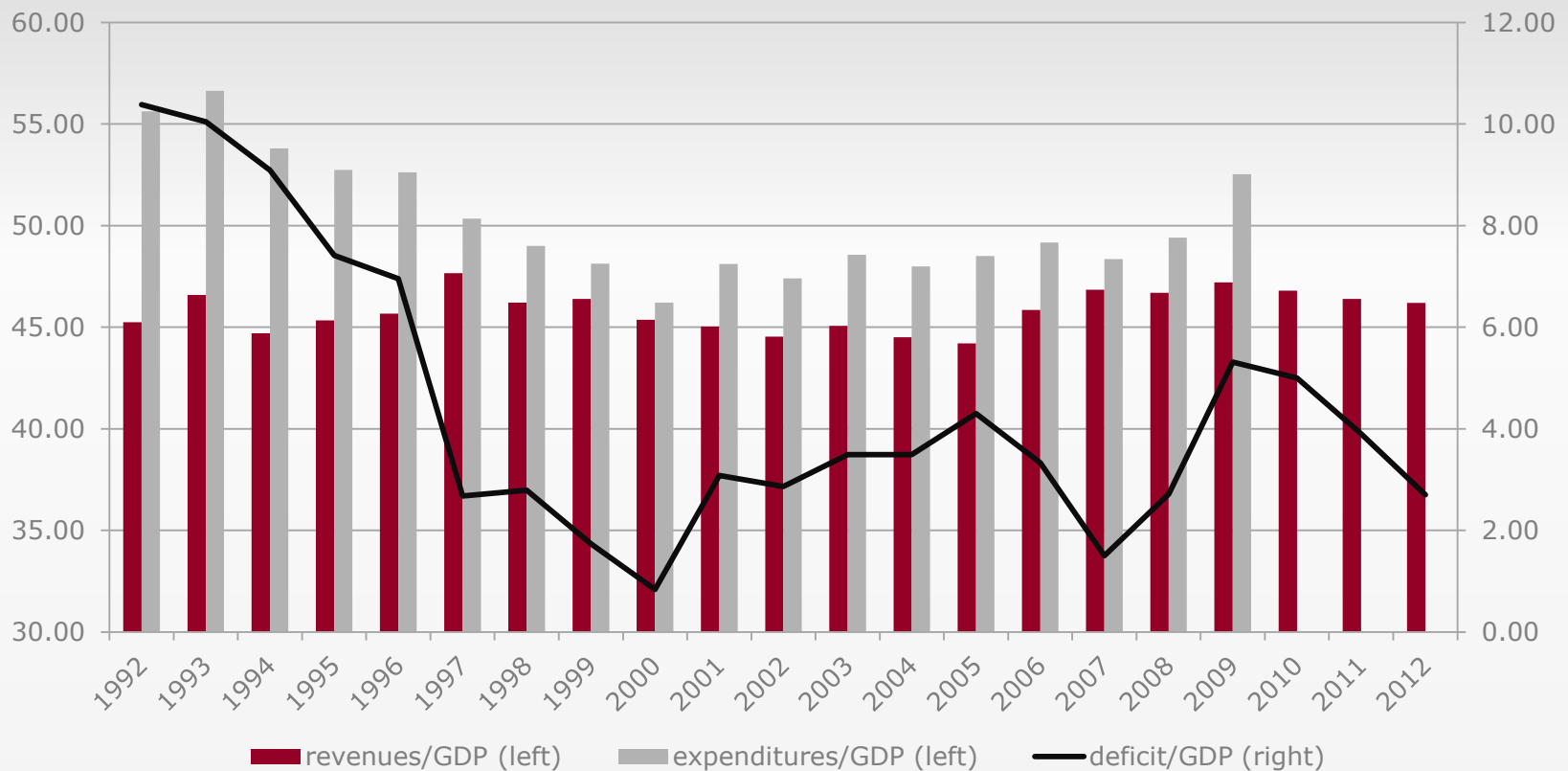
## *Deficit targets 2010-2012*





# The consolidation challenge

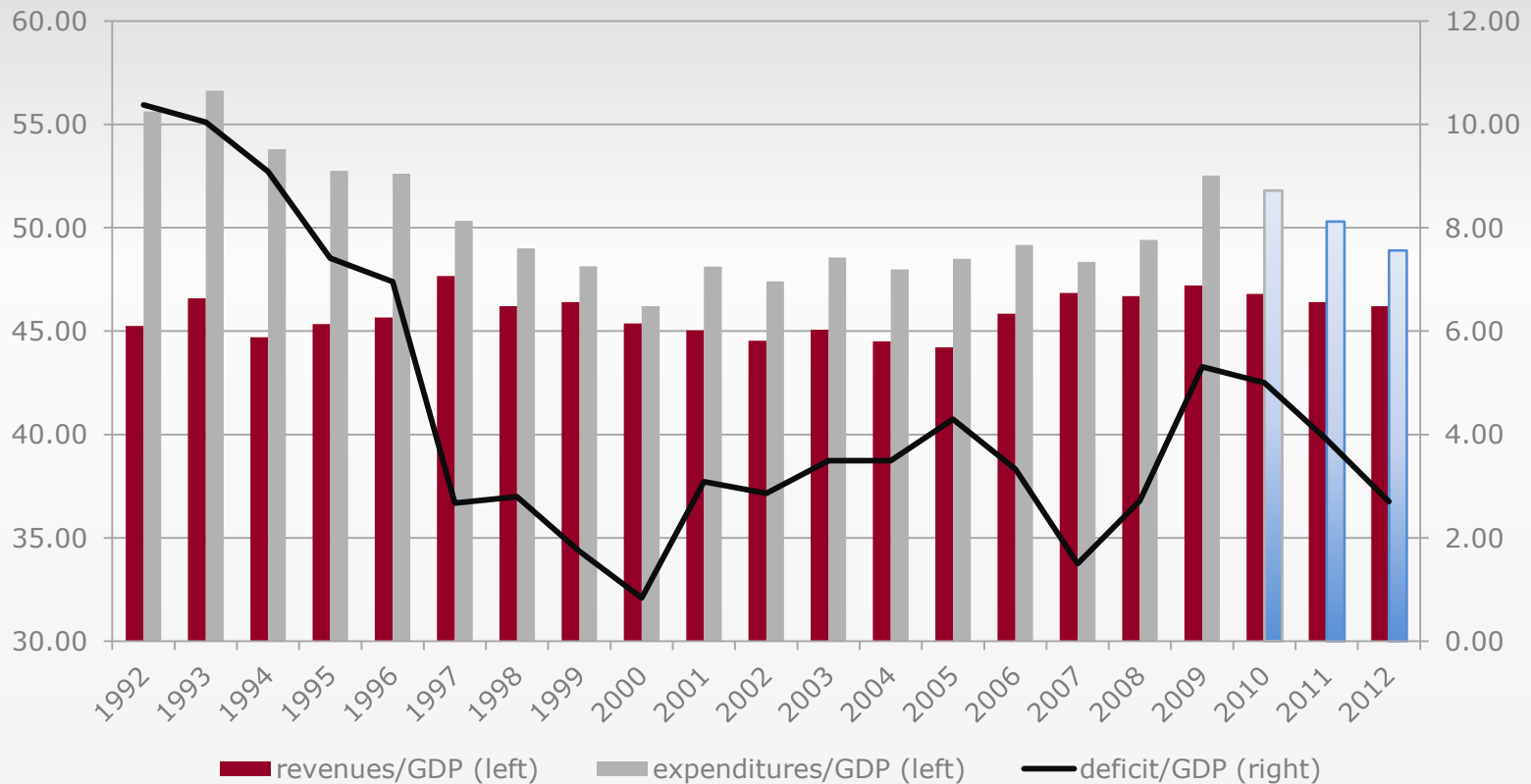
## *Deficit targets and expected revenues on GDP (baseline)*





# The consolidation challenge

*Expenditure/GDP reduction required to meet deficit targets, given revenues*





# The consolidation challenge

Millions of Euro

## *Primary expenditure required to meet deficit targets*





# Why expenditure rules?



---

Since late 1990s, several European countries have introduced expenditure rules (ER)

*Constraint on the size of the public sector*

- do not hamper stabilizers on the revenue side, consistent with tax smoothing and cyclically adjusted targets;
  - governments have a better control on spending than on revenues;
  - limit the propensity to increase spending in upturns;
  - easier to explain to the public and to monitor;
  - bring more transparency and accountability at administrative level too.
-



# Expenditure rules: common problems

---

ER present some problematic issues:

- Choice of the reference indicator: nominal or real terms?
  - which spending items:
    - primary or total?
    - capital expenditures excluded?
    - cyclical expenditures excluded?
    - mandatory and entitlements excluded?
  - Annual or medium term? Rolling or fixed?
-



## Italy: the institutional design

---

- Recent change in organic budget law (December 2009), but final decision was on having just deficit rules;
- The issue was on the agenda: during parliamentary debate a few proposals on introducing ER within the medium term budgetary framework (MTBF);
- Current format of MTBF implies no disclosure of planned deficit; not available expected figures for revenues and expenditures; just qualitative specifications.

*Debate at the European level on asking to member countries to adopt ER*

---



# Italy: implementation features

---

If and when the decision on expenditure rules will be taken....

- Subnational levels have constitutional autonomy; is it possible to introduce such a constraint on the general government expenditure without hampering their autonomy? Is it better to implement it only at the central level?
  - ER involve good capacity of planning and forecasts of expenditure trends; expenditure limits should not be changed for “ordinary” mistakes. Are we ready?
  - ER oblige to adapt the format of planning documents:
    - unchanged policies for baselines
    - disclosure of planned target by revenues and expenditures
-



# Conclusions

---

- tool useful to complement deficit rules, mainly in fragmented political systems;
  - in Italy it would help in the consolidation effort;
  - sophisticated instrument that require soft institutional design (complex negotiations) and good technical capacity;
  - easier to implement it first in terms of planned figures (no actual constraints); accompanied by top down procedures for budget preparation and approval;
  - Big cultural change. Different constraints in negotiation (at the executive and parliamentary levels).
-



---

*THANK YOU FOR YOUR  
ATTENTION*

---