



Italy's Parliamentary Budget Office

(Ufficio Parlamentare del Bilancio)

Chiara Goretti
Italian Senate
Ottawa, 21 February 2013



Outline

- Background and rationale for the establishment
 - The institutional design
 - Challenges for the start-up and conclusions
-



The establishment: (1) The EU requirements

The EU requires FCs as part of Member States' fiscal frameworks.

- **SIX-PACK:** Council Directive on requirements for budgetary frameworks of Member States
 - Rules for preparation of the forecasts for budgetary planning
 - Independent monitoring of fiscal rule compliance
 - **FISCAL COMPACT:** MSs adopt law of binding nature... surveyed by independent institutions
 - Compliance with the national rules monitored at the national level by independent institutions
 - **TWO-PACK:** Regulation requiring to Member states to establish FCs:
 - Independent fiscal council monitors compliance with rules
 - Independent macroeconomic forecast
-



The establishment: (2) Italy's public finance

In the past, frequent **slippages** of outcomes against targets:

- deficit & debt targets;
 - spending caps (health);
 - expected outcomes of tax measures (cost assessment of new packages)
-



Primary surplus: targets and outcomes

(as a percentage of GDP)

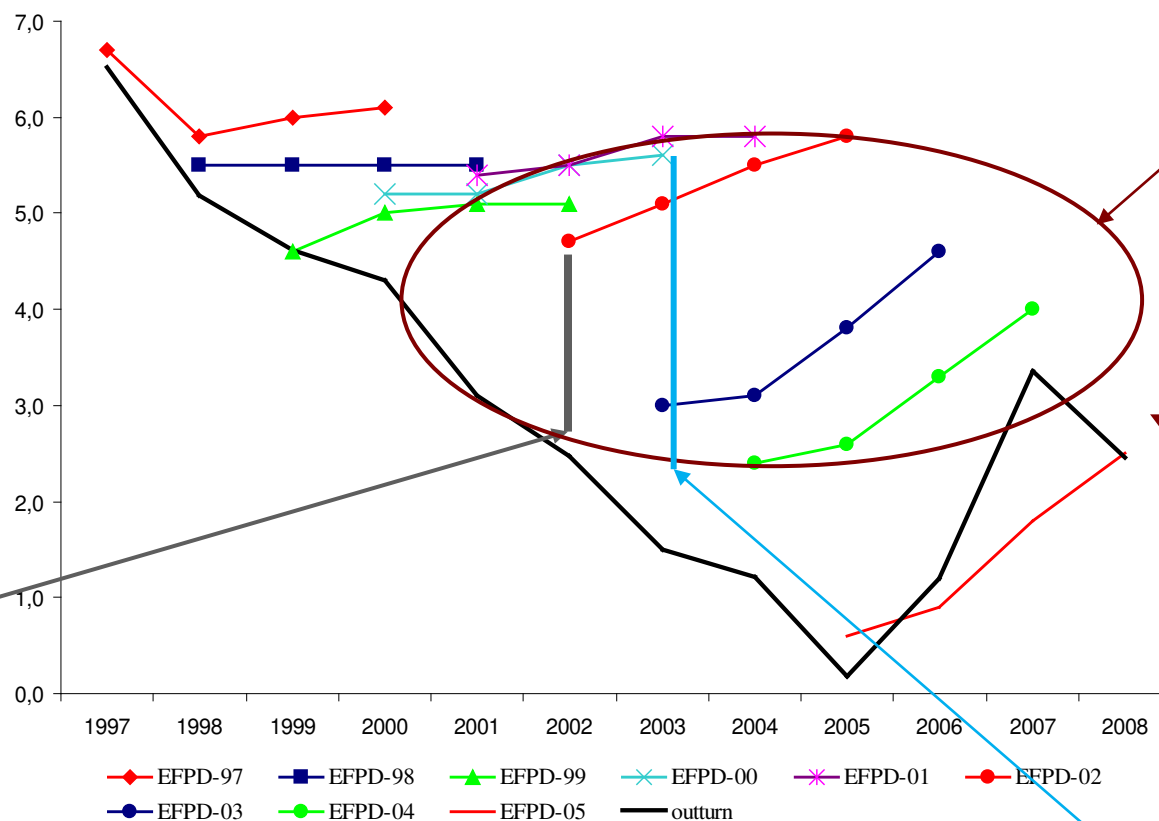
Outcomes are generally significantly worse than targets

Lines shifting down and to the right: targets get less ambitious over time

Lines do not get steeper: no compensating action planned

Optimistic perception of concurrent fiscal developments

A significant gap in the first year of the planning horizon





Previous (failed) attempts for introducing an IFI

A need for greater transparency and more effective technical support to fiscal policy has been a leitmotif of political debate in recent years.

- **2005**: first proposals (opposition)
- **2007**: special funding to strengthen parliamentary departments
- **2009–2011**: budget law reforms. Other (failed) attempts (again from the opposition)...

2012... Constitutional amendment on balanced budget

The Parliamentary Budget Office (PBO)



The Constitutional amendment on budget balance (April 2012) provides for the establishment of an Independent Fiscal Institution

- Implementing Law approved in December 2012, establishes a Parliamentary Budget Office (PBO)
 - Within Parliament and operative as of FY 2014
 - Full autonomy and independence
 - Governing board + 30-40 staff
-



The PBO board

- A **three-member** board, one **Chair**;
 - Appointed
 - **jointly** by **Presidents** of the two Houses of Parliament
 - from a **shortlist** of **10** selected by **standing committees** with qualified majority vote (as per rules of procedures)
 - selected from among **qualified** persons of **recognised** independence and **proven** expertise;
 - salary equal to the President of the Competition Authority;
 - **6**-year, **non renewable**, term
 - removal in case of serious violations of official duties (by parliamentary Committee with qualified majority vote).
-



The staff

The PBO acts with complete autonomy in the selection of its staff, basing its choices solely on **merit** and **competence** and **operational requirements**.

General director

- Permanent and non-permanent staff; recruitment based on open competition
- Seconded (from the Senate, Chamber, Executive, other government agencies) on a temporary basis

Multi-year funding (not very high...) can be changed only after consultation with the Chair



The mandate

The mandate is defined by law. PBO:

- monitors **compliance** with numerical fiscal rule;
- assesses:
 - the underlying **assumptions** of fiscal projections (including macroeconomic projections);
 - the macroeconomic **effects** of major legislative packages;
 - public finance sustainability;
- verifies the conditions for the activation of the **corrective mechanism** and exceptional events;
- performs other analyses...

NO POLICY RECOMMENDATIONS

Analyses also on the basis of its own projections

Annual programme, reports and analyses **are to be public**



Other relevant features

Information:

- Full access to other administrations databases;
- All government agencies must provide information on public finance developments on request;

Comply or **explain** principle:

- if PBO assessments are significantly different from those of the Executive...
 - ...if so requested by Parliament...
 - ...the Government **shall explain** to Parliament why it is set on confirming its assessments...
 - **otherwise** it **shall follow** PBO assessments
-



Main challenges (1)

Independence, credibility and authoritativeness

Board appointment:

- Baroque procedure. Risk: final unaccountability
- what is “proven expertise”? Risk: the term may include political experience (previous finance ministers or budget committee chairs) or non-economic expertise (legal/accounting).

Staff recruitment:

- Start-up needs the secondment of experts already working in existing institutions. Risk: is independence ensured?
 - Secondment is under discretion of the Board. Risk: how to ensure that such discretion is properly used?
-



Main challenges(2)

Independence and role

One- vs three-member board (lively debate before approval):

- One-member supporters: system forces “race to the top”; if three, **political logrolling** more likely;
- Three-member supporters: political logrolling possible also with one. More members ensure more **balanced positions**.

Risk: What does *balanced* mean? How to reconcile different economic positions without opening the door to political interference?

During the debate on Bill: strong **opposition** from other **bodies** (Finance Ministry and Audit Office), both claiming overlaps

Risk: PBO’s start-up constrained between political and technical opposition



Main challenges (3)

- Are Italy's elected policymakers clearly **committed** to **sustain** the PBO? (*potential impasse...*)
 - How will the PBO affect the interaction between voters and politicians? Will the PBO be able to expose the difference between **bad luck** and **bad policies**? (... *FCs work at the core of the democratic process...*)
 - What if its action is considered an **interference**?
...the meaning of interference is country-specific...
 - What if its action is **not considered** at all?
-



Conclusions

Crucial in the next 12 months

- Appointment of the first Chair (and the board);
 - Good cooperation with the Executive and other existing institutions;
 - Full acceptance within the political process...
-



Conclusions (2)

“..good (public) finance cannot be attained without intelligent care on the part of citizens. The rules of budgetary legislation are serviceable in keeping administration within limits; but prudent expenditure, productive and equitable taxation, and due equilibrium between income and outlays will only be found where responsibility is enforced by the public opinion of an active and enlightened community”. (Bastable, 1927).

Thank you ...
