

**Italy: Report on Observance of Standards and Codes—  
Fiscal Transparency Module Update**

This Update to the Report on the Observance of Standards and Codes on Fiscal Transparency for **Italy** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **November 3, 2003**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of **Italy** or the Executive Board of the IMF.

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# INTERNATIONAL MONETARY FUND

## ITALY

### **Update to the Report on the Observance of Standards and Codes, 2003 Fiscal Transparency Module**

Prepared by EUR on the basis of information provided by the Italian authorities

November 3, 2003

#### **I. INTRODUCTION**

1. The first ROSC for Italy was published on October 28, 2002.<sup>1</sup> During the 2003 Article IV consultation mission, IMF staff reviewed developments in Italy's observance of fiscal transparency practices, with a view to updating changes in current practices, reviewing progress in implementing the initial ROSC's recommendations, and identifying developments relevant for future observance of good fiscal transparency practices.

#### **II. DESCRIPTION OF PROGRESS AND RECENT DEVELOPMENTS**

2. The staff recommendations in the first ROSC for Italy focused on four main areas (see the original report for more details):

- *Clarity of roles and responsibilities:* put in place intergovernmental mechanisms of coordination of budgetary policies and management; introduce clear and effective sanctions; devise timely and reliable mechanisms to monitor developments of local public finances, which in turn require adopting common accounting rules to ensure compatibility with general government policy objectives.
- *Public availability of information:* improve the quality of fiscal information by broadening the general government coverage in published documentation and produce reports for the general government outturn on a quarterly basis. Include an assessment of the magnitude of risks to the budget estimates, and more information on financial transactions between the government and public enterprises. Increase information published on larger nonstate entities where the state is a shareholder.
- *Open budget preparation, execution, and reporting:* broaden the process of budget reform in the direction of making the budget law the sole authority for expenditures in the fiscal year; reduce carryforwards from previous budgetary allocations; increase

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<sup>1</sup> The original report was issued as IMF Country Report No. 02/231, October 2002. This document is available at <http://www.imf.org/external/np/rosc/rosc.asp>.

the budget execution focus on efficient resource allocation rather than on legal compliance; complete the 1997 Ciampi reform by developing responsibility and accountability lines.

- *Assurances of integrity*: routinely conduct a full reconciliation between above-the-line and below-the-line cash accounts both at the central and at the general government level.

3. The two main developments since the last ROSC have been the final conversion of decree 194/2002 (the so-called *decreto taglia-spese*) with some amendments into law 246/2002, and the first-time publication of quarterly accounts on an accrual basis (SEC95) for the general government.

4. Law 246/2002 introduced several important modifications in budget management and execution procedures. It eliminated the possibility of carryforward of uncommitted funds to future fiscal years and limited to one year the possibility of carryforward of allocations committed in previous budgets. New spending laws will have to indicate overall and annual ceilings, and a supplementary parliamentary approval is needed for budget appropriations to be exceeded. Furthermore, the State General Accounting Office (RGS) is required to report when spending reaches the level of budget appropriations, in which case, the RGS can suspend new spending authorizations on all types of expenditures for the remainder of the fiscal year. If fiscal outcomes indicate that the approved budget targets will be exceeded, the law authorizes the government to impose across-the-board cuts to approved appropriations, by issuing a decree. However, to overcome earlier concerns on constitutional grounds, certain mandatory expenditures such as wages, pensions, interest payments, amortization and the like, have been excluded from the scope of applicability of the law.

5. Starting in October 2003, the National Statistical Institute (ISTAT) has begun the publication of quarterly accrual-based accounts for the general government, with a three months lag.

6. The RGS and the Bank of Italy have been developing an internet-based software, which will use the interbank network for future reporting of cash execution of the budget by all entities of the general government. To this end, the authorities are also developing a uniform reporting form.

### III. IMF STAFF COMMENTARY

7. There has been some progress vis-à-vis last year's ROSC, especially toward strengthening the role of the initial budget. Law 246/2002 has proven a useful instrument to contain expenditures in late 2002. The law effectively makes the budget law the sole spending authority for the year and, by requiring a new parliamentary authorization when expenditures exceed initial ceilings, induces more realistic cost projections in the original budget. The law also increases RGS's control over budget execution. However, such control is limited to the state sector since the budget law does not include expenditures at the general government level. Also, the ministerial decree which enforces across-the-board expenditure

restraint is, at times, effective only on a cash basis and is always subject to government approval.

8. ISTAT's first-time publication of quarterly accrual-based accounts for the general government is a welcome improvement in the coverage of fiscal data, which will allow for a more timely monitoring of fiscal trends. Staff urges the finalization and publication of the report reconciling above and below-the line cash accounts for 2000 and the publication of similar exercises on a regular basis.

9. Substantial room remains for implementation of several recommendations made in the original ROSC. In particular, a uniform accounting methodology and a reporting system for all levels of the general government has yet to be developed. Moreover, measures for improving the quality and timeliness of fiscal data, especially for subnational levels of government, are still to be put in place.