upB ufficio parlamentare di bilancio

Can consistency between national and EU fiscal rules be "too much of a good thing"? The experience in Italy

Flavio Padrini

Head of the Public Finance Division

13th Meeting of the European Commission Network of public finance economists in public administration

Brussels, 14th March 2019

© Flavio Padrini, 2019. All rights reserved.

Outline

- An overview of national fiscal rules in Italy
- Pros of high consistency between national and EU rules
- One important drawback in the Italian experience
- Conclusions

National fiscal rules in Italy

- Seven main numerical fiscal rules provided for in the Italian legislation
- Four of them covering regional or local governments (not the focus of this presentation); evolving over time; changed significantly by the last budget law
- Three of them covering the whole general government sector (the focus of this presentation); based on structural balance ratio, public debt ratio and expenditure growth net of DRM

National fiscal rules in Italy

- 2012 reform of the Constitution → watershed moment for the introduction of fiscal rules in Italy (balanced budget principle in Constitution)

- Driven also (or mainly?) from innovations at the European level → Fiscal Compact, Budgetary Directive, “Two Pack”

- As a result, very high consistency of national fiscal rules with EU ones

National fiscal rules in Italy

- Law 243/2012 implementing the Constitutional reform mentions EU legislation 18 times (in almost every article covering the general government)

- Indicators for the structural budget balance ratio, debt ratio and net expenditure growth ➔ identical to the EU ones

- Same for benchmarks and for most of the flexibility clauses

High consistency between rules: pros

- Need to comply with one set of rules only
- No contradictions by definition, apart from the activation of the escape clause (extensive use of the “unusual event” clause, more on this later)
- Enhance compliance of national fiscal rules thanks to incentives to comply with EU ones (e.g. avoid sanctions or limit unfavourable financial markets’ reaction)

High consistency: one important drawback

- High consistency with EU rules → low national ownership of rules themselves
- In the public and political debate, fiscal rules = Stability and Growth Pact
- Few references in the public debate to the balanced-budget provisions in the Constitution and in secondary legislation
- Central stage to "dialogue" of the Government with EU institutions (allowed in Italy by extensive interpretation of the "unusual event" clause)

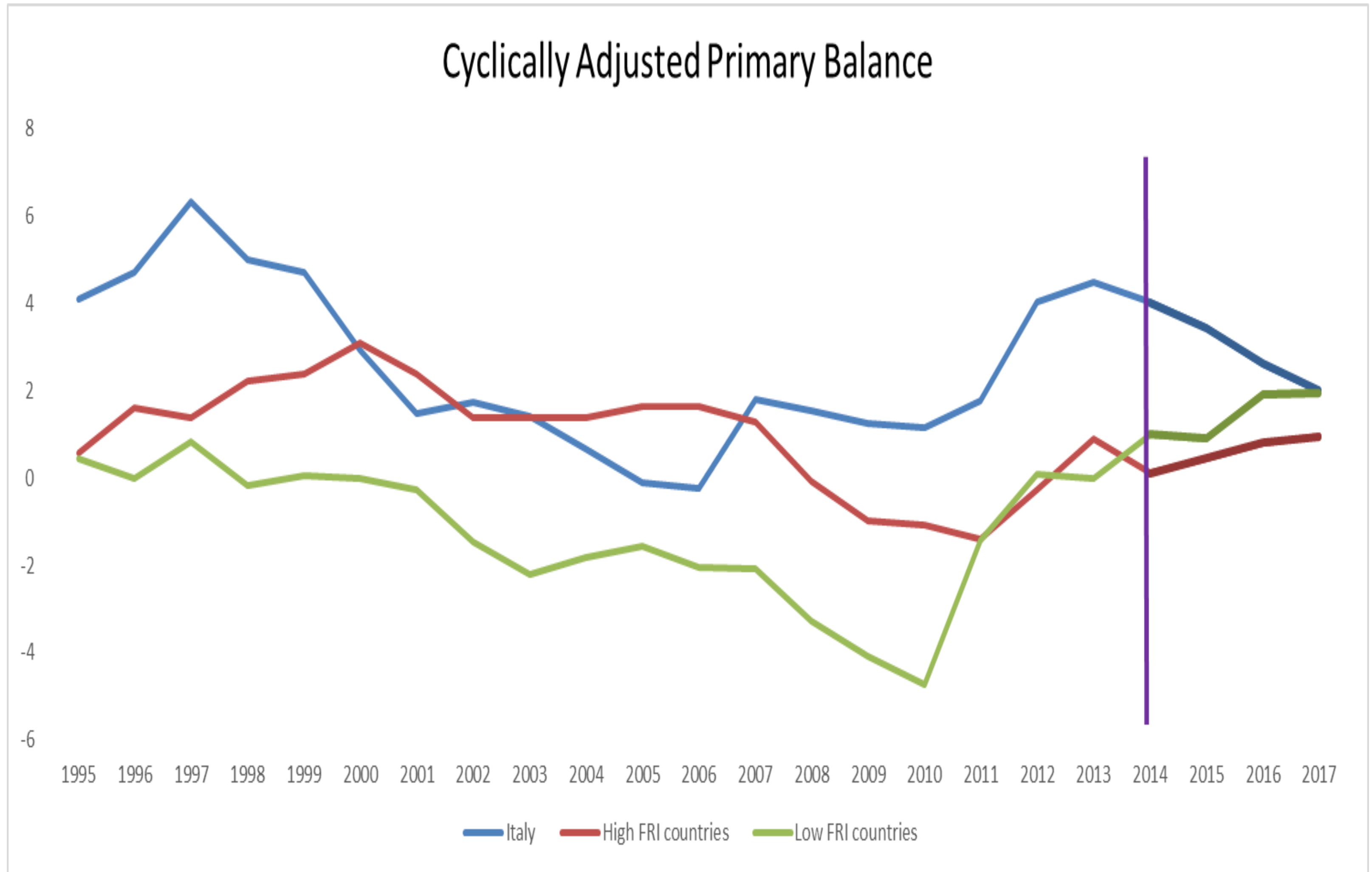
Reasons for low national ownership

- National fiscal rules in 2012 seen as an “imposition” from outside, notably the Fiscal Compact

- National fiscal rules introduced during the crisis and deemed too rigid to deal with the unfavourable economic period

- Fiscal rules not adapted to the Italian context: for example, targets in ESA terms for EU rules but figures in accrual or cash terms for the State budget (often difficult to reconcile)

Fiscal fatigue stronger than fiscal rules?



Conclusions

- In the Italian experience, high consistency of national fiscal rules with EU ones not sufficient for enhanced ownership
- Need a set of national budgetary operational rules adapted to the Italian policy context, albeit strongly linked to the EU macro-fiscal framework
- Design domestic fiscal rules in a medium-term framework ensuring public debt sustainability
- Opportunity from the implementation of the Directive Proposal by the Commission for strengthening medium term orientation in MSs

KEEP
CALM
AND
TAKE
OWNERSHIP

Italy reinforcing fiscal rules after 2014