

**THE ‘EUROPEAN SEMESTER’ AND CHANGES TO THE
NATIONAL ACCOUNTING DISCIPLINE**

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1. FOREWORD

Following the economic and financial crisis, the European Union introduced new rules and procedures of economic surveillance, which, besides ensuring stability and preventing macro-economic imbalances, are aimed at favouring growth and competitiveness in compliance with *Europe 2020*.

The so called ‘European Semester’ was introduced in 2011, in order to better an *ex ante* coordination of economic and budget policies of member states.

The need for a reorganization of the budget cycle, already foreseen by law n. 196/2009, which was able to reform national accountancy (see Report 1/2011) resulted

from the new community procedures aimed at preventing and correcting macro-economic imbalances. This reorganization took place with law. 7 April 2011, n. 39.

2. THE ‘EUROPEAN SEMESTER’

The ‘European Semester’ is aimed at coordinating economic policies in the Eurozone and in the European Union.

To do so, a new procedure was introduced. It foresees, the following phases during the first half of the year: 1) in January the European Commission hands in the Annual Growth Review; 2) between February and March the European Council drafts the economic and budget policy guidelines at a European level and at the level of member states; 3) mid April member states contextually put forward the so called National reform plans (PNR), which are drafted within the new Europe Strategy 2020 and the so called Stability and Convergence Programmes (PSC), which are drafted within the Growth Stability Pact, taking into account the guidelines established by the European Council; 4) at the beginning of June, on the basis of the PNR and of the PSC, the European Commission draws up some Economic Policy and budgetary recommendations for member states; 5) within the month of June the Ecofin Council and for the part it is entitled to, the Occupation and Social Affairs Council, approve the European Commission recommendations, even on the basis of the suggestions by the European Council given in June; 6) during the second half of the year, member states approve their respective financial manoeuvres, taking the recommendations they received into account.

3. THE FINANCIAL MANOEUVRE FOLLOWING LAW. N. 39/2011

Law 7 April 2011, n. 39 has modified the cycle and the means used for budget planning in order to allow a full alignment between national planning and that foreseen by the ‘European Semester’.

To guarantee this, the Government, by the 10 April of each year, submits to the Parliament the Economy and Finance Document (DEF), which has replaced the Public Financing Decision (DFP) introduced by law n. 196/2009.

This document, which is divided into three sections, has become the linchpin of economic and financial planning, whose content includes both the Public Financing Decision - which, according to its original version (law n. 196/2009) was to be submitted mid September - and the content of the Economy and Public Financing Report.

The DEF also specifies both the Stability Plan scheme - which will have to contain measures to accelerate the reduction of public debt - and the National reform plan scheme. These last documents will have to be submitted to the European Union Council and to the European Union by 30th April of each year.

In particular, the national reform plan scheme outlines: the country’s priorities, with the main reforms to be made, national macro-economic imbalances, and the macro-economic factors that affect competitiveness, the progress of reforms which have already been set up, specifying a possible gap between foreseen and reached results; the foreseeable effects of suggested reforms in terms of economic growth, the strengthening of competitiveness of the financial system and the increase in employment.

An attachment to the DEF, or to its Updating Note outlines possible bills of law related to the public financing manoeuvre, each of which contributes to reaching the programmatic objectives and the implementation of the national reform programme. Such bills have to be submitted to Parliament by the Government within the following month of January.

The DEF has another attachment, besides the Strategic Infrastructure Programme foreseen by the Target Law, which is a specific document related to the implementation stage of the commitments aimed at reducing greenhouse gas emissions.

In order to integrate the DEF, by the 30th June, the Minister of Economy and Finance submits to Parliament an attachment outlining the effects of the monitoring on the public financing balance deriving from the measures stated in the budget manoeuvres implemented even during the year.

With regard to the involvement of Local bodies in economic and budgetary planning, the law foresees that the DEF scheme should be sent to the Permanent Committee for the Coordination of Public Financing for its recommendations. The Committee has to give its recommendations in time to permit Parliament to decide on the DEF itself.

An updating note to the Economy and Finance Document is supposed to be submitted by the 20th September. The presentation of the note – according to the new European economic planning procedures - is no longer prospective and connected to the occurrence of considerable gaps in public financing fluctuation patterns, but it is mandatory.

It may contain several pieces of information among which an update to the programmatic objectives and a macro-economic and public financing estimate

Should public financing objectives need to be changed, Government is to send an update to the guidelines regarding the distribution of objectives to the permanent committee for the coordination of public financing by the 10th September for its preventive advice which is supposed to be given by the 15th September.

Furthermore, should the objectives stated in the Economy and Finance Document and in its Updating Note need to be changed, or should there be considerable gaps in public financing patterns that require remedial action, Government is to submit a report to Parliament, to give reasons for the update or for the gaps and to outline remedial action.

The 15th October of every year is the deadline within which the Stability bill and the State Budget bill have to be submitted to Parliament.

4. FURTHER CHANGES TO LAW N. 196/2009

Law n. 39/2011 did not change the budget structure regulated by law n. 196/2009, but it added some regulations that meet financial management caution criteria which are aimed at facilitating the check of fluctuation patterns and the achievement of public financing objectives, in order to control public spending and to curb public debt.

Law n.39/2011 also foresees the impossibility to use the possible extra revenue that was not foreseen in the budget estimate that derives from a variations of patterns which follow public legislation to cover new financial expenses. It states the “*extra revenue*” should be aimed at improving the public financing budget.

Other changes concern the possibility to introduce limits to the evolution of expenses which are consistent with triennial resource planning. Such possibility is extended to all the expenses stated in the state budget. These changes also foresee a tougher check on public financing given that Parliament may acquire from the ISTAT data and information necessary to examine public financing documents, on the basis of specific agreements.

Finally, following the change made by article n. 42, law 196/2009, the lawmaker took a step back compared to the shift to cash basis accounting. In fact, the current wording of the article delegates Government to implement one or more legislative decrees in order to reorganize the discipline related to the management of the state budget and to strengthen cash budget accounting, although the accrual basis accounting remains valid.

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