HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

ITALY

Budgetary Framework and Net Expenditure Path

April 2026

Prepared By

Carolina Renteria, Vincent Tang, Tjeerd Tim, Claude Wendling

Fiscal Affairs Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: *At the request of the Ragioniere Generale dello Stato in the Ministry of Economy and Finance, an IMF FAD mission supported Italy to strengthen its budgetary framework and implement the net expenditure path (NEP) under the revised European Union (EU) fiscal framework. Italy has a well-established Public Financial Management (PFM) system and has long operated under conditions of elevated debt and sustained fiscal consolidation. The current challenge is to operationalize the NEP within this context, while maintaining credible consolidation and managing economic uncertainty. The introduction of the NEP should change how fiscal policy is formulated and monitored, shifting the operational focus from targeting the budget balance to managing a binding expenditure path. This requires clearer alignment between fiscal strategy, medium-term projections, and annual budget decisions. The mission recommends improving the operational use of the NEP and anchoring the budget process in a more strategic, top-down approach.*

JEL Classification Numbers: H30, H50, H60, H68
Keywords: Budgeting, fiscal policy, fiscal transparency, medium term budget frameworks, fiscal rules

International Monetary Fund, IMF Publications
P.O. Box 92780, Washington, DC 20090, U.S.A.
T. +(1) 202.623.7430 • F. +(1) 202.623.7201
publications@IMF.org
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Background

At the request of the Italian authorities, in September 2025 an IMF Fiscal Affairs Department (FAD) mission provided technical assistance to strengthen the budgetary framework and support the implementation of the NEP under the revised EU fiscal framework.

Italy is operating in a challenging macro-fiscal context, characterized by elevated public debt, the need for sustained fiscal consolidation, and ongoing economic uncertainty. Italy's Medium-Term Fiscal-Structural Plan requires correction of the excessive deficit by 2026 while adhering to a tight NEP. The fiscal framework operates within a multi-level government system, with significant and rigid spending responsibilities at the regional and local levels, adding an important dimension to fiscal coordination and budget management.

Summary of Findings

The mission focused on identifying how Italy's budget institutions and practices can support sustained compliance with the new EU fiscal framework. This includes enhancing the role of the medium-term framework in guiding fiscal policy, improving the integration of the NEP into the budget process, strengthening the links between fiscal strategy, medium-term planning, and annual budget decisions and improving monitoring and reporting of fiscal indicators.

Italy has a well-established budgetary framework, developed and refined over many years, with strong institutional capacity and a comprehensive set of fiscal planning and reporting tools. In addition, the legal framework is being adapted, and the authorities are implementing measures to modernize the PFM system. This provides a solid foundation to proceed with further reforms to successfully implement the revised EU fiscal framework.

Against this background, the budgetary framework needs to operate in a more integrated and policy-oriented manner, with the NEP functioning as the operational anchor of fiscal policy. The complexity of the system—reflecting both its institutional evolution and the multi-level structure of government—adds to the challenge of ensuring that its different components operate cohesively.

Authorities have begun to adapt the national legal framework. The integration of the NEP into the budget process, particularly by translating the rule into operational expenditure ceilings and ensuring consistency between projections and budget decisions, is recommended. Medium-term projections are not always fully leveraged to guide policy choices, and the relatively limited margin for deviation under the NEP, combined with volatility in expenditure execution and the absence of a strong framework for discretionary revenue measures (DRM) defined by the EU and at the national level, makes fiscal management more demanding. In addition, the significant use of budgetary residuals (commitments carried forward for execution in future years) weakens the link between fiscal policy decisions and expenditure outcomes.

Summary of Recommendations

A key priority is to finalize reforms to the legal framework to ensure full alignment with the reformed EU fiscal framework. Strengthening the budgetary framework should focus on making more effective use of the NEP and medium-term projections to guide fiscal policy. The budget process should be more clearly anchored in a strategic, top-down approach to fiscal policy. A more effective use of the medium-term framework would support sustained fiscal consolidation while maintaining flexibility to manage uncertainty. This includes translating the NEP into expenditure ceilings, and that budget decisions are aligned with medium-term fiscal objectives. Upgrading the alignment of local government spending with the new system would further support more credible fiscal planning.

Reforms should also address factors that weaken the link between policy decisions and spending outcomes. In particular, improving the presentation of expenditure baselines, enhancing the identification of spending drivers, and reducing reliance on residuals would improve expenditure control and support the effective implementation of the NEP. Furthermore, authorities should adopt initiatives aimed at developing an EU DRM definition and develop a national DRM definition and framework that is aligned with the new EU requirements and tailored to national institutions and practices. Continued improvements in accounting and reporting frameworks, including streamlining budget documentation, should ensure that fiscal aggregates are clearly defined, consistently presented, timely produced, and monitored, supporting their interpretation and use.

Taken together, and building on its sound foundations, these reforms would strengthen the effectiveness of the fiscal framework, while enhancing its ability to support fiscal policy in a more demanding environment. They should foster a culture of proactive fiscal management, enhanced analytical capacity, and sound policymaking to achieve durable fiscal discipline and support reform implementation.